1. General information

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. The address of its registered office is No. 669, West Changjiang Road, Hefei, Anhui, PRC.

These financial statements have been approved for issue by the Board of Directors on 21 April 2006.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of Anhui Expressway Company Limited have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRS). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

(All amounts in Renminbi thousands unless otherwise stated)

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

The adoption of new/revised HKFRS

In 2005, the Group adopted the new/revised standards and interpretations of HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKAS 40	Investment Property
HKAS-Int 12Amendment	Scope of HKAS-Int 12 Consolidation – Special Purpose Entities
HKAS Int 15	Operating Leases - Incentives
HKAS-Int 21	Income Taxes – Recovery of Revalued Non-Depreciated Assets
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 21, 23, 24, 27, 28, 31, 32, 33, 36, 38, 40 and HKAS-Ints 12, 15, 21 and HKFRS 2,3 did not result in substantial changes to the Group's accounting policies. In summary:

— HKAS 1 has affected the presentation of minority interest, share of net after-tax results of associates and other disclosures.

— HKASs 2, 7, 8, 10, 16, 23, 24, 27, 28, 31, 32, 33, 36, 38, 40 and HKAS-Ints 12, 15, 21 and HKFRS 2, 3 had no material effect on the Group's policies.

— HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as the presentation currency for respective entity financial statements.

— HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of land use rights from property, plant and equipment to prepaid operating lease payment. The up-front prepayments made for the land use rights are expensed in the income statement on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the income statement. In prior years, the Group accounted for the land use rights in relation to toll roads at cost less accumulated depreciation calculated to write off their costs 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 period of the lease, and accumulated impairment.

The adoption of HKAS 39 has resulted in a change in the accounting policy relating to the classification of available-for-sale financial assets. It has also resulted in a change in the accounting policy relating to the recognition and measurement of borrowings. Borrowings are initially recorded at fair value and subsequently stated at amortized costs with the difference between the proceeds and the redemption value being recognized in the income statement over the period of the borrowings using the effective interest methods. In prior years, borrowings were recorded at the proceeds received.

All changes in the accounting policies have been made in accordance with the transitional provisions in the respective standards. All standards adopted by the Group require retrospective application except for HKAS 39 which does not permit the recognition, derecognition and measurement of financial assets and liabilities in accordance with this standard on a retrospective basis. The adjustments required for the adoption of HKAS 39 are determined and recognized at 1 January 2005, against the opening balance.

(All amounts in Renminbi thousands unless otherwise stated)

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

The adoption of revised HKAS 17 resulted in a decrease in opening reserves at 1 January 2004 by RMB 43,853,485 of the Group and RMB 34,046,644, of the Company. The details of the adjustments to the balance sheet at 31 December 2005 and 2004 and profit and loss for the year ended 31 December 2005 and 2004 are as follows:

Group

	As at 31 December	
	2005	2004
Decrease in property, plant and equipment	**547,977**	562,404
Increase in land use rights	**476,950**	498,368
Decrease in deferred income tax liabilities	**14,689**	12,985

	For the year ended 31 December	
	2005	2004
Increase in cost of sales	**6,991**	9,344
Decrease in income tax expenses	**1,704**	2,146
Decrease in basic earnings per share	**0.0032**	0.0043

Company

	As at 31 December	
	2005	2004
Decrease in property, plant and equipment	**317,225**	326,160
Increase in land use rights	**268,610**	280,898
Decrease in deferred income tax liabilities	**7,292**	6,789

	For the year ended 31 December	
	2005	2004
Increase in cost of sales	**3,353**	5,207
Decrease in income tax expenses	**503**	781

(All amounts in Renminbi thousands unless otherwise stated)

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

The adoption of HKAS 39 resulted in an increase in opening reserves at 1 January 2005 by RMB 312,008,349 of the Group and a decrease in opening reserves at 1 January 2005 by RMB 154,763,988 of the Company. The details of the adjustments to the balance sheet at 31 December 2005 and profit and loss for the year ended 31 December 2005 are as follows:

Group

	As at 31 December 2005
Decrease in long-term payables to minority shareholders of subsidiaries	421,843
Increase in deferred income tax liabilities	139,208

	For the year ended 31 December 2005
Increase in finance costs	43,841
Decrease in income tax expenses	14,468
Decrease in basic earnings per share	0.018

Company

	As at 31 December 2005
Decrease in loans to subsidiaries	144,192
Decrease in deferred income tax liabilities	21,629

	For the year ended 31 December 2005
Decrease in finance costs	37,884
Increase in income tax expenses	5,683

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory to the Company's accounting period beginning on 1 January 2006 but which the Group has not early adopted, as follows:

HKAS 1 Amendment	Capital Disclosures
HKAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKAS 39 and HKIFRS 4 Amendment	Financial Guarantee Contracts
HKIFRS 1	First-time Adoption of IFRS
HKIFRS 6 and HKIFRS 6 Amendment	Exploration for and Evaluation of Mineral Resources
HKIFRS 7	Financial Instruments: Disclosures
HK(IFRIC) – Int amendment to SIC 12	Scope of SIC 12 Consolidation – Special Purpose Entities
HKFRS-Int 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities
HKFRS-Int 2	Members' Shares in Co-operative Entities and Similar Instruments
HKFRS-Int 3	Emission Rights
HKFRS-Int 4	Determining whether an Arrangement contains a Lease
HKFRS-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market: Waste Electrical and Electronic Equipment

The Company is still assessing the impact of these standards, amendments and interpretations on its results of operations and financial position.

