

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31st December 2002

	Note	2002 RMB'000	2001 RMB'000
Turnover	3	524,291	489,813
Other revenues	3	66,536	129,765
Depreciation and amortisation		(100,674)	(88,150)
Staff costs	4	(45,950)	(39,853)
Road maintenance expenses		(16,561)	(18,496)
Other operating expenses		(50,570)	(64,812)
Operating profit	5	377,072	408,267
Finance costs	6	(24,927)	(41,647)
Share of profits less losses of jointly controlled entities		61,873	57,985
Profit before taxation		414,018	424,605
Taxation	7	(48,141)	(140)
Profit after taxation		365,877	424,465
Minority interests		(5,946)	(3,129)
Profit attributable to shareholders	8	359,931	421,336
Transfer to reserves	19	(123,690)	(121,779)
Profit retained for the year		236,241	299,557
Dividends	9	261,684	218,070
Earnings per share	10	RMB0.165	RMB0.208

## CONSOLIDATED BALANCE SHEET

As at 31st December 2002

	Note	2002 RMB'000	2001 RMB'000
Non-current assets			
Fixed assets	12	4,205,215	4,231,541
Interests in jointly controlled entities	14	958,234	833,149
Long-term loan	14	306,000	306,000
Construction in progress	15	269,146	64,175
Current assets			
Inventories		5,892	5,815
Amount due from a jointly controlled entity	16	1,124	—
Other receivables, prepayments and deposits		16,179	11,280
Other investments	17	—	369,637
Bank balances and cash		962,736	962,088
		985,931	1,348,820
Current liabilities			
Amount due to a jointly controlled entity	16	—	1,964
Other payables and accrued charges		145,484	208,717
Taxation payable		4,563	34
Current portion of long-term bank loans	20	—	120,000
Short-term bank loans, secured		480,000	100,000
Short-term bank loans, unsecured		130,000	—
		760,047	430,715
Net current assets		225,884	918,105
Total assets less current liabilities		5,964,479	6,352,970
Financed by:			
Share capital	18	2,180,700	2,180,700
Reserves	19	2,951,138	2,827,448
Proposed final dividend	19	261,684	218,070
Retained earnings	19	111,731	137,174
Shareholders' funds		5,505,253	5,363,392
Minority interests		51,288	49,343
Non-current liabilities			
Long-term liabilities	20	167,626	666,941
Deferred income	22	240,312	273,294
		5,964,479	6,352,970

Chen Chao

Director

Wu Ya De

Director

## BALANCE SHEET

As at 31st December 2002

	Note	2002 RMB'000	2001 RMB'000
<b>Non-current assets</b>			
Fixed assets	12	3,188,397	3,187,630
Investments in subsidiaries	13	915,509	1,037,870
Investments in jointly controlled entities	14	937,645	814,290
Long-term loan	14	306,000	306,000
Construction in progress	15	268,692	64,066
<b>Current assets</b>			
Inventories		5,609	5,244
Amount due from a jointly controlled entity	16	2,360	1,324
Other receivables, prepayments and deposits		16,793	11,088
Other investments	17	—	369,637
Bank balances and cash		900,817	854,960
		<b>925,579</b>	<b>1,242,253</b>
<b>Current liabilities</b>			
Other payables and accrued charges		137,239	194,796
Taxation payable		1,135	—
Current portion of long-term bank loans	20	—	120,000
Short-term bank loans, secured		480,000	100,000
Short-term bank loans, unsecured		130,000	—
		<b>748,374</b>	<b>414,796</b>
Net current assets		<b>177,205</b>	<b>827,457</b>
Total assets less current liabilities		<b>5,793,448</b>	<b>6,237,313</b>
<b>Financed by:</b>			
Share capital	18	2,180,700	2,180,700
Reserves	19	2,896,818	2,826,548
Proposed final dividend	19	261,684	218,070
Retained earnings	19	65,515	95,641
Shareholders' funds		<b>5,404,717</b>	<b>5,320,959</b>
<b>Non-current liabilities</b>			
Long-term liabilities	20	148,419	643,060
Deferred income	22	240,312	273,294
		<b>5,793,448</b>	<b>6,237,313</b>

Chen Chao

Director

Wu Ya De

Director

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

For the year ended 31st December 2002

	Note	2002 RMB'000	2001 RMB'000
Total equity as at 1st January		5,363,392	4,539,498
Profit for the year	19	359,931	421,336
Dividends	19	(218,070)	(201,570)
Issue of shares		—	165,000
Premium on issue of shares		—	439,128
Total equity as at 31st December		<u>5,505,253</u>	<u>5,363,392</u>

## CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December 2002

	Note	2002 RMB'000	2001 RMB'000
Operating activities			
Cash received from toll income		553,925	521,405
Cash received from construction management services		—	92,597
Cash payments to suppliers		(47,091)	(29,226)
Cash paid to and on behalf of employees		(42,159)	(35,767)
Other cash payments		(68,315)	(13,164)
Net cash inflow generated from operations	23(a)	396,360	535,845
Interest paid		(25,962)	(49,207)
PRC taxation paid		(36,150)	(157)
Net cash inflow from operating activities		334,248	486,481
Investing activities			
Purchase of fixed assets and payment for construction in progress		(304,010)	(264,643)
Proceeds from sale of fixed assets		100	416
Interest received		25,938	25,656
Purchase of a jointly controlled entity		(40,000)	—
Sale of a jointly controlled entity		618	—
Dividends received from investments		7,862	11,142
Dividends received from jointly controlled entities		52,663	56,191
Increase in fixed bank deposits		(140,725)	(61,275)
Decrease/(increase) in other investments		358,300	(233,649)
Loan to a jointly controlled entity		(140,000)	(25,252)
Repayment of loans receivable from jointly controlled entities		41,526	55,858
Net cash outflow from investing activities		(137,728)	(435,556)
Net cash inflow before financing		196,520	50,925
Financing activities	23(b)		
Issue of shares		—	604,128
New bank loans borrowed		1,255,359	559,060
Repayment of bank loans borrowed		(1,390,000)	(540,000)
Other long-term advances granted		30,000	106,000
Capital contribution from a minority shareholder of a subsidiary		900	—
Repayment of advance from a minority shareholder		(4,674)	—
Dividends paid		(218,070)	(201,570)
Dividends paid to minority shareholders		(10,112)	(1,870)
Net cash (outflow)/inflow from financing activities		(336,597)	525,748
(Decrease)/increase in cash and cash equivalents		(140,077)	576,673
Cash and cash equivalents at 1st January		900,813	484,348
Cash equivalents reclassified as other investments		—	(160,208)
Cash and cash equivalents at 31st December		760,736	900,813
Analysis of balances of cash and cash equivalents:			
Bank balances and cash		962,736	962,088
Fixed bank deposits with maturity over 3 months		(202,000)	(61,275)
		760,736	900,813

## NOTES TO THE ACCOUNTS

### 1. GENERAL

Shenzhen Expressway Company Limited (the “Company”) was established as a joint stock limited company in the People’s Republic of China (the “PRC”) on 30th December 1996. The principal activities of the Company and its subsidiaries (collectively the “Group”) and its jointly controlled entities are the development, operation and management of toll highways and expressways in the PRC.

