Consolidated Balance Sheet

As at 31 December 2005

	Note	2005 RMB'000	2004 RMB'000 (Restated)
ASSETS			
Non-current assets			
Property, plant and equipment	5	**4,055,081**	4,130,363
Construction in progress	6	**693,443**	286,584
Land use rights	7	**368,830**	386,468
Intangible assets	8	**824,585**	6,815
Interests in associates	11	**2,966,903**	870,698
Deferred income tax assets	18	**6,764**	9,473
Loan to a jointly controlled entity	10(d)	**78,240**	123,359
		8,993,846	5,813,760
Current assets			
Inventories		**3,540**	7,367
Trade and other receivables	12	**157,829**	408,810
Restricted cash	13	**31,615**	55,988
Cash and cash equivalents	14	**892,485**	1,241,838
		1,085,469	1,714,003
Total assets		**10,079,315**	7,527,763
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	15	**2,180,700**	2,180,700
Other reserves	16	**3,376,930**	3,247,852
Retained earnings			
— Proposed final dividend	29	**261,684**	239,877
— Others		**510,307**	358,636
		6,329,621	6,027,065
Minority interest		**43,138**	41,700
Total equity		**6,372,759**	6,068,765

	Note	2005 RMB'000	2004 RMB'000 (Restated)
LIABILITIES			
Non-current liabilities			
Borrowings	17	**2,230,602**	142,911
Deferred income tax liabilities	18	**155,030**	59,767
Government grants	19	**364,388**	372,764
		2,750,020	575,442
Current liabilities			
Other payables and accrued expenses	20	**670,692**	283,443
Current income tax liabilities		**15,736**	17,031
Borrowings	17	**270,108**	583,082
		956,536	883,556
Total liabilities		**3,706,556**	1,458,998
Total equity and liabilities		**10,079,315**	7,527,763
Net current assets		**128,933**	830,447
Total assets less current liabilities		**9,122,779**	6,644,207

The notes on pages 87 to 148 are an integral part of these consolidated financial statements.

Yang Hai
Director

Wu Ya De
Director

Balance Sheet

As at 31 December 2005

	Note	2005 RMB'000	2004 RMB'000 (Restated)
ASSETS			
Non-current assets			
Property, plant and equipment	5	**2,158,511**	2,196,726
Construction in progress	6	**648,089**	280,242
Land use rights	7	**70,504**	73,862
Investments in subsidiaries	9	**812,690**	808,974
Investments in jointly controlled entities	10	**1,105,944**	1,207,483
Investments in associates	11	**2,601,624**	871,404
		7,397,362	5,438,691
Current assets			
Inventories		**2,225**	6,292
Trade and other receivables	12	**144,074**	413,347
Restricted cash	13	**31,615**	55,988
Cash and cash equivalents	14	**748,672**	1,163,284
		926,586	1,638,911
Total assets		**8,323,948**	7,077,602
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	15	**2,180,700**	2,180,700
Other reserves	16	**3,249,416**	3,152,408
Retained earnings			
— Proposed final dividend	29	**261,684**	239,877
— Others		**503,248**	359,383
Total equity		**6,195,048**	5,932,368

Balance Sheet

As at 31 December 2005

	Note	2005 RMB'000	2004 RMB'000 (Restated)
LIABILITIES			
Non-current liabilities			
Borrowings	17	**1,285,243**	130,819
Deferred income tax liabilities	18	**32,218**	26,671
Government grants	19	**364,388**	372,764
		1,681,849	530,254
Current liabilities			
Other payables and accrued expenses	20	**242,243**	245,748
Current income tax liabilities		**—**	6,150
Borrowings	17	**204,808**	363,082
		447,051	614,980
Total liabilities		**2,128,900**	1,145,234
Total equity and liabilities		**8,323,948**	7,077,602
Net current assets		**479,535**	1,023,931
Total assets less current liabilities		**7,876,897**	6,462,622

The notes on pages 87 to 148 are an integral part of these consolidated financial statements.

Yang Hai

Director

Wu Ya De

Director

Consolidated Income Statement

For the year ended 31 December 2005

	Note	2005 RMB'000	2004 RMB'000 (Restated)
Turnover	21	**911,482**	705,776
Other income	22	**191,930**	114,861
Business tax and surcharges	23	**(38,361)**	(37,566)
Depreciation and amortisation		**(167,634)**	(131,686)
Employee benefit expenses	24	**(67,163)**	(48,748)
Road maintenance expenses		**(15,181)**	(14,451)
Other operating expenses		**(48,157)**	(64,703)
Operating profit		**766,916**	523,483
Finance costs	25	**(100,621)**	(24,052)
Share of loss of associates	11	**(24,015)**	(706)
Profit before income tax		**642,280**	498,725
Income tax expenses	26	**(80,071)**	(76,019)
Profit for the year		**562,209**	422,706
Attributable to:			
Equity holders of the Company	27	**552,622**	414,888
Minority interest		**9,587**	7,818
		562,209	422,706
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in RMB per share)			
— Basic	28	**0.25**	0.19
Dividends	29	**261,684**	239,877

The notes on pages 87 to 148 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2005

	Note	Attributable to equity holders of the Company Share capital RMB'000 (Note 15)	Other reserves RMB'000 (Note 16)	Retained earnings RMB'000	Minority interest RMB'000	Total RMB'000
Balance at 1 January 2004, as previously reported as equity		2,180,700	3,127,484	773,885	—	6,082,069
Balance at 1 January 2004, as previously separately reported as minority interest		—	—	—	49,967	49,967
Adjustment for amortisation of land use rights for the adoption of HKAS 17	2.1	—	—	(55,559)	(7,743)	(63,302)
Balance at 1 January 2004, as restated		2,180,700	3,127,484	718,326	42,224	6,068,734
Profit for the year, as restated		—	—	414,888	7,818	422,706
Disposal of a subsidiary		—	—	—	(915)	(915)
Transfer to reserve funds		—	120,368	(120,368)	—	—
Dividend relating to 2003		—	—	(414,333)	(7,427)	(421,760)
Balance at 31 December 2004		2,180,700	3,247,852	598,513	41,700	6,068,765
Balance at 1 January 2005, as brought forward from above		2,180,700	3,247,852	598,513	41,700	6,068,765
Opening adjustment for the adoption of HKAS 39	2.1	—	—	(11,342)	—	(11,342)
Balance at 1 January 2005, as restated		2,180,700	3,247,852	587,171	41,700	6,057,423
Currency translation differences		—	1,153	—	—	1,153
Profit for the year		—	—	552,622	9,587	562,209
Total recognised income for 2005		—	1,153	552,622	9,587	563,362
Transfer to reserve funds		—	127,925	(127,925)	—	—
Dividend relating to 2004		—	—	(239,877)	(8,149)	(248,026)
Balance at 31 December 2005		2,180,700	3,376,930	771,991	43,138	6,372,759

The notes on pages 87 to 148 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2005

	Note	2005 RMB'000	2004 RMB'000 (Restated)
Cash flows from operating activities			
Cash received from toll income		**920,170**	708,230
Cash received from the road construction management services		**27,868**	17,351
Cash received from road construction projects		**26,836**	32,445
Cash paid to suppliers		**(45,581)**	(45,720)
Cash paid to employees		**(57,666)**	(47,008)
Other cash payments		**(152,640)**	(105,374)
Cash generated from operations	30	**718,987**	559,924
Interest paid		**(88,992)**	(23,771)
Income tax paid		**(75,552)**	(65,666)
Government subsidies received		**10,309**	—
Net cash generated from operating activities		**564,752**	470,487
Cash flows from investing activities			
Purchases of property, plant and equipment and payments for construction in progress		**(425,271)**	(295,501)
Proceeds from sales of property, plant and equipment	12(c)	**386,000**	684,597
Tax paid for sales of major property, plant and equipment		**—**	(105,204)
Equity investment in a subsidiary, net of cash acquired		**—**	(929)
Acquisition of a jointly controlled entity, net of cash acquired	31	**(612,651)**	—
Acquisition of associates	11(b)	**(1,653,754)**	(868,270)
Increase in investments in associates	11(c)	**(101,840)**	—
Disposal of a subsidiary, net of cash disposed		**—**	(1,468)
Redemption of loan to a jointly controlled entity		**40,092**	35,281
Interest received		**9,798**	12,444
Decrease in fixed bank deposits		**—**	70,000
Net cash used in investing activities		**(2,357,626)**	(469,050)

	Note	2005 RMB'000	2004 RMB'000 (Restated)
Cash flows from financing activities			
Proceeds from borrowings		**3,394,072**	880,807
Repayments of borrowings		**(1,702,959)**	(463,082)
Payments for other borrowing costs		**(16,409)**	—
Government grant received		**18,980**	—
Repayment of advance from a minority shareholder of a subsidiary		**(2,528)**	(3,145)
Dividends paid to the Company's shareholders	29	**(239,877)**	(414,333)
Dividends paid to minority equity owners of subsidiaries		**(8,149)**	(6,890)
Net cash generated from/(used in) financing activities		**1,443,130**	(6,643)
Net decrease in cash and cash equivalents		**(349,744)**	(5,206)
Cash and cash equivalents at beginning of the year		**1,241,838**	1,247,406
Exchange gains/(losses) on cash and cash equivalents		**391**	(362)
Cash and cash equivalents at end of the year	14	**892,485**	1,241,838

The notes on pages 87 to 148 are an integral part of these consolidated financial statements.

1 General information

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, its subsidiaries and its jointly controlled entities (collectively the "Group") are the development, operation and management of toll highways and expressways in the PRC.

The address of the registered office of the Company is 19/F, Tower A, United Plaza, No. 5022 Binhe Road North, Shenzhen, the PRC.

The H shares and A shares of the Company are listed on The Stock Exchange of Hong Kong Limited and the Shanghai Stock Exchange of the PRC, respectively.

The consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 31 March 2006.

The names of some of the companies referred to in these financial statements represent management's best efforts on translating the Chinese names of these companies as no English names have been registered.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). This basis of accounting differs in certain respects from that used in the preparation of the Group's PRC statutory financial statements. The PRC statutory financial statements of the Group have been prepared in accordance with accounting principles and financial regulations applicable to the Group in the PRC (the "PRC GAAP"). Appropriate restatements have been made to the PRC statutory financial statements to conform with HKFRS. Differences arising from the restatements are not incorporated in the Group's accounting records.

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

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

The adoption of new/revised HKFRS

In 2005, the Group adopted the new/revised standards of HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 (Amendment)	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 21, 23, 24, 27, 28 and 33 did not result in substantial changes to the Group's accounting policies. In summary:

— HKAS 1 has affected the presentation of minority interest, share of net after-tax results of associates and other disclosures.

— HKASs 2, 7, 8, 10, 16, 23, 27, 28 and 33 had no material effect on the Group's policies.

— HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard.

— HKAS 24 has affected the identification of related parties and some other related party disclosures.

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

The adoption of new/revised HKFRS (Continued)

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of land use rights from property, plant and equipment to operating leases. The up-front prepayments made for the land use rights are expensed in the income statement on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the income statement. In prior years, land use rights were accounted for as property, plant and equipment at cost less accumulated amortisation and accumulated impairment losses and amortisation had been provided using the units-of-usage method 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 the toll roads located on the related land.

The Group adopted the proportionate consolidation method under HKAS 31 "Interests in Joint Ventures" to account for its interests in jointly controlled entities. In prior years, the Group's interests in jointly controlled entities were accounted for using the equity method of accounting. The adoption of the proportionate consolidation method under HKAS 31 represents a change in accounting policy.

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the measurement of loans and long-term liabilities. As a transitional provision, the measurement of the loans and long-term liabilities according to the new standard is not required to be applied retrospectively and the amount of the resulting adjustments is recognised as an adjustment of retained earnings as at 1 January 2005.

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments in relation to the Share Appreciation Right Scheme (the "Appreciation Right Scheme") operated by the Company, under which share appreciation rights ("Appreciation Rights") are granted to management employees to obtain benefits, which is determined based on the Appreciation Rights exercised and the difference between the pre-determined exercise price of the Appreciation Rights and the prevailing share price of the Company (Note 2.15(b)). Until 31 December 2004, the amounts paid and payable under the Appreciation Right Scheme are expensed in the income statement as employee benefit expenses in the year the Appreciation Rights were exercised. Effective on 1 January 2005, the Group measures the liability incurred under the Appreciation Right Scheme at the fair value of the liability and until the liability is settled, the fair value of the liability at each reporting date and at the date of settlement is remeasured, with any changes in fair value recognised in the income statement. As a transitional provision, the policy is applied retrospectively to the comparative information relating to a period or date after 7 November 2002. As the amount of resulting adjustments relating to the periods prior to 1 January 2005 was considered by the directors of the Company to be immaterial to the Group's results and financial position, the opening retained earnings as at 1 January 2005 and the comparative information were thus not restated.

