

Consolidated Profit and Loss Account

For the year ended 31st December 2003

	Note	2003 RMB'000	As restated 2002 RMB'000
Turnover	3	421,531	524,291
Other revenues	3	79,510	66,536
Gain on disposal of assets	4	691,416	—
Depreciation and amortisation		(82,188)	(100,674)
Staff costs	6	(36,646)	(45,950)
Road maintenance expenses		(7,369)	(16,561)
Other operating expenses		(57,678)	(50,570)
		<hr/>	<hr/>
Operating profit	5	1,008,576	377,072
Finance costs	8	(13,140)	(24,927)
Share of profits less losses of jointly controlled entities		59,094	61,873
		<hr/>	<hr/>
Profit before taxation		1,054,530	414,018
Taxation	9	(148,641)	(61,085)
		<hr/>	<hr/>
Profit after taxation		905,889	352,933
Minority interests		(6,517)	(5,869)
		<hr/>	<hr/>
Profit attributable to shareholders	10	899,372	347,064
		<hr/> <hr/>	<hr/> <hr/>
Dividends	11	414,333	261,684
		<hr/> <hr/>	<hr/> <hr/>
Earnings per share	12	RMB0.412	RMB0.159
		<hr/> <hr/>	<hr/> <hr/>

Consolidated Balance Sheet

As at 31st December 2003

	Note	2003 RMB'000	As restated 2002 RMB'000
Non-current assets			
Goodwill	13	5,614	—
Fixed assets	14	3,306,899	4,205,215
Construction in progress	18	39,849	269,146
Interests in jointly controlled entities	16	1,319,175	1,240,010
Long-term receivable	17	372,946	—
		<hr/> 5,044,483	<hr/> 5,714,371
Current assets			
Inventories		6,131	5,892
Amount due from a jointly controlled entity	19	637	1,124
Current portion of long-term receivable	17	649,330	—
Other receivables, prepayments and deposits		13,574	16,179
Bank balances and cash		1,274,818	962,736
		<hr/> 1,944,490	<hr/> 985,931
Current liabilities			
Other payables and accrued expenses		192,760	145,484
Taxation payable		121,291	4,563
Current portion of long-term liabilities	23	3,082	—
Short-term bank loans, secured	24	—	480,000
Short-term bank loans, unsecured	24	40,000	130,000
		<hr/> 357,133	<hr/> 760,047
Net current assets		<hr/> 1,587,357	<hr/> 225,884
Total assets less current liabilities		<hr/> 6,631,840	<hr/> 5,940,255

Consolidated Balance Sheet

As at 31st December 2003

	Note	2003 RMB'000	As restated 2002 RMB'000
Financed by:			
Share capital	20	2,180,700	2,180,700
Reserves	21	3,127,484	2,938,740
Proposed final dividend	21	414,333	261,684
Retained earnings	21	359,552	64,157
		<hr/>	<hr/>
Shareholders' funds		6,082,069	5,445,281
Minority interests		49,967	50,282
Non-current liabilities			
Long-term liabilities	23	102,389	167,626
Deferred tax liabilities	22	42,943	36,754
Deferred income	25	354,472	240,312
		<hr/>	<hr/>
		6,631,840	5,940,255
		<hr/> <hr/>	<hr/> <hr/>

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Chen Chao

Director

Wu Ya De

Director

Balance Sheet

As at 31st December 2003

	Note	2003 RMB'000	As restated 2002 RMB'000
Non-current assets			
Fixed assets	14	2,315,064	3,188,397
Construction in progress	18	39,540	268,692
Investments in subsidiaries	15	873,333	915,509
Investments in jointly controlled entities	16	1,294,874	1,243,645
Long-term receivable	17	372,946	—
		<hr/> 4,895,757	<hr/> 5,616,243
Current assets			
Inventories		5,479	5,609
Amount due from a jointly controlled entity	19	2,340	2,360
Current portion of long-term receivable	17	649,330	—
Other receivables, prepayments and deposits		10,610	16,793
Bank balances and cash		1,241,688	900,817
		<hr/> 1,909,447	<hr/> 925,579
Current liabilities			
Other payables and accrued expenses		185,998	137,239
Taxation payable		115,092	1,135
Current portion of long-term liabilities	23	3,082	—
Short-term bank loans, secured	24	—	480,000
Short-term bank loans, unsecured	24	40,000	130,000
		<hr/> 344,172	<hr/> 748,374
Net current assets		<hr/> 1,565,275	<hr/> 177,205
Total assets less current liabilities		<hr/> 6,461,032	<hr/> 5,793,448

Balance Sheet

As at 31st December 2003

	Note	2003 RMB'000	As restated 2002 RMB'000
Financed by:			
Share capital	20	2,180,700	2,180,700
Reserves	21	3,055,498	2,885,088
Proposed final dividend	21	414,333	261,684
Retained earnings	21	347,406	60,615
		<hr/>	<hr/>
Shareholders' funds		5,997,935	5,388,087
Non-current liabilities			
Long-term liabilities	23	87,095	148,419
Deferred tax liabilities	22	21,530	16,630
Deferred income	25	354,472	240,312
		<hr/>	<hr/>
		6,461,032	5,793,448
		<hr/> <hr/>	<hr/> <hr/>

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Chen Chao

Director

Wu Ya De

Director

Consolidated Statement of Changes in Equity

For the year ended 31st December 2003

	Note	2003 RMB'000	2002 RMB'000
As at 1st January, as previously reported		5,505,253	5,363,392
Effect of change in accounting policy	2(j)	(59,972)	(47,105)
As at 1st January, as restated		5,445,281	5,316,287
Profit for the year		899,372	347,064
Dividends	21	(261,684)	(218,070)
Other decrease	21	(900)	—
Total equity as at 31st December		<u>6,082,069</u>	<u>5,445,281</u>

Consolidated Cash Flow Statement

For the year ended 31st December 2003

	Note	2003 RMB'000	2002 RMB'000
Operating activities			
Cash received from toll income		445,140	553,925
Cash payments to suppliers		(17,963)	(47,091)
Cash paid to employees		(39,744)	(42,159)
Other cash payments		(53,478)	(68,315)
		<hr/>	<hr/>
Net cash inflow generated from operations	26(a)	333,955	396,360
Interest paid		(13,812)	(25,962)
PRC taxation paid		(36,320)	(36,150)
Government subsidies		10,183	—
		<hr/>	<hr/>
Net cash inflow from operating activities		294,006	334,248
Investing activities			
Purchase of fixed assets and payment for construction in progress		(177,264)	(304,010)
Proceeds from sale of major fixed assets		965,000	—
Proceeds from sale of other fixed assets		463	100
Interest received		28,179	25,938
Purchase of a subsidiary, net of cash acquired	26(d)	(24,318)	—
Purchase of a jointly controlled entity		—	(40,000)
Sale of equity interests in a jointly controlled entity		—	618
Dividends received from investments		—	7,862
Dividends received from jointly controlled entities		113,861	52,663
Decrease/(increase) in fixed bank deposits		132,000	(140,725)
Decrease in other investments		—	358,300
Loans to jointly controlled entities		(193,040)	(140,000)
Repayment of loans receivable from jointly controlled entities		54,394	41,526
		<hr/>	<hr/>
Net cash inflow/(outflow) from investing activities		899,275	(137,728)
		<hr/>	<hr/>
Net cash inflow before financing		1,193,281	196,520
		<hr/>	<hr/>

Consolidated Cash Flow Statement

For the year ended 31st December 2003

	Note	2003 RMB'000	2002 RMB'000
Financing activities	26(b)		
New bank loans borrowed		366,758	1,255,359
Repayment of bank loans borrowed		(925,000)	(1,390,000)
Other long-term advance granted		80,000	30,000
Capital contribution from a minority shareholder of a subsidiary		—	900
Repayment of advance from a minority shareholder		(3,913)	(4,674)
Dividends paid		(261,684)	(218,070)
Dividends paid to minority shareholders		(5,360)	(10,112)
		<hr/> (749,199) <hr/>	<hr/> (336,597) <hr/>
Net cash outflow from financing activities			
		444,082	(140,077)
Increase/(decrease) in cash and cash equivalents			
Cash and cash equivalents at 1st January		760,736	900,813
		<hr/> 1,204,818 <hr/>	<hr/> 760,736 <hr/>
Cash and cash equivalents at 31st December			
Analysis of balances of cash and cash equivalents:			
Bank balances and cash		1,274,818	962,736
Fixed bank deposits		(70,000)	(202,000)
		<hr/> 1,204,818 <hr/>	<hr/> 760,736 <hr/>

1 General

Shenzhen Expressway Company Limited (the "Company") was established as a joint stock limited company in the People's Republic of China (the "PRC") on 30th December 1996. The principal activities of the Company and its subsidiaries (collectively the "Group") and its jointly controlled entities are the development, operation and management of toll highways and expressways 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 ("HK GAAP"). This basis of accounting differs in certain material respects from that used in the preparation of the Group's statutory accounts in the PRC. The PRC statutory accounts of the Group have been prepared in accordance with accounting principles and financial regulations applicable to joint stock limited companies in the PRC. Appropriate restatements have been made to the PRC statutory accounts to conform with HK GAAP. Differences arising from the restatements are not incorporated in the Group's accounting records.

