Notes to the Accounts

For the year ended 31st December 2002
(All amounts in RMB unless otherwise stated)

1. GROUP ORGANISATION 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 principally engaged in the operation and management of the toll roads in the Anhui Province.

The Company's H shares and A shares have been listed in the Stock Exchange of Hong Kong Limited and the Shanghai Stock Exchange since November 1996 and January 2003 respectively.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of preparation

The accounts 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 believe that the accounts prepared in accordance with HKGAAP will result in accounts presentation 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 consider that there is 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 are recorded at cost less provision for impairment loss and the results of the subsidiaries and associated companies are accounted for by the Company on the basis of dividends received and receivable.

The accounts have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, trading securities are stated at fair value.

In current year, the Group early adopted SSAP 12 "Income Taxes" which is effective for periods commencing on or after 1st January 2003 in advance of its effective date.

(b) Change in accounting policy

During the year ended 31st 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 accounting standards as mentioned in Note 2 (a) above. In prior years, the Company had been accounting 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 comparatives presented have been restated to conform to the changed 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.

This change in accounting policy has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

Notes to the Accounts (cont'd)

For the year ended 31st December 2002
(All amounts in RMB unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (cont'd)

(c) Group accounting

(i) *Consolidation*

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December.

Subsidiaries are those entities in which the Company directly or indirectly controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment loss. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable (Note 2(b)).

(ii) *Associated companies*

An associated company is a company, not being a subsidiary or a joint venture, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies and goodwill/negative goodwill (net of accumulated amortisation) on acquisition.

Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

In the Company's balance sheet, the investments in associated companies are stated at cost less provision for impairment loss. The results of the associated companies are accounted for by the Company on the basis of dividends received and receivable (Note 2(b)).

2. PRINCIPAL ACCOUNTING POLICIES (cont'd)

(c) Group accounting (cont'd)

(iii) *Foreign currency translation*

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

(d) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary/associated company at the date of acquisition. Goodwill is amortised using the straight-line method over its estimated useful life.

Where an indication of impairment exists, the carrying amount of goodwill is assessed and written down immediately to its recoverable amount.

(e) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. The 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.

Depreciation of toll roads and amortisation of land use rights in relation to toll roads are calculated to write off their cost 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 toll roads and the land use rights in relation to toll roads at the end of operating periods of respective toll roads.

Depreciation of improvements relating to toll roads is calculated on the straight-line method to write off the cost over its estimated useful life.

Depreciation of land use rights other than those in relation to toll roads is provided for on the basis of straight-line method over the land use right period.

Depreciation of fixed assets other than toll roads is provided for on the 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

Construction in progress represents fixed assets under construction and is stated at cost less accumulated impairment losses. Construction in progress is not depreciated until such time when the assets are completed and ready for their intended use.

Notes to the Accounts (cont'd)

For the year ended 31st December 2002
(All amounts in RMB unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (cont'd)

(e) Fixed assets (cont'd)

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

The gain or loss on disposal of fixed assets is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

(f) Investments in securities

(i) *Investment securities*

Investment securities are stated at cost less any provision for impairment losses.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to profit and loss when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(ii) *Trading securities*

Trading securities are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of trading securities are recognised in the profit and loss account. Profits or losses on disposal of trading securities, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

(g) Inventories

Inventories comprise materials and spare parts for the repair and maintenance of toll roads and structures and the costs incurred for undertaking toll system installation contracts. The inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out method. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(h) Receivables

Provision is made against receivables to the extent they are considered to be doubtful. Receivables in the balance sheet are stated net of such provision.

2. PRINCIPAL ACCOUNTING POLICIES (cont'd)

(i) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment.

(j) Retirement benefit costs

The Group contributes to a defined contribution retirement scheme which is available to all employees. Contributions to the scheme by the Group and employees are calculated as a percentage of employee's basic salaries. The retirement benefit scheme costs charged to the profit and loss account represent contributions payable by the Group to the fund.

The Group's contributions to the defined contributions retirement scheme are expensed as incurred. The assets of the scheme are held separately from those of the Group in an independently administered fund. Details of the Group's retirement benefits are set out in Note 25.

