

NOTES TO THE ACCOUNTS

*For the year ended 31st December 2004
(All amounts in RMB unless otherwise stated)*

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 Institute of Certified Public Accountants ("HKICPA").

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.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1st January 2005. The Group has not early adopted these new HKFRSs in the accounts for the year ended 31st December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

(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.

2. Principal accounting policies (continued)

(b) Group accounting (continued)

(i) Consolidation (continued)

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sales and the Group's share of its net assets together with any unamortized goodwill or negative goodwill.

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.

(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.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; Unrealized losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

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.

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For the year ended 31st December 2004
(All amounts in RMB unless otherwise stated)

2. Principal accounting policies (continued)

(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.

(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.

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.

Depreciation of fixed assets other than toll roads is provided for on the straight-line basis to write off the cost of each asset over its estimated useful life, after taking into account an estimated residual value of 3% of cost. The expected useful lives are as follows:

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

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.

2. Principal accounting policies (continued)

(e) Operating lease

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payment made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

(f) 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.

(g) 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.

NOTES TO THE ACCOUNTS

*For the year ended 31st December 2004
(All amounts in RMB unless otherwise stated)*

2. Principal accounting policies (continued)

(h) 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.

(i) 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.

(j) 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.

(k) 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. 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)

(l) 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.

(m) 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.

(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.

NOTES TO THE ACCOUNTS

*For the year ended 31st December 2004
(All amounts in RMB unless otherwise stated)*

2. Principal accounting policies (continued)

(m) Revenue recognition (continued)

(iv) Dividend income

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

(v) Service income

Service income is recognised when the service has been rendered.

(vi) Rental income

Operating lease rental income is recognized on a straight-line basis.

(n) 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.

(o) Enterprise Safety Fund

According to the regulations of the PRC, the Group is required to accrue 1% of its toll income as Enterprise Safety Fund from 1st January 2004 onwards. The fund can only be used for improvements of the safety of its toll roads. Accruals to the fund are treated as an appropriation to reserves, which will be reversed to retained earnings upon utilization.

(p) 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.

NOTES TO THE ACCOUNTS

For the year ended 31st December 2004
(All amounts in RMB unless otherwise stated)

3. Turnover and other revenue

Revenue recognised during the year are as follows:

	Note	2004 RMB'000	2003 RMB'000
Turnover			
- Toll income		1,178,529	830,007
- Toll system installation income		64,370	66,548
- Emergency assistance service income		7,787	8,076
		<u>1,250,686</u>	<u>904,631</u>
Less: Tax related to revenue	(a)	<u>(63,566)</u>	<u>(45,773)</u>
		<u>1,187,120</u>	<u>858,858</u>
Other Revenue			
-Interest income		2,009	2,202
-Service income from management of toll system		4,480	4,580
-Rental income		6,086	2,527
-Income from trading securities		—	1,482
-Other		4,486	4,543
		<u>17,061</u>	<u>15,334</u>
Total Revenue		<u><u>1,204,181</u></u>	<u><u>874,192</u></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 Group is 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.

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(All amounts in RMB unless otherwise stated)

4. Operating profit

Operating profit is stated after crediting and charging the following:

	2004 RMB'000	2003 RMB'000
Charging:		
Staff costs (including Directors' and employees' emoluments)		
- Salaries and wages	52,307	37,794
- Provision for staff welfare	7,105	5,219
- Contribution to statutory pension scheme	17,331	5,838
Depreciation of fixed assets	211,715	174,770
Amortisation of intangible assets	588	3,138
Loss on disposal of fixed assets	7,806	1,309
Auditors' remuneration	1,380	1,200
Impairment of fixed assets	—	441
Provision for doubtful debts	—	52
	<u> </u>	<u> </u>
Crediting:		
Gain on disposal of a subsidiary	844	—
Foreign exchange (loss)/gain, net	(459)	627
	<u> </u>	<u> </u>

5. Finance costs

	2004 RMB'000	2003 RMB'000
Interest on bank loans	26,074	4,017
Less: Interest capitalized in projects under construction	(2,570)	(1,374)
	<u> </u>	<u> </u>
	23,504	2,643
	<u> </u>	<u> </u>

The capitalization rate applied to funds borrowed generally and used for the projects under construction is 4.78% per annum.

