1. CORPORATE INFORMATION

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

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

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

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

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

The registered office of the Company is located at 19/F, Zhejiang World Trade Centre, 122 Shuguang Road, Hangzhou, Zhejiang Province, the PRC. During the year, the Group was involved in the following principal activities:

(a) the design, construction, operation, maintenance and management of high grade roads; and

(b) the development and provision of certain ancillary services such as technical consultation, advertising, automobile servicing and fuel facilities.

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

2. IMPACT OF REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPS")

The following recently revised SSAPs are effective for the first time for the current year's financial statements:

SSAP 12 (Revised): "Income taxes"

This SSAP prescribes new accounting measurement and disclosure practices. The major effects of adopting this SSAP on the Group's accounting policies and on the disclosures in the financial statements are summarised as follows:

SSAP 12 prescribes the accounting treatment for current income taxes payable or recoverable, arising from the taxable profit or loss for the current period; and deferred income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses.

2. IMPACT OF REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPS") (Continued)

SSAP 12 (Revised): "Income taxes" (Continued)

The principal impact of the revision of this SSAP on these financial statements is described below:

Measurement and recognition:

- deferred tax assets and liabilities relating to the differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences are generally fully provided for, whereas previously the deferred tax was recognised for timing differences only to the extent that it was probable that the deferred tax asset or liability would crystallise in the foreseeable future;

- deferred tax assets and liabilities have been recognised upon the restatement of short term investments at fair value on the basis of their quoted market prices at the balance sheet date; and

Disclosures:

- the related note disclosures are now more extensive than previously required. These disclosures are presented in notes 8 and 32 to the financial statements and include a reconciliation between the accounting profit and the tax expense for the year.

Details of these changes are included in the accounting policy for income tax in note 3 and in note 32 to the financial statements.

SSAP 35: "Accounting for government grants and disclosure of government assistance"

SSAP 35 prescribes the accounting for government grants and other forms of government assistance. The adoption of this SSAP has had no significant impact for these financial statements on the amounts recorded for government grants and disclosure of government assistance.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

Basis of consolidation

The consolidated financial statements include the audited financial statements of the Company and its subsidiaries for the year ended December 31, 2003. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsidiaries

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

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

Jointly-controlled entities

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

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

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

Associates

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

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

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

Goodwill

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

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of 10 years. In the case of associates and jointly-controlled entities, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

Prior to the adoption of SSAP 30 "Business Combinations" in 2001, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of the SSAP that permitted such goodwill to remain eliminated against consolidated reserves.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill (Continued)

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

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

Fixed assets and depreciation

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

Depreciation of expressway and bridge construction costs is calculated to write off the cost thereof over their estimated useful lives using a method whereby the aggregate annual depreciation amounts, compounded at average rates ranging from 6.11% to 8.77% per annum, up to the expiry of the underlying 30-year expressway concession period, will be equal to the total construction costs of the expressways and bridges. The aforementioned average rates are based on the traffic volumes and forecast annual growth rates of the traffic volume over the 30-year expressway concession period. This method is more commonly referred to as the "unit-of-usage" method.

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

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

	Estimated useful life	Annual depreciation rate
Toll stations and ancillary facilities	30 years	3.2%
Communications and signalling equipment	10 years	9.7%
Motor vehicles	8 years	12.1%
Machinery and equipment	5-8 years	12.1-19.4%

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Construction in progress

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

Impairment of assets

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

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

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

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

Expressway operating rights

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

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

Long term investments

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

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

Short term investments

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Held-to-maturity securities

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

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Revenue recognition

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

(a) toll revenue, net of any applicable revenue taxes, when received;

(b) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyers, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(c) from the rendering of services, based on the percentage of completion basis, provided that the revenue and the costs incurred as well as the estimated costs to completion can be measured reliably. The stage of completion of a transaction associated with the rendering of services is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction;

(d) rental income, on a time proportion basis over the lease terms;

(e) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;

(f) dividend income, when the shareholders' right to receive payment has been established; and

(g) subsidy income, when there is reasonable assurance that the income will be received.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary difference arises from negative goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in jointly-controlled entities, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Foreign currency transactions

The financial records of the Company and its subsidiaries are maintained and the financial statements are stated in Renminbi (“Rmb”).

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the income statement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capitalisation of borrowing costs

Borrowing costs directly attributable to the construction of expressways, tunnels and bridges are capitalized as part of the cost of those assets. The capitalization of such borrowing costs ceases when the assets are substantially ready for their intended use.

Operating leases

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

Inventories

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

Dividends

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

Related parties

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

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired.

For the purpose of balance sheet classification, cash and cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

4. SEGMENT INFORMATION

In accordance with the Group's internal financial reporting, the Group has determined to use business segments as its primary segment reporting format. During the year, the entire turnover and contribution to profit from operating activities of the Group were derived from the Zhejiang Province in the PRC. Accordingly, no further by geographical segment information is presented.

Business segments

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

- Toll operation represents the design, construction, operation and management of high grade roads and the collection of the expressway tolls.

- Service area businesses mainly represent the sale of food, restaurant servicing, automobile servicing, as well as the operation of oil stations.

- Advertising business represents the design and rental of advertising billboards along the expressways.

- Road maintenance represents the maintenance of expressways and roads, including the cleaning of the road surface, minor repairs to the lanes, the cleaning of the gutters and sewers, grass mowing, afforestation and the maintenance of buildings, equipment and facilities provided to third parties.

