

# Notes to Financial Statements

December 31, 2001

## 1. Corporate Information

Zhejiang Expressway Co., Ltd. was established on March 1, 1997. The H shares of the Company ("H Shares") were subsequently listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on May 15, 1997.

All of the H Shares of the Company were admitted to the Official List of the United Kingdom Listing Authority (the "Official List"). Dealings on the London Stock Exchange commenced on May 5, 2000.

On July 18, 2000, with the approval of the Ministry of Foreign Trade and Economic Co-operation of the People's Republic of China (the "PRC"), the Company changed its business registration into a Sino-foreign joint stock limited company.

On February 27, 2001, trading of the H Shares of the Company on the Berlin Stock Exchange commenced following a secondary listing on the Unofficial Regulated Market of the exchange.

On February 14, 2002, the United States Securities and Exchange Commission, following approval by the board of directors and the China Securities Regulatory Commission, declared the registration statement in respect of the ADSs evidenced by the ADRs representing deposited H Shares of the Company effective.

The registered office of the Company is located at 19/F, Zhejiang World Trade Centre, 15 Shuguang Road, Hangzhou, Zhejiang Province, the PRC. During the year, the Group was involved in the following principal activities:

- (a) the design, construction, operation, maintenance and management of high grade roads; and
- (b) the development and operation of certain ancillary services such as technical consultation, automobile servicing and fuel facilities.

In the opinion of the Directors, the ultimate holding company of the Company is Zhejiang Communications Investment Group Co., Ltd. (the "Communications Investment Group"), a State-owned enterprise established in the PRC.

Zhejiang Provincial High Class Highway Investment Co., Ltd. (the "Provincial Investment Co") was replaced by the Communications Investment Group as part of the restructuring of the Zhejiang Government. The Communications Investment Group was incorporated on December 29, 2001. As such, the Communications Investment Group was considered by the Directors of the Company as the ultimate holding company of the Company, which owns approximately 56% of the shares of the Company.

## 2. Impact of New/Revised Statements of Standard Accounting Practice (“SSAPs”)

The following SSAPs and related interpretations have been adopted for the first time in the preparation of the current year’s consolidated financial statements:

- |                     |  |
|---------------------|--|
| • SSAP 9 (Revised)  | Events after the balance sheet date  |
| • SSAP 14 (Revised) | Leases   |
| • SSAP 18 (Revised) | Revenue  |
| • SSAP 26           | Segment reporting  |
| • SSAP 28           | Provisions, contingent liabilities and contingent assets   |
| • SSAP 29           | Intangible assets  |
| • SSAP 30           | Business combinations  |
| • SSAP 31           | Impairment of assets   |
| • SSAP 32           | Consolidated financial statements and accounting for investment in subsidiaries  |
| • Interpretation 12 | Business combinations — subsequent adjustment of fair values and goodwill initially reported                             |
| • Interpretation 13 | Goodwill — continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves |

SSAP 9 (Revised) prescribes which type of events occurring after the balance sheet date require adjustment to the financial statements, and which require disclosure but no adjustment. Its principal impact on these financial statements is that the proposed final dividend which is not declared and approved until after the balance sheet date, is no longer recognised as a liability at the balance sheet date, but is disclosed as an allocation of retained earnings on a separate line within the capital and reserves section of the balance sheet. The prior year adjustment arising from the adoption of this revised SSAP is detailed in note 12 to the financial statements.

SSAP 14 (Revised) prescribes the basis for lessor and lessee accounting for finance and operating leases, and the required disclosures in respect thereof. Certain amendments have also been made to the previous accounting treatments, which may be accounted for retrospectively or prospectively in accordance with the requirements of the SSAP. The revised SSAP requirements have not had a material effect on the amounts previously recorded in the financial statements, therefore no prior year adjustment has been required.

SSAP 18 (Revised) prescribes the recognition of revenue and was revised as a consequence of the revision to SSAP 9 described above. Proposed final dividends from subsidiaries that are declared and approved by the subsidiaries after the balance sheet date are no longer recognised in the Company’s own financial statements for the year. The adoption of the SSAP has no material impact on these financial statements.

## 2. Impact of New/Revised Statements of Standard Accounting Practice (“SSAPs”) (Continued)

SSAP 26 prescribes the principles to be applied for reporting financial information by segment. It requires management to assess whether the Group’s predominant risks or returns are based on business segments or geographical segments and determine one of these bases to be the primary reporting format, with the other as the secondary segment information reporting format. The impact of the SSAP is the inclusion of significant additional segment reporting disclosures which are set out in note 4 to these financial statements.

SSAP 28 prescribes the recognition criteria and measurement bases to apply to provisions, contingent liabilities and contingent assets, together with the required disclosures. These amendments do not have a material impact on these financial statements.

SSAP 29 prescribes the recognition and measurement criteria for intangible assets, together with the disclosure requirements. The adoption of this SSAP has resulted in no change to the previously adopted accounting treatment for intangible assets and the additional disclosures that it requires have not been significant for these financial statements. The SSAP does, however, require that impairment losses on intangible assets be aggregated with the accumulated amortisation, whereas previously they were deducted from the cost of the relevant asset. This disclosure reclassification has had no effect on the net carrying amount of intangible assets in the balance sheet.

SSAP 30 prescribes the accounting treatment for business combinations, including the determination of the date of acquisition, the method for determine the fair value of the assets and liabilities acquired, and the treatment of goodwill or negative goodwill arising on acquisition. The SSAP requires the disclosure of goodwill on future acquisitions in the non-current assets section of the balance sheet, and that such goodwill is amortised to the income statement over its estimated useful life. Interpretation 13 prescribes the application of SSAP 30 to goodwill arising from acquisition in previous years which remains eliminated against reserves. The adoption of the SSAP and Interpretation has not resulted in a prior year adjustment, for the reasons detailed in note 21 to the financial statements.

SSAP 31 prescribes the recognition and measurement criteria for impairments of assets. The SSAP is required to be applied prospectively and therefore, has had no effect on amounts previously reported in prior year financial statements.

SSAP 32 prescribes the accounting treatment and disclosures for the preparation and presentation of consolidated financial statements, and has had no significant impact on the preparation of these financial statements.

## 2. Impact of New/Revised Statements of Standard Accounting Practice (“SSAPs”) (Continued)

In addition to the above new and revised SSAPs and related Interpretations, certain minor revisions to the following SSAPs are effective for the first time for the current year's financial statements:

- SSAP 10: “Accounting for investments in associates”
- SSAP 17: “Property, plant and equipment”
- SSAP 21: “Accounting for interests in joint ventures”

The only significant effect of these revisions is that SSAP 17 requires that impairment losses on fixed assets be aggregated with accumulated depreciation in note 14 to the financial statements, whereas previously they were deducted from the cost of the relevant assets in the balance sheet. The minor revisions to SSAP 10 and SSAP 21 have no material impact on these financial statements.