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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 was 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 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% on 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:

	2004 RMB'000	2003 RMB'000
Current taxation-EIT	116,642	83,350
Deferred taxation	25,311	17,528
	<u>141,953</u>	<u>100,878</u>

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

	2004 RMB'000		2003 RMB'000	
Profit before taxation	<u>628,611</u>	<u>100%</u>	<u>450,205</u>	<u>100%</u>
Tax at the applicable tax rate of 15% (2003:15%)	94,292	15.0%	67,531	15.0%
Tax effect of expenses that are not deductible in determining taxable profit	1,395	0.2%	895	0.2%
Effect of different tax rate of subsidiaries	<u>46,266</u>	<u>7.4%</u>	<u>32,452</u>	<u>7.2%</u>
	<u>141,953</u>	<u>22.6%</u>	<u>100,878</u>	<u>22.4%</u>

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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 428,949,000 (2003: RMB 332,563,000).

8. Earnings per share

Basic earnings per share is calculated by dividing the Group's profit attributable to shareholders of RMB 486,998,000 (2003: RMB 349,066,000) by the 1,658,610,000 (2003: 1,658,610,000) 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:

	2004 RMB'000	2003 RMB'000
Fees	—	—
Other emoluments		
- basic salaries, allowances and benefits in kind	3,170	2,375
- pension	54	33
	<u>3,224</u>	<u>2,408</u>

Directors' (including supervisors') emoluments disclosed above included approximately RMB 170,000 (2003: RMB 170,000) paid to independent non-executive directors.

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

	Number of directors (including supervisors)	
	2004	2003
Nil to HK\$1,000,000 (equivalent to approximately RMB 1,063,700)	<u>12</u>	<u>12</u>

NOTES TO THE ACCOUNTS

For the year ended 31st December 2004
(All amounts in RMB unless otherwise stated)

9. Directors' and employees' emoluments (continued)

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

The four executive directors received individual emoluments for the year ended 31st December 2004 of approximately RMB 676,250 (2003: RMB 568,750), RMB 423,750 (2003: RMB 308,750), RMB 423,750 (2003: RMB 308,750) and RMB 423,750 (2003: RMB 308,750), 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.

10. Intangible assets

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

	Group	
	2004	2003
	RMB'000	RMB'000
Cost		
Beginning of year	11,945	11,420
Additions	233	525
Disposal of a subsidiary	(8,445)	—
End of year	3,733	11,945
Accumulated amortisation		
Beginning of year	8,238	5,100
Charges for the year	588	3,138
Disposal of a subsidiary	(8,066)	—
End of year	760	8,238
Net book value		
End of year	2,973	3,707
Beginning of year	3,707	6,320

NOTES TO THE ACCOUNTS

For the year ended 31st December 2004
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11. Fixed assets

Group

2004									
(In RMB'000)	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	Total
Cost									
At 1st January 2004	5,561,819	234,682	601,739	512,519	67,980	46,210	20,481	49,286	7,094,716
Additions	—	1,487	—	2,958	23,618	5,829	5,774	486,004	525,670
Disposals	—	(5,546)	—	(9,447)	(14,134)	(1,620)	(910)	—	(31,657)
Transfers	269,430	100,611	21,763	51,470	—	2,010	15,582	(460,866)	—
Disposal of a subsidiary	—	—	—	—	—	(1,625)	(4,007)	(4,034)	(9,666)
At 31st December 2004	5,831,249	331,234	623,502	557,500	77,464	50,804	36,920	70,390	7,579,063
Accumulated depreciation									
At 1st January 2004	346,752	26,098	45,183	211,797	45,726	21,375	6,356	—	703,287
Charges for the year	117,362	6,648	11,775	54,952	7,920	5,197	7,861	—	211,715
Disposals	—	(1,000)	—	(7,397)	(11,471)	(1,178)	(189)	—	(21,235)
Transfers	(5,017)	1,712	4,140	(31)	—	(276)	(528)	—	—
Disposal of a subsidiary	—	—	—	—	—	(260)	(1,309)	—	(1,569)
At 31st December 2004	459,097	33,458	61,098	259,321	42,175	24,858	12,191	—	892,198
Net book value									
At 31st December 2004	5,372,152	297,776	562,404	298,179	35,289	25,946	24,729	70,390	6,686,865
At 31st December 2003	5,215,067	208,584	556,556	300,722	22,254	24,835	14,125	49,286	6,391,429