4. SEGMENT INFORMATION (Continued)

Group

	Toll operation		Service area businesses		Advertising		Road maintenance		Consolidated	
	2003 Rmb'000	2002 Rmb'000	**2003 Rmb'000**	2002 Rmb'000	**2003 Rmb'000**	2002 Rmb'000	**2003 Rmb'000**	2002 Rmb'000	**2003 Rmb'000**	2002 Rmb'000
Segment revenue:										
Turnover, net of revenue taxes	**2,330,122**	2,069,060	**114,343**	71,131	**24,687**	26,217	**2,653**	1,670	**2,471,805**	2,168,078
Other revenue	**110,931**	57,623	**14,207**	3,505	**1,611**	2,955	**536**	2,374	**127,285**	66,457
Total revenue	**2,441,053**	2,126,683	**128,550**	74,636	**26,298**	29,172	**3,189**	4,044	**2,599,090**	2,234,535
Segment results	**1,663,748**	1,518,584	**29,463**	14,457	**7,833**	11,941	**(2,277)**	(683)	**1,698,767**	1,544,299
Finance costs									**(132,801)**	(163,224)
Share of profits of associates	**—**	—	**17,394**	11,719	**—**	—	**—**	—	**17,394**	11,719
Share of profit of a jointly-controlled entity	**9,829**	1,677	**—**	—	**—**	—	**—**	—	**9,829**	1,677
Profit before tax									**1,593,189**	1,394,471
Tax									**(497,166)**	(400,952)
Profit before minority interests									**1,096,023**	993,519
Minority interests									**(87,231)**	(103,067)
Net profit from ordinary activities attributable to shareholders									**1,008,792**	890,452
Segment assets	**14,532,875**	14,039,204	**115,681**	73,862	**45,287**	25,717	**50,075**	45,960	**14,743,918**	14,184,743
Interests in associates	**—**	—	**164,498**	159,829	**—**	—	**—**	—	**164,498**	159,829
Interest in a jointly- controlled entity	**62,554**	54,464	**—**	—	**—**	—	**—**	—	**62,554**	54,464
Goodwill	**97,717**	106,798	**—**	—	**—**	—	**—**	—	**97,717**	106,798
Total assets	**14,693,146**	14,200,466	**280,179**	233,691	**45,287**	25,717	**50,075**	45,960	**15,068,687**	14,505,834
Segment liabilities	**3,509,014**	3,537,924	**42,667**	32,205	**19,188**	4,590	**13,719**	10,615	**3,584,588**	3,585,334
Deferred tax	**325,703**	240,920	**—**	—	**—**	—	**—**	—	**325,703**	240,920
Total liabilities	**3,834,717**	3,778,844	**42,667**	32,205	**19,188**	4,590	**13,719**	10,615	**3,910,291**	3,826,254
Other segment information:										
Capital expenditure	**786,016**	200,014	**5,461**	1,455	**7,007**	7,884	**3,417**	2,336	**801,901**	211,689
Depreciation and amortisation	**268,219**	239,282	**2,351**	2,706	**2,961**	2,240	**5,207**	3,832	**278,738**	248,060
Write-off of bad debts	**537**	794	**—**	—	**—**	—	**—**	—	**537**	794
Loss on disposal of fixed assets	**13,935**	1,040	**6,833**	—	**—**	—	**—**	—	**20,768**	1,040

5. TURNOVER AND REVENUE

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

An analysis of turnover and revenue is as follows:

	2003 Rmb'000	2002 Rmb'000
Toll income	**2,458,726**	2,184,197
Services area income	**117,205**	73,043
Advertising income	**26,138**	27,742
Road maintenance income	**2,669**	1,704
	2,604,738	2,286,686
Less: Revenue taxes	**(132,933)**	(118,608)
Turnover	**2,471,805**	2,168,078
Income on investments	**53,838**	18,448
Interest income	**12,593**	17,063
Rental income	**21,343**	14,457
Trailer income	**11,162**	10,192
Exchange gains, net	**2,282**	1,121
Subsidy income	**17,394**	—
Others	**8,673**	5,176
Other revenue	**127,285**	66,457
	2,599,090	2,234,535

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

— city development tax, levied at 1% to 7% of business tax;

— education supplementary tax, levied at 3.5% to 4% of business tax; and

— culture and education fees, levied at 3% on advertising income.

6. PROFIT FROM OPERATING ACTIVITIES

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

	2003 Rmb'000	2002 Rmb'000
Depreciation	**257,817**	223,748
Operating lease rentals on		
land and buildings	**643**	902
Auditors' remuneration	**3,115**	1,975
Staff costs:		
Wages and salaries	**89,681**	86,733
Pension scheme contributions	**13,880**	6,534
Amortisation of expressway operating rights*	**8,700**	8,700
Amortisation of goodwill**	**12,221**	15,612
Write-off of bad debts	**537**	794
Impairment of a long term unlisted investment	**—**	574
Loss on winding-up of a subsidiary	**—**	205
Loss on disposal of fixed assets	**20,768**	1,040
Unrealised loss on revaluation of short term listed investments	**1,259**	9,571
Net rental income	**(21,343)**	(14,457)
Exchange gains, net	**(2,282)**	(1,121)
Interest income	**(12,593)**	(17,063)
Income from investments	**(55,097)**	(28,019)

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

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

7. FINANCE COSTS

	2003 Rmb'000	2002 Rmb'000
Interest on bank loans and other loans wholly repayable within five years	**68,977**	129,860
Interest on other loans	**17,700**	26,279
Interest on bonds	**46,626**	7,560
Other borrowing costs	**9,000**	—
Total interest	**142,303**	163,699
Less: Interest capitalised	**(9,502)**	(475)
	132,801	163,224