## 3. Summary of Significant Accounting Policies

### Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice (“HK SSAP”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, modified with respect to the measurement of investments in securities, as further explained below.

### Basis of consolidation

The consolidated financial statements include the audited financial statements of the Company and its subsidiaries for the year ended December 31, 2001. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances are eliminated on consolidation.

### 3. Summary of Significant Accounting Policies (Continued)

#### Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

Interests in subsidiaries are stated at cost less any impairment losses.

#### Jointly-controlled entities

A jointly-controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any impairment losses.

The results of jointly-controlled entities are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in jointly-controlled entities are treated as long term assets and are stated at cost less any impairment losses.

#### Associates

An associate is a company, not being a subsidiary or a joint venture, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The results of associates are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in associates are treated as long term assets and are stated at cost less any impairment losses.

### 3. Summary of Significant Accounting Policies (Continued)

#### Goodwill

Goodwill arising on acquisition of subsidiaries, associates and jointly-controlled entities represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisitions is recognised in the balance sheet as an asset and amortised on straight-line basis over its estimated useful life of ten years. In the case of associates and joint-controlled entities, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

In prior years, goodwill arising on acquisitions was eliminated against reserves in the year of acquisition. The Group has adopted the transitional provision of SSAP 30 that permits goodwill on acquisitions which occurred prior to January 1, 2001, to remain eliminated against reserves. Goodwill on subsequent acquisitions is treated according to the new accounting policy above.

On disposal of subsidiaries, associates or jointly-controlled entities, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill remaining eliminated against reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

### 3. Summary of Significant Accounting Policies (Continued)

#### Fixed assets and depreciation

Fixed assets, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price, costs transferred from construction in progress and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed assets, the expenditure is capitalised as an additional cost of the fixed assets.

Depreciation of expressways and bridges is provided by using the sinking fund method whereby the aggregate annual depreciation amounts, compounded at average rates ranging from 6.11% to 8.77% per annum, up to the expiry of the underlying 30-year expressway concession period, will be equal to the total cost of the expressways and bridges.

Amortisation of land is provided on a straight-line basis to write off the cost of the land use rights over the underlying 30-year expressway concession period.

Depreciation of fixed assets, other than expressways, bridges and land, is provided on a straight-line basis to write off the cost of the assets, less their estimated residual values, being 3% of the cost, over their estimated useful lives. The principal annual rates used for this purpose are as follows:

	Estimated useful life	Annual depreciation rate
Toll stations and ancillary facilities	30 years	3.2%
Communications and signalling equipment	10 years	9.7%
Motor vehicles	8 years	12%
Machinery and equipment	5-8 years	12-19.4%

The gain or loss on disposal or retirement of a fixed asset recognised in the income statement is the difference between the net sales proceeds and the carrying amount of the relevant asset.

### 3. Summary of Significant Accounting Policies (Continued)

#### Construction in progress

Construction in progress represents costs incurred in the construction of expressways and bridges, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalized borrowing costs on related borrowed funds, during the period of construction, installation and testing. Construction in progress is reclassified as fixed assets when completed and ready for use.

#### Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment losses is accounted for in accordance with the relevant accounting policy for that revalued asset.

#### Expressway operating rights

Expressway operating rights represent the rights to operate the expressways and are stated at cost less accumulated amortisation and any impairment losses.

Amortisation is provided on a straight-line basis over the periods of the expressway operating rights granted to the Company and its subsidiaries.



### 3. Summary of Significant Accounting Policies (Continued)

#### Long term investments

Long term investments are non-trading investments in listed and unlisted securities intended to be held on a long term basis.

Held-to-maturity securities are stated at cost plus or minus the cumulative amortisation of the difference between the purchase price and the maturity amount, less any provision for permanent diminutions considered necessary by the directors, on an individual basis. The provision is recognised as an expense immediately. The profit or loss on disposal of a held-to-maturity security is accounted for in the period in which the disposal occurs and is the difference between the net sales proceeds and the carrying amount of the security.

Unlisted equity securities are stated at cost, less any provisions for permanent diminutions considered necessary by the directors, on an individual basis. The provision is recognised as an expense immediately. The profit or loss on disposal of an unlisted security is accounted for in the period in which the disposal occurs and is the difference between the net sales proceeds and the carrying amount of the security.

#### Short term investments

Short term investments are investments in securities held for trading purposes and are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the income statement for the period in which they arise.

### 3. Summary of Significant Accounting Policies (Continued)

#### Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from toll revenue, net of any applicable revenue taxes, when received;
- (b) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyers, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (c) from the rendering of services, based on the percentage of completion basis, provided that this and the costs incurred as well as the estimated costs to completion can be measured reliably. The stage of completion of a transaction associated with the rendering of services is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction;
- (d) rental income, on a time proportion basis over the lease terms;
- (e) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and
- (f) dividends, when the shareholders' right to receive payment is established.

#### Tax

PRC income tax is provided at rates applicable to enterprises in the PRC on income for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes, based on existing PRC income tax legislation, practices and interpretations thereof.

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

### 3. Summary of Significant Accounting Policies (Continued)

#### Foreign currency transactions

The financial records of the Company and its subsidiaries are maintained and the financial statements are stated in Renminbi ("RMB").

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the income statement unless such exchange differences relate to funds borrowed specifically for the financing of construction of expressways and bridges, in which case they are capitalised to the extent that they can be regarded as an adjustment to interest costs.

#### Capitalisation of borrowing costs

Borrowing costs directly attributable to the construction of expressways, tunnels and bridges are capitalised as part of the cost of those assets when it is probable that they will result in future economic benefits to the Group and the costs can be measured reliably. Other borrowing costs are recognised as an expense in the period in which they are incurred.

The amount of borrowing costs capitalised is determined by reference to the actual borrowing costs incurred on funds borrowed specifically for the construction of expressways, tunnels and bridges during the period, less any investment income arising from the temporary investment of those borrowings.

Capitalisation of borrowing costs on funds borrowed specifically for the construction of expressway sections ceases when the construction of such expressway sections is substantially completed and are capable of commencing toll operations.

#### Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged to the income statement on a straight-line basis over the lease terms.

### 3. Summary of Significant Accounting Policies (Continued)

#### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis. Net realisable value is based on estimated selling prices less any estimated costs expected to be incurred to completion and disposal.

#### Dividends

Interim and final dividends proposed by the directors are classified as a separate allocation of retained earnings within capital and reserves in the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends are approved by the shareholders and declared, they are recognised as a liability.

