Notes to the Financial Statements

December 31, 2004

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 RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The following HKFRSs are effective for the first time for the current year's financial statements:

– HKFRS 1 "First-time Adoption of Hong Kong Financial Reporting Standards"

– SSAP 36 "Agriculture"

– Interpretation 22 "The Appropriate Policies for Infrastructure Facilities"

The above recently issued HKFRSs have no material impact on the Group's financial statements for the year ended December 31, 2004.

In addition, the Hong Kong Institute of Certified Public Accountants (the "HKICPA") has issued a number of new Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after January 1, 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended December 31, 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, and accounting principles generally accepted in Hong Kong (collectively referred to as "HK GAAP") 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, 2004. 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 within the Group 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.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Goodwill on acquisitions subsequent to the adoption of the SSAP is treated according to the SSAP 30 goodwill accounting policy above.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

With effect from January 1, 2004, depreciation of communications and signalling equipment is calculated to write off their cost less directors' estimate of their residual values (3% of cost) on the straight-line basis over their estimated useful lives of five years.

In prior years, depreciation of communications and signalling equipment was calculated to write off their cost less directors' estimate of their residual values (3% of cost) on the straight-line basis over their estimated useful lives of 10 years. This represents a change in accounting estimate and is accounted for prospectively. The consolidated net book value of fixed assets as at December 31, 2004 has been decreased by Rmb51,336,000 in the form of an increase in the depreciation charge for the year as a result of this change. Accordingly, the consolidated net profit from ordinary activities attributable to shareholders for the year then ended has been decreased by Rmb33,165,000.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fixed assets and depreciation (Continued)

With the above change in accounting estimate, depreciation of fixed assets, other than expressways, bridges and land, is provided on the 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	5 years	19.4%
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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits and 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 geographical segment information is presented.

Business segments

The Group's operating businesses are structured 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)

	Toll operation		Service area businesses		Advertising business		Road maintenance		Others		Consolidated	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003
Group	**Rmb'000**	Rmb'000	**Rmb'000**	Rmb'000	**Rmb'000**	Rmb'000	**Rmb'000**	Rmb'000	**Rmb'000**	Rmb'000	**Rmb'000**	Rmb'000
Segment revenue:												
Turnover, net of revenue taxes	**2,906,473**	2,330,122	**179,563**	114,343	**38,864**	24,687	**7,093**	2,653	**–**	–	**3,131,993**	2,471,805
Other revenue	**30,549**	110,931	**9,522**	14,207	**1,575**	1,611	**–**	536	**–**	–	**41,646**	127,285
Total revenue	**2,937,022**	2,441,053	**189,085**	128,550	**40,439**	26,298	**7,093**	3,189	**–**	–	**3,173,639**	2,599,090
Segment results	**1,925,656**	1,663,748	**38,000**	29,463	**15,465**	7,833	**(5,166)**	(2,277)	**–**	–	**1,973,955**	1,698,767
Finance costs									**–**		**(103,457)**	(132,801)
Share of profits of associates	**–**	–	**13,877**	15,431	**–**	–	**–**	–	**1,139**	1,963	**15,016**	17,394
Share of profit of a jointly-controlled entity	**25,467**	9,829	**–**	–	**–**	–	**–**	–	**–**	–	**25,467**	9,829
Profit before tax											**1,910,981**	1,593,189
Tax											**(554,524)**	(497,166)
Profit before minority interests											**1,356,457**	1,096,023
Minority interests											**(130,758)**	(87,231)
Net profit from ordinary activities attributable to shareholders											**1,225,699**	1,008,792
Segment assets	**14,773,348**	14,532,875	**175,910**	115,681	**60,005**	45,287	**71,829**	50,075	**–**	–	**15,081,092**	14,743,918
Interests in associates	**–**	–	**144,120**	144,923	**–**	–	**–**	–	**32,624**	19,575	**176,744**	164,498
Interest in a jointly-controlled entity	**79,812**	62,554	**–**	–	**–**	–	**–**	–	**–**	–	**79,812**	62,554
Goodwill	**85,472**	97,717	**–**	–	**–**	–	**–**	–	**–**	–	**85,472**	97,717
Deferred tax assets	**38,319**	–	**–**	–	**–**	–	**–**	–	**–**	–	**38,319**	–
Total assets	**14,976,951**	14,693,146	**320,030**	260,604	**60,005**	45,287	**71,829**	50,075	**32,624**	19,575	**15,461,439**	15,068,687
Segment liabilities	**3,119,225**	3,509,014	**83,472**	42,667	**28,081**	19,188	**33,578**	13,719	**–**	–	**3,264,356**	3,584,588
Deferred tax liabilities	**384,577**	325,703	**–**	–	**–**	–	**–**	–	**–**	–	**384,577**	325,703
Total liabilities	**3,503,802**	3,834,717	**83,472**	42,667	**28,081**	19,188	**33,578**	13,719	**–**	–	**3,648,933**	3,910,291
Other segment information:												
Capital expenditure	**903,959**	786,016	**63,007**	5,461	**14,215**	7,007	**1,325**	3,417	**–**	–	**982,506**	801,901
Depreciation and amortisation	**331,193**	268,219	**5,060**	2,351	**4,069**	2,961	**4,284**	5,207	**–**	–	**344,606**	278,738
Write-off of bad debts	**–**	537	**–**	–	**–**	–	**–**	–	**–**	–	**–**	537
Loss on disposal of fixed assets	**205,095**	13,935	**49**	6,833	**117**	–	**–**	–	**–**	–	**205,261**	20,768

