

NOTES TO FINANCIAL STATEMENTS

I. 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 in the H Shares 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, the 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 the 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 the 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 provision of certain ancillary services such as technical consultation, advertising, 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.

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”)

The following recently-issued and revised SSAPs have been adopted for the first time in the preparation of the current year's consolidated financial statements:

SSAP I (Revised)	:	“Presentation of financial statements”
SSAP II (Revised)	:	“Foreign currency translation”
SSAP 15 (Revised)	:	“Cash flow statements”
SSAP 33	:	“Discontinuing operations”
SSAP 34	:	“Employee benefits”

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in the financial statements of these SSAPs which have had a significant effect on the financial statements are summarised as follows:

SSAP I (Revised) prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision to this SSAP is that a consolidated summary statement of changes in equity is now presented on page 47 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required.

SSAP II (Revised) prescribes the basis for the translation of foreign currency transactions in the financial statements. The principal impact of the revision of this SSAP is that the profit and loss accounts of overseas subsidiaries are translated at the weighted average exchange rate for the year, rather than translated at the applicable rates of exchange ruling at the balance sheet date as was previously required. Since the Company does not have overseas subsidiaries, the adoption of the SSAP has no material impact on the financial statements.

SSAP 15 (Revised) prescribes the format for the cash flow statement. The principal impact of the revision of this SSAP is that cash flows are now presented under three headings, that is, cash flows from operating, investing and financing activities, instead of the five headings previously required. The format of the cash flow statement set out on page 48 of the financial statements and the notes thereto have been revised in accordance with the new requirements.

SSAP 33 prescribes the basis for reporting information about discontinuing/discontinued operations. The adoption of the SSAP has no impact on the financial statements.

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in no change to the previously adopted accounting treatments for employee benefits.

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, 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, 2002. 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.

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.

Investments 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

GOODWILL

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

Prior to January 1, 2001, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. Upon SSAP 30 becoming effective, the Group adopted the transitional provision of SSAP 30 that permits goodwill on acquisitions which occurred prior to January 1, 2001, to remain eliminated against consolidated reserves.

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 consolidated 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 consolidated 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 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 asset, the expenditure is capitalised as an additional cost of that fixed asset.

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	12.1%
Machinery and equipment	5 - 8 years	12.1 - 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.

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 capitalised 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 impairment losses on an individual investment 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 impairment losses on an individual investment 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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) 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 the revenue 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 has been 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 the 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 with 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 the expressways 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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 were derived from the 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 the collection of 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 the cleaning of the road surface, minor repairs to the lanes, the cleaning of the gutters and sewers, grass mowing, afforestation and the maintenance of buildings, equipment and facilities provided to third parties.
- Ancillary businesses mainly represent the sale of food, restaurant servicing, automobile servicing, as well as oil stations.

4. SEGMENT INFORMATION (Continued)

GROUP	Tolls		Advertising		Road maintenance		Ancillary businesses		Consolidated	
	2002 Rmb'000	2001 Rmb'000	2002 Rmb'000	2001 Rmb'000	2002 Rmb'000	2001 Rmb'000	2002 Rmb'000	2001 Rmb'000	2002 Rmb'000	2001 Rmb'000
Segment revenue:										
Turnover	2,069,060	1,663,362	26,217	21,190	1,670	4,617	71,131	33,348	2,168,078	1,722,517
Other revenue	57,623	209,319	2,955	72	2,374	3,511	3,505	3,788	66,457	216,690
Total revenue	2,126,683	1,872,681	29,172	21,262	4,044	8,128	74,636	37,136	2,234,535	1,939,207
Segment results	1,518,584	1,425,341	11,941	11,084	(683)	(976)	14,457	4,500	1,544,299	1,439,949
Finance costs									(163,224)	(215,346)
Share of profits of associates	—	—	—	—	—	—	11,719	12,396	11,719	12,396
Share of profit/(loss) of a jointly-controlled entity	1,677	(1,459)	—	—	—	—	—	—	1,677	(1,459)
Profit before tax									1,394,471	1,235,540
Tax									(400,952)	(363,970)
Profit before minority interests									993,519	871,570
Minority interests									(103,067)	(110,957)
Net profit from ordinary activities attributable to shareholders									890,452	760,613
Segment assets	14,039,204	14,089,709	25,717	24,947	45,960	42,225	73,862	89,856	14,184,743	14,246,737
Interests in associates	—	—	—	—	—	—	159,829	156,909	159,829	156,909
Interest in a jointly-controlled entity	54,464	54,082	—	—	—	—	—	—	54,464	54,082
Goodwill	106,798	19,810	—	—	—	—	—	—	106,798	19,810
Total assets	14,200,466	14,163,601	25,717	24,947	45,960	42,225	233,691	246,765	14,505,834	14,477,538
Segment liabilities	3,537,924	3,514,937	4,590	5,416	10,615	6,132	32,205	27,810	3,585,334	3,554,295
Deferred tax	240,920	131,533	—	—	—	—	—	—	240,920	131,533
Total liabilities	3,778,844	3,646,470	4,590	5,416	10,615	6,132	32,205	27,810	3,826,254	3,685,828
Other segment information:										
Capital expenditure	200,014	546,401	7,884	7,975	2,336	1,190	1,455	187	211,689	555,753
Depreciation and amortisation	239,282	208,142	2,240	1,692	3,832	4,398	2,706	1,093	248,060	215,325
Write-off of bad debts	794	7,500	—	—	—	—	—	—	794	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:

