



Notes to the Condensed Consolidated Financial Statements

**JIANGSU EXPRESSWAY COMPANY LIMITED AND ITS SUBSIDIARY
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

As of 30th June, 2001

(With comparatives for the six months ended 30th June, 2000 and as of 31st December, 2000)

1. ACCOUNTING POLICIES AND BASIS OF PREPARATION

The accompanying condensed interim consolidated financial statements are prepared in accordance with International Accounting Standards ("IAS") 34 "Interim Financial Reporting" promulgated by the International Accounting Standards Committee and Appendix 16 of the Rules governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. The principal accounting policies adopted in preparing the interim financial statements of the Group are the same as those adopted in the preparation of the annual financial statements as of and for the year ended 31st December, 2000, except that financial instruments are recognised and measured in accordance with IAS 39, which is effective from 1st January, 2001 (Note 13). In addition, there is no change of accounting policies as the result of the effectiveness of revised IAS 12, which is also effective from 1st January, 2001.

2. PRINCIPLES AND BASIS OF CONSOLIDATION

The accompanying condensed consolidated financial statements include the accounts of Jiangsu Expressway Company Limited (the "Company") and its consolidated subsidiary (hereinafter together with the Company referred to as the "Group").

All significant intercompany balances and transactions, including intercompany profits and losses and resulting unrealised profits and losses are eliminated on consolidation. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

A subsidiary is a company over which the Company exercises control. Control exists when the Company has the power to govern the financial and operating policies of the subsidiary so as to obtain benefits from its activities.

Details of the Group's consolidated subsidiaries:

As of 30th June, 2001

Name of subsidiary	Country of incorporation and date of incorporation	Company's equity interest	Registered capital RMB'000	Principal activities
Jiangsu Guangjing Xicheng Expressway Co., Ltd. ("Guangjing Xicheng")	PRC 16th September, 1997	85% (directly held)	850,000	Construction, management and operation of expressway

As of 31st December, 2000

Name of subsidiary	Country of incorporation and date of incorporation	Company's equity interest	Registered capital RMB'000	Principal activities
Jiangsu Xicheng Expressway Co., Ltd. ("Jiangsu Xicheng")	PRC 16th September, 1997	85% (directly held)	600,000	Construction, management and operation of expressway
Jiangsu Guangjing Expressway Co., Ltd. ("Guangjing Xicheng")	PRC 16th September, 1997	85% (directly held)	250,000	Construction, management and operation of expressway

As of 12th April, 2001, Jiangsu Xicheng took over Jiangsu Guangjing's assets and liabilities at book value and changed its name to Guangjing Xicheng. Jiangsu Guangjing has cancelled its legal registration.

3. PROFIT BEFORE TAXATION AND MINORITY INTERESTS

Profit before taxation and minority interests in the condensed consolidated income statements was determined after (crediting) charging the following items:

	For the six months ended 30th June, 2001 (unaudited) RMB'000	2000 (unaudited) RMB'000
Gain on disposal of short-term investment	(3,996)	(6,670)
Interest income	(16,229)	(11,103)
Interest expenses	9,755	25,221
Less: Amounts capitalised in construction-in-progress	(1,213)	(1,126)
Finance (income) cost	(7,687)	12,992
Depreciation of property, plant and equipment	130,197	118,890
Amortization of land use rights	12,836	11,274
Amortization of intangible assets	3,188	3,829
Impairment losses relating to property, plant and equipment included in operating cost	5,040	—
Staff cost	38,629	33,134
Provision for doubtful debts	369	—

4. TAXATION

The Company and its subsidiary are subject to EIT levied at a rate of 33% of taxable income based on their audited accounts prepared in accordance with the laws and regulations in the PRC.

Pursuant to relevant documents issued by the Finance Department of Jiangsu Province (the "Jiangsu Finance Department"), the Company was granted financial refunds equal to 18% of its taxable income in respect of EIT paid on the income generated from the operations of the Shanghai-Nanjing Expressway.

Pursuant to the relevant documents mentioned above, income generated from the operations of the Nanjing-Shanghai Class 2 Highway was granted financial refunds equal to 33% of its taxable income in respect of EIT.

Pursuant to relevant documents issued by the Jiangsu Finance Department, Jiangsu Xicheng and Jiangsu Guangjing were granted financial refunds equal to 18% of its taxable income in respect of EIT.

Pursuant to Cai Shui [2000] No. 99 issued in October 2000, the above preferential tax treatment would remain effective until 31st December, 2001.

Pursuant to Cai Shui [1994] No. 1 issued by State Tax Bureau in 1994, and confirmed by Jiangsu Provincial Tax Bureau, Jiangsu Xicheng and Jiangsu Guangjing were entitled to full exemption from EIT for 2000 and a 50% reduction in EIT for 2001.

During the interim reporting periods, income tax expense in the condensed consolidated income statements comprised:

	For the six months ended 30th June, 2001 (unaudited) RMB'000	2000 (unaudited) RMB'000
Taxation		
- current	135,074	118,491
- financial refunds received	(77,350)	—
	57,724	118,491
Deferred taxation	6,156	(49)
	63,880	118,442
Share of income tax of an associated company	1,546	873
	65,426	119,315

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

As of 30th June, 2001, there was no material unprovided deferred tax.

5. DIVIDENDS

During this interim reporting period, the shareholder's meeting approved the dividend appropriation for 2000 of approximately RMB453,397,275 (RMB0.09 per share) (corresponding period of 2000: RMB391,019,800, RMB0.08 per share).

The directors do not recommend any interim dividend for the six months ended 30th June, 2001 (corresponding period of 2000: nil).

6. EARNINGS PER SHARE

The calculation of basic earnings per share was based on the unaudited consolidated net profit of approximately RMB393,508,000 for the six months ended 30th June, 2001 (corresponding period of 2000: approximately RMB279,166,000) divided by the weighted average number of 5,037,747,500 ordinary shares (corresponding period of 2000: 4,887,747,500 shares) in issue during the period.

The diluted earnings per share was not calculated, because no potential shares existed.

7. RESERVES

In accordance with the PRC Company Law and the Company's articles of association, the Company and its subsidiary are required to appropriate 10 per cent. of their annual statutory net profits (after offsetting any prior years' losses) to a statutory surplus reserve account ("SSR") respectively. When the balance of such reserve reaches 50 per cent. of each entity's share capital, any further appropriation is optional. SSR can be utilized to offset prior years' losses or to increase share capital. However, SSR must be maintained at a minimum of 25 per cent. of share capital after such usage.

The directors have resolved that the statutory public welfare fund ("SPWF") is to be utilized to build or acquire capital items respectively, such as dormitories and other facilities for the Company and its subsidiary's employees, and can not be used to pay for staff welfare expenses. Titles of these capital items will remain with the Company and its subsidiary.