

Notes to the Financial Statements

For the year ended 31st December, 1997
(Amount expressed in Renminbi ("RMB") unless otherwise stated)

1. ORGANISATION AND BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

Jiangsu Expressway Company Limited (the "Company") was incorporated in the People's Republic of China (the "PRC") as a joint stock limited company on 1st August, 1992. Since its establishment in 1992, the Company's initial principal activity was the construction of the Jiangsu section of Shanghai - Nanjing Expressway ("Shanghai-Nanjing Expressway"). The construction of Shanghai-Nanjing Expressway was completed and it was opened to traffic on 15th September, 1996.

The Company is principally engaged in the construction, operation and management of toll roads and other related businesses.

On 27th June, 1997, the Company acquired from the Highways Bureau of Jiangsu Province ("Jiangsu Highways Bureau") the right to operate the Jiangsu section of the 312 National Highway (the "Nanjing-Shanghai Class 2 Highway") together with the land use rights in respect thereof for a term of 15 years at a consideration of RMB1,345,786,000.

On 16th September, 1997, Jiangsu Xicheng Expressway Company Limited ("South Approach Expressway Company") and Jiangsu Guanjing Expressway Company Limited ("North Approach Expressway Company") were jointly established by the Company and Huajian Transportation Economic Development Centre, a subsidiary of the Ministry of Communications of the PRC. South Approach Expressway Company and North Approach Expressway Company are principally engaged in the construction, management and operation of Xicheng Expressway ("South Approach Expressway") and Guanjing Expressway ("North Approach Expressway") respectively. The construction of these expressways are expected to be completed by the end of September, 1999. The Company, South Approach Expressway Company and North Approach Expressway Company are collectively referred to as the Group.

The Group's current principal activities are the operation and management of Shanghai-Nanjing Expressway and the Nanjing-Shanghai Class 2 Highway and, construction of the South Approach Expressway and North Approach Expressway.

As at 31st December, 1997, the consolidated financial statements of the Group include the financial statements of the Company and the following subsidiaries:

Name of Subsidiaries	Country of establishment and operation	Date of Registration	Percentage of equity interest	Registered capital	Paid-up capital	Principal activities
				RMB'000	RMB'000	
South Approach Expressway Company	PRC	16th September, 1997	85%	600,000	600,000	Construction, management and operation of expressway
North Approach Expressway Company	PRC	16th September, 1997	85%	250,000	170,588	Construction, management and operation of expressway

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1. ORGANISATION AND BASIS OF PRESENTATION OF FINANCIAL STATEMENTS *(cont'd)*

The financial statements for the year ended 31st December, 1996 include only the assets, liabilities and results of operation of Shanghai-Nanjing Expressway. The financial statements for the year ended 31st December, 1997 include the assets, liabilities and the results of operations of Shanghai-Nanjing Expressway, Nanjing-Shanghai Class 2 Highway, South Approach Expressway and North Approach Expressway.

2. PRINCIPAL ACCOUNTING POLICIES

The accompanying financial statements have been prepared in accordance with International Accounting Standards ("IAS"), and the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. This basis of accounting differs from that used in the preparation of the Group's statutory accounts which are prepared in accordance to accounting principles and financial regulations applicable to joint stock limited companies in the PRC. The adjustments made to conform the statutory accounts of the Group to IAS are shown in Note 20.

The accompanying financial statements of the Group were prepared in conformity with IAS, as if those standards had been applied throughout the years. The following accounting policies were adopted in the preparation of the accompanying financial statements:

(a) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries. All significant intra-group transactions and balances have been eliminated on consolidation.

(b) Subsidiaries and associated companies

A subsidiary is a company in which the Company (i) holds, directly or indirectly, more than 50 per cent of its issued voting share capital/equity interest as a long-term investment; or (ii) has the power to cast the majority of votes at meetings of the management committee or the board of directors. In the Company's financial statements, investment in subsidiaries is accounted for using the equity method of accounting.

An associated company is a company, in which the Company holds at least 20%, but not more than 50% of its issued voting share capital/equity interest as a long-term investment and is in a position to exercise significant influence over its management and its financial and operating policy decisions. In the Group's and Company's financial statements, investment in associated companies is accounted for using the equity method of accounting.

(c) Inventories and supplies

Inventories and supplies mainly represent materials for the repair and maintenance of expressways and the petrol for sale, and are stated at the lower of cost and net realisable value. Cost is computed using the first-in first-out method.

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2. PRINCIPAL ACCOUNTING POLICIES (cont'd)

(d) Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation. Major renewals and betterment which will result in future economic benefits are capitalised, while maintenance and repair costs are normally charged to the profit and loss accounts when incurred.

