

## 1. Group organisation and operations

Anhui Expressway Company Limited ("the Company") was incorporated in the People's Republic of China ("PRC") on 15th August 1996 as a joint stock limited company. The Company and its subsidiaries are principally engaged in the operation and management of the toll roads in the Anhui Province.

The Company's H shares and A shares have been listed in the Stock Exchange of Hong Kong Limited and the Shanghai Stock Exchange since November 1996 and January 2003 respectively.

## 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 ("HKSA")(collectively "HKGAAP").

The accounts have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, trading securities are stated at fair value.

### (b) Group accounting

#### (i) 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 more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

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.

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 loss. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

## 2. Principal accounting policies (continued)

### (b) Group accounting (continued)

#### (ii) Associated companies

An associated company is a company, not being a subsidiary or a joint venture, in which an equity interest is held for the long-term and significant influence is exercised in its management.

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

Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

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

#### (iii) Foreign currency translation

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

### (c) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary / associated company at the date of acquisition. Goodwill is amortised using the straight-line method over its estimated useful life.

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

## 2. Principal accounting policies (continued)

### (d) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Depreciation of toll roads and land use rights in relation to toll roads is calculated to write off their cost on a units-of-usage basis whereby depreciation is provided based on the share of 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 the Group's policy to review regularly the projected total traffic volume throughout the operating periods of the 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.

In prior years, the depreciation of toll roads and land use rights in relation to toll roads was also calculated to write off the costs on a units-of-usage basis. This was based on the share of traffic volume for a given period over the total traffic volume throughout the period for which the Company is granted the right to operate the toll roads. The directors believed that it would help the readers in understanding the accounts if the depreciation policy was expressed in a mathematical model which would generate depreciation amounts that resembled those calculated on a units-of-usage basis and with which the readers were more familiar with. As a result, the depreciation policy was described in prior years as a sinking-fund calculation whereby annual depreciation amounts compounded at average rates ranging from 3% to 7% for the relevant toll roads would approximate the total carrying value of the toll roads and the land use rights in relation to these roads at the end of the operating period of each toll road. On the basis that the sinking fund model was used to assist readers in understanding the accounts and considering that the depreciation amounts calculated on the disclosed sinking fund model resembled that of the units-of-usage basis, there has actually been no change in accounting policy.

Depreciation of land use rights other than those in relation to toll roads is provided for on the basis of straight-line method over the land use right period.

Buildings	30 years
Safety, communication and signalling equipment	10 years
Toll station and ancillary equipment	7 years
Motor vehicles	9 years
Other machinery and equipment	6-9 years

## 2. Principal accounting policies (continued)

### (d) Fixed assets (continued)

Improvements are capitalized and depreciated over their expected useful lives to the Group.

Construction in progress represents fixed assets under construction and is stated at cost less accumulated impairment losses. Construction in progress is not depreciated until such time when the assets are completed and ready for their intended use.

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.

The gain or loss on disposal of fixed assets 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.

### (e) Investments in securities

#### (i) Investment securities

Investment securities are stated at cost less any provision for impairment losses.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to profit and loss when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

#### (ii) Trading securities

Trading securities are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of trading securities are recognised in the profit and loss account. Profits or losses on disposal of trading securities, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

## 2. Principal accounting policies (continued)

### (f) Inventories

Inventories comprise materials and spare parts for the repair and maintenance of toll roads and structures and the costs incurred for undertaking toll system installation contracts. The inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out method. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

### (g) Receivables

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

### (h) 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, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment.

### (i) Retirement benefit costs

The Group contributes to a defined contribution retirement scheme which is available to all employees. Contributions to the scheme by the Group and employees are calculated as a percentage of employee's basic salaries. The retirement benefit scheme costs charged to the profit and loss account represent 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 24.

### (j) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. The principal temporary differences arise from valuation and depreciation on fixed assets. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

## 2. Principal accounting policies (continued)

### (k) 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.

### (l) Revenue recognition

#### (i) Toll income

Toll income, net of revenue tax, is recognised on a receipt basis.

#### (ii) Toll system installation income

When the outcome of an installation contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that is recoverable. Contract costs are recognised when incurred.

When the outcome of an installation contract can be estimated reliably, contract revenue and contract costs are recognised over the period of the contract, respectively, as revenues and expenses. The Group uses the percentage of completion method, measured by reference to the percentage of total costs incurred to date to estimated total costs of the contract. When it is probable total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

## 2. Principal accounting policies (continued)

### (l) Revenue recognition (continued)

#### (iii) Interest income

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

#### (iv) Dividend income

Dividend income is recognised when the right to receive payment is established.

#### (v) Emergency assistance service income

Revenue from emergency assistance service is recognised when the service has been rendered.

