Notes to the Financial Statements

For the years ended 31st December, 2000 and 1999
(Amounts expressed in Renmibi ("RMB") unless otherwise stated)

1. ORGANIZATION AND OPERATIONS

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 collectively referred to as the "Group". The principal activities of the Group are operation and management of the following toll roads in Anhui Province:

Toll road	**Length** (km)
Hefei-Nanjing Expressway between Dashushan and Zhouzhuang ("Hening Expressway")	134
National Highway 205 Tian Chang Section ("205 Tian Chang Section")	30
Expressway between Xuanzhou and Guangde ("Xuan Guang Expressway")	67
Gaohe-Jiezidun Expressway ("Gao Jie Expressway")	110

In 1996, the Company acquired the assets and assumed the liabilities relating to operations of the Hening Expressway from Anhui Expressway Holding Company ("AEHC") in exchange for the issuance of 915,600,000 state shares of the Company with par value of RMB 1 each to AEHC. The Company issued 493,010,000 overseas-listed foreign investment shares ("H" shares) with a par value of RMB1 each at an issue price of RMB1.89 (HKD 1.77) per share. The "H" shares were listed on the Stock Exchange of Hong Kong Limited.

The ultimate parent company of the Company is AEHC, a state owned enterprise incorporated in the PRC. As of 31st December, 2000, the number of employees of the Company is 768. The registered address of the Company is 219 Anqing Road, Hefei, Anhui, P.R. China.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in preparing the financial statements of the Group and the Company are as follows:

(a) Basis of presentation

The financial statements have been prepared in accordance with International Accounting Standards ("IAS") issued by the International Accounting Standards Committee, 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 Company and the Group's statutory accounts which are prepared in accordance with PRC Accounting Standards for Enterprises and Accounting Regulations of the PRC for Joint Stock Limited Companies ("Statutory Accounts"). The adjustments made to conform the Statutory Accounts of the Group to IAS are shown in Note 27.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(b) Principles of consolidation

The consolidated financial statements include those of the Company and its subsidiaries and also incorporate the Group's interest in an associate company on the basis as set out in Note 2(g) below.

All significant intercompany balances and transactions, including intercompany profits and unrealized 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. The equity and net income attributable to minority shareholders' interests are shown separately in the consolidated balance sheets and consolidated statements of income, respectively. The purchase method of accounting is used for acquired businesses. Results of subsidiaries and associates acquired or disposed of during the year are included in the consolidated financial statements from the date of acquisition or to the date of disposal.

(c) Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment loss. The initial cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditures incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance and overhaul costs, are recognised as expense in the year in which they are incurred. In situations where it is probable that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of the asset beyond its originally assessed standard of performance, the expenditures are capitalised as an additional cost of the asset.

Depreciation of expressways and structures is provided for on the basis of a sinking fund calculation whereby annual depreciation amounts compounded at an average rate of 7%, 6%, 3% and 4% per annum for Hening Expressway, 205 Tian Chang Section, Xuan Guang Expressway and Gao Jie Expressway respectively will approximate the total carrying value of the expressways and structures at the end of the thirty-year concession period.

Depreciation of property, plant and equipment other than expressways and structures 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 expected useful lives are as follows:

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

When assets are sold or retired, their costs and accumulated depreciation and accumulated impairment loss are eliminated and any gain or loss resulting from their disposal is included in the statements of income.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(d) Land use rights

Land use rights are stated at cost less accumulated amortisation. Amortisation of land use rights in relation to the expressways is provided for on the basis of a sinking fund calculation whereby annual amortisation amounts compounded at an average rate of 7%, 6%, 3% and 4% per annum for Hening Expressway, 205 Tian Chang Section, Xuan Guang Expressway and Gao Jie Expressway respectively will approximate the total cost of the land use rights at the end of the thirty-year concession period.

(e) Construction-in-progress

Construction-in-progress represents buildings and plant under construction and machinery and equipment under installation and testing, and is stated at cost. This includes cost of construction, plant and equipment and other direct costs plus borrowing costs which include interest charges and exchange differences arising from foreign currency borrowings used to finance these projects during the construction period, to the extent these are regarded as an adjustment to interest costs.

Construction-in-progress is not depreciated until such time as the assets are completed and put into operational use.

(f) Subsidiaries

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

In the Company's financial statements, investments in subsidiaries are accounted for using the equity method. An assessment of investments in subsidiaries is performed when there is an indication that the asset has been impaired or the impairment losses recognized in prior years no longer exist.

