

31. RESERVES

	Share premium account Rmb'000	Capital/ (goodwill) reserve Rmb'000	Statutory surplus reserve Rmb'000	Public welfare fund Rmb'000	Retained profits Rmb'000	Total Rmb'000
Group						
At January 1, 1999	3,645,082	(317,247)	80,606	40,303	347,311	3,796,055
Goodwill arising on acquisition of additional interests in a subsidiary	—	(14,769)	—	—	—	(14,769)
Net profit for the year	—	—	—	—	548,311	548,311
Transfer from/(to) reserves	—	—	102,384	42,553	(144,937)	—
Dividends - note 10	—	—	—	—	(238,872)	(238,872)
At December 31, 1999 and beginning of year	3,645,082	(332,016)	182,990	82,856	511,813	4,090,725
Goodwill arising on acquisition of additional interests in a subsidiary	—	(18,315)	—	—	—	(18,315)
Goodwill arising on acquisition of an associate	—	(2,529)	—	—	—	(2,529)
Net profit for the year	—	—	—	—	636,001	636,001
Transferred from/(to) reserves	—	—	102,041	45,146	(147,187)	—
Dividends - note 10	—	—	—	—	(390,880)	(390,880)
At December 31, 2000	3,645,082	(352,860)	285,031	128,002	609,747	4,315,002



NOTES TO FINANCIAL STATEMENTS (Cont'd)

December 31, 2000

31. RESERVES (Continued)

	Share premium account Rmb'000	Capital/ (goodwill) reserve Rmb'000	Statutory surplus reserve Rmb'000	Public welfare fund Rmb'000	Retained profits Rmb'000	Total Rmb'000
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Company						
Balance at January 1, 1999	3,645,082	—	63,595	31,797	291,951	4,032,425
Net profit for the year	—	—	—	—	336,731	336,731
Transferred from/(to) reserves	—	—	52,316	26,159	(78,475)	—
Dividends - note 10	—	—	—	—	(238,872)	(238,872)
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At December 31, 1999 and beginning of year	3,645,082	—	115,911	57,956	311,335	4,130,284
Net profit for the year	—	—	—	—	504,441	504,441
Transferred from/(to) reserves	—	—	57,063	28,531	(85,594)	—
Dividends - note 10	—	—	—	—	(390,880)	(390,880)
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At December 31, 2000	3,645,082	—	172,974	86,487	339,302	4,243,845
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In accordance with the Company Law of the PRC and the respective articles of association of the Company, its subsidiaries, associates and jointly-controlled entity (collectively the "Entities"), the Entities are required to allocate 10% of their profit after taxation, as determined in accordance with the PRC accounting standards and regulations applicable to the Entities, to the statutory surplus reserve (the "SSR") until such reserve reaches 50% of the registered capital of the Entities. Subject to certain restrictions set out in the Company Law of the PRC and the Entities' articles of association, part of the SSR may be converted to increase the Entities' share capital.

In addition, Shangsan Co and Advertising Co were required by the relevant tax authorities to transfer the CIT waived for 1999 to their respective SSR account in 2000. The transfer has been incorporated in these financial statements.

31. RESERVES (Continued)

In accordance with the Company Law of the PRC, the Entities are required to transfer 5% to 10% of their profit after taxation, as determined in accordance with PRC accounting standards and regulations applicable to the Entities, to the statutory public welfare fund (the "PWF"), which is a non-distributable reserve other than in the event of the liquidation of the Entities. The PWF must be used for capital expenditure on staff welfare facilities and these facilities remain as properties of the Entities.

The directors of the Company have proposed to transfer Rmb57,063,000 and Rmb28,531,000 to the SSR and the PWF, respectively. This represents 15% of the Company's profit after taxation of Rmb570,629,000 determined in accordance with the PRC accounting standards. The transfer to the PWF is subject to shareholders' approval at the forthcoming annual general meeting.

According to the relevant regulations in the PRC, the amount of profit available for distribution is the lower of the amount determined under the PRC accounting standards and the amount determined in accordance with HKSSAP and accounting principles generally accepted in Hong Kong.