5. TURNOVER AND REVENUE

Turnover mainly represents toll income from the operation of expressways, the value of service area business, 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:

	2004 Rmb'000	2003 Rmb'000
Toll operation income	**3,066,954**	2,458,726
Service area businesses income	**183,637**	117,205
Advertising business income	**41,159**	26,138
Road maintenance income	**7,244**	2,669
	3,298,994	2,604,738
Less: Revenue taxes	**(167,001)**	(132,933)
Turnover	**3,131,993**	2,471,805
Income/(loss) on investments	**(36,158)**	53,838
Interest income	**12,514**	12,593
Rental income	**22,941**	21,343
Trailer income	**18,352**	11,162
Exchange gains, net	**220**	2,282
Subsidy income	**–**	17,394
Others	**23,777**	8,673
Other revenue	**41,646**	127,285
	3,173,639	2,599,090

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):

	2004 Rmb'000	2003 Rmb'000
Depreciation	**323,661**	257,817
Operating lease rentals on land and buildings	**–**	643
Auditors' remuneration	**2,167**	3,115
Staff costs:		
Wages and salaries	**117,979**	89,681
Pension scheme contributions	**11,228**	13,880
Amortisation of expressway operating rights*	**8,700**	8,700
Amortisation of goodwill**	**12,245**	12,221
Write-off of bad debts	**–**	537
Loss on disposal of fixed assets	**205,261**	20,768
Unrealised loss on revaluation of short term listed investments	**1,213**	1,259
Net rental income	**(22,941)**	(21,343)
Exchange gains, net	**(220)**	(2,282)
Interest income	**(12,514)**	(12,593)
(Income)/loss from investments	**34,945**	(55,097)

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

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

7. FINANCE COSTS

	2004 Rmb'000	2003 Rmb'000
Interest on bank loans and other loans wholly repayable within five years	**50,253**	68,977
Interest on other loans	**11,804**	17,700
Interest on bonds	**41,400**	46,626
Other borrowing costs	**–**	9,000
Total interest	**103,457**	142,303
Less: Interest capitalised	**–**	(9,502)
	103,457	132,801

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.

	2004 Rmb'000	2003 Rmb'000
Group:		
Tax charged	**556,566**	439,812
Tax refunded	**(34,372)**	(33,249)
	522,194	406,563
Deferred – note 31	**20,555**	84,783
	542,749	491,346
Share of tax attributable to associates	**6,081**	5,791
Share of tax attributable to a jointly-controlled entity	**4,964**	–
Share of deferred tax attributable to an associate	**(151)**	(906)
Share of deferred tax attributable to a jointly-controlled entity	**881**	935
Tax charge for the year	**554,524**	497,166

During the year, according to the approvals from the Zhejiang Provincial Local Tax Bureau, Zhejiang Shangsan Expressway Co., Ltd. ("Shangsan Co"), one of the Company's subsidiaries, was entitled to a 30% CIT exemption for the two years ended December 31, 2004 under the category of "Enterprises providing employment opportunities to redundant workers with a minimum of three-year employment term" as defined in the relevant national tax rules. As a result, the tax refund received by Shangsan Co in 2004 for the year ended December 31, 2003 amounted to Rmb27,004,000 and a tax exemption for the year ended December 31, 2004 amounted to Rmb36,914,000, respectively (2003: 50% CIT for the year ended December 31, 2002 amounting to Rmb33,249,000 was refunded under the category of "New enterprises providing employment opportunities to redundant urban workers" as defined in the relevant national tax rules).