(k) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The principal temporary differences arise from depreciation on fixed assets, revaluations of certain investments, provisions for pensions and other post retirement benefits and tax losses carried forward; and, in relation to acquisitions, on the difference between the fair values of the net assets acquired and their tax base. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(l) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

Notes to the Accounts (cont'd)

For the year ended 31st December 2002
(All amounts in RMB unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (cont'd)

(m) Revenue recognition

(i) *Toll income*

Toll income, net of revenue tax, is recognised on a receipt basis.

(ii) *Toll system installation income*

When the outcome of an installation contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised when incurred.

When the outcome of an installation contract can be estimated reliably, contract revenue and contract costs are recognised over the period of the contract, respectively, as revenues and expenses. The Group uses the percentage of completion method, measured by reference to the percentage of total costs incurred to date to estimated total costs of the contract. When it is probable total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

(iii) *Interest income*

Interest income is recognised on a time proportion basis that takes into account the principal amounts outstanding and the interest rates applicable.

(iv) *Dividend income*

Dividend income is recognised when the right to receive payment is established.

(v) *Emergency assistance service income*

Revenue from emergency assistance service is recognised when the service has been rendered.

(n) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(o) Segment reporting

Apart from operating and managing toll roads, the Group does not conduct other businesses which have significant impact on the Group's results. No segment income statement has been prepared by the Group. The Group also operates within one geographical segment because its revenues are primarily generated in the Anhui Province, PRC and its assets are mainly located in the Anhui Province, PRC. Accordingly, no geographical segment data is presented.

3. TURNOVER AND OTHER REVENUE

Revenue recognised during the year are as follows:

	Notes	2002 RMB'000	2001 RMB'000
Turnover			
— Toll income		716,750	581,426
— Toll system installation income		34,877	30,024
— Emergency assistance service income		5,775	5,422
		757,402	616,872
Less: Tax related to revenue	(a)	(38,279)	(28,866)
		719,123	588,006
Other Revenue			
— Interest income		3,722	8,252
— Investment income		308	560
— Other		4,481	5,107
		8,511	13,919
Total Revenue		727,634	601,925

(a) Tax related to revenue

The Group is subject to Business Tax ("BT") at the rate of 5% of toll income and emergency assistance service income.

In addition to BT, the Company and its subsidiaries are subject to the following turnover taxes:

(i) City Development Tax — levied at 5%–7% of BT.

(ii) Education Supplementary Tax — levied at 3% of BT.

Notes to the Accounts (cont'd)

For the year ended 31st December 2002
(All amounts in RMB unless otherwise stated)

4. OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	2002 RMB'000	2001 RMB'000
After charging:		
Staff costs		
— Salaries and wages	28,880	26,102
— Provision for staff welfare	4,517	3,508
— Contribution to statutory pension scheme	5,260	6,851
Interest expenses on bank loans	822	2,886
Depreciation of fixed assets	129,448	116,624
Amortisation of intangible assets	2,730	2,370
Loss on disposal of fixed assets	183	7
Share of losses from associated companies	304	—
Auditors' remuneration	1,080	1,080
After crediting:		
Interest income on bank deposits	3,722	8,252
Foreign exchange gain, net	146	13
Gain on disposal of trading securities	15	—

5. FINANCE COSTS

	2002 RMB'000	2001 RMB'000
Interest on bank loans	822	2,886

No Interest is capitalised during the year ended 31st December 2002.

6. TAXATION

(a) Hong Kong profits tax

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

(b) PRC Enterprise Income Tax ("EIT")

The Company and its subsidiary, Anhui Wantong Technology Development Company Limited ("AWTD"), were registered in the Hefei High Technology Industry Development Zone and certified as a high-tech company. Pursuant to relevant regulations on preferential policies on EIT issued by the Ministry of Finance and the State Taxation Bureau, the applicable EIT rate for the Company and AWTD since 2001 is at a reduced rate of 15%.

The other subsidiaries and associated companies of the Company are subject to EIT levied at a rate of 33% of taxable income based on their audited accounts prepared in accordance with the laws and regulations in the PRC.