### (m) 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.

### (n) Segment reporting

Apart from operating and managing toll roads, the Group does not conduct other businesses which have significant impact on the Group's results. No segment income statement has been prepared by the Group. The Group also operates within one geographical segment because its revenues are primarily generated in the Anhui Province, PRC and its assets are mainly located in the Anhui Province, PRC. Accordingly, no geographical segment data is presented.

## 3. Turnover and other revenue

Revenue recognised during the year are as follows:

	Notes	2003 RMB'000	2002 RMB'000
Turnover			
- Toll income		830,007	716,750
- Toll system installation income		66,548	34,877
- Emergency assistance service income		8,076	5,775
		<u>904,631</u>	<u>757,402</u>
Less: Tax related to revenue	(a)	<u>(45,773)</u>	<u>(38,279)</u>
		858,858	719,123
Other Revenue			
- Interest income		2,202	3,722
- Income from trading securities		1,482	323
- Toll system management income		4,580	3,080
- Rental service income		2,527	1,003
- Other		4,543	383
		<u>15,334</u>	<u>8,511</u>
Total Revenue		<u>874,192</u>	<u>727,634</u>

### (a) Tax related to revenue

The Group is subject to Business Tax ("BT") at the rate of 5% of toll income and emergency assistance service income.

In addition to BT, the Company and its subsidiaries are subject to the following turnover taxes:

- (i) City Development Tax – levied at 5%-7% of BT.
- (ii) Education Supplementary Tax – levied at 3% of BT.



# NOTES TO THE ACCOUNTS

For the year ended 31st December 2003  
(All amounts in RMB unless otherwise stated)

## 4. Operating profit

Operating profit is stated after crediting and charging the following:

	2003 RMB'000	2002 RMB'000
Charging:-		
Staff costs		
- Salaries and wages	37,794	28,880
- Provision for staff welfare	5,219	4,517
- Contribution to statutory pension scheme	5,838	5,260
Impairment of fixed assets	441	—
Provision for doubtful debts	52	—
Depreciation of fixed assets	174,770	129,448
Amortisation of intangible assets	3,138	2,730
Loss on disposal of fixed assets	1,309	183
Share of losses from associated companies	594	304
Auditors' remuneration	1,200	1,080
	<u>627</u>	<u>146</u>
Crediting:		
Foreign exchange gain, net	627	146
	<u>627</u>	<u>146</u>

## 5. Finance costs

	2003 RMB'000	2002 RMB'000
Interest on bank loans	4,017	822
Less: Interest capitalized in projects under construction	(1,374)	—
	<u>2,643</u>	<u>822</u>

The capitalization rate applied to funds borrowed generally and used for the development of improvement of Hening expressway is 4.779% per annum.

## 6. Taxation

### (a) Hong Kong profits tax

There were no Hong Kong profits tax liabilities as the Group did not earn any income assessable to Hong Kong profits tax.

### (b) PRC Enterprise Income Tax ("EIT")

The Company and its subsidiary, Anhui Wantong Technology Development Company Limited ("AWTD"), were registered in the Hefei High Technology Industry Development Zone and certified as a high-tech company. Pursuant to relevant regulations on preferential policies on EIT issued by the Ministry of Finance and the State Taxation Bureau, the applicable EIT rate for the Company and AWTD is at a reduced rate of 15%.

The other subsidiaries and associated companies of the Company are subject to EIT levied at a rate of 33% of taxable income based on their audited accounts prepared in accordance with the laws and regulations in the PRC.

### (c) The amount of taxation charged to the consolidated profit and loss account represents:

	2003 RMB'000	2002 RMB'000
Current taxation		
- Hong Kong profits tax	—	—
- EIT	83,350	66,623
	<b>83,350</b>	66,623
Deferred taxation	17,528	16,861
	<b>100,878</b>	83,484
Share of taxation attributable to associated companies	—	—
	<b>100,878</b>	83,484

# NOTES TO THE ACCOUNTS

For the year ended 31st December 2003  
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## 6. Taxation (continued)

(d) The reconciliation of the applicable tax rate to the effective tax rate was as follows:

	2003 RMB'000		2002 RMB'000	
Profit before taxation	<u>450,205</u>	<u>100%</u>	<u>392,305</u>	<u>100%</u>
Tax at the applicable tax rate of 15% (2002:15%)	67,531	15.0%	58,846	15.0%
Tax effect of expenses that are not deductible in determining taxable profit	895	0.2%	4,950	1.3%
Effect of different tax rate of subsidiaries	<u>32,452</u>	<u>7.2%</u>	<u>19,688</u>	<u>5.0%</u>
	<u>100,878</u>	<u>22.4%</u>	<u>83,484</u>	<u>21.3%</u>

## 7. Profit attributable to shareholders

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of approximately RMB 332,563,000 (2002: RMB 218,802,000).