	2002 Rmb'000	2001 Rmb'000
Toll income	2,184,197	1,756,265
Advertising income	27,742	22,462
Road maintenance income	1,704	4,649
Others	73,043	34,465
	2,286,686	1,817,841
Less: Revenue taxes	(118,608)	(95,324)
Turnover	2,168,078	1,722,517
Income on investments	18,448	105,522
Interest income	17,063	41,503
Rental income	14,457	6,726
Trailer income	10,192	8,278
Exchange gains, net	1,121	53,172
Others	5,176	1,489
Other revenue	66,457	216,690
	2,234,535	1,939,207

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

- City Development Tax, levied at 1% to 7% of Business Tax;
- Education Supplementary Tax, levied at 3.5% to 4% of Business Tax; 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):

	2002 Rmb'000	2001 Rmb'000
Depreciation	223,748	205,582
Operating lease rentals on land and buildings	902	1,364
Auditors' remuneration	1,975	3,709
Staff costs:		
Wages and salaries	86,733	75,773
Pension contributions	6,534	6,900
Amortisation of expressway operating rights*	8,700	8,700
Amortisation of goodwill**	15,612	1,043
Write-off of bad debts	794	7,500
Loss on winding up of a subsidiary	205	—
Loss on disposal of fixed assets	1,040	4,313
Unrealised gain on revaluation of short term listed investments	9,571	12,559
Net rental income	(14,457)	(6,726)
Exchange gains, net	(1,121)	(53,172)
Interest income	(17,063)	(41,503)
Income on investments	(18,448)	(105,522)

* The amortisation of expressway operating rights for the year is included in administrative expenses on the face of the income statement.

** The amortisation of goodwill for the year is included in other operating expenses on the face of the income statement.

7. FINANCE COSTS

	2002 Rmb'000	2001 Rmb'000
Interest on bank loans and other loans wholly repayable within five years	137,420	188,400
Interest on other loans	26,279	29,645
Total interest	163,699	218,045
Less: interest capitalised	(475)	(2,699)
	163,224	215,346

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 Corporate Income Tax ("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.

	Note	2002 Rmb'000	2001 Rmb'000
Group:			
Tax charged	33	367,997	327,718
Tax refunded/refundable		(79,133)	(68,791)
		288,864	258,927
Deferred		109,387	88,432
Share of tax attributable to associates		5,004	17,528
Share of deferred tax attributable to an associate		(3,294)	(1,951)
Share of deferred tax attributable to a jointly-controlled entity		991	1,034
Tax charge for the year		400,952	363,970

During the year, according to an approval from the Zhejiang Provincial Local Tax Bureau, Zhejiang Shangsang Expressway Co., Ltd. ("Shangsang Co"), one of the Company's subsidiaries, was entitled to a 50% CIT exemption for the year ended December 31, 2001 amounted to Rmb16,749,000 under the category of "Enterprise providing employment opportunities to redundant city and country workers" as defined in the relevant national tax rules. In addition, according to a notice issued by the Jiaxing Finance Bureau (the "JFB"), one of the Company's subsidiaries, Zhejiang Jiaxing Expressway Co., Ltd. ("Jiaxing Co"), received from the JFB an amount of Rmb71,290,000, representing a refund in relation to the CIT of Jiaxing Co for the period from the fourth quarter of 2000 to December 2001.