Depreciation of toll roads, structures and operating rights is provided for on the basis of a sinking fund calculation whereby annual depreciation amounts compounded at an average rate of 6% and 8% per annum for Shanghai-Nanjing Expressway and Nanjing-Shanghai Class 2 Highway will approximate the total carrying value of the toll roads structures and operating rights at the end of the concession period (Shanghai-Nanjing Expressway: 30 years; Nanjing-Shanghai Class 2 Highway: 15 years).

Land use rights relate to the Shanghai-Nanjing Expressway and are stated at cost less accumulated amortisation. Amortisation of land use rights is provided for on the basis of a sinking fund calculation whereby annual amortisation amounts compounded at an average rate of 6% per annum will approximate the total carrying value of the land use rights at the end of the thirty-year concession period.

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

Buildings	30 years
Safety equipment	10 years
Communication and signalling equipment	10 years
Toll station and ancillary equipment	8 years
Motor vehicles	8 years
Other machinery and equipment	5-8 years

(e) Construction-in-progress

Construction-in-progress represents toll roads, structures and facilities, including toll stations and maintenance facilities under construction, and machinery pending installation. Construction-in-progress is stated at cost which includes construction and acquisition costs, and capitalised interest charges arising from borrowings used to finance these assets during the period of construction, installation and testing. As assets are brought into use, the related costs are transferred to fixed assets and depreciated in accordance with the policy stated above.

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2. PRINCIPAL ACCOUNTING POLICIES (cont'd)

(f) Pre-operating expenses

Pre-operating expenses represent those expenses incurred prior to commencement of the operation of the Shanghai-Nanjing Expressway and are amortized on a straight-line basis over a period of five years.

(g) Foreign currency translation

The Group and the Company maintain their books and records in RMB. Transactions denominated in currencies other than RMB are translated into RMB at the applicable exchange rate prevailing at the dates of the transactions. Monetary assets and liabilities denominated in other currencies are translated into RMB at the applicable rates of exchange prevailing at the balance sheet dates. Non-monetary assets and liabilities denominated in other currencies are translated at historical rates. Exchange differences that are attributable to the translation of borrowings denominated in currencies other than RMB and used for financing the construction of fixed assets are included in the costs of the related constructions-in-progress. Other exchange differences arising from changes in exchange rates subsequent to the transaction dates are included in the determination of net profit.

(h) Cash and cash equivalents

Cash represents cash in hand and deposits with banks or other financial institutions which are repayable on demand.

Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash and which are within three months of maturity when acquired, less advances from banks repayable within three months from the dates of the advances.

(i) Taxation

The Group and the Company provide for taxation on the basis of its statutory profit for financial reporting purposes, adjusted for income and expense items which are not accessible or deductible for income tax purposes and after considering all available tax benefits.

Deferred taxation is provided for using the liability method in respect of the tax effects of significant timing differences between profit as computed for taxation purposes and profit as stated in the financial statements to the extent that a liability is likely to crystallise in the foreseeable future. Deferred tax assets are not recognised unless the related benefits are expected to crystallise in the foreseeable future.

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2. PRINCIPAL ACCOUNTING POLICIES *(cont'd)*

(j) Revenue

Revenue represents mainly income from the operation of toll roads, net of revenue tax. Revenue also includes other miscellaneous income such as sales of petrol, emergency assistance and advertising income.

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

3. REVENUE

	1997 RMB'000	1996 RMB'000
Revenue		
– Toll income	724,586	106,840
– Sales of petrol	82,252	23,395
– Emergency assistance income	6,745	1,868
– Advertising income	7,259	—
	820,842	132,103
Less: Revenue tax	(41,169)	(6,033)
Revenue, net	779,673	126,070

Revenue tax comprises Business Tax ("BT") and other ancillary taxes. The Group and the Company is subject to BT at the rate of 5% of toll income, emergency assistance income and advertising income.

In addition to BT, the Group and the Company is subject to the following types of revenue taxes:

- City Development Tax, levied at 7% of BT and net VAT.
- Education Supplementary Tax, levied at 4% of BT and net VAT.

The Group and the Company is also subject to Value-Added-Tax ("VAT") on sales of petrol, which is charged at a general rate of 17%. An input credit is available whereby VAT previously paid on purchases of petrol or other materials can be used to offset against the VAT on sales of petrol or other materials.

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4. PROFIT BEFORE TAXATION

- a. Profit before taxation was arrived at after charging (crediting) the following items:

	1997	1996
	RMB'000	RMB'000
After charging:		
Interest expenses on loans	176,657	335,057
Less: Amounts capitalised in construction-in-progress and fixed assets	—	(282,633)
Net interest expenses on loans	176,657	52,424
Foreign exchange loss	1,045	—
Depreciation of fixed assets and amortisation of pre-operating expenses	153,564	27,714
Auditors' remuneration	1,367	—
Pension contribution	4,772	102
Provision for staff welfare and bonus	17,463	695
After crediting:		
Interest income	(84,451)	(1,068)

- b. Pension scheme

The Group and the Company contributes annually to a government-sponsored pension scheme, an amount equivalent to 20% of the total basic salary of their employees. This government sponsored pension scheme will be responsible for payment of the pension liabilities relating to the retirees of the Group and the Company.

