

Report of the Board

The board of directors of the Company (the "Board") is pleased to present the report of the Board for the year ended 31st December, 2000.

1. COMPANY INFORMATION

The Company was incorporated in the PRC as a joint stock limited company on August 15, 1996 and the H Shares of the Company were listed on The Stock Exchange of Hong Kong Limited on November 13, 1996.

2. PRINCIPAL BUSINESS

The Group is principally engaged in holding, operation and development of toll highways within Anhui province, the PRC. The Group may also be engaged in holding, operation and development of toll highways outside Anhui province.

Since the turnover and results for the current year are principally derived from the operation of the toll highways of the Group in the PRC, the turnover of the Group and its contribution to the operating profit have not been analyzed by business and geographical distribution.

3. RESULTS AND PROFIT APPROPRIATION

The results of the Group for the year ended 31st December, 2000 and the financial condition of the Group as at 31st December, 2000 prepared in accordance with International Accounting Standards are shown in the consolidated income statement and the consolidated balance sheet as set out on page 48 to 50 of the annual report.

The principal activities of the Group are conducted within the PRC.

The Board recommends the profit after taxation for the period ended 31st December, 2000 to be appropriated as follows:

- (1) 10% of the profit after taxation amounted to RMB17,970,220.49 shall be provided for statutory common reserve;
- (2) 10% of the profit after taxation amounted to RMB17,970,220.49 shall be provided for statutory public welfare fund;
- (3) payment of a final dividend of RMB0.02 per share.

The said profit appropriation proposal presented by the Board will be submitted at the next Annual General Meeting for review and approval.

Report of the Board (Cont'd)

4. DIVIDENDS

The Board of the Company recommends the payment of a final dividend of RMB0.02 per share for the year ended 31st December, 2000 to all shareholders.

Upon approval from the shareholders at the Annual General Meeting for the year 2000 to be held on 28th April, 2001, the said final dividend will be made on or before 14th May, 2001 to those shareholders whose names appear on the register of the Company on 27th April, 2001.

5. FINANCIAL SUMMARY

Prepared in accordance with International Accounting Standards

(amounts shown are denominated in RMB'000)

For the year ended 31st December

	2000	1999	1998	1997
		(As restated)		
Revenue, net	<u>386,825</u>	330,433	275,258	225,716
Profit before taxation	<u>293,353</u>	244,146	194,541	165,240
Taxation	<u>(65,175)</u>	(37,782)	(29,181)	(24,786)
Profit after taxation	<u>227,176</u>	206,156	165,360	140,454

6. PRINCIPAL CLIENTS AND SUPPLIERS

Since the aggregate percentages of highway tolls and purchases from the top five clients and suppliers of the Group account for less than 30% of the Group total highway tolls and purchases for the current year, information on the principal clients and suppliers has not been further disclosed.

7. STAFF QUARTERS

The Company does not own any staff quarters and does not plan to provide any staff quarters. The quarters for staff of the Company are all provided by its parent company, for which the Company is not required to pay any fee to its parent company. There are no financial problems arising from the reform on the enterprise housing system within the Group, therefore the relevant policies will not have any substantial influences on the Group.

During the period under review, the Company has contributed 10% of the basic wages of its staff (approximately RMB481,000) to the Housing Fund in accordance with the society insurance scheme implemented by Anhui Provincial Government. There is no further obligation of the Company apart from the contribution to the Housing Fund.

Report of the Board (Cont'd)

8. EQUITY AND SHAREHOLDERS

(1) Share Capital Structure

For the year ended 31st December, 2000, the total number of shares and the structure of the share capital of the Company remained unchanged:

	Number of shares of RMB1.00 each	Percentage of the aggregate share capital of the Company (%)
(a) Unlisted shares		
State-owned Shares	915,600,000	65.00
(b) Listed shares		
H Shares	493,010,000	35.00
Total Share Capital	<u>1,408,610,000</u>	100.00

(2) Number of Shareholders

As at 31st December, 2000, the number of shareholders of the Company is as follows:

Class of shares	Number of Shareholders
State-owned Shares	1
Listed H Shares	323

(3) Substantial Shareholders

As of 31st December, 2000, the following substantial shareholders who hold 10% or more in the share capital of the Company under section 16(1) of the Securities (Disclosure of Interests) Ordinance of Hong Kong are recorded in the register:

Name of Shareholders	class	Number of shares held (shares)	Percentage of the aggregate share capital of the Company (%)
Anhui Expressway Holding Corporation	State-owned Shares	915,600,000	65.00
HKSCC Nominees Limited	H Shares	474,871,999	33.71

Save for the aforesaid shareholders, as of 31st December, 2000, the Company is not aware of any other registered shareholders who hold 10% or more in the issued share capital of the Company.