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For the year ended 31st December 2004
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11. Fixed assets (continued)

Company

	2004								
(In RMB'000)	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	Total
Cost									
At 1st January 2004	3,185,871	101,928	362,419	320,920	49,188	28,813	19,321	46,109	4,114,569
Additions	—	1,375	—	15	17,845	3,910	2,487	403,478	429,110
Disposals	—	—	—	(9,418)	(11,195)	(658)	(282)	—	(21,553)
Transfers	284,810	107,865	—	3,713	—	—	14,296	(410,684)	—
At 31st December 2004	3,470,681	211,168	362,419	315,230	55,838	32,065	35,822	38,903	4,522,126
Accumulated depreciation									
At 1st January 2004	184,712	8,033	29,178	131,424	31,309	14,201	7,048	—	405,905
Charges for the year	68,692	5,850	7,081	26,844	5,272	3,057	5,323	—	122,119
Disposals	—	—	—	(7,383)	(9,020)	(589)	(25)	—	(17,017)
At 31st December 2004	253,404	13,883	36,259	150,885	27,561	16,669	12,346	—	511,007
Net book value									
At 31st December 2004	3,217,277	197,285	326,160	164,345	28,277	15,396	23,476	38,903	4,011,119
At 31st December 2003	3,001,159	93,895	333,241	189,496	17,879	14,612	12,273	46,109	3,708,664

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 2004, the Company is still in the process of obtaining the land use right certificate of Lianhuo Expressway (Anhui section).

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12. Investments in and loans to subsidiaries

(a) Investments in subsidiaries

	Company	
	2004 RMB'000	2003 RMB'000
Unlisted equity, at cost	<u>221,495</u>	<u>271,595</u>

Details of the Group's consolidated subsidiaries as at 31st December 2004 and 2003 were as follows:

Name of subsidiary	Country of incorporation and kind of legal entity	Principal activities and place of operation	31st December 2004		31st December 2003		Paid in, issued and fully paid share capital RMB'000
			Interest held Direct	Interest held Indirect	Interest held Direct	Interest held Indirect	
Anhui Gao Jie Expressway Company Limited ("Gao Jie")	PRC, Limited liability company	Management and operation of expressway in Anhui province, PRC	51%	—	51%	—	300,000
Xuan Guang Expressway Company Limited ("Xuan Guang")	PRC, Limited liability company	Management and operation of expressway in Anhui province, PRC	55.47%	—	55.47%	—	111,760
Anhui Kangcheng Pharmaceutical Co., Ltd.	PRC, Limited liability company	Sales and development of pharmaceutical products in Anhui province, PRC	65%	—	65%	—	10,000
Anhui Wantong Technology Development Co., Ltd. ("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. ("TXJC")	PRC, Limited liability company	Consulting and technology development in Tianjin, PRC	—	—	—	52.85%	2,000
Beijing Haiwei Investment Co., Ltd. ("BJHW")	PRC, Limited liability company	Project management, investment consulting, development of computer software and hardware in Beijing, PRC	—	—	70%	15.79%	50,000

12. Investments in and loans to subsidiaries (continued)

(a) Investments in subsidiaries (continued)

Investment in Gao Jie

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.

Investment in Xuan Guang

Xuan Guang is a co-operative joint venture established by the Company and Xuancheng Highway Management Company ("XHMC") in July 1998 with an operating period of 30 years. 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 entered 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 Xuan Guang. The profit distribution arrangement of Xuanguang mentioned above remains unchanged.

