Notes to the Accounts

31 December 2002
(Amounts expressed in RMB unless otherwise stated)

1. GROUP ORGANISATION AND OPERATIONS

Jiangsu Expressway Company Limited (the “Company”) was incorporated in the People’s Republic of China (the “PRC”) on 1 August 1992 as a joint stock limited company. The Company is principally engaged in the investment, construction, operation and management of the Jiangsu section of Shanghai-Nanjing Expressway (“Shanghai-Nanjing Expressway”), the Jiangsu section of the 312 National Highway (the “Nanjing-Shanghai Class 2 Highway”), Nanjing-Lianyungang Class 1 Highway-Nanjing Section (“Nanjing Section”) and other toll roads in Jiangsu Province, and the provision of passenger transport services and other supporting services along the toll roads.

In June 1997 and December 2000, the Company issued 1,222,000,000 overseas public shares (“H shares”) and 150,000,000 domestic public shares (“A shares”) with a par value of RMB1 each to its overseas and domestic investors respectively. The H shares and A shares were subsequently listed on The Stock Exchange of Hong Kong Limited and Shanghai Stock Exchange on 27 June 1997 and 16 January 2001, respectively.

In September 1997, Jiangsu Xicheng Expressway Company Limited (“Jiangsu Xicheng”) and Jiangsu Guangjing Expressway Company Limited (“Jiangsu Guangjing”) were jointly established by the Company and Huajian Transportation Economic Development Centre. Jiangsu Xicheng and Jiangsu Guangjing are principally engaged in the construction, management and operation of Xicheng Expressway and Guangjing Expressway, respectively. In September 1999, the construction of these expressways was completed. As of 12 April 2001, Jinagsu Xicheng took over Jiangsu Guangjing’s assets and liabilities at book value and changed its name to Jiangsu Guangjing Xicheng Expressway Co., Ltd. (“Guangjing Xicheng”). Jiangsu Guangjing has cancelled its legal registration.

In November 2001, Nangjing Shuangshilou Hotel Co., Ltd. (“Shuangshilou”) was jointly established by the Company and Gulou Service Company. Shuangshilou is principally engaged in the provision of Chinese food.

In September 2002, Jiangsu Ninghu Investment Development Co., Ltd. (“Ninghu Investment”) was jointly established by the Company and Suzhou Investment Co., Ltd. Ninghu Investment is principally engaged in infrastructure and industrial investments.

The Company, Guangjing Xicheng, Shuangshilou and Ninghu Investment are collectively referred to as the Group.

The Company’s H shares are listed on the Stock Exchange of Hong Kong Limted.

The immediate and ultimate parent company of the Company is Jiangsu Communications Holding Company Ltd. (formerly known as Jiangsu Communication Investment Corporation), a state owned enterprise incorporated in the PRC.

2. 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") (collectively "HKGAAP"). This represents a change in the adoption of accounting standards for the preparation of accounts from prior years when the accounts were prepared in accordance with International Accounting Standards ("IAS"). The directors of the Company believe that the accounts prepared in accordance with HKGAAP will result in accounts presentation more familiar to the Hong Kong based investors and be more comparable to other Hong Kong listed companies with similar operations. The directors of the Company consider that there is no significant difference in the accounting treatments between adopting IAS and HKGAAP except that in the Company's balance sheet prepared in accordance with IAS, investments in subsidiaries and associated companies were accounted for using the equity method whereas under HKGAAP, they are recorded at cost less provision for impairment loss and the results of the subsidiaries and associated companies are accounted for by the Company on the basis of dividends received and receivable (Note 2(b)).

The accounts have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, trading securities are stated at fair value.

In current year, the Group early adopted SSAP 12 "Income Taxes" which is effective for periods commencing on or after 1 January 2003 in advance of its effective date.

(b) Change in accounting policy

During the year ended 31 December 2002, the Company changed its accounting policy with respect to the accounting for investments in subsidiaries and associated companies as a result of the change in adoption of the accounting standards as mentioned in Note 2(a) above. In prior years, the Company had been accounting for the investments in subsidiaries and associated companies using the equity method. In the current year, the Company has stated the investments in subsidiaries and associated companies at cost less provision for impairment losses under HKGAAP. The effect of this change in accounting policy has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy. On the Company's balance sheet, the investments in subsidiaries as at 31 December 2001 was reduced by RMB48,098,000; the investments in associated companies as at 31 December 2001 was reduced by RMB19,758,000 and the retained earnings as at 31 December 2001 was reduced by RMB67,856,000.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(c) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 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 or paid-in 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.

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 loss. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable (Note 2(b)).