In previous years, the Company recognised its proposed final dividend to shareholders, which was declared and approved after the balance sheet date, as a liability in its balance sheet. The revised accounting treatments for dividends resulting from the adoption of SSAP 9 (Revised), have given rise to prior year adjustments in the Group's financial statements, further details of which are included in note 12 to the financial statements.

#### Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subjected to common control or common significant influence.

Related parties may be individuals or corporate entities.

#### Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired. For the purpose of balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

## 4. Segment Information

In accordance with the Group's internal financial reporting, the Group has determined that business segments are its primary reporting format. During the year, the entire turnover and contribution to profit from operating activities of the Group was derived from Zhejiang Province in the PRC. Accordingly, a further analysis of the turnover and contribution to profit from operating activities by geographical area is not presented.

### Business segments

The Group's operating businesses are organised and managed separately, according to the nature of services provided, with each segment representing a strategic business unit that serves different markets:

- Toll operation represents the design, construction, operation and management of high grade roads and collecting the expressway tolls.
- Advertising business represents the design and rental of advertising billboards along the expressways.
- Road maintenance represents the maintenance of expressways and roads, including cleaning of the road surface, minor repairs to the lanes, cleaning of the gutters and sewers, grass mowing, afforestation and maintenance of buildings, equipment and facilities provided to third parties.
- Ancillary businesses mainly represent sales of foods, restaurant servicing, automobile servicing, as well as oil stations.

## Notes to Financial Statements (Cont'd)

### 4. Segment Information (Continued)

Group	Tolls		Advertising		Road maintenance		Ancillary businesses		Consolidated	
	2001 RMB'000	2000 RMB'000	2001 RMB'000	2000 RMB'000	2001 RMB'000	2000 RMB'000	2001 RMB'000	2000 RMB'000	2001 RMB'000	2000 RMB'000
Segment revenue:										
Turnover - third parties	1,663,362	1,157,098	21,190	14,535	4,617	4,853	33,348	12,118	1,722,517	1,188,604
Other revenue - third parties	209,319	228,950	72	23	3,511	1,083	3,788	12,832	216,690	242,888
Total revenue	1,872,681	1,386,048	21,262	14,558	8,128	5,936	37,136	24,950	1,939,207	1,431,492
Segment results	1,425,341	1,024,432	11,084	11,261	(976)	3,409	4,500	3,666	1,439,949	1,042,768
Finance costs	—	—	—	—	—	—	—	—	(215,346)	(197,083)
Share of profits of associates	—	—	—	—	—	—	12,396	40,584	12,396	40,584
Share of loss of a jointly-controlled entity	(1,459)	(6,517)	—	—	—	—	—	—	(1,459)	(6,517)
Profit before tax									1,235,540	879,752
Tax									(363,970)	(186,391)
Profit before minority interests									871,570	693,361
Minority interests									(110,957)	(57,360)
Net profit from ordinary activities attributable to shareholders									760,613	636,001
Segment assets	14,089,709	14,209,868	24,947	19,086	42,225	47,360	89,856	85,664	14,246,737	14,361,978
Interests in associates	—	—	—	—	—	—	156,909	167,316	156,909	167,316
Interest in a jointly-controlled entity	54,082	57,126	—	—	—	—	—	—	54,082	57,126
Goodwill	19,810	—	—	—	—	—	—	—	19,810	—
Total assets	14,163,601	14,266,994	24,947	19,086	42,225	47,360	246,765	252,980	14,477,538	14,586,420
Segment liabilities	3,514,937	4,038,430	5,416	3,626	6,132	12,371	27,810	31,393	3,554,295	4,085,820
Deferred tax	131,533	43,101	—	—	—	—	—	—	131,533	43,101
Total liabilities	3,646,470	4,081,531	5,416	3,626	6,132	12,371	27,810	31,393	3,685,828	4,128,921
Other segment information										
Capital expenditure	546,401	1,228,007	7,975	8,014	1,190	446	187	13,383	555,753	1,249,850
Depreciation and amortisation	207,099	144,275	1,692	1,207	4,398	3,304	1,093	1,994	214,282	150,780
Impairment loss recognised in the income statement	—	42,239	—	—	—	—	—	—	—	42,239
Write-off of bad debts	7,500	—	—	—	—	—	—	—	7,500	—

## 5. Turnover and Revenue

Turnover mainly represents toll income from the operation of expressways, the value of advertising services rendered, and the value of road maintenance services rendered, net of relevant revenue taxes.

An analysis of turnover and revenue is as follows:

	2001 RMB'000	2000 RMB'000
Toll income - third parties	1,756,265	1,219,672
Advertising income - third parties	22,462	15,878
Road maintenance income - third parties	4,649	5,130
Others - third parties	34,465	15,582
	1,817,841	1,256,262
Less: Revenue taxes	(95,324)	(67,658)
Turnover	1,722,517	1,188,604
Income on short term investments	105,522	153,566
Interest income	41,503	73,195
Rental income	6,726	7,098
Trailer income	8,278	6,821
Exchange gains	53,172	—
Others	1,489	2,208
Other revenue	216,690	242,888
	1,939,207	1,431,492

The Company and its subsidiaries are subject to Business Tax ("BT"), levied at 5% on toll income and 3%-5% on other services income. In addition, the subsidiaries are subject to the following types of revenue taxes:

- City Development Tax, levied at 1% to 7% of BT;
- Education Supplementary Tax, levied at 3.5% to 4% of BT; and
- Culture and Education Fees, levied at 3% on advertising income.

## 6. Profit from Operating Activities

The Group's profit from operating activities is arrived at after charging/(crediting):

	2001 RMB'000	2000 RMB'000
Depreciation	205,582	142,080
Operating lease rentals on land and buildings	1,364	930
Auditors' remuneration	3,709	2,267
Staff costs:		
Wages and salaries	75,773	51,593
Pension contributions	6,900	4,358
Impairment loss on the termination of toll collection in a connection road	—	42,239
Amortisation of expressway operating rights	8,700	8,700
Amortisation of goodwill	1,043	—
Write-off of bad debts	7,500	—
Loss on disposal of fixed assets	4,313	5,595
Provision for impairment of long term investments	—	5,783
Net rental income	(6,726)	(7,098)
Exchange (gains)/losses, net	(53,172)	35
Interest income	(41,503)	(73,195)
Income on short term investments	(105,522)	(153,566)

## 7. Finance Costs

	2001 RMB'000	2000 RMB'000
Interest on bank loans and other loans wholly repayable within five years	188,400	184,969
Interest on other loans	29,645	39,349
Total finance costs	218,045	224,318
Interest capitalised	(2,699)	(27,235)
	215,346	197,083



## 8. Tax

No Hong Kong profits tax has been provided as the Group had no taxable profits in Hong Kong during the year.

The Group was subject to the Corporate Income Tax (the “CIT”) levied at a rate of 33% of taxable income based on income for financial reporting purposes prepared in accordance with the laws and regulations in the PRC.

