

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

1. GENERAL

The Company was incorporated in the People's Republic of China (the "PRC") on 1 August 1992 as a joint stock limited company and its H shares and A shares are listed on The Stock Exchange of Hong Kong Limited and Shanghai Stock Exchange, respectively. Its ultimate holding company is Jiangsu Communications Holding Company Limited 江蘇交通控股有限公司, a state owned enterprise incorporated in the PRC.

The principal activities of the Group are the investment, construction, operation and management of the Jiangsu section of Shanghai-Nanjing Expressway ("Shanghai-Nanjing Expressway"), the Jiangsu section of the 312 National Highway (the "Nanjing-Shanghai Class 2 Highway"), Nanjing-Lianyungang Class 1 Highway-Nanjing Section ("Nanjing Section") and other toll roads in Jiangsu Province, and the provision of passenger transport services and other supporting services along the toll roads.

2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants (the "HKICPA") issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards (herein collectively referred to as "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 financial statements for the year ended 31 December 2004.

The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

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

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or associate at the date of acquisition. Goodwill is capitalised and amortised on a straight-line basis over its estimated useful life. Goodwill arising on the acquisition of an associate is included within the carrying amount of the associate.

On disposal of a subsidiary or associate, the attributable amount of unamortised goodwill is included in the determination of the profit or loss on disposal.

Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or associate at the date of acquisition over the cost of acquisition.

Negative goodwill arising on the acquisition of an associate is deducted from the carrying value of that associate. Negative goodwill arising on the acquisition of subsidiaries is presented as a deduction from intangible assets.

To the extent that such negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised in income immediately.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Interests in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates plus the goodwill/less the negative goodwill in so far as it has not already been amortised/released to income, less any identified impairment loss.

The results of associates are accounted for by the Company on the basis of dividends received and receivable during the year. In the Company's balance sheet, investments in associates are stated at cost, as reduced by any identified impairment loss.

Revenue recognition

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

Sales of petrol are recognised when delivery has taken place.

Sales of food and beverages are recognised when goods and services are provided.

Emergency assistance income and advertising income are recognised when services are rendered.

Interest income from bank deposits is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Dividend income from investments is recognised when the Group's right to receive payment has been established.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Property, plant and equipment

Property, plant and equipment other than construction in progress are stated at cost less accumulated depreciation, amortisation and accumulated impairment losses.

Depreciation of the toll roads and structure and amortisation of land use rights are calculated to write off their cost, commencing from the date of commencement of commercial operation of the toll roads, based on the ratio of actual traffic volume compared to the total expected traffic volume of the toll roads as estimated by management or by reference to traffic projection reports prepared by independent traffic consultants.

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

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

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Construction in progress is stated at cost which includes development expenditure and other direct costs, including interest cost on the related borrowed funds during the construction period attributable to the development of toll roads, buildings and structures for the Group's own use. Depreciation of these assets, on the same basis as other property, plant and equipment, commences when the assets are ready for their intended use.

Government subsidies

Government subsidies are recognised as income over the periods necessary to match them with the related costs.

Investments in securities

Investments in securities are recognised on a trade date basis and are initially measured at cost.

Investments other than held-to-maturity debt securities are classified as investment securities or other investments.

Investment securities are measured at subsequent reporting dates at cost, as reduced by any impairment loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Retirement benefit costs

Payments to statutory retirement fund schemes are charged as expense as they fall due.

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in the income statement.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes income statement items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

4. TURNOVER

	2004	2003
	RMB'000	RMB'000
Turnover comprises:		
Toll revenue	2,710,001	2,353,129
Sales of petrol	244,228	276,311
Sales of food and beverages	90,825	105,874
Emergency assistance income	50,541	54,445
Advertising income	9,244	20,843
	3,104,839	2,810,602
Less: Business tax and other related taxes	(152,843)	(134,788)
	2,951,996	2,675,814

5. SEGMENT INFORMATION

All the Group's operations are located and carried out in the PRC, and the principal activities of the Group is the operation and management of toll roads. Accordingly, no segment information by business and geographical segment is presented.