## 8. Earnings per share

Basic earnings per share is calculated by dividing the Group's profit attributable to shareholders of RMB 349,066,000 (2002: RMB 309,031,000) by the weighted average number of 1,658,610,000 (2002: 1,414,090,000) ordinary shares in issue during the year.

No diluted earnings per share is presented, as the company has no dilutive potential shares.

## 9. Directors' and employees' emoluments

### (a) Directors' (including supervisors') emoluments:

The aggregate amount of emoluments payable to directors (including supervisors) of the Group during the year are as follows:

	2003 RMB'000	2002 RMB'000
Fees	—	—
Other emoluments		
basic salaries, allowances and benefits in kind	2,375	1,576
pension	33	37
	<u>2,408</u>	<u>1,613</u>

Directors' (including supervisors') emoluments disclosed above included approximately RMB 170,000 (2002: 63,750) paid to independent non-executive directors.

The emoluments of the directors (including supervisors) fell within the following band:

	Number of directors (including supervisors)	
	2003	2002
Nil to HK\$1,000,000 (equivalent to approximately RMB1,060,000)	<u>12</u>	<u>16</u>

The executive directors received individual emoluments for the year ended 31st December 2003 of approximately RMB 568,750 (2002: RMB 284,375), RMB 308,750 (2002: RMB 178,750), RMB 308,750 (2002: RMB 170,625) and RMB 308,750 (2002: RMB 178,750), respectively.

None of the directors (including supervisors) waived any emoluments during the year. No payment as an inducement for joining the Company or compensation for the loss of office as a director of any member of the Group or any other office in connection with the management of the affairs of any member of the Group was paid or payable to any director (including supervisor) for the year.

### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for both years were also directors and supervisors, and their emoluments are reflected in the analysis presented above.

## NOTES TO THE ACCOUNTS

For the year ended 31st December 2003  
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### 10. Intangible assets

Intangible assets represented technology know-how and the movements were as follows:

	<b>Group</b>	
	<b>2003</b>	2002
	<b>RMB'000</b>	RMB'000
Cost		
Beginning of year	<b>11,420</b>	7,920
Additions	<b>525</b>	3,500
End of year	<b>11,945</b>	11,420
Accumulated amortisation		
Beginning of year	<b>5,100</b>	2,370
Charges for the year	<b>3,138</b>	2,730
End of year	<b>8,238</b>	5,100
Net book value		
End of year	<b>3,707</b>	6,320
Beginning of year	<b>6,320</b>	5,550

## 11. Fixed assets

### Group

(In RMB'000)	2003								Total
	Toll roads	Buildings	Land use right	Safety, communication and signalling equipment	Toll station and ancillary equipment	Motor vehicles	Other machinery and equipment	Construction in progress	
Cost									
Beginning of year	3,872,932	102,416	601,180	305,686	102,802	63,109	14,296	15,046	5,077,467
Reclassification (a)	41,195	65,201	(143,520)	100,368	(33,330)	(23,803)	(6,111)	—	—
Additions	1,258,241	66,495	144,079	104,457	380	7,484	9,940	429,576	2,020,652
Disposals	—	—	—	(427)	(2,326)	(580)	(70)	—	(3,403)
Transfers	389,451	570	—	2,435	454	—	2,426	(395,336)	—
End of year	5,561,819	234,682	601,739	512,519	67,980	46,210	20,481	49,286	7,094,716
Accumulated depreciation									
Beginning of year	256,528	11,841	42,589	134,519	53,264	25,530	5,860	—	530,131
Reclassification (a)	(5,551)	6,558	(7,685)	30,846	(13,863)	(7,705)	(2,600)	—	—
Charges for the year	95,775	7,699	10,279	46,627	7,700	4,035	2,655	—	174,770
Impairment charged	—	—	—	—	—	—	441	—	441
Disposals	—	—	—	(195)	(1,375)	(485)	—	—	(2,055)
End of year	346,752	26,098	45,183	211,797	45,726	21,375	6,356	—	703,287
Net book value									
End of year	5,215,067	208,584	556,556	300,722	22,254	24,835	14,125	49,286	6,391,429
Beginning of year	3,616,404	90,575	558,591	171,167	49,538	37,579	8,436	15,046	4,547,336

# NOTES TO THE ACCOUNTS

For the year ended 31st December 2003  
(All amounts in RMB unless otherwise stated)

