

Major Events

I. MATERIAL LITIGATION AND ARBITRATION.

The Company was not involved in any material litigation or arbitration during 2002.

II. MATERIAL ACQUISITIONS AND DISPOSALS OF ASSETS AND MERGERS AND ACQUISITIONS

The Company entered into an agreement with AEHC to acquire the Anhui Section of Lianhuo Expressway by applying the proceeds of RMB1.18 billion from A Shares issue with the shortfall being funded by the Company.

The Lianhuo expressway is a 54-kilometer long dual carriageway four-lane toll expressway, which links the highway from Lianyungang to Xuzhou and also another expressway from Beijing to Fuzhou. It plays an important role in China's politics, economy, military affairs and National Trunk Networks.

Having completed this acquisition, the Company will take a further step in realising the control of the two National Trunk Highways by extending the scope of its existing assets and consolidating its leading position in Anhui Province.

As this acquisition was implemented in early 2003 and the earnings of the project was not recognized in the income statement of the Company until 2003, such acquisition has no effect on the operating conditions of the Company during 2002.

III. SIGNIFICANT CONNECTED TRANSACTIONS

For the year ended 31st December 2002, the Company has the following significant connected transactions:

1. The Company and AEHC entered into an agreement to provide AEHC with management service of the Expressway Networking Toll System, the service fees of which totalled RMB3,080,000.
2. Wantong Technology, a subsidiary of the Company, and AEHC entered into an agreement to provide AEHC with installation service of a toll collection system, the service fees of which totalled RMB9,683,000.

IV. CONFIRMATION BY THE INDEPENDENT DIRECTORS REGARDING CONNECTED TRANSACTIONS

The Independent non-directors of the Company have reviewed the above connected 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 on normal commercial terms (as compared with transactions of similar nature carried out by the similar entities in the PRC) on terms that are fair and reasonable so far as the shareholders of the Company are concerned;
3. The transactions were carried out in accordance with the terms of agreement governing such transactions.

V. MATERIAL CONTRACTS AND THEIR IMPLEMENTATION

1. Material custody, subcontracting and leasing items

For the year ended 31st December 2002, the Company was not involved in any material custody, subcontracting and leasing.

2. Material guarantee

During the year ended 31st December 2002, the Company did not provide guarantee for shareholders, connected persons and other companies.

3. Financial entrustment

For the year ended 31st December 2002, the Company was not involved in any financial entrustment business and has no such plan for the time being.

4. Entrusted Deposit and Overdue Fixed Deposit

For the year ended 31st December 2002, the Company did not have any entrusted deposit with financial institutions in the PRC, neither has the Company experienced any incident of not being able to withdraw fixed deposits when they became mature.

VI. COMMITMENTS

- (1) Pursuant to the Reorganisation Agreement signed by the Company and AEHC on 12th October 1996, AEHC has undertaken that it will not participate in any businesses or activities, which will compete against the Company either directly or indirectly.
- (2) Pursuant to the acquisition contract signed on 20th June 2001 and the supplementary contract to the acquisition contract signed on 28th March 2002 between the Company and AEHC, the Company was committed to acquire Lianhuo Expressway (Anhui Section) being constructed and the relevant land use rights from AEHC, for a total construction of RMB905,589,000. The Company also contracted AEHC as the general contractor for the construction of the Lianhuo Expressway (Anhui Section). The total construction contract amount is RMB274,411,000. The Company would become the owner of the Anhui Section of Lianhuo Expressway instead of AEHC and enjoy the entire interests of that section on the next day when the Company paid the first instalment to AEHC. For the year ended 31st December 2002, the Company has total outstanding commitments of RMB1,180,000,000 in connection with its acquisition and construction of Lianhuo Expressway (Anhui Section).
- (3) The Group has entered into an agreement on the construction of an office building in the Hefei New and Hi-tech Development Zone. The sum contracted but not yet paid was RMB40,000,000.