6. ADMINISTRATIVE EXPENSES

In view of the widening project of Shanghai-Nanjing Expressway, the Group had demolished certain structures, buildings, safety equipment, communication and signalling equipment, and toll stations and ancillary equipment. Accordingly, an amount of RMB225,971,000 (2003: Nil) had been written off during the year and was included in administrative expenses.

7. PROFIT FROM OPERATIONS

	2004	2003
	RMB'000	RMB'000
Profit from operations has been arrived at after charging:		
Staff costs including directors' remuneration	132,785	112,034
Retirement benefits scheme contributions	24,890	24,778
Total staff costs	157,675	136,812
Auditors' remuneration	1,180	1,180
Allowance for doubtful debts	11,702	103
Depreciation and amortisation of property, plant and equipment	504,496	442,239
Loss on write off/disposal of property, plant and equipment	234,145	6,276
Cost of inventories recognised as an expense	302,405	369,012
and after crediting:		
Government subsidies received	—	19,648
Interest income from bank deposits	10,956	8,047
Interest income from designated deposits	1,749	1,047

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8. FINANCE COSTS

	2004	2003
	RMB'000	RMB'000
Interest on bank and other borrowings wholly repayable:		
Within five years	142,212	8,067
Over five years	20,514	832
	<u>162,726</u>	<u>8,899</u>
Total borrowing costs	162,726	8,899
Less: Amount capitalised	(30,192)	—
	<u>132,534</u>	<u>8,899</u>

9. DIRECTORS' AND SUPERVISORS' EMOLUMENTS

	2004	2003
	RMB'000	RMB'000
Director's fees	493	440
Other emoluments		
Salaries and other benefits	100	80
Retirement benefits scheme contributions	14	10
	<u>607</u>	<u>530</u>

The amounts disclosed above include directors' fees of RMB293,000 (2003: RMB293,000) paid to independent non-executive directors.

The emoluments of each of the directors and supervisors for both years were below HK\$1,000,000 (equivalent to RMB1,060,000).

10. EMPLOYEES' EMOLUMENTS

Employees' Emoluments

The five highest paid individuals during the year included one director (2003: one director), details of whose emoluments are set out in note 9 above. The emoluments of the remaining four (2003: four) highest paid individuals were as follows:

	2004	2003
	RMB'000	RMB'000
Salaries and other benefits	841	698
Retirement benefits scheme contributions	56	41
	<u>897</u>	<u>739</u>

The emoluments of each of the five highest paid individuals for both years were below HK\$1,000,000 (equivalent to RMB1,060,000).

11. TAXATION

	2004	2003
	RMB'000	RMB'000
The charge comprises:		
PRC income tax	523,954	475,925
Deferred taxation (credit) charge (Note 24)	(73,483)	4,279
Taxation attributable to the Company and its subsidiaries	450,471	480,204
Share of taxation attributable to associates	57,516	25,015
	<u>507,987</u>	<u>505,219</u>

The Company and its subsidiaries are subject to PRC income tax rate of 33% (2003: 33%) pursuant to the relevant PRC income tax laws.

No provision for Hong Kong Profits Tax has been made as the income neither arises, nor is derived from, Hong Kong.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

11. TAXATION (Cont'd)

The tax charge for the year can be reconciled to the profit per income statement as follows:

	2004		2003	
	RMB'000	%	RMB'000	%
Profit before taxation	<u>1,545,244</u>		<u>1,533,974</u>	
Tax at the domestic tax rate of 33% (2003: 33%)	509,931	33.0	506,211	33.0
Tax effect of tax losses not recognised	—	—	529	—
Tax effect of income not taxable for tax purpose	(6,401)	(0.4)	(2,501)	(0.2)
Tax effect of expenses not deductible for tax purpose	<u>4,457</u>	<u>0.3</u>	<u>980</u>	<u>0.1</u>
Tax charge and effective tax rate for the year	<u>507,987</u>	<u>32.9</u>	<u>505,219</u>	<u>32.9</u>

