

# NOTES TO CONDENSED FINANCIAL STATEMENTS

## 1. Basis of Presentation

The condensed consolidated interim financial statements are prepared in accordance with the Hong Kong Statement of Standard Accounting Practice (“SSAP”) No. 25 “Interim Financial Reporting” and the relevant disclosure requirements as stipulated in Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”). Except for the first-time adoption of the revised SSAP No.12 “Income Taxes”, the accounting policies and the basis of preparation adopted are consistent with those adopted in the financial statements of the Group for the year ended December 31, 2002.

## 2. Turnover and Segment Information

During the Period, the principal activities of the Group did not change. The operating results by principal activities are summarized as follows:

	For the six months ended June 30,			
	2003		2002	
	Unaudited Turnover Rmb'000	Unaudited Profit contribution Rmb'000	Unaudited Turnover Rmb'000	Unaudited Profit contribution Rmb'000
Segment by business activities				
— Toll	1,040,329	764,572	963,081	764,022
— Service areas	46,871	11,549	30,678	6,645
— Advertising	12,717	7,530	11,547	5,675
	<u>1,099,917</u>	<u>783,651</u>	<u>1,005,306</u>	<u>776,342</u>
Others		56,033		56,069
Administrative expenses		(29,908)		(28,091)
Other operating expenses		(12,846)		(11,987)
Profit from operating activities		<u>796,930</u>		<u>792,333</u>

No further analysis of the turnover and profit from operating activities by geographical segment was prepared as the turnover and profit from operating activities of the Group were all generated from Zhejiang Province, the PRC during the Period.

# NOTES TO CONDENSED FINANCIAL STATEMENTS (CONT'D)

## 3. Other Revenue

	For the six months ended June 30,	
	2003	2002
	Unaudited Rmb'000	Unaudited Rmb'000
Revenue from short-term securities investments	30,683	37,382
Interest income	8,208	7,147
Rental income	11,199	4,351
Trailer income	4,573	4,620
Exchange gain	—	1,962
Other miscellaneous income	1,370	607
Total	56,033	56,069

## 4. Profit from operating activities

	For the six months ended June 30,	
	2003	2002
	Unaudited Rmb'000	Unaudited Rmb'000
Depreciation	113,508	109,288
Amortization of expressway operating rights	4,350	4,350
Amortization of goodwill	6,317	5,481
Staff costs	39,428	31,833

# NOTES TO CONDENSED FINANCIAL STATEMENTS (CONT'D)

## 5. Taxation

As the Group had no taxable profits in Hong Kong during the Period, no Hong Kong profits tax has been provided.

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 accounting standards in the PRC.

According to the relevant national tax rules, Zhejiang Shangsang Expressway Co., Ltd. ("Shangsang Co"), a 73.625% owned subsidiary of the Company, was entitled to a 50% CIT exemption for the year ended December 31, 2002 under the category of "Enterprise providing employment opportunities to redundant city and country workers". Approved by the local taxation authorities, Rmb33.25 million in taxation was refunded to Shangsang Co during the Period. Since the refund status needs to be reviewed by relevant authorities on an annual basis, there is no guarantee that Shangsang Co will continue to qualify for such refund in the future.

	<b>For the six months ended June 30,</b>	
	<b>2003</b>	<b>2002</b>
	<b>Unaudited</b>	<b>Unaudited</b>
	<b>Rmb'000</b>	<b>Rmb'000</b>
<b>Group:</b>		
Accounting profit before tax	<b>740,158</b>	712,210
Tax at the applicable tax rate of 33%	<b>244,252</b>	235,029
Tax effect of net (income)/expense that is not (taxable)/deductible in determining taxable profit	<b>(43,237)</b>	(23,578)
Share of taxation attributable to associates	<b>2,601</b>	3,136
Share of deferred taxation attributable to associates	<b>(712)</b>	(2,183)
Share of deferred taxation attributable to a jointly-controlled entity	<b>466</b>	492
Taxation charged for the period	<b>203,370</b>	212,896
<b>Analyzed by principal components</b>		
Current tax expense	<b>158,186</b>	165,419
Deferred tax expense relating to the temporary differences	<b>45,184</b>	47,477
	<b>203,370</b>	212,896

# NOTES TO CONDENSED FINANCIAL STATEMENTS (CONT'D)

## 6. Dividends

The Directors recommend the payment of an interim dividend of Rmb4.0 cents (approximately HK3.8 cents) per share (for the six months ended June 30, 2002: Rmb4.0 cents). The recommendation has been set out in the financial statements.