The accounts have been prepared under the historical cost convention.

In the current year, the Group adopted Statement of Standard Accounting Practice ("SSAP") 12 (revised) — "Income taxes", issued by the Hong Kong Society of Accountants, which is effective for accounting period commencing on or after 1st January 2003.

The effect of the change in accounting policy arising from the adoption of the revised standard by the Group is set out in note 2(j).

2 Principal accounting policies (Continued)

(b) 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 Company, directly or indirectly, 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.

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 or negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account.

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

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

(c) Jointly controlled entities

A jointly controlled entity is a contractual arrangement whereby the Group and other parties establish a company to 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 goodwill/negative goodwill (net of accumulated amortisation) on acquisition.

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

2 Principal accounting policies (Continued)

(d) Goodwill

Goodwill, which represents the excess of the cost of an acquisition over the fair values of the Group's share of the net assets of the acquired subsidiaries or jointly controlled entities at the date of acquisition, is recognised as an asset and is amortised using the straight-line method over its estimated useful life or 20 years, whichever is shorter. Any unamortised goodwill is charged to the profit and loss account upon disposal of the subsidiaries or jointly controlled entities.

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

(e) Fixed assets

Fixed assets are stated at cost less accumulated depreciation/amortisation and accumulated impairment losses.

Depreciation of toll roads and amortisation of land use rights in relation to toll roads are calculated to write off their cost on an units-of-usage basis whereby depreciation and amortisation are provided based on the share of actual traffic volume for a particular period over the projected total traffic volume throughout the periods for which the Group is granted the rights to operate those roads. It is a Group policy to review regularly the projected total traffic volume throughout the operating periods of respective toll roads. If it is considered appropriate, independent professional traffic studies will be obtained. Appropriate adjustment will be made should there be a material change.

Depreciation of buildings, structures and leasehold improvements is calculated to write off their cost on a straight-line basis over the unexpired periods of the leases or the unexpired periods of the rights to operate relevant roads or their expected useful lives, whichever is shorter. The principal annual rates are 3% to 7%.

Other tangible fixed assets are depreciated at rates sufficient to write off their cost over their estimated useful lives on a straight-line basis taking into account its estimated residual value. The principal annual rates are as follows:

Equipment	
— traffic related	10%
— electronic and others	20%
Motor vehicles	17%

2 Principal accounting policies (Continued)

(e) Fixed assets (Continued)

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements and major costs incurred in restoring fixed assets to their normal working condition to allow continued use of the overall assets are capitalised and depreciated in accordance with the aforementioned depreciation policy of the Group.

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.

The gain or loss on disposal of a fixed asset 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.

(f) Construction in progress

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.

(g) Inventories

Inventories mainly represent materials and spare parts for the repairs and maintenance of expressways, and are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, represents the actual cost of purchase. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

2 Principal accounting policies (Continued)

(h) Contingent liabilities and contingent assets

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 the outflow becomes probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(i) Provision

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(j) 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 accounts. 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, and jointly controlled entities, 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.

2 Principal accounting policies (Continued)

(j) Deferred taxation (Continued)

In prior years, 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 revised SSAP 12 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 retrospective adjustments, representing the unprovided deferred tax liabilities on temporary differences arising from different basis of depreciation of toll roads and amortisation of land use rights leading to differences in accounting and the tax bases, the decrease in the Group's share of profits of jointly controlled entities due to the provision of deferred taxation made by the jointly controlled entities following the change in accounting policy; and the corresponding reversal of appropriations made to reserves have resulted in an increase in deferred tax liabilities as at 31st December 2002 by RMB36,754,000 (note 22), a decrease in interests in jointly controlled entities by RMB24,224,000, a decrease in minority interests by RMB1,006,000 and a decrease in reserves by RMB12,398,000 (adjustment in reserves is made according to relevant PRC rules and regulations). The profit and amount transferred to equity for the year ended 31st December 2002 have been reduced by RMB12,867,000 and RMB59,972,000, respectively. Opening retained earnings at 1st January 2002 and 2003 have been reduced by RMB37,647,000 and RMB47,574,000 (note 21), respectively.

(k) Other receivables

Provision is made against other receivables to the extent they are considered to be doubtful. Other receivables 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 and deposits held at call with banks.

(m) Translation of foreign currencies

Transactions in foreign currencies are translated into Renminbi at exchange rates quoted by the People's Bank of China at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated into Renminbi at rates of exchange quoted by the People's Bank of China at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

2 Principal accounting policies (Continued)

(n) Revenue recognition

Toll revenue from operation of toll roads, net of business tax and surcharge, is recognised on a receipt basis.

Construction management services income is recognised using the percentage of completion method by reference to the stage of completion of the construction. The stage of completion is measured by reference to the construction costs incurred to date as a percentage of total estimated costs.

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

Investment income and dividend income are recognised when the right to receive the payment is established.

Government grants in relation to subsidies for compensation of toll revenue are recognised as income over the periods for which they are intended to benefit in accordance with the policy as stated in note 2(o).

(o) Deferred income — government grants

A government grant is initially recognised as deferred income, when there is reasonable assurance that the grant will be received.

Government grants provided to the Group in relation to subsidies for compensation of toll revenue of a specific toll road are deferred and amortised over the period during which the Group is granted the rights to operate such road.

The subsidies recognised in the profit and loss account for the year is calculated based on the attributable share of the total amount of the government grants intended to be compensated for the year with reference to actual traffic volume for the year and the projected total traffic volume throughout the period of which the Group is granted the rights to operate the road.

It is a Group policy to review regularly the projected total traffic volume throughout the operating periods of the respective toll roads. If it is considered appropriate, independent professional traffic studies will be performed. Appropriate adjustment is made should there be a material change.

2 Principal accounting policies (Continued)

(p) Employee benefits

(i) *Employee leave entitlements*

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

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

(ii) *Bonus plans*

The expected cost of bonus payments is recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made. Liabilities for bonus in relation to the unexercised rights under the Share Appreciation Right Scheme but not exercised are accrued by reference to the Company's share price as at the balance sheet date.

(iii) *Pension obligations*

The Group contributes to a defined contributions retirement scheme which is available to all employees. Contributions to the scheme by the Group and employees are calculated as a percentage of employees' 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 6(c).

(q) 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.

Notes to the Accounts

3 Turnover and revenue

Revenues recognised during the year are as follows:

	2003	2002
	RMB'000	RMB'000
Turnover		
Income from toll roads	444,653	553,048
Less: taxes related to toll income (a)	(23,122)	(28,757)
	421,531	524,291
Other revenues		
Interest income from bank deposits	9,616	12,312
Interest income from a long-term loan	18,563	13,010
Income from construction management services	—	2,413
Government subsidies (note 25)	35,840	32,982
Government subsidies from local government (b)	10,183	—
Others	5,308	5,819
	79,510	66,536
Total revenues	501,041	590,827

(a) Taxes related to toll income comprise:

- PRC Business Tax at 5% on toll income
- City Development Tax at 1% of PRC Business Tax
- Education Supplementary Tax at 3% of PRC Business Tax

(b) This represents government subsidies granted by the Shenzhen Municipal Government in relation to the cancellation of the preferential policies on the PRC enterprise income tax of the Group. Pursuant to a circular Shencaihan [2003] No. 784 issued by the Shenzhen Municipal Ministry of Finance dated 28th October 2003, government subsidies of RMB10,183,000 were granted to the Group by the Shenzhen Municipal Ministry of Finance.