12. DIVIDEND

	2004	2003
	RMB'000	RMB'000
Final, proposed – RMB0.145 (2003: RMB0.145) per ordinary share	<u>730,473</u>	<u>730,473</u>

The final dividend of RMB0.145 (2003: RMB0.145) per ordinary share has been proposed by the directors and is subject to approval by the shareholders in general meeting.

13. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the Group's profit for the year of RMB997,139,000 (2003: RMB1,005,773,000) and 5,037,747,500 (2003: 5,037,747,500) ordinary shares in issue during the year.

No diluted earnings per share is presented as the Company has no potential ordinary shares outstanding for the two years ended 31 December 2004.

14. PROPERTY, PLANT AND EQUIPMENT

	Toll roads and structures	Land use rights	Buildings	Safety equipment	Communication and signalling equipment	Toll stations and ancillary equipment	Motor vehicles	Other machinery and equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
THE GROUP										
COST										
At 1 January 2004	9,639,997	1,747,268	490,336	499,921	212,708	244,130	129,621	202,551	922,520	14,089,052
Additions	–	–	3,215	189	2,796	29,971	13,888	29,873	3,880,100	3,960,032
Transfers	–	–	31,717	–	–	12,692	5,565	5,627	(55,601)	–
Disposal of a subsidiary	–	–	–	–	–	–	–	(7,476)	–	(7,476)
Write-off/disposals	(97,917)	–	(44,055)	(164,529)	(83,951)	(64,765)	(7,904)	(23,438)	–	(486,559)
At 31 December 2004	9,542,080	1,747,268	481,213	335,581	131,553	222,028	141,170	207,137	4,747,019	17,555,049
DEPRECIATION AND AMORTISATION										
At 1 January 2004	1,015,251	179,462	107,792	316,123	90,649	103,606	49,018	108,123	–	1,970,024
Provided for the year	329,793	38,213	16,413	38,764	16,534	27,231	12,782	24,766	–	504,496
Eliminated on disposal of a subsidiary	–	–	–	–	–	–	–	(1,984)	–	(1,984)
Eliminated on write-off/disposals	(12,979)	–	(8,249)	(119,732)	(49,648)	(38,638)	(5,925)	(14,638)	–	(249,809)
At 31 December 2004	1,332,065	217,675	115,956	235,155	57,535	92,199	55,875	116,267	–	2,222,727
NET BOOK VALUES										
At 31 December 2004	8,210,015	1,529,593	365,257	100,426	74,018	129,829	85,295	90,870	4,747,019	15,332,322
At 31 December 2003	8,624,746	1,567,806	382,544	183,798	122,059	140,524	80,603	94,428	922,520	12,119,028

NOTES TO THE FINANCIAL STATEMENTS

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14. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