During the year, according to the approvals from the Zhejiang Provincial National Tax Bureau, Zhejiang Expressway Investment Development Co., Ltd. ("Development Co") and Zhejiang Expressway Vehicle Towing and Rescue Service Co., Ltd. ("Service Co"), two of the Company's subsidiaries, were entitled to a 100% CIT exemption for the year ended December 31, 2003 and accordingly received tax refund amounting to Rmb6,554,000 and Rmb814,000, respectively, under the category of "New enterprises providing employment opportunities to redundant urban workers" as defined in the relevant national tax rules.

8. TAX (Continued)

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:

	2004 Rmb'000	2004 %	2003 Rmb'000	2003 %
Profit before tax	**1,910,981**		1,593,189	
Tax at the statutory tax rate	**630,624**	**33.0**	525,752	33.0
Tax refunded	**(34,372)**	**(1.8)**	(33,249)	(2.1)
Tax exemption of a subsidiary	**(36,914)**	**(1.9)**	–	–
Income not subject to tax	**(13,451)**	**(0.7)**	(10,451)	(0.7)
Expenses not deductible for tax	**8,637**	**0.4**	15,114	1.0
Tax charge at the Group's effective rate	**554,524**	**29.0**	497,166	31.2

9. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended December 31, 2004 dealt with in the financial statements of the Company was Rmb937,988,000 (2003: Rmb855,995,000) (note 33).

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:

	2004 Rmb'000	2003 Rmb'000
Fees	**–**	–
Other emoluments:		
Salaries, allowances and benefits in kind	**1,856**	1,725
Bonuses paid and payable	**660**	588
Pension scheme contributions	**28**	39
	2,544	2,352

Salaries, allowances and benefits in kind include HK$151,600 (2003: HK$150,000), HK$151,600 (2003: HK$150,000) and Rmb33,200 (2003: Rmb30,000) payable to the three (2003: three) independent non-executive directors, respectively. There were no other emoluments payable to the independent non-executive directors during the year (2003: Nil).

10. DIRECTORS AND SUPERVISORS' REMUNERATION (Continued)

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

	Number of Directors and Supervisors	
	2004	2003
Nil to HK$1,000,000	**11**	11

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

	2004 Rmb'000	2003 Rmb'000
Salaries, allowances and benefits in kind	**1,747**	1,712
Bonuses paid and payable	**765**	734
Pension scheme contributions	**39**	49
	2,551	2,495

The five highest paid employees during the year included four (2003: 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

	2004	2003	**2004**	2003
	Per ordinary share			
	Rmb	Rmb	**Rmb'000**	Rmb'000
Interim	**0.04**	0.04	**173,724**	173,724
Proposed final	**0.15**	0.11	**651,467**	477,743
	0.19	0.15	**825,191**	651,467

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 Rmb1,225,699,000 (2003: Rmb1,008,792,000) and the 4,343,114,500 ordinary shares (2003: 4,343,114,500 ordinary shares) in issue during the year.

Diluted earnings per share amounts for the years ended December 31, 2004 and 2003 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	11,686,549	357,428	213,511	107,833	189,860	543,267	13,630,258
Additions	12,950	5,123	5,808	17,532	17,685	18,405	905,003	982,506
Transfers	–	40,041	15,608	57,515	–	399	(113,563)	–
Reclassifications	–	–	–	42,132	–	(42,132)	–	–
Disposals	(333)	(212,607)	(4,029)	(7,938)	(1,945)	(2,387)	(49)	(229,288)
At December 31, 2004	544,427	11,519,106	374,815	322,752	123,573	164,145	1,334,658	14,383,476
Accumulated depreciation:								
At beginning of year	105,464	719,723	53,795	87,142	58,678	67,840	–	1,092,642
Depreciation provided during the year	17,779	174,256	12,103	93,702	11,244	14,577	–	323,661
Reclassifications	–	–	–	10,319	–	(10,319)	–	–
Disposals	–	(15,833)	(351)	(2,320)	(1,576)	(1,406)	–	(21,486)
At December 31, 2004	123,243	878,146	65,547	188,843	68,346	70,692	–	1,394,817
Net book value:								
At December 31, 2004	421,184	10,640,960	309,268	133,909	55,227	93,453	1,334,658	12,988,659
At December 31, 2003	426,346	10,966,826	303,633	126,369	49,155	122,020	543,267	12,537,616