- c. Staff dormitory facilities

As of 31st December, 1997, the Group and the Company have no plans to sell the staff dormitories to their employees.

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5. DIRECTORS', SUPERVISORS' AND SENIOR EXECUTIVES' EMOLUMENTS

a. Details of directors' and supervisors' emoluments were:

	1997 RMB'000	1996 RMB'000
Fees for executive directors	1,100	—
Fees for non-executive directors	—	—
Fees for supervisors	—	—
Other emoluments for executive directors		
– Basic salaries and allowances	930	—
– Bonus	—	—
Other emoluments for non-executive directors	—	—
Other emoluments for supervisors	280	—
	2,310	—

No directors waived any emoluments during the year ended 31st December, 1997.

b. Details of emoluments paid to the five highest paid individuals (including directors, supervisors and employees) were:

	1997 RMB'000	1996 RMB'000
Basic salaries and allowances	440	97
Bonus	—	—
	440	97
Number of directors	5	—
Number of supervisors	—	—
Number of senior executives	—	5
	5	5

All five highest paid individuals were directors of the Group, their emoluments have been included in Note 5(a). The emoluments paid to each of the five highest paid individuals during the year ended 31st December, 1997 and 1996 were less than RMB1,000,000. During the year ended 31st December, 1997, no emoluments were paid to the five highest paid individuals as an inducement to join the Group or as compensation for loss of office.

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6. TAXATION

Taxation in the profit and loss accounts comprised:

	1997	1996
	RMB'000	RMB'000
Taxation		
– current	—	1,033
– rebate	—	(563)
– share of income tax of an associated company	2,656	184
	2,656	654

The Company is subject to Enterprise Income Tax ("EIT") levied at a rate of 33% of taxable income based on its audited accounts prepared in accordance with the laws and regulations in the PRC.

Pursuant to a notice dated 8th April, 1997 issued by the Finance Department of Jiangsu Province (the "Jiangsu Finance Department"), the Company is entitled to a rebate of taxes from the Jiangsu Finance Department equal to 18% of the taxable income in respect of EIT paid on the income generated from the operations of the Shanghai-Nanjing Expressway. Accordingly, the effective EIT rate for the operations of the Shanghai-Nanjing Expressway is 15%. However, there is no assurance that the Company will always be able to enjoy such preferential tax treatment.

Pursuant to the same notice mentioned above, income generated from the operations of the Nanjing-Shanghai Class 2 Highway is entitled to a rebate of taxes from the Jiangsu Finance Department equal to 33% of its taxable income in respect of EIT paid to the Local Taxation Bureau of Jiangsu Province (the "Jiangsu Local Taxation Bureau"). Accordingly, the effective EIT rate for the operations of the Nanjing-Shanghai Class 2 Highway is zero. However, there is no assurance that the operations of the Nanjing-Shanghai Class 2 Highway will always be able to enjoy such preferential tax treatment.

Pursuant to a notice dated 22nd May, 1997 issued by the Jiangsu Local Taxation Bureau, the Company is fully exempted from EIT for the year ended 31st December, 1997.

The Company did not have any significant unprovided deferred taxation for the year ended 31st December, 1997.

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

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7. DIVIDENDS

According to the prospectus for the H share issue of the Company dated 18th June, 1997, for the period ended 31st March, 1997, the shareholders existing prior to the H share issue are entitled to dividend amounting to approximately RMB3,004,000 inclusive of dividends of approximately RMB2,639,000 which was declared in 1996.

In accordance with the articles of association of the Company, the Company declares dividends based on the lesser of the unappropriated profit reported in the statutory accounts and that reported in the financial statements prepared in accordance with IAS. As the statutory accounts have been prepared in accordance with PRC accounting standards and regulations, the unappropriated profit reported in the statutory accounts will be different from the amount reported in the accompanying financial statements. As of 31st December, 1997, unappropriated profit available for distribution to shareholders, after deduction of the dividends payable to shareholders existing prior to the H share issue, amounted to approximately RMB267,400,000.

On 16th April, 1998, the Board of Directors proposed a dividend of RMB0.04 per share totalling RMB195,509,900 for the year ended 31st December, 1997. The proposed dividend distribution is subject to approval by the shareholders in the next annual general meeting.