## 11. Fixed assets (continued)

### Company

(In RMB'000)	2003								Total
	Toll roads	Buildings	Land use right	Safety,	Toll	Motor vehicles	Other	Construction in progress	
				communication and signalling equipment	station and ancillary equipment		machinery and equipment		
Cost									
Beginning of year	1,874,632	35,040	279,912	214,028	48,693	24,163	10,874	12,639	2,499,981
Additions	921,788	66,318	82,507	104,457	41	5,021	8,227	426,600	1,614,959
Disposals	—	—	—	—	—	(371)	—	—	(371)
Transfers	389,451	570	—	2,435	454	—	220	(393,130)	—
End of year	3,185,871	101,928	362,419	320,920	49,188	28,813	19,321	46,109	4,114,569
Accumulated depreciation									
Beginning of year	136,345	4,623	22,760	101,544	26,225	12,008	4,972	—	308,477
Charges for the year	48,367	3,410	6,418	29,880	5,084	2,560	2,076	—	97,795
Disposals	—	—	—	—	—	(367)	—	—	(367)
End of year	184,712	8,033	29,178	131,424	31,309	14,201	7,048	—	405,905
Net book value									
End of year	3,001,159	93,895	333,241	189,496	17,879	14,612	12,273	46,109	3,708,664
Beginning of year	1,738,287	30,417	257,152	112,484	22,468	12,155	5,902	12,639	2,191,504

- (a) The construction of Gaojie Expressway was completed in 1999. As the project completion report was not yet finalised when the costs of the Gaojie Expressway were transferred to fixed assets, the management allocated the total costs of the Gaojie Expressway of RMB 1.844 billion to various classes of fixed assets in 1999 based on their estimate. The project completion report was finalised in 2003 and the costs of Gaojie Expressway were reclassified among various classes of fixed assets based on the project completion report. The reclassification has no significant impact on the operating results of the Group.

The Group's and the Company's land use rights are all held outside Hong Kong on leases between 10 to 50 years.

As at 31st December 2003, the Company is still in the process of obtaining the land use right certificate of Lianhuo Expressway (Anhui section).

## 12. Investments in and loans to subsidiaries

### (a) Investments in subsidiaries

	Company	
	2003 RMB'000	2002 RMB'000
Unlisted equity, at cost	271,595	246,260

The following is a list of the Company's subsidiaries at 31st December 2003:

Name of subsidiary	Country of incorporation and kind of legal entity	Principal activities and place of operation	Interest held		Paid in, issued and fully paid share capital RMB'000
			Direct	Indirect	
Anhui Gao Jie Expressway Company Limited ("Gao Jie")	PRC, Limited liability company	Management and operation of Gaojie expressway in Anhui province, PRC	51%	—	300,000
Xuan Guang Expressway Company Limited ("Xuan Guang")	PRC, Limited liability company	Management and operation of Xuanguang expressway in Anhui province, PRC	55.47%	—	111,760
AWTD	PRC, Limited liability company	Development, production and sales of computer software and hardware in Anhui province, PRC	75.5%	—	20,000
Tianjin Xinxigang Jiazi Co., Ltd.	PRC, Limited liability company	Consulting and technology development in Tianjin, PRC	—	52.85%	2,000
Beijing Haiwei Investment Co., Ltd.	PRC, Limited liability company	Project management, investment consulting in Beijing, PRC	70%	15.79%	50,000
Anhui Kangcheng Pharmaceutical Co., Ltd.	PRC, Limited liability company	Sales and development of pharmaceutical products in Anhui province, PRC	65%	—	10,000



## 12. Investments in and loans to subsidiaries (continued)

### (a) Investments in subsidiaries (continued)

Gao Jie is a co-operative joint venture established by the Company and Anhui Expressway Holding Company ("AEHC") with an operating period of 32 years. The Company invested in total RMB 940,440,000 in Gao Jie, in the form of capital contribution of RMB 153,000,000 and long term loan of RMB 787,440,000. According to the joint venture contract, annual distribution (the "distribution") equalling net profit plus depreciation and amortisation of its fixed assets are to be made wholly to the Company till 30th April 2006. Thereafter, the distribution will be shared by the Company and AEHC in proportion to their respective contributions to Gao Jie's registered capital. If the total distribution received by the Company up to 30th April 2006 is lower than RMB 553,200,000, AEHC will compensate the Company for the shortfall. The net profit portion of the distribution received is accounted for as dividend income while the amortisation and depreciation portion of the distribution received is accounted for as repayments to the long term loan advanced to Gao Jie.