As at December 31, 2000, the Company had reserves of approximately Rmb339,302,000 available for distribution by way of cash or in kind.

As at December 31, 2000, in accordance with the Company Law of the PRC, the amount of approximately Rmb3,633,159,000 standing to the credit of the Company's share premium account prepared in accordance with the PRC accounting standards was available for distribution by way of capitalisation issues.



NOTES TO FINANCIAL STATEMENTS (Cont'd)

December 31, 2000

32. NOTES TO THE CASH FLOW STATEMENT

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

	2000 Rmb'000	1999 Rmb'000
Profit from operating activities	1,042,768	856,915
Depreciation	142,080	140,127
Amortisation of deferred costs	—	5,102
Amortisation of expressway operating rights	8,700	8,700
Interest income	(73,195)	(79,579)
Loss on disposal of fixed assets	5,595	3,028
Reduction of recoverable amount of fixed assets	42,239	—
Change in fair values of long term unlisted investments	5,783	—
Decrease in inventories	331	802
Decrease/(increase) in trade receivables	(14,453)	6,811
Decrease/(increase) in other debtors	(103,279)	44,342
Increase in long term receivables	(2,580)	(2,580)
Decrease in trade payables	(12,027)	(4,126)
Increase/(decrease) in amount due to the holding company	(31,838)	33,202
Decrease in amounts due from related parties, net	—	119
Increase/(decrease) in other taxes payable	5,268	(6,687)
Increase in other payables	31,624	35,252
Increase/(decrease) in accruals	(6,803)	6,400
Increase in balance with an associate	90	—
Net cash inflow from operating activities	1,040,303	1,047,828

32. NOTES TO THE CASH FLOW STATEMENT (Continued)

(b) Analysis of changes in financing during the year:

	Long term Bonds Rmb'000	Bank and other loans Rmb'000	Minority interests Rmb'000
Balance at January 1, 1999	—	2,266,774	1,245,782
Cash inflow from financing	—	893,123	217,769
Arising from dilution of minority interests	—	—	(93,710)
Dividends paid to minority interests	—	—	(6,840)
Profit attributable to minority interests	—	—	86,431
Balance at December 31, 1999 and January 1, 2000	—	3,159,897	1,449,432
Cash inflow from financing	200,000	86,701	176,381
Arising from dilution of minority interests	—	—	(154,485)
Dividends paid to minority interests	—	—	(33,324)
Profit attributable to minority interests	—	—	57,360
Balance at December 31, 2000	200,000	3,246,598	1,495,364



NOTES TO FINANCIAL STATEMENTS (Cont'd)

December 31, 2000

33. COMMITMENTS

	Group		Company	
	2000	1999	2000	1999
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
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Contracted, but not provided for:				
- Construction of expressways	622,684	776,119	356,012	—
- Proposed investments in				
Shangsan Co	485,000	—	485,000	189,750
- Others	1,886	8,397	1,886	—
Authorised, but not contracted for:				
- Construction of expressways	2,500,980	2,467,163	898,182	462,021
	3,610,550	3,251,679	1,741,080	651,771
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34. DIFFERENCES IN FINANCIAL STATEMENTS PREPARED UNDER PRC AND HONG KONG ACCOUNTING STANDARDS

	Profit after taxation		Net assets as at December 31	
	2000	1999	2000	1999
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
As reported in statutory accounts	642,023	615,742	8,881,679	8,694,253
HKSSAP adjustments:				
(a) Goodwill	35,885	33,016	(251,622)	(267,395)
(b) Provision for deficit arising on the disposal of staff quarters	—	—	(15,300)	(15,300)
(c) Interest on H shares subscription monies, net of deferred tax	(2,484)	(6,135)	4,310	6,794
(d) Depreciation provided, net of deferred tax	(26,241)	67	(14,733)	6,592
(e) Difference in share premium during establishment	—	—	11,923	11,923
(f) Profits tax refundable	12,560	(7,230)	8,873	(3,687)
(g) Restatement of short term investments in securities at market value, net of deferred tax	38,868	(19,133)	36,967	—
(h) Recognition of tax exemption	17,805	17,194	6,964	—
(i) General provision on trade receivables and other debts	5,548	—	3,450	—
(j) Reduction of recoverable amount of fixed assets, net of deferred tax	(28,300)	—	(14,433)	—
(k) Others	(2,303)	1,221	39	660
As restated in the financial statements	693,361	634,742	8,658,117	8,433,840