8. EARNINGS PER SHARE

The calculation of earnings per share for the year ended 31st December, 1997 was based on the profit after taxation of approximately RMB334,853,000 (1996: RMB3,972,000) divided by the weighted average number of 4,298,509,144 shares (1996: 1,916,532,900 shares) in issue during the year ended 31st December, 1997.

9. CASH AND CASH EQUIVALENTS

	Group	Company	
	1997	1997	1996
	RMB'000	RMB'000	RMB'000
Cash in hand	143	143	70
Bank deposits:			
– Savings deposits	243,901	242,157	135,399
– Fixed deposits	1,773,056	1,773,056	—
	2,017,100	2,015,356	135,469

Bank deposits were placed for a period not longer than twelve months and bear interest at commercial rates.

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10. PREPAYMENTS AND OTHER RECEIVABLES

	Group	Company	
	1997	1997	1996
	RMB'000	RMB'000	RMB'000
Interest receivable	27,019	27,019	—
Prepayment for materials and equipment	16,620	16,620	14,394
Others	12,148	11,905	7,411
	55,787	55,544	21,805

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11. FIXED ASSETS

Movements in fixed assets were as follows:

	Group 1997										Company 1996										
	Land Use Rights RMB'000	Toll roads, structures and operating rights RMB'000	Buildings RMB'000	Safety equipment RMB'000	Communication and signalling equipment RMB'000	Toll station and ancillary equipment RMB'000	Motor vehicles RMB'000	Other machinery and equipment RMB'000	Construction- in-progress RMB'000	Total RMB'000	Total RMB'000										
Cost																					
Beginning of year	—	5,448,488	377,838	297,263	15,788	29,163	31,876	51,313	18,900	6,270,629	4,476,690										
Additions	1,716,088	1,345,786	65	—	58	—	36,680	341	962,368	4,061,386	1,793,939										
Revaluation	—	—	9,122	—	—	—	—	—	—	9,122	—										
Disposals	—	—	—	—	—	—	—	—	—	—	—										
End of year	1,716,088	6,794,274	387,025	297,263	15,846	29,163	68,556	51,654	981,268	10,341,137	6,270,629										
Accumulated depreciation																					
Beginning of year	—	11,958	4,238	7,736	350	786	2,103	677	—	27,848	2,232										
Depreciation	15,802	72,506	12,764	29,527	1,521	3,457	2,733	7,521	—	145,831	25,616										
Disposals	—	—	—	—	—	—	—	—	—	—	—										
End of year	15,802	84,464	17,002	37,263	1,871	4,243	4,836	8,198	—	173,679	27,848										
Net book value																					
End of year	1,700,286	6,709,810	370,023	260,000	13,975	24,920	63,720	43,456	981,268	10,167,458	6,242,781										
Beginning of year	—	5,436,530	373,600	289,527	15,438	28,377	29,773	50,636	18,900	6,242,781	4,474,458										

	Company 1997										Company 1996										
	Land Use Rights RMB'000	Toll roads, structures and operating rights RMB'000	Buildings RMB'000	Safety equipment RMB'000	Communication and signalling equipment RMB'000	Toll station and ancillary equipment RMB'000	Motor vehicles RMB'000	Other machinery and equipment RMB'000	Construction- in-progress RMB'000	Total RMB'000	Total RMB'000										
Cost																					
Beginning of year	—	5,448,488	377,838	297,263	15,788	29,163	31,876	51,313	18,900	6,270,629	4,476,690										
Additions	1,716,088	1,345,786	65	—	58	—	36,680	341	63,497	3,162,515	1,793,939										
Revaluation	—	—	9,122	—	—	—	—	—	—	9,122	—										
Disposals	—	—	—	—	—	—	—	—	—	—	—										
End of year	1,716,088	6,794,274	387,025	297,263	15,846	29,163	68,556	51,654	82,397	9,442,266	6,270,629										
Accumulated depreciation																					
Beginning of year	—	11,958	4,238	7,736	350	786	2,103	677	—	27,848	2,232										
Depreciation	15,802	72,506	12,764	29,527	1,521	3,457	2,733	7,521	—	145,831	25,616										
Disposals	—	—	—	—	—	—	—	—	—	—	—										
End of year	15,802	84,464	17,002	37,263	1,871	4,243	4,836	8,198	—	173,679	27,848										
Net book value																					
End of year	1,700,286	6,709,810	370,023	260,000	13,975	24,920	63,720	43,456	82,397	9,268,587	6,242,781										
Beginning of year	—	5,436,530	373,600	289,527	15,438	28,377	29,773	50,636	18,900	6,242,781	4,474,458										

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11. FIXED ASSETS (cont'd)

On 31st December, 1996, the land use rights in respect of the land on which the Company's Shanghai-Nanjing Expressway are located were valued by a PRC asset valuer at approximately RMB1,716,088,000, and this value was confirmed by the State Land Administration Bureau. The Company was granted the right to use the land for a period of 30 years commencing 1st January, 1997. This valuation has been recorded in the accompanying financial statements of the Group and the Company (see Note 16).