(c) No segment information is presented as all turnover of the Group is toll income earned in the PRC.

4 Gain on disposal of assets

- (a) Pursuant to a transfer agreement (the "Transfer Agreement") signed between the Company and the Shenzhen Communications Bureau, an authorised representative of the Shenzhen Municipal Government, on 18th March 2003, the Company transferred all its rights and interests in National Highway No. 107 (Shenzhen Section) and National Highway No. 205 (Shenzhen Section) to the Shenzhen Communications Bureau at a consideration of RMB1.93 billion. The Shenzhen Communications Bureau took over ownerships of these two highways on 19th March 2003.
- (b) The consideration for the disposal of the above assets is satisfied by cash in the following manners:
- (1) 25% of the total consideration, being the first installment amounting to RMB482.5 million, paid within 10 days after the signing of the Transfer Agreement;
 - (2) 25% of the total consideration, being the second installment amounting to RMB482.5 million, paid before 31st December 2003;
 - (3) 30% of the total consideration, being the third installment amounting to RMB579 million, is payable before 31st December 2004; and
 - (4) the balance of the consideration, being the final installment amounting to RMB386 million, is payable before 31st December 2005.

As at 31st December 2003, the Company had already received the first and second installments of the consideration amounting to RMB965 million.

4 Gain on disposal of assets (Continued)

(c) The gain on disposal of the assets is calculated as follows:

		RMB'000
Total consideration according to the Transfer Agreement		1,930,000
Assets Disposal Extra Compensation	(i)	106,109
Imputed interest of long-term portion of consideration receivable	(ii)	<u>(48,833)</u>
		1,987,276
Stamp duty on assets disposed		(965)
Book value of assets disposed		<u>(1,294,895)</u>
Gain on disposal of assets		<u><u>691,416</u></u>

(i) The Company paid stamp duty of RMB965,000 and provided PRC enterprise income tax of RMB105,144,000 for this assets disposal transaction (see note 9). Total taxes paid/payable amounted to RMB106,109,000. Pursuant to the Transfer Agreement, the Shenzhen Communications Bureau will also grant an amount to the Company in 2004, equal to the actual tax payments to be made by the Company to the relevant tax authorities arising from this assets disposal transaction, as a subsidy to the Company for compensating the effect of assets disposal on the principal activities of the Company ("Assets Disposal Extra Compensation"). Such extra compensation receivable was recognised during the year by the Company.

(ii) As certain portions of the consideration and Assets Disposal Extra Compensation will be paid by installment after 2003, the Company calculated the discounted value of the consideration receivable in the future using an imputed rate of interest of 3.5% per annum, being the prevailing rate for a similar financial instrument offered by an issuer in the PRC with a similar credit rating.

Notes to the Accounts

4 Gain on disposal of assets (Continued)

(d) Total gain on disposal of assets has been/will be recognised in the Company's accounts for the year ended/ending 31st December:

	RMB'000
2003: Gain on disposal of assets	691,416
Provision for PRC enterprise income tax on disposal of assets	(105,144)
	586,272
2004: Imputed interest on long-term portion of the consideration	35,779
2005: Imputed interest on long-term portion of the consideration	13,054
	635,105
Total	635,105

5 Operating profit

Operating profit is stated after crediting and charging the following:

	2003 RMB'000	2002 RMB'000
Crediting		
Net exchange gain	286	—
Charging		
Realised losses on other investments	—	3,475
International auditors' remuneration	1,145	1,220
Statutory auditors' remuneration	980	724
Net exchange loss	—	297
Loss on disposal of other fixed assets	69	39
Provision for doubtful debts		
— Other receivables	—	131
— Loans to a jointly controlled entity (note 16(e))	28,311	14,519
Amortisation of goodwill	153	—

Notes to the Accounts

6 Staff costs

Staff costs, including directors' remuneration, are as follow:

	2003	2002
	RMB'000	RMB'000
Wages and salaries	25,267	30,244
Bonus — Share Appreciation Right Scheme (a)	4,284	4,870
Pension costs — defined contribution plans (c)	2,415	2,147
Other staff welfare benefits	4,680	8,689
	36,646	45,950
	36,646	45,950

(a) At the 2001 Annual General Meeting of the Company held on 6th March 2001, the Share Appreciation Right Scheme (the "Scheme") was approved and adopted. Total number of rights available under the Scheme (the "Rights") is 60,471,000. Rights are granted to directors and key management staff. Rights can be exercised one year after the date of grant and before the respective expiry date. Under the Scheme, the grantees are benefited by way of exercising their Rights to the extent of the higher of the prevailing share price over the pre-determined exercise price of the Rights and receiving a bonus reward in the form of cash from the Company. The amounts payable to the grantees under the Scheme are expensed in the profit and loss account as staff costs.

(i) Movements in the number of Rights during the year are as follows:

		Directors	Management staff	Total
Number of Rights exercisable during the year	(ii)	1,498,538	3,477,300	4,975,838
Number of Rights exercised during the year		(1,498,538)	(3,477,300)	(4,975,838)
Number of Rights not exercised at the end of of the year		—	—	—

6 Staff costs (Continued)

- (ii) Bonus amount paid and payable for such exercisable Rights during the year totalling RMB4,284,000 was charged as staff costs for the year. Out of the amount, bonus in relation to those Rights exercised by directors and management staff of the Company during the year amounted to RMB1,617,000 and RMB2,667,000, respectively.

Pursuant to an Extraordinary Shareholders' Meeting held on 30th October 2003, a resolution was passed to revise the rights attested to the Scheme that they are no longer held by individual but collectively held by senior management and management staff of the Company. The timing to exercise the Rights and the exercise price of the Scheme were also revised. Money arising from exercising the revised Rights of the Scheme will be maintained as a specific bonus fund. The Company shall appropriate such fund to senior management and management staff according to relevant proposal made by the general manager and the Human Resources and Nomination Committee of the Company. All non-executive directors of the Company have signed an undertaking and agreed to forfeit their Rights as attested to the Scheme that had not been exercised as at 31st December 2003.

- (b) As at 31st December 2003, details of the Rights which had not been exercised are set out below:

Number of the Rights which had not been exercised	Provision for the year RMB'000	Exercisable date
2,750,700	—	16th March 2004
2,750,700	—	16th March 2005
<u>5,501,400</u>	<u>—</u>	

- (c) The Group participates in the Shenzhen Municipal Retirement Scheme managed by Shenzhen Social Security Administration Bureau. Pursuant to the relevant provisions, the Group is required to make a monthly contribution equivalent to 12% and 7% respectively (2002: 12% and 7% respectively) of the monthly salary in respect of its full-time and temporary employees. The Bureau is responsible for the pension payments to be made to the retired employees of the Group and the Group has no further obligations. For the year ended 31st December 2003, total contributions made in this connection amounted to RMB2,415,000 (2002: RMB2,147,000).

7 Directors' and senior management's emoluments

(a) Directors' remuneration

The aggregate amounts of emoluments payable to directors during the year are as follows:

	2003	2002
	RMB'000	RMB'000
As directors		
— executive	—	—
— non-executive		
— remuneration	872	477
— allowances	82	116
— bonus from Share Appreciation Right Scheme	690	129
For management		
— basic salaries and allowances	696	723
— bonuses	319	250
— contributions to the retirement scheme	29	18
— bonus from Share Appreciation Right Scheme	927	89
	3,615	1,802
	3,615	1,802

In accordance with the Share Appreciation Right Scheme approved by the shareholders at the 2001 Annual General Meeting on 6th March 2001, 1,498,538 Rights which were exercisable by the directors under the Scheme during the year were fully exercised. Bonus payable to directors in relation to such exercised Rights amounted to RMB1,617,000. Please refer to note 6(a) to the accounts for details of Rights exercisable and exercised during the year.

No directors waived any emoluments in respect of the years ended 31st December 2003 and 2002.

During the years ended 31st December 2003 and 2002, no emoluments had been paid by the Group to the directors as an inducement to join or upon joining the Group or as a compensation for loss of office.

7 Directors' and senior management's emoluments (Continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2002: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2002: three) individuals during the year are as follows:

	2003	2002
	RMB'000	RMB'000
Basic salaries and allowances	592	828
Bonuses	285	255
Contributions to a retirement scheme	32	30
Bonus from Share Appreciation Right Scheme	286	108
	1,195	1,221
	1,195	1,221

The emoluments for all the directors (executive and non-executive) and senior management fell within the band of nil to RMB1,060,000 (HK\$1,000,000) during the years ended 31st December 2003 and 2002.