### 2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

#### (a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants (“HK GAAP”). This basis of accounting differs in certain material respects from that used in the preparation of the Group’s statutory accounts in the PRC. The PRC statutory accounts of the Group have been prepared in accordance with accounting principles and financial regulations applicable to joint stock limited companies in the PRC. Appropriate restatements have been made to the PRC statutory accounts to conform with HK GAAP. Differences arising from the restatements are not incorporated in the Group’s accounting records.

The accounts are prepared under the historical cost convention except that, as disclosed in note 2(g) below, other investments are stated at fair value.

In the current year, the Group adopted the following Statements of Standard Accounting Practice (“SSAPs”) issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1st January 2002:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 11 (revised)	:	Foreign currency translation
SSAP 15 (revised)	:	Cash flow statements
SSAP 33	:	Discontinuing operations
SSAP 34 (revised)	:	Employee benefits
SSAP 35	:	Government grants and disclosure of government assistance

There is no significant financial effect arising from the adoption of these new/revised standards.

## NOTES TO THE ACCOUNTS

### 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

#### (b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December. Subsidiaries are those entities in which the Company, directly or indirectly, controls the composition of the board of directors, controls more than half the voting power or holds more than half of the issued share capital or paid-in capital.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

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

#### (c) Joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

The consolidated profit and loss account includes the Group's share of the results of jointly controlled entities for the year, and the consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entities and goodwill/negative goodwill (net of accumulated amortisation) on acquisition.

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

## NOTES TO THE ACCOUNTS

### 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

#### (d) Goodwill

Goodwill, which represents the excess of the cost of an acquisition over the fair values of the Group's share of the net assets of the acquired subsidiaries or jointly controlled entities at the date of acquisition, is recognised as an asset and is amortised using the straight-line method over its estimated useful life or 20 years, whichever is shorter. Any unamortised goodwill is charged to the profit and loss account upon disposal of the subsidiaries or jointly controlled entities.

Where an indication of impairment exists, the carrying amount of goodwill is assessed and written down immediately to its recoverable amount.

#### (e) Fixed assets

Fixed assets are stated at cost less accumulated depreciation/amortisation and accumulated impairment losses.

Depreciation of toll roads and amortisation of land use rights in relation to toll roads are calculated to write off their cost on an units-of-usage basis whereby depreciation and amortisation are provided based on the share of actual traffic volume for a particular period over the projected total traffic volume throughout the periods for which the Group is granted the rights to operate those roads. It is a Group policy to review regularly the projected total traffic volume throughout the operating periods of respective toll roads. If it is considered appropriate, independent professional traffic studies will be obtained. Appropriate adjustment will be made should there be a material change.

Depreciation of buildings, structures and leasehold improvements is calculated to write off their cost on a straight-line basis over the unexpired periods of the leases or the unexpired periods of the rights to operate relevant roads or their expected useful lives, whichever is shorter. The principal annual rates are 3% to 7%.

Other tangible fixed assets are depreciated at rates sufficient to write off their cost over their estimated useful lives on a straight-line basis taking into account their estimated residual value. The principal annual rates are as follows:

Equipment	
— traffic related	10%
— electronic and others	20%
Motor vehicles	17%



## NOTES TO THE ACCOUNTS

### 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

#### (e) Fixed assets (Continued)

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements and major costs incurred in restoring fixed assets to their normal working condition to allow continued use of the overall assets are capitalised and depreciated in accordance with the aforementioned depreciation policy of the Group.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

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

#### (f) Construction in progress

Construction in progress is stated at cost which includes development expenditure and other direct costs, including interest cost on the related borrowed funds during the construction period, attributable to the development of toll roads, buildings and structures for the Group's own use. Costs are transferred to fixed assets upon completion.

#### (g) Other investments

Other investments are carried at fair value, which is calculated by reference to the respective stock exchanges quoted selling prices at the close of business on the balance sheet date. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of other investments are recognised in the profit and loss account. Profits or losses on disposal of other investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

## NOTES TO THE ACCOUNTS

### 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

#### (h) Inventories

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

#### (i) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

#### (j) Deferred taxation

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

## NOTES TO THE ACCOUNTS

### 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

#### (k) Other receivables

Provision is made against other receivables to the extent they are considered to be doubtful. Other receivables in the balance sheet are stated net of such provision.

#### (l) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and deposits held at call with banks.

#### (m) Translation of foreign currencies

Transactions in foreign currencies are translated into Renminbi at exchange rates quoted by the People's Bank of China at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated into Renminbi at rates of exchange quoted by the People's Bank of China at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

#### (n) Revenue recognition

Toll revenue from operation of toll roads, net of business tax and surcharge, is recognised on a receipt basis.

Construction management services income is recognised using the percentage of completion method by reference to the stage of completion of the construction. The stage of completion is measured by reference to the construction costs incurred to date as a percentage of total estimated costs.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Investment income and dividend income is recognised when the right to receive the payment is established.

Government grants in relation to subsidies for compensation of toll revenue are recognised as income over the periods for which they are intended to subsidise in accordance with the policy as stated in note 2(o).

## NOTES TO THE ACCOUNTS

### 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

#### (o) Deferred income — government grants

A government grant is initially recognised as deferred income, when there is reasonable assurance that the grant will be received.

Government grants provided to the Group in relation to subsidies for compensation of toll revenue of a specific toll road are deferred and amortised over a period for which the Group is granted the rights to operate such road.

The subsidies recognised in the profit and loss account for the year is calculated based on the attributable share of the total amount of the government grants intended to be compensated for the year with reference to actual traffic volume for the year and the projected total traffic volume throughout the period for which the Group is granted the rights to operate the road.

It is a Group policy to review regularly the projected total traffic volume throughout the operating periods of respective toll roads. If it is considered appropriate, independent professional traffic studies will be obtained. Appropriate adjustment will be made should there be a material change.

#### (p) Employee benefits

##### (i) *Employee leave entitlements*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

## NOTES TO THE ACCOUNTS

### 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

#### (p) Employee benefits (Continued)

##### (ii) *Bonus plans*

The expected cost of bonus payments are recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made. Liabilities for bonus in relation to the unexercised rights under the Share Appreciation Right Scheme but not exercised are accrued by reference to the Company's share price as at the balance sheet date.