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12. Investments in and loans to subsidiaries (continued)

(a) Investments in subsidiaries (continued)

Disposal of AWTD

Pursuant to a share transfer agreement between the Company and Anhui Guoyuan Trust Investment Co., Ltd. ("AGTI"), the Company transferred its 75.5% interests in AWTD together with the equity interests in TXJC, its subsidiary, to AGTI for a total consideration of RMB 18,644,400 on 23rd September 2004 (Note 25(e)). The disposal has no significant impact on the results of the Group for both 2004 and 2003.

Liquidation of BJHW

As approved by all its shareholders, BJHW was liquidated on 27th May, 2004. The net assets as at the liquidation date were shared by the shareholders in proportion to their respective interests. The Company had no significant gain or losses arising from the liquidation.

(b) Loans to subsidiaries

	Company	
	2004	2003
	RMB'000	RMB'000
Shareholder loans to subsidiaries	835,950	956,585
Less: Shareholder loans to subsidiaries expected to be repaid within 12 months	(195,000)	(172,000)
	<u>640,950</u>	<u>784,585</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	
	2004	2003
	RMB'000	RMB'000
Share of net assets	<u>2,500</u>	<u>3,846</u>

	Company	
	2004	2003
	RMB'000	RMB'000
Unlisted equity, at cost	<u>1,444</u>	<u>1,444</u>

NOTES TO THE ACCOUNTS

For the year ended 31st December 2004
(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 2004.

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%
Anhui Expressway Advertisement Co., Ltd.	PRC	Design and production of advertisement in Anhui province, PRC	Equity capital	38%

14. Investment securities

	Group and Company	
	2004 RMB'000	2003 RMB'000
Unlisted equity, at cost	18,000	18,000

15. Inventories

	Group	
	2004 RMB'000	2003 RMB'000
Raw materials	1,484	1,230
Cost incurred for toll system installation	—	16,674
	1,484	17,904

16. Trade and other receivables

	Group		Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Trade receivable	—	4,863	—	—
Prepayments	2,759	18,666	—	2,838
Others	30,377	15,754	25,836	13,831
	33,136	39,283	25,836	16,669
Less: Provision for doubtful debts	—	(148)	—	—
	33,136	39,135	25,836	16,669

As at 31st December 2004, all trade receivables are aged within one year.

NOTES TO THE ACCOUNTS

For the year ended 31st December 2004
(All amounts in RMB unless otherwise stated)

17. Trade and other payables

	Group		Company	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Payables on purchase of fixed assets	240,035	197,536	181,756	197,536
Payables on repair and maintenance projects	18,121	16,645	10,764	2,444
Accruals	3,027	17,419	3,490	16,635
Advance from customers	—	12,312	—	—
Welfare payables	3,461	5,247	1,201	2,766
Other taxation payable	39,419	19,140	33,163	13,170
Other payables	213,788	77,461	156,813	55,231
	<u>517,851</u>	<u>345,760</u>	<u>387,187</u>	<u>287,782</u>

As at 31st December 2004, all the payables on purchase of fixed assets and repair and maintenance projects were aged within one year.

18. Short-term bank loans

	Group			
	2004		2003	
	Interest rate per annum	RMB'000	Interest rate per annum	RMB'000
Unsecured short-term bank borrowings	4.698%	<u>450,000</u>	4.536%-4.779%	<u>627,000</u>

	Company			
	2004		2003	
	Interest rate per annum	RMB'000	Interest rate per annum	RMB'000
Unsecured short-term bank borrowings	4.698%	<u>450,000</u>	4.536%-4.779%	<u>620,000</u>

As at 31st December 2004, the Group has unutilised banking facilities amounting to RMB 560,000,000.

NOTES TO THE ACCOUNTS

For the year ended 31st December 2004
(All amounts in RMB unless otherwise stated)

19. Share capital

The authorised, issued and fully paid share capital of the Company is RMB 1,658,610,000 (2003: RMB 1,658,610,000) divided into 1,658,610,000 (2003: 1,658,610,000) shares with a par value of RMB 1 each.