8 Finance costs

	2003	2002
	RMB'000	RMB'000
Interest on bank loans and other loans	13,812	25,962
Less: interest capitalised in construction in progress	(672)	(1,035)
	13,140	24,927
	13,140	24,927

The capitalisation rate applied to funds borrowed and used for the development of construction in progress ranged between 1.8% and 7.17% (2002: 1.8% and 7.17%) per annum.

Notes to the Accounts

9 Taxation

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

	2003	As restated
	RMB'000	2002
		RMB'000
Current taxation		
— PRC enterprise income tax	47,904	40,679
— PRC enterprise income tax on disposal of assets (note 4)	105,144	—
Deferred taxation (note 22)	6,189	8,025
	159,237	48,704
Share of taxation attributable to jointly controlled entities	(10,596)	12,381
	148,641	61,085
	148,641	61,085

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the location of the Company as follows:

	2003	2002
	RMB'000	RMB'000
Profit before taxation	1,054,530	414,018
Calculated at a taxation rate of 15% (2002: 15%)	158,180	62,103
Effect of different taxation rates in other locations	(12,487)	1,525
Income not subject to taxation	(23,100)	(12,074)
Expenses not deductible for taxation purposes	20,433	3,382
Unrecognised tax losses	6,457	6,149
Share of preferential tax benefits of jointly controlled entities	(842)	—
	148,641	61,085
Taxation charge	148,641	61,085

Notes to the Accounts

9 Taxation (Continued)

- (a) The Company is subject to PRC enterprise income tax rate of 15% for the year ended 31st December 2003, the preferential tax rate for enterprises established in the Shenzhen Special Economic Zone, as compared with the standard rate of 33%.
- (b) Pursuant to the approvals of the relevant authorities, two jointly controlled entities of the Company, Shenzhen Qinglong Expressway Company Limited ("Qinglong") and Hubei Yungang Transportation Development Company Limited ("Yungang"), are to be exempted from PRC enterprise income taxes for the first two profit-making years and a 50% reduction of the PRC enterprise income taxes for the three consecutive years thereafter. As a result, the two jointly controlled entities have not provided PRC enterprise income taxes in 2003 as it is the first profit-making year of Qinglong and the second profit-making year of Yungang.

The PRC enterprise income taxes charged to the consolidated profit and loss account have been calculated on the assessable profits of the Company, its subsidiaries and other jointly controlled entities for the year at rates of taxation applicable to the respective companies.

- (c) No provision for Hong Kong profits tax has been made in the accounts as the Group has no income assessable under Hong Kong profits tax.

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10 Profit attributable to shareholders

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of RMB871,532,000 (2002 (as restated): RMB295,348,000).

11 Dividends

	2003	2002
	RMB'000	RMB'000
Final, proposed, of RMB0.19 (2002: RMB0.12) per ordinary share	<u>414,333</u>	<u>261,684</u>

At a meeting held on 5th March 2004 the directors declared a final dividend of RMB0.19 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 earnings for the year ending 31st December 2004.

12 Earnings per share

The calculation of earnings per share is based on the Group's profit attributable to shareholders of RMB899,372,000 (2002: RMB347,064,000) and 2,180,700,000 (2002: 2,180,700,000) ordinary shares in issue during the year.

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

13 Goodwill

	Group
	RMB'000
Year ended 31st December 2003	
Beginning net book value	—
Acquisition of a subsidiary (note 26(d))	5,689
Amortisation charge	(75)
	5,614
Closing net book value	5,614
At 31st December 2003	
Cost	5,689
Accumulated amortisation	(75)
	5,614
Net book value	5,614

The addition in goodwill was in relation to the acquisition of a subsidiary during the year (note 15(c)).

Notes to the Accounts

14 Fixed assets

Group

	Toll roads RMB'000	Land use rights of toll roads RMB'000	Buildings, structures and leasehold improvements RMB'000	Equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
Cost						
At 1st January 2003	3,628,529	533,569	222,195	179,443	16,146	4,579,882
Additions	—	—	—	9,129	1,780	10,909
Transfer from construction in progress (note 18)	435,743	—	11,197	19,115	—	466,055
Reclassifications	39,888	(39,888)	—	—	—	—
Disposals of toll roads (note 4)	(1,269,647)	(161,491)	(52,726)	(14,980)	(6,448)	(1,505,292)
Disposals of other assets	—	—	—	(196)	(2,347)	(2,543)
At 31st December 2003	<u>2,834,513</u>	<u>332,190</u>	<u>180,666</u>	<u>192,511</u>	<u>9,131</u>	<u>3,549,011</u>
Accumulated depreciation						
At 1st January 2003	239,515	38,841	32,924	52,055	11,332	374,667
Charge for the year	45,426	7,744	7,208	19,294	2,516	82,188
Disposals of toll roads (note 4)	(162,723)	(21,452)	(18,492)	(4,092)	(5,973)	(212,732)
Disposals of other assets	—	—	—	(152)	(1,859)	(2,011)
At 31st December 2003	<u>122,218</u>	<u>25,133</u>	<u>21,640</u>	<u>67,105</u>	<u>6,016</u>	<u>242,112</u>
Net book value						
At 31st December 2003	<u>2,712,295</u>	<u>307,057</u>	<u>159,026</u>	<u>125,406</u>	<u>3,115</u>	<u>3,306,899</u>
At 31st December 2002	<u>3,389,014</u>	<u>494,728</u>	<u>189,271</u>	<u>127,388</u>	<u>4,814</u>	<u>4,205,215</u>

Notes to the Accounts

14 Fixed assets (Continued)

Company

	Toll roads	Land use rights of toll roads	Buildings, structures and leasehold improvements	Equipment	Motor vehicles	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost						
At 1st January 2003	2,830,481	293,986	188,472	135,012	13,629	3,461,580
Additions	—	—	—	8,068	1,665	9,733
Transfer from construction in progress (note 18)	435,743	—	8,514	15,882	—	460,139
Reclassifications	39,888	(39,888)	—	—	—	—
Disposals of toll roads (note 4)	(1,269,647)	(161,491)	(52,726)	(14,980)	(6,448)	(1,505,292)
Disposals of other assets	—	—	—	(196)	(2,347)	(2,543)
At 31st December 2003	<u>2,036,465</u>	<u>92,607</u>	<u>144,260</u>	<u>143,786</u>	<u>6,499</u>	<u>2,423,617</u>
Accumulated depreciation						
At 1st January 2003	188,839	23,805	25,021	25,906	9,612	273,183
Charge for the year	25,937	2,338	5,435	14,144	2,259	50,113
Disposals of toll roads (note 4)	(162,723)	(21,452)	(18,492)	(4,092)	(5,973)	(212,732)
Disposals of other assets	—	—	—	(152)	(1,859)	(2,011)
At 31st December 2003	<u>52,053</u>	<u>4,691</u>	<u>11,964</u>	<u>35,806</u>	<u>4,039</u>	<u>108,553</u>
Net book value						
At 31st December 2003	<u>1,984,412</u>	<u>87,916</u>	<u>132,296</u>	<u>107,980</u>	<u>2,460</u>	<u>2,315,064</u>
At 31st December 2002	<u>2,641,642</u>	<u>270,181</u>	<u>163,451</u>	<u>109,106</u>	<u>4,017</u>	<u>3,188,397</u>

Notes to the Accounts

14 Fixed assets (Continued)

- (a) The toll roads and related land use rights and buildings of the Group are all located in the PRC.
- (b) As detailed in note 4, the Company transferred all its rights and interests in two toll roads, National Highway No. 107 (Shenzhen Section) and National Highway No. 205 (Shenzhen Section), to the Shenzhen Communications Bureau during the year. The total net book value of the assets disposed of amounted to RMB1,294,895,000, comprising fixed asset costs of these toll roads as at the date of disposal of RMB1,292,560,000 and the related receivable balance of RMB2,335,000.

