NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 at 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 14). 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 Anhui Expressway Company Limited (the "Company") and its consolidated subsidiaries (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 at 30th June, 2001 were as follows:

Name of subsidiaries	Country of incorporation and date of incorporation	Registered capital	Company's equity interest	Principal activities
		RMB'000		
Anhui Gao Jie Expressway Company Limited ("AGJECL")	Hefei City, Anhui Province, PRC 23rd July, 1997	300,000	51% (directly held)	Management and operation of expressway
Xuan Guang Expressway Company Limited ("XGECL")	Xuanzhou City, Anhui Province, PRC 25th July, 1998	71,880	51% (directly held)	Management and operation of expressway
Anhui Wantong Technology Development Company Limited ("AWTD")	Hefei City, Anhui Province, PRC 12th May, 1999	20,000	75.5% (directly held)	Development production and sales of computer software and hardware
Beijin Hai Wei investment Company Limited ("BHW") *	Beijin City, PRC 24th May, 2001	50,000	85.79% (directly and indirectly held)	Investment management and consulting, development of computer software and hardware
Tianjin Information Harbor JiaZi Company Limited ("TIHJ") *	Tianjin City, PRC 20th August, 1999	2,000	52.85% (indirectly held)	Technology development and transfer

* Newly set-up or equity interests acquired subsidiaries in 2001.

3. Trade Receivables

The Group's trade receivables are all with aging less than one year.

4. Prepayments and Other Receivables

	As of 30th June, 2001 *RMB'000* *(unaudited)*	As of 30th June, 2000 *RMB'000* *(unaudited)*
Prepayments	**17,865**	28,103
Interest receivable	**1,612**	3,928
Financial refund receivable	**2,429**	32,429
Others	**10,016**	12,178
	31,922	76,638

5. Share Capital

The authorised, issued and fully paid share capital of the Company is RMB 1,408,610,000.

Pursuant to relevant documents issued by MOF, Ministry of Communication and Administration Bureau of State-owned Assets, AEHC went into an agreement on 21st January, 2001 with Huajian Communication and Economic Center ("Huajian"), a state-owned enterprise registered in PRC. According to the agreement, 376,860,000 state shares held by AEHC on behalf of Ministry of Communication were transferred to state-owned legal person shares held and managed by Huajian.

As of 30th June, 2001, details of share capital structure after the change of state shares are as follows:

Shareholder	**Percentage**	**Number of Shares**
AEHC	38.25%	538,740,000
Huajian	26.75%	376,860,000
"H" Shares	35.00%	493,010,000
	100.00%	1,408,610,000

6. Reserves

(a) Share Premium

Share premium represents net assets acquired from AEHC, net of deferred taxation on initial recognition of the net assets, in excess of the par value of state shares issued and 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, organisation expenses, fees for professional advisors and promotional expenses.

(b) Statutory Surplus Reserve Fund ("SSRF")

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

(c) Statutory Public Welfare Fund ("SPWF")

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. When the statutory Public Welfare Fund is utilised, an equivalent amount should be transferred to discretionary surplus reserve fund.

Discretionary Surplus Reserve Fund is either transferred from the statutory public welfare fund or appropriated at Board of Director's resolution.

(d) Unappropriated profit

Unappropriated profit is to be carried forward for future distribution.

The distribution of dividends is made in accordance with the Company's articles of association and the recommendation of the Board of Directors and is subject to approval by shareholders at general meetings. Pursuant to the Notice [1995] 31 issued by Ministry of Finance on 24th August, 1995, the amount of profit available for distribution to the shareholders will be determined based on the lower of unappropriated profit in the financial statements determined in accordance with (i) PRC accounting standards and regulations, and (ii) IAS.

There is no appropriation of net profit to SSR and SPWF during the six months ended 30 June, 2001.

7. Long-Term Payables to Holding Company and a Mimority Shareholder

Long-term payables to the holding company and a minority shareholder represent payables to AEHC and Xuancheng Highway Management Company receptively. These payables arose from AEHC and XHMC's total investment in XGECL and AGJECL in excess of their shares of the registered capital of AGJECL and XGECL, respectively. Long-term payables to the holding company and a minority shareholder are interest free and estimated to commence to be repaid in 2006 and 2008 respectively.

8. Other Payables and Accrials

	As of 30th June, 2001 ***RMB'000*** ***(unaudited)***	As of 31st December, 2000 *RMB'000* *(audited)*
Project payables	**70,799**	39,788
Accruals	**16,627**	10,045
Welfare payables	**6,686**	5,167
Other payables	**33,759**	23,690
	127,871	78,690

9. Profit before Taxation and Minority Interests

Profit before taxation and minority interests in the consolidated statements of income was determined after charging or crediting the following items:

	For six months ended 30th June,	
	2001	2000
	RMB'000	*RMB'000*
	(unaudited)	*(unaudited)*
After crediting:-		
Interest income – bank deposits	**4,191**	4,293
Foreign exchange gain, net	**115**	–
After charging:-		
Depreciation of property, plant and equipment	**52,737**	31,205
Amortisation of land use rights and intangible assets	**5,739**	2,534

10. Income Tax Expense

In 2001, the Company was granted by Anhui Provincial Science Technology Bureau to be a high-tech company. The Company has registed in the Hefei High Technology Industry Development Zone on 3rd April, 2001. Pursuant to relevant tax laws applicable to high-tech companies in the Hefei High Technology Industry Development Zone, the applicable EIT rate subject to the Company from 2001 is 15% of taxable income based on its audited accounts prepared in accordance with the laws and regulations in the PRC.