In accordance with the "Interim Regulations of the People's Republic of China Concerning the Assignment and Transfer of the Right to the Use of the State-Owned Land in Urban Areas", upon the expiration of the term of use, the right to the use of the land and the ownership of the buildings and other attached objects on the land thereon shall be acquired by the State without compensation.

The Company's property interests in the six service areas along the Shanghai-Nanjing Expressway and staff dormitory facilities were valued by an asset valuer at RMB341,960,000. The Company's net book value for such property interests was approximately RMB332,838,000 as at 31st March, 1997, resulting in a surplus of approximately RMB9,122,000 which has been recorded in the accompanying financial statements of the Group and the Company.

The Company's fixed assets as at 31st December, 1996 with a net book value of approximately RMB6,242,781,000 were valued at approximately RMB7,995,916,000 by a PRC asset valuer in preparation for the listing of the H share of the Company. The surplus arising from this valuation amounting to approximately RMB1,753,135,000 was incorporated in the Group's and the Company's statutory accounts. The Group's and the Company's fixed assets, stated at historical cost, in the Group's and the Company's financial statements prepared in conformity with IAS is therefore lower than that recorded in the statutory accounts. This difference will impact the results of operations of the Group and the Company over the useful lives of the corresponding property interests in the form of higher annual and cumulative depreciation and amortization charges being reported in the statutory accounts of the Group and the Company.

Pursuant to the main contractor's contracts entered into between South Approach Expressway Company and North Approach Expressway Company respectively with Wuxi Expressway Command Office and Taizhou Guanjiang Expressway Command Office, the contractors have undertaken the construction of the South approach Expressway and the North Approach Expressway at the fixed cost of RMB1,750,000,000 and RMB750,000,000 respectively. In addition, Jiangsu Communications Investment Corporation, has

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11. FIXED ASSETS (cont'd)

guaranteed the performance of the main contractor's obligations under the relevant contracts. Both expressways are expected to be completed by the end of September, 1999. As at 31st December, 1997, the status of construction of these expressways was as follows:

	South Approach	North Approach	Total
	Expressway	Expressway	
	RMB'000	RMB'000	RMB'000
Construction-in-progress (cost incurred)	627,133	271,738	898,871
Capital commitments (cost not yet incurred)	1,122,867	478,262	1,601,129
As stated in contracts	1,750,000	750,000	2,500,000

12. INVESTMENT IN SUBSIDIARIES

	Company	
	1997	1996
	RMB'000	RMB'000
Unlisted shares, at cost	655,000	—
Amounts due from subsidiaries	56,080	—
	711,080	—

13. INVESTMENT IN AN ASSOCIATED COMPANY

	Group and Company	Company
	1997	1996
	RMB'000	RMB'000
Unlisted shares, at cost	23,200	23,200
Share of post-acquisition profit	5,834	374
Amounts due from an associated company	637	232
	29,671	23,806

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13. INVESTMENT IN AN ASSOCIATED COMPANY (cont'd)

Details of the Company's associated company as at 31st December, 1997 were as follows:

Name	Country of establishment and operations and date of establishment	Equity interest directly held by the Company	Registered capital RMB'000	Principal activities
Jiangsu Nanjing-Shanghai Express Bus Co. Ltd.	PRC, 21st June, 1996	40%	58,000	Provision of passenger transportation service

14. PRE-OPERATING EXPENSES

	Group and Company 1997 RMB'000	Company 1996 RMB'000
Cost	35,964	35,964
Less: Accumulated amortisation	(9,831)	(2,098)
	26,133	33,866

15. LOANS

Group and Company

(a) Short-term bank loans

Short-term bank loans are generally repayable within one year with interest charged at the prevailing market rates based on the rates quoted by the People's Bank of China. The interest rates related to loans outstanding as at 31st December, 1997 ranged between 7.65% per annum and 11.09% per annum. (1996: 10.69% to 14.47%)

Except for bank loans of RMB350,000,000 (1996: RMB17,000,000) which were guaranteed by Jiangsu Communications Investment Corporation, all short-term bank loans were unsecured and denominated in Renminbi.

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15. LOANS (cont'd)

(b) Long-term loans

As at 31st December, 1997, all long-term loans were unsecured and comprised:

	1997 RMB'000	1996 RMB'000
Bank loans	447,794	1,035,218
State loans	5,500	41,500
Total long-term loans	453,294	1,076,718
Less: amount repayable within one year	(132,328)	(242,850)
Long-term portion	320,966	833,868

(i) Long-term bank loans

All long-term bank loans were borrowed to finance the construction of the Shanghai-Nanjing Expressway.