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

The adoption of new/revised HKFRS (Continued)

The adoption of HKFRS 3, HKAS 36 and HKAS 38 results in a change in the accounting policy for goodwill. Until 31 December 2004, goodwill was:

— Amortised on a straight-line basis over its estimated useful life or 20 years whichever is shorter; and

— Assessed for an indication of impairment at each balance sheet date.

In accordance with the provisions of HKFRS 3 (Note 2.7(a)):

— The Group ceased amortisation of goodwill from 1 January 2005;

— Accumulated amortisation as at 31 December 2004 has been eliminated with a corresponding decrease in the cost of goodwill;

— From the year ended 31 December 2005 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment.

The Group has assessed the useful lives of its intangible assets in accordance with the provisions of HKAS 38. No adjustment resulted from this assessment.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards, wherever applicable. All standards adopted by the Group require retrospective application other than:

— HKAS 16 - the initial measurement of an item of property, plant and equipment acquired in an exchange of assets transaction is accounted at fair value prospectively only to future transactions;

— HKAS 21 - prospective accounting for goodwill and fair value adjustments as part of foreign operations;

— HKAS 39 - does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The adjustments required for the adoption of HKAS 39 are determined and recognised at 1 January 2005;

— HKFRS 2 - only retrospective application for liabilities arising from share-based payments transactions existing at 1 January 2005 and with the comparative information relates to a period or date after 7 November 2002; and

— HKFRS 3 - prospectively after 1 January 2005.

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

The adoption of new/revised HKFRS (Continued)

The adoption of revised HKAS 17 resulted in a decrease in opening retained earnings at 1 January 2004 by RMB55,559,000 and the impact on the balance sheets and income statements as at and for the years ended 31 December 2004 and 2005 is as follows:

	2005 **RMB'000**	2004 RMB'000
Decrease in property, plant and equipment	**449,788**	465,092
Increase in land use rights	**368,830**	386,468
Decrease in deferred income tax liabilities	**11,069**	10,717
Decrease in minority interest	**8,376**	8,366
Decrease in retained earnings	**61,513**	59,541
Increase in depreciation and amortisation	**2,344**	4,721
Decrease in income tax expenses	**352**	708
Decrease in minority interest	**10**	31
Decrease in basic earnings per share (RMB per share)	**0.001**	0.002

The effect of adopting HKAS 17 in relation to the classification and amortisation of the land use rights owned by jointly controlled entities of the Group, to the extent which is attributable to the Group, has been included in the above by applying proportionate consolidation method under HKAS 31 in the accounting for the Group's interests in the jointly controlled entities. This effect has also been included in the impact on the adoption of HKAS 31 as presented below.

The adoption of HKAS 31 resulted in:

	2005 **RMB'000**	2004 RMB'000
Decrease in interests in jointly controlled entities	**1,814,431**	1,224,720
Increase in other non-current assets	**2,164,796**	1,436,488
Increase in current assets	**109,132**	44,573
Increase in non-current liabilities	**375,599**	15,541
Increase in current liabilities	**83,898**	240,800
Decrease in share of profit of jointly controlled entities	**152,486**	99,893
Increase in turnover	**309,119**	198,113
Increase in other income	**4,665**	2,906
Increase in expenses	**161,298**	101,126

There was no impact on basic earnings per share and there was no impact on opening retained earnings at 1 January 2004 from the adoption of HKAS 31.

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

The adoption of new/revised HKFRS (Continued)

The adoption of HKFRS 3 and HKAS 38 resulted in:

	2005 RMB'000
Increase in intangible assets	512
Increase in interests in associates	3,090
Increase in retained earnings	3,602
Decrease in depreciation and amortisation	512
Decrease in share of loss of associates	3,090
Increase in basic earnings per share (RMB per share)	0.002

There was no impact on opening retained earnings at 1 January 2004 from the adoption of HKFRS 3.

The adoption of HKAS 39 resulted in a decrease in opening retained earnings at 1 January 2005 by RMB11,342,000 and the impact on the balance sheet at 31 December 2005 and the income statement for the year then ended is as follows:

	2005 RMB'000
Decrease in loan to a jointly controlled entity	5,027
Decrease in retained earnings	5,027
Increase in other income	6,315
Increase in basic earnings per share (RMB per share)	0.003

This represents the impact for the measurement of the loan made to a jointly controlled entity at amortised cost using the effective interest method in accordance with HKAS 39.

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2006 or later periods. The Group has not early adopted the applicable new standards, amendments and interpretations as below. The Group has already commenced an assessment of the impact of these standards and interpretations but is not yet in a position to state whether these standards or interpretations would have a significant impact on its results and financial position.

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

The adoption of new/revised HKFRS (Continued)

HKAS 1 (Amendment)	Capital Disclosures
HKAS 21 (Amendment)	Net Investment in A Foreign Operation
HKAS 39 and HKFRS 4 (Amendment)	Financial Guarantee Contracts
HKFRS 7	Financial Instruments: Disclosures
HKFRS-Int 4	Determining whether an Arrangement contains A Lease

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries and jointly controlled entities made up to 31 December.

(a) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement (Note 2.7(a)).

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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 dividend received and receivable.

2 Summary of significant accounting policies (Continued)

2.2 Consolidation (Continued)

(b) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investments in associates include goodwill (net of any accumulated impairment loss) identified on acquisition (Note 2.7(a)).

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the assets transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

(c) Joint ventures

The Group's interests in jointly controlled entities are accounted for by proportionate consolidation. The Group combines its share of the jointly controlled entities' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements. The Group recognises the portion of gains or losses on the sale of assets by the Group to the jointly controlled entity that it is attributable to the other venturers. The Group does not recognise its share of profits or losses from the jointly controlled entity that result from the Group's purchase of assets from the jointly controlled entity until it resells the assets to an independent party. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment loss.

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 dividend received and receivable.

2 Summary of significant accounting policies (Continued)

2.3 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in RMB, which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(c) Group companies

The results and financial position of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

— Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

— Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

— All resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to shareholders' equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2 Summary of significant accounting policies (Continued)

2.4 Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

Depreciation of toll roads is calculated to write off their costs on an units-of-usage basis according to the HK Int-1 "The Appropriate Policies for Infrastructure Facilities" issued by the Hong Kong Institute of Certified Public Accountants, whereby depreciation is 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's 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 to their estimated residual values 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 is shorter. The estimated useful lives of buildings and structures are 10 to 30 years.

Depreciation of other property, plant and equipment is calculated using the straight-line method to allocate cost to their estimated residual values over their estimated useful lives, as follows:

Equipment	
– traffic related	8 - 10 years
– electronic and others	5 - 10 years
Motor vehicles	5 - 6 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.8).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

2 Summary of significant accounting policies (Continued)

2.5 Construction in progress

Construction in progress is stated at cost which includes development expenditure and other direct costs, including borrowing costs on the related borrowed funds during the construction period, attributable to the development of the qualifying assets (Note 2.17). Costs are transferred to property, plant and equipment upon completion.

2.6 Land use rights

The up-front prepayments made for land use rights are expensed in the income statement on a straight-line basis over the lease or where there is impairment, the impairment is expensed in the income statement.

2.7 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary / associate / jointly controlled entity at the date of acquisition. Goodwill on acquisitions of subsidiaries and jointly controlled entities is included in intangible assets. Goodwill on acquisitions of associates is included in interests in associates. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

(b) Toll road operating right

Toll road operating right is capitalised on the basis of the costs incurred to acquire the right and is amortised using the straight-line method over the approved operating period.

2.8 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2 Summary of significant accounting policies (Continued)

2.9 Finanical assets

From 1 January 2005 onwards, the Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date. During the year, the Group only held financial assets in the category of loans and receivables.

Regular purchases and sales of financial assets are recognised on trade-date - the date on which the Group commits to purchase or sell the asset. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are reflected as loan to a jointly controlled entity and trade and other receivables in the balance sheet (Note 2.11). Loans and receivables are subsequently carried at amortised cost using the effective interest method.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

2.10 Inventories

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

2.11 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

2 Summary of significant accounting policies (Continued)

2.12 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2.13 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.14 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income 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 income tax is provided on temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2 Summary of significant accounting policies (Continued)

2.15 Employee benefits

(a) Pension obligations

The Group participates in the municipal retirement schemes which are organised by the local government authorities in the PRC. The schemes are defined contribution plans, under which the Group pays fixed contributions into the local social security administration bureaus and the Group has no legal or constructive obligations to pay further contributions if the bureaus do not have sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. Contributions to the schemes by the Group are calculated as a percentage of employees' basic salaries, subject to a certain ceiling.

The Group pays contributions to the schemes on a mandatory basis and the contributions are recognised as employee benefit expenses when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) Share-based compensation

The Company operates the Appreciation Right Scheme, which is a cash-settled, share-based compensation plan. Under the Appreciation Right Scheme, Appreciation Rights are granted to management employee and 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 Appreciation Rights at the date of grant.

The fair value of the employee services received in exchange for the Appreciation Rights is recognised as an expense. The liability incurred is measured, initially and at each reporting date until settled, at the fair value of the liability, taking into account the terms and conditions on which the Appreciation Rights were granted, and the extent to which the employees have rendered service to date. Any changes in fair value are recognised in the income statement.

(c) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to present value.

(d) Bonus plans

The Group recognises a liability and an expense for bonuses based on a computation method which takes into consideration the amount of profit attributable to the Company's shareholders, after making certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2 Summary of significant accounting policies (Continued)

2.16 Provision

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.17 Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

2.18 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sales of services. Revenue of the Group is recognised as follows:

(a) Toll revenue

Toll revenue from operation of toll roads is recognised on a receipt basis.

(b) Construction management services income

Construction management services income represents the cost 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 estimated 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.

2 Summary of significant accounting policies (Continued)

2.18 Revenue recognition (Continued)

(c) ***Income from other services***

Income from advertising services are derived from advertisements placed by advertisers on the outdoor advertising billboards owned by the Group. The related revenue is recognised ratably over the period in which the advertisements are displayed.

(d) ***Interest income***

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flows discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

(e) ***Dividend income***

Dividend income is recognised when the right to receive payment is established.

(f) ***Government subsidy income***

Government grant in relation to subsidise toll revenues and construction of toll roads are recognised in accordance with the policy as stated in Note 2.19. Other subsidy income is recognised on a receipt basis or when there is a reasonable assurance that the subsidy will be received.

2.19 Government grants

Grants from government are recognised when there is reasonable assurance that the grant will be received.

Government grants provided to the Group to subsidise the toll revenues of a specific toll road are recognised as deferred income in the balance sheet and are amortised over the period during which the Group is granted the right to operate such toll road. The subsidies recognised in each accounting period is computed based on the actual traffic volume of a period over the total projected traffic volume throughout the whole approved operating period of the toll road.

Government grants relating to the construction and purchase of property, plant and equipment are included in non-current liabilities and are recognised in the income statement on the same basis as those which are adopted for the depreciation of the related assets over the expected useful lives of the assets upon completion of construction.

2.20 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

3 Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and fair value interest rate risk), liquidity risk and cash flow interest rate risk.

(a) Foreign exchange risk

The Group mainly operates in the PRC with most of the transactions settled in RMB. It did not have significant exposure to foreign exchange risk in the PRC, except for certain cash at bank balances of RMB58,200,000 and bank borrowings of RMB676,195,000 which were denominated in Hong Kong dollars ("HKD") and other borrowings of RMB30,051,000 which were denominated in United States dollars ("USD"), respectively. Nevertheless, the conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

(b) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, the Group aims to maintain flexibility in funding by arranging banking facilities and other external financing.

The Group had unutilised available borrowing facilities of approximately RMB6,820,000,000 at 31 December 2005 and the directors of the Company believe that such facilities would enable the Group to meet its obligations and commitments as and when they fall due.

(c) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk during the year.