##### (iii) *Pension obligations*

The Group contributes to a defined contributions retirement scheme which is available to all employees. Contributions to the scheme by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to the profit and loss account represents contributions payable by the Group to the fund.

The Group's contributions to the defined contributions retirement scheme are expensed as incurred. The assets of the scheme are held separately from those of the Group in an independently administered fund. Details of the Group's retirement benefits are set out in note 4(b).

#### (q) **Borrowing costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

## NOTES TO THE ACCOUNTS

## 3. TURNOVER AND REVENUE

Revenues recognised during the year are as follows:

	Note	2002 RMB'000	2001 RMB'000
Turnover			
Income from toll roads		553,048	516,684
Less: taxes related to toll income	(a)	(28,757)	(26,871)
		<u>524,291</u>	<u>489,813</u>
Other revenues			
Interest income from bank deposits		12,312	6,389
Interest income from a long-term loan		13,010	19,267
Income from construction management services		2,413	63,131
Government subsidies (note 22)		32,982	26,706
Income from other investments		—	11,142
Others		5,819	3,130
		<u>66,536</u>	<u>129,765</u>
Total revenues		<u>590,827</u>	<u>619,578</u>

(a) Taxes related to toll income comprise:

- PRC Business Tax at 5% on toll income
- City Development Tax at 1% of PRC Business Tax
- Education Supplementary Tax at 3% of PRC Business Tax

(b) No segment information is presented as all turnover of the Group is toll income derived from the PRC.

## NOTES TO THE ACCOUNTS

### 4. STAFF COSTS

Staff costs, including directors' remuneration, are as follows:

	Note	2002 RMB'000	2001 RMB'000
Wages and salaries		30,244	29,442
Bonus — Share Appreciation Right Scheme	(a)	4,870	—
Pension costs — defined contribution plans	(b)	2,226	2,662
Less: Pension costs capitalised in construction in progress		(79)	(135)
Other staff welfare benefits		8,689	7,884
		<u>45,950</u>	<u>39,853</u>

#### (a) Share Appreciation Right Scheme

At the 2001 Annual General Meeting of the Company held on 6th March 2001, the Share Appreciation Right Scheme (the "Scheme") was approved and adopted. Total number of rights (the "Rights") available under the Scheme is 60,471,000. Rights are granted to directors and key management staff. Rights can be exercised one year after the date of grant and before the respective expiry date. Under the Scheme, the grantees are benefited by way of exercising their Rights to the extent of the higher of share price over the pre-determined exercise price of the Rights and receiving a bonus reward in the form of cash from the Company. The amounts payable to the grantees under the Scheme are expensed in the profit and loss account as staff costs.

## NOTES TO THE ACCOUNTS

## 4. STAFF COSTS (Continued)

## (a) Share Appreciation Right Scheme (Continued)

(i) Movements in the number of Rights during the year are as follows:

		Directors	Management staff	Total
Number of Rights exercisable during the year	(ii)	1,668,900	2,932,350	4,601,250
Number of Rights exercised during the year		<u>(505,275)</u>	<u>(2,322,525)</u>	<u>(2,827,800)</u>
Number of Rights not exercised at the end of the year		<u>1,163,625</u>	<u>609,825</u>	<u>1,773,450</u>

(ii) Bonus amount paid and payable for such exercisable Rights during the year totalling RMB4,870,000 was charged as staff costs for the year. Of the amount, bonus in relation to those Rights exercised by directors and management staff of the Company during the year amounted to RMB218,000 and RMB3,071,000 respectively.

(b) The Group participates in the Shenzhen Municipal Retirement Scheme managed by Shenzhen Social Security Bureau. Pursuant to relevant provisions, the Group is required to make a monthly contribution equivalent to 12% and 7% respectively (2001: 12% and 7% respectively) of the monthly salary in respect of its full-time and temporary employees. The Bureau is responsible for pension payments to the retired employees of the Group and the Group has no further obligations. For the year ended 31st December 2002, total contributions made in this connection amounted to RMB2,226,000 (2001: RMB2,662,000).



## NOTES TO THE ACCOUNTS

### 4. STAFF COSTS (Continued)

(c) As at 31 December 2002, details of the rights which are not exercised are set out below:

No. of the rights which are not exercised	Provision for the year (RMB)	Exercisable date
1,773,450	1,580,744	16 March 2002
4,380,675	—	16 March 2003
4,380,675	—	16 March 2004
4,380,675	—	16 March 2005
<u>14,915,475</u>	<u>1,580,744</u>	

### 5. OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	2002 RMB'000	2001 RMB'000
<b>Crediting</b>		
Realised gains on other investments	—	11,142
Net exchange gain	—	181
	<u>—</u>	<u>11,323</u>
<b>Charging</b>		
Realised losses on other investments	3,475	—
Unrealised losses on other investments	—	24,220
Auditors' remuneration	1,220	1,110
Net exchange loss	297	—
Impairment of goodwill	—	9,060
Loss on disposal of interest in a subsidiary	—	1,035
Loss on disposal of fixed assets	39	3,206
Provision for doubtful debts		
— Other receivables	131	63
— Loans to a jointly controlled entity (note 14(e))	14,519	3,634
	<u>14,519</u>	<u>3,634</u>

## NOTES TO THE ACCOUNTS

## 6. FINANCE COSTS

	2002 RMB'000	2001 RMB'000
Interest on bank loans and other loans	25,962	49,207
Less: interest capitalised in construction in progress	(1,035)	(7,560)
	<u>24,927</u>	<u>41,647</u>

The capitalisation rate applied to funds borrowed and used for the development of construction in progress ranged between 1.8% and 7.17% (2001: 5.427% and 6.03%) per annum.

## 7. TAXATION

The amount of taxation charged to the consolidated profit and loss account represents:

	2002 RMB'000	2001 RMB'000
PRC enterprise income tax	40,679	140
Share of taxation attributable to a jointly controlled entity	7,462	—
	<u>48,141</u>	<u>140</u>

- (a) The Company is subject to PRC enterprise income tax rate of 15%, the preferential tax rate for enterprises established in the Shenzhen Special Economic Zone, as compared with the standard rate of 33%. Pursuant to the approvals granted by relevant authorities, the Company, one of its subsidiaries and one of its jointly controlled entities are originally to be exempted from PRC enterprise income tax for the first five years in which they record assessable profits and a 50% reduction of the PRC enterprise income tax for the five consecutive years thereafter. Pursuant to the new regulations issued by the relevant authorities in August 2002, effective from 1st January 2002, the preferential policies for PRC enterprise income tax of these companies are ceased and these companies are subject to the PRC enterprise income tax at 15% from 1st January 2002 onwards.