Pursuant to a directive issued by Zhejiang Provincial People’s Government in 1997, the Company was entitled to a refund from the Zhejiang Finance Bureau of an amount equal to 18% of its taxable income in respect of the CIT paid to Zhejiang tax bureau. According to a directive of the State Council, the Company was entitled to the tax refund until December 31, 2001. Such beneficial treatment was not granted to subsidiaries, associates or jointly-controlled entities of the Company.

As Huajian Transportation Economic Development Center (“Huajian”), a state-owned enterprise under the China Merchants Group, became a major shareholder of the Company, the CIT that the Company paid has been divided into the national portion and the Zhejiang portion. The national portion of the total CIT paid, being Huajian’s portion of the total domestic shares (i.e. 16.39%) according to relevant regulations issued by the Ministry of Finance, is no longer entitled to the 18% refund granted by Zhejiang Provincial People’s Government.

In this regard, the tax refunded and refundable represents the financial subsidies received and receivable by the Company from Zhejiang Finance Bureau in respect of the year.

	2001 RMB'000	2000 RMB'000
<b>Group:</b>		
Tax charged	<b>327,718</b>	185,307
Overprovision in prior year	—	(1,474)
Tax refunded/refundable	<b>(68,791)</b>	(50,840)
	<b>258,927</b>	132,993
Deferred - note 32	<b>88,432</b>	39,755
Share of tax attributable to associates	<b>17,528</b>	6,074
Share of deferred tax attributable to an associate	<b>(1,951)</b>	6,302
Share of deferred tax attributable to a jointly-controlled entity	<b>1,034</b>	1,267
Tax charge for the year	<b>363,970</b>	186,391

There was no material unprovided deferred tax in respect of the year (2000: Nil).

## 9. Net Profit from Ordinary Activities Attributable to Shareholders

The net profit from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is RMB544,670,000 (2000: RMB504,441,000).

## 10. Directors' Remuneration

Directors' remuneration disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance is as follows:

	2001 RMB'000	2000 RMB'000
Fees	—	—
Other emoluments:		
Salaries, allowances and benefits in kind	1,641	1,440
Bonuses paid and payable	552	477
	<b>2,193</b>	1,917

Salaries, allowances and benefits in kind include HK\$150,000 (2000: HK\$145,000) payable to each of two independent non-executive directors and RMB20,000 (2000: RMB5,000) payable to another independent non-executive director. There were no other emoluments payable to the independent non-executive directors during the year (2000: Nil).

The remuneration of the directors fell within the following band:

	Number of directors	
	2001	2000
Nil to HK\$1,000,000	9	11

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

## 11. Five Highest Paid Employees

The five highest paid employees during the year included four (2000: five) directors, details of whose remuneration are set out in note 10 above, as well as a non-director employee, whose remuneration for the year was less than HK\$1,000,000.

## 12. Dividends

### Company

	<b>2001 Per ordinary share RMB</b>	<b>2000 RMB</b>	<b>2001 RMB'000</b>	<b>2000 RMB'000</b>
Interim	<b>0.03</b>	0.02	<b>130,293</b>	86,862
Proposed final	<b>0.07</b>	0.07	<b>304,018</b>	304,018
	<b>0.10</b>	0.09	<b>434,311</b>	390,880

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

During the year, the Group adopted the revised SSAP 9 "Events after the balance sheet date". To comply with this revised SSAP, a prior year adjustment has been made to reclassify the proposed final dividend for the year ended December 31, 2000, of RMB304,018,000, which was recognised as a liability in the prior year, to the proposed final dividend reserve account within the capital and reserves section of the balance sheet. The result of this has been to reduce the Group's and the Company's current liabilities and increase the reserves previously reported as at December 31, 2000, by RMB304,018,000.

The effect of this change in accounting policy as at December 31, 2001, is that the current year's proposed final dividend of RMB304,018,000, was included in the proposed final dividend reserve account within the capital and reserves section of the balance sheet at that date, whereas in previous years it would have been recognised as a current liability at the balance sheet date.

## 13. Earnings Per Share

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year of RMB760,613,000 (2000: RMB636,001,000) and the 4,343,114,500 shares (2000: 4,343,114,500 shares) in issue during the year.

Diluted earnings per share for the years ended December 31, 2001 and 2000 have not been calculated as no diluting event existed during these years.

## 14. Fixed Assets

	Land RMB'000	Expressways and bridges RMB'000	Toll stations and ancillary facilities RMB'000	Communi- cations and signalling equipment RMB'000	Motor vehicles RMB'000	Machinery and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
<b>Group</b>								
<b>Cost</b>								
At beginning of year:								
As previously reported	527,628	11,029,432	212,761	9,881	53,008	205,162	53,346	12,091,218
Reclassified to accumulated depreciation and impairment (Note)	—	44,160	—	—	—	—	—	44,160
As restated	527,628	11,073,592	212,761	9,881	53,008	205,162	53,346	12,135,378
Reclassification	—	(842)	(12,344)	118,654	19,552	(125,020)	—	—
Additions	—	277	5,720	7,944	4,927	6,050	530,835	555,753
Transfers	—	109,603	165,461	3,309	778	7,566	(287,214)	(497)
Disposals	—	—	—	—	(334)	(396)	—	(730)
<b>At December 31, 2001</b>	<b>527,628</b>	<b>11,182,630</b>	<b>371,598</b>	<b>139,788</b>	<b>77,931</b>	<b>93,362</b>	<b>296,967</b>	<b>12,689,904</b>
<b>Accumulated depreciation and impairment:</b>								
At beginning of year:								
As previously reported	53,404	277,760	13,501	5,544	13,130	46,073	—	409,412
Reclassified from cost (Note)	—	44,160	—	—	—	—	—	44,160
As restated	53,404	321,920	13,501	5,544	13,130	46,073	—	453,572
Reclassification	—	164	(1,465)	18,293	11,031	(28,023)	—	—
Provided during the year	17,525	140,550	14,269	12,601	8,668	11,969	—	205,582
Disposals	—	—	—	—	(40)	(222)	—	(262)
<b>At December 31, 2001</b>	<b>70,929</b>	<b>462,634</b>	<b>26,305</b>	<b>36,438</b>	<b>32,789</b>	<b>29,797</b>	<b>—</b>	<b>658,892</b>
<b>Net book value:</b>								
<b>At December 31, 2001</b>	<b>456,699</b>	<b>10,719,996</b>	<b>345,293</b>	<b>103,350</b>	<b>45,142</b>	<b>63,565</b>	<b>296,967</b>	<b>12,031,012</b>
At December 31, 2000	474,224	10,751,672	199,260	4,337	39,878	159,089	53,346	11,681,806

*Note:* Accumulated impairment losses are aggregated with accumulated depreciation under the revised disclosure requirements of SSAP17, whereas previously they were disclosed as an adjustment to the cost of the assets. This change has been disclosed as a retrospective reclassification.