14. FIXED ASSETS (Continued)

	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
Company								
Cost:								
At January 1, 2004	348,430	5,162,956	130,167	126,328	56,595	62,422	17,962	5,904,860
Additions	–	4,925	3,773	3,840	13,866	6,129	290,097	322,630
Transfers	–	40,041	4,759	–	–	–	(44,800)	–
Transfers to subsidiaries	–	–	–	–	–	–	(8,090)	(8,090)
Disposals	–	(78,015)	(3,063)	–	(931)	(2,264)	–	(84,273)
At December 31, 2004	348,430	5,129,907	135,636	130,168	69,530	66,287	255,169	6,135,127
Accumulated depreciation:								
At January 1, 2004	75,913	411,604	19,065	65,142	36,848	33,123	–	641,695
Provided during the year	11,604	86,499	5,299	49,240	6,339	2,330	–	161,311
Transfers to subsidiaries	–	–	–	–	–	–	–	–
Disposals	–	(8,105)	(352)	–	(818)	(1,342)	–	(10,617)
At December 31, 2004	87,517	489,998	24,012	114,382	42,369	34,111	–	792,389
Net book value:								
At December 31, 2004	260,913	4,639,909	111,624	15,786	27,161	32,176	255,169	5,342,738
At December 31, 2003	272,517	4,751,352	111,102	61,186	19,747	29,299	17,962	5,263,165

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	
	2004 Rmb'000	2003 Rmb'000
Unlisted shares, at cost	**4,436,627**	4,436,627
Due from subsidiaries	**43,004**	105,226
Due to subsidiaries	**(4,026)**	(364,472)
	4,475,605	4,177,381

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	1,000,000	–	*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
Hangzhou Roadtone Advertising Co., Ltd. ("Roadtone Co")	Note 7	3,000,000	–	*26.01	Provision of advertising services

15. INTERESTS IN SUBSIDIARIES (Continued)

* These three 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.

Note 7: Roadtone Co was established on July 27, 2004 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	
	2004 Rmb'000	2003 Rmb'000	**2004 Rmb'000**	2003 Rmb'000
Unlisted shares, at cost	**–**	–	**65,000**	65,000
Share of net assets other than goodwill	**83,925**	64,303	**–**	–
Amount due to a jointly-controlled entity	**(4,113)**	(1,749)	**(4,113)**	(1,749)
	79,812	62,554	**60,887**	63,251

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	Percentage of Ownership interest	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	
	2004 Rmb'000	2003 Rmb'000	**2004 Rmb'000**	2003 Rmb'000
Unlisted shares, at cost	**–**	–	**126,500**	126,500
Share of net assets other than goodwill	**178,654**	164,487	**–**	–
Amount due (to)/from an associate	**(1,910)**	11	**875**	875
	176,744	164,498	**127,375**	127,375

The amount due (to) from 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, 2004 was Rmb40,154,000 (2003: Rmb37,987,000).

Particulars of the associates are as follows:

Name	Business structure	Place of registration and operations	Percentage of equity attributable to the Group 2004	2003	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
Zhejiang Concord Property Investment Co., Ltd.	Corporate	The PRC	22.95	–	Investment and construction on real estates
Hangzhou Yuhang Communication Time Plaza Co., Ltd.	Corporate	The PRC	15.3	–	Investment and construction on real estates

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, 2004 and December 31, 2004	261,000	208,000
Accumulated amortisation:		
At January 1, 2004	55,055	46,224
Provided during the year	8,700	6,934
At December 31, 2004	63,755	53,158
Net book value:		
At December 31, 2004	197,245	154,842
At December 31, 2003	205,945	161,776

