

Consolidated Profit and Loss Account

For the year ended 31 December 2004

	Note	2004 RMB'000	2003 RMB'000
Turnover	3	482,540	421,531
Other revenues	3	110,609	79,510
Gain on disposal of assets	4	—	691,416
Depreciation		(89,651)	(82,188)
Staff costs	6	(40,337)	(36,646)
Road maintenance expenses		(8,912)	(7,369)
Other operating expenses		(57,114)	(57,678)
Operating profit	5	397,135	1,008,576
Finance costs	8	(12,922)	(13,140)
Share of profits less losses of			
- jointly controlled entities		120,032	59,094
- associated companies		(706)	—
Profit before taxation		503,539	1,054,530
Taxation	9	(76,821)	(148,641)
Profit after taxation		426,718	905,889
Minority interests		(7,848)	(6,517)
Profit attributable to shareholders	10	418,870	899,372
Dividends	11	239,877	414,333
Earnings per share - basic	12	RMB0.192	RMB0.412

Consolidated Balance Sheet

As at 31 December 2004

	Note	2004 RMB'000	2003 RMB'000
Non-current assets			
Goodwill	13	5,179	5,614
Fixed assets	14	3,254,672	3,306,899
Construction in progress	15	283,604	39,849
Interests in jointly controlled entities	17	1,261,903	1,319,175
Interests in associated companies	18	870,698	—
Long-term receivables	19	—	372,946
		5,676,056	5,044,483
Current assets			
Inventories		6,935	6,131
Amounts due from jointly controlled entities	21	3,123	637
Current portion of long-term receivables	19	372,946	649,330
Other receivables, prepayments and deposits	20	27,199	13,574
Restricted cash	20	55,988	—
Bank balances and cash		1,203,239	1,274,818
		1,669,430	1,944,490
Current liabilities			
Other payables and accrued expenses	20	266,114	192,760
Taxation payable		13,560	121,291
Current portion of long term liabilities	25	3,082	3,082
Short-term bank loans, unsecured	26	360,000	40,000
		642,756	357,133
Net current assets		1,026,674	1,587,357
Total assets less current liabilities		6,702,730	6,631,840

Consolidated Balance Sheet

As at 31 December 2004

	Note	2004 RMB'000	2003 RMB'000
Financed by:			
Share capital	22	2,180,700	2,180,700
Reserves	23	3,247,852	3,127,484
Proposed final dividend	23	239,877	414,333
Retained earnings	23	418,177	359,552
		6,086,606	6,082,069
Minority interests		50,066	49,967
Non-current liabilities			
Long-term liabilities	25	196,911	102,389
Deferred tax liabilities	24	50,383	42,943
Deferred income	27	318,764	354,472
		6,702,730	6,631,840

Chen Chao
Director

Wu Ya De
Director

Balance sheet

As at 31 December 2004

	Note	2004 RMB'000	2003 RMB'000
Non-current assets			
Fixed assets	14	2,282,627	2,315,064
Construction in progress	15	280,242	39,540
Investments in subsidiaries	16	808,974	873,333
Interests in jointly controlled entities	17	1,207,483	1,294,874
Interests in associated companies	18	871,404	—
Long-term receivables	19	—	372,946
		5,450,730	4,895,757
Current assets			
Inventories		6,292	5,479
Amounts due from jointly controlled entities	21	3,123	2,340
Current portion of long-term receivables	19	372,946	649,330
Other receivables, prepayments and deposits	20	37,278	10,610
Restricted cash	20	55,988	—
Bank balances and cash		1,163,284	1,241,688
		1,638,911	1,909,447
Current liabilities			
Other payables and accrued expenses	20	245,748	185,998
Taxation payables		6,150	115,092
Current portion of long-term liabilities	25	3,082	3,082
Short-term bank loans, unsecured	26	360,000	40,000
		614,980	344,172
Net current assets		1,023,931	1,565,275
Total assets less current liabilities		6,474,661	6,461,032

	Note	2004 RMB'000	2003 RMB'000
Financed by:			
Share capital	22	2,180,700	2,180,700
Reserves	23	3,152,408	3,055,496
Proposed final dividends	23	239,877	414,333
Retained earnings	23	369,616	347,406
		5,942,601	5,997,935
Non-current liabilities			
Long-term liabilities	25	184,819	87,095
Deferred tax liabilities	24	28,477	21,530
Deferred income	27	318,764	354,472
		6,474,661	6,461,032

Chen Chao
Director

Wu Ya De
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2004

	Note	2004 RMB'000	2003 RMB'000
Total equity as at 1 January		6,082,069	5,445,281
Profit for the year		418,870	899,372
Dividends	23	(414,333)	(261,684)
Others		—	(900)
Total equity as at 31 December		<u>6,086,606</u>	<u>6,082,069</u>

Consolidated Cash Flow Statement

For the year ended 31 December 2004

	Note	2004 RMB'000	2003 RMB'000
Operating activities			
Cash received from toll income		482,540	445,140
Cash received from road construction management services		17,351	—
Cash received from road construction projects		32,445	—
Cash paid to suppliers		(40,481)	(17,963)
Cash paid to employees		(40,645)	(39,744)
Other cash payments		(32,904)	(52,478)
Net cash inflow generated from operations	28(a)	418,306	334,955
Interest paid		(12,960)	(13,812)
PRC taxation paid		(54,029)	(36,320)
Government subsidies received		—	10,183
Net cash inflow from operating activities		351,317	295,006
Investing activities			
Purchase of fixed assets and payments for construction in progress		(296,143)	(177,264)
Proceeds from sales of major fixed assets		684,204	965,000
Tax paid for sales of major fixed assets		(105,204)	—
Proceeds from sales of other fixed assets		160	463
Interest received		11,938	28,179
Equity investment in a subsidiary, net of cash acquired	28(c)	(929)	(24,318)
Equity investments in associated companies		(868,270)	—
Prepayment for acquisition of an associated company		—	(1,000)
Disposal of a subsidiary, net of cash disposed	28(d)	(1,468)	—
Dividends received from jointly controlled entities		69,467	113,861
Return of investment from jointly controlled entities		2,601	—
Decrease in fixed bank deposits		70,000	132,000
Loans to jointly controlled entities		—	(193,040)
Repayment of loans from jointly controlled entities		87,391	54,394
Net cash inflow/(outflow) from investing activities		(346,253)	898,275
Net cash inflow before financing		5,064	1,193,281

Consolidated Cash Flow Statement

For the year ended 31 December 2004

	Note	2004 RMB'000	2003 RMB'000
Financing activities	28(b)		
New bank loans borrowed		660,000	366,758
Repayment of bank loans borrowed		(243,082)	(925,000)
Other long-term advance received		—	80,000
Other loans borrowed		807	—
Repayment of advance from a minority shareholder of a subsidiary		(3,145)	(3,913)
Dividends paid		(414,333)	(261,684)
Dividends paid to minority shareholders		(6,890)	(5,360)
Net cash outflow from financing activities		(6,643)	(749,199)
Increase/(decrease) in cash and cash equivalents		(1,579)	444,082
Cash and cash equivalents at 1 January		1,204,818	760,736
Cash and cash equivalents at 31 December		1,203,239	1,204,818
Analysis of balances of cash and cash equivalents:			
Bank balances and cash		1,203,239	1,274,818
Fixed bank deposits		—	(70,000)
		1,203,239	1,204,818

Notes to the 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”), its jointly controlled entities and associated companies 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 (“HK GAAP”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). This basis of accounting differs in certain 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 the Group 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 Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“new HKFRSs”) which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the accounts for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

The accounts have been prepared under the historical cost convention.