(g) Associates

An associate is a company, not being a subsidiary or a joint venture, in which the Company has significant influence. Significant influence exists when the Company has the power to participate in, but not control, the financial and operating decisions of the associate.

Investments in associates are accounted for using the equity method. An assessment of investment in associates is performed when there is an indication that the asset has been impaired or the impairment losses recognized in prior years no longer exist.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(h) Intangible assets

Intangible assets represents technology know-how and is stated at cost less accumulated amortization and accumulated impairment losses. An assessment of value of intangible assets is performed when there is an indication that the asset has been impaired or the impairment losses recognized in prior years no longer exist. Technology know-how is amortized on a straight line basis over 3 years.

(i) Inventories

Inventories represent materials for the repair and maintenance of expressways, and are stated at the lower of cost and net realisable value. Cost is calculated on the weighted average method. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(j) Receivables

Receivables are stated at face value, after provision for doubtful accounts.

(k) Provisions

A provision is recognized when, and only when:

(i) The Group has a present obligation (legal or constructive) as a result of a past event;

(ii) It is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and

(iii) A reliable estimate can be made of the amount of the obligation.

At balance sheet date, if it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

(l) Revenue recognition

Provided it is probable that the economic benefits associated with a transaction will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognized on the following bases:

(i) Toll revenue
Income from the operation of toll expressways, net of revenue tax is recognised on a receipt basis.

(ii) Sales of products
Sales of products mainly relate to sale of computer software and hardware. Such revenue is recognised when the significant risks and rewards of ownership of goods have been transferred to the buyer.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(l) Revenue recognition (Cont'd)

(iii) Service fee

Service fees are mainly derived from the installation of computer software and hardware and are recognised when services are rendered.

(iv) Interest income

Interest income is recognised on a time proportion basis that takes into account the effective yield on the assets.

(m) Taxation

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

Other taxes are provided in accordance with the prevailing PRC tax regulations.

Deferred taxation is provided under the balance sheet liability method in respect of significant temporary differences between the tax base of an asset or liability and its carrying amount in the balance sheet. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes. Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which the deductible temporary difference can be utilized.

(n) Foreign currency translation

The Company and its subsidiaries maintain their books and records in RMB (the "reporting currency"), which is not a freely convertible currency. Transactions in other currencies are translated into the reporting currency at exchange rates prevailing at the time of the transactions. Monetary assets and liabilities denominated in other currencies at the balance sheet date are re-translated at exchange rates prevailing at that date. Non-monetary assets and liabilities in other currencies are translated at historical rates. Exchange differences, other than those capitalised as a component of borrowing costs, are recognised in the income statement in the year in which they arise.

(o) Borrowing costs

Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds. Borrowing costs are expensed as incurred, except when they are directly attributable to the acquisition, construction of property, plant and equipment that necessarily takes a substantial period of time to get ready for its intended use in which case they are capitalized as part of the cost of that asset.

Capitalization of borrowing costs commences when expenditures for the asset and borrowing costs are being incurred and the activities to prepare the asset for its intended use are in progress. Borrowing costs are capitalized at the weighted average cost of the related borrowings until the asset is ready for its intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(p) Pension scheme and housing policy

Pursuant to the PRC laws and regulations, contributions to the basic old age insurance for the Group's local staff are made monthly to a government agency based on 23% to 27% of the standard salary set by the provincial government, of which 20% to 23% is borne by the Group and the remainder is borne by the staff. The government agency is responsible for the pension liabilities relating to such staff on their retirement. The Group accounts for these contributions on an accrual basis.

The Group does not hold any staff dormitories and is not required to pay monetary housing subsidies to its employees. Hence, the Group had no sales of dormitories to its employees during the years ended 31st December, 2000 and 1999.

(q) Financial instruments

Financial assets and financial liabilities carried on the balance sheet include cash on hand and bank deposits, trade and other receivables and payables, balances with related parties and borrowings. The accounting policies on recognition and measurement of these items are disclosed in the respective accounting policies.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains, and losses relating to a financial instrument classified as a liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Company has a legally enforceable right to offset and intends to settle either on a net basis or to realize the asset and settle the liability simultaneously.

(r) Impairment of Assets

The carrying amount of an asset may not exceed its recoverable amount. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. At the balance sheet date, whenever the carrying amount of an asset exceeds its recoverable amount, the carrying amount will be written down to recoverable amount, and an impairment loss is recognized in the statements of income.