Xuan Guang is a co-operative joint venture established by the Company and Xuancheng Highway Management Company ("XHMC") in July 1998, the Company invested in total RMB 366,600,000 in Xuan Guang, in the forms of capital contribution of RMB 36,660,000 and long term loan of RMB 329,940,000. According to the joint venture contract, annual distribution (the "distribution") equalling net profit plus depreciation and amortisation of its fixed assets are to be made wholly to the Company till the total distribution received by the Company equal to its total investment in Xuan Guang. Thereafter, the distribution will be shared by the Company and XHMC in proportion to their respective contributions to Xuan Guang's registered capital. The net profit portion of the distribution received is accounted for as dividend income while the amortisation and depreciation portion of the distribution received is accounted for as repayments to the long term loan advanced to Xuan Guang.

Pursuant to a capital injection contract between the Company and XHMC dated 11th August 2003, XHMC contributed Xuanguang Expressway (Nanhuan section) to Xuan Guang at an agreed price of RMB 398,800,000 in the form of capital contribution of RMB 39,880,000 and long term loan of RMB 358,920,000.

Pursuant to a share transfer agreement subsequently reached by the Company and XHMC, the Company acquired XHMC's interests in Xuanguang (in the forms of paid-in-capital of RMB 25,335,000 and shareholder's loan of RMB 228,015,000) at a total consideration of RMB 253,350,000. After the acquisition, the Company held 55.47% interest in XuanGuang. The profit distribution arrangement of Xuanguang mentioned above remains unchanged.

## 12. Investments in and loans to subsidiaries (continued)

### (b) Loans to subsidiaries

	Company	
	2003 RMB'000	2002 RMB'000
Shareholder loans to subsidiaries	956,585	866,488
Less: Shareholder loans to subsidiaries expected to be repaid within 12 months	(172,000)	(191,000)
	<u>784,585</u>	<u>675,488</u>

Loans to subsidiaries represent the Company's share of the total investment in Gao Jie and Xuan Guang in excess of the Company's respective share of their respective registered capital. Such loans are unsecured and interest free, and the repayment terms are set out in Note 12(a).

## 13. Interests in associated companies

	Group	
	2003 RMB'000	2002 RMB'000
Share of net assets	3,846	4,440
Goodwill on acquisition of associated companies less amortisation/ impairment	—	—
	<u>3,846</u>	<u>4,440</u>

  

	Company	
	2003 RMB'000	2002 RMB'000
Unlisted equity, at cost	<u>1,444</u>	<u>1,444</u>

# NOTES TO THE ACCOUNTS

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(All amounts in RMB unless otherwise stated)

## 13. Interests in associated companies (continued)

The following is a list of the principal associated companies at 31st December 2003.

Name	Place of incorporation and operation	Principal activities	Particulars of issued shares held	Interest held
Anhui Highway Real Estate Co., Ltd.	PRC	Development of real estate and real estate management	Equity capital	20%
Tianjin King Fiber Communication Technology Co., Ltd. ("King Fiber")	PRC	Technology development and consulting service	Equity capital	45%
Anhui Expressway Advertisement Co., Ltd.	PRC	Design and producing of advertisement in Anhui province, PRC	Equity capital	38%

## 14. Investment securities

	Group and Company	
	2003 RMB'000	2002 RMB'000
Unlisted equity, at cost	<u>18,000</u>	<u>18,000</u>

## 15. Inventories

	Group	
	2003 RMB'000	2002 RMB'000
Raw materials	1,230	3,644
Cost incurred for toll system installation	<u>16,674</u>	<u>19,125</u>
	<u>17,904</u>	<u>22,769</u>

For the year ended 31st December 2003  
(All amounts in RMB unless otherwise stated)

## 16. Trade and other receivables

	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Trade receivable	4,863	3,835	—	—
Prepayments	18,666	10,888	2,838	884
Others	15,754	16,217	13,831	14,283
	<u>39,283</u>	<u>30,940</u>	<u>16,669</u>	<u>15,167</u>
Less: Provision for doubtful debts	(148)	(96)	—	—
	<u>39,135</u>	<u>30,844</u>	<u>16,669</u>	<u>15,167</u>

As at 31st December 2003, all trade receivables are aged within one year.

## 17. Trade and other payables

	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Payables on purchase of fixed assets	197,536	69,369	197,536	61,022
Payables on repair and maintenance projects	16,645	2,077	2,444	2,499
Accruals	17,419	27,356	16,635	26,951
Advance from customers	12,312	16,251	—	—
Welfare payables	5,247	3,753	2,766	1,787
Other taxation payable	19,140	5,242	13,170	4,633
Other payables	77,461	81,678	55,231	44,431
	<u>345,760</u>	<u>205,726</u>	<u>287,782</u>	<u>141,323</u>

As at 31st December 2003, all the payables on purchase of fixed assets and repair and maintenance projects were aged within one year.

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As at 31st December 2003, the Group has unutilised banking facilities amounting to RMB 1,300,000,000.