8. TAX

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

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

	2003 Rmb'000	2002 Rmb'000
Group:		
Tax charged	**439,812**	367,997
Tax refunded	**(33,249)**	(79,133)
	406,563	288,864
Deferred - note 32	**84,783**	109,387
	491,346	398,251
Share of tax attributable to associates	**5,791**	5,004
Share of deferred tax attributable to an associate	**(906)**	(3,294)
Share of deferred tax attributable to a jointly-controlled entity	**935**	991
Tax charge for the year	**497,166**	400,952

During the year, according to an approval from the Zhejiang Provincial Local Tax Bureau, Zhejiang Shangsan Expressway Co., Ltd. ("Shangsan Co"), one of the Company's subsidiaries, was entitled to a 50% CIT exemption for the year ended December 13, 2002 amounting to Rmb33,249,000 (2002: 50% CIT exemption for the year ended December 31, 2001 amounting to Rmb16,749,000) under the category of "Enterprise providing employment opportunities to redundant city and country workers" as defined in the relevant national tax rules.

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the PRC in which the Company and its subsidiaries, jointly-controlled entity and associates are domiciled to the tax expense at the effective tax rates is as follows:

	2003 Rmb'000	2002 Rmb'000
Group		
Profit before tax	**1,593,189**	1,394,471
Tax at the statutory tax rate	**525,752**	460,175
Tax refunded	**(33,249)**	(79,133)
Income not subject to tax	**(10,451)**	(12,047)
Expenses not deductible for tax	**15,114**	18,118
Write-off of non-refundable tax	**—**	13,839
Tax charge at the Group's effective rate	**497,166**	400,952

9. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended December 31, 2003 dealt with in the financial statements of the Company was Rmb855,995,000 (2002: Rmb484,128,000) (note 34).

10. DIRECTORS AND SUPERVISORS' REMUNERATION

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

	2003 **Rmb'000**	2002 Rmb'000
Fees	**—**	—
Other emoluments:		
Salaries, allowances and benefits in kind	**1,725**	1,784
Bonuses paid and payable	**588**	608
Pension scheme contributions	**39**	9
	2,352	2,401

Salaries, allowances and benefits in kind include HK$150,000 (2002: HK$152,000), HK$150,000 (2002: HK$150,000) and Rmb30,000 (2002: Rmb36,000) payable to the three (2002: three) independent non-executive Directors respectively. There were no other emoluments payable to the independent non-executive Directors during the year (2002: Nil).

The number of Directors and Supervisors whose remuneration fell within the following band is as follows:

	Number of Directors and Supervisors **2003**	2002
Nil to HK$1,000,000	**11**	10

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

11. FIVE HIGHEST PAID EMPLOYEES

	2003 Rmb'000	2002 Rmb'000
Salaries, allowances and benefits in kind	**1,712**	1,614
Bonuses paid and payable	**734**	662
Pension scheme contributions	**49**	11
	2,495	2,287

The five highest paid employees during the year included four (2002: four) directors, details of whose remuneration are set out in note 10 above, as well as a non-director employee, whose remuneration for the year was less than HK$1,000,000.

12. DIVIDENDS

Company

	2003	2002	2003	2002
	Per ordinary share			
	Rmb	Rmb	Rmb'000	Rmb'000
Interim	**0.04**	0.04	**173,724**	173,724
Proposed final	**0.11**	0.09	**477,743**	390,880
	0.15	0.13	**651,467**	564,604

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

13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year of Rmb1,008,792,000 (2002: Rmb890,452,000) and the 4,343,114,500 ordinary shares (2002: 4,343,114,500 ordinary shares) in issue during the year.

Diluted earnings per share amounts for the years ended December 31, 2003 and 2002 have not been calculated as no diluting event existed during these years.

14. FIXED ASSETS

	Land Rmb'000	Expressways and bridges Rmb'000	Toll stations and ancillary facilities Rmb'000	Communi-cations and signalling equipment Rmb'000	Motor vehicles Rmb'000	Machinery and equipment Rmb'000	Construction in progress Rmb'000	Total Rmb'000
Group								
Cost:								
At beginning of year	531,810	11,160,953	409,544	202,676	95,752	104,387	347,424	12,852,546
Additions	—	26,332	1,725	12,019	11,850	34,290	715,685	801,901
Transfers	—	482,859	1,912	—	—	21,136	(505,907)	—
Reclassifications	—	16,405	(47,192)	(429)	1,015	30,201	—	—
Disposals	—	—	(8,561)	(755)	(784)	(154)	(13,935)	(24,189)
At December 31, 2003	531,810	11,686,549	357,428	213,511	107,833	189,860	543,267	13,630,258
Accumulated depreciation:								
At beginning of year	88,533	561,044	39,321	62,281	44,539	41,842	—	837,560
Depreciation provided during the year	16,931	156,601	20,038	25,560	14,724	23,963	—	257,817
Reclassifications	—	2,078	(3,966)	(336)	100	2,124	—	—
Disposals	—	—	(1,598)	(363)	(685)	(89)	—	(2,735)
At December 31, 2003	105,464	719,723	53,795	87,142	58,678	67,840	—	1,092,642
Net book value:								
At December 31, 2003	426,346	10,966,826	303,633	126,369	49,155	122,020	543,267	12,537,616
At December 31, 2002	443,277	10,599,909	370,223	140,395	51,213	62,545	347,424	12,014,986
Company								
Cost:								
At beginning of year	350,384	4,712,616	146,994	120,765	54,189	55,410	297,751	5,738,109
Additions	—	—	—	5,563	9,026	5,225	187,668	207,482
Transfers	—	450,340	729	—	—	2,453	(453,522)	—
Transfers to subsidiaries	(1,954)	—	(9,491)	—	(5,836)	(607)	—	(17,888)
Disposals	—	—	(8,065)	—	(784)	(59)	(13,935)	(22,843)
At December 31, 2003	348,430	5,162,956	130,167	126,328	56,595	62,422	17,962	5,904,860
Accumulated depreciation:								
At beginning of year	64,665	338,748	17,353	49,464	33,187	26,609	—	530,026
Provided during the year	11,636	72,856	4,955	15,678	7,032	6,807	—	118,964
Transfers to subsidiaries	(388)	—	(1,670)	—	(2,686)	(244)	—	(4,988)
Disposals	—	—	(1,573)	—	(685)	(49)	—	(2,307)
At December 31, 2003	75,913	411,604	19,065	65,142	36,848	33,123	—	641,695
Net book value:								
At December 31, 2003	272,517	4,751,352	111,102	61,186	19,747	29,299	17,962	5,263,165
At December 31, 2002	285,719	4,373,868	129,641	71,301	21,002	28,801	297,751	5,208,083