6. TAXATION (cont'd)

(c) The amount of taxation charged to the consolidated profit and loss account represents:

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

(d) The reconciliation of the applicable tax rate to the effective tax rate was as follows:

	2002 RMB'000		2001 RMB'000	
Accounting profit before taxation and minority interests	392,305	100%	329,914	100%
Tax at the applicable tax rate of 15% (2001: 15%)	58,846	15%	49,487	15%
Tax effect of expenses that are not deductible in determining taxable profit	4,950	1%	—	—
Effect of different tax rate of subsidiaries	19,688	5%	10,089	3%
	83,484	21%	59,576	18%

7. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of approximately RMB218,802,000 (2001: RMB207,715,000).

8. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the Group's profit attributable to shareholders of RMB309,031,000 (2001: RMB269,972,000) by the weighted average number of 1,414,090,000 (2001: 1,408,610,000) ordinary shares in issue during the year.

No diluted earnings per share is presented, as the company has no dilutive potential shares.

Notes to the Accounts (cont'd)

For the year ended 31st December 2002
(All amounts in RMB unless otherwise stated)

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' (including supervisors') emoluments:

The aggregate amount of emoluments payable to directors (including supervisors) of the Group during the year are as follows:

	2002 RMB'000	2001 RMB'000
Fees	—	—
Other emoluments		
— basic salaries, allowances and benefits in bind	1,376	991
— pension	237	231
	1,613	1,222

Directors' (including supervisors') emoluments disclosed above included approximately RMB63,750 (2001: Nil) paid to independent non-executive directors.

The emoluments of the directors (including supervisors) fell within the following bands:

	Number of directors (including supervisors)	
	2002	2001
Nil to HK$1,000,000 (equivalent to approximately RMB1,060,000)	16	13

The executive directors received individual emoluments for the year ended 31st December 2002 of approximately RMB284,375 (2001: RMB138,938), RMB178,750 (2001: RMB125,938), RMB97,500 (2001: Nil), RMB170,625 (2001: RMB112,938), RMB73,125 (2001: RMB112,938), RMB73,125 (2001: RMB112,938), RMB73,125 (2001: RMB112,938), RMB73,125 (2001: RMB112,938).

None of the directors (including supervisors) waived any emoluments during the year. No payment as an inducement for joining the Company or compensation for the loss of office as a director of any member of the Group or any other office in connection with the management of the affairs of any member of the Group was paid or payable to any director (including supervisor) for the year.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for both years were also directors and supervisors, and their emoluments are reflected in the analysis presented above.

10. INTANGIBLE ASSETS

Intangible assets represented technology know-how and the movements were as follows:

	Group	
	2002	2001
	RMB'000	RMB'000
Cost		
Beginning of year	**7,920**	7,920
Additions	**3,500**	—
End of year	**11,420**	7,920
Accumulated amortisation		
Beginning of year	**2,370**	—
Charges for the year	**2,730**	2,370
End of year	**5,100**	2,370
Net book value		
End of year	**6,320**	5,550
Beginning of year	**5,550**	7,920

Notes to the Accounts (cont'd)

For the year ended 31st December 2002
(All amounts in RMB unless otherwise stated)

11. FIXED ASSETS

Group

(In RMB'000)	Toll roads	Buildings	Land use right	Safety, communication and signalling equipment	Toll station and ancillary equipment	Motor vehicles	Other machinery and equipment	Construction in progress	Total
					2002				
Cost									
Beginning of year	3,773,504	100,496	600,851	281,905	96,419	58,234	11,320	7,956	4,930,685
Additions	—	274	329	9,444	5,334	5,540	2,976	123,554	147,451
Disposals	—	—	—	—	(4)	(665)	—	—	(669)
Transfers	99,428	1,646	—	14,337	1,053	—	—	(116,464)	—
End of year	3,872,932	102,416	601,180	305,686	102,802	63,109	14,296	15,046	5,077,467
Accumulated depreciation									
Beginning of year	189,387	8,562	32,535	107,878	40,504	19,238	2,971	—	401,075
Charges for the year	67,141	3,279	10,054	26,641	12,762	6,682	2,889	—	129,448
Impairment charged	—	—	—	—	—	—	—	—	—
Disposals	—	—	—	—	(2)	(390)	—	—	(392)
End of year	256,528	11,841	42,589	134,519	53,264	25,530	5,860	—	530,131
Net book value									
End of year	3,616,404	90,575	558,591	171,167	49,538	37,579	8,436	15,046	4,547,336
Beginning of year	3,584,117	91,934	568,316	174,027	55,915	38,996	8,349	7,956	4,529,610