	Toll roads and structures	Land use rights	Buildings	Safety equipment	Communication and signalling equipment	Toll stations and ancillary equipment	Motor vehicles	Other machinery and equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
THE COMPANY										
COST										
At 1 January 2004	7,386,089	1,736,276	388,686	423,811	211,576	160,504	115,224	125,745	897,853	11,445,764
Additions	–	–	3,215	189	2,308	29,263	12,855	13,078	3,854,366	3,915,275
Transfers	–	–	12,391	–	–	8,018	1,316	737	(22,462)	–
Write-off/disposals	(97,917)	–	(44,032)	(164,529)	(83,951)	(64,765)	(7,472)	(23,380)	–	(486,047)
At 31 December 2004	7,288,172	1,736,276	360,260	259,471	129,933	133,020	121,923	116,180	4,729,757	14,874,992
DEPRECIATION AND AMORTISATION										
At 1 January 2004	930,433	179,463	94,259	284,407	90,429	65,134	45,910	81,899	–	1,771,934
Provided for the year	279,146	37,993	12,116	31,381	16,446	16,459	10,678	16,477	–	420,696
Eliminated on write-off/disposals	(12,979)	–	(8,249)	(119,732)	(49,648)	(38,638)	(5,687)	(14,617)	–	(249,550)
At 31 December 2004	1,196,600	217,456	98,126	196,056	57,227	42,955	50,901	83,759	–	1,943,080
NET BOOK VALUES										
At 31 December 2004	6,091,572	1,518,820	262,134	63,415	72,706	90,065	71,022	32,421	4,729,757	12,931,912
At 31 December 2003	6,455,656	1,556,813	294,427	139,404	121,147	95,370	69,314	43,846	897,853	9,673,830

All the Group's buildings are situated in the PRC and held under medium-term land use rights.

Included in construction in progress is net interest capitalised of RMB30,192,000 (2003: Nil).

15. INTERESTS IN SUBSIDIARIES

	2004	2003
	RMB'000	RMB'000
Unlisted investments, at cost	2,245,460	2,244,945
Amounts due from subsidiaries	—	12,102
	<u>2,245,460</u>	<u>2,257,047</u>

At 31 December 2003, the amounts due from subsidiaries were unsecured and interest free. The amounts were repaid during the year.

Details of the Company's subsidiaries, all of which are limited liability companies, as at 31 December 2004 are as follows:

Name	Place of registration/ operations	Paid up registered capital	Proportion of registered capital held by the Company		Principal activities
			RMB	Directly	
Jiangsu Guangjing Xicheng Expressway Co., Ltd.	PRC	850,000,000	85.00%	—	Construction, management and operation of expressway
Jiangsu Ninghu Investment Development Co., Ltd.	PRC	100,000,000	95.00%	—	Infrastructure and industrial investments
Jiangsu Sundian Engineering Co., Ltd.	PRC	35,000,000	—	95.50%	Construction and maintenance of expressway

During the year, the Company disposed of its 95.05% equity interests in a subsidiary, Nanjing Shuangshilou Hotel Co., Ltd. ("Shuangshilou") to an independent third party, Nanjing Jintang Hotel Food & Beverages Co., Ltd. ("Jintang Hotel") 南京金塘大酒店飲食有限公司 at a total consideration of RMB2,000,000. Shuangshilou was established in the PRC with a paid-up registered capital of RMB1,010,000 and was principally engaged in the provision of food and beverage.

None of the subsidiaries had issued any debt securities at the end of the year.

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16. INTERESTS IN ASSOCIATES

	THE GROUP		THE COMPANY	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Unlisted investments, at cost	—	—	1,334,619	1,334,619
Share of net assets of associates	1,485,389	1,403,410	—	—
Goodwill of associates	83,697	96,432	—	—
Negative goodwill of an associate	(2,855)	(3,374)	—	—
	1,566,231	1,496,468	1,334,619	1,334,619
Loan to an associate:				
– Jiangsu Leasing Co., Ltd.				
– non-current (Note 3)	—	19,000	—	—
– Shanghai Yinjian Real Estate Co., Ltd. (Note 1)	15,000	—	—	—
	15,000	19,000	—	—
	1,581,231	1,515,468	1,334,619	1,334,619
Analysis for financial reporting purposes:				
Interests in associates included in non-current assets	1,566,231	1,515,468	1,334,619	1,334,619
Loan to an associate included in current assets	15,000	—	—	—
	1,581,231	1,515,468	1,334,619	1,334,619

16. INTERESTS IN ASSOCIATES (Cont'd)

	Negative goodwill	Goodwill
	RMB'000	RMB'000
Goodwill (negative goodwill) of associates		
GROSS AMOUNT		
At 1 January 2004 and 31 December 2004	(5,191)	127,353
AMORTISATION		
At 1 January 2004	1,817	(30,921)
Charge (release) for the year	519	(12,735)
At 31 December 2004	2,336	(43,656)
CARRYING AMOUNT		
At 31 December 2004	(2,855)	83,697
At 31 December 2003	(3,374)	96,432

The goodwill (negative goodwill) is amortised (released) to the income statement on a straight-line basis over 10 years.