2. Summary of significant accounting policies (continued)

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31 December.

(a) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated but considered an impairment indicator of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

(b) Transactions with minority interests

Changes in the parent's ownership interest in a subsidiary after control is obtained that do not result in a loss of control are accounted for as transactions between equity holders in their capacity as equity holders. No gain or loss is recognized in profit or loss on such changes. The carrying amount of the non-controlling interest is adjusted to reflect the change in the parent's interest in the subsidiary's net assets. Any difference between the amount by which the non-controlling interest is so adjusted and the fair value of the consideration paid or received, if any, is recognized directly in equity and attributed to equity holders of the parent.

2. Summary of significant accounting policies (continued)

2.2 Consolidation (continued)

(c) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognized in the income statement, and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

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 also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

2. Summary of significant accounting policies (continued)

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency"). The financial statements are presented in Renminbi ("RMB"), which is the Group's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are converted into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analyzed between translation differences resulting from changes in the amortized cost of the security, and other changes in the carrying amount of the security. Translation differences are recognized in profit or loss, and other changes in carrying amount are recognized in equity.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are, included in the fair value reserve in equity.

2.5 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

2. Summary of significant accounting policies (continued)

2.5 Property, plant and equipment (continued)

Depreciation of 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.

Depreciation of property, plant and equipment other than toll roads is calculated using the straight-line method to allocate cost over their estimated useful lives, after taking into account an estimated residual value of 3% of cost, as follows:

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.8).

Gains and losses on disposals are determined by comparing proceeds with carrying amount.These are included in the income statement. When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

Construction in progress represents property, plant and equipment 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.

2.6 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary and associate entity at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. Goodwill on acquisitions of associates is included in 'investments in associates'. Separately recognized goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose (Note 2.8).

2. Summary of significant accounting policies (continued)

2.6 Intangible assets (continued)

(b) Computer software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives (five years).

2.7 Land use rights

All land in PRC is state-owned or collectively-owned and no individual land ownership exists. The group acquires the right to use certain land. The premiums paid for such right are treated as prepayment for operating lease and recorded as land use rights, which are amortized over the lease period using the straight-line method.

2.8 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortization, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2. Summary of significant accounting policies (continued)

2.9 Financial Assets

From 1 January 2004 to 31 December 2004:

The Group classified its investments in securities, other than subsidiaries and associates, as investment securities and trading securities.

(a) 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 recognized as an expense in the income statement. 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.

(b) Trading securities

Trading securities were carried at fair value. At each balance sheet date, the net unrealized gains or losses arising from the changes in fair value of trading securities were recognized in the income statement. Profits or losses on disposal of trading securities, representing the difference between the net sales proceeds and the carrying amounts, were recognized in the income statement as they arised.

From 1 January 2005 onwards:

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realized within 12 months of the balance sheet date. During the year ended 31 December 2005, the Group did not hold any investments in this category.

2. Summary of significant accounting policies (continued)

2.9 Financial Assets (continued)

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as 'trade and other receivables' in the balance sheet (Note 2.11).

(c) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held to maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the balance sheet date, which are classified as current assets. During the year, the Group did not hold any investments in this category.

(d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Regular purchases and sales of investments are recognized on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed in the income statement. Investments are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortized cost using the effective interest method. Investments in equity instruments that do not have a quoted market and whose fair value cannot be measured reliably are measured at cost.

Gains and losses arising, from changes in the fair value of the 'financial assets at fair value through profit or loss' category including interest and dividend income, are presented in the income statement within 'other (losses)/gains – net', in the period in which they arise.

2. Summary of significant accounting policies (continued)

2.9 Financial Assets (continued)

(d) Available-for-sale financial assets (continued)

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analyzed between translation differences resulting from changes in amortized cost of the security and other changes in the carrying amount of the security. The translation differences are recognized in profit or loss, and other changes in carrying amount are recognized in equity. Changes in the fair value of monetary securities classified as available-for-sale and non-monetary securities classified as available-for-sale are recognized in equity.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the income statement as 'gains and losses from investment securities'. Interest on available-for-sale securities calculated using the effective interest method is recognized in the income statement. Dividends on available-for-sale equity instruments are recognized in the income statement when the Group's right to receive payments is established.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the income statement – is removed from equity and recognized in the income statement. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement. Impairment testing of trade receivables is described in Note 2.11.

2.10 Inventories

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

2. Summary of significant accounting policies (continued)

2.11 Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognized in the income statement within 'selling and marketing costs'.

2.12 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

2.13 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.14 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2. Summary of significant accounting policies (continued)

2.15 Deferred income tax

Deferred income tax 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 consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.16 Employee benefits

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 income statement 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 23.

2.17 Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognized when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

2. Summary of significant accounting policies (continued)

2.18 Revenue recognition

(a) Toll income

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

(b) Toll system installation income

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

When the outcome of an installation contract can be estimated reliably, contract revenue and contract costs are recognized 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 recognized as an expense immediately.

(c) Interest income

Interest income is recognized on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognized using the original effective interest rate.

(d) Dividend income

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

(e) Service income

Service income is recognized when the service has been rendered.

(f) Rental income

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

2.19 Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases net of any incentives received from the lessor are expensed in the income statement on a straight-line basis over the period of the lease.

2. Summary of significant accounting policies (continued)

2.20 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

2.21 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.

3. Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and price risk), credit risk, liquidity risk and cash flow interest-rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

(a) Market risk

Foreign exchange risk
The Group principally operates in the PRC and is not exposed to material foreign exchange risks.

Price risk
The Group is not exposed to commodity price risk.

(b) Credit risk
Most of the Group's sales are cash sales and therefore the Group has minimum credit risk.

(c) Liquidity risk
Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities. The Group aims to maintain flexibility in funding by keeping committed credit lines available.

(d) Cash flow and fair value interest rate risk
As the Group has no significant interest-bearing assets and interest-bearing long-term borrowings, the Group's income, expenses and operating cash flows are substantially independent of changes in market interest rates.

3. Financial risk management (continued)

3.2 Fair value estimation

All financial instruments of the Group are not traded in an active market. The fair value of financial instruments is determined by using valuation techniques. The Group makes assumptions that are based on market conditions existing at each balance sheet date. Estimated discounted cash flows are used to determine fair value for the financial instruments.

The nominal value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4. Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Estimation of Useful lives and residual value of property, plant and equipment
The Group's management determines the estimated useful lives and residual value for its property, plant and equipment. For property, plant and equipment other than toll roads, the estimate is based on the historical experience of the actual useful lives and residual value of these property, plant and equipment of similar nature and functions.

Management will revise the depreciation charge where useful lives and residual values are different to previously estimated, or it will write off or write down technically obsolete or non-strategy assets that have been abandoned or sold.

Estimation of traffic volume during the operating periods of toll roads
For toll roads, 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.

(All amounts in Renminbi thousands unless otherwise stated)

5. Segment information

Apart from operating and managing toll roads, the Group does not conduct other businesses which have significant impact on the Group's results. Accordingly, 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 Anhui Province, PRC. Accordingly, no geographical segment data is presented.

6. Land use rights

The Group and the Company's interests in land use rights represent prepaid operating lease payments and their net book value are analyzed as follows:

Group

	As at 31 December	
	2005	2004 (Restated)
Cost	**623,502**	623,502
Accumulated Amortization	**(146,552)**	(125,134)
	476,950	498,368

	2005	2004 (Restated)
Opening net book amount	**498,368**	502,163
Addition	**—**	17,623
Amortization charges (Note 26)	**(21,418)**	(21,418)
Closing net book amount	**476,950**	498,368

(All amounts in Renminbi thousands unless otherwise stated)

6. Land use rights (continued)

Company

	As at 31 December	
	2005	2004 (Restated)
Cost	**362,419**	362,419
Accumulated Amortization	**(93,809)**	(81,521)
	268,610	280,898

	2005	2004 (Restated)
Opening net book amount	**280,898**	293,186
Amortization charges	**(12,288)**	(12,288)
Closing net book amount	**268,610**	280,898

All of the Group's land use rights are located in Anhui Province, the PRC and are held on lease of 29-30 years from the dates of acquisition.

(All amounts in Renminbi thousands unless otherwise stated)

7. Property, plant and equipment

Group

	Toll roads	Buildings	Safety, communication and signalling equipment	Toll station and ancillary equipment	Vehicles	Other machinery and equipment	Construction in progress	Total
At 1 January 2004, restated								
Cost	5,561,819	234,682	512,519	67,980	46,210	20,481	49,286	6,492,977
Accumulated depreciation	(346,752)	(26,098)	(211,797)	(45,726)	(21,375)	(6,655)	—	(658,403)
Net book amount	5,215,067	208,584	300,722	22,254	24,835	13,826	49,286	5,834,574
Year ended 31 December 2004, restated								
Opening net book amount	5,215,067	208,584	300,722	22,254	24,835	13,826	49,286	5,834,574
Additions	—	1,487	2,958	23,618	5,829	5,774	486,004	525,670
Disposals	—	(4,546)	(2,050)	(2,663)	(442)	(721)	—	(10,422)
Transfers	274,447	98,899	51,501	—	2,286	16,110	(460,866)	(17,623)
Disposal of a subsidiary	—	—	—	—	(1,365)	(2,698)	(4,034)	(8,097)
Depreciation (Note 26)	(117,362)	(6,648)	(54,952)	(7,920)	(5,197)	(7,562)	—	(199,641)
Closing net book amount	5,372,152	297,776	298,179	35,289	25,946	24,729	70,390	6,124,461
At 31 December 2004, restated								
Cost	5,831,249	331,234	557,500	77,464	50,804	36,920	70,390	6,955,561
Accumulated depreciation	(459,097)	(33,458)	(259,321)	(42,175)	(24,858)	(12,191)	—	(831,100)
Net book amount	5,372,152	297,776	298,179	35,289	25,946	24,729	70,390	6,124,461
Year ended 31 December 2005								
Opening net book amount, restated	5,372,152	297,776	298,179	35,289	25,946	24,729	70,390	6,124,461
Additions	—	1,613	127	13,445	6,014	7,638	405,973	434,810
Disposals	—	(9,874)	(5,151)	(76)	(1,325)	(262)	—	(16,688)
Transfers	35,034	30,696	58,945	13,884	652	2,111	(141,322)	—
Depreciation (Note 26)	(141,431)	(11,547)	(48,325)	(7,758)	(4,160)	(6,581)	—	(219,802)
Closing net book amount	5,265,755	308,664	303,775	54,784	27,127	27,635	335,041	6,322,781
At 31 December 2005								
Cost	5,860,320	351,948	606,471	98,272	52,342	52,343	335,041	7,356,737
Accumulated depreciation	(594,565)	(43,284)	(302,696)	(43,488)	(25,215)	(24,708)	—	(1,033,956)
Net book amount	5,265,755	308,664	303,775	54,784	27,127	27,635	335,041	6,322,781