Interest rate and final maturity		1997 RMB'000	1996 RMB'000
Renminbi denominated bank loans	Market interest rates ranging from 10.98% to 12.42% per annum as at 31st December, 1997; 2 to 7 year loans with maturities through 2004. (1996:10.8%-16.2%)	365,000	885,850
U.S. dollar denominated bank loans	Interest rates at LIBOR+0.45% per annum as at 31st December, 1997; (1996: LIBOR +1.2%-2%) 1 to 4 year loans with maturities through 2001.	82,794	149,368
Total long-term bank loans		447,794	1,035,218
Less: current portion		(126,828)	(205,850)
Long-term portion		320,966	829,368

Market interest rates are based on the rates quoted by the People's Bank of China.

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15. LOANS (cont'd)

Of the long-term bank loans noted above, the amounts set forth below were guaranteed by the following parties:

Guarantor	1997 RMB'000	1996 RMB'000
Renminbi denominated bank loans		
– Jiangsu Communications Department	—	15,000
– Jiangsu Communications Investment Corporation	365,000	760,000
U.S. dollar denominated bank loans		
– Jiangsu Communications Investment Corporation	82,794	149,368
	447,794	924,368

(ii) State loans

As at 31st December, 1997, the Company's State loans were mainly borrowed from the Zhenjiang Finance Bureau. These loans bear fixed interest rates of 10.98% per annum and comprised:

	1997 RMB'000	1996 RMB'000
Total State loans	5,500	41,500
Less: current portion	(5,500)	(37,000)
Long-term portion	—	4,500

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15. LOANS (cont'd)

(iii) Long-term bank loans and State loans are repayable in the following periods:

	1997 RMB'000	1996 RMB'000
Bank loans		
– Within one year	126,828	205,850
– In the second year	173,655	295,000
– In the third to fifth years	47,311	384,368
– Over five years	100,000	150,000
	447,794	1,035,218
State loans		
– Within one year	5,500	37,000
– In the second year	—	4,500
– In the third to fifty years	—	—
– Over five years	—	—
	5,500	41,500
	453,294	1,076,718

(c) Long-term debentures payable

Debentures payable as at 31st December, 1997 relate to debentures issued to the employees of the Company and other affiliates of the Jiangsu Communications Department, other PRC enterprises and public. Except for the public debentures which were guaranteed by an unrelated company, all other debentures are unsecured, bear fixed interest rates of 11% to 17.14% per annum (1996: 12.5% to 17.14%) respectively and comprised:

	1997 RMB'000	1996 RMB'000
Debentures issued to		
– employees of the Company and other affiliates of the Jiangsu Communications Department	115,608	233,658
– other PRC enterprises	10,000	25,000
– public	200,000	—
	325,608	258,658
Less: current portion	(125,608)	(133,050)
Long-term portion	200,000	125,608

For the year ended 31st December, 1997
(Amount expressed in Renminbi ("RMB") unless otherwise stated)

16. SHARE CAPITAL

The authorised, issued and fully paid share capital of the Company is RMB4,887,747,500 (1996: RMB1,916,532,900) divided into 4,887,747,500 shares (1996: 1,916,532,900 shares) of RMB1 each.

Movements in share capital were as follows:

	1997			1996		
	Percentage	Number of		Percentage	Number of	
		%	Shares		Amount	Shares
			RMB'000	%		RMB'000
Beginning of year						
State shares	84.86	1,626,320,000	1,626,320	84.86	1,626,320,000	1,626,320
State legal person shares	0.19	3,600,000	3,600	0.19	3,600,000	3,600
Legal person shares	14.95	286,612,900	286,613	14.95	286,612,900	286,613
	100.00	1,916,532,900	1,916,533	100.00	1,916,532,900	1,916,533
Additions						
Capitalisation of						
Shareholder's loan						
and advances	–	1,112,018,300	1,112,018	–	–	–
Injection of land use rights	–	787,196,300	787,197	–	–	–
Reallocation of						
bonus share						
— State shares	–	(149,400,000)	(149,400)	–	–	–
— State legal person						
shares	–	(600,000)	(600)	–	–	–
Issuance of overseas listed						
foreign shares						
("H" shares)	–	1,222,000,000	1,222,000	–	–	–
	–	2,971,214,600	2,971,215	–	–	–
End of year						
State shares	69.07	3,376,134,600	3,376,135	84.86	1,626,320,000	1,626,320
State legal person shares	0.06	3,000,000	3,000	0.19	3,600,000	3,600
Legal person shares	5.87	286,612,900	286,613	14.95	286,612,900	286,613
H shares	25.00	1,222,000,000	1,222,000	—	—	—
	100.00	4,887,747,500	4,887,748	100.00	1,916,532,900	1,916,533

