

## NOTES TO THE INTERIM ACCOUNTS

### 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 30 December 1996. The principal activities of the Company and its subsidiaries (collectively the "Group"), jointly controlled entities and associated companies are the development, operation and management of toll highways and expressways in the PRC.

### 2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited condensed consolidated interim accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25: "Interim financial reporting", issued by the Hong Kong Society of Accountants. 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 applicable accounting principles and financial regulations in the PRC. Appropriate restatements have been made to the PRC statutory accounts to conform with the accounting principles generally accepted in Hong Kong ("HK GAAP"). Differences arising from the restatements are not incorporated in the Group's accounting records.

These interim accounts should be read in conjunction with the 2003 annual accounts.

The accounting policies and methods of computation used in the preparation of these interim accounts are consistent with those used in the annual accounts for the year ended 31 December 2003 except that the Group has adopted SSAP 10 – "Accounting for Investment in Associates" following the acquisitions of interests in associated companies during the period. Details of the relevant policies are as follows:

#### 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 period, 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.

Unrealised gains on transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated companies; unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

### 3 TURNOVER AND REVENUE

Revenues recognised during the period are as follows:

	Note	Six months ended 30 June	
		2004 RMB'000	2003 RMB'000
Turnover	(a)		
Income from toll roads		230,619	218,731
Less: taxes related to toll income	(b)	(12,009)	(11,374)
		<u>218,610</u>	<u>207,357</u>
Other revenues			
Interest income from bank deposits		7,053	5,239
Interest income from a long-term loan		—	8,447
Imputed interest income on instalments	4	17,890	—
Income from construction management services		1,385	1,471
Government subsidies	16	19,625	15,501
Others		4,358	2,380
		<u>50,311</u>	<u>33,038</u>
Total revenues		<u>268,921</u>	<u>240,395</u>

(a) No segment information is presented as all turnover of the Group is toll income derived from toll roads in the PRC.

(b) Taxes related to toll income are as follows:

- PRC business tax at 5% on toll income
- City development tax at 1% of the PRC business tax
- Education supplementary tax at 3% of the PRC business tax

### 4 DISPOSAL OF ASSETS

In 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 Shenzhen Communications Bureau at a consideration of RMB1,930,000,000 plus an extra compensation of RMB106,109,000. Accordingly, it recorded a gain on disposals amounting to RMB691,416,000.

The consideration and extra compensation are recorded as long-term receivables. Since certain portions of the consideration and the extra compensation are to be settled by instalments, the Company calculated the present value of the total consideration by discounting the expected future receipts using an imputed rate of interest of 3.5% per annum, being the prevailing rate for a similar financial instrument issued by an issuer in the PRC with a similar credit rating. The imputed interest income is recognised as other revenue over the instalment period.

## 5 STAFF COSTS

	Six months ended 30 June	
	2004 RMB'000	2003 RMB'000
Wages and salaries	9,391	11,660
Pension costs - defined contribution plans	627	804
Other staff welfare benefits	2,709	3,364
	<u>12,727</u>	<u>15,828</u>

## 6 TAXATION

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

	Six months ended 30 June	
	2004 RMB'000	2003 RMB'000 (Restated)
Current taxation		
- PRC enterprise income tax	23,805	18,906
- PRC enterprise income tax on disposal of assets	—	105,144
Deferred taxation	4,109	3,880
	<u>27,914</u>	<u>127,930</u>
Share of taxation attributable to jointly controlled entities	8,408	7,192
	<u>36,322</u>	<u>135,122</u>

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:

	Six months ended 30 June	
	2004 RMB'000	2003 RMB'000 (Restated)
Profit before taxation	<u>248,795</u>	<u>890,054</u>
Calculated at a taxation rate of 15% (2003: 15%)	37,319	133,508
Effect of different taxation rates in other locations	765	717
Income not subject to taxation	(5,627)	(18,242)
Expenses not deductible for taxation purposes	1,595	16,427
Unrecognised tax losses	3,323	2,914
Share of preferential tax benefits of jointly controlled entities	(1,053)	(202)
Taxation charge	<u>36,322</u>	<u>135,122</u>

The Company is subject to PRC enterprise income tax at a rate of 15%, the preferential tax rate for enterprises established in the Shenzhen Special Economic Zone, while the standard rate is 33%.

## 7 DIVIDENDS

The directors do not recommend the payment of an interim dividend for the period (2003: Nil).

## 8 EARNINGS PER SHARE

The calculation of earnings per share is based on the profit attributable to shareholders of RMB208,705,000 (2003: RMB752,214,000 (restated)) and 2,180,700,000 (2003: 2,180,700,000) ordinary shares in issue during the period.