Details of the Group's associates, all of which are limited liability companies, as at 31 December 2004 are as follows:

Name	Place of registration/ operations	Proportion of registered capital held by the Company		Principal activities
		Directly	Indirectly by subsidiaries	
Jiangsu Kuailu Bus Transportation Stock Co., Ltd.	PRC	33.20%	—	Provision of passenger transportation service along the Shanghai- Nanjing Expressway
Jiangsu Yangtze Bridge Co., Ltd.	PRC	26.66%	—	Investment, construction, operation and management of Jiangjin Yangtze River Bridge

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16. INTERESTS IN ASSOCIATES (Cont'd)

Name	Place of registration/ operations	Proportion of registered capital held by the Company		Principal activities
		Directly	Indirectly by subsidiaries	
Suzhou Sujiahang Expressway Co., Ltd.	PRC	33.33%	—	Investment, construction, operation and management of Sujiahang Expressway
China Transportation HEAD New technology (Shanghai) Co., Ltd.	PRC	35.71%	—	Computer software development
Jiangsu Leasing Co., Ltd. (Note 4)	PRC	—	17.06%	Leasing and financing activities
Shanghai Yinjian Real Estate Co., Ltd. (Note 1)	PRC	—	28.69%	Real estate development
Jiangsu SEU Intelligent System Technology Co., Ltd. (Note 2)	PRC	—	19.66%	Computer software development

Note:

- (1) During the year, Shanghai Yinjian Real Estate Co., Ltd. ("Shanghai Yinjian"), an associate of the Group, increased its registered capital from RMB17,200,000 to RMB36,200,000. Of the increase in capital of RMB19,000,000, the Group had contributed RMB15,000,000 which is not in proportion to the Group's original equity ratio held in Shanghai Yinjian. Accordingly, the Group's interests in Shanghai Yinjian was increased from 28.69% to 53.01%. However, pursuant to an agreement dated 26 May 2004 entered into between Shanghai Yinjian and a subsidiary of the Company, an aggregate amount of RMB16,560,000 will be recovered on or before 30 May 2005. The Group does not have any intention to exercise control over Shanghai Yinjian and its holding of 53.01% equity interests is only temporary. Accordingly, Shanghai Yinjian is not treated as a subsidiary of the Group and its financial statements are not consolidated. The amount of RMB15,000,000 is recorded as loan to an associate at 31 December 2004.
- (2) In the opinion of the directors, the Group can exercise significant influence over Jiangsu SEU Intelligent System Technology Co., Ltd. and it is therefore considered as an associate of the Group.
- (3) The loan to the associate was unsecured and bore interest at 4.8% per annum. The amount was fully repaid during the year.
- (4) 9% is held indirectly through an associate which is not included in the above 17.06%.

17. INVESTMENT SECURITIES

	THE GROUP	
	2004	2003
	RMB'000	RMB'000
Unlisted investment, at cost	<u>2,000</u>	<u>2,000</u>

18. PREPAYMENT FOR EXTENSION OF TOLL HIGHWAY OPERATING RIGHTS

On 14 April 2004, the Company entered into a contract with the Highway Bureau of Jiangsu Province in respect of the extension of the operating rights of Nanjing-Shanghai Class 2 Highway after widening (the "Operating Rights Extension Contract"). The Company will be granted an extended term of operating rights of Nanjing-Shanghai Class 2 Highway from 27 June 2012 to 26 June 2024 for a consideration of RMB2,700,000,000.