The PRC enterprise income tax charged to the consolidated profit and loss account have been calculated on the assessable profits of the Company, its subsidiaries and its jointly controlled entities for the year at rates of taxation applicable to respective companies.

## NOTES TO THE ACCOUNTS

### 7. TAXATION (Continued)

- (b) No provision for Hong Kong profits tax has been made in the accounts as the Group has no income assessable to Hong Kong profits tax.
- (c) No provision for deferred taxation has been made in the accounts as the effect of timing differences is not material to the Group.

### 8. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of RMB301,828,000 (2001: RMB415,653,000).

### 9. DIVIDENDS

	2002 RMB'000	2001 RMB'000
Final, proposed, of RMB0.12 (2001: RMB0.10) per ordinary share	<u>261,684</u>	<u>218,070</u>

At a meeting held on 11th April 2003 the directors declared a final dividend of RMB0.12 per ordinary share. This proposed dividend is not reflected as a dividend payable in the accounts of 2002, but reflected as an appropriation of retained earnings for the year ending 31st December 2003.

### 10. EARNINGS PER SHARE

The calculation of earnings per share are based on the Group's profit attributable to shareholders of RMB359,931,000 (2001: RMB421,336,000) and the weighted average number of 2,180,700,000 (2001: 2,024,867,000) ordinary shares in issue during the year.

No fully diluted earnings per share is presented as the Company has no dilutive potential shares.

## NOTES TO THE ACCOUNTS

## 11. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

## (a) Directors' remuneration

The aggregate amounts of emoluments payable to directors during the year are as follows:

	2002 RMB'000	2001 RMB'000
As directors		
— executive	—	—
— non-executive		
— remuneration	477	318
— allowances	116	—
— bonus from Share Appreciation Right Scheme	129	—
As supervisors	—	—
For management		
— basic salaries and allowances	723	756
— bonuses	250	403
— contributions to the retirement scheme	18	30
— bonus from Share Appreciation Right Scheme	89	—
	<b>1,802</b>	<b>1,507</b>

During the year, 1,668,900 Rights were exercisable by the directors under the Share Appreciation Right Scheme approved by the shareholders at the 2001 Annual General Meeting on 6th March 2001. Bonus payable to directors in relation to the Rights exercised by them during the year amounted to RMB218,000. Refer to note 4(a) to the accounts for details of Rights exercisable and exercised during the year.

The emoluments for all the directors (executive and non-executive) fell within the band of RMB nil to RMB1,060,000 (HK\$1,000,000) during the years ended 31st December 2002 and 2001.

No directors waived emoluments in respect of the years ended 31st December 2002 and 2001.

During the years ended 31st December 2002 and 2001, no emoluments had been paid by the Group to the directors as an inducement to join or upon joining the Group or as a compensation for loss of office.

## NOTES TO THE ACCOUNTS

### 11. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

#### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2001: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2001: two) individuals during the year are as follows:

	2002 RMB'000	2001 RMB'000
Basic salaries and allowances	828	530
Bonuses	255	184
Contributions to the retirement scheme	30	20
Bonus from Share Appreciation Right Scheme	108	—
	<u>1,221</u>	<u>734</u>

The emoluments for all senior management fell within the band of RMB nil to RMB1,060,000 (HK\$1,000,000) during the years ended 31st December 2002 and 2001.

## NOTES TO THE ACCOUNTS

## 12. FIXED ASSETS — GROUP

	Toll roads	Land use rights	Buildings, structures and leasehold improvements	Equipment	Motor vehicles	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost						
At 1st January 2002	3,673,769	493,681	207,727	118,365	13,050	4,506,592
Additions	2,732	39,888	267	2,345	4,407	49,639
Transfer from construction in progress (note 15)	4,564	—	—	20,284	—	24,848
Reclassification	(52,536)	—	14,201	39,106	(771)	—
Disposals	—	—	—	(657)	(540)	(1,197)
<b>At 31st December 2002</b>	<b>3,628,529</b>	<b>533,569</b>	<b>222,195</b>	<b>179,443</b>	<b>16,146</b>	<b>4,579,882</b>
Accumulated depreciation						
At 1st January 2002	177,835	28,581	23,152	35,159	10,324	275,051
Charge for the year	62,116	10,260	9,001	17,107	2,190	100,674
Reclassification	(436)	—	771	333	(668)	—
Disposals	—	—	—	(544)	(514)	(1,058)
<b>At 31st December 2002</b>	<b>239,515</b>	<b>38,841</b>	<b>32,924</b>	<b>52,055</b>	<b>11,332</b>	<b>374,667</b>
Net book value						
<b>At 31st December 2002</b>	<b>3,389,014</b>	<b>494,728</b>	<b>189,271</b>	<b>127,388</b>	<b>4,814</b>	<b>4,205,215</b>
At 31st December 2001	3,495,934	465,100	184,575	83,206	2,726	4,231,541

## NOTES TO THE ACCOUNTS

### 12. FIXED ASSETS — COMPANY

	Toll roads	Land use rights	Buildings, structures and leasehold improvements	Equipment	Motor vehicles	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost						
At 1st January 2002	2,875,721	254,098	174,004	76,490	10,533	3,390,846
Additions	2,732	39,888	267	708	4,407	48,002
Transfer from construction in progress (note 15)	4,564	—	—	19,078	—	23,642
Reclassification	(52,536)	—	14,201	39,106	(771)	—
Disposals	—	—	—	(370)	(540)	(910)
<b>At 31st December 2002</b>	<b>2,830,481</b>	<b>293,986</b>	<b>188,472</b>	<b>135,012</b>	<b>13,629</b>	<b>3,461,580</b>
Accumulated depreciation						
At 1st January 2002	144,930	18,725	17,022	13,641	8,898	203,216
Charge for the year	44,345	5,080	7,228	12,204	1,896	70,753
Reclassification	(436)	—	771	333	(668)	—
Disposals	—	—	—	(272)	(514)	(786)
<b>At 31st December 2002</b>	<b>188,839</b>	<b>23,805</b>	<b>25,021</b>	<b>25,906</b>	<b>9,612</b>	<b>273,183</b>
Net book value						
<b>At 31st December 2002</b>	<b>2,641,642</b>	<b>270,181</b>	<b>163,451</b>	<b>109,106</b>	<b>4,017</b>	<b>3,188,397</b>
At 31st December 2001	2,730,791	235,373	156,982	62,849	1,635	3,187,630

- (a) The toll roads and buildings of the Group are located in the PRC. The Group has the right to use the land on which the respective toll roads and buildings are erected for a period of 30 years from the date of establishment of the Company.