Pursuant to a directive issued by the 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 the Zhejiang Tax Bureau. According to a directive from the Ministry of Finance on October 13, 2000, the Company was entitled to the tax refund until December 31, 2001. As Huajian Transportation Economic Development Center ("Huajian"), a state-owned enterprise under the China Merchants Group, became a substantial 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 the Zhejiang Provincial People's Government.

Nevertheless, according to a notice issued by the State Council on December 31, 2001, with effect from January 1, 2002, CIT payments are divided into two portions on a 50/50 basis - the national portion and the local portion. Since the CIT in relation to the fourth quarter of 2001 was paid in 2002, the Company was only entitled to the 9% refund from the Zhejiang Finance Bureau in respect of the CIT for the fourth quarter of 2001. The CIT refund of Rmb8,906,000 recognised in year 2001 became not recoverable and has been recorded as tax charge for 2002.

There was no material unprovided deferred tax in respect of the year (2001: Nil).

9. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended December 31, 2002 dealt with in the financial statements of the Company was Rmb484,128,000 (2001: Rmb544,670,000).

10. DIRECTORS' AND SUPERVISORS' REMUNERATION

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

	2002 Rmb'000	2001 Rmb'000
Fees	—	—
Other emoluments:		
Salaries, allowances and benefits in kind	1,784	1,641
Bonuses paid and payable	608	552
Pension scheme contributions	9	9
	2,401	2,202

Salaries, allowances and benefits in kind include HK\$152,000 (2001: HK\$150,000), HK\$150,000 (2001: HK\$150,000) and Rmb36,000 (2001: Rmb20,000) payable to the three independent non-executive directors respectively. There were no other emoluments payable to the independent non-executive directors during the year (2001: Nil).

The remuneration of the directors and supervisors fell within the following band:

	Number of directors and supervisors	
	2002	2001
Nil to HK\$1,000,000	10	9

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

11. FIVE HIGHEST PAID EMPLOYEES

	2002 Rmb'000	2001 Rmb'000
Salaries, allowances and benefits in kind	1,614	1,394
Bonuses paid and payable	662	598
Pension scheme contributions	11	11
	2,287	2,003

The five highest paid employees during the year included four (2001: four) 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

	2002 Per ordinary share Rmb	2001 Rmb	2002 Rmb'000	2001 Rmb'000
Interim	0.04	0.03	173,724	130,293
Proposed final	0.09	0.07	390,880	304,018
	0.13	0.10	564,604	434,311

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

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 Rmb890,452,000 (2001: Rmb760,613,000) and the 4,343,114,500 shares (2001: 4,343,114,500 shares) in issue during the year.

Diluted earnings per share for the years ended December 31, 2002 and 2001 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
GROUP								
COST:								
At beginning of year:	527,628	11,182,630	371,598	139,788	77,931	93,362	296,967	12,689,904
Winding up of a subsidiary	—	—	—	—	—	(350)	—	(350)
Additions	4,182	3,113	35,435	6,808	3,687	6,011	152,453	211,689
Transfers	—	19,370	6,202	56,110	14,304	5,767	(101,753)	—
Write-off	—	(44,160)	—	—	—	—	—	(44,160)
Disposals	—	—	(3,691)	(30)	(170)	(403)	(243)	(4,537)
At December 31, 2002	531,810	11,160,953	409,544	202,676	95,752	104,387	347,424	12,852,546
ACCUMULATED DEPRECIATION AND IMPAIRMENT:								
At beginning of year	70,929	462,634	26,305	36,438	32,789	29,797	—	658,892
Winding up of a subsidiary	—	—	—	—	—	(64)	—	(64)
Provided during the year	17,604	142,570	13,487	25,854	11,915	12,318	—	223,748
Write-off	—	(44,160)	—	—	—	—	—	(44,160)
Disposals	—	—	(471)	(11)	(165)	(209)	—	(856)
At December 31, 2002	88,533	561,044	39,321	62,281	44,539	41,842	—	837,560
NET BOOK VALUE:								
At December 31, 2002	443,277	10,599,909	370,223	140,395	51,213	62,545	347,424	12,014,986
At December 31, 2001	456,699	10,719,996	345,293	103,350	45,142	63,565	296,967	12,031,012
COMPANY								
COST:								
At January 1, 2002	350,384	4,712,616	110,017	119,477	51,575	53,648	223,102	5,620,819
Additions	—	—	35,956	1,318	2,784	1,888	75,739	117,685
Transfers	—	—	1,021	—	—	—	(1,021)	—
Disposals	—	—	—	(30)	(170)	(126)	(69)	(395)
At December 31, 2002	350,384	4,712,616	146,994	120,765	54,189	55,410	297,751	5,738,109
ACCUMULATED DEPRECIATION:								
At January 1, 2002	52,998	270,658	12,523	34,870	27,352	19,432	—	417,833
Provided during the year	11,667	68,090	4,830	14,600	6,000	7,284	—	112,471
Disposals	—	—	—	(6)	(165)	(107)	—	(278)
At December 31, 2002	64,665	338,748	17,353	49,464	33,187	26,609	—	530,026
NET BOOK VALUE:								
At December 31, 2002	285,719	4,373,868	129,641	71,301	21,002	28,801	297,751	5,208,083
At December 31, 2001	297,386	4,441,958	97,494	84,607	24,223	34,216	223,102	5,202,986