The fixed assets are mainly located in the PRC.

The Group's land included above is held under a long term lease.

15. INTERESTS IN SUBSIDIARIES

	Company	
	2003 **Rmb'000**	2002 Rmb'000
Unlisted shares, at cost	**4,436,627**	4,338,486
Due from subsidiaries	**105,226**	4,587
Due to subsidiaries	**(364,472)**	(215,779)
	4,177,381	4,127,294

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

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

Names of subsidiaries	**Date and place of registration**	**Registered capital Rmb**	**Percentage of equity attributable to the Company Direct**	**Indirect**	**Principal activities**
Zhejiang Yuhang Expressway Co., Ltd. ("Yuhang Co")	Note 1	75,223,000	51	—	Construction and management of the Yuhang Section of the Shanghai-Hangzhou Expressway
Zhejiang Jiaxing Expressway Co., Ltd. ("Jiaxing Co")	Note 2	1,859,200,000	99.999454	—	Construction and management of the Jiaxing Section of the Shanghai-Hangzhou Expressway
Zhejiang Shangsan Expressway Co., Ltd. ("Shangsan Co")	Note 3	2,400,000,000	73.625	—	Construction and management of the Shangsan Expressway
Zhejiang Expressway Investment Development Co., Ltd. ("Development Co")	Note 4	80,000,000	51	—	Operation of service areas as well as roadside advertising along the expressways operated by the Group
Zhejiang Expressway Advertising Co., Ltd. ("Advertising Co")	Note 5	5,000,000	—	*35.7	Provision of advertising services
Zhejiang Expressway Vehicle Towing and Rescue Service Co., Ltd. ("Service Co")	Note 6	8,000,000	—	*43.35	Provision of vehicle towing, repair and emergency rescue service.

15. INTERESTS IN SUBSIDIARIES (Continued)

* These two companies are subsidiaries of Development Co, a non wholly-owned subsidiary of the Company and, accordingly, are accounted for as subsidiaries by virtue of the Company's control over them.

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

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

Note 3: Shangsan Co was established on January 1, 1998 in the PRC as a limited liability company.

Note 4: Development Co was established on May 28, 2003 in the PRC as a limited liability company.

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

Note 6: Service Co was established on July 31, 2003 in the PRC as a limited liability company.

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

16. INTEREST IN A JOINTLY-CONTROLLED ENTITY

	Group		Company	
	2003 Rmb'000	2002 Rmb'000	**2003 Rmb'000**	2002 Rmb'000
Unlisted shares, at cost	**—**	—	**65,000**	65,000
Share of net assets other than goodwill	**64,303**	55,409	**—**	—
Amount due to a jointly-controlled entity	**(1,749)**	(945)	**(1,749)**	(945)
	62,554	54,464	**63,251**	64,055

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

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

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

17. INTERESTS IN ASSOCIATES

	Group		Company	
	2003 Rmb'000	2002 Rmb'000	**2003 Rmb'000**	2002 Rmb'000
Unlisted shares, at cost	**—**	—	**126,500**	126,500
Share of net assets other than goodwill	**164,487**	159,829	**—**	—
Amount due from an associate	**11**	—	**875**	—
	164,498	159,829	**127,375**	126,500

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

The Group's share of the post-acquisition accumulated reserves of the associates as at December 31, 2003 was Rmb37,987,000 (2002: Rmb33,329,000).

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

Name	Business structure	Place of registration and operations	Percentage of equity attributable to the Group 2003	2002	Principal activities
Zhejiang Expressway Petroleum Development Co., Ltd.	Corporate	The PRC	50	50	Construction and operation of gas stations and the sale of petroleum products
JoinHands Technology Co., Ltd.	Corporate	The PRC	27.58	27.58	Providing logistic management and anti-counterfeiting systems in the PRC

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

18. EXPRESSWAY OPERATING RIGHTS

	Group Rmb'000	Company Rmb'000
Cost:		
At January 1, 2003 and December 31, 2003	261,000	208,000
Accumulated amortisation:		
At January 1, 2003	46,355	39,290
Provided during the year	8,700	6,934
At December 31, 2003	55,055	46,224
Net book value:		
At December 31, 2003	205,945	161,776
At December 31, 2002	214,645	168,710

18. EXPRESSWAY OPERATING RIGHTS (Continued)

The above expressway operating rights were granted by the Zhejiang Provincial Government to the Group for a period of 30 years. During the 30-year expressway concession period, the Group has the rights of construction and management of Shanghai-Hangzhou-Ningbo Expressway and Shangsan Expressway and the toll-collection rights thereof. The Group is required to construct, maintain and operate the expressways in accordance with the regulations promulgated by the Ministry of Communication and relevant government authorities.