(All amounts in Renminbi thousands unless otherwise stated)

7. Property, plant and equipment (continued)

Company

	Toll roads	Buildings	Safety, communication and signalling equipment	Toll station and ancillary equipment	Motor vehicles	Other machinery and equipment	Construction in progress	Total
At 1 January 2004, restated								
Cost	3,185,871	101,928	320,920	49,188	28,813	19,321	46,108	3,752,149
Accumulated depreciation	(184,712)	(8,033)	(131,424)	(31,308)	(14,201)	(7,048)	—	(376,726)
Net book amount	3,001,159	93,895	189,496	17,880	14,612	12,273	46,108	3,375,423
Year ended 31 December 2004, restated								
Opening net book amount	3,001,159	93,895	189,496	17,880	14,612	12,273	46,108	3,375,423
Additions	—	1,375	15	17,845	3,910	2,487	403,479	429,111
Disposals	—	—	(2,035)	(2,175)	(69)	(257)	—	(4,536)
Transfers	284,810	107,865	3,713	—	—	14,296	(410,684)	—
Depreciation	(68,692)	(5,850)	(26,844)	(5,272)	(3,057)	(5,323)	—	(115,038)
Closing net book amount	3,217,277	197,285	164,345	28,278	15,396	23,476	38,903	3,684,960
At 31 December 2004, restated								
Cost	3,470,681	211,168	315,230	55,838	32,065	35,822	38,903	4,159,707
Accumulated depreciation	(253,404)	(13,883)	(150,885)	(27,560)	(16,669)	(12,346)	—	(474,747)
Net book amount	3,217,277	197,285	164,345	28,278	15,396	23,476	38,903	3,684,960
Year ended 31 December 2005								
Opening net book amount, restated	3,217,277	197,285	164,345	28,278	15,396	23,476	38,903	3,684,960
Additions	—	77	5,150	13,376	5,035	7,048	328,573	359,259
Disposals	—	—	(70)	—	(202)	(59)	—	(331)
Transfers	(44,895)	24,182	48,053	9,574	707	1,361	(38,982)	—
Depreciation	(89,426)	(8,695)	(23,393)	(7,227)	(2,755)	(5,526)	—	(137,022)
Closing net book amount	3,082,956	212,849	194,085	44,001	18,181	26,300	328,494	3,906,866
At 31 December 2005								
Cost	3,419,823	235,859	372,927	79,463	37,332	44,210	328,494	4,518,108
Accumulated depreciation	(336,867)	(23,010)	(178,842)	(35,462)	(19,151)	(17,910)	—	(611,242)
Net book amount	3,082,956	212,849	194,085	44,001	18,181	26,300	328,494	3,906,866

(All amounts in Renminbi thousands unless otherwise stated)

8. Intangible assets - Group

	Computer software
At 1 January 2004	
Cost	11,945
Accumulated amortization	(8,238)
Net book amount	3,707
Year ended 31 December 2004	
Opening net book amount	3,707
Additions	233
Disposal of a subsidiary	(379)
Amortization expense (Note 26)	(588)
	2,973
At 31 December 2004	
Cost	3,733
Accumulated amortization	(760)
Net book amount	2,973
Year ended 31 December 2005	
Opening net book amount	2,973
Additions	1,016
Amortization expense (Note 26)	(437)
	3,552
At 31 December 2005	
Cost	4,749
Accumulated amortization	(1,197)
Net book amount	3,552

(All amounts in Renminbi thousands unless otherwise stated)

9. Investments in subsidiaries - Company

	Company	
	2005	2004
Investments, at cost:		
Unlisted shares	**221,495**	221,495

The following is a list of the principal subsidiaries at 31 December 2005:

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Paid in, issued and fully paid share capital	Interest directly held by the Company
Anhui Gao Jie Expressway Company Limited ("Gao Jie")	PRC, limited liability company	Management and operation of expressway in Anhui province, PRC	300,000	51%
Xuan Guang Expressway Company Limited ("Xuan Guang")	PRC, limited liability company	Management and operation of expressway in Anhui province, PRC	111,760	55.47%
Anhui Kangcheng Pharmaceutical Co.,Ltd.	PRC,limited liability company	Sales and development of pharmaceutical products in Anhui province, PRC	10,000	65%

(a) 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") equaling net profit plus depreciation and amortization of its property, plant and equipment 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. 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.

On 4 March 2005, the Company entered into an agreement with AEHC to acquire AEHC's 49% equity interest in Gao Jie for a total consideration of RMB 1,350,000,000. The relevant approval from government authorities was obtained on 29 November 2005. At 31 December 2005, the Company paid consideration of RMB 400,000,000 to AEHC, and the remaining consideration of RMB 950,000,000 was paid in January, 2006. The Company is still in the process of completing the legal procedures necessary to complete the acquisition.

(All amounts in Renminbi thousands unless otherwise stated)

9. Investments in subsidiaries - Company (continued)

(b) 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") equaling net profit plus depreciation and amortization of its property, plant and equipment 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 Gang's registered capital. The net profit portion of the distribution received is accounted for as dividend income while the amortization 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 XuanGuang. The profit distribution arrangement of Xuanguang mentioned above remains unchanged.