3.2 Fair value estimation

The nominal values less impairment provision, if any, for financial assets and liabilities with a maturity of less than one year, are assumed to approximate their fair values. The fair value of financial assets and liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Depreciation of toll roads and recognition of deferred income

As detailed in Note 2.4 and Note 2.19, depreciation of toll roads and recognition of deferred income of the Group are calculated and determined based on the total projected traffic volume throughout the approved operating periods of the respective toll roads ("Total Projected Traffic Volume") under certain concessionary rights granted to the Group. Material adjustments may need to be made to the carrying amounts of toll roads and deferred income should there be a material difference between the Total Projected Traffic Volume and the actual results.

As an established policy of the Group stated in Note 2.4, the Total Projected Traffic Volume is reviewed regularly by the directors of the Company. Independent professional traffic studies are performed in order to ascertain any appropriate adjustments should there be material changes. The Total Projected Traffic Volume applied by the Group for the determination of depreciation of toll roads and recognition of deferred income for the year ended 31 December 2005 was developed based on an independent professional traffic study performed in 2001 and the Group reported depreciation charges of approximately RMB130,010,000 and subsidy income of approximately RMB27,356,000 for the year accordingly. The directors of the Company consider that these are the best current estimates on the Total Projected Traffic Volume and they consider that there should not be material difference from the actual results.

(b) Estimate of fair values of acquired assets and liabilities from acquisitions

During the year, the Group acquired 55% share interest in Jade Emperor Limited ("JEL", a jointly controlled entity of the Group), 56.28% equity interest in Guangdong Qinglian Highway Development Company Limited ("Qinglian Company", an associate of the Group) and 30% equity interest in Yunfu Guangyun Expressway Company Limited ("Guangyun Company", an associate of the Group) at cash considerations of HKD653,632,000, RMB1,839,200,000 and RMB179,180,000, respectively. All these acquiree companies are engaged in the operations of highway business. Details of the acquisitions are set out in Notes 31, 11(b)(i) and 11(b)(ii), respectively. In accordance with HKFRS 3, the identifiable assets acquired and liabilities and contingent liabilities assumed should be measured at fair value at the date of acquisition in order to determine the difference between the cost of acquisition and the fair value of the Group's share of net assets acquired, which should then be recognised as goodwill in the balance sheet or recognised directly in the income statement.

4 Critical accounting estimates and judgements (Continued)

4.1 Critical accounting estimates and assumptions (Continued)

(b) Estimate of fair values of acquired assets and liabilities from acquisitions (Continued)

In the absence of an active market for the above business combination/acquisition transactions undertaken by the Group, in order to determine the fair values of assets acquired and liabilities assumed, the directors of the Company had made estimates from a variety of sources, in order to determine the fair values of identifiable assets and liabilities in the three transactions, as summarised below:

— An enterprise fair value ("Enterprise Fair Value") of each the acquiree company was ascertained by either an independent professional valuer or by the directors themselves (where appropriate) close to the respective acquisition dates based on the discounted projected cash flow model ("Cash Flow Model"). The directors have also taken into account relevant adjustments which had to be made to the expected future cash flows;

— Fair values of all working capital items of the acquiree companies are stated at their then net book value as at the acquisition dates, after making applicable adjustments according to the latest audited results ("Working Capital Values");

— The intangible or tangible asset to be identified in the acquisition which is subject to significant fair value adjustment assessment is determined to be either (1) the toll road operating right granted by the relevant local government authorities to the acquiree companies; and/or (2) expenditures incurred by the acquiree companies on constructing the toll road assets under the grant of the respective operating right. The fair values of related assets are determined based on the Enterprise Fair Value minus the Working Capital Values so ascertained, as described above.

As a result of the above assessment, the directors of the Company had determined the difference between the costs of acquisitions and the fair values of the Group's share of net assets acquired in these three transactions. The Group had recognised RMB34,955,000 in the income statement as other income for the year ended 31 December 2005 in relation to the acquisition of JEL (Note 22). There was no material difference between the fair values of the Group's share of the net assets of Qinglian Company and Guangyun Company and related costs of acquisitions.

The determination of the Enterprise Fair Values of the three acquisitions rest on various assumptions employed in the compilation of the respective Cash Flow Models such as projected growth/increase of traffic flows and toll rates, taxes to be levied on toll income, as well as pre-tax discount rate applied to discount the expected future cash flows to their respective net present values. The Company uses assumptions that are mainly based on market conditions existing at the acquisitions dates.

In the case that the assessed Enterprise Fair Values of JEL, Qinglian Company and Guangyun Company were 5% lower than the current estimates made by the directors of the Company, the Group would be required to record impairment losses on the three investments amounting to approximately RMB123,000,000 for the year ending 31 December 2006. If the Enterprise Fair Values were higher than management's current estimates, the Group would not be able to report additional income for the year ending 31 December 2006.

4 Critical accounting estimates and judgements (Continued)

4.1 Critical accounting estimates and assumptions (Continued)

(c) Reversal of provision for impairment of assets

As described in further details in Note 9(b), during the year, the Group reversed a portion of the impairment provision for construction in progress amounting to approximately RMB40,000,000 in relation to a ropeway project undertaken by Shenzhen Wongtongling Ropeway Company Limited ("Ropeway Company"), a subsidiary of the Company. The amount of such reversal was estimated by the directors based on the relevant communication made with and indication made by the local government authorities in compensating the Company for the cessation of the ropeway project and the whole process had not been completed as at 31 December 2005. Were the actual compensation amount to be received by the Company upon the completion of the process in 2006 to differ from management's current estimates by 10% favorably or unfavorably, the Group would report a further reversal of impairment loss previously recognised or an impairment loss of approximately RMB4,000,000 for the year ending 31 December 2006.

4.2 Critical judgements in applying the Group's accounting policies

Revenue recognition relating to construction management contract

For the year ended 31 December 2005, the Group recognised a project management income of RMB67,323,000 in relation to construction management services rendered for a construction project undertaken on behalf of the local government authorities (Notes 20(b) and 22(a)) based on the percentage of completion method (details laid down in the Group's accounting policies as stated in Note 2.18(b)). The recognition of income under such method rest on estimates made by the directors on the total budgeted project costs to be approved by the authorities, as well as the total estimated costs to be incurred to complete the project.

— Due to the fact that the total budgeted project costs had not been finalised with the related government authorities as at 31 December 2005, the directors made the estimate of the amounts based on the relevant communication made with the authorities as well as based on information obtained from them.

— In ascertaining the total costs to be incurred up to completion of the project, the directors have made reference to the actual costs incurred to date and relevant third party evidence such as signed contracts, their supplements and related variation orders made with the contractors, and the related construction and design plans. The directors have also applied relevant professional and industry experience where required and/or appropriate.

Were the magnitudes of the approved budgeted project costs and the total estimated costs to be incurred for the project to differ by 5% from management's estimates, the Group would have to report a higher project management income of approximately RMB86,000,000 if the change is favorable, or it is required to report a project management loss of approximately RMB77,000,000 if the change is unfavorable, for the year ending 31 December 2006.

5 Property, plant and equipment

Group

	Toll roads RMB'000	Buildings and structures RMB'000	Equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
At 1 January 2004					
Cost	4,076,830	233,498	238,998	20,770	4,570,096
Accumulated depreciation	(152,845)	(32,476)	(92,233)	(14,843)	(292,397)
Accumulated impairment loss	(77,000)	—	—	—	(77,000)
Net book amount	3,846,985	201,022	146,765	5,927	4,200,699
Year ended 31 December 2004					
Opening net book amount	3,846,985	201,022	146,765	5,927	4,200,699
Transfer from construction in progress (Note 6)	—	7,542	38,481	—	46,023
Additions	90	209	2,650	2,809	5,758
Disposals	—	(100)	(7,912)	(307)	(8,319)
Disposal of a subsidiary	—	—	(131)	(131)	(262)
Depreciation	(78,694)	(9,055)	(23,813)	(1,974)	(113,536)
Closing net book amount	3,768,381	199,618	156,040	6,324	4,130,363
At 31 December 2004					
Cost	4,076,920	241,002	249,865	18,996	4,586,783
Accumulated depreciation	(231,539)	(41,384)	(93,825)	(12,672)	(379,420)
Accumulated impairment loss	(77,000)	—	—	—	(77,000)
Net book amount	3,768,381	199,618	156,040	6,324	4,130,363
Year ended 31 December 2005					
Opening net book amount	3,768,381	199,618	156,040	6,324	4,130,363
Transfer from construction in progress (Note 6)	17,340	7,123	15,435	—	39,898
Additions	—	255	2,759	1,835	4,849
Acquisition of a jointly controlled entity (Note 31)	—	1,460	8,667	352	10,479
Disposals	—	—	(434)	(64)	(498)
Depreciation	(94,527)	(9,608)	(24,069)	(1,806)	(130,010)
Closing net book amount	3,691,194	198,848	158,398	6,641	4,055,081
At 31 December 2005					
Cost	4,094,260	250,253	278,019	20,494	4,643,026
Accumulated depreciation	(326,066)	(51,405)	(119,621)	(13,853)	(510,945)
Accumulated impairment loss	(77,000)	—	—	—	(77,000)
Net book amount	3,691,194	198,848	158,398	6,641	4,055,081

5 Property, plant and equipment (Continued)

Company

	Toll roads RMB'000	Buildings and structures RMB'000	Equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
At 1 January 2004					
Cost	2,036,465	144,260	143,786	6,499	2,331,010
Accumulated depreciation	(52,053)	(11,964)	(35,806)	(4,039)	(103,862)
Net book amount	1,984,412	132,296	107,980	2,460	2,227,148
Year ended 31 December 2004					
Opening net book amount	1,984,412	132,296	107,980	2,460	2,227,148
Transfer from construction in progress (Note 6)	—	—	17,692	—	17,692
Additions	—	—	—	2,490	2,490
Disposals	—	—	(3,349)	(310)	(3,659)
Depreciation	(26,868)	(4,648)	(14,139)	(1,290)	(46,945)
Closing net book amount	1,957,544	127,648	108,184	3,350	2,196,726
At 31 December 2004					
Cost	2,036,465	144,260	153,986	5,273	2,339,984
Accumulated depreciation	(78,921)	(16,612)	(45,802)	(1,923)	(143,258)
Net book amount	1,957,544	127,648	108,184	3,350	2,196,726
Year ended 31 December 2005					
Opening net book amount	1,957,544	127,648	108,184	3,350	2,196,726
Transfer from construction in progress (Note 6)	—	5,441	10,029	1,227	16,697
Additions	—	—	1,410	—	1,410
Disposals	—	—	(129)	(590)	(719)
Depreciation	(34,848)	(4,680)	(15,294)	(781)	(55,603)
Closing net book amount	1,922,696	128,409	104,200	3,206	2,158,511
At 31 December 2005					
Cost	2,036,465	149,701	165,296	5,910	2,357,372
Accumulated depreciation	(113,769)	(21,292)	(61,096)	(2,704)	(198,861)
Net book amount	1,922,696	128,409	104,200	3,206	2,158,511

5 Property, plant and equipment (Continued)

(a) The toll roads and buildings of the Group are all located in the PRC.

(b) The Group has been granted by the relevant local government authorities the rights to operate the respective toll roads for periods ranging from 15 to 30 years. According to the relevant governments' approval documents and the relevant regulations, the Group is responsible for the construction of the toll roads and the acquisition of the related facilities and equipment and it is also responsible for the operations and management, maintenance and overhaul of the toll roads during the approved operating periods. The toll fees collected during the operating periods is attributable to the Group. The relevant toll roads assets are required to be returned to the local government authorities when the operating rights periods expire without any payments to be made to the Group. According to the relevant regulations, these operating rights are not renewable and the Group does not have any termination options. Accordingly, except for the Airport-Heao Expressway (Western Section) operated by the Company, the Meiguan Expressway operated by Shenzhen Meiguan Expressway Company Limited ("Meiguan Company"), a subsidiary of the Company, and the Airport-Heao Expressway (Eastern Section) operated by Shenzhen Airport-Heao Expressway (Eastern Section) Company Limited ("Airport-Heao Eastern"), a jointly controlled entity of the Company, the Group has not obtained the relevant land use rights in relation to the other toll roads owned by the Group.