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

	Group	
	2004 **Rmb'000**	2003 Rmb'000
Unlisted equity investments, at cost	**1,000**	1,000

Short term investments

	Group		Company	
	2004 **Rmb'000**	2003 Rmb'000	**2004** **Rmb'000**	2003 Rmb'000
Listed in the PRC, at market value:				
Government bonds	**617,381**	1,016,510	**617,381**	1,011,510
Close-end equity funds	**59,066**	62,229	**–**	16,973
Equity interests	**–**	25,527	**–**	20,889
	676,447	1,104,266	**617,381**	1,049,372

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 Rmb691,751,000 and Rmb635,501,000, 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, 2004 and at December 31, 2004	126,593
Accumulated amortisation:	
At January 1, 2004	28,876
Provided during the year	12,245
At December 31, 2004	41,121
Net book value:	
At December 31, 2004	85,472
At December 31, 2003	97,717

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, 2004 (2003: 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**	
	2004 **Rmb'000**	2003 Rmb'000	**2004** **Rmb'000**	2003 Rmb'000
Within 1 year	**25,636**	19,116	**16,160**	6,978
1 to 2 years	**933**	54	**–**	–
Over 2 years	**–**	2,601	**–**	2,601
	26,569	21,771	**16,160**	9,579

22. OTHER RECEIVABLES

		Group		Company	
	Notes	**2004 Rmb'000**	2003 Rmb'000	**2004 Rmb'000**	2003 Rmb'000
Prepayments		**26,989**	26,810	**206**	287
Entrusted loan to a related party	39	**260,000**	–	**260,000**	–
Entrusted loan to a third party		**10,000**	–	**10,000**	–
Deposits and other debtors		**84,028**	24,659	**76,227**	22,206
		381,017	51,469	**346,433**	22,493

23. CASH AND CASH EQUIVALENTS

	Group		Company	
	2004 Rmb'000	2003 Rmb'000	**2004 Rmb'000**	2003 Rmb'000
Cash and bank balances	**538,079**	527,814	**263,445**	208,192
Time deposits with original maturity of less than three months when acquired	**183,920**	39,381	**59,503**	381
Time deposits with original maturity over three months when acquired	**81,740**	251,600	**29,000**	68,002
	803,739	818,795	**351,948**	276,575

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	
	2004 Rmb'000	2003 Rmb'000	**2004 Rmb'000**	2003 Rmb'000
Within 1 year	**262,085**	318,116	**143,152**	202,554
1 to 2 years	**10,037**	44,844	**9,508**	10,498
2 to 3 years	**20,930**	2,218	**109**	365
Over 3 years	**4,161**	2,343	**686**	31
	297,213	367,521	**153,455**	213,448

25. OTHER PAYABLES AND ACCRUALS

		Group		Company	
	Notes	**2004 Rmb'000**	2003 Rmb'000	**2004 Rmb'000**	2003 Rmb'000
Accruals		**82,022**	82,640	**55,658**	54,144
Other liabilities		**198,014**	162,687	**97,065**	90,996
Amounts due to related parties	29	**12,151**	12,151	**12,151**	12,151
Amount due to the holding company	30	**2,599**	2,599	**–**	–
		294,786	260,077	**164,874**	157,291

26. INTEREST-BEARING BANK AND OTHER LOANS

	Group		Company	
	2004 Rmb'000	2003 Rmb'000	**2004 Rmb'000**	2003 Rmb'000
Bank loans, unsecured	**570,000**	800,000	**300,000**	250,000
Other loans, unsecured	**873,462**	920,126	**–**	–
	1,443,462	1,720,126	**300,000**	250,000
Bank loans repayable:				
Within one year	**570,000**	800,000	**300,000**	250,000
Other loans repayable:				
Within one year	**217,892**	175,950	**–**	–
In the second year	**89,943**	88,567	**–**	–
In the third to fifth years, inclusive	**287,904**	276,644	**–**	–
Beyond five years	**277,723**	378,965	**–**	–
	873,462	920,126	**–**	–
	1,443,462	1,720,126	**300,000**	250,000
Portion classified as current liabilities	**(787,892)**	(975,950)	**(300,000)**	(250,000)
Long term portion	**655,570**	744,176	**–**	–

The bank loans are unsecured and bear interest at rates ranging from 4.54% to 5.31% per annum.