2 Principal accounting policies (Continued)

(b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 December. Subsidiaries are those entities in which the Company, directly or indirectly, controls the composition of the board of directors, controls more than half of 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 sales 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) Associated companies

An associated company is a company, not being a subsidiary or a jointly controlled entity, in which an equity interest between 20% to 50% 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 the associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies and goodwill/negative goodwill (net of accumulated amortisation) on acquisition.

If the Group's share of losses of an associated company equals or exceeds the carrying amount of an investment, the investment is reported at nil value, the Group discontinued accounting for investments in associate under equity method. Additional losses are provided for to the extent that the Group has incurred obligations or the Group has guaranteed on the associated company's obligations.

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.

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

(e) 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, jointly controlled entities or associated companies 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, jointly controlled entities or associated companies.

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

2 Principal accounting policies (Continued)

(f) 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 costs on an units-of-usage basis whereby depreciation and amortisation are provided based on the proportion of actual traffic volume for a particular period over the total projected traffic volume throughout the periods within which the Group is granted the rights to operate those roads. It is the Group policy to review regularly the total projected traffic volume throughout the operating periods of the respective toll roads. If it is considered appropriate, independent professional traffic studies will be performed. Appropriate adjustments will be made should there be a material change.

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

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

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

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.

(g) Construction in progress

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

2 Principal accounting policies (Continued)

(h) 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.

(i) 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.

(j) 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.

(k) 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)

(l) 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.

(m) Cash and cash equivalents

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

(n) 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.

(o) 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 represents the cost savings (the "Savings") achieved in toll road construction management projects engaged by the Group by comparing the total actual construction costs with the budgeted total construction costs of the projects; or a proportion of such Savings.

When the outcome of the construction management services can be estimated reliably, related income is recognised using the percentage of completion method and the stage of completion is measured by making reference to the project construction costs and related management expenses incurred to date as a percentage to the total budgeted construction costs and management expenses. When the outcome of the construction management services cannot be estimated reliably, construction management services income is recognised at the same amount of project management expenses incurred only to the extent that such expenses are probable to be recovered.

Interest income on bank deposits and other loans 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 subsidise toll revenues are recognised as income over the intended beneficial periods in accordance with the policy as stated in note 2(p).

2 Principal accounting policies (Continued)

(p) 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 to subsidise toll revenues of a specific toll road are deferred and amortised over the period during which the Group is granted the rights to operate such toll road. The subsidies recognised in the profit and loss account of a year is the attributable portion of the total government grants, which is computed based on the actual traffic volume of a year over the total projected traffic volume throughout the period during which the Group is granted the rights to operate such toll 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.

(q) 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.

Under a Share Appreciation Right Scheme (the “Scheme”) operated by the Group, rights (“Rights”) are granted to key management staff to obtain benefits from the appreciation of the share price of the Company. The Rights can be exercised from the date of grant and before the respective expiry dates. A bonus award in the form of cash payment will be made to the extent of the surplus of the prevailing share price at exercise date over the pre-determined exercise price of the Rights at the date of grant. The amounts paid and payable under the Scheme are expensed in the profit and loss account as staff costs at the year the Rights are exercised.

(iii) Pension obligations

The Group contributes to a defined contributions retirement scheme which is applicable for all employees. Contributions to the scheme by the Group and employees are calculated as a percentage of employees’ basic salaries. The retirement benefit scheme expenses charged to the profit and loss account represent contributions paid/payable by the Group to the scheme.

The assets of the scheme are held separately from those of the Group by government authorities. Details of the Group’s retirement benefits are set out in note 6(b).

Notes to the Accounts

2 Principal accounting policies (Continued)

(r) Borrowing costs

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

3 Turnover and revenue

Revenues recognised during the year are as follows:

	Note	2004 RMB'000	2003 RMB'000
Turnover			
Income from toll roads		509,008	444,653
Less: taxes related to toll income	(a)	(26,468)	(23,122)
		482,540	421,531
Other revenues			
Interest income from bank deposits		11,938	9,616
Interest income from long-term loan		—	18,563
Interest income from discounting of long-term receivables	4	35,779	—
Income from construction management services	(b)	17,351	—
Government subsidy income	27	35,708	35,840
Subsidies from local governments	(c)	—	10,183
Others		9,833	5,308
		110,609	79,510
Total revenues		593,149	501,041

(a) Taxes related to toll income comprise:

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

3 Turnover and revenue (Continued)

- (b) This represents income from provision of construction management services engaged by various government, details are as below:
- (i) The Company was engaged by the Shenzhen Municipal Government (the “SZMG”) to manage the construction of a project in the eastern Shenzhen area by linking up the Yantian container terminals with the Yanba Expressway. The project was principally completed in 2001. During the year, the cost of the project was finalised and the Company received the final contract payment of RMB11,018,000 from SZMG. The amount was recognised as revenue for the year.
 - (ii) During the reporting period, the Company entered into a project construction management agreement with the SZMG (represented by the Shenzhen Communications Bureau). The Company was appointed as the project manager for the construction project of Nanping Freeway (Phase I) (“Nanping Project”) and it also undertakes to enter into construction contracts on behalf of the SZMG with the contractors who are directly responsible for the construction of the project. As at 31 December 2004, as the outcome of the construction management services could not be estimated reliably, the Company recognised revenue of RMB6,333,000 to the extent of the probable recoverable project management expenses incurred by it.
 - (iii) During the reporting period, the Company entered into another project construction management agreement with the Shenzhen Longgang Government (represented by Shenzhen Longgang Highway Bureau). The Company was appointed as the project manager for the construction of the Western Section of Hengping Class 1 Highway (“Hengping Project”) and it undertakes to enter into construction contracts on behalf of the government with the contractors who are directly responsible for the construction of the project. As at 31 December 2004, the project was still at its preliminary stage of planning and construction, no revenues had been recognised during the reporting period.
- (c) This represents government subsidies granted by the SZMG in prior year in relation to the cancellation of certain preferential policies on the PRC enterprise income tax of the Group. No such subsidies were granted in current year.
- (d) No segment information is presented as all turnover of the Group is toll income earned in the PRC.