(d) Associated companies

An associated company is a company, not being a subsidiary or a joint venture, 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 goodwill/negative goodwill (net of accumulated amortisation) on acquisition.

In the Company's balance sheet, the investments in associates are stated at cost less provision for impairment loss. The results of the associates are accounted for by the Company on the basis of dividends received and receivable (Note 2(b)).

(e) 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 companies at the date of acquisition. Goodwill is amortised using the straight-line method over its estimated useful life of 10 years. Any unamortised goodwill is charged to the profit and loss account upon the disposal of the subsidiary/associate.

Where an indication of impairment exists, the carrying amount of goodwill is assessed and written down immediately to its recoverable amount.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(f) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. The initial cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Depreciation of toll roads and structures, and amortisation of land use rights in relation to toll roads are calculated to write off their cost on the basis of a sinking fund calculation whereby annual depreciation amounts compounded at an average rate of 6%, 8%, 5%, 8% and 9% per annum for Shanghai-Nanjing Expressway, Nanjing-Shanghai Class 2 Highway, Nanjing Section, Xicheng Expressway and Guangjiang Expressway will approximate the total carrying value of the toll roads and structures at the end of the concession period (Shanghai-Nanjing Expressway: 30 years; Nanjing-Shanghai Class 2 Highway: 15 years; Nanjing Section: 30 years; Xicheng Expressway: 30 years; Guangjing Expressway: 30 years).

Amortisation of improvements relating to toll roads is calculated on the straight line method to write off the cost over its estimated useful life.

Depreciation of fixed assets other than toll roads and structures is calculated using the straight-line method to write off the cost, after taking into account the estimated residual value of 3%, of each asset over its expected useful life. The expected useful lives of assets are the shorter of the expected useful lives of the assets or the remaining concession period. The expected useful lives of the assets are as follows:

Buildings	30 years
Safety equipment	10 years
Communication and signalling equipment	10 years
Toll stations and ancillary equipment	8 years
Motor vehicles	8 years
Other machinery and equipment	5-8 years

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 recognized in the profit and loss account.

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

Construction in progress is stated at cost which includes development expenditure and other direct costs, including interest cost on the related borrowed funds during the construction period, attributable to the development of toll roads, buildings and structures for the Group's own use. Costs are transferred to fixed assets upon completion.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(g) Inventories

Inventories comprise materials and spare parts for the repair and maintenance of toll roads and structures and petrol for sales, and are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(h) Receivables

Provision is made against receivables to the extent they are considered to be doubtful. Receivables in the balance sheet are stated net of such provision.

(i) Trading securities

Trading securities are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of trading securities are recognised in the profit and loss account. Profits or losses on disposal of trading securities, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

(j) Held-to-maturity securities

Held-to-maturity securities are stated in the balance sheet at cost plus/less any discount/premium amortized to date. This discount or premium is amortized over the period to maturity and included as interest income/expenses in the profit and loss account. Provision is made when there is a diminution in value other than temporary.

The carrying amounts of individual held-to-maturity securities or holding of the same securities are reviewed at the balance sheet date in order to assess the credit risk and whether the carrying amounts are expected to be recovered. Provisions are made when carrying amounts are not expected to be recovered and are recognized in the profit and loss account as an expense immediately.

(k) 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 and deposits held at call with banks, short-term highly liquid investments with original maturities of three months or less.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(l) 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.

(m) Revenue recognition

Provided it is probable that the economic benefits associated with a transaction will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognized on the following bases:

(i) *Toll income*

Toll income, net of revenue tax, is recognised on a receipt basis.

(ii) *Sales of petrol*

Sales of petrol are recognised when delivery has taken place.

(iii) *Advertising income, emergency assistance income and sales of food and beverage ("other services")*

Revenue from rendering other services is recognised when the services have been rendered.

(iv) *Interest income*

Interest income is recognised on a time proportion basis that take into account the principal amounts outstanding and the interest rates applicable.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(n) Retirement benefit costs

The Group contributes to a defined contribution retirement scheme which is available to all employees. Contributions to the scheme by the Group and employees are calculated as a percentage of employee's basic salaries. The retirement benefit scheme cost charged to the profit and loss account represents contributions payable by the Group to the fund.

The Group's contributions to the defined contributions retirement scheme are expensed as incurred. The assets of the scheme are held separately from those of the Group in an independently administered fund. Details of the Group's retirement benefits are set out in note 28.

(o) 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 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.

(p) Foreign currency transaction

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.

(q) Segment reporting

The Group conducts its business within one business segment - the business of operating and managing toll roads. No segment income statement has been prepared by the Group. The Group also operates within one geographical segment because its revenues are primarily generated in the Jiangsu Province PRC and its assets are located in the Jiangsu Province PRC. Accordingly, no geographical segment data is presented.