## 9 CAPITAL EXPENDITURES

	Goodwill RMB'000	Fixed assets RMB'000	Construction in progress RMB'000
Opening net book amount as at 1 January 2004	5,614	3,306,899	39,849
Transfer of construction in progress to fixed assets	—	2,378	(2,378)
Other additions	—	4,288	100,031
Disposals	—	(1,261)	—
Depreciation/amortisation charge	(540)	(42,247)	—
Others	—	(263)	(336)
	<u>5,074</u>	<u>3,269,794</u>	<u>137,166</u>
Closing net book amount as at 30 June 2004	<u>5,074</u>	<u>3,269,794</u>	<u>137,166</u>

## 10 INTERESTS IN JOINTLY CONTROLLED ENTITIES

	Note	30 June 2004 RMB'000	31 December 2003 RMB'000
Share of net assets other than goodwill	(a)	368,245	354,998
Goodwill on acquisition less accumulated amortisation	(b)	10,734	10,773
Provision for impairment of goodwill	(b)	(9,060)	(9,060)
		<u>369,919</u>	<u>356,711</u>
Advances to jointly controlled entities	(c)	933,439	962,464
Loans to a jointly controlled entity	(d)	46,464	46,464
Provision for doubtful loans	(d)	(46,464)	(46,464)
		<u>933,439</u>	<u>962,464</u>
Interests in jointly controlled entities		<u>1,303,358</u>	<u>1,319,175</u>

## 10 INTERESTS IN JOINTLY CONTROLLED ENTITIES (Continued)

- (a) As at 30 June 2004, all jointly controlled entities companies were incorporated and operating in the PRC. Details of these companies are set out as below:

Name	Nature of legal entity	Principle activities	Interest held directly
Qinglong Company	Sino-foreign cooperative enterprise	Construction, operation and management of expressways	40%
Shenzhen Jihe Expressway (Eastern Section) Company Limited ("Airport-Heao Eastern")	Sino-foreign cooperative enterprise	Construction, operation and management of expressways	55%
Shenchang Company	Limited liability company	Construction, operation and management of expressways	51%
Yungang Company	Sino-foreign cooperative enterprise	Construction, operation and management of bridges	42%
Wutongling Ropeway	Limited liability company	Construction, operation and management of a cable car project	40%

- (b) The goodwill arising from the acquisition of Wutongling Ropeway in 1999 amounting to Rmb9,060,000 had been fully provided for impairment loss in prior years. The goodwill arising from the acquisition of Qinglong Company in 2002 amounted to RMB1,791,000. The amortisation charge of such goodwill during this period was RMB39,000 and the accumulated amortisation as at the period end was RMB117,000.
- (c) 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 Ropeway and secured by various equipment and operating facilities of Wutongling Ropeway. The loans are interest bearing at prevailing bank loan borrowing rates in the PRC and have no fixed terms of repayment. Full provision for impairment loss against the loans had been made in prior years as Wutongling Ropeway did not commence operation as originally scheduled.

## 11 INTERESTS IN ASSOCIATED COMPANIES

	30 June 2004 RMB'000	31 December 2003 RMB'000
Share of net assets other than goodwill	529,748	—
Goodwill on acquisition	76,845	—
	<u>606,593</u>	<u>—</u>

As at 30 June 2004, all associated companies were incorporated and operating in the PRC with limited liabilities. Details of these companies are set out as follows:

Name	Principal activities	Interest held directly
Guangdong Jiangzhong Expressway Company Limited ("Jiangzhong")	Construction, management and operation of expressways	25%
Guangzhou West Ring 2 Expressway Company Limited ("West Ring 2")	Construction, management and operation of expressways	25%
Shenzhen Huayu Expressway Investment Co., Ltd. ("Huayu")	Development, investment and operation of expressways	40%
Shenzhen Expressway Project Consulting Co., Ltd. ("Project Consulting") (note (a))	Consulting service on project management and engineering; sales of engineering materials	30%
Nanjing Yangtz River No.3 Bridge Co., Ltd. ("Nanjing No.3 Bridge")	Construction, management and operation of bridges	25%
Guangdong Yangmao Expressway Company Limited. ("Yangmao")	Construction, management and operation of expressway	25%

- (a) During the period, the equity interest of Project Consulting held by the Company decreased from 70% to 30% following the addition of a new investor and as a result, the Company reduced its control over Project Consulting. Therefore, the Company's interest in Project Consulting is reclassified from subsidiary to associated company.
- (b) Except for Project Consulting, the above associated companies were incorporated/acquired during the period and have not yet commenced operation.

## 12 AMOUNT DUE FROM A JOINTLY CONTROLLED ENTITY

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

## 13 OTHER RECEIVABLES, OTHER PAYABLES AND RESTRICTED CASH AT BANK

During the period, the Company entered into two project construction management agreements with the Shenzhen Longgang Road Bureau and Shenzhen Communications Bureau, respectively. The Company was appointed as the project manager for these projects and it undertakes to enter into construction contracts with other suppliers on behalf of these government departments (note 17(b)). As at 30 June 2004, both of these projects were only at their preliminary stages of planning and construction. Consequently, no fee revenue or losses were determinable for inclusion in this interim accounts for the six months then ended.