For the year ended 31st December, 1997
(Amount expressed in Renminbi ("RMB") unless otherwise stated)

16. SHARE CAPITAL (cont'd)

Pursuant to the resolutions passed at the annual general meeting of the Company on 2nd April, 1997 and endorsed by the State Assets Administration Bureau, the Shareholder's loan and advances totalling approximately RMB2,424,200,000 as at 31st December, 1996 have been capitalised into 1,112,018,300 State shares with a nominal value of RMB1,112,018,300 held by Jiangsu Communications Investment Corporation. The difference between the nominal value of the State shares and the Shareholder's loan and advances of approximately RMB1,312,181,700 has been recorded as share premium.

Pursuant to the resolutions passed by the shareholders at the aforesaid annual general meeting and as endorsed by the State Land Administration Bureau, the land use rights in respect of the land on which Shanghai-Nanjing Expressway is located valued at approximately RMB1,716,088,000 as at 31st December, 1996 were injected into the Company in exchange for 787,196,300 State shares. Pursuant to a circular issued by the Expressways Construction Command Office of Jiangsu Province ("Jiangsu Expressways Command Office") on 2nd December, 1992, the Company had originally issued 150,000,000 shares in exchange for the land use rights of Shanghai-Nanjing Expressway to its four promoters as bonus shares. Thereafter, the bonus issue became ineffective under the "Interim Provisions on management of Land Use Rights by Joint Stock Limited Companies" jointly issued by the State Land Administration Bureau and the State Commission for Restructuring the Economic System of the PRC on 2nd December, 1994. Accordingly, the 150,000,000 bonus shares originally issued to the four promoters were reallocated to Jiangsu Communications Investment Corporation in satisfaction of part of the 787,196,300 State shares to be issued pursuant to the shareholders' resolution passed on 2nd April, 1997. All of the shares are currently held by Jiangsu Communications Investment Corporation on behalf of the State.

On 23rd June, 1997, the Company issued 1,222,000,000 H shares which were listed on the Stock Exchange of Hong Kong Limited on 27th June, 1997 with a par value of RMB1 each at an issue price of HKD3.11 (RMB3.33) per share.

For the year ended 31st December, 1997
(Amount expressed in Renminbi ("RMB") unless otherwise stated)

17. RESERVES

Group and Company

(In RMB'000)	Share premium Note 17(a)	Statutory Surplus Reserve Note 17(b)	Statutory Public Welfare Fund Note 17(c)	Unappropriated profit	Total
Balance as at 1st January, 1996	170,970	—	—	—	170,970
Profit after taxation for the year ended 31st December, 1996	—	—	—	3,972	3,972
Profit appropriations	—	436	218	(654)	—
Dividends declared	—	—	—	(2,639)	(2,639)
Balance as at 1st January, 1997	170,970	436	218	679	172,303
Capitalization of Shareholders' loan and advances	1,312,182	—	—	—	1,312,182
Injection of land use rights	928,892	—	—	—	928,892
Reallocation of bonus shares	150,000	—	—	—	150,000
Valuation surplus of the Company's property interests as at 31st March, 1997 (Note 11)	9,122	—	—	—	9,122
Premium arising from issuance of H shares	2,842,929	—	—	—	2,842,929
Expenses on issuance of H shares	(139,019)	—	—	—	(139,019)
Profit after taxation for the year ended 31st December, 1997	—	—	—	334,853	334,853
Profit appropriations	—	31,376	15,688	(47,064)	—
Dividends declared (Note 7)	—	—	—	(195,875)	(195,875)
Balance as at 31st December, 1997	5,275,076	31,812	15,906	92,593	5,415,387

(a) Share Premium

Share premium represents premium arising from issuance of legal person shares, proceeds from the issuance of H shares in excess of their par value, net of expenses relating to the listing of the shares such as underwriting commissions, fees for professional advisors and promotional expenses, and also premium arising from the capitalisation of Shareholder's loan and advances and land use rights (see Note 16).

For the year ended 31st December, 1997
(Amount expressed in Renminbi ("RMB") unless otherwise stated)

17. RESERVES (cont'd)

(b) Statutory Surplus Reserve

In accordance with the Company Law and the Company's articles of association, the Company shall appropriate 10% of its annual statutory net income (after offsetting any prior years' losses) to the statutory surplus reserve account. When the balance of such reserve reaches 50% of the Company's share capital, any further appropriation is optional.

The statutory surplus reserve can be utilised to offset losses or to increase capital. However, such statutory surplus reserve must be maintained at a minimum of 25% of share capital after such issuance.

