

The board of directors of the Company (the “Board”) is pleased to present the report of the Board for the year ended 31st December, 2001.

1. Company’s Information

The Company was incorporated in the PRC as a joint stock limited company on 15th August 1996 and the H Shares of the Company were listed on Hong Kong Stock Exchange on 13th November, 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 Anhui, 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, 2001 and the financial condition of the Group as at 31st December, 2001 are shown in the consolidated balance sheet and the consolidated income statement, which are prepared in accordance with International Accounting Standards (“IAS”), as set out on page 55 to 57 of the annual report.

The activities of the Group are conducted within the PRC.

The Board recommends the profit attributable to shareholder for the year ended 31st December, 2001 to be appropriated as follows:

- (1) 10% of the profit after taxation amounted to RMB33,572,000 shall be provided as statutory common reserve;
- (2) 10% of the profit after taxation amounted to RMB29,272,000 shall be provided as statutory public welfare fund;
- (3) payment of a final dividend of RMB0.03 per share.

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

4. Dividends

The Board of the Company recommends the payment of a final dividend of RMB0.03 per share for the year ended 31st December, 2001 to all shareholders.

Upon approval from the shareholders at the Annual General Meeting for the year 2001 to be held on 20th April, 2002, the said final dividend will be made on or before 6th May, 2002 to those shareholders whose names appeared on the register of the Company on 19th April, 2002.

5. Financial Summary

Prepared in accordance with IAS

(Amounts shown are denominated in RMB'000)

		For the year ended 31st December		
	2001	2000	1999	1998
		(As restated)		
Turnover	582,584	386,825	330,433	275,258
Profit before taxation	329,914	293,353	244,146	194,541
Taxation	(59,576)	(65,175)	(37,782)	(29,181)
Profit after taxation	269,972	227,176	206,156	165,360

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 respectively, informations on the principal clients and suppliers have 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 staff quarters of the Company are all provided by Auhui Expressway Holding Corporation (the parent company, herein called "AEHC"), for which the Company is not required to pay any fee to AEHC. The Group does not encounter any financial problems arising from the reform on the enterprise housing system, therefore the relevant policies do not have any material effect on the Group.

During the period under review, the Company has contributed 10% of the basic wages of its staff (approximately RMB2,160,000) 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 contributions to the Housing Fund.

8. Equity and Shareholders**(1) Share Capital Structure**

According to the approval (Cai Guan Zi [1999] No.156) issued by Ministry of Finance, AEHC signed the “Transfer of State-Owned Shares Contract” with Hua Jian Transportation Economic Development Center (“Huajian Center”) on 21st January 2001, whereby the 376,860,000 state-owned shares in the Company held by AEHC on behalf of the Ministry of Communications was converted into state-owned legal person shares, and were held and managed by Huajian Center. The Company made the business registration of the said shareholding transfer with the Anhui Provincial Administration for Industry and Commerce on 3rd April, 2001.

For the year ended 31st December, 2001, the total number of shares and the structure of the share capital of the Company are as follow:

	Number of shares of RMB1.00 each (shares)	Percentage of the aggregate share capital of the Company (%)
(a) Unlisted shares		
State-owned shares	538,740,000	38.25
State-owned legal person shares	376,860,000	26.75
(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, 2001, the number of shareholders of the Company is as follows:

Class of shares	Number of shareholders
State-owned shares	1
State-owned legal person shares	1
Listed H Shares	187

(3) Substantial Shareholders

As of 31st December, 2001, 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	538,740,000	38.25
Hua Jian Transportation Economic Development Center	State-owned legal person shares	376,860,000	26.75
HKSCC Nominees Limited	H Shares	480,967,999	34.14
Total		<u>1,408,610,000</u>	<u>100.00</u>

(4) Summary of Trading

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

	H Shares (HK\$)
Opening price on the first trading day at the beginning of the year	0.72
Closing price on the last trading day at the end of the year	1.35
Highest trading price of the year	2.075
Lowest trading price of the year	<u>0.70</u>
Total trading volume of the year	<u>1,951,388,750</u>
Total shares traded	<u>1,503,177,000 shares</u>

9. Directors and Supervisors

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

Executive Directors:

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

Non-executive Directors:

Zhang Wen Sheng	(appointed on 28th April, 2001)
Chen De Hong	(appointed on 28th April, 2001)

Independent Non-executive Directors:

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

Supervisors:

Li Yun Gui	Chairman of the Supervisory Committee (appointed on 16th August, 1999)
Yang Yi Cong	(appointed on 16th August, 1999)
Wang Bi Cai	(appointed on 16th August, 1999)
Yan Yu Hong	(appointed on 28th April, 2001)

10. The Shareholdings of the Directors and Supervisors of the Company

As at 31st December, 2001, no director, supervisor or their respective associate recorded in the register kept in accordance with Section 29 of the Securities (Disclosure of Interests) Ordinance had any interest or right (as defined in such Ordinance) in the share capital of the Company or its associated corporations, nor is there any right which entitles any director, supervisor or chief executive or their spouses or children under the age of 18 to subscribe for the shares of the Company granted by the Company.

At no time during the year was the Company, AEHC or any of its subsidiaries a party to any arrangement which enables the directors and the supervisors of the Company to acquire benefits by purchasing the shares of the Company or any other body corporates.

11. Service Contracts of Directors and Supervisors

All of the directors (excluding 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 was in effect from 16th August, 1999 for a term of 3 years.
- (2) According to the service contracts, the executive directors were paid a monthly salary ranging from RMB8,000 to RMB10,000 and, on completion of every 12 months of service, would receive a bonus of not more than the relevant executive director's monthly salary. For the year ended 31st December, 2001, the aggregate emoluments paid to executive directors and supervisors were RMB870,000 and RMB352,000 respectively.
- (3) For the three years commencing from 16th August, 1999, each of the non-executive directors received an annual transportation or directors' fee of RMB3,600, RMB3,960 and RMB4,380 respectively. Non-executive directors were not entitled to receive any bonus. Non-executive directors were not required to enter into any service contract with the Company.

Save as the aforesaid, no service contract which are terminable within one year without 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 21 to the financial statements on page 90.

During the year, all of the five highest paid individuals of the Company are 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 contract entered into by the Company, AEHC or any of its subsidiaries.

14. Purchase, Sale and Redemption of Listed Shares

For the year ended 31st December, 2001, the Company had not redeemed any of its listed shares, nor had it purchased or re-sold any listed shares of the Company.

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 subscription of new shares according to their shareholdings.

16. Subsidiaries

The Group has five subsidiaries, namely Xuanguang Company, Gaojie Company, Wantong Technology and Beijing Haiwei, which the Group directly holds 51%, 51%, 75.5% and 70% interests respectively. In addition, the Group also holds 52.85% and 15.79% indirectly interests in Tianjin Information Port and Beijing Haiwei respectively. Details of the subsidiaries are set out in note 6 to the financial statements.

17. Related Party Transactions

For the year ended 31st December, 2001, the Company and its related companies entered into the following material transaction:

On 2nd April 2001, the Company entered into the Acquisition Agreement with AEHC. The Acquisition Agreement stated that: if the Company successfully implemented A shares issue, the Company agreed to acquire the Anhui Section of the Lianhuo Expressway at a consideration of RMB1,180,000,000.

18. Confirmation by the Independent Directors Regarding Related Party Transaction

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

- (1) the transaction were carried out in the normal and usual course of business of the Company;
- (2) the transaction 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 for comparison) on the terms that were fair and reasonable so far as the shareholders of the Company concerned;
- (3) The transaction were carried out in accordance with the terms of the agreement governing such transaction, or if no such agreement, on the terms not less favorable than the terms available to third parties.

The transaction has obtained approval at the general meeting of shareholders on 19th May 2001.

19. Taxation

Revenue-related taxes comprise business tax ("BT") and other ancillary taxes. The Company, XGECL and AGJECL are subject to BT at the rate of 5% of toll income. In addition to BT, these companies are subject to the following types of revenue-related taxes:

- (1) city development tax, levied at 5% of BT to the Company and AGJECL and at 7% of BT to XGECL;
- (2) education supplementary tax, levied at 3% of BT; and
- (3) irrigation construction fund contribution, levied at 0.6‰ of prior year toll income.

In addition to the above, XGECL is also subject to flood control fund contribution, which is levied at 0.15% of toll income.

AWTD, Tianjin Informatoin Port and BJHW are subject to BT at the rate of 3% of income arising from the services they deliver to customers. In addition to BT, AWTD, Tianjin Information Port and BJHW are subject to the following types of revenue-related taxes:

- (1) city development tax, levied at 7% of BT; and
- (2) irrigation construction fund contribution, levied at 1% of BT.