20. Reserves and retained earnings

Movements in reserves and retained earnings of the Group were as follows:

	Reserves						Total	Retained earnings
	Share Premium RMB'000	Capital Surplus RMB'000	Statutory Surplus Reserve Fund RMB'000 Note 21(a)	Statutory Public Welfare Fund RMB'000 Note 21(b)	Discretionary Surplus Reserve Fund RMB'000	Enterprise Safety Fund RMB'000		
Balance at								
1st January 2003	1,447,459	—	125,837	114,295	658	—	1,688,249	811,395
Dividends (Note 21 (c))	—	—	—	—	—	—	—	(49,758)
Net profit for the year	—	—	—	—	—	—	—	349,066
Profit appropriations	—	—	38,585	33,191	—	—	71,776	(71,776)
Other (Note i)	—	2,397	—	—	—	—	2,397	—
Balance at								
31st December 2003	1,447,459	2,397	164,422	147,486	658	—	1,762,422	1,038,927
Dividends (Note 21 (c))	—	—	—	—	—	—	—	(99,517)
Net profit for the year	—	—	—	—	—	—	—	486,998
Profit appropriations	—	—	54,153	47,297	—	—	101,450	(101,450)
Appropriation to								
Enterprise Safety Fund	—	—	—	—	—	11,777	11,777	(11,777)
Release of Enterprise Safety Fund	—	—	—	—	—	(997)	(997)	997
Balance at								
31st December 2004	1,447,459	2,397	218,575	194,783	658	10,780	1,874,652	1,314,178
Representing:								
2004 final dividends proposed (Note 21 (c))								165,861
Others								1,148,317
Retained earnings as at								
31st December, 2004								1,314,178

Note (i) Others mainly include the surplus of capital contribution by a minority shareholder in 2003.

NOTES TO THE ACCOUNTS

For the year ended 31st December 2004
(All amounts in RMB unless otherwise stated)

20. Reserves and retained earnings (continued)

Movements in reserves and retained earnings of the Company were as follows:

	Reserves					Total RMB'000	Retained Earnings RMB'000
	Share Premium RMB'000	Statutory Surplus Reserve Fund RMB'000	Statutory Public Welfare Fund RMB'000	Discretionary Surplus Reserve Fund RMB'000	Enterprise Safety Fund RMB'000		
Balance at 1st January 2003	1,447,459	106,655	105,611	658	—	1,660,383	619,578
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>—</u>	<u>1,717,037</u>	<u>845,729</u>
Dividends (Note 21 (c))	—	—	—	—	—	—	(99,517)
Profit for the year	—	—	—	—	—	—	428,948
Profit appropriations	—	40,440	40,440	—	—	80,880	(80,880)
Appropriation to Enterprise Safety Fund	—	—	—	—	6,924	6,924	(6,924)
Release of Enterprise Safety Fund	—	—	—	—	(997)	(997)	997
Balance at 31st December 2004	<u>1,447,459</u>	<u>175,422</u>	<u>174,378</u>	<u>658</u>	<u>5,927</u>	<u>1,803,844</u>	<u>1,088,353</u>
Representing:							
2004 final dividends proposed (Note 21 (c))							165,861
Retained earnings							<u>922,492</u>
Retained earnings as at 31st December 2004							<u>1,088,353</u>

NOTES TO THE ACCOUNTS

For the year ended 31st December 2004
(All amounts in RMB unless otherwise stated)

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 2004, the directors have recommended the following rates of allocations to the statutory public welfare fund: 10% (2003: 10%) for the Company, 5% for Xuan Guang (2003: 5%), 5% for Gao Jie (2003: 5%) and 5% for AWTG (2003: 5%).

(c) Dividends

	2004 RMB'000	2003 RMB'000
Final, proposed, of RMB 0.1 (2003: RMB 0.06) per share	<u>165,861</u>	<u>99,517</u>

At a meeting held on 17th March 2005, the directors proposed a final dividend of RMB 0.1 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 2005.

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).