## NOTES TO THE ACCOUNTS

## 13. INVESTMENTS IN SUBSIDIARIES

	Note	Company	
		2002 RMB'000	2001 RMB'000
Unlisted investments, at cost		721,050	718,950
Advance to a subsidiary	(c)	194,459	318,920
		<u>915,509</u>	<u>1,037,870</u>

(a) The following is a list of all subsidiaries as at 31st December 2002:

Name	Place of incorporation and nature of legal entity	Principal activities and place of operation	Direct interest held
Shenzhen Meiguan Highway Company Limited ("Meiguan")	PRC limited liability company	Construction, operation and management of Meiguan Expressway in Shenzhen	95%
Shenzhen Expressway Advertising Company Limited (formerly known as Shenzhen Zhengyi Advertising Company Limited)	PRC limited liability company	Advertising agency	60%
Shenzhen Expressway Engineering Consulting Company Limited ("Engineering Consulting Company")	PRC limited liability company	Project management consulting, construction consulting and selling of construction materials	70%

(b) During the year, the Company contributed RMB2,100,000 to establish the Engineering Consulting Company with equity interest of 70%.

(c) The advance of RMB194,459,000 (2001: RMB318,920,000) was made to Meiguan and is unsecured, non-interest bearing and is repayable out of the funds to be generated from its toll road project.



## NOTES TO THE ACCOUNTS

### 14. INTERESTS IN JOINTLY CONTROLLED ENTITIES/LONG-TERM LOAN

	Note	Group		Company	
		2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Unlisted investments, at cost		—	—	395,060	355,660
Provision for impairment		—	—	(9,060)	(9,060)
		<u>—</u>	<u>—</u>	<u>386,000</u>	<u>346,600</u>
Share of net assets other than goodwill		406,589	365,459	—	—
Goodwill on acquisition of a jointly controlled entity less amortisation		9,060	9,060	—	—
Provision for impairment	(e)	(9,060)	(9,060)	—	—
		<u>406,589</u>	<u>365,459</u>	<u>386,000</u>	<u>346,600</u>
Advances to jointly controlled entities	(c)	526,374	427,900	526,374	427,900
Loans to a jointly controlled entity	(d)	43,424	43,424	43,424	43,424
Provision for doubtful loans	(e)	(18,153)	(3,634)	(18,153)	(3,634)
		<u>958,234</u>	<u>833,149</u>	<u>937,645</u>	<u>814,290</u>
Interests in jointly controlled entities					
Long-term loan	(g)	306,000	306,000	306,000	306,000

## NOTES TO THE ACCOUNTS

## 14. INTERESTS IN JOINTLY CONTROLLED ENTITIES/LONG-TERM LOAN (Continued)

(a) The following is a list of all jointly controlled entities as at 31st December 2002:

Name	Place of incorporation	Principal activities and place of operation	Percentage of interest in ownership/ voting power/ profit sharing
Shenzhen Airport-Heao Expressway (Eastern Section) Company Limited ("Airport-Heao")	PRC	Construction, operation and management of Jihe Expressway (East) in Shenzhen	*55%
Changsha Shenchang Expressway Company Limited ("Shenchang")	PRC	Construction, operation and management of Changsha Ring Road (Northwestern) in Changsha	*51%
Shenzhen Wutongling Ropeway Company Limited ("Wutongling")	PRC	Construction and management of a cable car project in Shenzhen	*40%
Shenzhen Fountain Infrastructure Corporation ("Shenzhen Fountain") (note (b))	PRC	Construction, operation and management of Shuiguan Expressway in Shenzhen	*40%

\* Interests held directly by the Company

- (b) In late December 2002, the Company acquired 40% equity interest of Shenzhen Fountain from a third party at a consideration of RMB40,000,000. The Group's share of the post-acquisition results of this jointly controlled entity was insignificant and thus has not been included in the consolidated profit and loss account of the Group for the year. In addition, the Company made an advance of RMB140,000,000 to this jointly controlled entity, of which RMB30,000,000 has been repaid during the year.
- (c) This represents advances made to Airport-Heao of RMB416,374,000 (2001: RMB427,900,000) and Shenzhen Fountain of RMB110,000,000 (2001: Nil). The advances are unsecured, non-interest bearing and are repayable out of the funds to be generated from the respective toll road projects.

## NOTES TO THE ACCOUNTS

### 14. INTERESTS IN JOINTLY CONTROLLED ENTITIES/LONG-TERM LOAN (Continued)

- (d) The loans were advanced to Wutongling, including an amount of RMB25,000,000 in respect of the repayment of bank loans guaranteed by the Company made by the Company on behalf of Wutongling, and are secured by the 55% equity interest in Wutongling held by its majority shareholder and various equipment and operating facilities of Wutongling. The loans are interest bearing at bank loan interest rate prevailing in the PRC and have no fixed terms of repayment.
- (e) In previous year, provision for impairment was made against goodwill on acquisition of Wutongling of RMB9,060,000, and provision for doubtful loans of RMB3,634,000 was provided in respect of loans previously advanced to it.

As at 31st December 2002, Wutongling has not yet commenced operations as planned. In May 2002, the Company filed a writ to Shenzhen Intermediate People's Court (the "Court") against Wutongling for enforcement of the recovery of RMB43,000,000 and related interests accrued thereon, representing the repayment of bank loans on behalf of Wutongling for which the Company has provided guarantee to banks. The Company also filed a writ to the Court against Shenzhen Zhongmin Investment Service Company ("Zhongmin Company"), the joint venture partner of Wutongling, in relation to a claim of RMB9,900,000 and interests accrued thereon, representing the portion of bank loans of Wutongling that was guaranteed by Zhongmin Company, but was repaid by the Company on its behalf. Pursuant to the Court's decision in October 2002, a judgement was given in favour of the Company that Wutongling should repay all the amounts paid by the Company on behalf of Wutongling, and Zhongmin Company should repay the Company that portion of Wutongling's bank loans which was guaranteed by Zhongmin Company. As at 31st December 2002, the amounts recoverable from Wutongling and Zhongmin Company were not yet received.

Zhongmin Company was not satisfied with the judgement and appealed to the Court in January 2003. As at the date of approval of these accounts, the Court has not yet accepted such appeal.

The directors have carefully considered and evaluated the above circumstances and have appointed an independent professional valuer to perform a valuation on the Company's investment in Wutongling. A further provision for doubtful loans of RMB14,519,000 was provided for the loans to Wutongling during the year.