Report of the Board (Cont'd)

In accordance with the written reply in relevant documents issued by the Ministry of Finance, the Ministry of Communications and the State-owned Assets Administration Bureau, AEHC entered into an agreement on 21st January, 2001 with Hua Jian Transportation Economic Development Center ("Hua Jian"), a wholly-state-owned enterprise incorporated in the PRC, pursuant to which 376,860,000 state-owned shares of the Company held by AEHC on behalf of the Ministry of Communications converted to state-owned legal person shares and held and managed by Hua Jian.

Upon the completion of the transfer of shares, the share structure of the Company will be changed as follows:

Name of Shareholders	class	Number of shares held (shares)	Percentage of the aggregate share capital of the Company (%)
Anhui Expressway Holding Corporation	State-owned Shares	538,740,000	38.25
Hua Jian Transportation Economic Development Center	State-owned legal person Shares	376,860,000	26.75
HK SCC nominees limited			
Foreign Capital Public Shareholders	H Shares	493,010,000	35.00
Total		1,408,610,000	100.00

(4) Summary of Trading

The following is a summary of the trading in the shares of the Company during the year:

	H Shares (HK\$)
Opening price of the first trading day at the beginning of the year	0.70
Closing price of the last trading day at the end of the year	0.71
Highest trading price during the year	0.88
Lowest trading price during the year	0.55
Total trading volume during the year	447,535,420
Total shares traded shares	629,358,160 shares

Report of the Board (Cont'd)

9. DIRECTORS AND SUPERVISORS

The directors and the supervisors of the Company during the year and as of the date prior to the publication of the report are as follows:

Executive Directors:

Wang Shui	Chairman (appointed on August 16, 1999)
Tu Xiao Bei	Vice-chairman (appointed on August 16, 1999)
Kan Zhao Rong	(appointed on August 16, 1999)
Zhang Hui	(appointed on August 16, 1999)
Zhu Xu Sheng	(appointed on August 16, 1999)
Cao Xiao Ping	(appointed on August 16, 1999)
Xie Xin Yu	(appointed on August 16, 1999)

Independent Non-executive Director:

Zhang Li Ping	(appointed on August 16, 1999)
Cao De Yun	(appointed on August 16, 1999)

Supervisors:

Li Yun Gui	Chairman of The Supervisory Committee (appointed on August 16, 1999)
Yang Yi Cong	(appointed on August 16, 1999)
Wang Bi Cai	(appointed on August 16, 1999)

10. THE SHAREHOLDINGS OF THE DIRECTORS AND SUPERVISORS OF THE COMPANY

As at 31st December, 2000, no directors, supervisors or their respective associates in the register kept in accordance with section 29 of the Securities (Disclosure of Interests) Ordinance had any interests or rights (as defined in such Ordinance) in the share capital of the Company or its associated companies, and no rights that entitle any directors, supervisors or chief executive or their spouses or children under the age of 18 to subscribe for the shares of the Company were granted by the Company.

At no time during the year was the Company, Anhui Expressway Holding Corporation or any of its subsidiaries a party to any arrangements which will enable the directors and the supervisors of the Company to acquire benefits by purchasing the shares of the Company or any other body corporates.

Report of the Board (Cont'd)

11. SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

All of the directors (excluding independent non-executive directors) and supervisors have entered into a service contract with the Company for three years starting from their respective dates of appointment.

Terms of such contracts are identical in all material respects and are set out as follows:

- (1) Each service contract will be effective from 16th August, 1999 for a term of 3 years.
- (2) In accordance with the service contracts, the executive directors will be paid a monthly salary ranging from RMB 8,000 to RMB 10,000 and, the executive directors on completion of every 12 months of service, will receive a bonus of not more than the relevant executive director's monthly salary. For the year ended 31st December, 2000, the aggregate emoluments paid to executive directors and supervisors were RMB784,000 and RMB332,000 respectively.
- (3) For the three years commencing on the 16th August, 2000, each of the non-executive directors will receive a transportation or directors' fee of RMB3,600, RMB3,960 and RMB4,380 per annum respectively. Non-executive directors will not be entitled to receive any bonus after the completion of one year of service. Non-executive directors are not required to enter any service contract with the Company.