## 14. Fixed Assets (Continued)

	Land RMB'000	Expressways and bridges RMB'000	Toll stations and ancillary facilities RMB'000	Communi- cations and signalling equipment RMB'000	Motor vehicles RMB'000	Machinery and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
<b>Company</b>								
<b>Cost:</b>								
At January 1, 2001	350,384	4,712,616	95,847	9,868	28,532	174,798	37,063	5,409,108
Reclassification	—	—	(159)	105,986	19,221	(125,048)	—	—
Additions	—	—	4,471	3,298	3,846	3,282	196,988	211,885
Transfers	—	—	9,858	325	—	766	(10,949)	—
Disposals	—	—	—	—	(24)	(150)	—	(174)
<b>At December 31, 2001</b>	<b>350,384</b>	<b>4,712,616</b>	<b>110,017</b>	<b>119,477</b>	<b>51,575</b>	<b>53,648</b>	<b>223,102</b>	<b>5,620,819</b>
<b>Accumulated depreciation:</b>								
At January 1, 2001	41,330	206,672	9,045	5,538	10,496	40,347	—	313,428
Reclassification	—	170	(153)	16,981	11,025	(28,023)	—	—
Provided during the year	11,668	63,816	3,631	12,351	5,833	7,181	—	104,480
Disposals	—	—	—	—	(2)	(73)	—	(75)
<b>At December 31, 2001</b>	<b>52,998</b>	<b>270,658</b>	<b>12,523</b>	<b>34,870</b>	<b>27,352</b>	<b>19,432</b>	<b>—</b>	<b>417,833</b>
<b>Net book value:</b>								
<b>At December 31, 2001</b>	<b>297,386</b>	<b>4,441,958</b>	<b>97,494</b>	<b>84,607</b>	<b>24,223</b>	<b>34,216</b>	<b>223,102</b>	<b>5,202,986</b>
At December 31, 2000	309,054	4,505,944	86,802	4,330	18,036	134,451	37,063	5,095,680

All fixed assets are located in the PRC.

## 15. Interests in Subsidiaries

	Company	
	2001 RMB'000	2000 RMB'000
Unlisted shares, at cost	<b>3,648,673</b>	3,555,304
Due from subsidiaries	<b>2,375</b>	4,099
Due to subsidiaries	<b>(34,000)</b>	(9,835)
	<b>3,617,048</b>	3,549,568

The amounts due from/to subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the Company's subsidiaries, all of which are directly held, are as follows:

Names of subsidiaries	Date and place of registration	Registered capital RMB	Percentage of equity attributable to the Company	Principal activities
Zhejiang Yuhang Expressway Co., Ltd. ("Yuhang Co")	Note 1	75,223,000	51	Construction and management of the Yuhang Section of the Shanghai - Hangzhou Expressway
Zhejiang Jiaxing Expressway Co., Ltd. ("Jiaxing Co")	Note 2	1,859,200,000	87.29	Construction and management of the Jiaxing Section of the Shanghai-Hangzhou Expressway
Zhejiang Gaotong Stone Development Co., Ltd. ("Gaotong")	Note 3	5,000,000	80	Manufacturing, designing and selling of stone and quarry materials
Zhejiang Shangsang Expressway Co., Ltd. ("Shangsang Co")	Note 4	2,400,000,000	61	Construction and management of the Shangsang Expressway
Zhejiang Expressway Advertising Co., Ltd. ("Advertising Co")	Note 5	1,000,000	70	Advertising

## 15. Interests in Subsidiaries (Continued)

Note 1. Yuhang Co was established on June 7, 1994 in the PRC as a joint stock limited company and was subsequently restructured into a limited liability company under its current name on November 28, 1996.

Note 2. Jiaxing Co was established on June 30, 1994 in the PRC as a joint stock limited company and was subsequently restructured into a limited liability company under its current name on November 29, 1996.

Note 3. Gaotong Co was established on November 3, 1997 in the PRC as a limited liability company. Gaotong Co is in the process of liquidation.

Note 4. Shangsang Co was established on January 1, 1998 in the PRC as a limited liability company.

Note 5. Advertising Co was established on June 1, 1998 in the PRC as a limited liability company.

## 16. Interest in a Jointly-Controlled Entity

	Group		Company	
	2001 RMB'000	2000 RMB'000	2001 RMB'000	2000 RMB'000
Unlisted shares, at cost	—	—	65,000	65,000
Share of net assets other than goodwill	54,723	57,216	—	—
Amount due to a jointly-controlled entity	(641)	(90)	(641)	(90)
	54,082	57,126	64,359	64,910

The amount due to a jointly-controlled entity is unsecured, interest-free and has no fixed term of repayment.

Particulars of the jointly-controlled entity, which is directly held by the Company, are as follows:

Name	Business structure	Place of registration and operations	Ownership interest	Percentage of Voting power	Profit sharing	Principal activities
Hangzhou Shida Expressway Co., Ltd. ("Shida Co")	Corporate	The PRC	50	50	50	Construction and operation of Shiqiao-Dajing Road ("Shida Road")

## 17. Interests in Associates

	Group		Company	
	2001 RMB'000	2000 RMB'000	2001 RMB'000	2000 RMB'000
Unlisted shares, at cost	—	—	126,500	126,500
Share of net assets other than goodwill	158,159	167,316	—	—
Amount due to an associate	(1,250)	—	—	—
	156,909	167,316	126,500	126,500

The amount due to an associate is unsecured, interest-free and has no fixed terms of repayment.

The Group's share of post-acquisition accumulated reserves of the associates at December 31, 2001 was RMB31,659,000 (2000: RMB40,816,000).

Particulars of the associates, which are directly held by the Company, are as follows:

Name	Business structure	Place of registration and operations	Percentage of equity attributable to the Group		Principal activities
			2001	2000	
Zhejiang Expressway Petroleum Development Co., Ltd. ("Petroleum Co")	Corporate	The PRC	50	50	Construction and operation of gas stations and the sale of petroleum products
JoinHands Technology Co., Ltd ("JoinHands Co")	Corporate	The PRC	27.58	30	Providing logistic management and anti-counterfeiting system in the PRC

The financial statements of the above associates are coterminous with those of the Group. The consolidated financial statements have been adjusted for material transactions between the associates and Group companies.