## NOTES TO THE ACCOUNTS

## 14. INTERESTS IN JOINTLY CONTROLLED ENTITIES/LONG-TERM LOAN (Continued)

(f) Information on material jointly controlled entities

Financial information of Airport-Heao and Shenchang as at and for the year ended 31st December 2002 prepared under HK GAAP over which the Company has joint control is as follows:

	Airport-Heao		Shenchang	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Profit and loss account				
Turnover	<u>149,056</u>	<u>145,704</u>	<u>12,473</u>	<u>6,357</u>
Operating profit/(loss) before taxation				
Taxation	<u>116,188</u> <u>(13,568)</u>	<u>112,219</u> <u>—</u>	<u>(3,983)</u> <u>—</u>	<u>(3,387)</u> <u>—</u>
Profit/(loss) after taxation	<u>102,620</u>	<u>112,219</u>	<u>(3,983)</u>	<u>(3,387)</u>
Net assets				
Fixed assets	<u>1,211,521</u>	<u>1,252,153</u>	<u>781,884</u>	<u>794,225</u>
Other long-term assets	<u>26</u>	<u>43</u>	<u>—</u>	<u>49</u>
Current assets	<u>23,758</u>	<u>19,362</u>	<u>14,396</u>	<u>5,662</u>
Current liabilities	<u>(9,892)</u>	<u>(9,159)</u>	<u>(3,650)</u>	<u>(3,323)</u>
Net current assets	<u>13,866</u>	<u>10,203</u>	<u>10,746</u>	<u>2,339</u>
Amounts due to owners	<u>(609,385)</u>	<u>(646,303)</u>	<u>(600,000)</u>	<u>(600,000)</u>
Net assets	<u>616,028</u>	<u>616,096</u>	<u>192,630</u>	<u>196,613</u>

## NOTES TO THE ACCOUNTS

### 14. INTERESTS IN JOINTLY CONTROLLED ENTITIES/LONG-TERM LOAN (Continued)

#### (g) Long-term loan

This represents long-term loan made to Changsha Ring Road Construction and Development Co., Ltd. ("Ring Road Co."), the joint venture partner of Shenchang. The background and terms of the loan are summarised below.

On 22nd July 1998, the Company entered into an agreement (the "Agreement") with Ring Road Co., an independent third party in the PRC, to establish Shenchang to construct, manage and operate a highway, Changsha Ring Road. The total investment of Shenchang is RMB800 million, out of which the registered capital is RMB200 million. The Company and Ring Road Co. are responsible to contribute RMB102 million and RMB98 million, representing 51% and 49% respectively of the registered capital of Shenchang. The difference between the total investment and the registered capital of Shenchang of RMB600 million was entirely advanced by Ring Road Co.

Pursuant to the Agreement, a long-term loan of RMB306,000,000 was required to be advanced by the Company to Ring Road Co. The purpose of the loan was to assist Ring Road Co. to finance part of its advance to Shenchang for construction of the underlying road project. The loan is unsecured and bearing interest at over five years' loan interest rate quoted by the People's Bank of China from time to time. Ring Road Co. has pledged its 49% equity interest in Shenchang to the Company to secure its payment obligations of the interest of the loan. The loan is repayable in one lump sum by setting off against the Company's commitment to contribute the same loan amount to Shenchang in 2007.

### 15. CONSTRUCTION IN PROGRESS

	Group		Company	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
At 1st January	64,175	663,913	64,066	660,730
Additions	229,819	342,593	228,268	340,731
Transfer to fixed assets (note 12)	(24,848)	(942,331)	(23,642)	(937,395)
At 31st December	<u>269,146</u>	<u>64,175</u>	<u>268,692</u>	<u>64,066</u>

Construction in progress mainly comprises expenditures incurred on construction of toll roads not yet completed as at 31st December 2002.

## NOTES TO THE ACCOUNTS

### 16. AMOUNT DUE FROM/TO A JOINTLY CONTROLLED ENTITY — GROUP AND COMPANY

The amount mainly represents toll income collected by the Group on behalf of Airport-Heao, a jointly controlled entity, net of toll income collected by the jointly controlled entity on behalf of the Group. The amount is unsecured, interest free and settled on a monthly basis.

During the year, toll income collected by the Group on behalf of the jointly controlled entity amounted to RMB61,594,000 (2001: RMB64,313,000), and toll income collected by the jointly controlled entity on behalf of the Group amounted to RMB63,094,000 (2001: RMB53,537,000). All toll income collected is wholly paid over to each other on a monthly basis without any handling charges.

### 17. OTHER INVESTMENTS — GROUP AND COMPANY

	2002 RMB'000	2001 RMB'000
Other investments, at fair value	—	369,637

Other investments as at 31st December 2001 mainly represented investments entrusted in securities companies in the PRC. The entrusted investments mainly comprised government bonds and equity securities listed on the Shanghai Stock Exchange and the Shenzhen Stock Exchange of the PRC. All such investments were disposed of during the year.

### 18. SHARE CAPITAL

#### Registered, issued and fully paid

	Shares held by the State RMB'000	Shares held by legal persons RMB'000	PRC listed		Total RMB'000
			Renminbi ordinary shares (“A shares”) RMB'000	Hong Kong listed foreign shares (“H shares”) RMB'000	
At 31st December 2002 and 2001	654,780	613,420	165,000	747,500	2,180,700

Pursuant to the Company's articles of association, all shares are of nominal value of RMB1 each and are all registered ordinary shares carrying equal rights.

## NOTES TO THE ACCOUNTS

### 19. RESERVES

	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Discretionary surplus reserve RMB'000	Total RMB'000	Retained earnings RMB'000
<b>Group</b>						
At 1st January 2002	2,060,909	156,574	156,574	453,391	2,827,448	355,244
Profit for the year	—	—	—	—	—	359,931
Transfer from/(to) other reserves	—	70,729	52,961	—	123,690	(123,690)
2001 final dividend paid	—	—	—	—	—	(218,070)
<b>At 31st December 2002</b>	<b>2,060,909</b>	<b>227,303</b>	<b>209,535</b>	<b>453,391</b>	<b>2,951,138</b>	<b>373,415</b>
Representing:						
2002 final dividend proposed						261,684
Retained earnings						111,731
<b>Retained earnings as at 31st December 2002</b>						<b>373,415</b>
Company and subsidiaries	2,060,909	227,303	209,535	453,391	2,951,138	349,922
Jointly controlled entities	—	—	—	—	—	23,493
<b>At 31st December 2002</b>	<b>2,060,909</b>	<b>227,303</b>	<b>209,535</b>	<b>453,391</b>	<b>2,951,138</b>	<b>373,415</b>