NOTES TO THE ACCOUNTS

For the year ended 31st December 2004
(All amounts in RMB unless otherwise stated)

23. Deferred tax liabilities

The movement on the deferred tax liabilities account is as follows:

	2004			2003		
	Valuation of assets and depreciation of toll roads and related land use right RMB'000	Accounting for Enterprise Safety Fund RMB'000	Total RMB'000	Valuation of assets and depreciation of toll roads and related land use right RMB'000	Accounting for Enterprise Safety Fund RMB'000	Total RMB'000
Balance at 1st January	147,653	—	147,653	130,125	—	130,125
Deferred Taxation charged to profit and loss account	22,820	2,491	25,311	17,528	—	17,528
Balance at 31st December	<u>170,473</u>	<u>2,491</u>	<u>172,964</u>	<u>147,653</u>	<u>—</u>	<u>147,653</u>

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% (2003: 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 2004
(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:

	2004 RMB'000	2003 RMB'000
Profit before taxation	628,611	450,205
Adjustments for:		
Impairments of fixed assets	—	441
Depreciation of fixed assets	211,715	174,770
Amortisation of intangible assets	588	3,138
Loss on disposal of fixed assets	7,806	1,309
Gain on disposal of a subsidiary	(844)	—
Share of losses from associated companies	725	594
Interest income	(2,009)	(2,202)
Interest expenses	23,504	2,643
Other Investment income	—	(1,482)
Operating profit before working capital changes	870,096	629,416
Decrease in inventories	—	4,865
Increase in trade receivables	(11,360)	(976)
Increase in prepayments and other receivables	(33,916)	(12,291)
Increase in trade and other payables	166,013	16,882
Cash generated from operating activities	990,833	637,896
Interest paid	(26,177)	(3,268)
EIT paid	(78,289)	(80,017)
Net cash inflow from operating activities	886,367	554,611

NOTES TO THE ACCOUNTS

For the year ended 31st December 2004
(All amounts in RMB unless otherwise stated)

25. Notes to consolidated cash flow statement (continued)

(b) Cash paid for acquisition of fixed assets:

	2004 RMB'000	2003 RMB'000
Increase in fixed assets	525,670	2,020,652
Add: Payable on purchase of fixed assets, beginning of year	197,536	69,369
Less: Interest capitalized in projects under construction	(2,570)	(1,374)
Payable on purchase of fixed assets, end of year	(240,035)	(197,536)
Capital contribution of fixed assets from a minority shareholder (Note 12(a))	—	(398,800)
Cash paid for acquisition of fixed assets	480,601	1,492,311

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

	2004 RMB'000	2003 RMB'000
Cash on hand	41	194
Savings deposits	678,001	505,421
Fixed deposits	—	5,000
Bank balance and cash	678,042	510,615
Less: Fixed deposits with original maturity of more than 3 months	—	(5,000)
Restricted cash at bank	—	(4,976)
Cash and cash equivalent	678,042	500,639

NOTES TO THE ACCOUNTS

For the year ended 31st December 2004
(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	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
At 1st January	—	—	3,106,069	3,106,069	208,602	192,197	627,000	—
Minority interests' share of (losses)/profits	—	—	—	—	(340)	261	—	—
Minority interests' share of capital surplus	—	—	—	—	—	221	—	—
Cash inflows/ (outflows)	(99,517)	(49,758)	—	(6,914)	—	3,095	(147,000)	627,000
Decrease of short-term bank loans due to disposal of a subsidiary	—	—	—	—	—	—	(30,000)	—
Decrease of minority interest due to disposal of a subsidiary	—	—	—	—	(7,132)	—	—	—
Shares issue expenses paid in 2003	—	—	—	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	99,517	49,758	—	—	—	—	—	—
Others	—	—	—	—	—	(1,717)	—	—
At 31st December	—	—	3,106,069	3,106,069	201,130	208,602	450,000	627,000

NOTES TO THE ACCOUNTS

For the year ended 31st December 2004
(All amounts in RMB unless otherwise stated)