3. TURNOVER AND OTHER REVENUE

Revenue recognised during the year are as follows:

	2002	2001
	RMB'000	RMB'000
Turnover		
— Toll income	**2,026,238**	1,625,992
— Sales of petrol	**183,988**	157,424
— Sales of food and beverage	**104,147**	85,195
— Emergency assistance income	**56,812**	27,997
— Advertising	**24,014**	23,173
	2,395,199	1,919,781
Less: Business tax and other turnover taxes	**(122,684)**	(90,229)
Total turnover	**2,272,515**	1,829,552
Other revenue - Interest income	**13,135**	33,736
Total revenue	**2,285,650**	1,863,288

The Group is subject to Business Tax ("BT") at the rate of 5% of toll income, emergency assistance income, advertising income and sales of food and beverage.

In addition to BT, the Company and its subsidiaries are subject to the following turnover taxes:

(i) City Development Tax - levied at 7% of BT and net Value-added Tax ("VAT")

(ii) Education Supplementary Tax - levied at 4% of BT and net VAT.

4. OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	2002 RMB'000	2001 RMB'000
After charging:		
Staff costs		
— salaries, bonus and wages	**91,719**	91,809
— provision for staff welfare fund	**10,453**	9,282
— contribution to pension scheme	**13,718**	10,848
	115,890	111,939
Depreciation of fixed assets	**373,876**	305,514
Amortization of intangible assets	**—**	3,188
Loss on disposal of fixed assets	**3,890**	13,578
Bad debt for receivables	**136**	630
Unrealised loss on trading securities	**—**	766
Auditors' remuneration	**1,250**	1,250
After crediting:		
Realized gains on trading securities	**4,288**	10,976
Unrealised gains on trading securities	**9,067**	—
Accrued interest on held-to-maturity securities	**—**	7,077

5. FINANCE COSTS

	2002 RMB'000	2001 RMB'000
Interest on bank loans	**(10,727)**	(19,064)

No interest is capitalized during the year ended 31 December 2002 (2001: The capitalisation rate applied to funds borrowed and used for the development of construction in progress was 2%).

6. TAXATION

(a) Income tax

(i) *Hong Kong profits tax*

No Hong Kong profits tax was provided for as the Group had no assessable profit arising in or derived from Hong Kong.

6. TAXATION (Cont'd)

(ii) *PRC Enterprise Income Tax ("EIT")*

The Company and its subsidiaries registered in the PRC are subject to EIT on the taxable income as reported in their PRC statutory accounts adjusted in accordance with relevant PRC income tax laws. The applicable EIT rates are 33%.

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

	2002	2001
	RMB'000	RMB'000
Current tax	**400,501**	146,986
Deferred tax (Note 19)	**10,877**	14,351
Share of tax of associated companies	**22,742**	12,555
	434,120	173,892

The reconciliation of the applicable tax rate to the effective tax rate is as follows:

	2002		2001	
	RMB'000		RMB'000	
Profit before tax	**1,308,949**	**100%**	1,027,871	100%
Tax at the effective tax rate of 33%	**431,953**	**33%**	339,198	33%
Financial refunds	**—**	**—**	(163,430)	(15.9%)
Effect of subsidiary losses	**619**	**—**	522	—
Tax effect of income that are not taxable in determining taxable profit	**—**	**—**	(3,315)	(0.3%)
Tax effect of expenses that are not deductible in determining taxable profit	**1,548**	**0.2%**	917	0.1%
	434,120	**33.2%**	173,892	16.9%

(b) **Deferred taxation**

There was no significant unprovided deferred taxation at 31 December 2002.

7. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of RMB811,300,000 (2001: RMB845,157,000).

8. DIVIDENDS

	2002	2001
	RMB'000	RMB'000
Final, proposed, of RMB0.13 (2001: RMB0.125) per ordinary share	654,907	629,718

At the Board of Directors Meeting on 20 March 2003, a dividend in respect of 2002 of RMB0.13 per share amounting to a total dividend of RMB654,907,000 was proposed. This proposed dividend is not reflected as a dividend payable, in the financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2003.

The dividends declared in respect of 2001 and 2000 were RMB629,718,000 and RMB453,397,000 respectively.

9. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of RMB854,445,000 (2001: RMB841,240,000) and the weighted average number of 5,037,747,500 (2001: 5,037,747,500) ordinary shares in issue during the year.

No fully diluted earnings per share is presented as the Company has no dilutive potential shares.