(c) The accumulated impairment loss represents an impairment loss provision for the toll road operated by Hunan Changsha Shenchang Expressway Company Limited ("Shenchang Company"), a jointly controlled entity of the Company. Based on an assessment made by the directors of the Company, the impairment should not be reversed at 31 December 2005 and no additional losses had to be provided for.

6 Construction in progress

	Group		Company	
	2005 RMB'000	2004 RMB'000 (Restated)	**2005 RMB'000**	2004 RMB'000
At 1 January	**286,584**	39,849	**280,242**	39,540
Additions	**412,729**	290,214	**389,861**	258,394
Acquisition of a subsidiary	**—**	2,544	**—**	—
Reversal of provision for impairment (Note 9(b))	**40,000**	—	**—**	—
Transfer to property, plant and equipment (Note 5)	**(39,898)**	(46,023)	**(16,697)**	(17,692)
Other transfers	**(5,972)**	—	**(5,317)**	—
At 31 December	**693,443**	286,584	**648,089**	280,242

Construction in progress at 31 December 2005 mainly represents construction costs incurred for toll roads not yet completed.

7 Land use rights

The Group's land use rights represent prepaid operating lease payments and their net book value is analysed as follows:

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
		(Restated)		(Restated)
Outside Hong Kong, held on:				
Leases of duration between				
10 to 50 years	**368,830**	386,468	**70,504**	73,862

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
		(Restated)		(Restated)
Opening balance	**386,468**	404,106	**73,862**	77,218
Amortisation of prepaid operating				
lease payments	**(17,638)**	(17,638)	**(3,358)**	(3,356)
Closing balance	**368,830**	386,468	**70,504**	73,862

The land use rights of the Group are all located in the PRC in relation to the operations of its toll roads.

8 Intangible assets

	Goodwill RMB'000 (Note (a))	Toll road operating right RMB'000 (Note (b))	Total RMB'000
At 1 January 2004			
Cost	7,480	—	7,480
Accumulated amortisation	(153)	—	(153)
Net book amount	7,327	—	7,327
Year ended 31 December 2004			
Opening net book amount	7,327	—	7,327
Acquisition of a subsidiary	945	—	945
Provision for impairment	(945)	—	(945)
Amortisation expense	(512)	—	(512)
Closing net book amount	6,815	—	6,815
At 31 December 2004			
Cost	8,425	—	8,425
Accumulated amortisation	(665)	—	(665)
Accumulated impairment loss	(945)	—	(945)
Net book amount	6,815	—	6,815
Year ended 31 December 2005			
Opening net book amount	6,815	—	6,815
Acquisition of a jointly controlled entity (Note 31)	—	837,756	837,756
Amortisation expense	—	(19,986)	(19,986)
Closing net book amount	6,815	817,770	824,585
At 31 December 2005			
Cost	6,815	837,756	844,571
Accumulated amortisation	—	(19,986)	(19,986)
Net book amount	6,815	817,770	824,585

8 Intangible assets (Continued)

(a) Impairment test for goodwill

Goodwill is allocated to the Group's cash generating units ("CGU") identified according to the respective toll roads operations as below:

	2005 RMB'000	2004 RMB'000
Geputan Bridge and leading road	**5,179**	5,179
Shuiguan Expressway	**1,636**	1,636
	6,815	6,815

Geputan Bridge and related leading road and Shuiguan Expressway are operated by Hubei Yungang Transportation Development Company Limited ("Yungang Company") and Shenzhen Qinglong Expressway Company Limited ("Qinglong Company"), respectively, both of which are jointly controlled entities of the Group.

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by the respective management covering a financial year period. Cash flows beyond the financial year period are extrapolated using the estimates made by management.

The key assumptions used for value-in-use calculations for the CGU of Geputan Bridge and leading road are as follows:

(i) The annual growth rate of toll revenue from 2007 to 2010 is approximately 1%; 5% in 2011 as compared to 2010; and toll revenue remains unchanged from 2012 thereafter to the end of the operating period;

(ii) A major overhaul of the bridge and road will be undertaken after 5 years from 2005;

(iii) The applicable PRC enterprise income tax rate from 1 January 2007 onwards will be 15%, after the expiration of the tax preferential period enjoyed by the entity in 2006;

(iv) The discount rate applied on the projected cash flows is 10%.

Management estimates the growth rate of toll revenue based on past performance and its expectation on the market developments and changes in the local operating environment. The discount rate used is pre-tax and reflect specific risks relating to the toll road business. Based on the impairment test performed on the goodwill balance as at 31 December 2005, no impairment loss had been identified.

8 Intangible assets (Continued)

(b) Toll road operating right

This represents the toll road operating right of Wuhuang Expressway of Hubei Magerk Expressway Management Company Limited ("Magerk Company"), a jointly controlled entity of the Group. Pursuant to the transfer agreement dated 23 September 1997, Magerk Company was granted the operating right of Wuhuang Expressway by the Hubei Communications Bureau at a transfer consideration of RMB580,000,000 for an operating period of 25 years. The operating right was accounted for initially at fair value in the consolidated financial statements as part of the acquired assets in the acquisition of 55% share interest in JEL made by the Group (Note 31) and it is amortised over the remaining approved operating period.

9 Investments in subsidiaries

		Company	
	Note	**2005 RMB'000**	2004 RMB'000
Unlisted investments, at cost		**759,945**	759,945
Provision for impairment	(b)	**(12,005)**	(12,005)
		747,940	747,940
Loans to a subsidiary	(b)	**46,084**	46,084
Provision for impairment	(b)	**(6,084)**	(46,084)
		40,000	—
Advance to a subsidiary	(c)	**24,750**	61,034
		812,690	808,974

9 Investments in subsidiaries (Continued)

(a) The following is a list of all subsidiaries of the Company at 31 December 2005:

Name	Place of incorporation and nature of legal entity	Principal activities and place of operation	Particulars of issued share capital/ paid-in capital	Interest held	
				Direct	Indirect
Meiguan Company	PRC, limited liability company	Construction, operation and management of an expressway in the PRC	RMB332,400,000	95%	—
Shenzhen Expressway Advertising Company Limited	PRC, limited liability company	Advertising agency in the PRC	RMB2,000,000	95%	4.75%
Ropeway Company	PRC, limited liability company	Construction and management of a ropeway in the PRC	RMB5,000,000	95%	—
Mei Wah Industrial (Hong Kong) Limited ("Mei Wah")	Hong Kong, limited liability company	Investment holding in Hong Kong	17,000,000 Ordinary shares of HKD1 each	100%	—
Maxprofit Gain Limited ("Maxprofit") (Note 11(b)(i))	British Virgin Islands, limited liability company	Investment holding in British Virgin Islands	1 Ordinary share of USD1 each	—	100%

9 Investments in subsidiaries (Continued)

(b) Due to the fact that Ropeway Company failed to commence its business operations to construct and operate its ropeway project in Shenzhen as scheduled, the Company had made impairment provision in full for the investment cost of RMB12,005,000 and for loans so extended to it amounting to RMB46,084,000 (including the loans repaid on its behalf by the Company due to the guarantee provided for its bank borrowings) in previous years. According to the relevant communication made with and indication made by the local government authorities during the current year, the government authorities undertake to compensate a portion of the losses suffered by the Company as a result of the cessation of the ropeway project. Based on an assessment made by the directors of the Company, the compensation to be received, after settlement of the relevant liabilities borne by Ropeway Company, was estimated to be approximately RMB40,000,000. As a result, the directors consider that the conditions leading to the provision for impairment loss in the project had been partially removed. Accordingly, the provision for impairment loss for loans advanced to Ropeway Company was reversed to the extent of the amount of the compensation expected to be recovered. In the consolidated financial statements of the Group, such reversal was reflected as a reversal of provision for impairment of construction in progress in relation to the ropeway project (Note 6) and has been credited to other operating expenses in the income statement as the financial statements of Ropeway Company have been consolidated.

(c) The amount represents advance made to Meiguan Company as part of the investment made by the Company to this subsidiary in accordance with the provisions of the relevant investment agreement. The advance is unsecured, interest-free and is repayable out of the funds to be generated from the operations of the toll road of Meiguan Company. In the opinion of the directors, the advance is considered to be investment in nature and is therefore stated at cost. The directors also consider that there is no recoverability problem associated with the amount.

10 Investments in jointly controlled entities

		Company	
	Note	**2005** **RMB'000**	2004 RMB'000
Unlisted investments, at cost		**384,000**	384,000
Provision for impairment	(b)	**(51,590)**	(51,590)
		332,410	332,410
Advances to jointly controlled entities	(c)	**643,134**	669,474
Loan to a jointly controlled entity	(d)	**130,400**	205,599
		1,105,944	1,207,483

10 Investments in jointly controlled entities (Continued)

(a) The following is a list of all jointly controlled entities of the Company at 31 December 2005:

Name	Place of incorporation and nature of legal entity	Principal activities and place of operation	Interest held Direct	Interest held Indirect
Airport-Heao Eastern	PRC, Sino-foreign cooperative enterprise	Construction, operation and management of an expressway in the PRC	55%	—
Qinglong Company	PRC, Sino-foreign cooperative enterprise	Construction, operation and management of an expressway in the PRC	40%	—
Shenchang Company	PRC, limited liability company	Construction, operation and management of a ring road in the PRC	51%	—
Yungang Company	PRC, Sino-foreign cooperative enterprise	Construction, operation and management of a bridge in the PRC	—	*42%
JEL (Note 31)	Cayman Islands, limited liability company	Investment holding in Cayman Islands	—	*55%
Magerk Company (Note 31)	PRC, wholly foreign owned enterprise	Operation and management of an expressway in the PRC	—	**55%

* The interests in Yungang Company and JEL are held indirectly through Mei Wah, a subsidiary of the Company. In the first four years of operations of Yungang Company, the Group is entitled to 90% share of its profit.

** JEL is the sole equity holder of Magerk Company. The Company holds an effective 55% interest in Magerk Company through Mei Wah and JEL.

(b) This represents the provision for impairment loss made in previous years for the Company's investment in Shenchang Company due to the impairment of the underlying toll road operated by Shenchang Company. The impairment provision was considered by the directors to be retained as at 31 December 2005 but no additional provision had to be made.

10 Investments in jointly controlled entities (Continued)

(c) Amounts represent advances made to Airport-Heao Eastern of RMB361,372,000 (2004: RMB380,764,000) and Shenchang Company of RMB281,762,000 (2004: RMB288,710,000) respectively. The advances to Airport-Heao Eastern and Shenchang Company were made by the Company as part of its investments in these jointly controlled entities in accordance with the provisions of respective investment agreements. In the opinion of the directors, these advances are investment in nature and are therefore stated at cost.

The advances are unsecured, non-interest bearing and are repayable out of the funds generated from the operations of the respective toll road projects of Airport-Heao Eastern and Shenchang Company. The directors consider that there is no recoverability problem associated with these amounts.

(d) The Company made a loan to Qinglong Company, a jointly controlled entity of the Company, with an original amount of RMB330,000,000 in 2003 to finance Qinglong Company's repayment of its liabilities. The loan is unsecured, non-interest bearing and is repayable based on a preferential appropriation of surplus cash flows of Qinglong Company from 2003 till the fully repayment of the loan. In the opinion of the directors, there is no recoverability problem associated with the loan.

In prior years, the loan was stated at cost and the outstanding balance at 31 December 2004 was RMB205,599,000. As a result of the adoption of HKAS 39, the amount is considered to be a financial asset of the Company and it was remeasured at amortised cost using the effective interest method. The resulting adjustment of RMB18,903,000 has been made to the retained earnings of the Company at 1 January 2005 according to the transitional provision of the standard. The interest income of the loan recognised for the year by the Company under the effective interest method amounted to RMB10,525,000.

The fair value of the loan at 31 December 2005 was RMB130,400,000 (2004: RMB186,695,000), which was determined based on expected cash flows discounted using a rate of 4.95% (2004: 4.95%) per annum, being the prevailing rate for a similar debt instrument issued by an issuer in the PRC with a similar credit rating.

In the consolidated financial statements of the Group, the carrying amount of the loan at 31 December 2005 was stated at RMB78,240,000 (2004: RMB123,359,000), representing the share of the balance receivable by the Group, after elimination made based on proportionate consolidation of the Company's interest in Qinglong Company. In addition, the effects of the adjustment on the balance due to the adoption of HKAS 39 to the retained earnings of the Group at 1 January 2005 was RMB11,342,000 (Note 2.1) and the interest income recognised under the effective interest method for the year was RMB6,315,000 (Note 22) at the Group level. The directors also made an assessment that the fair value of the loan at the Group level as at 31 December 2005 was RMB78,240,000 (2004: RMB112,017,000).