The Company, XGECL, AGJECL, BJHW and Tianjin Information Port 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 refunds equal to 18% of the Company's taxable income in respect of EIT paid. Pursuant to Cai Shui [2000] No.99 issued in October, 2000, the above preferential tax treatment relating to the Company would remain effective until 31st December, 2001.

In 2001, the Company was certified as a high-tech company by Anhui Science and Technology Bureau. On 3rd April, 2001, the Company was registered in the Hefei High Technology Industry Development Zone. Pursuant to relevant regulations on preferential policies on EIT contained in the notice issued on 29th March, 1994 by the Ministry of Finance and the State Taxation Bureau, the Company's applicable EIT rate since 2001 has been reduced to a rate of 15% of taxable income.

19. Taxation (Cont'd)

AWTD is registered in the Hefei High Technology Industry Development Zone as a high-tech company. Pursuant to relevant regulations, AWTD's applicable EIT rate is at a reduced rate of 15% of taxable income. In addition, based on Notice [1999] No.363 issued by the Anhui Tax Bureau, newly established high-tech enterprises would be entitled to full exemption from EIT for two years commencing from the first profitable year after offsetting all tax losses carried forward. 2001 is the third profitable year.

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

20. Pension Scheme

The Group has been participating in the pension scheme organized by the government since 1997, pursuant to which a contribution shall be made based on 23% to 27% of the basic salary of the employees (as to which 20% to 23% contributed by the Company and the remaining contributed by the employees). This constituted the sole responsibility of the Group to the pension scheme. Such pension scheme shall undertake the responsibility to pay pension fund to the retired employees.

For the year ended 31st December, 2001, the Group had contributed RMB6,851,000 to the scheme.

21. Employees

For the year ended 31st December, 2001, the Company has a total of 570 full-time employees, whose duties are categorized as follows:

Management	111
Engineering	94
Toll collection	285
Maintenance	80
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	570
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22. Fixed Assets

The changes in the fixed assets of the Group for the year ended 31st December, 2001 are set out in note 3 to the financial statements, which were prepared in accordance with IAS.

23. Total Assets

As at 31st December, 2001, the total assets calculated in accordance with IAS was RMB4,978,597,000.

24. Loans, Overdrafts and Other Borrowings

Details of bank loans, overdrafts and other borrowings for the year ended 31st December 2001 are set in note 16 to the financial statements, which were prepared in accordance with IAS.

25. Reserves

The changes in reserves of the Group for the year ended 31st December, 2001 are set out in note 13 to the financial statements prepared in accordance with IAS.

26. Auditors

The financial reports prepared by the Group in accordance with the PRC Accounting Standards and IAS 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 2001, China has overcome the adverse situation brought by the Asian financial crisis and a benevolent cycle has gradually formed. Economic performance of Anhui Province was even outperformed the national average, and the province recorded a growth rate of 8.6% in GDP, 17.1% in social investment of fixed assets and 5.1% in exports. With China's accession to the WTO, the economic relationship between the developed coastal regions in the east and the inland provinces in the west will be strengthened, and extraordinary precious opportunities to the central and western regions will be brought by implementation of the "Go West" strategy. All the above-mentioned factors will stimulate demand for transport between eastern and western parts of the PRC, thus creating an excellent overall environment for the operation of the Group.

28. Trust Deposit and Overdue Fixed Deposit

As at 31st December, 2001, the Company does not have any trust deposit with any financial institutions in the PRC, neither has the Company experienced any incident of not being able to withdraw fixed deposits when they became mature.

29. The Independent Audit Committee

The third, forth and fifth meetings of the Independent Audit Committee were held at the office address of the Company on 9th March, 23th August 2001 and 1st March 2002 for examining and approving the annual financial reports for the year of 2000, the interim financial reports for the half year of 2001 and the financial statements for the year 2001 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 to obtain a impartial understanding of the financial status of the Company.

30. Material Contracts

The Company has entered into the agreement below during the period under review:

On 2nd April, 2001, the Company entered into the Acquisition Agreement with AEHC in respect of acquiring and building the Auhui Section of the Lianhuo Expressway.

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 2001.

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 2001.

By Order of the Board

Wang Shui

Chairman

Hefei, Anhui, the PRC

4th March, 2002