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' (including supervisors') emoluments

The aggregate amount of emoluments payable to directors (including supervisors) of the Company during the year are as follows:

	2002	2001
	RMB'000	RMB'000
Fee	**1,732**	1,900
Other emoluments		
— basic salaries, allowances and benefits in kind	**—**	220
— pension	**—**	—
	1,732	2,120

Directors' (including supervisors') emoluments disclosed above include approximately RMB292,000 (2001: RMB220,000) paid to independent non-executive directors.

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Cont'd)

(a) Directors' (including supervisors') emoluments (Cont'd)

The emoluments of the directors (including supervisors) fell within the following bands:

	Number of directors (including supervisors)	
	2002	2001
Nil to HK$1,000,000 (equivalent to approximately RMB1,060,000)	**16**	16

No directors waived any emoluments during the year. No incentive payment for joining the Group or compensation for loss of office was paid or payable to any director for the year.

(b) Five highest paid individuals

During the year, the five highest paid individual included 4 directors (including supervisors) (2001: 4 directors (including supervisors)), details of whose emoluments are set out above. The emoluments of the remaining highest paid individual were as follows:

	2002	2001
	RMB'000	RMB'000
— basic salaries, allowances and benefits in kind	**120**	120
— pension	**—**	—
	120	120

The emoluments paid to each of the five highest paid individuals during the years ended 31 December 2002 and 2001 were less than HK$1,000,000.

No payment as an inducement for joining the Company or compensation for the loss of any office in connection with the management of the affairs of any member of the Group was paid or payable to any five highest paid individuals mentioned above for the year ended 31 December 2002.

11. FIXED ASSETS

Movements in fixed assets were as follows:

GROUP

	2002									
	Toll roads and structures	Land use right	Buildings	Safety equipment	Communication and signalling equipment	Toll stations and ancillary equipment	Motor vehicles	Other machinery and equipment	Construction-in-progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost										
Beginning of year	9,342,326	1,716,088	457,898	451,014	341,149	122,749	104,702	125,764	13,439	12,675,129
Additions	70,000	—	24,088	—	1,189	4,826	11,970	1,017	27,963	141,053
Transfers	—	—	—	—	—	—	—	28,877	(28,877)	—
Disposals	—	—	—	—	—	—	(4,277)	(3,041)	—	(7,318)
End of year	9,412,326	1,716,088	481,986	451,014	342,338	127,575	112,395	152,617	12,525	12,808,864
Accumulated depreciation										
Beginning of year	(561,443)	(105,832)	(70,704)	(198,749)	(88,042)	(34,080)	(33,015)	(69,817)	—	(1,161,682)
Charge for the year	(200,879)	(33,106)	(15,543)	(48,575)	(30,017)	(15,281)	(9,503)	(20,972)	—	(373,876)
Disposals	—	—	—	—	—	—	2,459	969	—	3,428
End of year	(762,322)	(138,938)	(86,247)	(247,324)	(118,059)	(49,361)	(40,059)	(89,820)	—	(1,532,130)
Net book value										
End of year	8,650,004	1,577,150	395,739	203,690	224,279	78,214	72,336	62,797	12,525	11,276,734
Beginning of year	8,780,883	1,610,256	387,194	252,265	253,107	88,669	71,687	55,947	13,439	11,513,447

11. FIXED ASSETS (Cont'd)

COMPANY

	2002									
	Toll roads and structures	Land use right	Buildings	Safety equipment	Communication and signalling equipment	Toll stations and ancillary equipment	Motor vehicles	Other machinery and equipment	Construction-in-progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost										
Beginning of year	7,088,418	1,716,088	372,710	374,666	256,769	122,749	99,608	120,059	3,125	10,154,192
Additions	70,000	—	11,663	—	491	4,826	10,587	6,308	23,091	126,966
Transfers	—	—	—	—	—	—	—	14,326	(14,326)	—
Disposals	—	—	—	—	—	—	(4,277)	(3,041)	—	(7,318)
End of year	7,158,418	1,716,088	384,373	374,666	257,260	127,575	105,918	137,652	11,890	10,273,840
Accumulated depreciation										
Beginning of year	(536,285)	(105,832)	(63,406)	(181,798)	(70,821)	(34,080)	(31,734)	(69,640)	—	(1,093,596)
Charge for the year	(181,419)	(33,106)	(12,646)	(41,108)	(19,768)	(15,281)	(8,821)	(19,571)	—	(331,720)
Disposals	—	—	—	—	—	—	2,459	969	—	3,428
End of year	(717,704)	(138,938)	(76,052)	(222,906)	(90,589)	(49,361)	(38,096)	(88,242)	—	(1,421,888)
Net book value										
End of year	6,440,714	1,577,150	308,321	151,760	166,671	78,214	67,822	49,410	11,890	8,851,952
Beginning of year	6,552,133	1,610,256	309,304	192,868	185,948	88,669	67,874	50,419	3,125	9,060,596