10 Investments in jointly controlled entities (Continued)

(e) The following amounts represent the assets and liabilities, and turnover and results related to the Group's interests in jointly controlled entities, which have already been included in the consolidated balance sheet and income statement:

	Airport-Heao Eastern		Qinglong Company		Shenchang Company		Yungang Company		JEL (consolidated Magerk Company)	Total	
	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000	2005 RMB'000	2005 RMB'000	2004 RMB'000
Assets											
Non-current assets	604,149	624,948	448,152	478,647	310,175	317,968	13,679	14,925	788,641	2,164,796	1,436,488
Current assets	24,662	27,947	35,220	11,474	27,747	2,844	2,624	2,308	18,879	109,132	44,573
	628,811	652,895	483,372	490,121	337,922	320,812	16,303	17,233	807,520	2,273,928	1,481,061
Liabilities											
Non-current liabilities	12,497	12,390	263,335	3,151	–	–	–	–	99,767	375,599	15,541
Current liabilities	12,336	12,945	6,291	225,149	2,720	2,427	181	279	62,370	83,898	240,800
	24,833	25,335	269,626	228,300	2,720	2,427	181	279	162,137	459,497	256,341
Net assets	603,978	627,560	213,746	261,821	335,202	318,385	16,122	16,954	645,383	1,814,431	1,224,720
Turnover	157,904	127,042	73,592	57,889	10,853	9,721	3,043	3,461	63,727	309,119	198,113
Other income	2,858	1,289	1,073	992	624	613	9	12	101	4,665	2,906
Costs and expenses	(59,440)	(49,920)	(44,258)	(35,986)	(11,950)	(12,761)	(2,387)	(2,459)	(43,263)	(161,298)	(101,126)
Profit/(loss) after income tax	101,322	78,411	30,407	22,895	(473)	(2,427)	665	1,014	20,565	152,486	99,893

There were no material commitments and contingent liabilities arising from the Group's investments in the jointly controlled entities, and there were no material commitments and contingent liabilities in the jointly controlled entities as at 31 December 2005 and 2004.

11 Interests in associates

		Group		Company	
	Note	**2005 RMB'000**	2004 RMB'000	**2005 RMB'000**	2004 RMB'000
Beginning of the year		**870,698**	871,404	**871,404**	—
Acquisition of associates	(b)	**2,018,380**	—	**1,628,380**	871,404
Increase in investments in associates	(c)	**101,840**	—	**101,840**	—
Share of associates' results					
- (Loss)/profit before tax		**(23,786)**	839	**—**	—
- Income tax		**(229)**	—	**—**	—
- Amortisation of goodwill		**—**	(1,545)	**—**	—
	(a)	**(24,015)**	(706)	**—**	—
End of the year		**2,966,903**	870,698	**2,601,624**	871,404

The year end balance comprises the following:

		Group		Company	
	Note	**2005 RMB'000**	2004 RMB'000	**2005 RMB'000**	2004 RMB'000
Unlisted investments, at cost		**—**	—	**1,642,741**	871,404
Share of net assets other than goodwill	(a)	**1,932,720**	795,398	**—**	—
Goodwill on acquisition of associates	(d)	**75,300**	75,300	**—**	—
		2,008,020	870,698	**1,642,741**	871,404
Advance to an associate	(b)(i)	**958,883**	—	**958,883**	—
		2,966,903	870,698	**2,601,624**	871,404

11 Interests in associates (Continued)

(a) The Group's interests in its associates, all of which were established and are operating in the PRC, were as follows:

Name	Nature of legal entity and paid-in capital	Principal activities	Assets		Liabilities		Revenues		Profit/(loss)		Capital commitment		*Interest held	
			2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
Guangdong Jiangzhong Expressway Company Limited ("Jiangzhong Company") (Note (c))	Limited liability company, RMB945,000,000	Development, operation and management of expressways and related facilities	755,130	533,193	525,345	358,783	3,363	–	(6,464)	–	–	240,500	25%	25%
Guangzhou Western Second Ring Expressway Company Limited ("GZ W2 Company") (Note (c))**	Limited liability company, RMB410,000,000	Development, operation and management of expressway	330,772	78,981	228,272	16,481	–	–	–	–	35,795	684,500	25%	25%
Shenzhen Huayu Expressway Investment Company Limited	Limited liability company, RMB150,000,000	Development, investment, operation and management of expressway	240,168	193,770	182,672	133,770	6,149	–	(2,504)	–	–	3,200	40%	40%
Shenzhen Expressway Engineering Consulting Company Limited	Limited liability company, RMB7,000,000	Project management consulting, construction consulting and sales of construction materials	6,345	4,526	2,594	972	3,603	3,459	197	1,420	–	–	30%	30%
Nanjing Yangzi River Third Bridge Company Limited	Limited liability company , RMB1,080,000,000	Development, operation and management of bridges	849,127	575,000	587,291	305,000	6,997	–	(8,164)	–	–	272,969	25%	25%
Guangdong Yangmao Expressway Company Limited ("Yangmao Company")	Limited liability company, RMB200,000,000	Development, operation and management of expressway	591,333	635,685	362,858	410,751	49,882	3,355	3,541	(581)	–	–	25%	25%
Guangyun Company (Note (b)(ii))	Limited liability company, RMB10,000,000	Development, operation and management of expressway	449,513	–	276,211	–	11,285	–	(5,878)	–	–	–	30%	–
Qinglian Company (Note (b)(i))	Sino-foreign cooperative enterprise, RMB1,200,000,000	Development, operation and management of highways	2,326,633	–	1,451,058	–	38,131	–	(4,743)	–	2,359,270	–	56.28%	–
			5,549,021	2,021,155	3,616,301	1,225,757	119,410	6,814	(24,015)	839	2,395,065	1,201,169		

* Except for Qinglian Company, the Company directly holds interests in all other associates. Qinglian Company is 31.28% directly held by the Company and with another 25% of the interest held indirectly through its two wholly-owned subsidiaries, Mei Wah and Maxprofit.

** GZ W2 Company had not yet commenced its commercial operations as at 31 December 2005.

*** There were no material contingent liabilities arising from the Group's interests in associates, and there were no material contingent liabilities in the associates as at 31 December 2005 and 2004.

11 Interests in associates (Continued)

(b) Acquisition of associates represent the acquisition of 56.28% equity interest in Qinglian Company for cash consideration of RMB1,839,200,000 and the acquisition of 30% equity interest in Guangyun Company for cash consideration of RMB179,180,000.

(i) Pursuant to a set of framework agreements (the "Framework Agreements") dated 3 February 2005 entered into between the Company, Mei Wah, a subsidiary of the Company, and jointly with five other independent parties, the Company and Mei Wah acquired an aggregate effective equity interest of 56.28% in Qinglian Company. The Company directly acquired 31.28% equity interest in Qinglian Company while Mei Wah acquired the entire issued share capital of Maxprofit, which in turn directly holds 25% equity interest in Qinglian Company. In addition, the Company also undertook to bear the obligations of advances made to Qinglian Company by its original equity owners and the related unpaid accrued interest in proportion to the Group's acquired equity interest in Qinglian Company (collectively defined as "Shareholders Advance") amounting to approximately RMB958,883,000. The aggregate cash consideration for the whole series of transactions was RMB1,839,200,000. The transactions were completed in June 2005 and up to 31 December 2005, RMB1,475,574,000 of the total consideration had been paid while the remaining unsettled balance of RMB363,626,000 had been recorded in other payables of the Group in the balance sheet. In accordance with the provisions of the Framework Agreements and the revised articles of association of Qinglian Company, the Company could only exercise significant influence in the financial and operating policies of Qinglian Company. Accordingly, Qinglian Company is accounted for as an associate of the Group using the equity method of accounting.

The Shareholders Advance undertaken by the Company of RMB958,883,000 was reflected as an advance made to Qinglian Company by the Company and had been included as part of the Company's interests in associates. Qinglian Company is required to undertake the reconstruction of its toll road and it is the commitment of the directors of the Company to capitalise this advance as its additional equity contribution to be made in Qinglian Company. The process is subject to the final approval of the relevant PRC authorities. Therefore, the directors regard the advance as investment in nature and is stated at cost.

(ii) During the year, the Company acquired 30% equity interest in Guangyun Company from Guangdong Roads and Bridges Construction Development Company Limited, a promoter of the Company, at a cash consideration of RMB179,180,000.

(c) According to the provisions of the investment agreements of Jiangzhong Company and GZ W2 Company, the Company made additional capital contributions at RMB61,840,000 and RMB40,000,000, respectively, into the two associates during the year. The contributions were made based on the funding requirements arising from the progress of construction of the projects undertaken by these two associates. The remaining contributions need to be made to these two associates according to the provisions of the investment agreements amounting to RMB188,840,000 (Note 32).

11 Interests in associates (Continued)

(d) The balance as at 31 December 2004 represents the unamortised amount of the goodwill arising from the acquisition of equity interests in Jiangzhong Company and Yangmao Company of RMB30,135,000 and RMB45,165,000, respectively. In accordance with the requirements of HKFRS 3 and HKAS 38, the Group ceased amortisation of goodwill on 1 January 2005. The goodwill is included in interests in associates and is tested for impairment when there is an indication of impairment of the interests. After the assessment made by the directors, there was no impairment loss to be recognised as at 31 December 2005.

12 Trade and other receivables

		Group		Company	
	Note	**2005 RMB'000**	2004 RMB'000 (Restated)	**2005 RMB'000**	2004 RMB'000
Trade receivables	(a)	**39,694**	—	**35,708**	—
Amount due from a jointly controlled entity	(b)	**838**	1,904	**1,862**	3,123
Current portion of long-term receivables	(c)	**—**	372,946	**—**	372,946
Other receivables	(d)	**112,304**	31,941	**103,176**	35,741
Prepayments		**4,993**	2,019	**3,328**	1,537
		157,829	408,810	**144,074**	413,347

(a) Trade receivables mainly represent amounts due from the Shenzhen Communications Bureau of RMB33,118,000 (2004: Nil) for management services income recognised during the year (Notes 20(b) and 22(a)).

At 31 December 2005, the trade receivables were all aged within one year.

(b) The balance at 31 December 2005 represents the amount due from Airport-Heao Eastern, a jointly controlled entity of the Company, for the amounts paid by the Company on its behalf. The balance at 31 December 2004 represents the net amount due from Airport-Heao Eastern for the toll income collected by Airport-Heao Eastern on behalf of the Company and Meiguan Company, a subsidiary of the Company.

Due to the geographical layout of the toll roads of the Group, certain toll gates of the toll roads of the Company, Meiguan Company and Airport-Heao Eastern are overlapped and they collect toll income for each other. During the year, toll income collected by the Company and Meiguan Company on behalf of Airport-Heao Eastern was RMB103,428,000 (2004: RMB92,721,000), while toll income collected by Airport-Heao Eastern on behalf of the Company and Meiguan Company was RMB100,020,000 (2004: RMB98,733,000) respectively. All toll income collected is paid back to the counter party on a monthly basis without charging any handling fees.

12 Trade and other receivables (Continued)

(c) The balance at 31 December 2004 represents the outstanding unsettled balance of the consideration and compensation receivable by the Company, at their discounted net present values, in respect of the transfer of all its rights and interests in National Highway No. 107 (Shenzhen Section) and National Highway No. 205 (Shenzhen Section) to the Shenzhen Communications Bureau pursuant to a transfer agreement signed between the Company and the Shenzhen Communications Bureau on 18 March 2003. The full amount of the balance at RMB386,000,000 was received during the year and the difference with its net present value at RMB13,054,000 represents interest from discounting which had been recorded as other income for the year (Note 22).

(d) Other receivables at 31 December 2005 included an amount due from the Shenzhen Communications Bureau of RMB74,024,000 (2004: Nil) in respect of the amounts paid by the Company on behalf of the government authority for a construction project. Subsequent to the balance sheet date, the Company officially entered into a construction management service contract with the Shenzhen Communications Bureau that the Company undertakes the management of the construction of the project (see also Note 35(b)).