10. Loans to subsidiaries - Company

	Company		
	31 December 2005	**1 January 2005** (Restated Note 2.1)	**31 December 2004**
Shareholder loans to subsidiaries	522,657	653,875	835,950
Less: Shareholder loans to subsidiaries expected to be repaid within 12 months	(79,000)	(195,000)	(195,000)
	443,657	458,875	640,950

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 (Note 9).

For the year ended 31st December 2005
(All amounts in Renminbi thousands unless otherwise stated)

10. Loans to subsidiaries- Company (continued)

The carrying amounts and fair values of shareholder loans to subsidiaries are as follows:

	Company			
	Carrying Amounts		Fair values	
	31 December 2005	1 January 2005	**31 December 2005**	1 January 2005
Shareholder loans to subsidiaries				
Xuan Guang	**261,774**	336,828	**260,784**	320,003
Gao Jie	**260,883**	317,047	**260,066**	333,182
	522,657	653,875	**520,850**	653,185

Such loans are unsecured, and the repayment terms are set out in Note 9.

The fair values of Shareholder loans to subsidiaries are based on cash flows discounted using 6.12%, the annual interest rate published by the People's Bank of China for long-term bank loans as at 31 December 2005 (1 January 2005:6.12%).

11. Interest in associates

	Group	
	2005	2004
Beginning of the year	**2,500**	3,846
Share of associates' results		
- profit/(loss) before income tax	**5,187**	(624)
- income tax	**(2,011)**	—
Disposal of associates	**—**	(722)
Other	**57**	—
End of the year	**5,733**	2,500

(All amounts in Renminbi thousands unless otherwise stated)

11. Interest in associates (continued)

The Group's interest in its principal associates, all of which are unlisted, were as follows:

Name	Particulars of issued shares held	Country of incorporation	Assets	Liabilities	Revenues	Net Profits/ (losses)	% of Interest held
2005							
Anhui Highway Real Estate Co., Ltd.	Equity capital	PRC	9,857	9,707	—	(906)	20%
Anhui Expressway Advertisement Co., Ltd.	Equity capital	PRC	9,068	3,485	8,484	4,082	38%
			18,925	13,192	8,484	3,176	
2004							
Anhui Highway Real Estate Co., Ltd.	Equity capital	PRC	24,380	23,324	—	(624)	20%
Anhui Expressway Advertisement Co., Ltd.	Equity capital	PRC	5,941	4,497	—	—	38%
			30,321	27,821	—	(624)	

	Company	
	2005	2004
Unlisted equity, at cost	**1,444**	1,444

(All amounts in Renminbi thousands unless otherwise stated)

12. Available-for-sale financial assets

	31 December 2005
Unlisted equity securities, at cost	**18,000**

This is reclassified as a result of adoption of revised HKAS39 (Note 2.1).

There were no disposals or impairment provisions on available-for-sale financial assets in the year ended 31 December 2005.

The unlisted equity securities represent the Company's 18% equity interest in an unlisted company located in Anhui Province, the PRC. The securities are measured at cost less provision for impairment. Since there is no active market for similar equity instruments, the fair value cannot be measured reliably.

13. Investment securities

	As at 31 December	
	2005	2004
Unlisted equity securities, at cost	**—**	18,000

This is reclassified to available for sales financial assets as a result of adoption of revised HKAS39 (Note 12).

14. Trade and other receivables

	Group		**Company**	
	2005	2004	**2005**	2004
Prepayments	**7,909**	2,759	**6,102**	—
Receivables from related parties	**2,082**	4,401	**1,552**	3,943
Others	**15,359**	25,976	**11,922**	21,893
	25,350	33,136	**19,576**	25,836
Less: Provision for impairment of receivables	**—**	—	**—**	—
	25,350	33,136	**19,576**	25,836

15. Inventories

	Group		Company	
	2005	2004	**2005**	2004
Raw Materials	**2,866**	1,484	**1,019**	659

16. Cash and cash equivalents

	Group		Company	
	2005	2004	**2005**	2004
Cash at bank and in hand	**580,964**	678,042	**324,466**	401,638

(i) The weighted average effective interest rate per annual on cash at bank was approximately 1.08% (2004: 0.72%).

(ii) The carrying amounts of cash at bank and in hand are denominated in the following currencies:

	Group		Company	
	2005	2004	**2005**	2004
RMB	**534,349**	628,567	**277,851**	352,163
HKD	**46,615**	49,475	**46,615**	49,475
	580,964	678,042	**324,466**	401,638

17. Share capital

	Number of shares (thousands)	**Ordinary shares**	**Share premium**	**Total**
At 1 January 2004 and 2005	1,658,610	1,658,610	1,447,459	3,106,069
Changes in the year	—	—	—	—
At 31 December 2004 and 2005	1,658,610	1,658,610	1,447,459	3,106,069

The total authorized number of ordinary shares is 1,658,610,000 shares with a par value of RMB 1 per share. All issued shares are fully paid.