## 18. Expressway Operating Rights

	Group RMB'000	Company RMB'000
Cost:		
At January 1, 2001 and December 31, 2001	261,000	208,000
Accumulated amortization:		
At January 1, 2001	28,955	25,422
Provided during the year	8,700	6,934
<b>At December 31, 2001</b>	<b>37,655</b>	<b>32,356</b>
Net book value:		
<b>At December 31, 2001</b>	<b>223,345</b>	<b>175,644</b>
At December 31, 2000	232,045	182,578

## 19. Investments

### Long term investments

	Group		Company	
	2001 RMB'000	2000 RMB'000	2001 RMB'000	2000 RMB'000
Held-to-maturity securities	<b>30,000</b>	30,000	<b>30,000</b>	30,000
Unlisted equity investments, at cost	<b>8,650</b>	8,650	—	—
	<b>38,650</b>	38,650	<b>30,000</b>	30,000
Provisions for impairment of unlisted equity investments	<b>(5,783)</b>	(5,783)	—	—
	<b>32,867</b>	32,867	<b>30,000</b>	30,000

**19. Investments** (Continued)**Short term investments**

	<b>Group</b>		<b>Company</b>	
	<b>2001 RMB'000</b>	<b>2000 RMB'000</b>	<b>2001 RMB'000</b>	<b>2000 RMB'000</b>
Listed in the PRC, at market value				
— Government bonds	<b>733,724</b>	156,525	<b>562,848</b>	—
— Convertible bonds	<b>160,614</b>	99,485	<b>101,078</b>	99,486
— Close-end equity funds	<b>97,810</b>	121,955	<b>51,950</b>	80,808
— Open-ended equity funds	<b>20,038</b>	—	<b>—</b>	—
	<b>1,012,186</b>	377,965	<b>715,876</b>	180,294

The market value of the Group's short term investments at the date of approval of these financial statements was approximately RMB1,022,210,000 (2000: RMB393,704,000).

**20. Long Term Receivables**

	<b>Group and Company</b>	
	<b>2001 RMB'000</b>	<b>2000 RMB'000</b>
Interest receivable in respect of the held-to-maturity securities	<b>9,030</b>	6,450

The interest receivable will be settled upon the maturity of the held-to-maturity securities.

## 21. Goodwill

SSAP 30 was adopted during the year, as detailed in note 2 to the financial statements. The amounts of the goodwill capitalised as an asset or recognised in the balance sheet, arising from the acquisition of subsidiaries, are as follows:

	<b>Group RMB'000</b>
Cost:	
Acquisition of additional interests in a subsidiary and balance at December 31, 2001	20,853
Accumulated amortisation:	
Provided during the year and balance at December 31, 2001	1,043
Net book value:	
<b>At December 31, 2001</b>	<b>19,810</b>
At December 31, 2000	—

As detailed in note 2 to the financial statements, the Group has adopted the transitional provision of SSAP 30 which permits goodwill and negative goodwill in respect of acquisitions which occurred prior to January 1, 2001, to remain eliminated against reserves or credited to the capital reserve, respectively.

The amounts of goodwill remaining in reserves, arising from the acquisition of subsidiaries, is RMB352,860,000, as at December 31, 2001. The amount of goodwill is stated at cost which arose in prior years.

## 22. Trade Receivables

An aged analysis of the trade receivables as at the balance sheet date, based on invoice date, is as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2001 RMB'000</b>	<b>2000 RMB'000</b>	<b>2001 RMB'000</b>	<b>2000 RMB'000</b>
Within 1 year	<b>44,918</b>	18,162	<b>44,895</b>	18,162
1 to 2 years	<b>9,301</b>	208	<b>9,301</b>	208
2 to 3 years	—	832	—	832
	<b>54,219</b>	19,202	<b>54,196</b>	19,202

### 23. Other Receivables

	Group		Company	
	2001 RMB'000	2000 RMB'000	2001 RMB'000	2000 RMB'000
Prepayments	30,808	45,214	30,028	3,637
Deposits and other debtors	10,225	238,817	5,867	174,037
Profits tax refundable	22,745	12,560	22,745	12,560
	63,778	296,591	58,640	190,234

### 24. Cash and Cash Equivalents

	Group		Company	
	2001 RMB'000	2000 RMB'000	2001 RMB'000	2000 RMB'000
Cash and bank balances	434,771	320,304	137,556	161,078
Time deposits	384,255	1,394,030	195,864	1,179,182
	819,026	1,714,334	333,420	1,340,260

### 25. Trade Payables

An aged analysis of the trade payables as at the balance sheet date, based on invoice date, is as follows:

	Group		Company	
	2001 RMB'000	2000 RMB'000	2001 RMB'000	2000 RMB'000
Within 1 year	113,793	200,761	82,711	12,113
1 to 2 years	126,796	3,798	1,550	1,005
2 to 3 years	229	—	8	—
	240,818	204,559	84,269	13,118

## 26. Other Payables and Accruals

	Notes	Group		Company	
		2001 RMB'000	2000 RMB'000 Restated	2001 RMB'000	2000 RMB'000 Restated
Accruals		<b>42,566</b>	89,943	<b>10,814</b>	42,769
Other liabilities		<b>100,010</b>	126,448	<b>66,323</b>	84,222
Amounts due to related parties	30	<b>12,151</b>	92,304	<b>12,151</b>	92,304
Amount due to the holding company	31	<b>2,599</b>	4,809	—	4,809
		<b>157,326</b>	313,504	<b>89,288</b>	224,104

## 27. Interest-Bearing Bank and Other Borrowings

	Notes	Group		Company	
		2001 RMB'000	2000 RMB'000	2001 RMB'000	2000 RMB'000
Current portion of bank and other borrowings	28	<b>1,620,778</b>	1,831,817	<b>990,500</b>	1,320,376

## 28. Interest-Bearing Bank and Other Loans

	Group		Company	
	2001 RMB'000	2000 RMB'000	2001 RMB'000	2000 RMB'000
Bank loans, unsecured	<b>1,655,500</b>	1,230,000	<b>1,090,500</b>	800,000
Other loans, unsecured	<b>1,173,509</b>	2,016,598	—	808,902
	<b>2,829,009</b>	3,246,598	<b>1,090,500</b>	1,608,902
Bank loans repayable:				
Within one year	<b>1,510,500</b>	970,000	<b>990,500</b>	540,000
In the second year	<b>130,000</b>	160,000	<b>100,000</b>	160,000
In the third to fifth years, inclusive	<b>15,000</b>	100,000	—	100,000
	<b>1,655,500</b>	1,230,000	<b>1,090,500</b>	800,000
Other loans repayable:				
Within one year	<b>110,278</b>	861,817	—	780,376
In the second year	<b>76,524</b>	80,646	—	9,487
In the third to fifth years, inclusive	<b>420,968</b>	407,682	—	—
Beyond five years	<b>565,739</b>	666,453	—	19,039
	<b>1,173,509</b>	2,016,598	—	808,902
	<b>2,829,009</b>	3,246,598	<b>1,090,500</b>	1,068,902
Portion classified as current liabilities - note 27	<b>(1,620,778)</b>	(1,831,817)	<b>(990,500)</b>	(1,320,376)
Long term portion	<b>1,208,231</b>	1,414,781	<b>100,000</b>	288,526

(a) The bank loans are unsecured and bear interest at rates ranging from 5.022% to 5.643% per annum.