The authorised, issued and fully paid share capital of the Company is RMB 1,658,610,000 (2002: RMB 1,658,610,000) divided into 1,658,610,000 (2002: 1,658,610,000) shares with a par value of RMB 1 each.

	Number of shares '000	Amount RMB'000
At 1st January 2002	1,408,610	1,408,610
Issue of domestic ordinary shares	250,000	250,000
At 31st December 2002	1,658,610	1,658,610
Addition	—	—
At 31st December 2003	1,658,610	1,658,610

## 20. Reserves

Movements in reserves of the Company were as follows:

	Share Premium RMB'000	Statutory Surplus Reserve Fund RMB'000	Company Statutory Public Welfare Fund RMB'000	Discretionary Surplus Reserve Fund RMB'000	Total RMB'000	Retained Earnings RMB'000
Balance at						
1st January 2002	1,170,499	80,816	79,772	658	1,331,745	565,143
Proceeds from issue of domestic ordinary shares	276,960	—	—	—	276,960	—
Dividends (Note 21 (c))	—	—	—	—	—	(112,689)
Profit for the year	—	—	—	—	—	218,802
Profit appropriations	—	25,839	25,839	—	51,678	(51,678)
Balance at						
31st December 2002	<u>1,447,459</u>	<u>106,655</u>	<u>105,611</u>	<u>658</u>	<u>1,660,383</u>	<u>619,578</u>
Dividends (Note 21 (c))	—	—	—	—	—	(49,758)
Profit for the year	—	—	—	—	—	332,563
Profit appropriations	—	28,327	28,327	—	56,654	(56,654)
Balance at						
31st December 2003	<u>1,447,459</u>	<u>134,982</u>	<u>133,938</u>	<u>658</u>	<u>1,717,037</u>	<u>845,729</u>
Representing:						
2003 final dividends proposed (Note 21 (c))						99,517
Retained earnings						<u>746,212</u>
Retained earnings as at 31st December 2003						<u>845,729</u>

## 21. Appropriation

### (a) Statutory Surplus Reserve Fund

In accordance with the Company Law and the Company's articles of association, the Company and its subsidiaries shall appropriate 10% of its annual statutory net income (after offsetting any prior years' losses) to the statutory surplus reserve account. When the balance of such reserve reaches 50% of the Company's share capital, any further appropriation is optional. The statutory surplus reserve can be utilised to offset prior years' losses or to issue bonus shares. However, such statutory surplus reserve must be maintained at a minimum of 25% of share capital after such issue.

### (b) Statutory Public Welfare Fund

According to the relevant financial regulations of the PRC and the Company's articles of association, the Company and its subsidiaries are required to allocate 5% to 10% of its annual statutory net income to a statutory public welfare fund to be used for the collective welfare of the Company and its subsidiaries' employees. For the year ended 31st December 2003, the directors have recommended allocations to the statutory public welfare fund as follows: 10% (2002: 10%) for the Company, 5% for Xuan Guang (2002: 5%), 5% for Gao Jie (2002: 5%) and 5% for AWTD (2002: 5%).

### (c) Dividends

	2003 RMB'000	2002 RMB'000
Interim, paid, of RMB Nil (2002: RMB 0.05) per share	—	70,431
Final, proposed, of RMB 0.06 (2002: RMB 0.03 ) per share	99,517	49,758
	<b>99,517</b>	<b>120,189</b>

At a meeting held on 11th March 2004, the directors proposed a final dividend of RMB 0.06 per ordinary share. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31st December 2004.

## 22. Long-term payables to minority shareholders of subsidiaries

Long-term payables to minority shareholders of subsidiaries comprised of payables to the minority shareholders of Xuan Guang and Gao Jie, representing their share of total investment in Xuan Guang and Gao Jie in excess of their respective equity contribution in Xuan Guang and Gao Jie. Such long-term payables are unsecured and interest free, and the repayment terms are set out in Note 12 (a).

### 23. Deferred tax liabilities

	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Balance at 1st January	130,125	113,264	79,715	75,174
Deferred taxation charged to profit and loss account (Note 6)	17,528	16,861	8,310	4,541
Balance at 31st December	147,653	130,125	88,025	79,715

Deferred tax liabilities as at 31st December 2003 for the Group and the Company arose from differences in valuation of assets and depreciation of toll roads and related land use rights between PRC statutory accounts and HKGAAP accounts.

### 24. Retirement benefits

The Group participates in the Anhui Provincial Retirement Scheme managed by Anhui Social Security Bureau. Pursuant to relevant provisions, the Group is required to make a monthly contribution equivalent to 20%-23% (2002: 20%-23%) of the monthly salary in respect of its employees. The Bureau is responsible for pension payments to the retired employees of the Group and the Group has no further obligations.