At 31 December 2004, the amount represented the balance prepaid for such extension of the operating rights under the Operating Rights Extension Contract.

19. INVENTORIES

THE GROUP AND THE COMPANY

Inventories comprise petrol for sales, materials and spare parts for repairs and maintenance of toll roads and structure. All inventories are stated at cost.

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20. PREPAYMENTS AND OTHER RECEIVABLES

	THE GROUP		THE COMPANY	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Prepayment for materials and equipment	20,717	19,863	9,173	12,295
Receivable from liquidation of a former joint venture	20,812	23,812	20,812	23,812
Others	49,170	52,892	32,302	38,274
	90,699	96,567	62,287	74,381
Less: Allowance for doubtful debts	(13,004)	(1,302)	(12,572)	(8,295)
	<u>77,695</u>	<u>95,265</u>	<u>49,715</u>	<u>66,086</u>

21. DESIGNATED DEPOSITS

At 31 December 2003, the amount represented deposits held with a financial institution for the purpose of fund management.

22. LONG-TERM BORROWINGS

	Interest rate	THE GROUP & THE COMPANY	
		2004	2003
		RMB'000	RMB'000
Unsecured bank loans with maturities 2009 - 2015	5.55% per annum	3,030,000	—
USD denominated Spain government loans with maturities 2007 - 2026 (Note)	1% per annum	41,013	41,013
USD denominated buyer's credit loans with maturities 2001 - 2006 (Note)	6.77% per annum	13,664	20,477
		<u>3,084,677</u>	<u>61,490</u>

22. LONG-TERM BORROWINGS (Cont'd)

The maturity of the above loans is as follows:

	2004	2003
	RMB'000	RMB'000
Within one year	6,813	6,813
More than one year but not exceeding two years	206,850	6,813
More than two years but not exceeding five years	706,152	10,952
More than five years	2,164,862	36,912
	<u>3,084,677</u>	61,490
Less : Amount due within one year included in current liabilities	<u>(6,813)</u>	<u>(6,813)</u>
Amount due after one year	<u>3,077,864</u>	<u>54,677</u>

Note:

These long-term borrowings were guaranteed by the ultimate holding company, Jiangsu Communications Holding Company Limited 江蘇交通控股有限公司, a state owned enterprise incorporated in the PRC and the Company's controlling shareholder holding 55.22% of the share capital of the Company at 31 December 2004.

On 15 September 2004, Jiangsu Communications Holding Company Limited formally activated the procedure of merger and reorganisation with Jiangsu Communications Assets Group Limited 江蘇交通產業集團有限公司, another major communications investment entity, pursuant to the "Notice regarding the merger and reorganisation of Jiangsu Communications Holding Company Limited and Jiangsu Communications Assets Group Limited" of the People's Government of Jiangsu Province. The name of the combined entity shall remain as "Jiangsu Communications Holding Company Limited" and its business nature shall remain as state-owned, while Jiangsu Communications Assets Group Limited shall be de-registered, and its debts and liabilities, external guarantees and equity interest for its external investments shall all be taken over by Jiangsu Communications Holding Company Limited after the merger.

There will be no change in the holding of interest in the Company by Jiangsu Communications Holding Company Limited after the merger.

23. SHORT-TERM BORROWINGS

	THE GROUP		THE COMPANY	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Unsecured bank loans	<u>1,950,000</u>	<u>1,400,000</u>	<u>2,150,000</u>	<u>1,400,000</u>

At 31 December 2004, included in the Company's short-term borrowings was RMB200,000,000 (2003: Nil) designated loan from a subsidiary. The borrowings are unsecured and repayable within one year with interest charged at the prevailing market rates based on the rates quoted by the People's Bank of China.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

24. DEFERRED TAXATION

The following are the deferred taxation (assets) liabilities recognised and movements thereon during the current and prior year:

THE GROUP					
	Write-off of property, plant and equipment	Allowance for doubtful debts	Accelerated tax depreciation	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2003	–	–	22,237	2,991	25,228
(Credit) charge to income statement	–	(359)	7,629	(2,991)	4,279
At 31 December 2003	–	(359)	29,866	–	29,507
(Credit) charge to income statement	(78,044)	(4,181)	8,742	–	(73,483)
At 31 December 2004	(78,044)	(4,540)	38,608	–	(43,976)

THE COMPANY					
	Write-off of property, plant and equipment	Allowance for doubtful debts	Accelerated tax depreciation	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2003	–	–	22,237	2,991	25,228
(Credit) charge to income statement	–	(2,668)	7,629	(2,991)	1,970
At 31 December 2003	–	(2,668)	29,866	–	27,198
(Credit) charge to income statement	(78,044)	(4,061)	8,742	–	(73,363)
At 31 December 2004	(78,044)	(6,729)	38,608	–	(46,165)

25. SHARE CAPITAL

	2004 & 2003	
	Number of shares	Amount
		RMB'000
Authorised, issued and fully paid:		
State shares	2,781,743,600	2,781,744
State legal person shares	599,471,000	599,471
Legal person shares	284,532,900	284,533
H shares	1,222,000,000	1,222,000
A shares	150,000,000	150,000
Total	<u>5,037,747,500</u>	<u>5,037,748</u>

There was no movement in the Company's authorised and issued share capital during the two years ended 31 December 2004.

As at 31 December 2004, the authorised, issued and fully paid share capital of the Company is RMB5,037,747,500 (2003: RMB5,037,747,500) divided into 5,037,747,500 shares (2003: 5,037,747,500 shares) with a par value of RMB1 each. State shares, state legal person shares, legal person shares, H shares and A shares rank pari passu in all respects, except that ownership of state shares, state legal person shares and legal person shares are restricted to PRC legal persons, while H shares can only be owned and traded by overseas investors and A shares can only be owned and traded by PRC investors.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

26. RESERVES

	Share premium	Statutory surplus reserve	Statutory public welfare fund	Retained profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
THE COMPANY					
At 1 January 2003	5,730,454	375,463	187,733	1,285,862	7,579,512
Profit for the year	–	–	–	942,292	942,292
Appropriations	–	94,448	47,224	(141,672)	–
Dividend	–	–	–	(654,907)	(654,907)
	<u>5,730,454</u>	<u>469,911</u>	<u>234,957</u>	<u>1,431,575</u>	<u>7,866,897</u>
At 31 December 2003	5,730,454	469,911	234,957	1,431,575	7,866,897
Profit for the year	–	–	–	856,646	856,646
Appropriations	–	83,574	41,787	(125,361)	–
Dividend (Note 12)	–	–	–	(730,473)	(730,473)
	<u>5,730,454</u>	<u>553,485</u>	<u>276,744</u>	<u>1,432,387</u>	<u>7,993,070</u>
At 31 December 2004	5,730,454	553,485	276,744	1,432,387	7,993,070

(a) Statutory surplus reserve

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

26. RESERVES (Cont'd)

(b) Statutory public welfare fund

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

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

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

The retained profits of the Group include RMB162,986,000 (2003: RMB81,007,000) retained by associates of the Group.

The Company's reserves available for distribution to shareholders as at 31 December 2004 comprised the retained profits under the PRC accounting standards of RMB1,312,877,000 (2003: RMB1,332,973,000).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

27. DISPOSAL OF A SUBSIDIARY

As referred to in note 15, during the year, the Company disposed of its entire 95.05% equity interests in the subsidiary, Shuangshilou to Jintang Hotel at a total consideration of RMB2,000,000.