13 Restricted cash

	Group and Company	
	2005	2004
	RMB'000	RMB'000
Project funds retained for construction management contracts	**31,615**	55,988

This represents the unutilised balance of project funds received from government authorities for the use of two construction management contracts (details are set out in Note 20(b)).

14 Cash and cash equivalents

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
		(Restated)		
Cash at bank and in hand	**863,025**	1,241,838	**748,672**	1,163,284
Short-term bank deposits	**29,460**	—	**—**	—
	892,485	1,241,838	**748,672**	1,163,284

The effective interest rate on short-term bank deposits was 4.1%. These deposits have a maturity of 33 days.

15 Share capital

	Registered, issued and fully paid				
	Shares held by the State	Shares held by legal persons	Ordinary shares, listed in the Mainland ("A shares")	Foreign invested shares, listed in Hong Kong ("H shares")	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2005 and 2004	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. Apart from certain liquidity restrictions and the currency used for distribution of dividends, all shares rank pari passu against each other.

Pursuant to a resolution passed in an A share shareholders meeting held on 23 January 2006, the shareholding structure reallocation scheme (the "Shareholding Scheme") of the Company was approved. All the shareholders of the Company whose shares did not have liquidity in the market ("Non-liquid Shares") undertook to transfer to the existing A share shareholders of the Company as appeared in the share register of the Company as at the date of implementation of the Shareholding Scheme (i.e. 24 February 2006) 3.2 shares of their Non-liquid Shares for each 10 A shares held by the A share shareholders in return for gaining liquidity of the Non-liquid Shares in the A share market of the PRC. The Shareholding Scheme was completed on 27 February 2006 with the approval of the relevant authorities. Right after the implementation of the Shareholding Scheme, the shareholders of the Non-liquid Shares held in total 1,215,400,000 shares of the Company while the A share shareholders held in aggregate 217,800,000 shares of A shares of the Company. The formerly Non-liquid Shares were also converted into shares with liquidity but subject to certain restrictions in their sales.

16 Other reserves

	Share premium RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Discretionary surplus reserve RMB'000	Currency translation differences RMB'000	Total RMB'000
Group						
Balance at 1 January 2004	2,060,009	319,020	295,064	453,391	—	3,127,484
Transfer from retained earnings	—	64,094	56,274	—	—	120,368
Balance at 31 December 2004	2,060,009	383,114	351,338	453,391	—	3,247,852
Balance at 1 January 2005	2,060,009	383,114	351,338	453,391	—	3,247,852
Transfer from retained earnings	—	70,178	57,747	—	—	127,925
Currency translation differences	—	—	—	—	1,153	1,153
Balance at 31 December 2005	2,060,009	453,292	409,085	453,391	1,153	3,376,930
Company						
Balance at 1 January 2004	2,060,009	271,048	271,048	453,391	—	3,055,496
Transfer from retained earnings	—	48,456	48,456	—	—	96,912
Balance at 31 December 2004	2,060,009	319,504	319,504	453,391	—	3,152,408
Balance at 1 January 2005	2,060,009	319,504	319,504	453,391	—	3,152,408
Transfer from retained earnings	—	48,504	48,504	—	—	97,008
Balance at 31 December 2005	2,060,009	368,008	368,008	453,391	—	3,249,416

16 Other reserves (Continued)

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

(i) make up any accumulated losses;

(ii) transfer 10% of the profit after tax 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 tax 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 tax reported in the PRC statutory financial statements of the Company prepared in accordance with the PRC GAAP.

(b) Share premium

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

(c) Statutory surplus reserve and discretionary surplus reserve

According to the 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 the 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 the PRC GAAP as stated in the PRC statutory financial statements and the accumulated distributable profits adjusted based on HKFRS.

17 Borrowings

	Note	Group 2005 RMB'000	Group 2004 RMB'000 (Restated)	Company 2005 RMB'000	Company 2004 RMB'000
Non-current					
Bank borrowings					
- Secured	(a)	**1,897,195**	—	**950,000**	—
- Unsecured	(d)	**310,000**	100,000	**310,000**	100,000
		2,207,195	100,000	**1,260,000**	100,000
Other borrowings - guaranteed	(b)	**30,051**	33,901	**30,051**	33,901
Advance from a minority shareholder	(c)	**9,564**	12,092	**—**	—
		2,246,810	145,993	**1,290,051**	133,901
Less: Current portion of long-term borrowings		**(16,208)**	(3,082)	**(4,808)**	(3,082)
		2,230,602	142,911	**1,285,243**	130,819
Current					
Bank borrowings					
- Secured	(a)	**50,000**	220,000	**50,000**	—
- Unsecured	(d)	**203,900**	360,000	**150,000**	360,000
		253,900	580,000	**200,000**	360,000
Current portion of long-term borrowings					
- Bank borrowings - secured		**11,400**	—	**—**	—
- Other borrowings - guaranteed	(b)	**4,808**	3,082	**4,808**	3,082
		16,208	3,082	**4,808**	3,082
		270,108	583,082	**204,808**	363,082
Total borrowings		**2,500,710**	725,993	**1,490,051**	493,901

17 Borrowings (Continued)

(a) Banking facilities of approximately RMB1,400 million had been obtained by the Group from a bank. The facilities so granted are secured by the pledge of the Company's 95% equity interest in Meiguan Company. As at 31 December 2005, RMB50,000,000 and RMB950,000,000 of the short-term and long-term loans had been drawn down from the facilities. The short-term borrowings of RMB50,000,000 is interest-bearing at 5.85% per annum while the terms of the long-term borrowings are as follows:

	Balance at 31 December 2005 RMB'000	**Effective interest rate (per annum)**	**Repayment period**
1st portion	150,000	5.85%	2 annual installments payable from 30 May 2007 to 30 May 2008
2nd portion	400,000	6.12% for the first five years, floating rate for the five consecutive years	4 annual installments payable from 30 May 2011 to 30 May 2014
3rd portion	400,000	Floating rate (current effective interest rate: 5.508%)	7 annual installments payable from 30 May 2009 to 30 May 2015
	950,000		

For the remaining balance of non-current secured bank borrowings, RMB260,000,000 is secured by a pledge of the operating right of Shuiguan Expressway of Qinglong Company; RMB676,195,000 (HKD650,000,000) is secured by a pledge of the 55% equity interest of JEL held by Mei Wah; and RMB11,000,000 is secured by a pledge of the toll road operating right of Wuhuang Expressway of Magerk Company. The effective interest rates of these borrowings ranged from 5.022% to 5.85% per annum.

(b) Other borrowings totalling USD3,723,667 (equivalent to RMB30,051,000) were extended by 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 installment from November 2006 to May 2011; and the remaining portion of USD1,489,467 which is interest-bearing at 7.17% per annum and is repayable by installment from February 2006 to August 2009. These borrowings are guaranteed by Xin Tong Chan Development (Shenzhen) Company Limited ("Xin Tong Chan"), a substantial shareholder of the Company.

(c) The advance was granted to Meiguan Company, a subsidiary of the Company, by the minority shareholder of Meiguan Company as well as a substantial shareholder of the Company, Xin Tong Chan. The advance is unsecured, non-interest bearing and is repayable out of funds to be generated from the toll road project operated by Meiguan Company.

(d) The effective interest rates of other unsecured borrowings of the Group at 31 December 2005 ranged from 4.698% to 5.85% (2004: 4.536% to 4.941%) per annum.

17 Borrowings (Continued)

(e) The maturity periods of the borrowings are as follows:

Group	Bank borrowings 2005 RMB'000	Bank borrowings 2004 RMB'000 (Restated)	Other borrowings and advance 2005 RMB'000	Other borrowings and advance 2004 RMB'000
Within 1 year	**265,300**	580,000	**4,808**	3,082
Between 1 and 2 years	**81,609**	100,000	**6,611**	4,931
Between 2 and 5 years	**1,287,386**	—	**16,829**	20,340
Wholly repayable within 5 years	**1,634,295**	680,000	**28,248**	28,353
Over 5 years	**826,800**	—	**11,367**	17,640
	2,461,095	680,000	**39,615**	45,993

Company	Bank borrowings 2005 RMB'000	Bank borrowings 2004 RMB'000	Other borrowings 2005 RMB'000	Other borrowings 2004 RMB'000
Within 1 year	**200,000**	360,000	**4,808**	3,082
Between 1 and 2 years	**50,000**	—	**6,611**	4,931
Between 2 and 5 years	**610,000**	100,000	**16,829**	20,340
Wholly repayable within 5 years	**860,000**	460,000	**28,248**	28,353
Over 5 years	**600,000**	—	**1,803**	5,548
	1,460,000	460,000	**30,051**	33,901

(f) The carrying amounts and fair value of the non-current borrowings are as follows:

	Carrying amounts 2005 RMB'000	Carrying amounts 2004 RMB'000	Fair values 2005 RMB'000	Fair values 2004 RMB'000
Bank borrowings	**2,195,795**	100,000	**2,157,010**	98,781
Other borrowings	**25,243**	30,819	**23,191**	27,983
Advance from a minority shareholder	**9,564**	12,092	**8,112**	11,697
	2,230,602	142,911	**2,188,313**	138,461

The fair values are determined based on cash flows discounted using an effective interest rate ascertained based on the rates of general bank borrowings at 5.89% - 6.12% (2004: 5.89% - 6.12%) per annum.

The directors of the Company consider that the carrying amounts of short-term borrowings approximate their fair values.

17 Borrowings (Continued)

(g) The carrying amounts of the borrowings are denominated in the following currencies:

	Group		Company	
	2005 **RMB'000**	2004 RMB'000 (Restated)	**2005** **RMB'000**	2004 RMB'000
RMB	**1,794,464**	692,092	**1,460,000**	460,000
USD	**30,051**	33,901	**30,051**	33,901
HKD	**676,195**	—	**—**	—
	2,500,710	725,993	**1,490,051**	493,901

(h) The Group has the following undrawn banking facilities:

	2005 **RMB'000**	2004 RMB'000
Floating rate		
— Expiring within one year	**3,700,000**	2,160,000
— Expiring beyond one year	**2,720,000**	2,240,000
	6,420,000	4,400,000
Fixed rate		
— Expiring beyond one year	**400,000**	—
	6,820,000	4,400,000

18 Deferred income tax

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

	Group		Company	
	2005 RMB'000	2004 RMB'000 (Restated)	**2005 RMB'000**	2004 RMB'000 (Restated)
Deferred tax assets				
— to be recovered after more than 12 months	**(6,364)**	(9,089)	**—**	—
— to be recovered within 12 months	**(400)**	(384)	**—**	—
	(6,764)	(9,473)	**—**	—
Deferred tax liabilities				
— to be recovered after more than 12 months	**149,732**	59,767	**32,218**	26,671
— to be recovered within 12 months	**5,298**	—	**—**	—
	155,030	59,767	**32,218**	26,671
	148,266	50,294	**32,218**	26,671

The gross movement on the deferred income tax account is as follows:

	Group		Company	
	2005 RMB'000	2004 RMB'000 (Restated)	**2005 RMB'000**	2004 RMB'000 (Restated)
Beginning of the year	**50,294**	38,605	**26,671**	19,925
Acquisition of a jointly controlled entity (Note 31)	**90,958**	—	**—**	—
Recognised in the income statement	**7,014**	11,689	**5,547**	6,746
End of the year	**148,266**	50,294	**32,218**	26,671

18 Deferred income tax (Continued)

The movements in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Group	Deferred tax assets: Impairment loss of property, plant and equipment	Deferred tax assets: Provision for impairment losses of other assets	Deferred tax assets: Total	Deferred tax liabilities: Depreciation of property, plant and equipment	Deferred tax liabilities: Difference of accounting base and tax base of of an intangible asset	Deferred tax liabilities: Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2004	25,410	1,878	27,288	65,893	—	65,893
Recognised in the income statement	(370)	—	(370)	11,319	—	11,319
At 31 December 2004	25,040	1,878	26,918	77,212	—	77,212
Acquisition of a jointly controlled entity (Note 31)	—	—	—	—	90,958	90,958
Recognised in the income statement	(384)	—	(384)	8,837	(2,207)	6,630
At 31 December 2005	24,656	1,878	26,534	86,049	88,751	174,800

Company	Deferred tax assets: Provision of assets	Deferred tax liabilities: Depreciation of property, plant and equipment
	RMB'000	RMB'000
At 1 January 2004	1,878	21,803
Recognised in the income statement	—	6,746
At 31 December 2004	1,878	28,549
Recognised in the income statement	—	5,547
At 31 December 2005	1,878	34,096

19 Government grants

	Note	Group and Company 2005 RMB'000	2004 RMB'000
Deferred income	(a)	**291,408**	318,764
Advances from government	(b)	**72,980**	54,000
		364,388	372,764

(a) Deferred income

	Group and Company 2005 RMB'000	2004 RMB'000
Beginning of the year	**318,764**	354,472
Government subsidy income recognised for the year (Note 22)	**(27,356)**	(35,708)
End of the year	**291,408**	318,764

Deferred income represents government grants provided to the Company in order to subsidise toll revenue income derived from Sections A and B of the Yanba Expressway. The subsidies were granted due to insufficient traffic volume expected to be achieved by the Yanba Expressway as a result of its construction at the early phase of the township plan of the Shenzhen Municipal Government.