12. INVESTMENTS IN ASSOCIATED COMPANIES

GROUP

	2002	2001
	RMB'000	RMB'000
Share of net assets	**1,369,758**	775,301
Goodwill on acquisition of associated companies less amortisation/impairment	**11,249**	6,026
	1,381,007	781,327
Amount due from associated companies	**800**	997
	1,381,807	782,324

COMPANY

	2002	2001
	RMB'000	RMB'000
Unlisted equity at cost	**1,258,468**	761,569
Amounts due from associated companies	**800**	997
	1,259,268	762,566

The Company's directors are of the opinion that the underlying value of the associated companies was not less than the carrying value of the Company's investment as at 31 December 2002.

The amounts due from associated companies are unsecured, interest free and with no fixed repayment terms.

12. INVESTMENTS IN ASSOCIATED COMPANIES (Cont'd)

The following is a list of the associated companies at 31 December 2002:

Name	Place of establishment/ incorporation, operation and kind of legal entity	Percentage of equity interest attributable to the Group		Paid in/ issued and fully paid share capital	Principal activities
		Direct	Indirect	RMB'000	
Jiangsu Kuailu Bus Transportation Stock Co., Ltd. ("Jiangsu Kuailu")	The PRC Limited liability company	33.20%	—	150,300	Provision of passenger transportation service along the Shanghai-Nanjing Expressway
Jiangsu Yangzte Bridge Co., Ltd. ("Yangzte Bridge")	The PRC Limited liability company	26.66%	—	2,137,248	Investment, construction, operation and management of Jiangjin Yangtze River Bridge
Suzhou Sujiahang Expressway Co., Ltd. ("Sujiahang")	The PRC Limited liability company	33.33%	—	1,350,000	Investment, construction, operation and management of Sujiahang Expressway
China Transportation HEAD New technology (Shanghai) Co., Ltd. ("HEAD")	The PRC Limited liability company	35.71%	—	21,000	Computer software development
Jiangsu Leasing Co., Ltd. ("Jiangsu Leasing")	The PRC Limited liability company	—	26.06%	500,000	Leasing and financing activities

12. INVESTMENTS IN ASSOCIATED COMPANIES (Cont'd)

(a) Sujiahang

Pursuant to the agreement dated 8 April 2002 between Jiangsu Communications Holding Company Ltd. and the Company, the Company acquired Jiangsu Communications Holding Company Ltd.'s 33.33% interest in Sujiahang for a cash consideration of RMB315,400,000.

(b) HEAD

The Company set up HEAD together with other four investors on 17 June 2002. The Company's interest in HEAD was 35.71%.

(c) Jiangsu Leasing

On 28 May 2002, Guanging Xicheng and Yangtze Bridge entered into a contract with Jiangsu Communications Holdings Ltd., Suzhou Materials Holding (Group) Co., Ltd. and Jiangsu Leasing, pursuant to which Guangjing Xicheng and Yangtze Bridge invested RMB100,000,000 and RMB170,000,000 respectively in Jiangsu Leasing, repesting 20% and 34% of the enlarged registered capital of Jiangsu Leasing.

13. LONG-TERM RECEIVABLE

On 25 December 1998, the Company formed a joint venture named Jiangsu Yicao Highway Co., Ltd. ("Yicao Highway Co.") with Yixing Communications Construction and Development Co., Ltd. ("Yixing Communications Construction Co."). The joint venture period is 10 years from 25 December 1998. Yicao Highway Co. is principally engaged in the construction, operation and management of highway linking Yixing and Caoqiao. The registered capital of Yicao Highway Co. is RMB120 million. The Company and Yixing Communications Construction Co. have contributed RMB58,800,000 and RMB61,200,000, representing 49% and 51% respectively of the registered capital of Yicao Highway Co.

Pursuant to the supplementary operating agreement dated 31 December 1998, apart from the capital contribution of RMB58,800,000, the Company is required to provide an additional amount of RMB117,600,000 as a construction loan. As at 31 December 2000, the Company had contributed an aggregate amount of RMB100,000,000 to Yicao Highway Co. in the form of capital and construction loan. According to the aforesaid agreement, Yixing Communications Construction Co. is authorized by the Company to be solely responsible for the operation and management of Yicao Highway Co. In addition, Yixing Communications Construction Co. shall pay the Company a fixed annual investment return of 17.8% during the operating period of Yicao Highway Co. from 1999. Yixing Investment Corporation, a controlling shareholder of Yixing Communications Construction Co., has guaranteed the payment of the aforesaid investment return. At the end of the operation period, the Company will not be entitled to any further distribution.