19. INVESTMENTS

Long term investments

	Gruop	
	2003 **Rmb'000**	2002 Rmb'000
Unlisted equity investments, at cost	**1,000**	3,644
Provision for impairment of unlisted equity investments	**—**	(777)
	1,000	2,867

Short term investments

	Group		Company	
	2003 **Rmb'000**	2002 Rmb'000	**2003** **Rmb'000**	2002 Rmb'000
Listed in the PRC, at amortised cost				
- Held-to-maturity securities	**—**	30,000	**—**	30,000
Listed in the PRC, at market value				
- Government bonds	**1,016,510**	726,764	**1,011,510**	504,104
- Close-end equity funds	**62,229**	51,754	**16,973**	18,169
- Enterprise bonds	**—**	10,000	**—**	—
- Equity interests	**25,527**	39,596	**20,889**	17,514
	1,104,266	828,114	**1,049,372**	539,787
	1,104,266	858,114	**1,049,372**	569,787

The market values of the Group's and the Company's short term investments at the date of approval of these financial statements were approximately Rmb1,093,216,000 and Rmb1,036,303,000, respectively.

20. GOODWILL

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

	Group Rmb'000
Cost:	
At January 1, 2003	123,453
Acquisition of additional interests in subsidiaries during the year	3,140
At December 31, 2003	126,593
Accumulated amortisation:	
At January 1, 2003	16,655
Provided during the year	12,221
At December 31, 2003	28,876
Net book value:	
At December 31, 2003	97,717
At December 31, 2002	106,798

The Group has adopted the transitional provision of SSAP 30 which permits goodwill and negative goodwill in respect of acquisitions which occurred prior to the adoption of SSAP 30 to remain eliminated against consolidated reserves or credited to the capital reserve, respectively.

The amount of goodwill remaining in consolidated reserves, arising from the acquisition of subsidiaries, was Rmb352,860,000 as at December 31, 2003 (2002: Rmb352,860,000). Such goodwill, which arose prior to the adoption of SSAP 30, is stated at cost.

21. ACCOUNTS RECEIVABLE

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

	Group		**Company**	
	2003 **Rmb'000**	2002 Rmb'000	**2003** **Rmb'000**	2002 Rmb'000
Within 1 year	**19,116**	11,720	**6,978**	5,244
1 to 2 years	**54**	2,647	**—**	2,647
Over 2 years	**2,601**	—	**2,601**	—
	21,771	14,367	**9,579**	7,891

22. OTHER RECEIVABLES

	Group		Company	
	2003 **Rmb'000**	2002 Rmb'000	**2003** **Rmb'000**	2002 Rmb'000
Prepayments	**26,810**	1,830	**287**	294
Deposits and other debtors	**24,659**	126,842	**22,206**	42,730
	51,469	128,672	**22,493**	43,024

23. CASH AND CASH EQUIVALENTS

	Group		Company	
	2003 **Rmb'000**	2002 Rmb'000	**2003** **Rmb'000**	2002 Rmb'000
Cash and bank balances	**527,814**	562,463	**208,192**	182,830
Time deposits with original maturity of				
less than three months when acquired	**39,381**	103,828	**381**	43,742
Time deposits with original maturity				
over three months when acquired	**251,600**	282,779	**68,002**	131,387
	818,795	949,070	**276,575**	357,959

24. ACCOUNTS PAYABLE

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

	Group		Company	
	2003 **Rmb'000**	2002 Rmb'000	**2003** **Rmb'000**	2002 Rmb'000
Within 1 year	**318,116**	200,181	**202,554**	158,859
1 to 2 years	**44,844**	4,863	**10,498**	2,778
2 to 3 years	**2,218**	1,901	**365**	1,004
Over 3 years	**2,343**	221	**31**	—
	367,521	207,166	**213,448**	162,641

25. OTHER PAYABLES AND ACCRUALS

		Group		Company	
	Note	**2003** **Rmb'000**	2002 Rmb'000	**2003** **Rmb'000**	2002 Rmb'000
Accruals		**82,640**	58,510	**54,144**	12,735
Other liabilities		**162,687**	141,695	**90,996**	96,976
Amounts due to related parties	30	**12,151**	12,151	**12,151**	12,151
Amount due to the holding company	31	**2,599**	2,599	**—**	—
		260,077	214,955	**157,291**	121,862

26. INTEREST-BEARING BANK AND OTHER LOANS

		Group		Company	
	Note	**2003 Rmb'000**	2002 Rmb'000	**2003 Rmb'000**	2002 Rmb'000
Current portion of bank and other loans	28	**975,950**	1,681,553	**250,000**	895,000

27. LONG TERM BONDS PAYABLE WITHIN ONE YEAR

	Group		Company	
	2003 Rmb'000	2002 Rmb'000	**2003 Rmb'000**	2002 Rmb'000
Long term bonds	**—**	200,000	**—**	—