The other loans are unsecured and bear interest at rates ranging from 3.00% to 4.85% per annum.

27. LONG TERM BONDS

	Group		Company	
	2004 **Rmb'000**	2003 Rmb'000	**2004** **Rmb'000**	2003 Rmb'000
Long term bonds	**1,000,000**	1,000,000	**1,000,000**	1,000,000
	1,000,000	1,000,000	**1,000,000**	1,000,000

The bonds are unsecured, bear interest at a rate of 4.29% per annum and are repayable in 2013 upon maturity.

28. AMOUNTS DUE TO RELATED PARTIES

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

29. 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.

30. DEFERRED TAX

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

Deferred tax assets:

	Non-deductible disposal of fixed assets Rmb'000
Group	
At January 1, 2004	–
Deferred tax charged to the income statement during the year	38,319
At December 31, 2004	38,319

30. DEFERRED TAX (Continued)

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, 2003	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
Deferred tax charged to the income statement during the year – note 8	(12,609)	71,483	58,874
At December 31, 2004	(4,210)	388,787	384,577

	Restatement of short term investments Rmb'000	Straight-line method tax depreciation Rmb'000	Total Rmb'000
Company			
At January 1, 2003	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
Deferred tax charged to the income statement during the year	(9,559)	32,699	23,140
At December 31, 2004	(2,305)	179,648	177,343

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

As at December 31, 2004, there was no significant unrecognised deferred tax liability (2003: 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.

31. SHARE CAPITAL

	2004 Number of shares	2003 Number of shares	**2004 Rmb'000**	2003 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.

32. 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, 2003	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 to reserves	–	–	176,682	88,341	(265,023)	–
Proposed final dividend – note 12	–	–	–	–	(477,743)	(477,743)
At December 31, 2003 and beginning of year	3,645,726	(352,860)	710,497	340,221	981,537	5,325,121
Interim dividend – note 12	–	–	–	–	(173,724)	(173,724)
Net profit for the year	–	–	–	–	1,225,699	1,225,699
Transfer to reserves	–	–	182,454	91,227	(273,681)	–
Proposed final dividend – note 12	–	–	–	–	(651,467)	(651,467)
At December 31, 2004	3,645,726	(352,860)	892,951	431,448	1,108,364	5,725,629
Reserves retained by:						
Company and subsidiaries	3,645,082	(350,331)	879,608	424,776	1,067,415	5,666,550
Jointly-controlled entity	–	–	949	475	17,501	18,925
Associates	644	(2,529)	12,394	6,197	23,448	40,154
At December 31, 2004	3,645,726	(352,860)	892,951	431,448	1,108,364	5,725,629
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						
At January 1, 2003	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 to reserves	–	–	100,634	50,317	(150,951)	–
Proposed final dividend – note 12	–	–	–	–	(477,743)	(477,743)
At December 31, 2003 and beginning of year	3,645,082	–	446,540	223,270	163,364	4,478,256
Interim dividend – note 12	–	–	–	–	(173,724)	(173,724)
Net profit for the year	–	–	–	–	937,988	937,988
Transfer to reserves	–	–	121,117	60,558	(181,675)	–
Proposed final dividend – note 12	–	–	–	–	(651,467)	(651,467)
At December 31, 2004	3,645,082	–	567,657	283,828	94,486	4,591,053

32. 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 Rmb121,117,000 (2003: Rmb100,634,000) and Rmb60,558,000 (2003: Rmb50,317,000) to the SSR and the PWF, respectively. These represent 10% (2003: 10%) and 5% (2003: 5%), respectively, of the Company's profit after tax of Rmb1,211,170,000 (2003: Rmb1,006,342,000) determined in accordance with the PRC accounting standards and financial regulations.

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 financial regulations and the amount determined under HK GAAP.

As at December 31, 2004, before the proposed final dividend, the Company had reserves of approximately Rm745,953,000 (2003: Rmb641,107,000) available for distribution by way of cash or in kind.

As at December 31, 2004, in accordance with the Company Law of the PRC, the amount of approximately Rmb3,638,000,000 (2003: Rmb3,640,000,000) standing to the credit of the Company's share premium account was available for distribution by way of capitalisation issues.

33. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	Notes	2004 Rmb'000	2003 Rmb'000
Profit before tax		**1,910,981**	1,593,189
Adjustments for:			
Share of profit of a jointly-controlled entity		**(25,467)**	(9,829)
Share of profits of associates		**(15,016)**	(17,394)
Depreciation	6	**323,661**	257,817
Amortisation of expressway operating rights	6	**8,700**	8,700
Amortisation of goodwill	6	**12,245**	12,221
Write-off of bad debts	6	**–**	537
Interest income	5	**(12,514)**	(12,593)
Interest expense	7	**103,457**	132,801
Unrealised loss on revaluation of short term listed investments	6	**1,213**	1,259
Exchange gains, net	5	**(220)**	(2,282)
Loss on disposal of fixed assets	6	**205,261**	20,768
Gain on disposal of long term investment		**–**	(933)
Increase in inventories		**(3,360)**	(1,034)
Increase in accounts receivable		**(4,798)**	(7,941)
(Increase)/decrease in other receivables		**(329,548)**	69,927
(Increase)/decrease in an amount due from an associate		**1,921**	(11)
Increase/(decrease) in accounts payable		**(82,401)**	25,763
Increase/(decrease) in other taxes payable		**(3,603)**	12,222
Increase in other liabilities		**35,547**	23,141
Increase in accruals		**8,165**	3,155
Increase in an amount due to a jointly-controlled entity		**2,364**	804
Interest paid		**(112,240)**	(113,939)
Profits tax paid		**(526,560)**	(326,004)
Net cash inflow from operating activities		**1,497,788**	1,670,344

34. COMMITMENTS

(a) Capital commitments

	Group		Company	
	2004 Rmb'000	2003 Rmb'000	**2004 Rmb'000**	2003 Rmb'000
Contracted, but not provided for:				
– Construction of expressways	**2,078,001**	1,098,777	**1,436,024**	2,371
– Purchase of machinery	**–**	5,697	**–**	5,697
– Proposed investments in Shangsan Co	**485,000**	485,000	**485,000**	485,000
– Decoration of office	**2,693**	–	**2,693**	–
– Renovation of a service area	**1,371**	5,893	**–**	4,950
	2,567,065	1,595,367	**1,923,717**	498,018
Authorised, but not contracted for:				
– Purchase of machinery	**72,459**	70,500	**47,224**	60,000
– Construction of expressways	**1,592,196**	3,386,840	**669,942**	2,403,369
	4,231,720	5,052,707	**2,640,883**	2,961,387

(b) On November 26, 2004, the Company entered into an agreement with Jiaxing Jiashao Expressway Investment and Development Limited Company ("Jiaxing Jiashao") and Shaoxing Communication and Investment Limited ("Shaoxing Communication") to set up the joint-venture company, Zhejiang Jiashao Expressway Co., Ltd. (the "JV Co"), for the purpose of the development and operation of the Jiaxing-Shaoxing Expressway ("Jiashao Expressway"). The Company, Jiaxing Jiashao and Shaoxing Communication will hold 35%, 35% and 30% of the share capital of the JV Co, respectively. The total capital contribution of the JV Co of Rmb3,272,500,000 shall be contributed by the Company, Jiaxing Jiashao and Shaoxing Communication in accordance with their respective equity interests in the JV Co. Accordingly, the Company shall contribute in cash Rmb1,145,375,000. The project is still in a preliminary stage and has not been approved by the relevant PRC government authorities.

35. CONTINGENT LIABILITIES

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

	Group		Company	
	2004 Rmb'000	2003 Rmb'000	**2004 Rmb'000**	2003 Rmb'000
Guarantees provided to banks in connection with facilities granted to:				
– A subsidiary	**–**	–	**220,000**	550,000
– A jointly-controlled entity	**–**	30,000	**–**	30,000
	–	30,000	**220,000**	580,000

36. OPERATING LEASE ARRANGEMENTS

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, 2004, the Group and the Company had total future minimum lease rental receivables under non-cancelable operating leases falling due as follows:

	Group		Company	
	2004 Rmb'000	2003 Rmb'000	**2004 Rmb'000**	2003 Rmb'000
Within one year	**8,912**	8,833	**1,312**	1,233
In the second to fifth years, inclusive	**13,764**	18,419	**6,114**	5,769
Beyond five years	**30,162**	31,819	**30,162**	31,819
	52,838	59,071	**37,588**	38,821