(All amounts in Renminbi thousands unless otherwise stated)

18. Other reserves

(a) Group

	Capital Surplus	Statutory Surplus Reserve Fund	Statutory Public Welfare Fund	Discretionary Surplus Reserve Fund	Enterprise Safety Fund	Total
Balance at 1 January 2004	2,397	164,422	147,486	658	—	314,963
Profit appropriations	—	54,153	47,297	—	11,777	113,227
Utilization of Enterprise Safety Fund	—	—	—	—	(997)	(997)
Balance at 31 December 2004	2,397	218,575	194,783	658	10,780	427,193
Profit appropriations	—	90,192	78,058	—	15,030	183,280
Utilization of Enterprise Safety Fund	—	—	—	—	(526)	(526)
Other addition	57	—	—	—	—	57
Balance at 31 December 2005	2,454	308,767	272,841	658	25,284	610,004

(b) Company

	Statutory Surplus Reserve Fund	Statutory Public Welfare Fund	Discretionary Surplus Reserve Fund	Enterprise Safety Fund	Total
Balance at 1 January 2004	134,982	133,938	658	—	269,578
Profit appropriations	40,440	40,440	—	6,924	87,804
Utilization of Enterprise Safety Fund	—	—	—	(997)	(997)
Balance at 31 December 2004	175,422	174,378	658	5,927	356,385
Profit appropriations	65,925	65,925	—	8,715	140,565
Utilization of Enterprise Safety Fund	—	—	—	(230)	(230)
Balance at 31 December 2005	241,347	240,303	658	14,412	496,720

(All amounts in Renminbi thousands unless otherwise stated)

19. Trade and other payables

	Group		Company	
	2005	2004	**2005**	2004
Payables on purchase of property, plant and equipment	**249,896**	240,035	**216,174**	181,756
Payables on repair and maintenance projects	**18,262**	18,121	**15,370**	10,764
Accrued expenses	**6,379**	3,490	**5,680**	3,027
Welfare payables	**3,411**	3,461	**1,615**	1,201
Other taxation payable	**34,319**	39,419	**30,114**	33,163
Other payables	**161,463**	213,325	**107,302**	157,278
	473,730	517,851	**376,255**	387,189

At 31 December 2005, all the trade and other payables were aged within one year.

20. Borrowings

Group and Company

	As at 31 December			
	2005		2004	
	Interest rate per annum		Interest rate per annum	
Unsecured short-term bank borrowings (Note 36(b))	**4.698%**	**350,000**	4.698%	450,000

At 31 December 2005, the carrying amounts of short-term borrowings approximate their fair value.

The group has the following un-drawn borrowing facilities at the balance sheet date:

	As at 31 December	
	2005	2004
Floating rate and expiring within one year	**1,610,000**	560,000

(All amounts in Renminbi thousands unless otherwise stated)

21. Long-term payables to minority shareholders of subsidiaries - Group

		Group	
	31 December 2005	**1 January 2005** (Restated Note 2.1)	**31 December 2004**
Long-term payables to minority shareholders of subsidiaries	754,656	710,815	1,176,499

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. Details of repayment terms of such long-term payables are set out in Note 9.

The carrying amounts and fair values of long-term payables to minority shareholders of subsidiaries are as follows:

	Carrying Amounts		**Fair values**	
	31 December 2005	1 January 2005	**31 December 2005**	1 January 2005
Long-term payables to minority shareholders of subsidiaries				
Xuancheng Highway Management Company ("XHMC")	**260,430**	245,300	**258,415**	243,187
Anhui Expressway Holding Company ("AEHC")	**494,226**	465,515	**491,519**	462,555
	754,656	710,815	**749,934**	705,742

The fair values of long-term payables to minority shareholders are based on cash flows discounted using 6.12%, the annual interest rate published by the People's Bank of China for long-term bank loans as at 31 December 2005 (1 January 2005:6.12%).

(All amounts in Renminbi thousands unless otherwise stated)

22. Deferred tax liabilities

	Group		Company	
	2005	2004 (Restated)	**2005**	2004 (Restated)
Deferred tax liabilities:				
- Deferred tax liabilities to be recovered after more than 12 months	**301,261**	159,769	**73,729**	89,607
- Deferred tax liabilities to be recovered within 12 months	**15,321**	210	**210**	210
	316,582	159,979	**73,939**	89,817

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

	2005				
	Valuation of assets and depreciation of toll roads	Valuation and amortization of toll roads related land use rights	Accounting for Enterprise Safety Fund	Accounting for Interest free loan	Total
Balance at 31 December 2004, as previously reported	153,017	17,456	2,491	—	172,964
Adjustment for amortization of land use rights	—	(12,985)	—	—	(12,985)
Balance at 1 January 2005, restated	153,017	4,471	2,491	—	159,979
Opening adjustment as a result of the adoption of HKAS 39	—	—	—	153,676	153,676
Balance at 1 January 2005, restated	153,017	4,471	2,491	153,676	313,655
Deferred Taxation charged to income statement	14,346	(210)	3,259	(14,468)	2,927
Balance at 31 December 2005	167,363	4,261	5,750	139,208	316,582

(All amounts in Renminbi thousands unless otherwise stated)

22. Deferred tax liabilities (continued)

	2004				
	Valuation of assets and depreciation of toll roads	Valuation and amortization of toll roads related land use rights	Accounting for Enterprise Safety Fund	Accounting for Interest free loan	Total
Balance at 31 December 2003, as previously reported	132,134	15,519	—	—	147,653
Adjustment for amortization of land use rights	—	(10,838)	—	—	(10,838)
Balance at 1 January 2004, restated	132,134	4,681	—	—	136,815
Deferred Taxation charged to income statement	20,883	(210)	2,491	—	23,164
Balance at 31 December 2004, restated	153,017	4,471	2,491	—	159,979

23. Retirement benefit obligations - Group

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% (2004: 20%-23%) of the basic monthly salary, subject to certain ceiling, 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.