## 7. Earnings per Share

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the Period of Rmb492,147,000 (for the six months ended June 30, 2002: Rmb446,018,000) and the 4,343,114,500 shares (June 30, 2002: 4,343,114,500 shares) in issue during the Period.

Diluted earnings per share for the six months ended June 30, 2003 have not been calculated, as no diluting event occurred during the Period.

## 8. Fixed Assets

There were no significant changes to the Group's fixed assets during the Period.

## 9. Trade Receivables

The aging analysis of trade receivables as at June 30, 2003 and the comparative figures of December 31, 2002 are as follows:

	<b>As of June 30, 2003 Rmb'000 Unaudited</b>	<b>As of December 31, 2002 Rmb'000 Audited</b>
Within 1 year	<b>14,338</b>	11,720
1 to 2 years	<b>5,994</b>	2,647
Total	<b>20,332</b>	14,367

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

# NOTES TO CONDENSED FINANCIAL STATEMENTS (CONT'D)

## 10. Trade Payables

The aging analysis of trade payables as at June 30, 2003 and the comparative figures of December 31, 2002 are as follows:

	As of June 30, 2003 Rmb'000 Unaudited	As of December 31, 2002 Rmb'000 Audited
Within 1 year	189,135	200,181
1 to 2 years	13,965	4,863
2 to 3 years	2,012	1,901
Over 3 years	—	221
Total	<u>205,112</u>	<u>207,166</u>

## 11. Deferred Tax

	As of June 30, 2003 Rmb'000 Unaudited	As of December 31, 2002 Rmb'000 Audited
At beginning of period/year	240,920	131,533
(Income)/Expense for the period/year	<u>45,184</u>	<u>47,477</u>
At end of period/year	<u>286,104</u>	<u>240,920</u>
<b>Analysed by principal components</b>		
Revaluation on marketable securities at market price of the end of period/year	11,517	3,158
Temporary differences resulting from depreciation method	275,143	238,318
Fixed assets write-off	<u>(556)</u>	<u>(556)</u>
	<u>286,104</u>	<u>240,920</u>

# NOTES TO CONDENSED FINANCIAL STATEMENTS (CONT'D)

## 12. Reserves

	For the six months ended June 30, 2003					
	Share premium account Rmb'000	Capital/ (goodwill) reserve Rmb'000	Statutory surplus reserve Rmb'000	Public welfare fund Rmb'000	Retained profits Rmb'000	Total Rmb'000
As at January 1, 2003	3,645,726	(352,860)	533,815	253,511	887,604	4,967,796
Net profit for the Period	—	—	—	—	492,147	492,147
Proposed interim dividend	—	—	—	—	(173,725)	(173,725)
As at June 30, 2003	<u>3,645,726</u>	<u>(352,860)</u>	<u>533,815</u>	<u>253,511</u>	<u>1,206,025</u>	<u>5,286,218</u>

	For the six months ended June 30, 2002					
	Share premium account Rmb'000	Capital/ (goodwill) reserve Rmb'000	Statutory surplus reserve Rmb'000	Public welfare fund Rmb'000	Retained profits Rmb'000	Total Rmb'000
As at January 1, 2002	3,645,726	(352,860)	415,298	190,764	743,020	4,641,948
Net profit for the Period	—	—	—	—	446,018	446,018
Proposed interim dividend	—	—	—	—	(173,725)	(173,725)
As at June 30, 2002	<u>3,645,726</u>	<u>(352,860)</u>	<u>415,298</u>	<u>190,764</u>	<u>1,015,313</u>	<u>4,914,241</u>