15 Investments in subsidiaries

		Company	
		2003 RMB'000	2002 RMB'000
Unlisted investments, at cost		750,040	721,050
Advance to a subsidiary	(d)	123,293	194,459
		873,333	915,509

- (a) The following is a list of major subsidiaries as at 31st December 2003:

Name	Place of incorporation and nature of legal entity	Principal activities and place of operation	Interest held
Shenzhen Meiguan Highway Company Limited ("Meiguan")	PRC, limited liability company	Construction, operation and management of Meiguan Expressway in Shenzhen, the PRC	*95%
Shenzhen Expressway Advertising Company Limited ("Advertising Company")	PRC, limited liability company	Advertising agency	(b) 99.75%

Notes to the Accounts

15 Investments in subsidiaries (Continued)

Name	Place of incorporation and nature of legal entity	Principal activities and place of operation	Interest held
Shenzhen Expressway Project Consulting Company Limited ("Project Consulting Company")	PRC, limited liability company	Project management consulting, construction consulting and selling of construction materials	*70%
Mei Wah Industrial (Hongkong) Limited ("Mei Wah")	Hong Kong, limited liability company	Investment in Yungang	*100%

* Interests held directly by the Company

- (b) The Company previously held 60% equity interest in Advertising Company. During the year, the Company and Meiguan acquired additional equity interests in Advertising Company of 35% and 5%, respectively. Since then, the Company held an aggregate equity interest in Advertising Company of 99.75%, directly and indirectly.
- (c) In October 2003, the Company acquired 100% equity interest of Mei Wah from a third party at a consideration of HKD24,875,000 (equivalent to RMB26,574,000). Mei Wah is principally engaged in investment holding and its major asset was a 42% equity interest in Yungang, its jointly controlled entity. Goodwill on this acquisition amounted to RMB5,689,000.

The operating profit of Mei Wah from 1st November 2003, the effective acquisition date, to 31st December 2003 of RMB202,000 has been included in the consolidated profit and loss account of the Group. The assets and liabilities of Mei Wah as at 31st December 2003 amounted to RMB18,476,000 and RMB42,000, respectively.

- (d) The advance of RMB123,293,000 (2002: RMB194,459,000) was made to Meiguan and is unsecured, non-interest bearing and is repayable out of the funds to be generated from its toll road project. In the opinion of the directors, there is no recoverability problem associated with this advance.

Notes to the Accounts

16 Interests in jointly controlled entities

	Group		Company	
	2003 RMB'000	As restated 2002 RMB'000	2003 RMB'000	2002 RMB'000
Unlisted investments, at cost	—	—	395,060	395,060
Provision for impairment of investments cost (h)	—	—	(62,650)	(9,060)
	—	—	332,410	386,000
Share of net assets other than goodwill	354,998	382,365	—	—
Goodwill on acquisition of jointly controlled entities less amortisation (b)	10,773	9,060	—	—
Provision for impairment of goodwill (e)	(9,060)	(9,060)	—	—
	356,711	382,365	332,410	386,000
Advances to jointly controlled entities (c)	962,464	526,374	962,464	526,374
Loans to a jointly controlled entity (d)	46,464	43,424	46,464	43,424
Provision for doubtful loans (e)	(46,464)	(18,153)	(46,464)	(18,153)
Interests in jointly controlled entities — direct	1,319,175	934,010	1,294,874	937,645
Interests in jointly controlled entities — indirect				
Long-term loan (g)	—	306,000	—	306,000
Total	1,319,175	1,240,010	1,294,874	1,243,645

Notes to the Accounts

16 Interests in jointly controlled entities (Continued)

(a) The following is a list of all jointly controlled entities as at 31st December 2003:

Name	Place of incorporation and nature of legal entity	Principal activities and place of operation	Percentage of interest in ownership
Shenzhen Airport-Heao Expressway (Eastern Section) Company Limited ("Airport-Heao")	PRC, Sino-foreign cooperative enterprise	Construction, operation and management of Jihe Expressway (East) in Shenzhen	*55%
Changsha Shenchang Expressway Company Limited ("Shenchang")	PRC, limited liability company	Construction, operation and management of Changsha Ring Road (Northwestern) in Changsha	*51%
Shenzhen Wutongling Ropeway Company Limited ("Wutongling")	PRC, limited liability company	Construction and management of a cable car project in Shenzhen	*40%
Shenzhen Qinglong Expressway Company Limited (formerly known as "Shenzhen Fountain Infrastructure Corporation")	PRC, Sino-foreign cooperative enterprise	Construction, operation and management of Qinglong Expressway in Shenzhen	*40%
Hubei Yungang Transportation Development Company Limited	PRC, Sino-foreign cooperative enterprise	Construction, operation and management of Hubei Yunmeng Geputan Bridge	**42%

The articles of association of all the above companies specify that the economic activity is subject to joint control and none of the participating parties has unilateral control over the economic activity.

* Interests held directly by the Company

** Held by a wholly-owned subsidiary of the Company, Mei Wah

16 Interests in jointly controlled entities (Continued)

- (b) The amount relates to goodwill arising on acquisition of Qinglong, a jointly controlled entity, in December 2002 of RMB1,791,000 and its amortisation charge during the year was RMB78,000. The Group's share of the post-acquisition results of Qinglong was insignificant in 2002 and thus the accounts of the jointly controlled entity were only equity accounted for by the Group commencing from 1st January 2003.
- (c) These represent advances made to Airport-Heao of RMB401,453,000 (2002: RMB416,374,000), Qinglong of RMB264,401,000 (2002: 110,000,000) and Shenchang of RMB296,610,000 (2002: Nil), respectively. The advances are unsecured, non-interest bearing and are repayable out of the funds to be generated from the respective toll road projects. In the opinion of the directors, there is no recoverability problem associated with the advances.
- (d) The loans were advanced to Wutongling and are secured by various equipment and operating facilities of Wutongling. The loans are interest bearing at prevailing bank loan borrowing rate in the PRC and have no fixed terms of repayment.
- (e) Wutongling did not commence operations as originally scheduled, provision for impairment loss has been made against goodwill arising from the acquisition of Wutongling of RMB9,060,000 in 2001, and provision for doubtful loans totalling RMB18,153,000 was made in 2001 and 2002.

As at 31st December 2003, the approval for the continuous construction of the project of Wutongling could not be obtained from the relevant government authorities and the project had been suspended. The directors have considered the above circumstances and decided to make full provision against the investment cost and the respective loans to Wutongling. Accordingly, additional provisions for investment cost of RMB2,000,000 and doubtful loans of RMB28,311,000 have been made during the year.

Notes to the Accounts

16 Interests in jointly controlled entities (Continued)

(f) Information on significant jointly controlled entities

Financial information of Airport-Heao, Shenchang and Qinglong, over which the Company has joint control, as at 31st December 2003 and for the year then ended prepared under HK GAAP is as follows:

	Airport-Heao		Shenchang (ii)		Qinglong
	As restated (i)		As restated (i)		
	2003	2002	2003	2002	2003
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Profit and loss account					
Turnover	173,107	149,056	16,138	12,473	103,998
Operating profit/(loss) before taxation	139,810	116,188	(153,671)	(3,983)	30,870
Taxation	(20,462)	(17,430)	44,888	(5,480)	(2,609)
Profit/(loss) after taxation	119,348	98,758	(108,783)	(9,463)	28,261
Net assets					
Fixed assets	1,207,197	1,211,521	617,079	781,884	942,796
Other long-term assets	—	26	—	—	—
Deferred tax assets	—	—	49,824	—	—
Current assets	53,801	23,758	8,025	14,396	46,969
Current liabilities	(10,378)	(9,892)	(4,387)	(3,650)	(9,775)
Net current assets	43,423	13,866	3,638	10,746	37,194
Amounts due to owners	(523,417)	(609,385)	(581,758)	(600,000)	(292,072)
Long-term loan	—	—	—	—	(558,008)
Deferred tax liabilities	(28,105)	(24,661)	(25,838)	(20,902)	(6,126)
Net assets	699,098	591,367	62,945	171,728	123,784

16 Interests in jointly controlled entities (Continued)

- (f) Information on significant jointly controlled entities (Continued)
- (i) In the current year, Airport-Heao and Shenchang adopted the revised SSAP 12 which represents a change in accounting policy and has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy. Details are described in note 2(j).
 - (ii) Shenchang has been in operation for four years. The traffic volume and revenues of past years could not be achieved as expected and Shenchang has been suffering loss as in the past four years. During the year, the directors of the Company appointed a professional traffic consultant to update and revise the forecast traffic volume throughout the future operating period as well as an independent valuer to perform a valuation on Shenchang's toll roads based on the re-projected traffic volume. According to the revaluation results, Shenchang has made an impairment provision against fixed assets balance (toll road) of RMB150,981,000 and it has recognised related deferred tax asset of RMB49,824,000 during the year.