## NOTES TO THE ACCOUNTS

## 19. RESERVES (Continued)

	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Discretionary surplus reserve RMB'000	Total RMB'000	Retained earnings RMB'000
<b>Group</b>						
At 1st January 2001	1,621,781	116,380	116,380	412,000	2,266,541	257,257
Premium on issue of A shares	439,128	—	—	—	439,128	—
Profit for the year	—	—	—	—	—	421,336
Transfer from/(to) other reserves	—	40,194	40,194	41,391	121,779	(121,779)
2000 final dividend paid	—	—	—	—	—	(201,570)
<b>At 31st December 2001</b>	<b>2,060,909</b>	<b>156,574</b>	<b>156,574</b>	<b>453,391</b>	<b>2,827,448</b>	<b>355,244</b>
Representing:						
2001 final dividend proposed						218,070
Retained earnings						137,174
<b>Retained earnings as at 31st December 2001</b>						<b>355,244</b>
Company and subsidiaries	2,060,909	156,574	156,574	453,391	2,827,448	336,385
Jointly controlled entities	—	—	—	—	—	18,859
<b>At 31st December 2001</b>	<b>2,060,909</b>	<b>156,574</b>	<b>156,574</b>	<b>453,391</b>	<b>2,827,448</b>	<b>355,244</b>





## NOTES TO THE ACCOUNTS

### 19. RESERVES (Continued)

- (a) Pursuant to relevant PRC regulations and the articles of association of the Company, profit after taxation shall be appropriated in the following sequence:
- (i) make up accumulated losses;
  - (ii) transfer 10% of the profit after taxation to the statutory surplus reserve. When the balance of the statutory surplus reserve reaches 50% of the share capital, such transfer need not be made;
  - (iii) transfer 10% of the profit after taxation to the statutory public welfare fund;
  - (iv) transfer to the discretionary surplus reserve an amount as may be approved by the shareholders in annual general meeting;
  - (v) distribute dividends to shareholders.

The amounts of transfer to the statutory surplus reserve and statutory public welfare fund shall be based on profit after taxation in the statutory accounts of the Company prepared in accordance with PRC accounting standards.

#### (b) Capital reserve

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

#### (c) Statutory surplus reserve and discretionary surplus reserve

According to relevant PRC regulations, statutory surplus reserve and discretionary surplus reserve can be used to make up losses or to increase share capital.

#### (d) Statutory public welfare fund

According to relevant PRC regulations, the use of the statutory public welfare fund is restricted to capital expenditures for employees welfare facilities. The statutory public welfare fund is not available for distribution to shareholders except on liquidation.

## NOTES TO THE ACCOUNTS

### 19. RESERVES (Continued)

#### (e) Profit distributable to shareholders

Pursuant to relevant PRC regulations and the articles of association of the Company, profit distributable to shareholders shall be the lower of the accumulated distributable profits determined according to PRC accounting standards as stated in the PRC statutory accounts and the accumulated distributable profits adjusted according to HK GAAP. In the PRC statutory accounts as at 31st December 2002, profit distributable to shareholders of the Company, after the final dividend declared of RMB261,684,000 for the year, amounted to RMB28,068,000 (2001: RMB62,088,000).

### 20. LONG-TERM LIABILITIES — GROUP AND COMPANY

	Group		Company	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Bank loans, secured	—	650,000	—	650,000
Current portion of long-term bank loans	—	(120,000)	—	(120,000)
	—	530,000	—	530,000
Other loans, secured (note (a))	24,419	19,060	24,419	19,060
Other long-term advances (note (b))	124,000	94,000	124,000	94,000
Advance from a minority shareholder of a subsidiary (note (c))	19,207	23,881	—	—
	<u>167,626</u>	<u>666,941</u>	<u>148,419</u>	<u>643,060</u>

- (a) Other loans totalling USD2,950,000 were borrowed from the Spanish Government through the China Construction Bank. The loans comprised of two portions. Loan amount of USD1,475,000 is bearing interest at 1.8% per annum, and the remaining amount of USD1,475,000 is bearing interest at 7.17% per annum. The loans are not wholly repayable within five years and are guaranteed by Xin Tong Chan Development (Shenzhen) Company Limited (formerly known as Shenzhen Freeway Development Company Limited), the major shareholder of the Company.

## NOTES TO THE ACCOUNTS

## 20. LONG-TERM LIABILITIES — GROUP AND COMPANY (Continued)

- (b) Other long-term advances were obtained from local government authorities as an inducement for the Company to participate in a toll road project. The advances are unsecured, non-interest bearing and have no fixed terms of repayment. In the opinion of the directors, these advances are not repayable within five years.
- (c) The advance was granted to Meiguan, a subsidiary of the Company, by the minority shareholder of Meiguan. The advance is unsecured, non-interest bearing and is repayable out of the funds to be generated from Meiguan's toll road project.

The analysis of long-term liabilities is as follows:

	Group		Company	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Bank loans wholly repayable within five years	—	650,000	—	650,000
Other loans not wholly repayable within five years	24,419	19,060	24,419	19,060
Other long-term advances not wholly repayable within five years	124,000	94,000	124,000	94,000
Advances from a minority shareholder not wholly repayable within five years	19,207	23,881	—	—
	<u>167,626</u>	<u>786,941</u>	<u>148,419</u>	<u>763,060</u>
Current portion of long-term bank loans	—	(120,000)	—	(120,000)
	<u>167,626</u>	<u>666,941</u>	<u>148,419</u>	<u>643,060</u>

## NOTES TO THE ACCOUNTS

### 21. BORROWINGS

At 31st December 2002, the Group's bank loans and other borrowings were repayable as follows:

	Bank loans and other loans		Other long-term advances and advances from a minority shareholder	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Within one year	610,000	220,000	—	—
In the second to fifth year	—	530,000	—	—
After the fifth year	24,419	19,060	143,207	117,881
<b>Total</b>	<b>634,419</b>	<b>769,060</b>	<b>143,207</b>	<b>117,881</b>

As at 31st December 2002, total banking facilities available to the Group amounted to RMB3,000,000,000 (2001: RMB2,100,000,000) of which the Group had utilised to the extent of bank loans of RMB610,000,000 (2001: RMB750,000,000). The banking facilities to the extent of RMB1,900,000,000 are secured by the operating rights for collecting toll income from National Highway No. 107 (Shenzhen Section) and National Highway No. 205 (Shenzhen Section).

Subsequent to the balance sheet date, the Company entered into a transfer agreement to transfer all its assets in and its operating rights for collecting toll income from National Highway No. 107 (Shenzhen Section) and National Highway No. 205 (Shenzhen Section) to the Shenzhen Communications Bureau (see note 26). The banking facilities of RMB1,900,000,000 secured by the operating rights for collecting toll income from these toll roads will be cancelled within 6 months from the effective date of the assets transfer transaction.