# NOTES TO CONDENSED FINANCIAL STATEMENTS (CONT'D)

## 13. Commitments

	For the six months ended June 30, 2003		
	Commitments Rmb million	Utilization Rmb million	Balance Rmb million
Shanghai-Hangzhou-Ningbo expressway widening project			
From Hongken to Guzhu	350	11	339
From Dajing to Fengjing	2,508	172	2,336
From Guzhu to Dazhujia	1,625	—	1,625
Acquisition of additional 18.4% equity interest in Shangsan Co	485	—	485
Renovation of Sanjiang service area	14	2	12
Construction works under contract No.11 of the Shanghai-Hangzhou Expressway	11	4	7
Remaining construction works of the Shangsan Expressway	461	—	461
Total	5,454	189	5,265

# NOTES TO CONDENSED FINANCIAL STATEMENTS (CONT'D)

## 14. Related Party Transactions

The following is a summary of related party transactions carried out in the ordinary course of business between the Company, its subsidiaries during the Period.

Under a reorganization agreement, Zhejiang Provincial High Class Highway Investment Co., Ltd. (replaced by Zhejiang Communications Investment Group Co., Ltd. "CIG") gave a number of undertakings to the Company pursuant to the reorganizations and general indemnity provisions against any breach of representation warranty and undertakings contained in the agreement.

A new subsidiary company named Zhejiang Expressway Investment Development Co., Ltd. ("Development Co") was established on May 28, 2003, with subscription in cash by the Company and the management staff and key employees of the Group. The registered capital of Development Co is Rmb80 million, with 49% equity interest owned by the members of management staff and key employees of the Group among which the directors, supervisors and chief executives of the Company and its subsidiaries account for 20.95% and the remaining 51% owned by the Company. Development Co will place its focus on development and operation of non-toll road businesses, including the operation of service areas, billboard advertising and vehicle towing and rescue services along the expressway owned by the Group.

Since the transaction 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.

## 15. Post Balance Sheet Events

The assets and liabilities in respect of six service areas along the expressways owned by the Group and 70% of the equity interest in Zhejiang Expressway Advertising Co., Ltd. ("Advertising Co") owned by the Company were transferred to Development Co on June 1, 2003 at a consideration based on valuation of the assets and liabilities performed by an independent valuation company. Such consideration was valued at Rmb87.8 million. Related agreements of transfer were confirmed effective by the board of directors on August 18, 2003. Relevant items adjustments were calculated in the financial statements for the Period.

A newly established subsidiary of the Development Co, Zhejiang Expressway Vehicle Towing and Rescue Services Co., Ltd. ("Service Co"), was established on July 31, 2003, having a registered capital of Rmb8 million, in which 85% of the equity interest is owned by Development Co and an aggregate of 15% of the equity interest is owned by management staff and key employees of the Service Co. Service Co is principally engaged in the business of providing towing and repair of vehicles and emergency rescue services to users of the expressways owned by the Group.



# NOTES TO CONDENSED FINANCIAL STATEMENTS (CONT'D)

## 16. Contingent Liabilities and Pledge of Assets

### Contingent Liabilities

Other than a loan guarantee of Rmb30 million provided in favor of Shida Co, a jointly controlled entity, in respect of a commercial bank loan of the same amount extended to Shida Co from September 2001 to September 2009, the Group did not have any contingent liabilities as at June 30, 2003.

### Pledge of Assets

The Group had no pledge of assets during the Period.

## 17. Comparative Amounts

Due to the adoption of certain new and revised SSAPs in the 2003 interim financial statements, the presentation of the 2002 interim financial statements and certain supporting notes have been revised to comply with the new requirements during the Period. Accordingly, certain comparative figures have been reclassified to conform to the presentation of 2003 interim financial statements.

## 18. Approval of Financial Statements

The financial statements were approved and authorized for issue by the board of directors on August 18, 2003.