The fixed assets are mainly located in the PRC.

The Group's land included above are held under long-term lease.

15. INTERESTS IN SUBSIDIARIES

	Company	
	2002 Rmb'000	2001 Rmb'000
Unlisted shares, at cost	4,338,486	3,648,673
Due from subsidiaries	4,587	2,375
Due to subsidiaries	(215,779)	(34,000)
	4,127,294	3,617,048

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	99.993	Construction and management of the Jiaxing Section of the Shanghai-Hangzhou Expressway
Zhejiang Shangsang Expressway Co., Ltd. ("Shangsang Co")	Note 3	2,400,000,000	71.625	Construction and management of the Shangsang Expressway
Zhejiang Expressway Advertising Co., Ltd. ("Advertising Co")	Note 4	1,000,000	70	Advertising
Zhejiang Gaotong Stone Development Co., Ltd. ("Gaotong Co")	Note 5	5,000,000	80	Manufacturing, designing and selling of stone and quarry materials

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

Note 4: Advertising Co was established on June 1, 1998 in the PRC as a limited liability company.

Note 5: Gaotong Co was liquidated during the year.

All of the Company's subsidiaries are operating in the PRC.

16. INTEREST IN A JOINTLY-CONTROLLED ENTITY

	Group		Company	
	2002 Rmb'000	2001 Rmb'000	2002 Rmb'000	2001 Rmb'000
Unlisted shares, at cost	—	—	65,000	65,000
Share of net assets other than goodwill	55,409	54,723	—	—
Amount due to a jointly-controlled entity	(945)	(641)	(945)	(641)
	54,464	54,082	64,055	64,359

The amount due to a jointly-controlled entity is unsecured, interest-free and has no fixed terms 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	Percentage of			Principal activities
			Ownership interest	Voting power	Profit sharing	
Hangzhou Shida Expressway Co., Ltd.	Corporate	The PRC	50	50	50	Construction and operation of Shiqiao-Dajing Road

17. INTERESTS IN ASSOCIATES

	Group		Company	
	2002 Rmb'000	2001 Rmb'000	2002 Rmb'000	2001 Rmb'000
Unlisted shares, at cost	—	—	126,500	126,500
Share of net assets other than goodwill	159,829	158,159	—	—
Amount due to an associate	—	(1,250)	—	—
	159,829	156,909	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 the post-acquisition accumulated reserves of the associates as at December 31, 2002 was Rmb33,329,000 (2001: Rmb31,659,000).

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
			2002	2001	
Zhejiang Expressway Petroleum Development Co., Ltd.	Corporate	The PRC	50	50	Construction and operation of gas stations and the sale of petroleum products
JoinHands Technology Co., Ltd.	Corporate	The PRC	27.58	27.58	Providing logistic management and anti-counterfeiting systems 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, 2002 and December 31, 2002	261,000	208,000
Accumulated amortisation:		
At January 1, 2002	37,655	32,356
Provided during the year	8,700	6,934
At December 31, 2002	46,355	39,290
Net book value:		
At December 31, 2002	214,645	168,710
At December 31, 2001	223,345	175,644

19. INVESTMENTS

LONG TERM INVESTMENTS

	Group		Company	
	2002 Rmb'000	2001 Rmb'000	2002 Rmb'000	2001 Rmb'000
Held-to-maturity securities, at amortised cost	—	30,000	—	30,000
Unlisted equity investments, at cost	3,644	8,650	—	—
	3,644	38,650	—	30,000
Provisions for impairment of unlisted equity investments	(777)	(5,783)	—	—
	2,867	32,867	—	30,000