(g) Long-term loan

Long-term loan as at 31st December 2002 represents long-term loan made to Changsha Ring Road Construction and Development Co., Ltd. ("Ring Road Co."), the joint venture partner of Shenchang. The background and terms of the loan are summarised below:

On 22nd July 1998, the Company entered into an agreement (the "Agreement") with Ring Road Co., an independent third party in the PRC, in order to establish Shenchang to construct, manage and operate a highway, Changsha Ring Road. The total investment of Shenchang is RMB800 million, out of which the registered capital is RMB200 million. The Company was responsible to contribute RMB102 million, representing 51% of the registered capital of Shenchang. The difference between the total investment and the registered capital of Shenchang of RMB600,000,000 was entirely contributed by Ring Road Co. by means of non-interest bearing advance made by the two owners (the "Advance").

A part of the Advance of RMB306,000,000, representing 51% of RMB600,000,000, was required to be advanced by the Company to Ring Road Co. in the form of loan. The loan is unsecured and interest-bearing at loan borrowing interest rate quoted by the People's Bank of China for a term over five years from time to time. Ring Road Co. has pledged its 49% equity interest in Shenchang to the Company to secure its payment obligations of the interest accrued on the loan.

16 Interests in jointly controlled entities (Continued)

(g) Long-term loan (Continued)

Pursuant to the Agreement, the loan was scheduled to be repaid in one lump sum by setting off against the Company's commitment to contribute the same loan amount to Shenchang in 2007. On 23rd December 2003, the Company entered into a supplementary agreement with Ring Road Co., under which the aggregate interest of the loan of RMB80,702,000 for the period ended 31st October 2007 which was expected to be payable by Ring Road Co. to the Company was settled by Ring Road Co. in advance by a lump sum payment of RMB66,800,000. The Company was required to waive the right to claim the remaining balance of RMB13,902,000. On the same date, the loan principal balance of RMB306,000,000 due from Ring Road Co. was converted into a non-interest bearing advance to Shenchang granted by the Company. Due to the fact that provision for impairment loss had been made against the asset value associated with the toll roads of Shenchang during the year, in the opinion of the directors of the Company, the interest received in advance, net of related applicable taxes, should be offset against the Company's share of the provision for impairment loss of Shenchang in the consolidated profit and loss account. It is considered to be a fair presentation of the financial impact on the Company arising from the transactions.

(h) Provision for impairment of investment costs

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		Company	
		2003	2002
		RMB'000	RMB'000
As at 1st January	16(e)	9,060	9,060
Increase of impairment provision for			
Wutongling	16(e)	2,000	—
Provision for impairment of Shenchang	(i)	51,590	—
		62,650	9,060
As at 31st December		62,650	9,060

(i) As detailed in note 16 (f) (ii), Shenchang has made an impairment provision against its toll road and recognised the related deferred tax asset during the year accordingly. The related accounting treatments enacted in the Group's accounts have been described in note 16(g) above. In the Company's accounts, an impairment loss provision against the investment cost in Shenchang of RMB51,590,000 has been made.

Notes to the Accounts

17 Long-term receivable

The amount represents the consideration of RMB919,755,000, receivable in 2004 and 2005 and the Assets Disposal Extra Compensation of RMB102,521,000 to be received in 2004 in respect of the disposal of assets pursuant to the Transfer Agreement entered into between the Company and the Shenzhen Communication Bureau on 18th March 2003. Details are as follows:

		Consideration	Imputed	Net present
		RMB'000	interests	value
			RMB'000	RMB'000
Consideration for disposal of assets:				
	note 4 (b)			
— third installment		579,000	(32,191)	546,809
— fourth installment		386,000	(13,054)	372,946
		<u>965,000</u>	<u>(45,245)</u>	<u>919,755</u>
Assets Disposal Extra Compensation	note 4 (c) (i)	106,109	(3,588)	102,521
		<u>1,071,109</u>	<u>(48,833)</u>	<u>1,022,276</u>
Current portion of long-term receivable		<u>685,109</u>	<u>(35,779)</u>	<u>649,330</u>
Long-term receivable		<u><u>386,000</u></u>	<u><u>(13,054)</u></u>	<u><u>372,946</u></u>

Notes to the Accounts

18 Construction in progress

	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
At 1st January	269,146	64,175	268,692	64,066
Additions	236,758	229,819	230,987	228,268
Transfer to fixed assets (note 14)	(466,055)	(24,848)	(460,139)	(23,642)
At 31st December	<u>39,849</u>	<u>269,146</u>	<u>39,540</u>	<u>268,692</u>

Construction in progress mainly comprises expenditures incurred on construction of toll roads not yet completed as at 31st December 2003.

19 Amount due from a jointly controlled entity - Group and Company

The amount mainly represents the net balance of toll income collected by the Group on behalf of Airport-Heao, a jointly controlled entity against the toll income collected by that jointly controlled entity on behalf of the Group. The amount is unsecured, interest free and it is settled on a monthly basis.

During the year, toll income collected by the Group on behalf of that jointly controlled entity was RMB72,295,000 (2002: RMB61,594,000), and toll income collected by that jointly controlled entity on behalf of the Group was RMB79,256,000 (2002: RMB63,094,000). All toll income collected is paid back to the counter party on a monthly basis without charging any handling charges.

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20 Share capital

	Registered, issued and fully paid				Total RMB'000
	Shares held by the State RMB'000	Shares held by legal persons RMB'000	Ordinary shares, listed in the PRC ("A shares") RMB'000	Foreign Invested Shares, listed in Hong Kong ("H shares") RMB'000	
At 31st December					
2003 and 2002	<u>654,780</u>	<u>613,420</u>	<u>165,000</u>	<u>747,500</u>	<u>2,180,700</u>

Pursuant to the Company's articles of association, all shares are of nominal value of RMB1 each and are all registered ordinary shares carrying equal rights.

Notes to the Accounts

21 Reserves

Group	Share premium RMB'000	Statutory			Total RMB'000	Retained earnings RMB'000
		Statutory surplus reserve RMB'000	public welfare fund RMB'000	Discretionary surplus reserve RMB'000		
At 1st January 2003, as previously reported	2,060,909	227,303	209,535	453,391	2,951,138	373,415
Effect of adopting SSAP 12 (Revised) (note 2(j))	—	(6,311)	(6,087)	—	(12,398)	(47,574)
At 1st January 2003, as restated	2,060,909	220,992	203,448	453,391	2,938,740	325,841
Profit for the year	—	—	—	—	—	899,372
Transfer from/(to)						
other reserves	—	98,028	91,616	—	189,644	(189,644)
2002 final dividend paid	—	—	—	—	—	(261,684)
Other decreases	(900)	—	—	—	(900)	—
At 31st December 2003	2,060,009	319,020	295,064	453,391	3,127,484	773,885
Representing:						
2003 final dividend proposed						414,333
Others						359,552
Retained earnings as at 31st December 2003						773,885
Company and subsidiaries	2,060,009	319,020	295,064	453,391	3,127,484	755,659
Jointly controlled entities	—	—	—	—	—	18,226
At 31st December 2003	2,060,009	319,020	295,064	453,391	3,127,484	773,885

Notes to the Accounts

21 Reserves (Continued)

Group	Share premium RMB'000	Statutory surplus reserve RMB'000	Statutory		Total RMB'000	Retained earnings RMB'000
			public welfare fund RMB'000	Discretionary surplus reserve RMB'000		
At 1st January 2002, as previously reported	2,060,909	156,574	156,574	453,391	2,827,448	355,244
Effect of adopting SSAP 12 (Revised) (note 2(j))	—	(4,814)	(4,644)	—	(9,458)	(37,647)
At 1st January 2002, as restated	2,060,909	151,760	151,930	453,391	2,817,990	317,597
Profit for the year, as restated	—	—	—	—	—	347,064
Transfer from/(to) other reserves, as restated	—	69,232	51,518	—	120,750	(120,750)
2001 final dividend paid	—	—	—	—	—	(218,070)
At 31st December 2002	2,060,909	220,992	203,448	453,391	2,938,740	325,841
Representing:						
2002 final dividend proposed						261,684
Others						64,157
Retained earnings as at 31st December 2002						325,841
Company and subsidiaries	2,060,909	220,992	203,448	453,391	2,938,740	313,008
Jointly controlled entities	—	—	—	—	—	12,833
At 31st December 2002	2,060,909	220,992	203,448	453,391	2,938,740	325,841