On 24 July 2002, the Board of Directors of the Company decided to liquidate that Yicao Highway Co. Yixing Communications Construction Co. and the Company agreed to set up a liquidation team to deal with the liquidation of Yicao Highway Co. As of 31 December 2002, receivables from liquidation amounted to approximately RMB28,812,000 was included in prepayment and other receivables.

14. PREPAYMENTS AND OTHER RECEIVABLES

GROUP

	2002	2001
	RMB'000	RMB'000
Prepayment for materials and equipments	11,052	8,859
Due from Yixing Communications (Note 13)	28,812	11,800
Others	32,481	37,019
	72,345	57,678
Less: Provision for bad and doubtful debts	(1,199)	(1,063)
	71,146	56,615

COMPANY

	2002	2001
	RMB'000	RMB'000
Prepayment for materials and equipments	8,883	7,258
Due from Yixing Communications (Note 13)	28,812	11,800
Others	27,893	33,599
	65,588	52,657
Less: Provision for bad and doubtful debts	(1,199)	(1,020)
	64,389	51,637

15. TRADING SECURITIES

	2002	2001
	RMB'000	RMB'000
PRC listed equity securities - at market value	57,493	9,234
PRC listed bonds - at market value	51,574	—
	109,067	9,234

16. HELD-TO-MATURITY SECURITIES

	2002	2001
	RMB'000	RMB'000
Held-to-maturity investments	**–**	107,077

Current held-to-maturity investment represented entrusted investment fund of RMB100,000,000 placed with Guotong Securities Company for investment in government bonds and securities.

17. SHORT-TERM BORROWINGS

	2002		2001	
	Interest rate per annum	**RMB'000**	Interest rate per annum	RMB'000
— Unsecured	**5.04%**	**120,000**	5.58%	210,000

Short-term borrowings are unsecured and repayable within one year with interest charged at the prevailing market rates based on the rates quoted by the People's Bank of China. The interest rates related to borrowings outstanding as at 31 December 2002 were 5.04% per annum (2001: 5.58%).

18. LONG-TERM BORROWINGS

All long-term borrowings were guaranteed by Jiangsu Communications Holding Company Ltd. and comprised of:

	Interest rate	**2002**	2001
		RMB'000	RMB'000
— USD denominated Spain government loans with maturities 2007 - 2026	1% per annum (2001: 1%)	**41,022**	31,494
— USD denominated buyer's credit loans with maturities 2001 - 2006	6.77% per annum (2001: 6.77%)	**27,294**	23,522
		68,316	55,016
Less: Amount repayable within one year		**(6,822)**	(4,703)
		61,494	50,313

18. LONG-TERM BORROWINGS (Cont'd)

Long-term borrowings are repayable in the following periods:

	2002	2001
	RMB'000	RMB'000
— not exceeding one year	6,822	4,703
— more than one year but not exceeding two years	6,822	4,703
— more than two years but not exceeding five years	20,466	14,109
— more than five years	34,206	31,501
	68,316	55,016

As at 31 December 2002, the Group and the Company had aggregate banking facilities of approximately United States Dollar ("USD") 9,800,000 (RMB equivalent 81,140,000) to finance the purchase of imported equipment and technology. The facilities were fully used as at 31 December 2002 (2001 unused facilities: USD 2,192,000). These facilities were guaranteed by Jiangsu Communication Holding Company Ltd.

19. DEFERRED TAX LIABILITIES

	Accelerated tax depreciation	Interest for held-to-maturity investments	Fair value gains	Total
	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2002	12,184	2,167	—	14,351
Charge/(credit) to net profit	10,053	(2,167)	2,991	10,877
	22,237	—	2,991	25,228

20. SHARE CAPITAL

As of 31 December 2002, share capital was as follows:

	2002		2001	
	Number of Shares	Amount	Number of Shares	Amount
		RMB'000		RMB'000
State shares	**2,781,743,600**	**2,781,744**	2,781,743,600	2,781,744
State legal person shares	**599,471,000**	**599,471**	599,471,000	599,471
Legal person shares	**284,532,900**	**284,533**	284,532,900	284,533
H shares	**1,222,000,000**	**1,222,000**	1,222,000,000	1,222,000
A shares	**150,000,000**	**150,000**	150,000,000	150,000
Total	**5,037,747,500**	**5,037,748**	5,037,747,500	5,037,748

As at 31 December 2002, the authorised, issued and fully paid share capital of the Company is RMB5,037,747,500 (2001: RMB5,037,747,500) divided into 5,037,747,500 shares (2001: 5,037,747,500 shares) with a par value of RMB1 each. State shares, state legal person shares, legal person shares, H shares and A shares rank pari passu in all respects, except that ownership of state-owned shares, state legal person shares and legal person shares are restricted to PRC legal persons, while H shares can only be owned and traded by overseas investors and A shares can only be owned and traded by PRC investors.