Major Events (cont'd)

VII. APPOINTMENT OF ACCOUNTANTS

PricewaterhouseCoopers Zhong Tian Certified Public Accountants Co. Ltd and PricewaterhouseCoopers were approved to be appointed as the PRC auditors and Hong Kong auditors for 2002 respectively at the 2001 Annual General Meeting held on 20th April 2002.

The fees paid to the accountants by the Company in 2002 were as follows:

	2002		2001	
	Audit fees for annual financial	Audit fees for A Shares issue	Audit fees for annual financial	Audit fees for A Shares issue
PricewaterhouseCoopers Zhongtian	540,000	820,000	—	—
PricewaterhouseCoopers	540,000	—	—	—
Arthur Andersen-Hua qiang	—	—	540,000	700,000
Arthur Andersen & Co	—	—	540,000	—

Apart from the said fees, the Company did not pay any other fees and travelling and lodging expenses by were paid by the auditors themselves.

In April 2002, Andersen and Pricewaterhouse Coopers entered into an agreement to combine their practices in the Mainland China and Hong Kong. PricewaterhouseCoopers Zhong Tian Certified Public Accountants Co. Ltd and PricewaterhouseCoopers succeeded Andersen as the Company's accountants. The present auditors have provided services to the Company for one year.

VIII. PUNISHMENT BY REGULATORY AUTHORITIES

During the reporting period, neither the Company nor the Board of Directors and its directors were involved in any punishment by the regulatory authorities.

IX. OTHER MAJOR EVENTS

1. Basic Medical Insurance

During the reporting period, the enterprises and institutions in Hefei should contribute 8% of the basic wages of its staff for medical insurance in accordance with No.82 Hefei People's Government Order issued in November 2000 by Hefei, Anhui, where the Company is located. The Company plans to contribute the said medical insurance from 2003, the insurance fees will be provided from the welfare funds of the staff. This will not have any material impact on the profit for the year of the Company and the Company has no obligations to pay for the medical insurance relating to the prior years.

Anhui Gaojie Expressway Company Limited and Xuanguang Expressway Company Limited, subsidiaries of the Company, contributed 6.5% of the basic wages of its staff to the medical insurance commencing February 2002.

2. 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 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. Accordingly, the relevant policies do not have any material effect on the Group.

During the reporting period under review, the Company has contributed 10% to the basic wages of its staff (approximately RMB2,300,000) 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.

3. Change of Directors and Supervisors

As of 16th August 2002, the second term of offices of the Directors and Supervisors of the Company expired. The following items were considered and passed at the 15th Session of the 2nd Board Meeting held on 15th June 2002 and the Extraordinary General Meeting held on 1st August 2002: To approve the resignations as Directors of Mr. Kan Zhaorong, Mr. Zhu Xusheng, Ms. Cao Xiaoping and Mr. Xie Xinyu; to elect Mr. Wang Shui, Mr. Li Yungui, Mr. Tu Xiaobei, Mr. Zhang Hui Mr. Zhang Wensheng, Ms. He Kun, Mr. Zhang Liping, Mr. Cao Deyun and Mr. Song Youming as members of the 3rd Board of Directors. The new directors will hold office for a term of three years starting from 17th August 2002.

The following items were considered and passed at the 7th Session of the 2nd Supervisory Meeting held on 15th June 2002 and the Extraordinary General Meeting held on 1st August 2002: To approve the resignations as Supervisors of Mr. Li Yungui and Mr. Wang Bikai; to elect Mr. Kan Zhaorong and Ms. Yan Yuhong as members of the 3rd Supervisory Committee and Mr. Yang Yicong was elected as a member of the 3rd Supervisory Committee by the Union Representative for a term of three years starting from 17th August 2002.