Save as the aforesaid, no service contracts which are terminable within one year with compensation (other than general statutory compensation) have been or proposed to be entered into between the Company and the directors or supervisors.

12. EMOLUMENTS OF THE DIRECTORS AND SUPERVISORS

The emoluments of the directors and supervisors are set out in note 18 to the financial statements on page 75.

During the year, all of the top five personnel who obtained highest emoluments of the Company are the directors and supervisors of the Company.

13. DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

During the year covered by this report, no director or supervisor was materially interested in any contracts entered into by the Company, Anhui Expressway Holding Corporation or any of its subsidiaries.

14. PURCHASE, SALE AND REDEMPTION OF THE LISTED SHARES

For the year ended 31st December, 2000, the Company had not redeemed any of its listed shares, nor had it purchased or re-sold any listed shares of the Company.

Report of the Board (Cont'd)

15. PRE-EMPTIVE RIGHTS

Neither the Articles of Association of the Company nor the PRC laws requires the Company to offer pre-emptive rights to its existing shareholders for the subscription of new shares according to their shareholding proportion.

16. SUBSIDIARY AND ASSOCIATED COMPANY

The Group has three subsidiary companies, namely Xuanguang Company, Gaojie Company and Wantong Technology in which the Group has 51% , 51% and 75.5% interests respectively. Details of the subsidiary companies and the associated company are set out in note 6, 7 to the financial statements.

17. RELATED PARTY TRANSACTIONS

For the year ended 31st December, 2000, the Company and its related parties had entered into the following material transaction:

On 10th November ,2000, the Company and AEHC entered into an equity transfer agreement, according to which the Company acquired additional 21% interest in Gaojie Company from AEHC at the consideration of RMB387,240,000. Upon the completion of transfer on 31st December, 2000, the Company owns 51% equity in Gaojie Company as its holding company.

18. CONFIRMATION BY THE INDEPENDENT DIRECTORS REGARDING RELATED PARTY TRANSACTIONS

Independent non-executive directors of the Company have reviewed the related party transactions above and confirmed that:

- (1) the transactions were carried out in the normal and usual course of business of the Company;
- (2) the transactions were carried out either (A) on normal commercial terms (as compared with transactions of similar nature carried out by similar entities in the PRC) or (B) (if no similar condition to be compared with) on terms that are fair and reasonable so far as the shareholders of the Company are concerned;
- (3) The transactions were carried out (A) in accordance with the terms of agreement governing such transactions or (B) if no relevant agreement, on terms no less favorable than terms available to third parties.

Report of the Board (Cont'd)

19. TAXATION

The Company, Xuanguang Company and Gaojie Company are required to pay business tax at the rate of 5% of toll income. In addition to the business tax, the Company, Xuanguang Company and Gaojie Company are required to pay the following types of taxes related to revenue:

- (1) Based on the dependency principle, City Development Tax levied at 5% of the business tax;
- (2) Education Supplementary Tax levied at 3% of the business tax;
- (3) Irrigation Construction Fund Contribution, levied at 0.6‰ of the toll revenue last year;

In addition to the above, Xuanguang Company is also subject to Flood Control Fund Contribution, which is levied at 0.15% of the toll income.

Wantong Technology is subject to the business tax at the rate of 3% of the income arising from the services it delivers to customers. In addition to the business tax, Wantong Technology is subject to the following types of taxes related to revenue:

- (1) City Development Tax which is levied at 7% of the business tax.
- (2) Irrigation Construction Fund Contribution which is levied at 1% of the business tax.

The Company, Xuanguang Company and Gaojie Company are 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 relevant documents issued by Anhui Provincial People's Government, the Company was granted financial equal to 18% of the Company's taxable income in respect of EIT paid.

Pursuant to Cai Shui [2000] No.99 issued by the Ministry of Finance on 18th October, 2000, the above preferential tax treatment related to the Company would remain effective until 31st December, 2001.

Wantong Technology is registered in the Hefei High Technology Industry Development Zone as a high-tech company. Pursuant to relevant regulations on preferential policies on EIT contained in the Notice dated 29th March, 1994, issued by the Ministry of Finance and the State Taxation Bureau, Wantong Technology applicable EIT rate is at a reduced rate of 15% of taxable income. In addition, based on Notice[1999]363 issued by the Anhui Tax Bureau, newly established high-tech enterprise would be exempted from EIT for two years, from the first profit making year.