SHORT TERM INVESTMENTS

	Group		Company	
	2002 Rmb'000	2001 Rmb'000	2002 Rmb'000	2001 Rmb'000
Listed in the PRC, at amortised cost				
- Held-to-maturity securities	30,000	—	30,000	—
Listed in the PRC, at market value				
- Government bonds	726,764	733,724	504,104	562,848
- Convertible bonds	—	160,614	—	101,078
- Close-end equity funds	51,754	97,810	18,169	51,950
- Open-end equity funds	—	20,038	—	—
- Enterprise bonds	10,000	—	—	—
- Equity interests	39,596	—	17,514	—
	828,114	1,012,186	539,787	715,876
	858,114	1,012,186	569,787	715,876

The market values of the Group's and the Company's short term investments at the date of approval of these financial statements were approximately Rmb841,662,000 and Rmb547,191,000, respectively.

20. LONG TERM RECEIVABLES

	Group and Company 2002 Rmb'000	2001 Rmb'000
Interest receivable in respect of the held-to-maturity securities	—	9,030

21. GOODWILL

The amounts of the goodwill capitalised as an asset or recognised in the consolidated balance sheet, arising from the acquisition of subsidiaries, are as follows:

	Group Rmb'000
Cost:	
At January 1, 2002	20,853
Acquisition of additional interests in subsidiaries during the year	102,600
At December 31, 2002	123,453
Accumulated amortisation:	
At January 1, 2002	1,043
Provided during the year	15,612
At December 31, 2002	16,655
Net book value:	
At December 31, 2002	106,798
At December 31, 2001	19,810

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 consolidated reserves or credited to the capital reserve, respectively.

The amount of goodwill remaining in consolidated reserves, arising from the acquisition of subsidiaries, was Rmb352,860,000 as at December 31, 2002. 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:

	Group		Company	
	2002 Rmb'000	2001 Rmb'000	2002 Rmb'000	2001 Rmb'000
Within 1 year	11,720	44,918	5,244	44,895
1 to 2 years	2,647	9,301	2,647	9,301
	14,367	54,219	7,891	54,196

23. OTHER RECEIVABLES

	Group		Company	
	2002 Rmb'000	2001 Rmb'000	2002 Rmb'000	2001 Rmb'000
Prepayments	1,830	30,808	294	30,028
Deposits and other debtors	126,842	10,225	42,730	5,867
Profits tax refundable	—	22,745	—	22,745
	128,672	63,778	43,024	58,640

24. CASH AND CASH EQUIVALENTS AND TIME DEPOSITS

	Group		Company	
	2002 Rmb'000	2001 Rmb'000	2002 Rmb'000	2001 Rmb'000
Cash and bank balance	562,463	434,771	182,830	137,556
Time deposits with original maturity of less than three months when acquired	103,828	305,155	43,742	137,824
Time deposits with original maturity over three months when acquired	282,779	79,100	131,387	58,040
	949,070	819,026	357,959	333,420

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	
	2002 Rmb'000	2001 Rmb'000	2002 Rmb'000	2001 Rmb'000
Within 1 year	200,181	113,793	158,859	82,711
1 to 2 years	4,863	126,796	2,778	1,550
2 to 3 years	1,901	229	1,004	8
Over 3 years	221	—	—	—
	207,166	240,818	162,641	84,269

26. OTHER PAYABLES AND ACCRUALS

Notes	Group		Company	
	2002 Rmb'000	2001 Rmb'000	2002 Rmb'000	2001 Rmb'000
Accruals	58,510	42,566	12,735	10,814
Other liabilities	141,695	100,010	96,976	66,323
Amounts due to related parties 31	12,151	12,151	12,151	12,151
Amount due to the holding company 32	2,599	2,599	—	—
	214,955	157,326	121,862	89,288

27. INTEREST-BEARING BANK AND OTHER LOANS

	Note	Group		Company	
		2002 Rmb'000	2001 Rmb'000	2002 Rmb'000	2001 Rmb'000
Current portion of bank and other loans	29	1,681,553	1,620,778	895,000	990,500

28. LONG-TERM BONDS PAYABLE WITHIN ONE YEAR

	Group		Company	
	2002 Rmb'000	2001 Rmb'000	2002 Rmb'000	2001 Rmb'000
Long term bonds	200,000	—	—	—