21. INVESTMENTS IN SUBSIDIARIES

	2002	2001
	RMB'000	RMB'000
Unlisted equity at cost	**2,220,445**	723,460
Amounts due from subsidiaries	**12,000**	1,398,242
	2,232,445	2,121,702

The long-term amounts due from subsidiaries are unsecured, interest free and with no fixed repayment term.

The Company agreed with the minority shareholder of Guangjing Xicheng (a subsidiary) to capitalize their construction loan to Guangjing Xicheng as capital reserve on pro rata basis. The Company then capitalized the long term receivable from Guangjing Xicheng as investment cost accordingly.

21. INVESTMENTS IN SUBSIDIARIES (Cont'd)

Details of the Company's subsidiaries, all of which are limited liability companies, as of 31 December 2002 were as follows:

Name	Place of establishment/ incorporation, operation and kind of legal entity	Percentage of equity interest attributable to the Group		Paid in/ issued and fully paid share capital	Principal activities
		Direct	Indirect	RMB'000	
Guangjing Xicheng	The PRC Limited liability company	85.00%	—	850,000	Construction, management and operation of expressway
Shuangshilou	The PRC Limited liability company	95.05%	—	1,010	Provision of Chinese food
Ninghu Investment	The PRC Limited liability company	95.00%	—	100,000	Infrastructure and industrial investments

22. RESERVES

Company

	Share Premium	Statutory Surplus Reserve Fund	Statutory Public Welfare Fund	Retained Earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(Note 23)	(Note 23)		
Balance as at 1 January 2001					
— As previously reported	5,730,454	215,694	107,848	1,023,947	7,077,943
— effect on change in accounting policy	—	—	—	(71,773)	(71,773)
— As restated	5,730,454	215,694	107,848	952,174	7,006,170
Dividends (Note 8)	—	—	—	(453,397)	(453,397)
Profit for the year	—	—	—	845,157	845,157
Profit appropriations	—	78,086	39,043	(117,129)	—
Balance as at 31 December 2001	5,730,454	293,780	146,891	1,226,805	7,397,930
Balance as at 1 January 2002					
— As previously reported	5,730,454	293,780	146,891	1,294,661	7,465,786
— effect on change in accounting policy	—	—	—	(67,856)	(67,856)
— As restated	5,730,454	293,780	146,891	1,226,805	7,397,930
Dividends (Note 8)	—	—	—	(629,718)	(629,718)
Profit for the year	—	—	—	811,300	811,300
Profit appropriations	—	81,683	40,842	(122,525)	—
Balance as at 31 December 2002	5,730,454	375,463	187,733	1,285,862	7,579,512
Representing					
2002 final dividend proposed (Note 8)				654,907	
Others				630,955	
				1,285,862	

23. APPROPRIATIONS

(a) Statutory surplus reserve

In accordance with the PRC Company Law and the Company's articles of association, the Company and its subsidiaries registered in the PRC are required to appropriate 10% of the annual statutory net profit after tax (after offsetting any prior years' losses) to the statutory surplus reserve. When the balance of such reserve fund reaches 50% of each entity's capital, any further appropriation is optional. The statutory surplus reserve can be utilised to offset prior years' losses or to increase capital. However, such balance of the statutory surplus reserve must be maintained at a minimum of 25% of capital after such usages.

(b) Statutory public welfare fund

In accordance with the PRC Company Law and the Company's articles of association, the Company and its subsidiaries registered in the PRC are required to appropriate 5% of the annual statutory net profit after tax (after offsetting any prior years' losses) to statutory public welfare fund, which will be utilised to build or acquire capital items, such as dormitories and other facilities for the Company and its subsidiaries' employees, and cannot be used to pay for staff welfare expenses.

Titles of these capital items will remain with the respective companies now comprising the Group.

During the year, 10% and 5% (2001: 10% and 5%) of the profit attributable to shareholders were appropriated to statutory surplus reserve and statutory public welfare fund, respectively, as approved in resolutions passed by the boards of directors of the respective companies now comprising the Group.

The above statutory reserves cannot be used for purposes other than those for which they are created and are not distributable as cash dividends.

24. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit before taxation to net cash inflow from operating activities:

	2002	2001
	RMB'000	RMB'000
Profit before taxation	1,308,949	1,027,871
Adjustments for:		
Depreciation	373,876	305,514
Provision for bad debts	136	630
Amortization of intangible assets	—	3,188
Loss on sale of fixed assets	3,890	13,578
Interest income	(13,135)	(33,736)
Interest expenses	10,727	19,064
Share of results of associated companies before tax	(49,071)	(28,787)
Operating profit before working capital changes:		
(Increase)/decrease in inventories	(1,928)	940
Decrease/(increase) in prepayments and other receivables	5,613	(12,686)
(Decrease)/increase in tax and other payables	(8,224)	7,245
Cash generated from operations	1,630,833	1,302,821
Interest paid	(10,727)	(19,064)
PRC income taxes paid	(321,264)	(190,799)
Net cash inflow from operations	1,298,842	1,092,958

(b) Analysis of the balances of cash and cash equivalents

	2002	2001
	RMB'000	RMB'000
Trading securities	109,067	9,234
Held-to-maturity securities	—	107,077
Cash on hand	252	243
Cash in bank - Current deposit	675,398	695,720
- Term deposit	43,961	79,660
	828,678	891,934

24. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

(c) Supplemental cash flow information

Cash outflows for purchase of fixed assets

	2002	2001
	RMB'000	RMB'000
Increase in fixed assets	**141,053**	68,579
Add: Payables for purchase of fixed assets, beginning of year	**68,041**	167,031
Less: Payables for purchase of fixed assets, end of year	**(58,741)**	(68,041)
Cash paid for acquisition of fixed assets	**150,353**	167,569

(d) Analysis of changes in financing activities during the years ended 31 December 2002

	2002			2001
	Short-term borrowings	**Long-term borrowings**	**Total**	Total
	RMB'000	**RMB'000**	**RMB'000**	RMB'000
Beginning of year	**210,000**	**55,016**	**265,016**	626,723
Loans borrowed	**450,000**	**19,055**	**469,055**	692,862
Repayments of loans	**(540,000)**	**(5,755)**	**(545,755)**	(1,054,569)
	120,000	**68,316**	**188,316**	265,016

25. RELATED PARTY TRANSACTIONS

GROUP

(a) Name of related party and relationship

Name	Relationship with the Company
Jiangsu Communications Company Ltd.	The ultimate parent company

(b) Related party transactions

All of the related party transactions are disclosed in Note 12(a), Note 12(c) and Note 18.

26. IMPACT OF HK GAAP ADJUSTMENT ON NET PROFIT AND NET ASSETS

	Net profit		Net assets	
	2002	2001	**2002**	2001
As restated in the Group's statutory accounts	**816,833**	780,864	**13,613,202**	13,453,721
Impact of adjustment:				
— Amortization of land use right	**30,462**	36,920	**67,382**	36,920
— Valuation, depreciation and amortization of fixed assets	**35,320**	30,730	**(1,582,832)**	(1,618,152)
— Housing subsidy charged to retained earnings directly under the statutory account	**(16,838)**	—	**—**	16,838
— Loss on disposal of staff quarters	**—**	—	**(8,237)**	(8,237)
— Deferred taxation	**(10,877)**	(14,351)	**(25,228)**	(14,351)
— Interest accrued on held-to maturity securities	**(7,077)**	7,077	**—**	7,077
— Fair value of trading securities	**9,067**	—	**9,067**	—
— Others	**(2,445)**	—	**—**	—
— dividends proposed in subsequent period	**—**	—	**654,907**	629,718
As stated in the Group's HK GAAP financial statements	**854,445**	841,240	**12,728,261**	12,503,534

27. COMMITMENTS

As at 31 December 2002, the Company is committed to pay Ninglian Ningtong Management Office a service charge at a fixed rate of 17% of the total toll collected on Nanjing section per annum for a term of 30 years from 1st January, 2000.

28. RETIREMENT BENEFITS

The Group participates in the Jiangsu Provincial Retirement Scheme managed by Jiangsu Social Security Bureau. Pursuant to relevant provisions, the Group is required to make a monthly contribution equivalent to 21% (2000: 20%) of the monthly salary in respect of its employees. The Bureau is responsible for pension payments to the retired employees of the Group and the Group has no further obligations.

29. SUBSEQUENT EVENTS

Pursuant to the resolution made by the Board of Directors subsequent to 31 December 2002, the Company will propose a final dividend of RMB0.13 per share for the fiscal year ended 31 December 2002.

30. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 20 March 2003.