As the Company was recognized by Anhui Provincial Department of Science & Technology as the new & hi-tech enterprise in December, 2000. The Company has obtained the examination certificate of the new & hi-tech enterprise and the written approval from Hefei New & Hi-tech Development Zone concerning the entry of the Company to the Zone, the applicable EIT rate of the Company will be at a reduced rate of 15% of taxable income starting from the year 2001.

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

Report of the Board (Cont'd)

20. PENSION SCHEME

The Group has participated in the pension scheme organized by the government since 1997, pursuant to which a contribution based on 23% to 27% of the basic salary of the employees (as to which 20% to 23% be contributed by the Group and the remainder by the employees) shall be paid regularly, which constitutes the sole responsibility of the Group to the pension scheme. Such pension scheme shall undertake the responsibility to pay as to 3% pension fund to the retired employees.

For the year ended 31st December, 2000, the Group has contributed RMB3,322,000 to that scheme.

21. EMPLOYEES

As of 31st December, 2000 the Company had a total of 768 full-time employees, whose duties were categorized as follows:

Management	183
Engineering	155
Toll collection	312
Maintenance	118
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	768
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22. FIXED ASSETS

The changes in the fixed assets of the Group for the year ended 31st December, 2000 are set out in note 3 to the financial statements prepared in accordance with International Accounting Standards.

23. TOTAL ASSETS

As of 31st December, 2000, the total assets calculated in accordance with International Accounting Standards was RMB4,881,325,000.

24. LOANS, OVERDRAFTS AND OTHER BORROWINGS

As of 31st December, 2000, the Group has no bank loans, overdrafts and other borrowings.

Report of the Board (Cont'd)

25. RESERVES

The changes in reserves of the Group for the year ended 31st December, 2000 are set out in note 11 to the financial statements prepared in accordance with International Accounting Standards.

26. AUDITORS

The financial reports prepared by the Group in accordance with the PRC Accounting Standards and International Accounting Standards have been audited by Arthur Andersen-Hua Qiang and Arthur Andersen & Co. respectively. The term of appointment of the said two accountants will expire, but they offer themselves for re-appointment. The said two companies have been appointed as auditors of the Company since 1996.

27. IMPACT OF RECENT ECONOMIC DEVELOPMENT

In the year 2000, China has overcome the adverse situation brought by the Asian Financial Crises and a virtuous cycle has been progressively represented. The economy in Anhui province was even better than the national average level with a growth of 8.3% in GDP, 12% in social investment of fixed assets and 31.2% in exports. With the forthcoming entry to the WTO by China, the economic relationship between the eastern coastal and developed regions and the western inland provinces will be strengthened extraordinary precious opportunities will be arisen in the middle and western regions with the stepwise implementation of the strategy in developing the western regions. All the above-mentioned factors will bring forward more stringent demands for the transportation linking the eastern and western parts which will also create an excellent macroenvironment for the operation of the Group.

28. TRUST DEPOSIT AND DUE FIXED DEPOSIT

Up to 31st December, 2000, the Company does not have any trust deposit in the financial institutions in the PRC, neither has the Company experienced any incident of not being able to withdraw fixed deposits when due.

29. THE INDEPENDENT AUDIT COMMITTEE

The first and second meetings of the Independent Audit Committee were held at the office address of the Company on 23th March, 2000 and 17th August, 2000 for examining and approving the annual financial reports for the year of 1999 and the interim financial reports for the year 2000 respectively. Upon the examination on the integrity, accuracy and impartiality of the financial reports of the Company, the members of the Committee agreed that the financial reports had made sufficient disclosure on relevant materials and the materials disclosed would enable the accounts users obtain a impartial understanding of the financial status of the Company.

Report of the Board (Cont'd)

30. MATERIAL CONTRACTS

The material contract that the Company has entered into during the period under review as follows:

On November 10th, 2000, the Company has entered into with AEHC "The Share Transfer Agreement Concerning 21% Shares In Anhui Gaojie Expressway Company Limited".

31. CODE OF BEST PRACTICE

The directors are of the opinion that the Company has complied with the "Code of Best Practice" as set out in Appendix 14 of the Rules Governing the Listing of Securities formulated by The Stock Exchange of Hong Kong Limited during 2000.

32. MATERIAL LITIGATION

Neither the Company nor the directors, supervisors and the senior management of the Company have involved in any material litigation or arbitration during 2000.

By Order of the Board

Wang Shui

Chairman

Hefei, Anhui, the PRC

12th March, 2001