Notes to the Accounts

21 Reserves (Continued)

Company	Share premium RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Discretionary surplus reserve RMB'000	Total RMB'000	Retained earnings RMB'000
At 1st January 2003, as previously reported	2,060,009	191,709	191,709	453,391	2,896,818	327,199
Effect of adopting SSAP 12 (Revised) (note 2(j))	—	(5,865)	(5,865)	—	(11,730)	(4,900)
At 1st January 2003, as restated	2,060,009	185,844	185,844	453,391	2,885,088	322,299
Profit for the year	—	—	—	—	—	871,532
Transfer from/(to) other reserves	—	85,204	85,204	—	170,408	(170,408)
2002 final dividend paid	—	—	—	—	—	(261,684)
At 31st December 2003	<u>2,060,009</u>	<u>271,048</u>	<u>271,048</u>	<u>453,391</u>	<u>3,055,496</u>	<u>761,739</u>
Representing:						
2003 final dividend proposed						414,333
Others						347,406
Retained earnings as at 31st December 2003						<u>761,739</u>

Notes to the Accounts

21 Reserves (Continued)

Company	Share premium	Statutory surplus reserve	Statutory public welfare fund	Discretionary surplus reserve	Total	Retained earnings
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1st January 2002, as previously reported	2,060,009	156,574	156,574	453,391	2,826,548	313,711
Effect of adopting SSAP 12 (Revised) (note 2(j))	—	(4,475)	(4,475)	—	(8,950)	(1,200)
At 1st January 2002, as restated	2,060,009	152,099	152,099	453,391	2,817,598	312,511
Profit for the year, as restated	—	—	—	—	—	295,348
Transfer from/(to) other reserves, as restated	—	33,745	33,745	—	67,490	(67,490)
2001 final dividend paid	—	—	—	—	—	(218,070)
At 31st December 2002	<u>2,060,009</u>	<u>185,844</u>	<u>185,844</u>	<u>453,391</u>	<u>2,885,088</u>	<u>322,299</u>
Representing:						
2002 final dividend proposed						261,684
Others						60,615
Retained earnings as at 31st December 2002						<u>322,299</u>

21 Reserves (Continued)

(a) Pursuant to relevant PRC regulations and the articles of association of the Company, profit after taxation shall be appropriated in the following sequence:

- (i) make up accumulated losses;
- (ii) transfer 10% of the profit after taxation to the statutory surplus reserve. When the balance of the statutory surplus reserve reaches 50% of the share capital, such transfer need not be made;
- (iii) transfer 10% of the profit after taxation to the statutory public welfare fund;
- (iv) transfer to the discretionary surplus reserve an amount as approved by the shareholders in annual general meeting;
- (v) distribute dividends to shareholders.

The amounts of transfer to the statutory surplus reserve and statutory public welfare fund shall be based on profit after taxation in the statutory accounts of the Company prepared in accordance with the PRC accounting standards.

(b) **Share premium**

Share premium mainly represents premium on issue of shares net of issuing expenses. According to relevant PRC regulations, share premium can only be used to increase the share capital.

(c) **Statutory surplus reserve and discretionary surplus reserve**

According to relevant PRC regulations, statutory surplus reserve and discretionary surplus reserve can be used to make up losses or to increase the share capital.

(d) **Statutory public welfare fund**

According to relevant PRC regulations, the use of the statutory public welfare fund is restricted to capital expenditures incurred for employees welfare facilities. The statutory public welfare fund is not available for distribution to shareholders except upon liquidation of the Company.

Notes to the Accounts

21 Reserves (Continued)

(e) Profit distributable to shareholders

Pursuant to the relevant PRC regulations and the articles of association of the Company, profit distributable to shareholders shall be the lower of the accumulated distributable profits determined according to PRC accounting standards as stated in the PRC statutory accounts and the accumulated distributable profits adjusted based on HK GAAP. In the PRC statutory accounts as at 31st December 2003, profit distributable to shareholders of the Company, after the final dividend declared of RMB414,333,000 for the year, amounted to RMB229,881,000 (2002 (as restated): accumulated loss of RMB18,179,000).

22 Deferred taxation

Deferred taxation are provided in full on temporary differences under the liability method, using a principal taxation rate of 15% (2002 : 15%).

The movement of the deferred tax liabilities account is as follows:

	Group		Company	
	2003 RMB'000	As restated 2002 RMB'000	2003 RMB'000	As restated 2002 RMB'000
At 1st January	36,754	28,729	16,630	10,150
Charged to profit and loss account (note 9)	6,189	8,025	4,900	6,480
At 31st December	42,943	36,754	21,530	16,630

Notes to the Accounts

22 Deferred taxation (Continued)

The movement of deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year is as follows:

Deferred tax asset

	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
At 1st January	—	—	—	—
Charged to the profit and loss account	(1,878)	—	(1,878)	—
At 31st December	(1,878)	—	(1,878)	—

The deferred tax asset represents the deferred tax recognised for the impairment provision made against the investment in Wutongling (excluding the provision made for doubtful bank loans of Wutongling guaranteed by the Company).

Deferred tax liabilities

	Group		Company	
	2003 RMB'000	As restated 2002 RMB'000	2003 RMB'000	As restated 2002 RMB'000
At 1st January	36,754	28,729	16,630	10,150
Charged to the profit and loss account	8,067	8,025	6,778	6,480
At 31st December	44,821	36,754	23,408	16,630

Deferred tax liabilities of the Group of RMB44,821,000 (2002: RMB36,754,000) and those of the Company of RMB23,408,000 (2002: RMB16,630,000) represent the deferred tax on temporary differences arising from the different basis adopted for depreciation of toll roads and amortisation of land use rights which lead to differences in accounting and the tax bases.

Notes to the Accounts

22 Deferred taxation (Continued)

Deferred tax assets and liabilities are offset against each other when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes are related to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

	Group		Company	
	2003 RMB'000	As restated 2002 RMB'000	2003 RMB'000	As restated 2002 RMB'000
Deferred taxation asset	(1,878)	—	(1,878)	—
Deferred taxation liabilities	44,821	36,754	23,408	16,630
	42,943	36,754	21,530	16,630

23 Long-term liabilities

	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Other loans, secured (note (a))	36,177	24,419	36,177	24,419
Other long-term advance (note (b))	54,000	124,000	54,000	124,000
Advance from a minority shareholder of a subsidiary (note (c))	15,294	19,207	—	—
	105,471	167,626	90,177	148,419
Current portion of other loans (note (a))	(3,082)	—	(3,082)	—
	102,389	167,626	87,095	148,419

Notes to the Accounts

23 Long-term liabilities (Continued)

- (a) Other loans totalling USD4,370,897 were borrowed from the Spanish Government through the China Construction Bank. The loans comprise two portions, with a portion of USD2,136,697 bearing interest at 1.8% per annum, while the remaining amount of USD2,234,200 at 7.17% per annum. The loans are repayable by several instalments from 2nd February 2004 to 1st August 2011 and they are guaranteed by XinTongChan Development (Shenzhen) Co., Ltd, a substantial shareholder of the Company.
- (b) Other long-term advance was obtained from local government authorities as an inducement of the Company to participate in a toll road project. The advance is unsecured, non-interest bearing and has no fixed terms of repayment. In the opinion of the directors, the advance is not repayable within five years.
- (c) The advance was granted to Meiguan, a subsidiary of the Company, by a minority shareholder of Meiguan. The advance is unsecured, non-interest bearing and is repayable out of the funds to be generated from Meiguan's toll road project.

24 Borrowings

At 31st December 2003, the Group's bank loans and other borrowings were repayable as follows:

	Bank loans		Other loans, other long-term advances and advances from a minority shareholder	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Within one year	40,000	610,000	3,082	—
In the second to fifth year	—	—	19,401	19,401
After the fifth year	—	—	82,988	148,225
Total	40,000	610,000	105,471	167,626

As at 31st December 2003, total banking facilities available to the Group amounted to RMB4,090,000,000 (2002: RMB3,000,000,000), of which bank loans drawn down of RMB40,000,000 (2002: RMB610,000,000) had been utilised.