NOTES TO FINANCIAL STATEMENTS (Cont'd)

December 31, 2000

35. ULTIMATE HOLDING COMPANY

In the opinion of the directors of the Company, the ultimate holding company of the Company is Zhejiang Provincial High Class Highway Investment Company Limited ("Provincial Investment Co"), a state-owned enterprise established in the PRC.

36. RELATED PARTY TRANSACTIONS

The following is a summary of significant related party transactions carried out in the ordinary course of business between the Company and certain government bodies in the year.

Under the reorganisation agreement, Provincial Investment Co gave a number of undertakings to the Company, including a non-competition undertaking, a tax indemnity, and an indemnity against losses incurred, which were not expressly transferred to the Company pursuant to the reorganisation and general indemnity provisions against any breach of representation warranty and undertakings contained in the agreement.

The World Bank provided financing for the construction of the Hangzhou-Ningbo Expressway through the Ministry of Finance and the Zhejiang Provincial Expressway Executive Commission (the "Executive Commission"), which was responsible for the control of the construction and the management of the Hangzhou-Ningbo Expressway. The repayment responsibility for the financing provided for the Hangzhou-Ningbo Expressway, which amounted to US\$97,733,910 as at December 31, 2000, was assumed by the Company.

Pursuant to a supplemental agreement dated April 18, 1997, the Company, Provincial Investment Co, and the Executive Commission have agreed that the Company will take over the repayment responsibilities under the reorganisation agreement in respect of the World Bank financing. An appropriate agreement was entered into between the Company and the Executive Commission, pursuant to which the Company will be charged the same rate of interest as that charged to the Executive Commission.

36. RELATED PARTY TRANSACTIONS (Continued)

A contract between the Company and the Executive Commission was reached dated March 24, 1997 whereby the Executive Commission will enter into a number of contracts relating to Contract No. 8 of the Hangzhou-Ningbo Expressway on behalf of the Company, for the purpose of upgrading the Operating Systems (as defined in the section "Operation of the Expressway" of the prospectus dated May 5, 1997) of the Hangzhou-Ningbo Expressway. The Company has to take the benefit of these contracts and assume the repayment obligations for any drawdown on the World Bank funding in respect of Contract No. 8. Accordingly, the Company has included fixed assets of Rmb108,524,000, liabilities of Rmb89,346,000 and the repayment obligation on the World Bank funding of US\$2,317,000 (equivalent to Rmb19,178,000 approximately) as at December 31, 2000, respectively, in these financial statements.

37. SUBSEQUENT EVENTS

As of January 10, 2001, the board of directors announced that the Company intended to apply to the China Securities Regulatory Commission and the Shanghai Stock Exchange of the PRC for the issue and placement of A Shares (the "A Share Issue"). The new placement will be completed in the first half of 2001 and the number of A Shares to be issued will not be more than 300,000,000.

The net proceeds from the A Share Issue anticipated by the directors of the Company will amount to not less than Rmb1 billion and will be used for the following purposes:

- (1) approximately Rmb1,285 million will be used for funding the construction to widen the Shenshi to Guzhu Section of the Shanghai-Hangzhou-Ningbo Expressway;
- (2) the balance of the net proceeds will be used for funding the acquisition of an additional 18.4% equity interests in Shangsang Co from Huajian Transportation Economic Development Center, a state-owned enterprise established in the PRC, at an estimated cash consideration of Rmb485 million. The share transfer proposal was dually signed on February 2, 2001; and
- (3) if the net proceeds from the A Share Issue are not sufficient for funding the above projects/transaction, internal resources and/or bank loans will be used.



NOTES TO FINANCIAL STATEMENTS (Cont'd)

December 31, 2000

38. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with the current year's presentation.

39. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on March 5, 2001.