4 Gain on disposal of assets

Pursuant to a transfer agreement (the “Transfer Agreement”) signed between the Company and the Shenzhen Communications Bureau on 18 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 RMB1,930,000,000 (the “Consideration”), resulting in a gain of RMB691,416,000.

The Consideration and a related assets disposal extra compensation (the “Compensation”) were recognised as a long-term receivable balance in the accounts. As certain portions of the Consideration and the Compensation will be settled by installments, the Company calculated the net present value of such long-term receivables using a discount rate of 3.5%, being the prevailing interest rate for bonds with same maturity period issued by domestic companies in the PRC with similar credit ratings. Interest income from the discounting is recognised as other revenues over the installment settlement period.

Notes to the Accounts

5 Operating profit

Operating profit is stated after crediting and charging the following:

	2004 RMB'000	2003 RMB'000
Crediting		
Net exchange gain	—	286
Charging		
International auditors' remuneration		
Annual audit	1,230	1,145
Other audit services	1,006	—
Statutory auditors' remuneration		
Annual audit	500	710
Other audit services	150	270
Net exchange loss	354	—
Loss on disposal of fixed assets	5,697	69
Provision for doubtful debts arising from loans made to a jointly controlled entity	—	28,311
Impairment of goodwill	945	—
Amortisation of goodwill	435	153

6 Staff costs

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

	Note	2004 RMB'000	2003 RMB'000
Wages, salaries and bonus		31,447	25,267
Bonus – the Share Appreciation Right Scheme (the “Scheme”)	(a)	—	4,284
Pension costs – defined contribution plans	(b)	1,811	1,344
Other staff welfare benefits		7,079	5,751
		40,337	36,646

(a) It mainly represents bonus payments in relation to the Scheme. Movements in the number of Rights granted under the Scheme during the year are as follows:

	2004	2003
Number of Rights not exercised as at 1 January	5,501,400	10,477,238
Number of Rights exercised during the year	—	(4,975,838)
Number of Rights not yet exercised as at 31 December	5,501,400	5,501,400
Number of Rights not exercised represents:		
Exercisable during the period from 16 March 2004 to 15 March 2005 (Phase III)	2,750,700	2,750,700
Exercisable during the period from 16 March 2005 to 15 March 2006 (Phase IV)	2,750,700	2,750,700
	5,501,400	5,501,400

- (i) Pursuant to a shareholders' meeting held on 30 October 2003, a resolution was passed to revise the Scheme that the Rights so granted are no longer borne by individual grantees but collectively by a group of senior management and management staff of the Company. The exercisable period and the exercise price of the Rights were also revised. Proceeds to be received from exercising the Rights will be maintained as a special bonus fund. The Company shall appropriate such fund to senior management and management staff according to relevant policies enacted.
- (ii) Pursuant to the Scheme, the Rights are not exercisable when the current year's profit decreases by more than 20% from the prior year. Accordingly, no Rights had been exercised during the year.
- (iii) The exercise price of the Rights under Phase III and Phase IV of the Scheme is the weighted average of the closing trading prices of the shares of the Company traded on the stock exchanges during the period of the pervious phase. The bonus amount attached with each Right is the difference between the exercise price and RMB3.456.
- (b) The Group participates in the Shenzhen Municipal Retirement Scheme managed by the Shenzhen Social Security Administration Bureau. Pursuant to the relevant provisions, the Group is required to make a monthly contribution equivalent to 8% to 9% (2003: 8% to 9%) of the monthly salary of the employees. The Bureau is responsible for making the pension payments to the retired employees of the Group and the Group has no further obligations.

7 Directors', supervisors' and senior management's emoluments

(a) Directors' and supervisors' remuneration

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

	2004 RMB'000	2003 RMB'000
As directors and supervisors		
- executive		
- allowances	32	48
- non-executive		
- remuneration	936	872
- allowances	114	82
- bonus – the Scheme	—	690
For management		
- basic salaries and allowances	1,251	648
- bonuses	248	319
- contributions to the retirement scheme	40	22
- bonus – the Scheme	—	927
- other benefits	21	7
	2,642	3,615

The emoluments for all directors and supervisors of the Company (executive and non-executive) fell within the band of nil to RMB1,060,000 (HK\$1,000,000) during the years ended 31 December 2004 and 2003.

No directors and supervisors waived any emoluments during the years ended 31 December 2004 and 2003.

During the years ended 31 December 2004 and 2003, no emoluments had been paid by the Group to the directors and supervisors 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 one (2003: three) director whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining four (2003: two) individuals during the year are as follows:

	2004 RMB'000	2003 RMB'000
Basic salaries and allowances	1,831	592
Bonuses	440	285
Contributions to the retirement scheme	56	24
Bonus – the Scheme	–	286
Other benefits	28	8
	2,355	1,195

The emoluments for all the above senior management fell within the band of nil to RMB1,060,000 (HK\$1,000,000) during the years ended 31 December 2004 and 2003.

8 Finance costs

	2004 RMB'000	2003 RMB'000
Interest on bank loans	11,411	12,250
Interest on other loans		
- repayable within 5 years	1,072	846
- repayable over 5 years	477	716
Less: interest capitalised in construction in progress	(38)	(672)
	12,922	13,140

The capitalisation rate applied to funds borrowed and used for the development of construction in progress is 5.02% (2003: ranged between 1.80% and 7.17%) per annum.

Notes to the Accounts

9 Taxation

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

	Note	2004 RMB'000	2003 RMB'000
Current taxation			
- PRC enterprise income tax		51,502	47,904
- PRC enterprise income tax on disposal of assets		—	105,144
Deferred taxation	24	7,440	6,189
		58,942	159,237
Share of taxation of jointly controlled entities		17,879	(10,596)
		76,821	148,641

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

	2004 RMB'000	2003 RMB'000
Profit before tax	503,539	1,054,530
Calculated at a taxation rate of 15% (2003: 15%)	75,531	158,180
Effect of different taxation rates in other locations	60	(12,487)
Income not subject to taxation	(10,723)	(23,100)
Expenses not deductible for taxation purposes	1,207	20,433
Unrecognised tax losses	13,855	6,457
Share of preferential tax benefits of jointly controlled entities	(2,848)	(842)
Share of preferential tax benefits of associated companies	(261)	—
Taxation charge	76,821	148,641

9 Taxation (Continued)

- (a) In 2004, the Company is subject to PRC enterprise income tax rate of 15% (2003: 15%), the preferential tax rate for enterprises established in the Shenzhen Special Economic Zone, as compared with the standard rate of 33% (2003: 33%).
- (b) Pursuant to the approvals of the relevant authorities, two jointly controlled entities of the Company, Shenzhen Qinglong Expressway Company Limited (“Qinglong Company”) and Hubei Yungang Transportation Development Company Limited (“Yungang Company”), are exempt from PRC enterprise income taxes for the first two profit-making years and are entitled to a 50% reduction of their PRC enterprise income taxes for the three consecutive years thereafter. It is the second profit making year for Qinglong Company and the third profit making year for Yungang Company, as a result, Qinglong Company is exempt from PRC enterprise income taxes and Yungang Company is entitled to a 50% reduction of its PRC enterprise income taxes in 2004.