The net liabilities of Shuangshilou at the date of disposal were as follows:

	RMB'000
Property, plant and equipment	5,492
Inventories	121
Prepayment and other receivables	1,283
Bank balances and cash	557
Other payables	(12,095)
	<u>(4,642)</u>
Gain on disposal	6,642
	<u>2,000</u>
Total consideration	<u>2,000</u>
Satisfied by:	
Cash	1,000
Deferred consideration receivable within one year	1,000
	<u>2,000</u>
Net cash inflow arising on disposal:	
Cash consideration	1,000
Bank balances and cash disposed of	(557)
	<u>443</u>

The deferred consideration will be settled in cash by Jintang Hotel on or before 31 August 2005.

The subsidiary disposed of did not have any significant impact on the Group's cash flows or operating results for the year.

28. OTHER COMMITMENTS

As at 31 December 2004 and 31 December 2003, the Group and the Company is committed to pay Ninglian Ningtong Management Office, an independent third party, a service charge at a fixed rate of 17% of the total toll revenue collected on Nanjing Section per annum for a term of 30 years from 1 January 2000.

29. RETIREMENT BENEFITS SCHEME

The Group participates in the Jiangsu Provincial Retirement Scheme managed by Jiangsu Social Security Bureau (the "Bureau"). Pursuant to the relevant provisions, the Group is required to make a monthly contribution equivalent to 21% (2003: 21%) of the monthly salary in respect of its employees. The Bureau is responsible for pension payments to the retired employees of the Group and the Group has no further obligations.

30. CAPITAL COMMITMENTS

		THE GROUP AND THE COMPANY	
		2004	2003
		RMB'000	RMB'000
Commitments for:			
– the acquisition of property, plant and equipment in respect of the toll roads expansion project contracted for but not provided in the financial statements		2,584,217	3,049,193
– payment for the acquisition of extended operating rights of Nanjing-Shanghai Class 2 Highway under the Operating Rights Extension Contract		950,000	–
		<u>3,534,217</u>	<u>3,049,193</u>

31. RELATED PARTY TRANSACTIONS

(a) During the year, the Group has the following significant transactions with the associates:

Name of associate	Nature of transactions	2004	2003
		RMB'000	RMB'000
Jiangsu Kuailu Bus Transportation Stock Co., Ltd.	Road usage fee received	8,400	7,500
Jiangsu Yangzte Bridge Co., Ltd.	Maintenance service income received	1,716	–

The road usage fee income represents the amount paid by Jiangsu Kuailu Bus Transportation Stock Co., Ltd. to the Company for usage of the Shanghai-Nanjing Expressway, and is calculated with reference to the number of buses passing through the expressway at a mutually agreed rate.

The maintenance service income represents the amount paid by Jiangsu Yangzte Bridge Co., Ltd. to the Group for the maintenance service, and is determined by both parties on a mutually agreed basis.

NOTES TO THE FINANCIAL STATEMENTS

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31. RELATED PARTY TRANSACTIONS (Cont'd)

(b) At the balance sheet date, the Group and the Company have current accounts with the following related companies:

Name of related company	THE GROUP		THE COMPANY	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Amounts due from:				
Jiangsu Kuailu Bus Transportation Stock Co., Ltd.	3,086	439	3,086	439
Suzhou Sujiahang Expressway Co., Ltd.	2,641	1,101	2,208	689
Jiangsu Yangzte Bridge Co., Ltd.	976	2,755	219	1,192
	<u>6,703</u>	<u>4,295</u>	<u>5,513</u>	<u>2,320</u>
Amounts due to:				
Suzhou Sujiahang Expressway Co., Ltd.	4,174	458	—	374
Jiangsu Yangzte Bridge Co., Ltd.	2,000	1,210	—	1,210
China Transportation HEAD New Technology (Shanghai) Co., Ltd.	129	—	132	—
	<u>6,303</u>	<u>1,668</u>	<u>132</u>	<u>1,584</u>

The balances mainly represent receipts of toll fees collected and expenses paid on behalf of the Group, which are unsecured, interest free and repayable on demand. The above current accounts were included in other receivables and other payables on the balance sheet.