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

29. INTEREST-BEARING BANK AND OTHER LOANS

	Note	Group		Company	
		2002 Rmb'000	2001 Rmb'000	2002 Rmb'000	2001 Rmb'000
Bank loans, unsecured		1,875,000	1,655,500	1,075,000	1,090,500
Bank loans, secured		—	—	150,000	—
Other loans, unsecured		963,200	1,173,509	—	—
		2,838,200	2,829,009	1,225,000	1,090,500
Bank loans repayable:					
Within one year		1,545,000	1,510,500	895,000	990,500
In the second year		—	130,000	—	100,000
In the third to fifth years, inclusive		330,000	15,000	330,000	—
		1,875,000	1,655,500	1,225,000	1,090,500
Other loans repayable:					
Within one year		136,553	110,278	—	—
In the second year		82,441	76,524	—	—
In the third to fifth years, inclusive		268,623	420,968	—	—
Beyond five years		475,583	565,739	—	—
		963,200	1,173,509	—	—
		2,838,200	2,829,009	1,225,000	1,090,500
Portion classified as current liabilities	27	(1,681,553)	(1,620,778)	(895,000)	(990,500)
Long term portion		1,156,647	1,208,231	330,000	100,000

Except for the Company's bank loans of Rmb150,000,000 which are guaranteed by its subsidiary, the other bank loans are unsecured and bear interest at rates ranging from 4.536% to 4.941% per annum.

The other loans are unsecured and bearing interest at rates ranging from 3.000% to 5.522% per annum.

30. LONG TERM BONDS

	Notes	Group	
		2002 Rmb'000	2001 Rmb'000
Long term bonds		200,000	200,000
Classified as current liabilities	28	(200,000)	—
		—	200,000

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

31. AMOUNTS DUE TO RELATED PARTIES

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

32. 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.

33. DEFERRED TAX

Note	Group		Company	
	2002 Rmb'000	2001 Rmb'000	2002 Rmb'000	2001 Rmb'000
At January 1	131,533	43,101	62,261	21,655
Charge for the year	109,387	88,432	55,059	40,606
At December 31	240,920	131,533	117,320	62,261

The deferred tax of the Group and the Company arose from differences in accounting profit of these financial statements prepared under the SSAPs, and the taxable income calculated in accordance with the tax laws and regulations in the PRC.

The principal components of the Group's and the Company's provision for deferred tax is as follows:

	Group		Company	
	2002 Rmb'000	2001 Rmb'000	2002 Rmb'000	2001 Rmb'000
Revaluation on marketable securities	3,158	4,144	4,249	3,789
Depreciation allowances	238,318	140,021	113,071	58,472
Fixed assets write-off	(556)	(12,632)	—	—
	240,920	131,533	117,320	62,261

The Group and the Company have no significant potential deferred tax liabilities for which provision has not been made.

34. SHARE CAPITAL

	2002 Number of shares	2001 Number of shares	2002 Rmb'000	2001 Rmb'000
Registered, issued and fully paid:				
Domestic shares of Rmb1.00 each	2,909,260,000	2,909,260,000	2,909,260	2,909,260
H Shares of Rmb1.00 each	1,433,854,500	1,433,854,500	1,433,855	1,433,855
	4,343,114,500	4,343,114,500	4,343,115	4,343,115

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

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

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

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

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

35. 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
GROUP						
At January 1, 2001	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)
At December 31, 2001 and beginning of year	3,645,726	(352,860)	415,298	190,764	743,020	4,641,948
Interim dividend - note 12	—	—	—	—	(173,724)	(173,724)
Net profit for the year	—	—	—	—	890,452	890,452
Transfer from/(to) reserves	—	—	118,517	62,747	(181,264)	—
Proposed final dividend - note 12	—	—	—	—	(390,880)	(390,880)
At December 31, 2002	3,645,726	(352,860)	533,815	253,511	887,604	4,967,796
Reserves retained by:						
Company and subsidiaries	3,645,082	(350,331)	524,041	246,993	878,273	4,944,058
Jointly-controlled entity	—	—	—	—	(9,591)	(9,591)
Associates	644	(2,529)	9,774	6,518	18,922	33,329
At December 31, 2002	3,645,726	(352,860)	533,815	253,511	887,604	4,967,796
Company and subsidiaries	3,645,082	(350,331)	407,078	185,008	733,729	4,620,566
Jointly-controlled entity	—	—	—	—	(10,277)	(10,277)
Associates	644	(2,529)	8,220	5,756	19,568	31,659
At December 31, 2001	3,645,726	(352,860)	415,298	190,764	743,020	4,641,948
COMPANY						
At January 1, 2001	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)
At December 31, 2001 and beginning of year	3,645,082	—	252,408	126,204	330,510	4,354,204
Interim dividend - note 12	—	—	—	—	(173,724)	(173,724)
Net profit for the year	—	—	—	—	484,128	484,128
Transfer from/(to) reserves	—	—	93,498	46,749	(140,247)	—
Proposed final dividend - note 12	—	—	—	—	(390,880)	(390,880)
At December 31, 2002	3,645,082	—	345,906	172,953	109,787	4,273,728

35. RESERVES (Continued)

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 (collectively, 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.