(b) The other loans are unsecured and bear interest at rates ranging from 3% to 5.5% per annum.

## 29. Long Term Bonds

	Group	
	2001 RMB'000	2000 RMB'000
Long term bonds	200,000	200,000

The bonds are unsecured, bear interest at 3.78% per annum and are repayable in 2003 upon maturity.

## 30. Amounts Due to Related Parties

The amounts due to related parties are unsecured, interest-free and have no fixed terms of repayment.

## 31. Amount Due to the Holding Company

The amount due to the holding company (i.e. the Communications Investment Group) is unsecured, interest-free and has no fixed terms of repayment.

## 32. Deferred Tax

	Group		Company	
	2001 RMB'000	2000 RMB'000	2001 RMB'000	2000 RMB'000
At January 1,	43,101	3,346	21,655	3,346
Charge for the year - note 8	88,432	39,755	40,606	18,309
At December 31,	131,533	43,101	62,261	21,655

The deferred tax of the Group and the Company arose from differences in accounting profit of these financial statements prepared under HK SSAP, and the taxable income based on income for financial reporting purposes prepared in accordance with the laws and regulations in the PRC.

### 33. Share Capital

	2001 Number of shares	2000 Number of shares	2001 RMB'000	2000 RMB'000
Registered, issued and fully paid:				
Domestic shares of RMB1.00 each	<b>2,909,260,000</b>	2,909,260,000	<b>2,909,260</b>	2,909,260
H shares of RMB1.00 each	<b>1,433,854,500</b>	1,433,854,500	<b>1,433,855</b>	1,433,855
	<b>4,343,114,500</b>	4,343,114,500	<b>4,343,115</b>	4,343,115

The domestic shares are not currently listed on any stock exchange.

The H shares have been listed on The Stock Exchange of Hong Kong Limited since May 15, 1997, and were admitted to the Official List on May 5, 2000. Dealings on the London Stock Exchange commenced on the same day.

On February 27, 2001, trading of the H Shares of the Company on the Berlin Stock Exchange commenced following a secondary listing on the Unofficial Regulated Market of the exchange.

On February 14, 2002, the United States Securities and Exchange Commission, following approval by the board of directors and the China Securities Regulatory Commission, declared the registration statement in respect of the ADSs evidenced by the ADRs effective.

All the domestic shares and H shares rank pari passu with each other as to dividends and voting rights.



### 34. Reserves

	Share premium account RMB'000	Goodwill reserve RMB'000	Statutory surplus reserve RMB'000	Public welfare fund RMB'000	Retained profits RMB'000	Total RMB'000
<b>Group</b>						
At January 1, 2000	3,645,082	(332,016)	182,990	82,856	511,813	4,090,725
Goodwill arising on acquisition of additional interest in a subsidiary	—	(18,315)	—	—	—	(18,315)
Goodwill arising on acquisition of additional interest in an associate	—	(2,529)	—	—	—	(2,529)
Interim dividend - note 12	—	—	—	—	(86,862)	(86,862)
Net profit for the year	—	—	—	—	636,001	636,001
Transfer from/(to) reserves	—	—	102,041	45,146	(147,187)	—
Proposed final dividend - note 12	—	—	—	—	(304,018)	(304,018)
At December 31, 2000 and beginning of year	3,645,082	(352,860)	285,031	128,002	609,747	4,315,002
Share premium shared from an associate	644	—	—	—	—	644
Interim dividend - note 12	—	—	—	—	(130,293)	(130,293)
Net profit for the year	—	—	—	—	760,613	760,613
Transfer from/(to) reserves	—	—	130,267	62,762	(193,029)	—
Proposed final dividend - note 12	—	—	—	—	(304,018)	(304,018)
<b>At December 31, 2001</b>	<b>3,645,726</b>	<b>(352,860)</b>	<b>415,298</b>	<b>190,764</b>	<b>743,020</b>	<b>4,641,948</b>

**34. Reserves** (Continued)

	Share premium account RMB'000	Goodwill reserve RMB'000	Statutory surplus reserve RMB'000	Public welfare fund RMB'000	Retained profits RMB'000	Total RMB'000
<b>Company</b>						
Balance at						
January 1, 2000	3,645,082	—	115,911	57,956	311,335	4,130,284
Interim dividend						
- note 12	—	—	—	—	(86,862)	(86,862)
Net profit for the year	—	—	—	—	504,441	504,441
Transfer from/(to)						
reserves	—	—	57,063	28,531	(85,594)	—
Proposed final						
dividend - note 12	—	—	—	—	(304,018)	(304,018)
At December 31, 2000 and beginning of year	3,645,082	-	172,974	86,487	339,302	4,243,845
Interim dividend						
- note 12	—	—	—	—	(130,293)	(130,293)
Net profit for the year	—	—	—	—	544,670	544,670
Transfer from/(to)						
reserves	—	—	79,434	39,717	(119,151)	—
Proposed final						
dividend - note 12	—	—	—	—	(304,018)	(304,018)
<b>At December 31, 2001</b>	<b>3,645,082</b>	<b>—</b>	<b>252,408</b>	<b>126,204</b>	<b>330,510</b>	<b>4,354,204</b>

In accordance with the Company Law of the PRC and the companies' articles of association, the Company, its subsidiaries, its associates and its jointly-controlled entity (the "Entities") are required to allocate 10% of their profit after tax, 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 respective articles of association of the Entities, part of the SSR may be converted to increase the Entities' share capital.

### 34. Reserves (Continued)

In addition, Shangsang Co was required by the relevant tax authorities to transfer the CIT waived for 2000 to its SSR account in 2001. The transfer has been incorporated in these financial statements.

In accordance with the Company Law of the PRC, the Entities are required to transfer 5% to 10% of their profit after tax, 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 RMB79,434,000 (2000: RMB57,063,000) and RMB39,717,000 (2000: RMB28,531,000) to the SSR and the PWF, respectively. This represents 10% (2000: 10%) and 5% (2000: 5%), respectively, of the Company’s profit after tax of RMB794,343,000 (2000: RMB570,629,000) determined in accordance with the PRC accounting standards.

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 under the HKGAAP.

As at December 31, 2001, the Company had reserves of approximately RMB634,528,000 (2000 restated: RMB643,320,000) available for distribution by way of cash or in kind.

