

## 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 Financial Reporting Standards (IFRS) 34 "Interim Financial Reporting" promulgated by the International Accounting Standards Board 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, 2001.

The basis of accounting differs from that used in the preparation of the Group's statutory accounts which are prepared in accordance with Accounting Standards for Enterprises and the Accounting Regulations of the People's Republic of China (the "PRC") for Business Enterprises ("Statutory Accounts"). The adjustments made to conform the Statutory Accounts of the Group to IFRS are shown in Note 14.

Cost that incur unevenly during the financial year are anticipated or deferred in the interim report only if it would be also appropriate to anticipate or defer such costs at the end of the financial year.

These interim financial statements should be read in conjunction with the 2001 annual financial statements.

### 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, 2002 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 ("AGJEL")	PRC 23rd July, 1997	300,000	51% (directly held)	Management and operation of expressway
Xuan Guang Expressway Company Limited ("XGECL")	PRC 25th July, 1998	71,880	51% (directly held)	Management and operation of expressway
Anhui Wantong Technology Development Company Limited ("AWTD")	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 ("BJHW")	PRC 24th May, 2001	50,000	85.79% (directly and indirectly held)	Investment management and consulting, development of computer software and hardware
Tianjin Information Port First Technology Company Limited ("TIPFT")	PRC 20th August, 1999	2,000	52.85% (indirectly held)	Consulting and technology development



### 3. TRADE RECEIVABLES

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

**4. PREPAYMENTS AND OTHER RECEIVABLES**

	<b>As of 30th June, 2002 RMB'000 (unaudited)</b>	<b>As of 31st December, 2001 RMB'000 (audited)</b>
Prepayments	<b>19,158</b>	19,648
Interest receivable	<b>1,849</b>	2,213
Financial refund receivable	<b>160</b>	160
Others	<b>21,637</b>	23,372
	<b><u>42,804</u></b>	<u>45,393</u>

**5. SHARE CAPITAL**

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

As of 30th June, 2002, details of share capital are as follows:

<b>Shareholder</b>	<b>Percentage</b>	<b>Number of Shares</b>
Anhui Expressway Holding Company ("AEHC")	38.25%	538,740,000
Huajian Communication and Economic Center	26.75%	376,860,000
"H" Shares	35.00%	493,010,000
	<b><u>100.00%</u></b>	<b><u>1,408,610,000</u></b>

## 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.

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) IFRS.

There is no appropriation of net profit to SSR and SPWF during the six months ended 30 June, 2002 (corresponding period of 2001: nil).

## 7. LONG-TERM PAYABLES TO HOLDING COMPANY AND A MINORITY SHAREHOLDER

Long-term payables to the holding company and a minority shareholder represent payables to AEHC and Xuancheng Highway Management Company ("XHMC") 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 will commence to be repaid from 2006 and 2008 respectively.

## 8. OTHER PAYABLES AND ACCRUALS

	As of 30th June, 2002 RMB'000 (unaudited)	As of 31st December, 2001 RMB'000 (audited)
Project payables	16,359	37,837
Accruals	23,702	10,857
Welfare payables	3,013	6,128
Other payables	66,946	41,070
	<u>110,020</u>	<u>95,892</u>

## 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, 2002 RMB'000 (unaudited)	2001 RMB'000 (unaudited)
After crediting:-		
Interest income - bank deposits	2,072	4,191
Foreign exchange gain, net	149	115
	<u>2,221</u>	<u>4,306</u>
After charging:-		
Depreciation of property, plant and equipment	57,702	52,737
Amortisation of land use rights and intangible assets	6,347	5,739
	<u>64,049</u>	<u>58,476</u>

## 10. INCOME TAX EXPENSE

In 2001, the Company was granted by Anhui Provincial Science Technology Bureau to be a high-tech company. The Company was registered in the Hefei High Technology Industry Development Zone on 3rd April, 2001. Pursuant to relevant tax laws, 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, adjusted for income and expense items which are not assessable or deductible for income tax purposes.

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.

Other subsidiaries within the Group are subject to Enterprise Income Tax ("EIT") levied at a rate of 33% on 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 subject to Hong Kong profits tax.

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

	<b>For six months ended 30th June,</b>	
	<b>2002</b>	2001
	<b>RMB'000</b>	RMB'000
	<b>(unaudited)</b>	(unaudited)
Income tax expense		
- Current income tax expense	<b>33,617</b>	22,850
- Financial refund	<b>(10,660)</b>	—
	<b>22,957</b>	22,850
- Deferred taxation	<b>8,457</b>	9,110
	<b>31,414</b>	31,960

## 11. DIVIDENDS

During this interim reporting period, the shareholder's meeting approved the dividend appropriation for 2001 of RMB 42,258,300 (RMB 0.03 per share), which has been paid-off.

The directors recommend interim dividend for the six months ended 30th June 2002 of RMB 0.05 per share, amounting to RMB 70,430,500 (corresponding period of 2001: 0.03 per share).

## 12. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30th June, 2002 was based on the unaudited profit after taxation and minority interests of approximately RMB 160,152,000 (corresponding period in 2001: RMB 134,205,000) divided by the number of 1,408,610,000 shares in issue.

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
AEHC	The parent company

## (b) Related party transactions

Apart from related party transactions disclosed in Note 7, the Group had the following material transaction with the related party in 2001:

	<b>For six months ended 30th June,</b>	
	<b>2002</b>	2001
	<b>RMB'000</b>	RMB'000
	<b>(unaudited)</b>	(unaudited)
Products sold and service rendered to AEHC	<b>6,445</b>	3,172

## (c) Related party balances

## (i) Balances with AEHC

	<b>As of 30th June, 2002</b>	As of 31st December, 2001
	<b>RMB'000</b>	RMB'000
	<b>(unaudited)</b>	(audited)
Due from AEHC	<b>10,351</b>	5,162
Due to AEHC	<b>9,017</b>	14,213

Amounts due from and due to the holding company as of 30th June, 2002 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.

## (ii) Other related party balances

Amounts due from and due to other related parties are interest-free and have no fixed repayment terms.





## 14. IMPACT OF IFRS ADJUSTMENT ON NET PROFIT AND NET ASSETS

	Net profit		Shareholder's Equity	
	For the six months ended 30th June, 2002 (unaudited) RMB'000	For the six months ended 30th June, 2001 (unaudited) RMB'000	30th June, 2002 (unaudited) RMB'000	31st December, 2001 (audited) RMB'000
As reported in the Group's statutory accounts	134,741	137,425	2,951,346	2,887,036
Impact of adjustment:				
- Valuation and depreciation of Expressways and structures	29,632	30,297	568,974	539,344
- Valuation and amortization of leasehold land	4,234	4,676	81,123	76,888
- Deferred taxation	(8,456)	(9,110)	(119,189)	(110,734)
- Recognize Financial refund	—	(30,000)	160	160
- Expense off organization expense	—	917	—	—
- Recognize dividend declared in subsequent period	—	—	70,431	42,258
As restated in the Group's IFRS financial statements	<u>160,151</u>	<u>134,205</u>	<u>3,552,845</u>	<u>3,434,952</u>

## 15. COMMITMENTS

As of 30th June, 2002, the Company had the following commitments:

- Capital commitment authorised but not contracted: approximately RMB 50,000,000;
- Pension insurance contracted and to be paid: approximately RMB 14,800,000.