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

- (c) The applicable tax rate to Mei Wah Industrial (Hong Kong) Limited (“Mei Wah Company”), a subsidiary of the Company incorporated in Hong Kong is 17.5%. No provision for Hong Kong profits tax has been made in the accounts as Mei Wah has no income assessable under Hong Kong profits tax.

10 Profit attributable to shareholders

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of RMB 358,999,000 (2003: RMB 871,532,000).

11 Dividends

	2004 RMB'000	2003 RMB'000
Final, proposed, of RMB0.11 (2003: RMB0.19) per share	239,877	414,333

At a meeting held on 18 February 2005, the directors declared a final dividend of RMB0.11 per share. This proposed dividend had not been reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2005.

12 Earnings per share

The calculation of earnings per share is based on the Group’s profit attributable to shareholders of RMB418,870,000 (2003: RMB899,372,000) and 2,180,700,000 (2003: 2,180,700,000 shares) ordinary shares in issue during the year.

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

Notes to the Accounts

13 Goodwill – the Group

	Note	2004 RMB'000	2003 RMB'000
Beginning net book value		5,614	—
Acquisition of a subsidiary	(a)	945	5,689
Provision for impairment	(a)	(945)	—
Amortisation		(435)	(75)
Closing net book value		5,179	5,614
As at 31 December 2004			
Cost		6,634	5,689
Accumulated amortisation		(510)	(75)
Provision for impairment	(a)	(945)	—
Net book value		5,179	5,614

(a) The addition to goodwill of RMB945,000 was in relation to the acquisition of additional 55% equity interests in Shenzhen Wutongling Ropeway Company Limited (“Ropeway Company”) (see Note 16 (b)(ii)). Provision for impairment has been made for such goodwill balance recognised in current year.

14 Fixed assets

The Group

	Toll roads RMB'000	Land use rights of toll roads RMB'000	Buildings and structures RMB'000	Equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
Cost						
At 1 January 2004	2,834,513	332,190	180,666	192,511	9,131	3,549,011
Additions	—	—	—	368	2,490	2,858
Transfer from construction in progress (note 15)	—	—	7,512	32,458	—	39,970
Disposal of subsidiaries	—	—	—	(183)	(133)	(316)
Other disposals	—	—	(247)	(23,170)	(4,584)	(28,001)
At 31 December 2004	2,834,513	332,190	187,931	201,984	6,904	3,563,522
Accumulated depreciation						
At 1 January 2004	122,218	25,133	21,640	67,105	6,016	242,112
Charge for the year	52,305	9,282	7,060	19,230	1,774	89,651
Disposal of subsidiaries	—	—	—	(52)	(2)	(54)
Other disposals	—	—	(147)	(18,567)	(4,145)	(22,859)
At 31 December 2004	174,523	34,415	28,553	67,716	3,643	308,850
Net book value						
At 31 December 2004	2,659,990	297,775	159,378	134,268	3,261	3,254,672
At 31 December 2003	2,712,295	307,057	159,026	125,406	3,115	3,306,899

14 Fixed assets (Continued)

The Company

	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 1 January 2004	2,036,465	92,607	144,260	143,786	6,499	2,423,617
Additions	—	—	—	—	2,490	2,490
Transfer from construction in progress (note 15)	—	—	—	17,692	—	17,692
Disposals	—	—	—	(7,492)	(3,716)	(11,208)
At 31 December 2004	2,036,465	92,607	144,260	153,986	5,273	2,432,591
Accumulated depreciation						
At 1 January 2004	52,053	4,691	11,964	35,806	4,039	108,553
Charge for the year	26,868	2,015	4,648	14,139	1,290	48,960
Disposals	—	—	—	(4,143)	(3,406)	(7,549)
At 31 December 2004	78,921	6,706	16,612	45,802	1,923	149,964
Net book value						
At 31 December 2004	1,957,544	85,901	127,648	108,184	3,350	2,282,627
At 31 December 2003	1,984,412	87,916	132,296	107,980	2,460	2,315,064

The toll roads and related land use rights and buildings of the Group are all located in the PRC.

15 Construction in progress

	The Group		The Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
At 1 January	39,849	269,146	39,540	268,692
Additions	281,181	236,758	258,394	230,987
Additions from acquisition of a subsidiary	2,544	—	—	—
Transfer to fixed assets (Note 14)	(39,970)	(466,055)	(17,692)	(460,139)
At 31 December	283,604	39,849	280,242	39,540

Construction in progress mainly represents construction costs incurred for toll roads not completed at 31 December 2004.

Notes to the Accounts

16 Investments in subsidiaries - the Company

	Note	2004 RMB'000	2003 RMB'000
Unlisted investments, at cost		759,945	750,040
Provision for impairment	(b)(ii)	(12,005)	—
		747,940	750,040
Loans to a subsidiary	(b)(iii)	46,084	—
Provision for impairment	(b)(iii)	(46,084)	—
		—	—
Advance to a subsidiary	(c)	61,034	123,293
		808,974	873,333

16 Investments in subsidiaries (Continued)

(a) As at 31 December 2004, details of all the subsidiaries held by the Company are listed below:

Name	Place of incorporation and nature of legal entity	Principal activities and place of operation	Interest held	
			Direct	Indirect
Shenzhen Meiguan Expressway Company Limited ("Meiguan Company")	the PRC, limited liability company	Construction, operations and management of expressway	95%	—
Shenzhen Expressway Advertising Company Limited ("Advertising Company")	the PRC, limited liability company	Advertising agency	95%	4.75%
Mei Wah Industrial (Hong Kong) Limited ("Mei Wah Company")	Hong Kong, limited liability company	Investment holding	100%	—
Shenzhen Wutongling Ropeway Company Limited ("Ropeway Company") (Note (b)(i))	PRC, limited liability company	Construction and management of a ropeway	95%	—

(b) (i) The Company previously held 40% equity interest in Ropeway Company, a jointly controlled entity.