As at December 31, 2001, in accordance with the Company Law of the PRC, the amount of approximately RMB3,638,229,000 (2000: RMB3,633,159,000) standing to the credit of the Company’s share premium account was available for distribution by way of capitalisation issues.

### 35. Notes to the Cash Flow Statement

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

	2001 RMB'000	2000 RMB'000
Profit from operating activities	1,439,949	1,042,768
Depreciation	205,582	142,080
Amortisation of expressway operating rights	8,700	8,700
Amortisation of goodwill	1,043	—
Write-off of bad debts	7,500	—
Interest income	(41,503)	(73,195)
Arising on advance repayment of World Bank loan	(53,172)	—
Loss on disposal of fixed assets	4,313	5,595
Impairment loss	—	42,239
Provision for impairment of long term investments	—	5,783
Decrease/(increase) in inventories	(556)	331
Increase in trade receivables	(35,017)	(14,453)
Decrease/(increase) in deposits and other debtors	164,981	(105,859)
Decrease in trade payables	(874)	(12,027)
Increase in amount due from the holding company	(2,210)	(31,838)
Decrease in amounts due to related parties	(80,153)	—
Increase in other taxes payable	6,216	5,268
Increase/(decrease) in other liabilities	(26,438)	31,624
Increase/(decrease) in accruals	3,018	(6,803)
Increase in amount due to an associate	1,250	—
Increase in amount due to a jointly-controlled entity	551	90
Net cash inflow from operating activities	1,603,180	1,040,303

### 35. 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, 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 shareholders	—	—	(33,324)
Profit attributable to minority shareholders	—	—	57,360
Balance at December 31, 2000 and January 1, 2001	200,000	3,246,598	1,495,364
Cash outflow from financing	—	(417,589)	—
Arising from dilution of minority interests	—	—	(72,515)
Dividends paid to minority interests	—	—	(31,177)
Profit attributable to minority interests	—	—	110,957
<b>Balance at December 31, 2001</b>	<b>200,000</b>	<b>2,829,009</b>	<b>1,502,629</b>

### 36. Commitments

	Group		Company	
	2001 RMB'000	2000 RMB'000	2001 RMB'000	2000 RMB'000
<b>Capital commitments</b>				
Contracted, but not provided for:				
— Construction of expressways	344,127	622,684	188,041	356,012
— Addition of machinery	35,446	—	—	—
— Proposed investments in Shangsang Co.	542,600	485,000	542,600	485,000
— Proposed investments in Jiabin Co.	386,992	—	386,992	—
— Purchase of a new building	5,720	—	5,720	—
— Others	—	1,886	—	1,886
	<b>1,314,885</b>	1,109,570	<b>1,123,353</b>	842,898
Authorised, but not contracted for:				
— Construction of expressways	1,274,740	2,500,980	945,592	898,182
	<b>2,589,625</b>	3,610,550	<b>2,068,945</b>	1,741,080

### 37. Contingent Liabilities

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	2001 RMB'000	2000 RMB'000	2001 RMB'000	2000 RMB'000
Guarantees provided in connection with corporate bonds granted to				
— A subsidiary	—	—	208,694	201,134
Guarantees provided to banks in connection with facilities granted to:				
— A subsidiary	—	—	565,000	—
— A jointly-controlled entity	30,000	30,000	30,000	30,000
	<b>30,000</b>	30,000	<b>803,694</b>	231,134

### 38. Differences in Financial Statements Prepared under PRC and Hong Kong Accounting Standards

	Profit after tax		Net assets as at December 31	
	2001 RMB'000	2000 RMB'000	2001 RMB'000	2000 RMB'000
As reported in statutory accounts	<b>928,132</b>	642,023	<b>9,218,047</b>	8,881,679
HK SSAP adjustments:				
(a) Goodwill	<b>37,170</b>	35,885	<b>(214,452)</b>	(251,622)
(b) Provision for deficit arising on the disposal of staff quarters	<b>4,626</b>	—	—	(15,300)
(c) Interest on subscription monies, of subscription, net of deferred tax	<b>760</b>	(2,484)	—	4,310
(d) Depreciation provided, net of deferred tax	<b>(77,039)</b>	(26,241)	<b>(74,656)</b>	(14,733)
(e) Difference in share premium during establishment	—	—	<b>11,923</b>	11,923
(f) Profits tax refundable	<b>10,186</b>	12,560	<b>19,059</b>	8,873
(g) Restatement of short term investments in securities at market value, net of deferred tax	<b>(20,224)</b>	38,868	<b>18,287</b>	36,967
(h) Recognition of tax exemption	—	17,805	—	6,964
(i) General provision on trade receivables and other debts	<b>(738)</b>	5,548	<b>2,187</b>	3,450
(j) Impairment loss, net of deferred tax	<b>(1,307)</b>	(28,300)	<b>6,443</b>	(14,433)
(k) CIT payment which was waived in prior years	<b>(10,064)</b>	—	—	—
(l) Proposed final dividend	—	—	<b>304,018</b>	304,018
(m) Others	<b>68</b>	(2,303)	<b>(1,775)</b>	39
As restated in the financial statements	<b>871,570</b>	693,361	<b>9,289,081</b>	8,962,135

### 39. Related Party Transactions

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

Under the reorganisation agreement, the 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.

Pursuant to a supplemental agreement dated April 18, 1997, the Company, the 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.

During the year, the Company repaid all the outstanding principal of the World Bank loan in advance, amounting to US\$91,636,418 through the Executive Commission. The additional interest charges and exchange gains arising from the advance repayment charged to the Company were the same as those charged to the Executive Commission.



## 40. Post Balance Sheet Events

The Company has entered into agreements (the “Agreements”) with the minority shareholders of Jiaxing Co and Shangsang Co to further acquire a 12.7% equity interest and a 2% equity interest in Jiaxing Co and Shangsang Co, respectively. The details are as follows:

Date of agreement	Minority shareholder	%	Cash consideration RMB'000	Date of acquisition
<b>Jiaxing Co</b>				
December 27, 2001	Tongxiang Huatong Co., Ltd.	1.3%	38,671	January 1 2002
December 27, 2001	Haining Hengtong Development Co., Ltd.	1.5%	44,621	January 1 2002
January 18, 2002	Jiaxing Luqiao Construction Development Co., Ltd.	9.9%	303,700	January 18 2002
Total		12.7%	386,992	
<b>Shangsang Co</b>				
December 27, 2001	Shenzhou Shangsang Development Co., Ltd.	2%	57,600	January 1 2002

## 41. Comparative Amounts

As explained in note 2 to the financial statements, due to the adoption of new/revised SSAPs during the current year, the presentation of the income statement, the balance sheets and certain supporting notes have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation. The changes made are explained in note 2 to the financial statements.

## 42. Approval of Financial Statements

The financial statements were approved by the board of directors on March 13, 2002.