# NOTES TO THE ACCOUNTS

For the year ended 31st December 2003  
(All amounts in RMB unless otherwise stated)

## 25. Notes to consolidated cash flow statement

### (a) Reconciliation from profit before taxation to net cash inflow from operating activities:

	2003 RMB'000	2002 RMB'000
Profit before taxation	450,205	392,305
Adjustments for:		
Impairments of fixed assets	441	—
Depreciation of fixed assets	174,770	129,448
Amortisation of intangible assets	3,138	2,730
Loss on disposal of fixed assets	1,309	183
Share of losses from associated companies	594	304
Interest income	(2,202)	(3,722)
Interest expenses	2,643	822
Other Investment income	(1,482)	(323)
Operating profit before working capital changes	629,416	521,747
Decrease (increase) in inventories	4,865	(7,964)
Increase in trade receivables	(976)	(1,242)
(Increase) decrease in prepayments and other receivables	(12,291)	23,400
Increase in trade and other payables	16,882	34,568
Cash generated from operating activities	637,896	570,509
Interest paid	(1,894)	(822)
EIT paid	(80,017)	(67,748)
Net cash inflow from operating activities	555,985	501,939

## 25. Notes to consolidated cash flow statement (continued)

### (b) Cash paid for acquisition of fixed assets:

	2003 RMB'000	2002 RMB'000
Increase in fixed assets	2,020,652	147,451
Add: Payable on purchase of fixed assets, beginning of year	69,369	20,328
Less: Capital contribution of fixed assets from a minority shareholder (Note 12(a))	(398,800)	—
Less: Payable on purchase of fixed assets, end of year	(197,536)	(69,369)
Cash paid for acquisition of fixed assets	1,493,685	98,410

### (c) Analysis of the balances of cash and cash equivalents

	2003 RMB'000	2002 RMB'000
Cash on hand	194	240
Savings deposits	505,421	1,107,596
Fixed deposits	5,000	11,080
Bank balance and cash	510,615	1,118,916
Less: Fixed deposits with original maturity of more than 3 months	(5,000)	—
Restricted cash at bank	(4,976)	—
Cash and cash equivalent	500,639	1,118,916

# NOTES TO THE ACCOUNTS

For the year ended 31st December 2003  
(All amounts in RMB unless otherwise stated)

## 25. Notes to consolidated cash flow statement (continued)

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

	Dividend payable		Share capital including premium		Minority interests		Short-term bank loans	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
At 1st January	—	—	3,106,069	2,579,109	192,197	188,907	—	65,000
Minority interests' share of profits/(losses)	—	—	—	—	261	(210)	—	—
Minority interests' share of capital surplus	—	—	—	—	221	—	—	—
Cash inflows/(outflows)	(49,785)	(112,689)	(6,914)	536,101	3,095	3,500	627,000	(65,000)
Shares issue expenses paid in 2001	—	—	—	(2,227)	—	—	—	—
Shares issue expenses paid in 2003	—	—	6,914	(6,914)	—	—	—	—
Non-cash capital contribution from a minority shareholder (Note 12(a))	—	—	—	—	39,880	—	—	—
Acquisition of interests of a subsidiary from a minority shareholder	—	—	—	—	(25,335)	—	—	—
Dividends	49,785	112,689	—	—	—	—	—	—
Others	—	—	—	—	(1,717)	—	—	—
At 31st December	—	—	3,106,069	3,106,069	208,602	192,197	627,000	—

## 26. Related party transactions

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 subject to common control or common significant influence.

### (a) Name of related party and relationship

Name	Relationship with the Company
AEHC	Parent company
King Fiber	Associated company
XHMC	Minority shareholder of Xuan Guang
Anlian Expressway Co., Ltd. (ALEC)	Subsidiary of AEHC

### (b) Related party transactions

The Group had the following significant transaction with the related party:

	2003 RMB'000	2002 RMB'000
Products sold and service rendered to AEHC	5,109	9,682
Toll system management fee from AEHC	3,080	3,080
Toll system management fee from ALEC	1,500	—
	4,580	3,080
Acquisition of interests in Xuan Guang from XHMC (Note 12(a))	253,350	—
Acquisition of Lianhuo Expressway (Anhui section) from AEHC	1,180,000	—

Pursuant to the acquisition contract signed on 20 June 2001 and the supplementary acquisition contract signed on 28 March 2002 between the Company and AEHC, the Company acquired Lianhuo Expressway (Anhui Section) from AEHC for a total consideration of RMB 1,180,000,000 effective from 1 January 2003. As at 31 December 2003, the Company has already made payments of RMB 1,121,000,000 to AEHC. The remaining consideration of RMB 59,000,000 will be paid by the end of July 2004.