11. FIXED ASSETS (cont'd)

Company

(In RMB'000)	Toll roads	Buildings	Land use right	Safety, communication and signalling equipment	Toll station and ancillary equipment	Motor vehicles	Other machinery and equipment	Construction in progress	Total
					2002				
Cost									
Beginning of year	1,775,204	33,394	279,912	187,314	42,493	21,355	9,070	7,197	2,355,939
Additions	—	—	—	12,377	5,386	3,100	1,804	121,671	144,338
Disposals	—	—	—	—	(4)	(292)	—	—	(296)
Transfers	99,428	1,646	—	14,337	818	—	—	(116,229)	—
End of year	1,874,632	35,040	279,912	214,028	48,693	24,163	10,874	12,639	2,499,981
Accumulated depreciation									
Beginning of year	103,621	3,515	18,220	83,303	20,939	9,513	3,651	—	242,762
Charges for the year	32,724	1,108	4,540	18,241	5,288	2,696	1,321	—	65,918
Impairment charged	—	—	—	—	—	—	—	—	—
Disposals	—	—	—	—	(2)	(201)	—	—	(203)
End of year	136,345	4,623	22,760	101,544	26,225	12,008	4,972	—	308,477
Net book value									
End of year	1,738,287	30,417	257,152	112,484	22,468	12,155	5,902	12,639	2,191,504
Beginning of year	1,671,583	29,879	261,692	104,011	21,554	11,842	5,419	7,197	2,113,177

The Group's and the Company's land use rights are all held outside Hong Kong on leases between 10 to 50 years.

Notes to the Accounts (cont'd)

For the year ended 31st December 2002
(All amounts in RMB unless otherwise stated)

12. INVESTMENTS IN AND LOANS TO SUBSIDIARIES

(a) Investments in subsidiaries

	Company 2002 RMB'000	Company 2001 RMB'000
Unlisted equity, at cost	246,260	239,760

	Company 2001 RMB'000
Balance as previously reported	369,214
Effect on change in accounting policy (Note 2(b))	(129,454)
Balance as restated	239,760

The following is a list of the Company's subsidiaries at 31st December 2002:

Name of subsidiary	Country of incorporation and kind of legal entity	Principal activities and place of operation	Interest held Direct	Interest held Indirect	Paid in, issued and fully paid share capital RMB'000
Anhui Gao Jie Expressway Company Limited ("Gao Jie")	PRC Limited liability company	Management and operation of Gaojie expressway in Anhui province, PRC	51%	—	300,000
Xuan Guang Expressway Company Limited ("Xuan Guang")	PRC Limited liability company	Management and operation of Xuangguang expressway in Anhui province, PRC	51%	—	71,880
AWTD	PRC Limited liability company	Development, production and sales of computer software and hardware in Anhui province, PRC	75.5%	—	20,000
Tianjin Xinxigang Jiazi Co., Ltd.	PRC Limited liability company	Consulting and technology development in Tianjin, PRC	—	52.85%	2,000
Beijing Haiwei Investment Co., Ltd.	PRC Limited liability company	Project management, investment consulting in Beijing, PRC	70%	15.79%	50,000
Anhui Kangcheng Pharmaceutical Co.,Ltd.	PRC Limited liability company	Sales and development of pharmaceutical products in Anhui province, PRC	65%	—	10,000

12. INVESTMENTS IN AND LOANS TO SUBSIDIARIES (cont'd)

(a) Investments in subsidiaries (cont'd)