The Company has fully assumed its joint liability for a guarantee provided to a bank for a loan of RMB18,000,000 drawn down by Ropeway Company from that bank. The joint venture partner, Shenzhen Zhongmin Investment Servicing Company Limited ("Zhongmin"), holding 55% equity interest in Ropeway Company, is responsible to bear its joint liability for such guarantee in proportion to its equity interests held and the Company has the right to claim Zhongmin. In November 2003, the Company applied to the People's Court (the "Court") for selling the 55% equity interests of Ropeway Company held by Zhongmin through an auction in order to force Zhongmin to honor its obligations. The Court made an judgement that the application of the Company was accepted. On 2 August 2004, the Company acquired the 55% equity interest of Ropeway Company for RMB900,000 in an auction and paid an auction handling commission of RMB45,000. The total costs incurred for the acquisition of 55% of Ropeway equity interests were RMB945,000. Accordingly, the Company began to hold 95% of the equity interests of Ropeway Company and it became no longer a jointly controlled entity but a subsidiary of the Company.

16 Investments in subsidiaries (Continued)

- (ii) As Ropeway Company failed to commence its business operations as scheduled, the Company had made provision for impairment loss on the related goodwill of RMB11,060,000 arising from the acquisition of Ropeway Company in 2001. As at 31 December 2004, the construction of the underlying project of Ropeway Company remained under suspension and therefore, the Company made a further impairment provision for the additional equity interest acquired during the year amounting to RMB945,000. Accordingly, the Company had made provision for impairment in full for its investment in Ropeway Company amounting to RMB12,005,000 as at the end of 2004.
- (iii) As at 31 December 2003, the Company had granted loans of RMB46,464,000 to Ropeway Company which are secured by certain operating facilities and equipment of Ropeway Company. These loans bear interests at prevailing loan borrowing rates charged by banks in the PRC and have no fixed repayment dates. They were subject to full impairment loss provision made by the Company. As Ropeway Company became a subsidiary of the Company during the year, the loans and the related impairment provision were transferred from the interests in jointly controlled entities account to the investments in subsidiaries account. In 2004, the Court determined that RMB855,000 out of the auction proceeds had to be paid to the Company and the Company thereby wrote back the related impairment provision to the extent of the amount received. However, the Company had to make additional impairment loss provision against the amount advanced by it to Ropeway Company during the year amounting to RMB475,000. As at 31 December 2004, the Company had made impairment provision in full for loans advanced to Ropeway totalling RMB46,084,000.
- (c) Amount represents advance made to Meiguan Company, which is unsecured, interest-free and will be repayable out of the funds to be generated from the operations of the toll roads of Meiguan Company. In the opinion of the directors, there is no recoverability problem associated with such advance.
- (d) As at 31 December 2003, the Company held 70% equity interest in Shenzhen Expressway Engineering Consulting Company Limited (“Consulting Company”). During the year, the Consulting Company increased its registered capital while the Company did not subscribe for it in proportion to its original interests held. As a result, the Company’s equity interests in Consulting Company decreased from 70% to 30% and it no longer has controlling power over the company. Accordingly, Consulting Company began to be reported as an associated company of the Company.

17 Interests in jointly controlled entities

	Note	The Group		The Company	
		2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Unlisted investments, at cost		—	—	384,000	395,060
Provision for impairment of investment costs	(g)	—	—	(51,590)	(62,650)
		—	—	332,410	332,410
Share of net assets other than goodwill		385,194	354,998	—	—
Goodwill on acquisition of jointly controlled entities less accumulated amortization	(b)	1,636	10,773	—	—
Provision for impairment of goodwill	(c)	—	(9,060)	—	—
		386,830	356,711	332,410	332,410
Advance to jointly controlled entities	(d)	875,073	962,464	875,073	962,464
Loans to a jointly controlled entity	(e)	—	46,464	—	46,464
Provision for doubtful loans	(e)	—	(46,464)	—	(46,464)
		875,073	962,464	875,073	962,464
Total		1,261,903	1,319,175	1,207,483	1,294,874

Notes to the Accounts

17 Interests in jointly controlled entities (Continued)

(a) Details of all jointly controlled entities as at 31 December 2004 are as follows:

Name	Place of incorporation and nature of legal entity	Principal activities and place of operation	Interest held
Shenzhen Airport-Heao Expressway (Eastern Section) Company Limited ("Airport-Heao")	the PRC, Sino-foreign cooperative enterprise	Construction, operations and management of expressways	*55%
Shenzhen Qinglong Expressway Company Limited ("Qinglong Company")	the PRC, Sino-foreign cooperative enterprise	Construction, operations and management of expressways	*40%
Hunan Changsha Shenchang Expressway Company Limited ("Shenchang Company")	the PRC, limited liability company	Construction, operations and management of a ring road	*51%
Hubei Yungang Transportation Development Company Limited ("Yungang Company")	the PRC, Sino-foreign cooperative enterprise	Construction, operations and management of a bridge	#42%

* Interests held directly by the Company

Up to 1 March 2006, the Company is entitled to 90% share of the profit of Yungang Company.

(b) The amount relates to goodwill arising on acquisition of Qinglong Company in December 2002 amounting to RMB1,791,000. The amortisation charge during the year was RMB77,000 and the accumulated amortisation as at 31 December 2004 was RMB155,000.

(c) This represents goodwill arising on acquisition of Ropeway Company, which became a subsidiary of the Company during the year (Note 16(b)(i)).

(d) Amounts represent advance made to Airport-Heao of RMB380,764,000 (2003: RMB401,453,000), Qinglong of RMB205,599,000 (2003: RMB264,401,000) and Shenchang of RMB288,710,000 (2003: RMB296,610,000), respectively. The advance is unsecured, non-interest bearing and is repayable out of the funds generated from the operations of the respective toll road projects. In the opinion of the directors, there is no recoverability problem associated with the advance.

(e) This represents loans made to Ropeway Company, against which full provision has been made. During the year, Ropeway Company became a subsidiary of the Company and these loans were reclassified to investments in subsidiaries accordingly (Note 16(b)(iii)).

17 Interests in jointly controlled entities (Continued)

(f) Information of major jointly controlled entities

The financial information of major jointly controlled entities for the year ended 31 December 2004 prepared under HK GAAP is as follows:

	Airport-Heao		Qinglong Company		Shenchang Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Profit and loss accounts						
Turnover	219,320	173,107	132,853	103,998	19,061	16,138
Operating profit/(loss) before taxation	172,558	139,810	56,302	30,870	653	(153,671)
Taxation	(25,884)	(20,462)	(1,767)	(2,609)	(5,412)	44,888
Profit/(loss) after taxation	146,674	119,348	54,535	28,261	(4,759)	(108,783)
Net assets						
Fixed assets	1,186,651	1,207,197	911,760	942,796	604,894	617,079
Construction in progress	4,894	—	723	—	—	—
Deferred tax assets	—	—	—	—	49,097	49,824
Current assets	50,812	53,801	49,921	46,969	5,574	8,025
Current liabilities	(23,536)	(10,378)	(562,739)	(9,775)	(4,758)	(4,387)
Amounts due to owners	(699,912)	(760,326)	(213,453)	(292,072)	(566,098)	(581,758)
Long-term loans	—	—	—	(558,008)	—	—
Deferred tax liabilities	(30,819)	(28,105)	(7,893)	(6,126)	(30,523)	(25,838)
Net assets	488,090	462,189	178,319	123,784	58,186	62,945
Capital commitments	—	—	—	—	—	—
Contingent liabilities	—	—	—	—	—	—