28. INTEREST-BEARING BANK AND OTHER LOANS

	Group		Company	
	2003 Rmb'000	2002 Rmb'000	**2003 Rmb'000**	2002 Rmb'000
Bank loans, unsecured	**800,000**	1,875,000	**250,000**	1,075,000
Bank loans, secured	**—**	—	**—**	150,000
Other loans, unsecured	**920,126**	963,200	**—**	—
	1,720,126	2,838,200	**250,000**	1,225,000
Bank loans repayable:				
Within one year	**800,000**	1,545,000	**250,000**	895,000
In the third to fifth years, inclusive	**—**	330,000	**—**	330,000
	800,000	1,875,000	**250,000**	1,225,000
Other loans repayable:				
Within one year	**175,950**	136,553	**—**	—
In the second year	**88,567**	82,441	**—**	—
In the third to fifth years, inclusive	**276,644**	268,623	**—**	—
Beyond five years	**378,965**	475,583	**—**	—
	920,126	963,200	**—**	—
	1,720,126	2,838,200	**250,000**	1,225,000
Portion classified as current liabilities - note 26	**(975,950)**	(1,681,553)	**(250,000)**	(895,000)
Long term portion	**744,176**	1,156,647	**—**	330,000

The bank loans are unsecured and bear interest at rates ranging from 4.536% to 4.779% per annum.

The other loans are unsecured and bear interest at rates ranging from 3.00% to 4.56% per annum.

29. LONG TERM BONDS

	Group		Company	
	2003 **Rmb'000**	2002 Rmb'000	**2003** **Rmb'000**	2002 Rmb'000
Long term bonds	**1,000,000**	200,000	**1,000,000**	—
Classified as current liabilities - note 27	**—**	(200,000)	**—**	—
	1,000,000	—	**1,000,000**	—

The bonds are unsecured, bear interest at a rate of 4.29% per annum and are repayable in 2012 upon maturity.

30. AMOUNTS DUE TO RELATED PARTIES

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

31. AMOUNT DUE TO THE HOLDING COMPANY

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

32. DEFERRED TAX

The movement in deferred tax liabilities during the year is as follows:

Deferred tax liabilities:

	Restatement of short term investments Rmb'000	**Straight-line method tax depreciation** Rmb'000	**Total** Rmb'000
Group			
At January 1, 2002	4,144	127,389	131,533
Deferred tax charged/(credited) to the income statement during the year - note 8	(986)	110,373	109,387
At December 31, 2002	3,158	237,762	240,920
Deferred tax charged to the income statement during the year - note 8	5,241	79,542	84,783
At December 31, 2003	8,399	317,304	325,703

	Restatement of short term investments Rmb'000	**Straight-line method tax depreciation** Rmb'000	**Total** Rmb'000
Company			
At January 1, 2002	3,789	58,472	62,261
Deferred tax charged to the income statement during the year	460	54,599	55,059
At December 31, 2002	4,249	113,071	117,320
Deferred tax charged to the income statement during the year	3,005	33,878	36,883
At December 31, 2003	7,254	146,949	154,203

32. DEFERRED TAX (Continued)

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

As at December 31, 2003, there was no significant unrecognised deferred tax liability (2002: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, associates and a jointly-controlled entity as the Group had no liability to additional tax should such amounts be remitted.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

33. SHARE CAPITAL

	2003 Number of shares	2002 Number of shares	**2003 Rmb'000**	2002 Rmb'000
Registered, issued and fully paid:				
Domestic shares of Rmb1.00 each	**2,909,260,000**	2,909,260,000	**2,909,260**	2,909,260
H Shares of Rmb1.00 each	**1,433,854,500**	1,433,854,500	**1,433,855**	1,433,855
	4,343,114,500	4,343,114,500	**4,343,115**	4,343,115

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

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

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

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

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

34. RESERVES

	Share premium account Rmb'000	Goodwill reserve Rmb'000	Statutory surplus reserve Rmb'000	Public welfare fund Rmb'000	Retained profits Rmb'000	Total Rmb'000
Group						
At January 1, 2002	3,645,726	(352,860)	415,298	190,764	743,020	4,641,948
Interim dividend - note 12	—	—	—	—	(173,724)	(173,724)
Net profit for the year	—	—	—	—	890,452	890,452
Transfer from/(to) reserves	—	—	118,517	61,116	(179,633)	—
Proposed final dividend - note 12	—	—	—	—	(390,880)	(390,880)
At December 31, 2002 and beginning of year	3,645,726	(352,860)	533,815	251,880	889,235	4,967,796
Interim dividend - note 12	—	—	—	—	(173,724)	(173,724)
Net profit for the year	—	—	—	—	1,008,792	1,008,792
Transfer from/(to) reserves	—	—	176,682	88,341	(265,023)	—
Proposed final dividend - note 12	—	—	—	—	(477,743)	(477,743)
At December 31, 2003	3,645,726	(352,860)	710,497	340,221	981,537	5,325,121
Reserves retained by:						
Company and subsidiaries	3,645,082	(350,331)	699,425	334,685	958,970	5,287,831
Jointly-controlled entity	—	—	—	—	(697)	(697)
Associates	644	(2,529)	11,072	5,536	23,264	37,987
At December 31, 2003	3,645,726	(352,860)	710,497	340,221	981,537	5,325,121
Company and subsidiaries	3,645,082	(350,331)	524,041	246,993	878,273	4,944,058
Jointly-controlled entity	—	—	—	—	(9,591)	(9,591)
Associates	644	(2,529)	9,774	4,887	20,553	33,329
At December 31, 2002	3,645,726	(352,860)	533,815	251,880	889,235	4,967,796
Company						
At January 1, 2002	3,645,082	—	252,408	126,204	330,510	4,354,204
Interim dividend - note 12	—	—	—	—	(173,724)	(173,724)
Net profit for the year	—	—	—	—	484,128	484,128
Transfer from/(to) reserves	—	—	93,498	46,749	(140,247)	—
Proposed final dividend - note 12	—	—	—	—	(390,880)	(390,880)
At December 31, 2002 and beginning of year	3,645,082	—	345,906	172,953	109,787	4,273,728
Interim dividend - note 12	—	—	—	—	(173,724)	(173,724)
Net profit for the year	—	—	—	—	855,995	855,995
Transfer from/(to) reserves	—	—	100,634	50,317	(150,951)	—
Proposed final dividend - note 12	—	—	—	—	(477,743)	(477,743)
At December 31, 2003	3,645,082	—	446,540	223,270	163,364	4,478,256