24. Sales - Group

	Note	**2005**	2004
Toll income		**1,538,017**	1,178,529
Toll system installation income		**—**	64,370
Service income from roads emergency assistance		**7,635**	7,787
Service income from management of toll roads		**2,319**	4,580
Rental income		**8,607**	4,387
Other		**726**	4,781
		1,557,304	1,264,434
Tax related to revenue	(a)	**(62,600)**	(63,566)
Total Sales		**1,494,704**	1,200,868

(All amounts in Renminbi thousands unless otherwise stated)

24. Sales - Group (continued)

(a) Tax related to revenue

The Group was originally subject to Business Tax ("BT") at the rate of 5% of toll income and emergency assistance service income. Pursuant to new business tax policy of toll income jointly issued by the Ministry of Finance and the State Administration of Taxation (Cai Shui [2005] No.77), the Group's business tax rate of toll income was reduced to 3% effective from 1 June 2005.

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.

25. Other losses – net – Group

	2005	2004
Dividend income	**900**	—
Interest income	**2,893**	2,009
Loss from disposal on property, plant and equipment	**(16,622)**	(7,806)
Others	**238**	897
	(12,591)	(4,900)

26. Expenses by nature - Group

Expenses included in cost of sales, selling and marketing costs and administrative expenses are analyzed as follows:

	2005	2004
Depreciation and amortization expenses (Note 6,7,8)	**241,657**	221,647
Repair and maintenance expenses	**158,046**	205,703
Employee benefit expense (Note 27)	**104,240**	85,637
Auditor's remuneration	**1,260**	1,380

(All amounts in Renminbi thousands unless otherwise stated)

27. Employee benefit expense - Group

	2005	2004
- Salaries and wages	**69,607**	52,307
- Retirement benefit contributions	**8,996**	9,896
- Other welfares	**25,637**	23,434
	104,240	85,637

(a) Directors' and senior management's emoluments

The remuneration of every Director for the year ended 31 December 2005 is set out below:

Name of Director	Fees	Salary	Other benefits	Contribution to pension scheme	Total
Executive Directors					
Mr. Wang Shui	—	735	—	39	774
Mr. Li Yungui	—	475	—	39	514
Mr. Zhang Hui	—	475	—	39	514
Mr. Tu Xiaobei	—	475	—	39	514
Non Executive Directors					
Mr. Zhang Wenshen	48	—	—	—	48
Mr. Li Zhanglin (i)	23	—	—	—	23
Mr. He Kun (ii)	25	—	—	—	25
Independent Directors					
Mr. Leung Man Kit (i)	38	—	—	—	38
Ms Li Mei (i)	23	—	—	—	23
Ms Guo Shan (i)	23	—	—	—	23
Mr. Zhang Lipin (ii)	63	—	—	—	63
Mr. Song Youmin (ii)	38	—	—	—	38
Mr. Cao Deyun (ii)	6	—	—	—	6
	287	2,160	—	156	2,603

(i) Appointed on 18 August 2005.

(ii) Retired on 18 August 2005.

(All amounts in Renminbi thousands unless otherwise stated)

27. Employee benefit expense - Group (continued)

(a) Directors' and senior management's emoluments (continued)

The remuneration of every Director for the year ended 31 December 2004 was set out below:

Name of Director	Fees	Salary	Other benefits	Contribution to pension scheme	Total
Executive Directors					
Mr. Wang Shui	—	676	—	32	708
Mr. Li Yungui	—	424	—	32	456
Mr. Zhang Hui	—	424	—	32	456
Mr. Tu Xiaobei	—	424	—	32	456
Non Executive Directors					
Mr. Zhang Wenshen	40	—	—	—	40
Mr. He Kun	40	—	—	—	40
Independent Directors					
Mr. Zhang Lipin	100	—	—	—	100
Mr. Song Youmin	60	—	—	—	60
Mr. Cao Deyun	10	—	—	—	10
	250	1,948	—	128	2,326

None of the directors waived any emoluments during the year.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for both years include four directors, whose emoluments are reflected in the analysis presented above, and an employee whose emoluments amounted to Rmb 475,000(2004: 423,750).

28. Finance costs - Group

	2005	2004
Interest Expenses on:		
- bank borrowings	**12,639**	26,074
- long-term payables to minority shareholders of subsidiaries	**43,841**	—
Interest capitalized in projects under construction	**—**	(2,570)
	56,480	23,504

(All amounts in Renminbi thousands unless otherwise stated)

29 Taxation - Group

The amount of taxation charged to the consolidated income statement represents:

	2005	2004 (Restated)
Current taxation- PRC Enterprise Income Tax ("EIT")	**202,031**	116,643
Deferred taxation	**2,927**	23,164
	204,958	139,807

(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 financial statements prepared in accordance with the laws and regulations in PRC.

(c) The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate for companies in PRC as follows:

	2005	2004 (Restated)
Profit before income tax	**890,006**	619,267
Weighted - average EIT rates	**22.38%**	22.35%
Tax calculated at the weighted-average tax rate	**199,186**	138,412
Expenses not deductible for tax purpose	**5,772**	1,395
Tax Charge	**204,958**	139,807

30. Profit attributable to equity holders of the Company

The profit attributable to shareholders is dealt with in the financial statements of the Company to the extent of approximately RMB 636,526,000 (2004: RMB 424,523,000).

31. Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year. No diluted earnings per share is presented, as the Company has no dilutive potential shares.