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 the 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 the properties of the Entities.

The Directors of the Company have proposed to transfer Rmb93,498,000 (2001: Rmb79,434,000) and Rmb46,749,000 (2001: Rmb39,717,000) to the SSR and the PWF, respectively. These represent 10% (2001: 10%) and 5% (2001: 5%), respectively, of the Company's profit after tax of Rmb934,980,000 (2001: Rmb794,343,000) 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 SSAPs.

As at December 31, 2002, before the proposed final dividend, the Company had reserves of approximately Rmb500,667,000 (2001: Rmb634,528,000) available for distribution by way of cash or in kind.

As at December 31, 2002, in accordance with the Company Law of the PRC, the amount of approximately Rmb3,638,229,000 (2001: Rmb3,638,229,000) standing to the credit of the Company's share premium account was available for distribution by way of capitalisation issues.

36. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2002 Rmb'000	2001 Rmb'000
Profit before tax	1,394,471	1,235,540
Share of results of a jointly-controlled entity	(1,677)	1,459
Share of results of associates	(11,719)	(12,396)
Depreciation	223,748	205,582
Amortisation of expressway operating rights	8,700	8,700
Amortisation of goodwill	15,612	1,043
Write-off of bad debts	794	7,500
Interest income	(17,063)	(41,503)
Interest expense	163,224	215,346
Unrealised gain on revaluation of short term listed investments	9,571	12,559
Exchange gains, net	(1,121)	(53,172)
Loss on disposal of fixed assets	1,040	4,313
Loss on winding up of a subsidiary	205	—
Increase in inventories	(966)	(556)
Decrease/(increase) in trade receivables	39,058	(35,017)
Decrease/(increase) in deposits and other debtors	(15,526)	164,981
Increase/(decrease) in trade payables	101,643	(874)
Decrease in an amount due to the holding company	—	(2,210)
Decrease in amounts due to related parties	—	(80,153)
Increase/(decrease) in other taxes payable	(7,495)	6,216
Increase/(decrease) in other liabilities	43,264	(26,438)
Increase in accruals	9,998	3,018
Increase/(decrease) in an amount due to an associate	(1,250)	1,250
Increase in an amount due to a jointly-controlled entity	304	551
Interest paid	(166,447)	(260,878)
Profits tax paid	(252,059)	(276,904)
Net cash inflow from operating activities	1,536,309	1,077,957

(b) Winding up of a subsidiary

	2002 Rmb'000	2001 Rmb'000
Net assets disposed of:		
Fixed assets	286	—
Cash and bank balances	145	—
Inventories	218	—
Other receivables	1,186	—
Other payables	(1,579)	—
Minority interests	(51)	—
Loss on winding up of a subsidiary	205	—

As detailed in note 15, the Company's subsidiary, Gaotong Co, was liquidated during the year. This gave rise to the cash outflow of Rmb145,000 during the year.

Gaotong Co had no significant impact in respect of the cash flows for operating activities, investing activities and financing activities. It had no significant impact on the Group's consolidated turnover or profit after tax for the year.

37. COMMITMENTS

(a) On March 4, 2003, the Board approved an expense for road surface-overlaying project in the amount of Rmb141,400,000 for the year ending December 31, 2003.

(b) Capital Commitments

	Group		Company	
	2002 Rmb'000	2001 Rmb'000	2002 Rmb'000	2001 Rmb'000
Contracted, but not provided for:				
- Construction of expressways	177,730	344,127	63,775	188,041
- Purchase of machinery	37,423	35,446	10,719	—
- Proposed investments in Shangsang Co	485,000	542,600	485,000	542,600
- Proposed investments in Jiaxing Co	—	386,992	—	386,992
- Construction of new buildings	14,000	—	14,000	—
- Purchase of an office	—	5,720	—	5,720
	714,153	1,314,885	573,494	1,123,353
Authorised, but not contracted for:				
- Construction of expressways	4,739,237	1,274,740	4,419,367	945,592
	5,453,390	2,589,625	4,992,861	2,068,945

38. CONTINGENT LIABILITIES

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

	Group		Company	
	2002 Rmb'000	2001 Rmb'000	2002 Rmb'000	2001 Rmb'000
Guarantees provided in favor of the holders of the corporate bonds issued by a subsidiary	—	—	216,254	208,694
Guarantees provided to banks in connection with facilities granted to:				
- A subsidiary	—	—	650,000	565,000
- A jointly-controlled entity	30,000	30,000	30,000	30,000
	30,000	30,000	896,254	803,694

39. OPERATING LEASE ARRANGEMENTS

The Group and the Company lease their oil stations and cables under operating lease arrangements, with leases negotiated for terms ranging from five to twenty five years.