AWTD 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, AWTD's 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 enterprises would be exempted from EIT for two years, from the first profit making year.

Except for AWTD, other subsidiaries within the Group 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.

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

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

	For six months ended 30th June,	
	2001	2000
	RMB'000	*RMB'000*
	(unaudited)	*(unaudited)*
Income tax expense		
– Current income tax expense	**22,850**	33,026
– Financial refund receivable	**–**	(17,988)
	22,850	15,038
– Deferred	**9,110**	3,587
	31,960	18,625
Share of income tax of an associate	**–**	4,267
	31,960	22,892

11. Dividends

During this interim reporting period, the shareholder's meeting approved the dividend appropriation for 2000 of approximately RMB 28,172,200 (RMB 0.02 per share), which has been paid-off.

The directors recommend interim dividend for the six months ended 30th June 2001 RMB0.03 per share, amounting to RMB 42,258,300 (corresponding period of 2000: nil).

12. Earnings Per Share

The calculation of basic earnings per share for the six months ended 30th June, 2000 was based on the unaudited profit after taxation and minority interests of approximately RMB 134,205,000 (corresponding period in 2000: RMB 131,250,000) divided by the number of shares in issue of 1,408,610,000 shares.

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

13. 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**
Anhui Expressway Holding Company ("AEHC")	The parent company

(b) Related party transactions

There was not significant related party transaction during the six months ended 30th June, 2001 and 2000.

(c) Related party balances

	As of 30th June, 2001 ***RMB'000*** ***(unaudited)***	As of 31st December, 2000 *RMB'000* *(audited)*
Due from AEHC	**1,902**	–
Due to AEHC	**129,040**	7,153

Amounts due from and due to the holding company as of 30th June, 2001 mainly arose from the above transactions and expenses paid on behalf of each other. These amounts are interest-free and have no fixed repayment terms.

14. Commitments

Capital commitments as 30th June, 2001 mainly relates to purchase commitment of one land use right located in Hefei Hight Technology Industry Development Zone amounting to RMB 9,200,000.

15. Change in Accounting Policy

From 1st January, 2001, the Group changed its accounting policy with respect to the recognition and measurement of the financial instruments to conform to IAS 39 "Financial Instruments: Recognition and Measurement".

After initial recognition of a financial asset or financial liability at cost, the Group measured each major class of the financial instruments at either the reliable fair value or amortized cost in accordance with IAS 39. Regular way purchases and sales of financial assets are accounted for at trade date. The gains and losses arising from changes in the fair value of those available-for-sale financial assets that are measured at fair value subsequent to initial recognition are included in net profit or loss for the period.

Short-term investments are classified as held-for-trading financial assets respectively. Fair value of these financial assets is determined as described above.

This financial effects of the adopting IAS 39 did not have a significant effect to the opening balances to these condensed financial statements.

For the six months ended 30th June, 2001, there is no gain or loss arising from changes in the fair value of those available-for-sale and held-for-trading financial assets that are measured at fair value subsequent to initial recognition.

16. Financial Risk Management

(a) Financial risk factors

The Group activities expose it to a variety of financial risks, including credit risk and interest rate risk.

Financial risk management is carried out by the Finance Department under policies approved by the Board of Directors.

Credit risks, or the risk of counterparties defaulting, are controlled by the application of credit terms and monitoring procedures.

The Group's income and operating cash flows are substantially independent of changes in market prices interest rates.

The Group has no significant concentration of other financial risks, including foreign exchange risk.

(b) Fair value estimation

The fair value of publicly traded securities is based on quoted market prices at the balance sheet date.

In assessing the fair value of other financial instruments, the Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date.

17. Comparative Figures

Certain comparative figures for the six months ended 30th June, 2000 and as of 31st December, 2000 have been reclassified to conform to the current interim period's presentation.

INTERIM DIVIDEND

The Board has recommended an interim dividend of RMB 0.03 per share for the six months ended 30th June, 2001 (2000: Nil). According to the Articles of Association of the Company, the dividend of the domestic shares of the Company will be paid in Renminbi and the dividend of the H shares of the Company will be paid in Hong Kong dollars. The exchange rate of Renminbi to Hong Kong dollars was determined at an exchange rate of HK$1 to RMB 1.0607, being the average closing price of Renminbi to Hong Kong dollars as quoted by the People's Bank of China for the immediately five business days preceeding 24th August, 2001. Dividend payment will be made to shareholders whose names appear on the register of the Company on 18th September, 2001, and is expected to be made on 4th October 2001.

CLOSURE OF REGISTER OF MEMBERS OF THE COMPANY FOR TRANSFER OF SHARES

The register of members of the Company will be closed from 11th September, 2001 to 18th September, 2001 (both days inclusive) during which period no transfer of shares will be effected. In order to qualify for the proposed interim dividend, all share transfers, accompanied by the relevant share certificates must be lodged with the H Share Registrar and Transfer Office of the Company, Hong Kong Registrars Limited, at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong, not later than 4:00p.m. on 10th September, 2001.