Notes to the Accounts

17 Interests in jointly controlled entities (Continued)

(g) Provision for impairment of investment costs

	Note	The Company	
		2004 RMB'000	2003 RMB'000
As at 1 January		62,650	9,060
Additional impairment provision for Ropeway Company		—	2,000
Provision for impairment of Shenchang Company		—	51,590
Provision for Ropeway Company transferred out	16(b)	(11,060)	—
As at 31 December		51,590	62,650

18 Interests in associated companies

	Note	The Group		The Company	
		2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Unlisted investments, at cost		—	—	871,404	—
Share of net assets other than goodwill		795,398	—	—	—
Goodwill on acquisition of associates less accumulated amortisation	(b)	75,300	—	—	—
Total		870,698	—	871,404	—

18 Interests in associated companies (Continued)

- (a) All associated companies are limited liability companies incorporated in the PRC, details of these associated companies as at 31 December 2004 are as below:

Name	Principal activities	Directly held interests
Guangdong Jiangzhong Expressway Company Limited ("Jiangzhong Company")	Development, operations and management of expressways and related facilities	25%
Guangzhou Western Second Ring Expressway Company Limited ("GZ W2 Company")	Development, operations and management of expressways	25%
Shenzhen Huayu Expressway Investment Company Limited ("Huayu Company")	Development, investment, operations and management of expressways	40%
Shenzhen Expressway Engineering Consulting Company Limited ("Consulting Company") (Note 16(d))	Project management consulting, construction consulting and selling of construction materials	30%
Nanjing Yangtz River Third Bridge Company Limited ("Nanjing Company")	Development, operations and management of bridges	25%
Guangdong Yangmao Expressway Company Limited ("Yangmao Company")	Development, operations and management of expressways	25%

All associated companies were established or acquired during the year. Except for Consulting Company and Yangmao Company, all associated companies had not yet commenced commercial operations as 31 December 2004.

- (b) During the year, goodwill arising from acquisitions of associated companies, Jiangzhong Company and Yangmao Company, amounted to RMB30,680,000 and RMB46,165,000, respectively. The amortisation charge for the year and the accumulated amortisation as at 31 December 2004 of the above goodwill balances were RMB1,545,000.

Notes to the Accounts

18 Interests in associated companies (Continued)

(c) Information of major associated companies

The financial information of major associated companies for the year ended 31 December 2004 prepared under HK GAAP is as follows:

	Yangmao		Jiangzhong		Nanjing		GZ W2		Huayu	
	Company		Company		Company		Company		Company	
	2004	2003	2004	2003	2004	2003	2004	(Note (a))	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Profit and loss accounts										
Turnover	13,418	—	—	—	—	—	—	—	—	—
Operating profit/(loss) before taxation	(2,325)	—	—	—	—	—	—	—	—	—
Taxation	—	—	—	—	—	—	—	—	—	—
Profit/(loss) after taxation	(2,325)	—	—	—	—	—	—	—	—	—
Net assets										
Fixed assets	2,208,342	2,937	1,663	1,968	4,433	4,142	—	306	398	
Construction in progress	—	1,004,713	2,098,933	1,548,621	2,209,610	852,347	274,295	481,981	362,163	
Current assets	253,613	40,782	32,187	104,915	76,147	24,511	41,628	2,138	47,866	
Current liabilities	(510,260)	(78,432)	(135,143)	(62,224)	(170,000)	(320,000)	(65,923)	(425)	(20,427)	
Long-term payables	(1,132,000)	(733,000)	(1,299,990)	(1,038,000)	(1,040,190)	(520,000)	—	(334,000)	(340,000)	
Net assets	819,695	237,000	697,650	555,280	1,080,000	41,000	250,000	150,000	50,000	
Capital commitments										
Contracted but not provided for	—	1,027,000	592,000	859,000	253,000	232,000	1,060,000	8,000	128,000	
Authorised but not contracted for	—	178,000	370,000	653,000	838,877	2,216,970	1,678,000	—	—	
	—	1,205,000	962,000	1,512,000	1,091,877	2,448,970	2,738,000	8,000	128,000	
Contingent liabilities	—	—	—	—	—	—	—	—	—	

Note (a) GZ W2 Company was established in 2004 and accordingly no comparative figures were presented.

19 Long-term receivables – the Group and the Company

This represents the discounted balance of the Consideration and Compensation receivable pursuant to the Transfer Agreement as described in Note 4. The remaining balance of RMB372,946,000 will be received by the end of 2005 and was included in the balance sheet as a current asset as at 31 December 2004.

20 Construction management service - the Group and the Company

As detailed in Note 3(b), the Company entered into two highway construction project management contracts with two government departments during the year that it undertakes to enter into the underlying construction contracts on behalf of these government departments with constructors directly responsible for the construction of these projects. Financial information on these projects is summarised as follows:

	Nanping Project 2004 RMB'000	Hengping Project 2004 RMB'000	Total 2004 RMB'000
Management expenses incurred during the year plus attributable profit less losses	6,333	—	6,333
Less: progress payments received/recievable	(6,333)	—	(6,333)
Project management fees receivable/(payable)	—	—	—
Project funds received from the government departments during the year	400,000	30,000	430,000
Construction costs paid on their behalf during the year	(349,234)	(18,445)	(367,679)
Progress payments made to the Company	(6,333)	—	(6,333)
Balance of project funds advanced to the Company	44,433	11,555	55,988

The project funds received are deposited in bank accounts jointly supervised by the Company and the relevant government departments. Such amounts are presented as restricted cash in the consolidated accounts, and the corresponding liability of RMB55,988,000 has been included in the other payables and accrued expenses in the consolidated accounts of the Group and the accounts of the Company.

In addition, as at 31 December 2004, a guarantee deposit of RMB15,000,000 (2003: Nil) for Hengping Project had been paid by the Company and it was included in other receivables of the accounts.

Notes to the Accounts

21 Amounts due from jointly controlled entities – the Group and the Company

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

During the year, toll income collected by the Group on behalf of that jointly controlled entity was RMB92,721,000 (2003: RMB72,295,000), and toll income collected by that jointly controlled entity on behalf of the Group was RMB98,733,000 (2003: RMB79,256,000). All toll income collected is paid back to the counter party on a monthly basis without charging any handling fees.