As at December 31, 2002, the Group and the Company had total future minimum lease rental receivables under non-cancelable operating leases falling due as follows:

	Group		Company	
	2002 Rmb'000	2001 Rmb'000	2002 Rmb'000	2001 Rmb'000
Within one year	8,159	3,590	5,660	1,090
In the second to fifth years, inclusive	25,674	13,850	19,424	5,099
Beyond five years	33,397	34,881	33,397	34,881
	67,230	52,321	58,481	41,070

40. DIFFERENCES IN FINANCIAL STATEMENTS PREPARED UNDER PRC AND HONG KONG ACCOUNTING STANDARDS

	Net profit before as at December 31		Net assets as at December 31	
	2002 Rmb'000	2001 Rmb'000	2002 Rmb'000	2001 Rmb'000
As reported in statutory accounts	1,070,902	928,132	9,601,256	9,218,047
HK SSAP adjustments:				
(a) Goodwill	30,995	37,170	(179,290)	(214,452)
(b) Provision for deficit arising on the disposal of staff quarters	—	4,626	—	—
(c) Interest on subscription monies, net of deferred tax	—	760	—	—
(d) Depreciation provided, net of deferred tax	(70,811)	(77,039)	(137,004)	(74,656)
(e) Difference in share premium account during establishment	—	—	11,923	11,923
(f) Profits tax refundable	(22,745)	10,186	(3,686)	19,059
(g) Restatement of short term investments in securities at market value, net of deferred tax	(1,971)	(20,224)	16,440	18,287
(h) General provision on trade receivables and other debts	(1,439)	(738)	922	2,187
(i) Impairment loss, net of deferred tax	(12,076)	(1,307)	284	6,443
(j) CIT payment which was waived in prior years	—	(10,064)	—	—
(k) Proposed final dividend	—	—	390,880	304,018
(l) Others	664	68	66	(1,775)
As restated in the financial statements	993,519	871,570	9,701,791	9,289,081

41. 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, Zhejiang Provincial High Class Highway Investment Company Limited 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.

Under the agreement dated August 19, 2002, the Company purchased a 6.625% equity interest in Shangsan Co from the Communications Investment Group, the ultimate holding company of the Company, for a consideration of Rmb187.62 million.

Since the purchase consideration represents less than 3% of the book value of the net tangible assets of the Company as disclosed in its latest published audited accounts, no shareholder approval is required under the Listing Rules.

In 2002, the Group entered into several rental agreements with Zhejiang Expressway Petroleum Development Co., Ltd. ("Petroleum Co"), an associate of the Company. Pursuant to the aforementioned agreements, the Group leased six oil stations to Petroleum Co. In 2002, the Group recorded a total rental income of Rmb6,550,000 from Petroleum Co.

42. POST BALANCE SHEET EVENTS

On January 20, 2003, the Company obtained the final approval from the State Development Planning Commission of the PRC to issue Rmb1 billion of 10-year 4.29% corporate bonds (the "Bonds") to institutional and public investors in the PRC. The Bonds were offered for subscription by public investors in the PRC during the period from January 24, 2003 to February 17, 2003 and were fully subscribed. The Bonds issued are unconditionally and irrevocably guaranteed by the Zhejiang branch of China Construction Bank on a joint-liability basis with the Company.

The Company intends to use the proceeds from the issue of the Bonds to fund the construction work to widen certain sections of the Shanghai-Hangzhou-Ningbo Expressway. Up to the date of this report, net proceeds from the issue of the Bonds amounting to Rmb991,000,000 have been received by the Company.

43. COMPARATIVE AMOUNTS

As further explained in note 2, due to the adoption of certain new and revised SSAPs during the current year, the presentation of the financial statements and certain supporting notes have been revised to comply with the new requirements. Accordingly, certain comparative figures have been reclassified to conform with the current year's presentation.

44. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on March 4, 2003.