25. Notes to consolidated cash flow statement (continued)

(e) Disposal of a subsidiary

	2004 RMB'000
Net assets disposed	
Fixed assets	8,097
Intangible assets	379
Investments	626
Inventories	27,780
Trade and other receivable	38,564
Bank balances and Cash	9,423
Trade and other payable	(29,937)
Short-term bank loans	(30,000)
Minority shareholders' interests	(7,132)
	<hr/>
	17,800
Gain on disposal	844
	<hr/>
Satisfied by cash	18,644
Less: Bank balance and cash disposed	(9,423)
	<hr/>
Net cash inflow in respect of the disposal of a subsidiary	9,221
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NOTES TO THE ACCOUNTS

For the year ended 31st December 2004
(All amounts in RMB unless otherwise stated)

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
XHMC	Minority shareholder of Xuan Guang
Anlian Expressway Co., Ltd. (ALEC)	Subsidiary of AEHC
Beijing Anlian Investment Co., Ltd. (BAIC)	Subsidiary of AEHC

(b) Related party transactions

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

	2004 RMB'000	2003 RMB'000
Products sold and service rendered to AEHC	—	5,109
Toll system management fee from AEHC	2,980	3,080
Toll system management fee from ALEC	1,500	1,500
	4,480	4,580
Agent fee paid to BAIC for importing Asphalt	467	575
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 20th June 2001 and the supplementary acquisition contract signed on 28th 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.

NOTES TO THE ACCOUNTS

For the year ended 31st December 2004
(All amounts in RMB unless otherwise stated)

26. Related party transactions (continued)

(c) Related party balances

(i) Trade receivables

	Group		Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
AEHC	—	100	—	—

(ii) Other receivables

	Group		Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
AEHC				
Toll system management fee	—	3,080	—	3,080
Others	538	775	80	—
ALEC	3,863	23	3,863	23
	<u>4,401</u>	<u>3,878</u>	<u>3,943</u>	<u>3,103</u>

(iii) Trade payable

	Group		Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
AEHC				
Payable for acquisition of Lianhuo Expressway (Anhui section)	—	59,000	—	59,000

(iv) Other payables

	Group		Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
AEHC	1,786	—	1,763	—
BAIC	11,816	1,622	11,816	1,622
	<u>13,602</u>	<u>1,622</u>	<u>13,579</u>	<u>1,622</u>

NOTES TO THE ACCOUNTS

For the year ended 31st December 2004
(All amounts in RMB unless otherwise stated)

26. Related party transactions (continued)

(c) Related party balances (continued)

(v) Long term payables to minority shareholders of subsidiaries

	Group		Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
AEHC	728,582	728,582	—	—
XHMC	447,916	447,916	—	—
	<u>1,176,498</u>	<u>1,176,498</u>	<u>—</u>	<u>—</u>

As at 31st December 2004, 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 made by the Company and related parties on behalf of each other. These amounts are unsecured, interest-free and are repayable within 1 year.

27. Commitments

Capital Commitments

As at 31st December 2004, the Group has the following commitment for capital expenditures:

	2004 RMB'000	2003 RMB'000
Authorised but not provided for	<u>908,000</u>	<u>423,000</u>

NOTES TO THE ACCOUNTS

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(All amounts in RMB unless otherwise stated)

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	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
As reported in the statutory accounts	404,403	283,264	4,142,749	3,837,863
HKGAAP adjustments:				
Valuation and depreciation of toll roads	93,149	66,823	757,773	664,624
Valuation and amortisation of land use right	3,977	16,507	109,102	105,125
Accounting for Enterprise Safety Fund	10,780	—	10,780	—
Deferred taxation	(25,311)	(17,528)	(172,964)	(147,653)
As reported under HKGAAP	486,998	349,066	4,847,440	4,459,959

29. Subsequent events

Pursuant to a resolution of the Board of Directors dated 4th March 2005, the Company signed an agreement with AEHC to acquire the 49% equity interest in Gao Jie for a total consideration of RMB 1,350,000,000. The transaction is subject to the approval of the Annual General Meeting and the relevant approval from government authorities.

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 17th March 2005.