

NOTES TO CONDENSED FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

The condensed consolidated interim financial statements are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim Financial Reporting" and the relevant disclosure requirements as stipulated in Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). Other than the goodwill arising from further acquisition of equity interests in subsidiaries, which are stated as assets and amortized on a straight-line basis over 10 years in accordance with the SSAP30 "Business Combination" which was issued in January 2001 (however, no retrospective adjustment was made), the accounting policies and basis of preparation used in preparing the interim financial statements are the same as those used in preparing the financial statements for the year ended 31 December 2000.

2. SEGMENT INFORMATION

There has been no change in the Group's principal activities during the Period. The results of operations by principal activity are summarised as follows:

By activity:

	Toll	Advertising	Others	Total
	Unaudited	Unaudited	Unaudited	Unaudited
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Six months ended 30 June 2001				
— Turnover	740,122	9,444	4,547	754,113
— Contribution to profit from operating activities	<u>720,278</u>	<u>5,826</u>	<u>95</u>	<u>726,199</u>
Six months ended 30 June 2000				
— Turnover	583,760	4,540	10,231	598,531
— Contribution to profit from operating activities	<u>527,118</u>	<u>3,590</u>	<u>2,825</u>	<u>533,533</u>

During the Period, the entire turnover and contribution to profit from operating activities of the Group was derived from Zhejiang Province, the PRC. Accordingly, a further analysis of the turnover and contribution to profit from operating activities by geographical area is not presented.

3. OTHER REVENUE

For the six months ended 30 June

	2001 Unaudited Rmb'000	2000 Unaudited Rmb'000
Income on short term investments in securities	74,819	67,806
Interest income	29,848	38,427
Rental income	1,809	1,477
Trailer income	4,039	3,595
Exchange gain	53,172	—
Others	6,752	303
	<u>170,439</u>	<u>111,608</u>

4. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging:

For the six months ended 30 June

	2001 Unaudited Rmb'000	2000 Unaudited Rmb'000
Depreciation	96,879	68,742
Amortisation of expressway operating rights	4,350	4,350
Amortisation of goodwill	1,246	—
Interest on borrowings	<u>141,914</u>	<u>97,881</u>

NOTES TO CONDENSED FINANCIAL STATEMENTS (cont'd)

5. TAX

According to the relevant national tax rules, Zhejiang Shangsang Expressway Co., Ltd. ("Shangsang Co"), a 61% owned subsidiary of the Company, was qualified for the exemptions under the category of "New enterprise providing employment opportunities to redundant workers", and therefore was entitled to an exemption from Corporate Income Tax ("CIT") for three years starting from 1 January 1998. During the Period, however, as the three years exemption was no longer applicable to Shangsang Co, it was subject to the CIT levied at a rate of 33%.

Advertising Co a 70% owned subsidiary of the Company, was no longer entitled to the CIT exemption under the directive numbered Cai Shui (94)001 since 1 January 2001. Accordingly, Advertising Co was subject to the CIT levied at a rate of 33%.

Save as above, the tax rate of other group companies and the preferential tax treatment that certain companies are entitled to remained unchanged as those used to prepare the financial statements for the year ended 31 December 2000.

For the six months ended 30 June

	2001 Unaudited Rmb'000	2000 Unaudited Rmb'000
Group:		
Tax charged	150,122	117,515
Tax refunded/refundable	(36,115)	(33,723)
	114,007	83,792
Deferred	46,236	(380)
Share of tax attributable to associates	13,983	1,779
Share of deferred tax attributable to an associate	1,994	—
Share of deferred tax attributable to a jointly-controlled entity	517	—
Tax charge for the Period	176,737	85,191

There was no material unprovided deferred tax in respect of the Period (six months ended 30 June 2000: Nil).

6. DIVIDENDS

The Directors recommend the payment of an interim dividend of Rmb3.0 cents (approximately HK\$2.8 cents) per share (2000 interim: Rmb2.0 cents (approximately HK\$1.87 cents per share)). The recommendation was not incorporated into these financial statements.

7. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the Period of Rmb367,899,000 (six months ended 30 June 2000: Rmb314,909,000) and the 4,343,114,500 shares (30 June 2000: 4,343,114,500 shares) in issue during the Period.

Diluted earnings per share for the periods ended 30 June 2001 and 2000 have not been calculated as no diluting event existed during these periods.

8. Trade Receivables

The aging analysis of trade receivables as at 30 June 2001 and the comparative figures of 31 December 2000 are as follows:

	As at 30 June 2001 Unaudited Rmb'000	As at 31 December 2000 Audited Rmb'000
Within 1 year	10,110	18,162
1 to 2 years	—	208
2 to 3 years	240	832
Total	10,350	19,202

The Group allows an average credit period of approximately 180 days to its trade customers.

NOTES TO CONDENSED FINANCIAL STATEMENTS (cont'd)

9. Trade Payables

The aging analysis of trade payables as at 30 June 2001 and the comparative figures of 31 December 2000 are as follows:

	As at 30 June 2001 Unaudited Rmb'000	As at 31 December 2000 Audited Rmb'000
Within 1 year	53,853	200,761
1 to 2 years	118,820	3,798
2 to 3 years	439	—
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Total	173,112	204,559
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10. 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
At 1 January 2001	3,645,082	(352,860)	285,031	128,002	609,747	4,315,002
Net profit for the Period	—	—	—	—	367,899	367,899
Transfer from/(to) reserves	—	—	2,424	—	(2,424)	—
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At 30 June 2001	3,645,082	(352,860)	287,455	128,002	975,222	4,682,901
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11. Commitments

a) Capital commitments

	As at 30 June 2001 Unaudited Rmb'000	As at 31 December 2000 Audited Rmb'000
Contracted, but not provided for:		
— Construction of expressways	579,651	622,684
— Proposed investments in Shangsang Co	485,000	485,000
— Others	—	1,886
Authorised, but not contracted for:		
— Construction of expressways	2,267,334	2,500,980
	<u>3,331,985</u>	<u>3,610,550</u>

b) Commitments under operating leases

At 30 June 2001, the group had commitments under non-cancelable operating leases to make payments in the following years as follows:

	30 June 2001 Unaudited Rmb'000	31 December 2000 Audited Rmb'000
Land and buildings		
— expiring within 1 year:	30,720	—
	<u>30,720</u>	<u>—</u>

NOTES TO CONDENSED FINANCIAL STATEMENTS (cont'd)

12. Related Party Transactions

The following is a summary of significant related party transactions carried out in the ordinary course of business between the Company, its subsidiaries and certain government bodies in the six months ended 30 June 2001.

Under reorganisation agreement, Zhejiang Provincial High Class Highway Investment Company Limited ("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\$92,587,832 as at 30 June 2001 was assumed by the Company.

Pursuant to a supplemental agreement dated 18 April 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.

A contract between the Company and the Executive Commission was reached dated 24 March 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 5 May 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 Rmb9,937,000 and the repayment obligation on the World Bank funding of US\$6,042,000 (equivalent to Rmb50,010,000 approximately) as at 30 June 2001, respectively, in these financial statements.

13. Subsequent Events

On 31 July 2001, with the approval from the Ministry of Finance, the Company repaid its World Bank loan of US\$91,636,418, equivalent to Rmb760 million. Accordingly, both the interest bearing bank and other borrowings and the cash and cash equivalents of the Company decreased by Rmb760 million, respectively. The World Bank loan has a term of 20 years from 19 June 1992 (including a 5 year grace period), the advance repayment resulted in a interest penalty of US\$3,061,439, equivalent to RMB25 million approximately, in addition, an exchange gain of US\$6,424,300, equivalent to RMB53 million approximately was allocated by the World Bank. The interest penalty and the exchange gain have been adjusted in these financial statements.

14. Contingent Liabilities/Pledged Assets

At at 30 June 2001, other than the loan guarantee of Rmb30 million provided to Hangzhou Shida Highway Co., Ltd., a 50% owned jointly-controlled company of the Company, ther directors are not aware of any other contingent liabilities or any pledged assets of the Group.

15. Approval of Financial Statements

The financial statements were approved by the board of Directors on 10 August 2001.