Gao Jie is a co-operative joint venture established by the Company and Anhui Expressway Holding Corporation ("AEHC") with an operating period of 32 years. The Company invested in total RMB940,440,000 in Gao Jie, in the form of capital contribution of RMB153,000,000 and long term loan of RMB787,440,000. According to the joint venture contract, annual distribution (the "distribution") equalling net profit plus depreciation and amortisation of its fixed assets are to be made wholly to the Company till 30th April 2006. Thereafter, the distribution will be shared by the Company and AEHC in proportion to their respective contributions to Gao Jie's registered capital. If the total distribution received by the Company up to 30th April 2006 is lower than RMB553,200,000, AEHC will compensate the Company for the shortfall. The net profit portion of the distribution received is accounted for as dividend income while the amortisation and depreciation portion of the distribution received is accounted for as repayments to the long term loan advanced to Gao Jie.

Xuan Guang is a co-operative joint venture established by the Company and Xuancheng Highway Management Company ("XHMC"). The Company invested in total RMB366,600,000 in Xuan Guang, in the form of capital contribution of RMB36,660,000 and long term loan of RMB329,940,000. According to the joint venture contract, annual distribution (the "distribution") equalling net profit plus depreciation and amortisation of its fixed assets are to be made wholly to the Company till the total distribution received by the Company equal to its total investment in Xuan Guang. Thereafter, the distribution will be shared by the Company and XHMC in proportion to their respective contributions to Xuan Guang's registered capital. The net profit portion of the distribution received is accounted for as dividend income while the amortisation and depreciation portion of the distribution received is accounted for as repayments to the long term loan advanced to Xuan Guang.

(b) Loans to subsidiaries

	Company	
	2002	2001
	RMB'000	RMB'000
Shareholder loans to subsidiaries	**866,488**	916,519
Less: Shareholder loans to subsidiaries expected to be repaid within 12 months	**(191,000)**	(140,000)
	657,488	776,519

Loans to subsidiaries represent the Company's share of the total investment in Gao Jie and Xuan Guang in excess of the Company's respective share of their respective registered capital. Such loans are unsecured and interest free, and the repayment terms are set out in Note 12(a).

Notes to the Accounts (cont'd)

For the year ended 31st December 2002
(All amounts in RMB unless otherwise stated)

13. INTERESTS IN ASSOCIATED COMPANIES

	Group	
	2002	2001
	RMB'000	RMB'000
Share of net assets	**4,440**	4,100
Goodwill on acquisition of associated companies less amortisation/impairment	**—**	—
	4,440	4,100

	Company	
	2002	2001
	RMB'000	RMB'000
Unlisted equity, at cost	**1,444**	—

The following is a list of the principal associated companies at 31st December 2002.

Name	Place of incorporation and operation	Principal activities	Particulars of issued shares held	Interest held
Anhui Highway Real Estate Co., Ltd. ("AHRE")	PRC	Development of real estate and real estate management	Equity capital	20%
Tianjin King Fiber Communication Technology Co., Ltd. ("King Fiber")	PRC	Technology development and consulting service	Equity capital	45%
Anhui Expressway Advertisement Co., Ltd.("AEAT")	PRC	Design and producing of advertisement in Anhui province, PRC	Equity capital	38%

14. INVESTMENT SECURITIES

	Group and Company	
	2002	2001
	RMB'000	RMB'000
Unlisted equity, at cost	**18,000**	—

15. INVENTORIES

	Group	
	2002 RMB'000	2001 RMB'000
Raw materials	3,644	2,985
Cost incurred for toll system installation	19,125	11,820
	22,769	14,805

16. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Trade receivable	3,739	2,497	—	—
Prepayments	10,888	19,648	884	14,817
Interest receivable	—	2,213	—	2,213
Others	16,217	28,694	14,283	21,325
	30,844	53,052	15,167	38,355
Less: Provision for doubtful debts	—	—	—	—
	30,844	53,052	15,167	38,355

As at 31st December 2002, all trade receivables are aged within one year.