## NOTES TO THE ACCOUNTS

## 22. DEFERRED INCOME — GROUP AND COMPANY

	Group and Company	
	2002 RMB'000	2001 RMB'000
At 1st January	273,294	—
Transfer from other long-term advances	—	300,000
Government subsidy income recognised for the year	(32,982)	(26,706)
At 31st December	240,312	273,294

Deferred income represents government grants provided to the Company in relation to subsidies for compensation of toll revenue of the Yanba Expressway Section A (the "Expressway"), as a result of the anticipated insufficient traffic volume caused by the early construction of the Expressway as requested by the Shenzhen Municipal Government to fulfil its overall town planning requirements. Pursuant to a circular Shenjitouzi (2001) No. 764 issued by the Shenzhen Municipal Government dated 21st November 2001, Shenzhen Municipal Government approved the non-repayment of long-term advances totalling RMB300,000,000 previously provided to the Company, and the conversion of these advances to subsidies for compensation of toll revenue to the Company. Such government grants are recognised in the profit and loss account according to the Group's accounting policies as shown in note 2(o) over the period for which the Company is granted the right to operate the Expressway.

## NOTES TO THE ACCOUNTS

### 23. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2002 RMB'000	2001 RMB'000
Operating profit	377,072	408,267
Depreciation and amortisation	100,674	88,150
Impairment of goodwill	—	9,060
Provision for doubtful debts of other receivables	131	63
Provision for doubtful debts of loans to a jointly controlled entity	14,519	3,634
Loss on disposal of fixed assets	39	3,206
Increase in inventories	(77)	(659)
(Increase)/decrease in other receivables, prepayments and deposits	(5,646)	12,746
Decrease in amount due to a jointly controlled entity	(3,088)	(9,962)
(Decrease)/increase in other payables and accrued charges	(32,435)	60,624
Interest income from bank deposits	(12,312)	(6,389)
Interest income from a long-term loan	(13,010)	(19,267)
Investment losses from other investments	3,475	13,078
Government subsidies	(32,982)	(26,706)
	<hr/>	<hr/>
Net cash inflow generated from operations	<b>396,360</b>	<b>535,845</b>

## NOTES TO THE ACCOUNTS

## 23. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

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

	Share capital and capital reserve		Minority interests		Bank loans and other long-term advances	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
At 1st January	4,241,609	3,637,481	49,343	49,527	886,941	1,061,881
Issue of shares	—	604,128	—	—	—	—
Capital contribution from a minority shareholder of a subsidiary	—	—	900	—	—	—
Minority interests in share of profits	—	—	5,946	3,129	—	—
Dividend paid/payable to minority shareholders of subsidiaries	—	—	(4,901)	(3,313)	—	—
New loans granted	—	—	—	—	1,255,359	559,060
New advances granted	—	—	—	—	30,000	106,000
Repayment of advance from the minority shareholder of a subsidiary	—	—	—	—	(4,674)	—
Repayments of loans borrowed	—	—	—	—	(1,390,000)	(540,000)
Transfer from other long-term advances to deferred income	—	—	—	—	—	(300,000)
<b>At 31st December</b>	<b>4,241,609</b>	<b>4,241,609</b>	<b>51,288</b>	<b>49,343</b>	<b>777,626</b>	<b>886,941</b>



## NOTES TO THE ACCOUNTS

### 24. COMMITMENTS

#### Capital commitments

As at 31st December 2002, the Group and the Company had the following capital commitments for construction of expressways:

	2002 RMB'000	2001 RMB'000
Contracted but not provided for	252,630	311,509
Authorised but not contracted for	496,000	722,666
	<u>748,630</u>	<u>1,034,175</u>

The jointly controlled entities had no capital commitments as at 31st December 2002 (2001: Nil).

#### Finance commitments

As at 31st December 2002, the Group and the Company had finance commitments in respect of the advance to be made to a jointly controlled entity of RMB190,000,000 (2001: Nil).

### 25. RELATED PARTY TRANSACTIONS

Save as disclosed in the notes to the accounts, the Group had not entered into any other material transactions with related parties during the year.

## NOTES TO THE ACCOUNTS

### 26. SUBSEQUENT EVENT

On 18th March 2003, the Company entered into a transfer agreement (the "Transfer Agreement") with the Shenzhen Communications Bureau, an authorised representative of the Shenzhen Municipal Government, in respect of the Company's transfer of all its assets and interests in National Highway No. 107 (Shenzhen Section) and National Highway No. 205 (Shenzhen Section), including the related land use rights, constructions, facilities and the operating rights therein to the Shenzhen Communications Bureau. The consideration was determined preliminary at RMB1,930 million, which will be subsequently adjusted with reference to the valuation reports to be issued by two independent valuers appointed by the Company and the Shenzhen Communications Bureau respectively. The consideration of the above assets transfer will be satisfied in cash in the following manner:

- (i) 25% of the initial consideration of RMB1,930 million will be paid within 10 days after the signing of the Transfer Agreement;
- (ii) 25% of the consideration will be paid before 31st December 2003;
- (iii) 30% of the consideration will be paid before 31st December 2004; and
- (iv) the balance of the consideration will be paid before 31st December 2005.

On 28th March 2003, the Shenzhen Communications Bureau paid to the Company the initial consideration of RMB482.5 million.

In addition, according to the Transfer Agreement, the Shenzhen Communications Bureau will also pay an amount to the Company in 2004 which is equivalent to the tax payments to be made by the Company to relevant tax authorities arising from this transaction.

### 27. COMPARATIVE FIGURES

As further explained in note 2(a) to the accounts, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the accounts have been revised to comply with the new requirements. Accordingly, certain comparative figures have been reclassified to conform with the current year's presentation.

### 28. APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 11th April 2003.

## SUPPLEMENTARY INFORMATION

For the year ended 31st December 2002

### RECONCILIATION OF ACCOUNTS

The Group has prepared a separate set of accounts for the year ended 31st December 2002 in accordance with PRC accounting standards. The major differences between the accounts prepared under PRC and HK accounting standards are summarised as follows:

	<b>Profit attributable to shareholders for year ended 31st December 2002</b>	<b>Net assets as at 31st December 2002</b>
	RMB'000	RMB'000
As per PRC statutory accounts	351,354	5,160,313
Impact of HK GAAP adjustments:		
Amortisation of land use rights and depreciation of fixed assets	12,768	83,256
Realised losses on other investments	(4,288)	—
Reversal of dividend declared for 2002 after the balance sheet date	—	261,684
Others	97	—
	<hr/>	<hr/>
Net amount of adjustments	8,577	344,940
	<hr/>	<hr/>
As restated after HK GAAP adjustments	<u>359,931</u>	<u>5,505,253</u>