37. DIFFERENCES IN FINANCIAL STATEMENTS PREPARED UNDER PRC GAAP AND HK GAAP

	Net profit before minority interests		Net assets as at December 31,	
	2004 Rmb'000	2003 Rmb'000	**2004 Rmb'000**	2003 Rmb'000
As reported in the statutory financial statements of the Group prepared in accordance with PRC GAAP	**1,329,577**	1,103,632	**10,977,094**	10,436,426
HK GAAP adjustments:				
(a) Goodwill	**33,726**	33,722	**(111,841)**	(145,568)
(b) Depreciation provided, net of deferred tax	**(28,527)**	(43,907)	**(199,888)**	(175,143)
(c) Deferred tax assets on disposal of fixed assets	**38,319**	–	**38,319**	–
(d) Difference in the share premium account during establishment	**–**	–	**11,923**	11,923
(e) Profits tax refundable	**–**	–	**(3,686)**	(3,686)
(f) Restatement of short term investments in securities at market value, net of deferred tax	**(14,971)**	458	**4,110**	18,772
(g) General provision on accounts receivable and other debts	**(145)**	561	**1,607**	310
(h) Impairment loss, net of deferred tax	**–**	(556)	**–**	–
(i) Provision for impairment of an unlisted equity investment	**–**	1,351	**–**	689
(j) Others	**(1,522)**	762	**2,573**	2,256
As restated in the financial statements	**1,356,457**	1,096,023	**10,720,211**	10,145,979

38. 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) On August 16, 2004, the board of directors resolved that the Company entered into two guarantees to be dated August 18, 2004 in favour of two independent financial institutions in the PRC, namely, Industrial and Commercial Bank of China (Zhejiang Province Branch) and Shanghai Pudong Development Bank, in respect of loan facilities with a principal amount of Rmb280,000,000 and Rmb80,000,000, respectively, granted to Shangsan Co under the respective Facility Agreements.

   The purpose of the facilities under the Facility Agreements is to re-finance the existing bank term loans of Shangsan Co of Rmb360,000,000 (approximately HK$339,623,000) in total and with similar interest rates and maturity periods of the new facilities under the Facility Agreements.

   The loans under the Facility Agreements are unsecured and the interest rates will be subject to the rates applicable to loans with maturity periods within one year as announced by the Bank of China from time to time. Each guarantee shall take effect until the expiration of two years from the repayment date of each loan to be drawn down under the respective Facility Agreement. No consideration is receivable by the Company for the provision of the financial assistance under each guarantee.

   Shangsan Co is a connected person of the Company as Huajian Translation Economic Development Centre, a substantial shareholder of the Company, owns more than 10% equity interest in Shangsan Co, which is also owned as to 73.625% by the Company.

   As at December 31, 2004, the amount of the above loan facilities utilised by Shangsan Co was Rmb220,000,000.

b) On October 25, 2004, the Company entered into a loan agreement with Zhejiang Jinji Property Co., Ltd. ("Jinji Co"), a subsidiary of Zhejiang Communications Investment Group Co., Ltd. ("Communication Group"), through Bank of Communications (the "Bank"), whereby the Company agreed to provide Jinji Co a loan through the Bank with a principal amount of Rmb260,000,000 at an annual interest rate of 6.31% and with a term of one year.

   The loan is being provided to Jinji Co for use as general working capital. Jinji Co is a connected person of the Company as it is a 90% subsidiary of Communications Group, which in turn is a substantial shareholder of the Company, holding approximately 56% of the shares in the Company.

   Communication Group has provided a guarantee in favour of the Company and the Bank in respect of the obligations of Jinji Co in the loan agreement.

38. RELATED PARTY TRANSACTIONS (Continued)

c) In 2004, 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 five oil stations to Petroleum Co. In 2004, the Group recorded a total rental income of Rmb8,900,000 from Petroleum Co (2003: Rmb7,496,000). The rental income was based on negotiations between the Group and Petroleum Co.

39. POST BALANCE SHEET EVENTS

Zhejiang Jiashao Expressway Co., Ltd., as mentioned in Note 34 (b) above, was subsequently established on February 4, 2005.

40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorized for issue by the Board of Directors on March 29, 2004.