Notes to the Accounts

25 Deferred income

		Group and Company	
		2003	2002
		RMB'000	RMB'000
At 1st January	(a)	240,312	273,294
Transfer from other long-term advance	(b)	150,000	—
Government subsidy income recognised for the year		(35,840)	(32,982)
		354,472	240,312
At 31st December		354,472	240,312

- (a) Deferred income represents government grants provided to the Company in relation to subsidies for toll revenue of the Yanba Expressway Section A and Section B (the “Expressway”), as a result of the anticipated insufficient traffic volume caused by the early construction of the expressway as requested by the Shenzhen Municipal Government in order to be with its overall town planning requirements. Pursuant to a circular Shenjitouzi [2001] No. 764 issued by the Shenzhen Municipal Government dated 21st November 2001, Shenzhen Municipal Government approved the non-repayment of a long-term advance totalling RMB300,000,000 previously provided to the Company, and the conversion of such advances to a government grant for subsidising the toll revenue of the Company. Such government grants are treated as deferred income and are recognised in the profit and loss account according to the Group’s accounting policies as shown in note 2(n) over the period during which the Company is granted the right to operate the related expressway.
- (b) During the year, the construction of Yanba Expressway Section B was completed and the expressway was put into operation. Pursuant to the circular, Shenjitouzi [2001] No. 764, issued by the Shenzhen Municipal Government dated 21st November 2001, Shenzhen Municipal Government further approved the non-repayment of a long-term advance totalling RMB150,000,000 previously provided to the Company, and the conversion of such advance into a government grant for subsidising toll revenue to the Company. Such government grants are treated as deferred income and are recognised in the profit and loss account according to the Group’s accounting policies as shown in note 2(n) over the period during which the Company is granted the right to operate the Expressway.

Notes to the Accounts

26 Notes to the consolidated cash flow statement

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

	2003	2002
	RMB'000	RMB'000
Operating profit	1,008,576	377,072
Depreciation and amortisation	82,188	100,674
Amortisation of goodwill	153	—
Provision for doubtful debts of other receivables	—	131
Provision for doubtful loans to a jointly controlled entity	28,311	14,519
Gain on disposal of major fixed assets	(691,416)	—
Loss on disposal of other fixed assets	69	39
Increase in inventories	(239)	(77)
Increase in other receivables, prepayments and deposits	(2,950)	(5,646)
Decrease in amount due from a jointly controlled entity	487	—
Decrease in amount due to a jointly controlled entity	—	(3,088)
Decrease in other payables and accrued expenses	(17,022)	(32,435)
Interest income from bank deposits	(9,616)	(12,312)
Interest income from a long-term loan	(18,563)	(13,010)
Investment losses from other investments	—	3,475
Government subsidies	(35,840)	(32,982)
Government subsidies from local government	(10,183)	—
	333,955	396,360
Net cash inflow generated from operations	333,955	396,360

Notes to the Accounts

26 Notes to the consolidated cash flow statement (Continued)

(b) Analysis of changes in financing during the year

	Share capital and Share premium		Minority interests		Bank loans and other non-current liabilities	
	2003 RMB'000	2002 RMB'000	As restated		2003 RMB'000	2002 RMB'000
			2003 RMB'000	2002 RMB'000		
At 1st January	4,241,609	4,241,609	50,282	48,414	777,626	886,941
Capital contribution from a minority shareholder of a subsidiary	—	—	—	900	—	—
Minority interests in share of profits	—	—	6,517	5,869	—	—
Dividend paid/payable to minority shareholders of subsidiaries	—	—	(5,360)	(4,901)	—	—
New loans granted	—	—	—	—	366,758	1,255,359
New advance granted	—	—	—	—	80,000	30,000
Repayment of advance from minority shareholder of subsidiaries	—	—	—	—	(3,913)	(4,674)
Repayments of loans borrowed	—	—	—	—	(925,000)	(1,390,000)
Transfer from other long-term advance to deferred income	—	—	—	—	(150,000)	—
Others	(900)	—	(1,472)	—	—	—
At 31st December	4,240,709	4,241,609	49,967	50,282	145,471	777,626

(c) Major non-cash transactions

As detailed in note 16(g), the Company converted the long-term loan to Ring Road Co. of RMB306,000,000 into an owner's advance to Shenchang.

Notes to the Accounts

26 Notes to the consolidated cash flow statement (Continued)

(d) Purchase of a subsidiary (note 15(c))

	2003 RMB'000
Net assets acquired	
Interest in a jointly controlled entity	18,595
Other receivables	117
Bank balances and cash	2,256
Other payables and accrued expenses	(83)
	20,885
Goodwill	5,689
	26,574
Satisfied by cash consideration	26,574

The subsidiary, Mei Wah, acquired during the year, paid RMB20,000 for operating activities. No payment was made in respect of investing and financing activities and no taxes were paid.

Analysis of the net outflow in respect of the purchase of the subsidiary:

	2003 RMB'000
Cash consideration	26,574
Bank balances and cash acquired	(2,256)
	24,318
Net cash outflow in respect of the purchase of the subsidiary	24,318

Notes to the Accounts

27 Commitments

As at 31st December 2003, the Group and the Company had the following commitments for construction of expressways and investment:

	2003	2002
	RMB'000	RMB'000
Capital commitment		
— Contracted but not provided for	328,000	252,630
— Authorised but not contracted for	1,197,000	496,000
	1,525,000	748,630
Investment commitment		
— Authorised but not contracted for	611,000	—
	2,136,000	748,630

The jointly controlled entities had no significant capital or investment commitments as at 31st December 2003.

28 Related party transactions

Save as disclosed in the notes to the accounts, the Group had not entered into any other material transactions with related parties during the year.

29 Subsequent events

- (a) On 11th February 2004, a project construction management agreement (the "Management Agreement") was entered into between the Company and the Shenzhen Communications Bureau, an authorised representative of the Shenzhen Municipal Government, in relation to provision of management services on the construction of Shenzhen Nanping Freeway (Phase I) project (the "Project"). Pursuant to the Management Agreement, the Company was appointed as the project manager of the Project. The expected construction cost of the Project is approximately RMB2.268 billion. As authorised by the Shenzhen Communications Bureau, the Company shall enter into construction contracts directly with the contractors responsible for the Project on behalf of the Shenzhen Communications Bureau. The Project will be funded by the government grants from the Shenzhen Municipal Government. The income to be desired by the Company from rendering the construction management service represents the savings between the actual costs to be incurred and the budgeted costs of the Project.
- (b) On 5th March 2004, the Company entered into an agreement with Guangdong Expressway Company Limited ("Guangdong Expressway"), a fellow subsidiary of Guangdong Roads Construction Company Limited which is a promoter and shareholder of the Company, for the acquisition of a 25% equity interest in Yangmao Expressway Company Limited at a consideration of RMB271,680,000. A deposit of RMB1,000,000 has been paid by the Company to Guangdong Expressway. The balance of RMB270,680,000 shall be payable within 5 working days from the effective date of the agreement. The effectiveness of the agreement is subject to approval from the shareholders' meeting of the Company.

30 Approval of accounts

The accounts were approved by the board of directors on 5th March 2004.

Supplementary Information (Unaudited)

For the year ended 31st December 2003

Reconciliation of accounts

The Group has prepared a separate set of accounts for the year ended 31st December 2003 in accordance with PRC accounting standards. The major differences between the accounts prepared under the PRC and HK accounting standards are summarised as follows:

	Profit attributable to shareholders for year ended 31st December 2003 RMB'000	Net assets as at 31st December 2003 RMB'000
As per PRC statutory accounts	852,037	5,952,866
Impact of HK GAAP adjustments:		
Amortisation of land use rights	(3,979)	65,356
Depreciation of fixed assets	2,447	16,368
Assets Disposal Extra Compensation	106,109	106,109
Imputed interest adjustment on the consideration receivable from assets disposal and Assets Disposal Extra Compensation	(48,833)	(48,833)
Deferred taxation	(8,475)	(9,797)
Others	66	—
	<hr/>	<hr/>
Net amount of adjustments	47,335	129,203
	<hr/>	<hr/>
As restated after HK GAAP adjustments	<u>899,372</u>	<u>6,082,069</u>