34. RESERVES (Continued)

In accordance with the Company Law of the PRC and the companies' articles of association, the Company, its subsidiaries, its associates and its jointly-controlled entity (collectively, the "Entities") are required to allocate 10% of their profit after tax, as determined in accordance with the PRC accounting standards and regulations applicable to the Entities, to the statutory surplus reserve (the "SSR") until such reserve reaches 50% of the registered capital of the Entities. Subject to certain restrictions set out in the Company Law of the PRC and the respective articles of association of the Entities, part of the SSR may be converted to increase the Entities' share capital.

In accordance with the Company Law of the PRC, the Entities are required to transfer 5% to 10% of their profit after tax, as determined in accordance with the PRC accounting standards and regulations applicable to the Entities, to the statutory public welfare fund (the "PWF"), which is a non-distributable reserve other than in the event of the liquidation of the Entities. The PWF must be used for capital expenditure on staff welfare facilities and these facilities remain as the properties of the Entities.

The Directors of the Company have proposed to transfer Rmb100,634,000 (2002: Rmb93,498,000) and Rmb50,317,000 (2002: Rmb46,749,000) to the SSR and the PWF, respectively. These represent 10% (2002: 10%) and 5% (2002: 5%), respectively, of the Company's profit after tax of Rmb1,006,342,000 (2002: Rmb934,980,000) determined in accordance with the PRC accounting standards.

According to the relevant regulations in the PRC, the amount of profit available for distribution is the lower of the amount determined under the PRC accounting standards and the amount determined under the generally accepted accounting principles in Hong Kong.

As at December 31, 2003, before the proposed final dividend, the Company had reserves of approximately Rmb641,107,000 (2002: Rmb500,667,000) available for distribution by way of cash or in kind.

As at December 31, 2003, in accordance with the Company Law of the PRC, the amount of approximately Rmb3,640,000,000 (2002: Rmb3,638,229,000) standing to the credit of the Company's share premium account was available for distribution by way of capitalisation issues.

35. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	Notes	**2003 Rmb'000**	2002 Rmb'000
Profit before tax		**1,593,189**	1,394,471
Share of profits of a jointly-controlled entity		**(9,829)**	(1,677)
Share of profits of associates		**(17,394)**	(11,719)
Depreciation	6	**257,817**	223,748
Amortisation of expressway operating rights	6	**8,700**	8,700
Amortisation of goodwill	6	**12,221**	15,612
Write-off of bad debts	6	**537**	794
Interest income	5	**(12,593)**	(17,063)
Interest expense	7	**132,801**	163,224
Unrealised loss on revaluation of short term listed investments	6	**1,259**	9,571
Exchange gains, net	5	**(2,282)**	(1,121)
Loss on disposal of fixed assets	6	**20,768**	1,040
Gain on disposal of long term investment		**(933)**	—
Loss on winding-up of a subsidiary	6	**—**	205
Increase in inventories		**(1,034)**	(966)
(Increase)/decrease in accounts receivables		**(7,941)**	39,058
(Increase)/decrease in other receivables		**69,927**	(15,526)
Increase in an amount due from an associate		**(11)**	(1,250)
Increase in accounts payables		**25,763**	101,643
Increase/(decrease) in other taxes payable		**12,222**	(7,495)
Increase in other liabilities		**23,141**	43,264
Increase in accruals		**3,155**	9,998
Increase in an amount due to a jointly-controlled entity		**804**	304
Interest paid		**(113,939)**	(166,447)
Profits tax paid		**(326,004)**	(252,059)
Net cash inflow from operating activities		**1,670,344**	1,536,309

35. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Winding-up of a subsidiary

	2003 **Rmb'000**	2002 Rmb'000
Net assets disposed of:		
Fixed assets	—	286
Cash and bank balances	—	145
Inventories	—	218
Other receivables	—	1,186
Other payables	—	(1,579)
Minority interests	—	(51)
Loss on winding-up of a subsidiary	—	205

36. COMMITMENTS

(a) On March 15, 2004, the Board of Directors approved an expense for the road surface-overlaying project in the amount of Rmb95,500,000 (2002: Rmb141,400,000) for the year ending December 31, 2004.