(b) The balance represents advances of RMB54,000,000 (2004: RMB54,000,000) and RMB18,980,000 (2004: Nil) obtained from the relevant government authorities as an inducement of the Company to participate in the Yanba toll road project and for the construction of Yanpai Expressway, respectively.

Due to the fact that the relevant governments authorities have not stipulated clear provisions and regulations on the usage as well as repayment obligations of such funds, and the fact that the construction period of these two toll roads will extend beyond one year, the two funds are presented as non-current liabilities on the balance sheet.

20 Other payables and accrued expenses

		Group		Company	
	Note	**2005**	2004	**2005**	2004
		RMB'000	RMB'000	**RMB'000**	RMB'000
			(Restated)		
Consideration payable for acquisition of an associate and a jointly controlled entity	11(b)(i), 31	**384,062**	—	**1,714**	—
Payables for construction in progress payments	(a)	**141,760**	156,538	**133,018**	145,182
Guaranteed deposits for construction projects contracts	(a)	**27,901**	516	**27,901**	516
Project funds retained for construction management contracts	(b)	**31,615**	55,988	**31,615**	55,988
Others	(c)	**85,354**	70,401	**47,995**	44,062
		670,692	283,443	**242,243**	245,748

(a) These represent liabilities arising from the progress project payments for the construction of certain toll roads projects of the Group of RMB141,760,000 (2004: RMB156,538,000); and deposits received from the contractors as guarantees for bidding and their performance obligations for the construction of these projects amounting to RMB27,901,000 (2004: RMB516,000), respectively.

(b) On 8 February and 12 March 2004, the Company entered into two project construction management contracts with the Shenzhen Municipal Government (represented by the Shenzhen Communications Bureau) and the Shenzhen Longgang Government (represented by the Shenzhen Longgang Highway Bureau), respectively. The Company was appointed as the project manager for the phase I construction project of the Nanping Expressway ("Nanping Project") as well as for the construction of the western section of Hengping Highway ("Hengping Project"). The Company also undertook to enter into construction contracts on behalf of the governments with the contractors who are directly responsible for the construction of the two projects.

The project funds are advanced by the governments and they are deposited in bank accounts jointly supervised by the Company and the relevant government departments. The movements of the project funds balance on these projects is summarised as follows:

	Note	**Nanping Project**	**Hengping Project**	**Total**
		RMB'000	RMB'000	RMB'000
Balance of project funds at 1 January 2005		44,432	11,556	55,988
Project funds received during the year		—	116,000	116,000
Construction costs paid on their behalf		(29,453)	(95,941)	(125,394)
Project funds transferred as management fee paid in advance to the Company	(ii)	(14,979)	—	(14,979)
Balance of project funds at 31 December 2005	(i)	—	31,615	31,615

20 Other payables and accrued expenses (Continued)

(i) The project funds balance is presented as restricted cash in the balance sheet with a corresponding liability of the same amount included in other payables.

(ii) As a result of a change in the policies of the government, effective from 2005, the government is responsible for making progress payments to the contractors of the Nanping Project directly. No further project funds are therefore required to be advanced to the Company. The project funds previously advanced to the Company amounting to RMB14,979,000 not yet utilised was hence agreed to be treated as project management fee paid to the Company in advance. Such amount, together with additional management fee payments made by the government to the Company during the year, had been recognised by the Company as construction management services income for the year ended 31 December 2005 ascertained based on the stage of completion of the project (see also Note 22(a)).

(c) The balance includes the remaining unsettled auditors' remuneration for the year. Details of the gross auditors' remuneration for the year are as follows, which has been included in other operating expenses in the income statement:

	2005 RMB'000	2004 RMB'000
International auditors' remuneration		
Annual audit	**1,550**	1,230
Other audit/review services	**1,365**	1,006
Statutory auditors' remuneration		
Annual audit	**650**	500
Other audit/review services	**150**	150

21 Turnover

	2005 RMB'000	2004 RMB'000 (Restated)
Income from toll roads	**911,482**	705,776

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

22 Other income

	Note	2005 RMB'000	2004 RMB'000 (Restated)
Interest income from bank deposits		**9,798**	12,444
Interest income from discounting of long-term receivables	12(c)	**13,054**	35,779
Interest income from a loan extended to a jointly controlled entity	10(d)	**6,315**	—
Income derived from construction management services	(a)	**72,830**	17,868
Government subsidy income	19(a)	**27,356**	35,708
Subsidies from local governments	(b)	**10,309**	—
Advertising income		**10,914**	6,473
Excess of fair value of share of the net assets acquired in a jointly controlled entity over the cost of acquisition	31	**34,955**	—
Others		**6,399**	6,589
		191,930	114,861

(a) As mentioned in Note 20(b), the Company was engaged by the local government authorities to manage the construction of the Nanping Project and the Hengping Project. The management services income is determined based on the savings achieved in managing these construction management projects according to the provisions of the relevant contracts.

The construction management service income for the Nanping Project recognised using the percentage of completion method in accordance with the accounting policies as stated in Note 2.18(b) during the year amounted to approximately RMB67,323,000 (2004: RMB6,333,000).

As at 31 December 2005, the outcome of the Hengping Project could not be estimated reliably. As a result, the Company had recognised revenue of RMB5,507,000 (2004: Nil) to the extent of the project management expenses incurred by the Company, which are expected by the directors to be recovered with certainty from the project.

(b) This represents government subsidies granted by the Shenzhen Municipal Government in relation to the cancellation of certain preferential policies on the PRC enterprise income tax of the Group.

23 Business tax and surcharges

The amount represents PRC business tax and surcharges levied on the Group's turnover at RMB34,956,000 (2004: RMB36,460,000); service income derived from the provision of construction management services at RMB2,272,000 (2004: RMB198,000); and income from provision of other services at RMB1,133,000 (2004: RMB908,000).

Turnover of the Group is subject to the following taxes and surcharges:

— PRC business tax at 3% or 5% of toll income. Before 31 May 2005, the toll income derived from expressways is subject to PRC business tax at 5%. Pursuant to the relevant tax regulations, effective from 1 June 2005, PRC business tax of the toll income from expressways is charged at 3%;

— City development tax at 1% of the PRC business tax; and

— Education supplementary fee at 3% or 5% of the PRC business tax.

24 Employee benefit expenses

	Note	**2005 RMB'000**	2004 RMB'000 (Restated)
Wages, salaries and bonus		**48,060**	37,202
Bonus - the Appreciation Right Scheme	(a)	**4,412**	—
Pension costs - defined contribution plans	(b)	**3,465**	2,683
Other staff welfare benefits		**11,226**	8,863
		67,163	48,748

(a) It represents bonus in relation to the Appreciation Right Scheme. During the year, phase III and phase IV of the Appreciation Rights under the Appreciation Right Scheme of the Company totaling 5,501,400 shares had all been exercised and there are no outstanding Appreciation Rights granted but not exercised as at 31 December 2005 (2004: 5,501,400 shares).

(b) The Group participates in the municipal retirement schemes managed by the local social security administration bureaus. Pursuant to the relevant provisions, the Group is required to make a monthly contribution equivalent to 8% to 9% (2004: 8% to 9%) of the monthly salary of the employees. The bureaus are responsible for making the pension payments to the retired employees of the Group and the Group has no further obligations.

24 Employee benefit expenses (Continued)

(c) Directors' and senior management's emoluments

The remuneration of each director for the year ended 31 December 2005 is set out below:

Name of director	Fees RMB'000	Salary RMB'000	Discretionary bonuses RMB'000	Other benefits and allowances RMB'000	Employer's contribution to pension scheme RMB'000	Total RMB'000
Mr. Yang Hai (iii)	—	534	203	21	12	770
Mr. Wu Ya De	—	522	171	23	15	731
Mr. Zhang Rong Xing	—	380	47	58	8	493
Mr. Lin Xiang Ke	—	—	—	12	—	12
Ms. Zhang Yang	—	—	—	10	—	10
Mr. Li Jing Qi (iii)	—	—	—	8	—	8
Mr. Wang Ji Zhong (iii)	—	—	—	10	—	10
Mr. Chiu Chi Cheong, Clifton	312	—	—	14	—	326
Mr. Li Zhi Zheng	150	—	—	11	—	161
Mr. Zhang Zhi Xue	150	—	—	12	—	162
Mr. Chen Chao (i)	—	—	—	—	—	—
Ms. Tao Hong (i)	—	—	—	2	—	2
Mr. Zhong Shan Qun (i)	—	—	—	5	—	5
Mr. Ho Pak Cho, Dennis Morgie (ii)	66	—	—	2	—	68
Mr. Poon Kai Leung, James	156	—	—	16	—	172
Mr. Wong Kam Ling (iv)	90	—	—	10	—	100

The remuneration of each director for the year ended 31 December 2004 is set out below:

Name of director	Fees RMB'000	Salary RMB'000	Discretionary bonuses RMB'000	Other benefits and allowances RMB'000	Employer's contribution to pension scheme RMB'000	Total RMB'000
Mr. Chen Chao	—	—	—	—	—	—
Mr. Wu Ye De	—	488	133	41	14	676
Mr. Zhang Rong Xing	—	366	67	79	14	526
Mr. Zhong Shan Qun	—	—	—	10	—	10
Ms. Tao Hong	—	—	—	8	—	8
Mr. Lin Xiang Ke	—	—	—	8	—	8
Ms. Zhang Yang	—	—	—	9	—	9
Mr. Chiu Chi Cheong, Clifton	318	—	—	13	—	331
Mr. Ho Pak Cho, Dennis Morgie	159	—	—	11	—	170
Mr. Li Zhi Zheng	150	—	—	12	—	162
Mr. Zhang Zhi Xue	150	—	—	12	—	162
Mr. Poon Kai Leung, James	159	—	—	11	—	170

24 Employee benefit expenses (Continued)

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

(i) Resigned on 8 April 2005.

(ii) Resigned on 3 June 2005.

(iii) Appointed on 8 April 2005.

(iv) Appointed on 3 June 2005.

(v) Other benefits and allowances include employers' contribution to medical scheme, allowance paid to the directors for their attendance in the board of directors' meetings and travelling allowances.

The emoluments for all directors of the Company (executive and non-executive) fell within the band of nil to RMB1,040,000 (HKD1,000,000) during the years ended 31 December 2005 and 2004.

During the year, Mr. Chen Chao waived the allowance provided for his attendance in the board of directors' meetings of RMB12,000 (2004: RMB15,000). No other directors waived any emoluments during the years ended 31 December 2005 and 2004.

During the years ended 31 December 2005 and 2004, no emoluments had been paid by the Group to the directors as an inducement to join or upon joining the Group or as a compensation for loss of office.

(d) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2004: one) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2004: four) individuals during the year are as follows:

	2005 RMB'000	2004 RMB'000
Basic salaries	**1,213**	1,610
Bonuses	**443**	440
Contributions to the retirement scheme	**44**	56
Other benefits and allowances	**213**	249
	1,913	2,355

The emoluments for all the above senior management fell within the band of nil to RMB1,040,000 (HKD1,000,000) during the years ended 31 December 2005 and 2004.

25 Finance costs

	2005 RMB'000	2004 RMB'000 (Restated)
Interest on bank borrowings	**94,845**	22,221
Interest on other borrowings	**1,186**	1,549
Less: interest expenses capitalised in construction in progress	**(11,782)**	(38)
	84,249	23,732
Other borrowing costs	**16,409**	—
Net foreign exchange transaction (gains)/losses	**(37)**	320
	100,621	24,052

Borrowing costs of RMB11,782,000 (2004: RMB38,000) arising on financing specifically entered into for the construction of toll roads and related facilities were capitalised during the year and are included in additions of construction in progress. Capitalisation rates ranged from 5.05% to 5.51% (2004: 5.02%) were used, representing the borrowing costs of the loans used to finance the projects.