# NOTES TO THE ACCOUNTS

For the year ended 31st December 2003  
(All amounts in RMB unless otherwise stated)

## 26. Related party transactions (continued)

### (c) Related party balances

#### (i) Trade receivables

	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
AEHC	<u>100</u>	<u>1,316</u>	<u>—</u>	<u>—</u>

#### (ii) Other receivables

	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
AEHC				
-Toll system management fee	3,080	—	3,080	—
-Others	775	551	—	51
ALEC	23	1,520	23	1,520
	<u>3,878</u>	<u>2,071</u>	<u>3,103</u>	<u>1,571</u>

#### (iii) Prepayment

	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
King Fiber	<u>—</u>	<u>544</u>	<u>—</u>	<u>—</u>

#### (iv) Trade payable

	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
AEHC				
-Payable for acquisition of Lianhuo Expressway (Anhui section)	<u>59,000</u>	<u>—</u>	<u>59,000</u>	<u>—</u>

## 26. Related party transactions (continued)

### (c) Related party balances (continued)

#### (v) Other payables

	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
AEHC	—	825	—	45
XHMC	—	7,259	—	—
ALEC	1,622	2,739	1,622	1,913
	<u>1,622</u>	<u>10,823</u>	<u>1,622</u>	<u>2,058</u>

#### (vi) Long term payables to minority shareholders of subsidiaries

	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
AEHC	728,582	728,583	—	—
XHMC	447,916	317,011	—	—
	<u>1,176,498</u>	<u>1,045,594</u>	<u>—</u>	<u>—</u>

As at 31st December 2003, amounts due from and due to the related parties, except for long term payables to minority shareholders of subsidiaries as disclosed in Note 22, mainly arose from the above transactions and payments paid by the Company and related parties on behalf of each other. These amounts are unsecured, interest-free and are repayable within 1 year.

# NOTES TO THE ACCOUNTS

For the year ended 31st December 2003  
(All amounts in RMB unless otherwise stated)

## 27. Commitments

### Capital Commitments

As at 31st December 2003, the Company has the following capital commitment

(a) Contracted but not provided for:

Construction of office building in Hefei High  
Technology Industry Development Zone

**2003**  
**RMB'000**

**19,000**

(b) Authorised but not contracted for:

Construction of improvement of Hening Expressway

**2003**  
**RMB'000**

**423,000**

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## 28. Impact of HKGAAP adjustments on net profit and net assets

The Group has prepared a separate set of statutory accounts in accordance with PRC laws and financial regulations ("PRC GAAP"). The differences between PRC GAAP and HKGAAP in the reported balances of net assets and net profit of the Group are summarised as follows:

	Net profit		Net Assets	
	Year ended 31st December		As at 31st December	
	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000
As reported in the statutory accounts	283,264	258,392	3,837,863	3,601,960
HKGAAP adjustments:				
Valuation and depreciation of toll roads	66,823	58,812	664,624	597,801
Valuation and amortisation of land use right	16,507	8,688	105,125	88,618
Deferred taxation	(17,528)	(16,861)	(147,653)	(130,125)
As reported under HKGAAP	349,066	309,031	4,459,959	4,158,254

### **29. Subsequent events**

Pursuant to the resolution made by the Board of Directors subsequent to 31st December 2003, the Company proposed a final dividend of RMB 0.06 per share for 2003.

### **30. Approval of accounts prepared in accordance with the HKGAAP**

The accounts prepared in accordance with the HKGAAP were approved by the Board of Directors on 11th March 2004.



# NOTES TO THE ACCOUNTS

For the year ended 31st December 2003  
(All amounts in RMB unless otherwise stated)

## General Information

	2003	2002	2001	2000	1999
<b>Results</b>	<b>RMB'000</b>	RMB'000	RMB'000	RMB'000	RMB'000
Profit attributable to shareholders	<u><b>349,066</b></u>	<u>309,031</u>	<u>269,972</u>	<u>227,176</u>	<u>206,156</u>
<b>Assets and liabilities</b>					
Total assets	<u><b>6,984,636</b></u>	<u>5,748,625</u>	<u>4,978,597</u>	<u>4,881,325</u>	<u>3,559,468</u>
Total liabilities	<u><b>(2,524,677)</b></u>	<u>(1,590,371)</u>	<u>(1,543,645)</u>	<u>(1,645,915)</u>	<u>(494,890)</u>
Shareholders' funds	<u><b>4,459,959</b></u>	<u>4,158,254</u>	<u>3,434,952</u>	<u>3,235,410</u>	<u>3,064,578</u>