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or has decreased. The reversal is recorded in income.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(s) Contingencies

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

(t) Subsequent Events

Post-year-end events that provide additional information about the Group's position at the balance sheet date ("adjusting events"), are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

(u) Changes in accounting policy

A change in accounting policy is made only if required by statute, or by an accounting standard setting body, or if the change will result in a more appropriate presentation of events or transactions in the financial statements of the Group.

A change in accounting policy is applied retrospectively unless the amount of any resulting adjustment that relates to prior years is not reasonably determinable, in which case, the change in accounting policy is applied prospectively.

3. PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment were as follows:

Group

	2000							
(In RMB'000)	Expressways and structures	Buildings	Safety, communication and signalling equipment	Toll station and ancillary equipment	Motor vehicles	Other machinery and equipment	Construction in progress	Total
Cost								
Beginning of year	2,257,215	23,909	150,204	45,303	14,752	4,809	14,600	2,510,792
Additions from consolidation of AGJECL *(Note 7)*	1,382,943	63,002	85,562	46,855	31,848	7,921	–	1,618,131
Additions	440	6,364	4,165	1,358	7,175	478	51,856	71,836
Disposals	–	–	–	–	(674)	–	–	(674)
Transfers	–	5,009	1,483	–	–	868	(7,360)	–
End of year	3,640,598	98,284	241,414	93,516	53,101	14,076	59,096	4,200,085
Accumulated depreciation and impairment loss								
Beginning of year	69,027	1,728	51,071	10,932	3,050	2,003	–	137,811
Additions from consolidation of AGJECL *(Note 7)*	27,666	2,850	12,563	9,829	5,196	1,364	–	59,468
Charges for the year	31,599	894	18,821	6,542	5,321	911	–	64,088
Disposals	–	–	–	–	(190)	–	–	(190)
End of year	128,292	5,472	82,455	27,303	13,377	4,278	–	261,177
Net book value								
End of year	3,512,306	92,812	158,959	66,213	39,724	9,798	59,096	3,938,908
Beginning of year	2,188,188	22,181	99,133	34,371	11,702	2,806	14,600	2,372,981

3. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

Group

	1999							
(In RMB'000)	Expressways and structures	Buildings	Safety, communic-ation and signalling equipment	Toll station and ancillary equipment	Motor vehicles	Other machinery and equipment	Construction in progress	Total
Cost								
Beginning of year	2,257,035	19,191	140,328	20,547	10,169	3,719	29,847	2,480,836
Additions	31	195	8,289	971	4,843	1,090	14,797	30,216
Disposal	–	–	–	–	(260)	–	–	(260)
Transfers	149	4,523	1,587	23,785	–	–	(30,044)	–
End of year	2,257,215	23,909	150,204	45,303	14,752	4,809	14,600	2,510,792
Accumulated depreciation and impairment loss								
Beginning of year	39,634	1,138	35,308	4,846	1,792	1,290	–	84,008
Charges for the year	29,393	590	15,763	6,086	1,297	713	–	53,842
Disposal	–	–	–	–	(39)	–	–	(39)
End of year	69,027	1,728	51,071	10,932	3,050	2,003	–	137,811
Net book value								
End of year	2,188,188	22,181	99,133	34,371	11,702	2,806	14,600	2,372,981
Beginning of year	2,217,401	18,053	105,020	15,701	8,377	2,429	29,847	2,396,828

3. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

Company

(In RMB'000)	2000							
	Expressways and structures	Buildings	Safety, communic-ation and signalling equipment	Toll station and ancillary equipment	Motor vehicles	Other machinery and equipment	Construction in progress	Total
Cost								
Beginning of year	1,644,656	22,977	149,681	38,319	11,579	3,846	14,194	1,885,252
Additions	440	5,447	4,161	1,359	6,921	219	49,987	68,534
Transfers	–	2,953	1,483	–	–	868	(5,304)	–
End of year	1,645,096	31,377	155,325	39,678	18,500	4,933	58,877	1,953,786
Accumulated depreciation and impairment loss								
Beginning of year	54,368	1,725	50,987	9,632	2,595	1,856	–	121,163
Charges for the year	20,540	791	18,761	5,572	4,927	713	–	51,304
End of year	74,908	2,516	69,748	15,204	7,522	2,569	–	172,467
Net book value								
End of year	1,570,188	28,861	85,577	24,474	10,978	2,364	58,877	1,781,319
Beginning of year	1,590,288	21,252	98,694	28,687	8,984	1,990	14,194	1,764,089