(c) Statutory Public Welfare Fund

According to the relevant financial regulations of the PRC and the Company's articles of association, the Company is also 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 employees of the Company. For the year ended 31st December, 1997, the directors have proposed that 5% (1996: 5%) of the statutory profit after taxation be appropriated to this reserve.

18. RELATED PARTY TRANSACTIONS

Apart from those disclosed in Note 1, 11 and 15, the Group and the Company had the following significant related party transactions during the year ended 31st December, 1997:

(a) Jiangsu Communications Construction Company (shareholder of the Company)

The Company appointed Jiangsu Communications Construction Company, as one of the sub-contractors for the construction of the Shanghai-Nanjing Expressway. The total construction cost amounting to approximately RMB639,052,000. As at 31st December, 1997 approximately RMB5,149,000 is payable to such shareholder.

(b) Jiangsu Communications Investments Corporation (controlling shareholder of the Company)

On 1st December, 1996, interest bearing loans totalling approximately RMB1,003,200,000 were replaced by a loan from Jiangsu Communications Investment Corporation. As at 31st December, 1996, outstanding advances from Jiangsu Communications Investment Corporation to finance the construction of the Shanghai-Nanjing Expressway amounted to approximately RMB1,421,000,000. These Shareholder's loan and advances totalling approximately RMB2,424,200,000 have been capitalised into 1,112,018,300 State shares and held by Jiangsu Communications Investments Corporation.

During the year ended 31st December, 1997, further advances from Jiangsu Communications Investment Corporation to pay construction costs amounted to approximately RMB3,000,000. These advances are unsecured, interest-free and have no fixed terms of repayment.

For the year ended 31st December, 1997
(Amount expressed in Renminbi ("RMB") unless otherwise stated)

18. RELATED PARTY TRANSACTIONS (Cont'd)

A short-term working capital loan for RMB100,000,000 bearing interest rate at 10.08% per annum has been borrowed from Jiangsu Communications Investment Corporation on 15th January, 1997 and repaid on 12th September, 1997. Interest expenses arising from this loan amounted to approximately RMB6,720,000.

- (c) Jiangsu Communications Department (ultimate controlling shareholder of the Company)

As at 31st December, 1997, the Company has contributed approximately RMB32,400,000 (1996: RMB16,400,000) to an office building development project which is controlled by the Jiangsu Communications Department. The payment was recorded as construction-in-progress.

- (d) Jiangsu Highways Bureau (a bureau of the Jiangsu Communications Department)

On 11th June, 1997, the Company has entered into a service contract with Jiangsu Highways Bureau, pursuant to which Jiangsu Highways Bureau is responsible for providing day-to-day routine operational and maintenance services for the Nanjing-Shanghai Class 2 Highway in return for a service fee calculated at 18% of the gross toll revenue. In accordance to the service contract, the Company had paid RMB4 million to Jiangsu Highway Bureau to finance the working capital required for the first month of operation of the service contract. For the year ended 31st December, 1997, the Company paid service fees amounting to approximately RMB27,271,000. This service contract was terminated on 31st March, 1998 (see Note 21).

19. COMMITMENTS

Apart from those disclosed in Note 11, as at 31st December, 1997, the Group and the Company had the following significant capital expenditure commitments, mainly to upgrade the present communication, surveillance and control and toll collection systems for the Shanghai-Nanjing Expressway:

	RMB'000
Contracted but not provided for	33,000
Authorised but not contracted for	200,000
	233,000

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(Amount expressed in Renminbi ("RMB") unless otherwise stated)

20. IMPACT OF IAS ADJUSTMENTS ON PROFIT AFTER TAX / NET ASSETS

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

	Profit after taxation		Net assets	
	Year ended		As of 31st	
	31st December,		December,	
	1997	1996	1997	1996
	RMB'000	RMB'000	RMB'000	RMB'000
As reported in the statutory accounts	313,762	2,471	12,142,983	4,154,159
IAS adjustments:				
Valuation, depreciation and amortization of fixed assets	21,091	938	(1,724,260)	(2,063,247)
Tax rebate	—	563	—	563
Accruals for dividends declared	—	—	—	(2,639)
As reported under IAS	334,853	3,972	10,418,723	2,088,836

21. SUBSEQUENT EVENTS

On 31st March, 1998, the Company terminated the service contract with Jiangsu Highway Bureau. Effective 1st April, 1998, the Company has taken over the responsibility for the day-to-day routine operation and maintenance for the Nanjing-Shanghai Class 2 Highway. As such, Jiangsu Highway Bureau will return the working capital of RMB4 million to the Company.

22. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 16th April, 1998.

23. PRIOR YEAR COMPARATIVES

Certain 1996 comparative figures have been reclassified to conform to the current year's presentation.