17. TRADING SECURITIES

	Group	
	2002 RMB'000	2001 RMB'000
Government bonds listed outside Hong Kong, at open market value	—	20,560

Notes to the Accounts (cont'd)

For the year ended 31st December 2002
(All amounts in RMB unless otherwise stated)

18. TRADE AND OTHER PAYABLES

	Group		Company	
	2002 RMB'000	2001 RMB'000	**2002 RMB'000**	2001 RMB'000
Payables on construction, repair and maintenance projects	**71,446**	37,837	**63,521**	37,837
Accruals	**34,426**	10,857	**32,957**	10,664
Advance from customers	**16,251**	2,864	**—**	—
Welfare payables	**3,753**	3,447	**1,787**	2,427
Other taxation payable	**5,242**	8,843	**4,633**	5,559
Other payables	**74,608**	60,509	**38,425**	31,057
	205,726	124,357	**141,323**	87,544

As at 31st December 2002, all the payables on construction, repair and maintenance projects were aged within one year.

19. SHORT-TERM BANK LOANS

Group

	2002 Interest rate per annum	**2002 RMB'000**	2001 Interest rate per annum	2001 RMB'000
Unsecured short-term bank borrowings	**—**	**—**	5.30%-5.58%	65,000

Company

	2002 Interest rate per annum	**2002 RMB'000**	2001 Interest rate per annum	2001 RMB'000
Unsecured short-term bank borrowings	**—**	**—**	5.30%	60,000

20. SHARE CAPITAL

The authorised, issued and fully paid share capital of the Company is RMB1,658,610,000 (2001: RMB1,408,610,000) divided into 1,658,610,000 (2001: 1,408,610,000) shares with a par value of RMB1 each.

The movement of the authorised, issued and fully paid share capital of the Company is as follows:

	Number of shares '000	**Amount** RMB'000
At 1st January 2001	1,408,610	1,408,610
Addition	—	—
At 31st December 2001	1,408,610	1,408,610
Issue of domestic ordinary shares	250,000	250,000
At 31st December 2002	1,658,610	1,658,610

21. RESERVES

Movements in reserves of the Company were as follows:

	Company					
	Share Premium	**Statutory Surplus Reserve Fund**	**Statutory Public Welfare Fund**	**Discretionary Surplus Reserve Fund**	**Total**	**Retained Earnings**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1st January 2001						
— As previously reported	1,170,499	56,004	54,923	695	1,282,121	544,679
— Effect on change in accounting policy (Note 2(b))	—	—	—	—	—	(67,197)
— As restated	1,170,499	56,004	54,923	695	1,282,121	477,482
Dividends (Note 22 (c))	—	—	—	—	—	(70,430)
Profit for the year	—	—	—	—	—	207,715
Profit appropriations	—	24,812	24,812	—	49,624	(49,624)
Others	—	—	37	(37)	—	—
Balance at 31st December, 2001	1,170,499	80,816	79,772	658	1,331,745	565,143
Balance as at 1 January, 2002						
— As previously reported	1,170,499	80,816	79,772	658	1,331,745	694,597
— Effect on change in accounting policy (Note 2(b))	—	—	—	—	—	(129,454)
— As restated	1,170,499	80,816	79,772	658	1,331,745	565,143
Proceeds from issue of domestic ordinary shares	276,960	—	—	—	276,960	—
Dividends (Note 22 (c))	—	—	—	—	—	(112,689)
Profit for the year	—	—	—	—	—	218,802
Profit appropriations	—	25,839	25,839	—	51,678	(51,678)
Balance at 31st December 2002	1,447,459	106,655	105,611	658	1,660,383	619,578

Representing:	
2002 final dividends proposed (Note 22 (c))	49,758
Retained earnings	569,820
Retained earnings as at 31st December 2002	619,578

Notes to the Accounts (cont'd)

For the year ended 31st December 2002
(All amounts in RMB unless otherwise stated)

22. APPROPRIATION

(a) 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 prior years' losses or to issue bonus shares. However, such statutory surplus reserve must be maintained at a minimum of 25% of share capital after such issue.

(b) 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. For the year ended 31st December 2002, the directors have recommended allocations to the statutory public welfare fund as follows: 10% (2001: 10%) for the Company, 5% for Xuan Guang (2001: 5%), 5% for Gao Jie (2001: 5%) and 5% (2001: 5%) for AWTD.