22 Share capital – the Group and the Company

	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 mainland ("A shares") RMB'000	Foreign invested shares, listed in Hong Kong ("H shares") RMB'000	
At 31 December					
2004 and 2003	654,780	613,420	165,000	747,500	2,180,700

Pursuant to the Company's articles of association, all shares are of nominal value of RMB1 each and they are all ordinary shares. Save for the liquidity restrictions and the currency used for distribution of dividends, all shares rank pari passu against each other.

23 Reserves and retained earnings

The Group	Share premium RMB'000	Statutory surplus reserve RMB'000	Reserves		Total RMB'000	Retained earnings RMB'000
			Statutory public welfare fund RMB'000	Discretionary surplus reserve RMB'000		
At 1 January 2004	2,060,009	319,020	295,064	453,391	3,127,484	773,885
Profit for the year	—	—	—	—	—	418,870
Transfers	—	64,093	56,275	—	120,368	(120,368)
2003 final dividend paid	—	—	—	—	—	(414,333)
At 31 December 2004	2,060,009	383,113	351,339	453,391	3,247,852	658,054
Representing:						
2004 final dividend proposed						239,877
Others						418,177
Retained earnings as at 31 December 2004						658,054
Company and subsidiaries	2,060,009	383,113	351,339	453,391	3,247,852	620,668
Jointly controlled entities	—	—	—	—	—	36,513
Associated companies	—	—	—	—	—	873
As 31 December 2004	2,060,009	383,113	351,339	453,391	3,247,852	658,054
At 1 January 2003	2,060,909	220,992	203,448	453,391	2,938,740	325,841
Profit for the year	—	—	—	—	—	899,372
Transfers	—	98,028	91,616	—	189,644	(189,644)
2002 final dividend paid	—	—	—	—	—	(261,684)
Others	(900)	—	—	—	(900)	—
At 31 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 at 31 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 31 December 2003	2,060,009	319,020	295,064	453,391	3,127,484	773,885

Notes to the Accounts

23 Reserves and retained earnings (Continued)

The Company	Reserves				Total	Retained earnings
	Share premium	Statutory surplus reserve	Statutory public welfare fund	Discretionary surplus reserve		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2004	2,060,009	271,048	271,048	453,391	3,055,496	761,739
Profit for the year	—	—	—	—	—	358,999
Transfers	—	48,456	48,456	—	96,912	(96,912)
2003 final dividend paid	—	—	—	—	—	(414,333)
At 31 December 2004	2,060,009	319,504	319,504	453,391	3,152,408	609,493
Representing:						
2004 final dividend proposed						239,877
Others						369,616
Retained earnings as at 31 December 2004						609,493
At 1 January 2003	2,060,009	185,844	185,844	453,391	2,885,088	322,299
Profit for the year	—	—	—	—	—	871,532
Transfers	—	85,204	85,204	—	170,408	(170,408)
2002 final dividend paid	—	—	—	—	—	(261,684)
At 31 December 2003	2,060,009	271,048	271,048	453,391	3,055,496	761,739
Representing:						
2003 final dividend proposed						414,333
Others						347,406
Retained earnings at 31 December 2003						761,739

23 Reserves and retained earnings (Continued)

(a) Pursuant to relevant PRC regulations and the articles of association of the Company, profit after taxation shall be appropriated according to 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 the annual general meeting; and
- (v) distribute as dividends to shareholders.

The amounts of transfer to the statutory surplus reserve and statutory public welfare fund shall be determined 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 employee welfare facilities. The statutory public welfare fund is not available for distribution to shareholders except upon liquidation of the Company.

(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.

Notes to the Accounts

24 Deferred taxation

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

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

	The Group		The Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
At 1 January	42,943	36,754	21,530	16,630
Charged to profit and loss account (Note 9)	7,440	6,189	6,947	4,900
At 31 December	50,383	42,943	28,477	21,530

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 assets

	The Group		The Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
At 1 January	(1,878)	—	(1,878)	—
Charged to profit and loss account	—	(1,878)	—	(1,878)
At 31 December	(1,878)	(1,878)	(1,878)	(1,878)

The deferred tax asset represents the deferred tax recognised for the impairment provision made against the investment in Ropeway.

24 Deferred taxation (Continued)

Deferred tax liabilities

	The Group		The Company	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January	44,821	36,754	23,408	16,630
Charged to profit and loss account	7,440	8,067	6,947	6,778
At 31 December	52,261	44,821	30,355	23,408

Deferred tax liabilities of the Group and the Company 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 the accounting and tax bases.

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 company and same tax authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

	The Group		The Company	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Deferred taxation assets	(1,878)	(1,878)	(1,878)	(1,878)
Deferred taxation liabilities	52,261	44,821	30,355	23,408
	50,383	42,943	28,477	21,530

Notes to the Accounts

25 Long-term liabilities

	Note	The Group		The Company	
		2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Long-term bank loans		100,000	—	100,000	—
Other loans – secured	(a)	33,901	36,177	33,901	36,177
Other long-term advance	(b)	54,000	54,000	54,000	54,000
Advance from a minority shareholder of a subsidiary	(c)	12,092	15,294	—	—
		199,993	105,471	187,901	90,177
Current portion of other loans	(a)	(3,082)	(3,082)	(3,082)	(3,082)
		196,911	102,389	184,819	87,095

- (a) Other loans totalling USD4,096,034 were borrowed from the Spanish Government through the China Construction Bank. The loans comprise two portions, USD2,234,200 bearing interest at 1.8% per annum which is repayable by instalments from November 2006 to May 2011; while the remaining balance of USD1,861,834 is interest bearing at 7.17% per annum, and it is repayable by instalments from February 2004 to August 2009. These loans are guaranteed by Xin Tong Chan Development (Shenzhen) Company Limited, 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 the coming five years.
- (c) The advance was granted to Meiguan Company, a subsidiary of the Company, by a minority shareholder of Meiguan Company. The advance is unsecured, non-interest bearing and is repayable out of the funds to be generated from the toll road project operated by Meiguan Company.

26 Borrowings

At 31 December 2004, the Group's bank loans and other borrowings were repayable as follows:

The Group

	Bank loans		Other borrowings		Total	
	2004	2003	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	360,000	40,000	3,082	3,082	363,082	43,082
In the second to fifth year	100,000	—	25,272	19,401	125,272	19,401
After the fifth year	—	—	71,639	82,988	71,639	82,988
Total	460,000	40,000	99,993	105,471	559,993	145,471

The Company

	Bank loans		Other borrowings		Total	
	2004	2003	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	360,000	40,000	3,082	3,082	363,082	43,082
In the second to fifth year	100,000	—	26,710	19,401	126,710	19,401
After the fifth year	—	—	58,109	67,694	58,109	67,694
Total	460,000	40,000	87,901	90,177	547,901	130,177

As at 31 December 2004, total banking facilities available to the Group amounted to RMB4,890,000,000 (2003: RMB4,090,000,000). All bank loans are unsecured.