(b) Capital commitments

	Group		**Company**	
	2003 **Rmb'000**	2002 Rmb'000	**2003** **Rmb'000**	2002 Rmb'000
Contracted, but not provided for:				
- Construction of expressways	**1,098,777**	177,730	**2,371**	63,775
- Purchase of machinery	**5,697**	37,423	**5,697**	10,719
- Proposed investments in Shangsan Co	**485,000**	485,000	**485,000**	485,000
- Renovation of a service area	**5,893**	14,000	**4,950**	14,000
	1,595,367	714,153	**498,018**	573,494
Authorised, but not contracted for:				
- Purchase of machinery	**70,500**	—	**60,000**	—
- Construction of expressways	**3,386,840**	4,739,237	**2,403,369**	4,419,367
	5,052,707	5,453,390	**2,961,387**	4,992,861

37. CONTINGENT LIABILITIES

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

	Group		Company	
	2003	2002	**2003**	2002
	Rmb'000	Rmb'000	**Rmb'000**	Rmb'000
Guarantees provided in favor of the holders of the corporate bonds issued by a subsidiary	**—**	—	**—**	216,254
Guarantees provided to banks in connection with facilities granted to:				
- A subsidiary	**—**	—	**550,000**	650,000
- A jointly-controlled entity	**30,000**	30,000	**30,000**	30,000
	30,000	30,000	**580,000**	896,254

38. OPERATING LEASE ARRANGEMETS

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

As at December 31, 2003, the Group and the Company had total future minimum lease rental receivables under non-cancelable operating leases falling due as follows:

	Group		Company	
	2003	2002	**2003**	2002
	Rmb'000	Rmb'000	**Rmb'000**	Rmb'000
Within one year	**8,833**	8,159	**1,233**	5,660
In the second to fifth years, inclusive	**18,419**	25,674	**5,769**	19,424
Beyond five years	**31,819**	33,397	**31,819**	33,397
	59,071	67,230	**38,821**	58,481

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

	Net profit before minority interests		Net assets as at 31 December	
	2003	2002	**2003**	2002
	Rmb'000	Rmb'000	**Rmb'000**	Rmb'000
As reported in statutory accounts (restated)	**1,103,632**	1,070,902	**10,436,426**	9,992,136
HK SSAP adjustments:				
(a) Goodwill	**33,722**	30,995	**(145,568)**	(179,290)
(b) Depreciation provided, net of deferred tax	**(43,907)**	(70,811)	**(175,143)**	(137,004)
(c) Difference in share premium account during establishment	**—**	—	**11,923**	11,923
(d) Profits tax refundable	**—**	(22,745)	**(3,686)**	(3,686)
(e) Restatement of short term investments in securities at market value, net of deferred tax	**458**	(1,971)	**18,772**	16,440
(f) General provision on trade receivables and other debts	**561**	(1,439)	**310**	922
(g) Impairment loss, net of deferred tax	**(556)**	(12,076)	**—**	284
(h) Provision for impairment of an unlisted equity investment	**1,351**	(574)	**689**	(689)
(j) Others	**762**	1,238	**2,256**	755
As restated in the financial statements	**1,096,023**	993,519	**10,145,979**	9,701,791

40. RELATED PARTY TRANSACTIONS

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

a) Under the reorganisation agreement, Zhejiang Provincial High Class Highway Investment Company Limited (the name has been changed as "Zhejiang Communications Investment Group Co., Ltd") gave a number of undertakings to the Company, including a non-competition undertaking, a tax indemnity and an indemnity against losses incurred, which were not expressly transferred to the Company pursuant to the reorganisation and general indemnity provisions against any breach of representation warranty and undertakings contained in the agreement.

b) On May 20, 2003, the Company entered into the Development Co Investment Agreement with 11 individuals as nominees of 155 key employees of the Group (including 22 connected persons and 133 independent third parties) for the establishment of Development Co in the PRC, whereby the Company invests in 51% of and the 11 individuals invest in an aggregate of 49% of Development Co's registered capital of Rmb80,000,000.

40. RELATED PARTY TRANSACTIONS (Continued)

c) On May 30, 2003, Development Co entered into several acquisition agreements with the Company, Jiaxing Co and Shangsan Co, respectively, to acquire the assets and liabilities in respect of the service area businesses and the equity interest in Advertising Co (the "Acquired Assets"). The total consideration of the transactions was Rmb84,404,000, being the valuation amount of the Acquired Assets of Rmb87,794,000 as at December 31, 2002, plus the operating results of the Acquired Assets of Rmb13,935,000 for the five-month period ended May 31, 2003, and minus the net cash drawings from the Acquired Assets of Rmb17,325,000 during the said period.

d) On July 24, 2003, Development Co entered into the Service Co Investment Agreement with one individual as nominee of 27 key employees of Services Co (including 4 connected persons and 23 independent third parties) for the establishment of Service Co, whereby Development Co invests in 85% of and the individual invests in 15% of Service Co's registered capital of Rmb8,000,000.

e) On August 26, 2003, Service Co entered into acquisition agreements with the Company and Shangsan Co, respectively, to acquire the assets and liabilities in respect of the vehicle services business at a total consideration of Rmb3,321,000.

f) In 2003, the Group entered into several rental agreements with Zhejiang Expressway Petroleum Development Co., Ltd ("Petroleum Co"), an associate of the Company. Pursuant to the aforementioned agreements, the Group leased six oil stations to Petroleum Co. In 2003, the Group recorded a total rental income of Rmb7,496,000 from Petroleum Co (2002: Rmb6,550,000). The rental income was based on negotiations between the Group and Petroleum Co with reference to the market prices.

Since the total consideration of the respective transactions (b) to (f) as above-mentioned represent less than 3% of the book value of the net tangible assets of the Company as disclosed in its latest published audited accounts, no shareholders' approval is required under the Listing Rules.

41. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with the current year's presentation.

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorized for issue by the Board of Directors on March 15, 2004.