	2005	2004
Profit attributable to equity holders of the Company	**686,103**	479,800
Weighted average number of ordinary shares in issue (thousands)	**1,658,610**	1,658,610
Basic earnings per share (expressed in RMB per share)	**0.4137**	0.2893

32. Dividends

The dividends paid during the year ended 31 December 2005 and 2004 were RMB 165,861,000 (RMB 0.1 per share) and RMB 99,516,600 (RMB 0.06 per share) respectively. A dividend in respect of 2005 of RMB 0.28 per share, amounting to a total dividend of RMB 464,410,800 is to be proposed at the Annual General Meeting on 16 June 2006. These financial statements do not reflect this dividend payable.

	2005	2004
Proposed final dividend of RMB 0.28 (2004: RMB 0.1) per ordinary share	**464,411**	165,861

(All amounts in Renminbi thousands unless otherwise stated)

33. 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 utilized 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 2005, the directors have recommended the following rates of allocations to the statutory public welfare fund: 10% (2004: 10%) for the Company, 5% for Xuan Guang (2004: 5%) and 5% for Gao Jie (2004: 5%).

34. Notes to consolidated cash flow statement

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

	2005	2004
Profit before income tax	**890,006**	619,267
Adjustments for:		
Depreciation of property, plant and equipment	**219,802**	199,641
Amortization of land use rights	**21,418**	21,418
Amortization of intangible assets	**437**	588
Loss on disposal of property, plant and equipment	**16,622**	7,806
Gain on disposal of a subsidiary	**—**	(844)
Share of (profit)/losses from associated	**(3,176)**	725
Interest income	**(2,893)**	(2,009)
Interest expense	**56,480**	23,504
Dividend income	**(900)**	—
Operating profit before working capital changes	**1,197,796**	870,096
Decrease in inventories	**(1,382)**	(11,360)
Decrease/(Increase) in prepayments and other receivables	**13,888**	(33,916)
(Decrease)/Increase in trade and other payables	**(59,096)**	166,013
Cash generated from operating activities	**1,151,206**	990,833

(All amounts in Renminbi thousands unless otherwise stated)

34. Notes to consolidated cash flow statement (continued)

(b) Cash paid for acquisition of property, plant and equipment:

	2005	2004
Increase in property, plant and equipment	**434,810**	525,670
Add: Payable on purchase of property plant and equipment, beginning of year	**240,035**	197,536
Less: Interest capitalized in projects under construction	**—**	(2,570)
Payable on purchase of property, plant and equipment, end of year	**(249,896)**	(240,035)
Cash paid for acquisition of property, plant and equipment	**424,949**	480,601

35. Commitments - Group

Capital expenditure at the balance sheet date but not yet incurred is as follows:

	2005	2004
Acquisition of minority interest (Note 9(a))		
-Contracted but not provided for	**950,000**	—
Property, plant and equipment		
-Contracted but not provided for	**577,370**	908,000

(All amounts in Renminbi thousands unless otherwise stated)

36. 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

Apart from the acquisition of minority interests from AEHC as disclosed in Note 9(a), the Group had the following significant transactions with related parties:

	2005	2004
Toll system management fee from AEHC	**998**	2,980
Toll system management fee from ALEC	**498**	1,500
	1,496	4,480
Agent fee paid to BAIC for importing Asphalt	**—**	467
Transactions with the State-owned Enterprises:		
- Borrowings from banks	**500,000**	580,000
- Toll road repair and maintenance cost paid and payable	**40,133**	33,072
- Toll road construction/improvement cost paid and payable	**189,049**	210,007

(All amounts in Renminbi thousands unless otherwise stated)

36. Related party transactions (continued)

(c) Related party balances

(i) Trade and other receivables

	Group		Company	
	2005	2004	**2005**	2004
AEHC	**530**	538	**72**	80
ALEC	**1,552**	3,863	**1,552**	3,863
	2,082	4,401	**1,624**	3,943

(ii) Trade payables

	Group		Company	
	2005	2004	**2005**	2004
AEHC				
-Payable for acquisition of Lianhuo Expressway (Anhui section)	**—**	59,000	**—**	59,000
State-owned Enterprises:	**120,500**	116,655	**109,182**	116,655

(iii) Other payables

	Group		Company	
	2005	2004	**2005**	2004
AEHC	**1,048**	1,786	**1,048**	1,763
BAIC	**4,122**	11,816	**4,122**	11,816
State-owned Enterprises	**500**	—	**500**	—
	5,670	13,602	**5,670**	13,579

(All amounts in Renminbi thousands unless otherwise stated)

36. Related party transactions (continued)

(c) Related party balances

(iv) Long term payables to minority shareholders of subsidiaries

	Group		Company	
	2005	2004	**2005**	2004
AEHC	**494,226**	728,582	**—**	—
XHMC	**260,430**	447,917	**—**	—
	754,656	1,176,499	**—**	—

At 31st December 2005, amounts due from and due to the related parties, except for long term payables to minority shareholders of subsidiaries as disclosed in Note 21, 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.

37 Events after the balance sheet date

Share reform plan

Pursuant to the Revised Share Reform Plan announced by the Company on 14 February 2006, AEHC and Huajian Transportation Economic Development Center, both of whom are shareholders of the Company, proposed to offer, free of consideration, the holders of A Shares on the basis of 2 non-tradable shares and RMB 4.35 for every 10 A Shares held on 30 March 2006. The proposal has been approved by the State-owned Assets Supervision and Administration Commission of the People's Government of Anhui Province (Wan Guo Zi Chan Quan Han [2006] No.50), Ministry of Commerce of the PRC (Shang Zi Pi [2006] No.844) and has been approved in the relevant shareholders' meeting held on 27 February 2006.