27 Deferred income – the Group and the Company

	2004 RMB'000	2003 RMB'000
At 1 January	354,472	240,312
Transfer from other long-term advance	—	150,000
Government subsidy income recognised for the year	(35,708)	(35,840)
At 31 December	318,764	354,472

Deferred income represents government grants provided to the Company to subsidise the toll revenue of Sections A and B of the Yanba Expressway (the “Yanba Expressway”). The subsidy was granted based on anticipated insufficient traffic volume achieved as a result of the construction of the Yanba Expressway at an early stage in response to the overall township planning requirements of the SZMG. Pursuant to two circulars, Shenjitouzi [2001] No. 764 issued in 2001 and Shenjitouzi [2003] No. 213 issued in 2003, by the SZMG, the government approved a waiver of a long-term advance totalling RMB450,000,000 previously paid to the Company, and the conversion of such advance to a government grant for subsidising the toll revenue of the Company. These government grants are treated as a deferred income and are recognised in the profit and loss account according to the Group’s accounting policies as shown in Note 2(o) and Note 2(p) throughout the period when the Company is granted the right to operate the related expressway.

28 Notes to the consolidated cash flow statement

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

	2004 RMB'000	2003 RMB'000
Operating profit	397,135	1,008,576
Depreciation and amortisation	89,651	82,188
Amortisation of goodwill	435	153
Provision for impairment of goodwill	945	—
Provision for doubtful loans to a jointly controlled entity	—	28,311
Gain on disposal of major fixed assets	—	(691,416)
Loss on disposals of other fixed assets	5,697	69
Increase in inventories	(804)	(239)
Increase in other receivables, prepayments and deposits	(13,625)	(1,950)
Increase in amount due from jointly controlled entity	(2,486)	487
Increase (decrease) in other payables and accrued expenses	24,783	(17,022)
Interest income from bank deposits	(11,938)	(9,616)
Interest income from long-term loan	—	(18,563)
Interest income from discounting of long-term receivables	(35,779)	—
Government subsidy income	(35,708)	(35,840)
Subsidies from local government	—	(10,183)
Net cash inflow generated from operations	418,306	334,955

Notes to the Accounts

28 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, other loans and other long-term advance	
	2004	2003	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January	4,240,709	4,241,609	49,967	50,282	145,471	777,626
Minority interests in share of profits	—	—	7,848	6,517	—	—
Dividend paid/payable to minority shareholders of subsidiaries	—	—	(6,890)	(5,360)	—	—
New bank loans granted	—	—	—	—	660,000	366,758
New other borrowings	—	—	—	—	807	—
New advance granted	—	—	—	—	—	80,000
Repayment of advance from a minority shareholder of a subsidiary	—	—	—	—	(3,145)	(3,913)
Repayments of loans borrowed	—	—	—	—	(243,082)	(925,000)
Transfer from other long-term advance to deferred income	—	—	—	—	—	(150,000)
Others	—	(900)	(859)	(1,472)	(58)	—
At 31 December	4,240,709	4,240,709	50,066	49,967	559,993	145,471

28 Notes to the consolidated cash flow statement (Continued)**(c) Analysis of the net outflow in respect of the purchase of a subsidiary:**

	2004 RMB'000
Net assets acquired	
Construction in progress	3,873
Bank balances and cash	16
Other payables and accrued expenses	(3,889)
	—
Goodwill	945
Consideration paid	945
Satisfied by cash consideration	945
Cash consideration	945
Bank balances and cash acquired	(16)
Net cash outflow in respect of the purchase of the subsidiary	929

During the year, the Company acquired interests in Ropeway Company (for details, refer to Note 16(b)(i)).

(d) Disposal of a subsidiary

	2004 RMB'000
Disposal of net assets	
Fixed assets	262
Bank balances and cash	1,468
Other receivables	1,597
Other payable and accrued expenses	(278)
Minority interest	(915)
	2,134
Cash received from disposal of a subsidiary	—
Decrease in cash balance of the Group from the disposal	1,468

For details of the disposal, please refer to Note 16(d).

29 Contingent liabilities

Pursuant to the provisions of the two construction management contracts described in Note 3(b), the Company undertakes to bear any costs overruns for the two projects. For the Hengping Project of total investment of RMB 450,000,000, the Company is obliged to bear all the cost overruns in construction as compared to the original budget. For the Nanping Project of a total investment of about RMB 2,268,000,000, the Company is obliged to bear solely all the cost overruns in construction as compared to the original budget in case the overrun is less than 2.5% of the total budgeted contract costs, while the respective government department will share the overruns jointly with the Company if the overrun exceeds 2.5% of the total budgeted contract costs.

Pursuant to the terms of these two contracts, the Company was requested to average banks to issue irrevocable performance guarantees on its behalf to the Shenzhen Longgang Highway Bureau and Shenzhen Communication Bureau in the amounts of RMB30,000,000 and RMB100,000,000, respectively. The Company also paid a deposit of RMB 15,000,000 to Shenzhen Longgang Highway Bureau as a guarantee deposit for assuring the progress, quality and safety standards for the construction of these two projects.

30 Commitments

As at 31 December 2004, the Group and the Company had the following commitments for construction of expressways and making equity investments:

	2004 RMB'000	2003 RMB'000
Capital commitments:		
- Contracted but not provided for	310,500	328,000
- Authorised but not contracted for	3,822,500	1,197,000
	4,133,000	1,525,000
Investment commitments:		
- Contracted but not provided for	469,860	—
- Authorised but not contracted for	2,544,496	611,000
	3,014,356	611,000
	7,147,356	2,136,000

The jointly controlled entities had no significant capital or investment commitments as at 31 December 2004.

For capital and investment commitments of associated companies of the Company, please refer to Note18(c).

In the opinion of the directors, the above commitments, including the financing for the acquisition described in Note 33, could be fulfilled by internal financial resources and banking facilities made available to the Group.

31 Related party transactions

Save as already disclosed in other notes to the accounts, no other significant related party transactions were entered into by the Group during the year.

32 Ultimate holding company

The Company's directors consider that the Company has no ultimate holding company.

33 Subsequent events

On 3 February 2005, the Company and Mei Wah Company (a subsidiary of the Company) jointly entered into a set of framework agreements with five independent parties to acquire equity interests held by these parties in Guangdong Qinglian Highway Development Company Limited ("Qinglian Company") for a total consideration of RMB1,839,200,000 (the "Acquisition").

The Acquisition consists of a series of transactions among the parties concerned. Upon completion of the Acquisition, the Company will hold 56.28% equity interests in Qinglian Company. The Acquisition is subject to the approval of the shareholders in the coming general meeting.

34 Approval of accounts

The accounts were approved by the board of directors on 18 February 2005.