4. Change of Accounting Policies

The financial statements published overseas have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA") (collectively "HKGAAP"). This represents a change in the adoption of accounting standards for the preparation of accounts from prior years when the accounts were prepared in accordance with International Financial Reporting Standards ("IFRS"). The directors of the Company believed that the accounts prepared in accordance with HKGAAP will result in a presentation format more familiar to the Hong Kong based investors and more comparable to other Hong Kong listed companies with similar operations. The directors of the Company considered that there was no significant difference in the accounting treatments between adopting IFRS and HKGAAP except that in the Company's balance sheet prepared in accordance with IFRS investments in subsidiaries and associated companies were accounted for using the equity method whereas under HKGAAP, they were recorded at cost less provision for impairment loss and the results of the subsidiaries and associated companies were accounted for by the Company on the basis of dividends received and receivable.

During the year ended 31 December 2002, the Company changed its accounting policy with respect to the accounting for investments in subsidiaries and associated companies as a result of the change in adoption of the abovementioned accounting standards. In prior years, the Company accounted for the investments in subsidiaries and associated companies using the equity method. In the current year, the Company has stated the investments in subsidiaries and associated companies at cost less provision for impairment losses under HKGAAP. The effect of this change in accounting policy has been applied retrospectively so that the comparative figures presented have been restated to conform to the new policy. On the Company's balance sheet, the investments in subsidiaries as at 31st December 2001 was reduced by approximately RMB129,454,000 and the retained earnings as at 31st December 2001 was reduced by approximately RMB129,454,000.

The change in accounting policy has been applied retrospectively so that the comparative figures presented have been restated to conform to the changed policy.

Major Events (cont'd)

5. Taxation (under Hong Kong Accounting Standards)

(a) Hong Kong profits tax

As the Group did not derived any profit assessable under the Hong Kong Profits Tax, no provision for Hong Kong Profits Tax has been made in the accounts.

(b) Enterprise Income Tax

The Company and Wantong Technology are new and hi-tech enterprises incorporated in Anhui Hefei New and Hi-tech Industry Development Zone. Pursuant to relevant regulations of the State Taxation Administration, the applicable enterprise income tax rate of the Company and Wantong Technology is at a reduced rate of 15% of the assessable income as from 2001.

Other subsidiaries and associated companies of the Company shall comply with the PRC laws and regulations in preparing accounts and the enterprise income tax rate payable is at the rate of 33%.

(c) Taxation in the consolidated profit and loss account include (in accordance with HK GAAP)

	2002 RMB'000	2001 RMB'000
Current taxation		
— Hong Kong profits tax	—	—
— PRC enterprises income tax	66,623	41,821
	66,623	41,821
Deferred tax	16,861	17,755
	83,484	59,576
Share of taxation of associated companies	—	—
	83,484	59,576

(d) Reconciliation between applicable and actual tax rates is as follows (in accordance with HKGAAP):

	2002 RMB'000		2001 RMB'000	
Profit before tax	392,305	100%	329,914	100%
Taxes calculated at actual				
tax rate of 15% (2001: 15%)	58,846	15%	49,487	15%
Effects of non-deductible expenses	4,950	1%	—	—
Effects of different tax rates of				
subsidiaries	19,688	5%	10,089	3%
	83,484	21%	59,576	18%

6. Pension Scheme

The Group has participated 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 2002, the Group contributed RMB5,260,000 to the scheme.

7. Loans, Overdrafts and Other Borrowings

Details of bank loans, overdrafts and other borrowings for the year ended 31st December 2002 are set in note 12 and 19 to the financial statements, which were prepared in accordance with Chinese Accounting Standards and Hong Kong Accounting Standards.

8. The Audit Committee

Three meetings of the Independent Audit Committee were held at the office address of the Company on 1st March and 13th August 2002 and 22nd April 2003 respectively for examining and approving the annual financial statements for 2001, the interim financial statements for 2002 and the financial statements for 2002 respectively. Upon the examination on the integrity, accuracy and impartiality of the financial statements of the Company, members of the Committee agreed that the financial statements had made sufficient disclosure on relevant materials and the materials disclosure would enable the accounts users to obtain an impartial understanding of the financial status of the Company.

National Trunk Highways



The Map of the Highway Network of Anhui Expressway