Pursuant to one of the relevant agreements, the Company has paid RMB15,000,000 to the Shenzhen Longgang Road Bureau as guarantee deposits. In addition, advance totalling RMB293,000 was made by the Company on behalf of the bureau for the relevant project. These amounts were recorded as other receivables in the balance sheet.

For another project, the Company received a sum of RMB400,000,000 from the Shenzhen Communications Bureau during the period and settled RMB76,426,000 on its behalf. The remaining balance was recorded as other payables and reflected as restricted cash in the balance sheet.

## 14 LONG-TERM LIABILITIES

	30 June 2004 RMB'000	31 December 2003 RMB'000
Bank loans		
- Secured	35,442	36,177
- Unsecured	100,000	—
Other long-term payables	54,000	54,000
Advance from a minority shareholder	14,454	15,294
	<u>203,896</u>	<u>105,471</u>
Current portion of long-term liabilities	(3,082)	(3,082)
	<u>200,814</u>	<u>102,389</u>

At 30 June 2004, the Group's bank loans and other borrowings were repayable as follows:

	Bank loans		Other borrowings	
	30 June 2004 RMB'000	31 December 2003 RMB'000	30 June 2004 RMB'000	31 December 2003 RMB'000
Within 1 year	360,000	40,000	3,082	3,082
In the second to fifth year	100,000	—	19,401	19,401
After the fifth year	—	—	81,413	82,988
	<u>460,000</u>	<u>40,000</u>	<u>103,896</u>	<u>105,471</u>



## 15 DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 15%(2003 : 15%).

The movements of the deferred tax liabilities account are as follows:

	Note	Six months ended 30 June 2004 RMB'000	Year ended 31 December 2003 RMB'000
At the beginning of the period/year		42,943	36,754
Charged to profit and loss account	6	4,109	6,189
At the end of the period/year		47,052	42,943

## 16 DEFERRED INCOME

	Six months ended 30 June 2004 RMB'000	Year ended 31 December 2003 RMB'000
At beginning of the period/year	354,472	240,312
Transferred from other long-term payables	—	150,000
Income recognised for the period/year	(19,625)	(35,840)
At end of the period/year	334,847	354,472

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 and is recognised in the profit and loss account over the period for which the Company is granted the right to operate the related expressway.

## 17 COMMITMENTS AND CONTINGENT LIABILITIES

- (a) As at 30 June 2004, the Group had the following capital commitments for construction of expressways and related investments:

	30 June 2004 RMB'000	31 December 2003 RMB'000
Capital commitments		
- contracted but not provided for	510,000	328,000
- authorised but not contracted for	<u>1,088,000</u>	<u>1,197,000</u>
	1,598,000	1,525,000
Investment commitments		
- contracted but not provided for	555,270	—
- authorised but not contracted for	<u>—</u>	<u>611,000</u>
	<u>2,153,270</u>	<u>2,136,000</u>

- (b) As detailed in Note 13, the Company had entered into two construction project management agreements with two government departments. Pursuant to the agreements, construction contracts will be entered into by the Company with suppliers on behalf of these government departments, while the government departments will provide funds for financing the projects. As at 30 June 2004, the Company had the following commitments for contracts entered into with suppliers:

	30 June 2004 RMB'000	31 December 2003 RMB'000
Contracted but not provided for	<u>1,133,649</u>	<u>—</u>

According to the above agreements, the Company is responsible for cost overrun arising from the projects. For the project with a total budget contract sum of about RMB450 million, the Company has to bear all the expenditures exceeding the assigned budget. For another project with a total budget sum of about RMB2,268 million, if the final costs exceed the budget by less than 2.5%, the Company has to bear all of the overrun; and if the final costs exceed the budget by more than 2.5%, the Company will share the overrun with the government department of the portion exceeding 2.5% of the budget.

## 18 RELATED PARTY TRANSACTIONS

Related party transactions during the period are as below:

- (a) The Company acquired 25% equity interest in Yangmao at a consideration of RMB271,680,000 from Guangdong Expressway Company Limited, a fellow subsidiary of a shareholder of the Company – Guangdong Roads and Bridges Development Company (“Guangdong Roads and Bridges Company”).
- (b) The Company acquired 25% equity interest in Jiangzhong at a consideration of RMB169,500,000 from Guangdong Roads Construction Company Limited, a fellow subsidiary of Guangdong Roads and Bridges Company.

## 19 COMPARATIVES

The revised SSAP12 “Income taxes” became effective from 1 January 2003 onwards. Accordingly, certain comparative figures have been restated to reflect the change in accounting policies for taxation. Details are as follows:

	For the six months ended 30 June 2003			As at 1 January 2003	
	Taxation	Minority interests	Profit attributable to shareholders	Reserves	Retained earnings
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As previously reported	128,344	2,758	758,952	2,951,138	373,415
Effect of adopting SSAP 12 (Revised)	6,778	(40)	(6,738)	(12,398)	(47,574)
As restated	<u>135,122</u>	<u>2,718</u>	<u>752,214</u>	<u>2,938,740</u>	<u>325,841</u>