26 Income tax expenses

	2005 RMB'000	2004 RMB'000 (Restated)
Current income tax		
— PRC enterprise income tax	**73,057**	64,330
Deferred income tax	**7,014**	11,689
	80,071	76,019

(a) In 2005, the Company is subject to PRC enterprise income tax at a rate of 15% (2004: 15%), the preferential tax rate for enterprises established in the Shenzhen Special Economic Zone.

26 Income tax expenses (Continued)

(b) Pursuant to the approvals of the relevant tax authorities, two jointly controlled entities of the Company, Qinglong Company and Yungang Company, are exempt from PRC enterprise income tax for the first two profit-making years and are entitled to a 50% reduction of their PRC enterprise income tax for the three consecutive years thereafter. It is the second profit making year for Qinglong Company and the fourth profit-making year for Yungang Company, as a result, Qinglong Company is exempt from PRC enterprise income tax while Yungang Company is entitled to a 50% reduction of its PRC enterprise income tax in 2005.

The PRC enterprise income tax charged to the consolidated income statement has been calculated based on the assessable profits of the Company and its subsidiaries and jointly controlled entities located in the PRC of the year at rates of tax applicable to the respective companies of 15% or 33% (2004: 15% or 33%).

(c) The applicable tax rate to Mei Wah, a subsidiary of the Company incorporated in Hong Kong, is 17.5% (2004: 17.5%). No provision for Hong Kong profits tax has been made in the financial statements since the subsidiary has no income assessable under Hong Kong profits tax. Maxprofit and JEL are incorporated in the British Virgin Islands and Cayman Islands, respectively, which are not subject to profits tax.

(d) The tax on the Group's profit before tax differs from the theoretical amount that would arise using the tax rate applicable to profits of the Company as follows:

	2005 RMB'000	2004 RMB'000 (Restated)
Profit before income tax	**642,280**	498,725
Calculated at a tax rate of 15% (2004: 15%)	**96,342**	74,809
Effect of different tax rates in other locations	**1,134**	60
Income not subject to tax	**(19,798)**	(10,723)
Expenses not deductible for tax purposes	**74**	1,207
Tax loss for which no deferred income tax asset was recognised	**9,082**	13,855
Utilise of unrecognised tax loss	**(5,552)**	—
Preferential tax benefits of jointly controlled entities	**(4,813)**	(2,848)
Share of results of associates which no deferred income tax was recognised	**3,602**	(341)
Income tax expenses	**80,071**	76,019

27 Profit attributable to equity holders of the Company

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of RMB521,460,000 (2004: RMB357,858,000, as restated).

28 Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the number of ordinary shares in issue during the year.

	2005	2004 (Restated)
Profit attributable to equity holders of the Company (RMB'000)	**552,622**	414,888
Number of ordinary shares in issue (thousands)	**2,180,700**	2,180,700
Basic earnings per share (RMB per share)	**0.25**	0.19

No fully diluted earnings per share is presented as the Company had no dilutive potential shares in both 2004 and 2005.

29 Dividends

The dividends paid during the years ended 31 December 2005 and 2004 were RMB239,877,000 (RMB0.11 per share) and RMB414,333,000 (RMB0.19 per share), respectively. A final dividend in respect of 2005 of RMB0.12 per share, amounting to a total dividend of RMB261,684,000 is to be proposed at the Annual General Meeting. This proposed dividends was not reflected as a dividend payable in these financial statements, but will be reflected as appropriation of retained earnings for the year ending 31 December 2006.

	2005 RMB'000	2004 RMB'000
Proposed final dividend of RMB0.12 (2004: RMB0.11) per ordinary share	**261,684**	239,877

30 Cash generated from operations

	2005 RMB'000	2004 RMB'000 (Restated)
Profit for the year	**562,209**	422,706
Adjustments for:		
— Income tax	**80,071**	76,019
— Depreciation	**130,010**	113,536
— Amortisation	**37,624**	18,150
— Provision for impairment of goodwill	**—**	945
— Reversal of provision for impairment of assets	**(40,000)**	—
— Loss on disposal of property, plant and equipment	**291**	7,573
— Interest income from bank deposits	**(9,798)**	(12,444)
— Interest income from discounting of long-term receivables	**(13,054)**	(35,779)
— Interest income from loan to a jointly controlled entity	**(6,315)**	—
— Government subsidy income	**(27,356)**	(35,708)
— Subsidies from local government	**(10,309)**	—
— Excess of fair value of share of the net assets of a jointly controlled entity acquired over the cost of acquisition (Note 31)	**(34,955)**	—
— Interest expense	**84,249**	23,732
— Other borrowing costs	**16,409**	—
— Share of loss of associates	**24,015**	706
— Exchange (gains)/losses	**(37)**	320
Changes in working capital (excluding the effects of acquisition and exchange differences on consolidation):		
— Inventories	**3,827**	(987)
— Trade and other receivables	**(121,092)**	(17,835)
— Other payables and accrued expenses	**43,198**	(1,010)
Cash generated from operations	**718,987**	559,924

31 Acquisition of a jointly controlled entity

Pursuant to a sets of agreements dated 19 March 2005 and a supplementary agreement dated 12 July 2005 entered into between the Company and Mei Wah, a subsidiary of the Company, jointly with various parties, Mei Wah acquired 55% issued share capital of JEL at a cash consideration of HKD653,632,000 (equivalent to approximately RMB681,215,000) on 5 August 2005. JEL is engaged in investment holding and it holds 100% equity interest in Magerk Company. As a result of the acquisition, the Company started to hold an effective equity interest of 55% in JEL and Magerk Company indirectly. The principal activities of Magerk Company are the operation and management of the Wuhuang Expressway in the PRC.

Flywheel Investments Limited, a wholly owned subsidiary of Shenzhen International Holdings Limited ("Shenzhen International"), acquired another 45% issued share capital of JEL in the same transaction. Shenzhen International is the indirect substantial shareholder of the Company. JEL are subject to the joint control of the Group and Shenzhen International that no one party has unilaterally control over the financial and operational decisions of JEL, accordingly, JEL is accounted for as a jointly controlled entity of the Group.

As at 31 December 2005, approximately HKD19,644,000 (equivalent to approximately RMB20,436,000) out of the total consideration for the acquisition had not yet been settled.

The acquired business contributed revenues of RMB63,727,000 and net profit of RMB20,565,000 to the Group for the period from 5 August 2005 to 31 December 2005 based on proportionate consolidation of the financial statements of JEL. If the acquisition had occurred on 1 January 2005, the Group's revenue would have been RMB993,909,000 (unaudited), and net profit before allocations would have been RMB567,426,000 (unaudited).

Details of net assets acquired are as follows:

	RMB'000
Purchase consideration:	
— Cash consideration (HKD653,632,000)	681,215
— Dividends up to 31 December 2004 entitled by the Group	(16,825)
— Adjustments made to the consideration	(4,674)
Total purchase consideration, net	659,716
Fair value of net assets acquired - shown as below	694,671
Excess of fair value of net assets acquired over the cost of acquisition credited to the income statement (Note 22)	(34,955)

31 Acquisition of a jointly controlled entity (Continued)

The assets and liabilities arising from the acquisition are as follows:

	Acquiree's carrying amount RMB'000	Fair value RMB'000	Attributable to the Group RMB'000
Cash and cash equivalents	48,417	48,417	26,629
Property, plant and equipment (Note 5)	19,053	19,053	10,479
Toll road operating right (included in intangible assets) (Note 8)	396,333	1,523,192	837,756
Receivables	3,028	3,028	1,665
Payables	(7,212)	(7,212)	(3,967)
Borrowings	(158,061)	(158,061)	(86,933)
Deferred tax liabilities (Note 18)	—	(165,378)	(90,958)
Net assets	301,558	1,263,039	
Net assets acquired		694,671	694,671

	RMB'000
Purchase consideration settled in cash	639,280
Cash and cash equivalents in jointly controlled entity acquired	(26,629)
Cash outflow on acquisition	612,651

There were no material acquisitions in the year ended 31 December 2004.

32 Commitments

Capital expenditure and investment commitments at the balance sheet date not yet incurred are as follows:

	2005 RMB'000	2004 RMB'000
Capital commitments - construction of toll roads		
— contracted but not provided for	**1,054,550**	310,500
— authorised but not contracted for	**2,700,800**	3,822,500
	3,755,350	4,133,000
Investment commitments		
— contracted but not provided for	**188,840**	469,860
— authorised but not contracted for	**484,000**	2,544,496
	672,840	3,014,356
	4,428,190	7,147,356

In the opinion of the directors, the above commitments which included the acquisition described in Note 35(c) could be fulfilled by internal financial resources and banking facilities made available to the Group.

33 Contingencies

Pursuant to the provisions of the two construction management contracts described in Note 20(b), the Company undertakes to bear costs overruns for the two projects. For the Hengping Project, the Company is obliged to bear all the cost overruns incurred in construction as compared to the original budget. For the Nanping Project, the Company is obliged to bear solely all the cost overruns incurred 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 related government department will share the overruns portion exceeding 2.5% jointly with the Company if the overrun exceeds 2.5% of the total budgeted contract costs.

Pursuant to the terms of these two contracts, in 2004, the Company had arranged banks to issue irrevocable performance guarantees on its behalf to the Shenzhen Longgang Highway Bureau and the Shenzhen Communications Bureau amounting to RMB30,000,000 and RMB100,000,000, respectively. The Company also paid a guarantee deposit of RMB15,000,000 to the Shenzhen Longgang Highway Bureau for assuring the progress, quality and safety standards for the construction of the Hengping Project.

34 Related party transactions

The substantial shareholder of the Company is Xin Tong Chan, which owns 30.03% of the Company's shares. Xin Tong Chan is wholly owned by Shenzhen International, a company whose shares are listed on The Stock Exchange of Hong Kong Limited.

Apart from the related party transactions and balances in relation to the loan to a jointly controlled entity, acquisition, toll income collection, guarantee for borrowings and advance from the substantial shareholder, already disclosed in Notes 10(d), 11(b), 12(b), 17(b) and 17(c) respectively to these financial statements, the following material transactions were carried out with related parties during the year:

Key management compensation

	2005 **RMB'000**	2004 RMB'000
Salaries, bonuses and other short-term employee benefits	**6,402**	5,428

The key management include directors (executive and non-executive) and senior management and there are in total 19 (2004: 18) key management personnel of the Company.

35 Events after the balance sheet date

Save as disclosed in other notes to the financial statements, the Group has the following significant post balance sheet date events:

(a) As approved by the People's Bank of China, the Company has obtained approval to issue short-term financing bonds for an amount not more than RMB2 billion before November 2006. On 6 January 2006, the Company issued a portion of short-term financing bonds with an amount of RMB1 billion, bearing interest at 3.07% per annum and having a maturity of 9 months.

(b) On 14 January 2006, the Company entered into another project construction management contract with the Shenzhen Communications Bureau (representing the Shenzhen Municipal Government). The Company was appointed as the project manager for the construction of the Wutong Mountain Avenue (Supplementary Road) and the Airport-Heao Expressway Yantian Subsidiary Road Checkpoint Station Project. The Company also undertakes to enter into construction contracts on behalf of the government with the contractors who are directly responsible for the construction of the project. The aggregate project amount of the project is approximately RMB254 million and the project funds are advanced by the government.

(c) On 8 February 2006, the Company entered into an agreement with the liquidation committee of Qingyuan Yueqing Highway Construction and Development Company Ltd ("Yueqing", one of the equity owners of Qinglian Company) for the acquisition of Yueqing's 20.09% equity interest held in Qinglian Company, together with its equity owner's loan and all other distributable interests in Qinglian Company at an aggregate cash consideration of RMB484,000,000. The transaction is subject to the approval in an Extraordinary General Meeting of the shareholders of the Company. Upon completion of the acquisition, the Company will directly and indirectly hold 76.37% equity interest in Qinglian Company, including the 51.28% equity interest currently held.

(d) The Shareholding Scheme of the Company was completed on 27 February 2006. Details are set out in Note 15.