(c) Dividends

	2002 RMB'000	2001 RMB'000
Interim, paid, of RMB0.05 (2001: RMB0.03) per share	70,431	42,258
Final, proposed, of RMB0.03 (2001: RMB0.03) per share	49,758	42,258
	120,189	84,516

At a meeting held on 23rd April 2003, the directors proposed a final dividend of RMB0.03 per ordinary share. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31st December 2003.

23. LONG-TERM PAYABLES TO MINORITY SHAREHOLDERS OF SUBSIDIARIES

Long-term payables to minority shareholders of subsidiaries comprised of payables to the minority shareholders of Xuan Guang and Gao Jie, representing their share of total investment in Xuan Guang and Gao Jie in excess of their respective equity contribution in Xuan Guang and Gao Jie. Such long-term payables are unsecured and interest free, and the repayment terms are set out in Note 12 (a).

24. DEFERRED TAX LIABILITIES

	Group		Company	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Balance at 1st January	113,264	95,509	75,174	70,802
Deferred taxation charged to profit and loss account (Note 6)	16,861	17,755	4,541	4,372
Balance at 31st December	130,125	113,264	79,715	75,174

24. DEFERRED TAX LIABILITIES (cont'd)

Deferred tax liabilities as at 31st December 2002 for the Group and the Company arose from differences in valuation of assets and depreciation of toll roads and related land use rights between PRC statutory accounts and HKGAAP accounts.

25. RETIREMENT BENEFITS

The Group participates in the Anhui Provincial Retirement Scheme managed by Anhui Social Security Bureau. Pursuant to relevant provisions, the Group is required to make a monthly contribution equivalent to 20%–23% (2001: 20%–23%) of the monthly salary in respect of its employees. The Bureau is responsible for pension payments to the retired employees of the Group and the Group has no further obligations.

26. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation from profit before taxation to net cash inflow from operating activities:

	2002 RMB'000	2001 RMB'000
Profit before taxation	392,305	329,914
Adjustments for:		
Depreciation of fixed assets	129,448	116,624
Amortisation of intangible assets	2,730	2,370
Loss on disposal of fixed assets	183	7
Share of losses from associated companies	304	—
Interest income	(3,722)	(8,252)
Interest expenses	822	2,886
Other Investment income	(323)	(560)
Operating profit before working capital changes	521,747	442,989
Increase in inventories	(7,964)	(10,808)
(Increase) decrease in trade receivables	(1,242)	40
Decrease (increase) in prepayments and other receivables	23,400	(2,172)
Increase in trade and other payables	34,568	48,393
Cash generated from operating activities	570,509	478,442
Interest paid	(822)	(2,886)
EIT paid	(67,748)	(60,417)
Net cash inflow from operating activities	501,939	415,139

(b) Cash paid for acquisition of fixed assets:

	2002 RMB'000	2001 RMB'000
Increase in fixed assets	147,451	143,711
Add: Payable for purchase of fixed assets, beginning of year	20,328	—
Less: Payable for purchase of fixed assets, end of year	(69,369)	(20,328)
Cash paid for acquisition of fixed assets	98,410	123,383

Notes to the Accounts (cont'd)

For the year ended 31st December 2002
(All amounts in RMB unless otherwise stated)

26. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (cont'd)

(c) Share issue expenses

	2002 RMB'000
Total share issue expenses	23,040
Unpaid share issue expenses as at 31st December 2002	(6,914)
Share issue expenses paid in 2001	(2,227)
Share issue expenses paid in 2002	13,899

(d) Analysis of the balances of cash and cash equivalents

	2002 RMB'000	2001 RMB'000
Cash on hand	240	36
Savings deposits	1,107,596	221,598
Fixed deposits	11,080	129,286
Listed government bonds	—	20,560
	1,118,916	371,480

27. 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	Major investor
King Fiber	Associated company
XHMC	Minority shareholder of Xuan Guang
Anlian Expressway Co., Ltd. (ALEC)	Subsidiary of AEHC

(b) Related party transactions

The Group had the following significant transaction with the related party:

	2002 RMB'000	2001 RMB'000
Products sold and service rendered to AEHC	9,682	11,010
Toll road management fee from AEHC	3,080	3,080
Toll road management fee from ALEC	—	1,500
	3,080	4,580

27. RELATED PARTY TRANSACTIONS (cont'd)

(c) Related party balances

(i) *Trade receivables*

	Group		Company	
	2002	2001	2002	2001
	RMB'000	RMB'000	RMB'000	RMB'000
AEHC	1,316	1,291	—	—

(ii) *Other receivables*

	Group		Company	
	2002	2001	2002	2001
	RMB'000	RMB'000	RMB'000	RMB'000
AEHC	551	3,871	51	3,023
ALEC	1,520	1,500	1,520	1,500
	2,071	5,371	1,571	4,523

(iii) *Prepayment*

	Group		Company	
	2002	2001	2002	2001
	RMB'000	RMB'000	RMB'000	RMB'000
King Fiber	544	—	—	—

(iv) *Other payables*

	Group		Company	
	2002	2001	2002	2001
	RMB'000	RMB'000	RMB'000	RMB'000
AEHC	825	14,213	145	4,213
XHMC	7,259	4,740	—	—
ALEC	2,739	—	1,913	—
	10,823	18,953	2,058	4,213

Notes to the Accounts (cont'd)

For the year ended 31st December 2002
(All amounts in RMB unless otherwise stated)

27. RELATED PARTY TRANSACTIONS (cont'd)

(c) Related party balances (cont'd)

(v) *Long term payables*

	Group		Company	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
AEHC	728,583	728,583	—	—
XHMC	317,011	317,011	—	—
	1,045,594	1,045,594	—	—

As at 31st December 2002, amounts due from and due to the related parties, except for long term payables as disclosed in Note 23, mainly arose from the above transactions and payments paid by the Company and related parties on behalf of each other. These amounts are unsecured, interest-free and have no fixed repayment terms.

28. COMMITMENTS

Capital Commitments

As at 31st December, 2002, the Company has the following capital commitments contracted but not provided for:

	Note	2002 RMB'000
Construction of office building in Hefei High Technology Industry Development Zone		40,000
Acquisition of Lianhuo Expressway (Anhui section)	(a)	1,180,000
		1,220,000

Pursuant to the acquisition contract signed on 20 June 2001 and the supplementary acquisition contract signed on 28 March 2002 between the Company and AEHC, the Company is committed to acquire Lianhuo Expressway (Anhui Section) being constructed and the relevant land use right from AEHC, for a total construction of RMB905,588,900. The Company also contracted AEHC as the general contractor for the construction of the Lianhuo Expressway (Anhui Section). The total construction contract amount is RMB274,411,100. Accordingly, as at 31st December 2002, the Company has total commitments of RMB1,180,000,000 in connection with its acquisition and construction of Lianhuo Expressway (Anhui Section).

29. IMPACT OF HKGAAP ADJUSTMENTS ON NET PROFIT AND NET ASSETS

The Group has prepared a separate set of statutory accounts in accordance with PRC laws and financial regulations ("PRC GAAP"). The differences between PRC GAAP and HKGAAP in the reported balances of net assets and net profit of the Group are summarised as follows:

	Net profit Year ended 31st December		Net Assets As at 31st December	
	2002 RMB'000	2001 RMB'000	**2002 RMB'000**	2001 RMB'000
As reported in the statutory accounts	**258,392**	248,119	**3,552,202**	2,887,039
HKGAAP adjustments:				
Valuation and depreciation of toll roads	**58,812**	61,710	**597,801**	538,989
Valuation and amortisation of land use right	**8,688**	9,352	**88,618**	79,930
Recognition of dividends declared after the balance sheet date	**—**	—	**49,758**	42,258
Deferred taxation	**(16,861)**	(17,806)	**(130,125)**	(113,264)
Organisation expenses	**—**	866	**—**	—
Recognition of financial refund	**—**	(32,269)	**—**	—
As reported under HKGAAP	**309,031**	269,972	**4,158,254**	3,434,952

30. SUBSEQUENT EVENTS

Pursuant to the resolution made by the Board of Directors subsequent to 31st December 2002, the Company proposed a final dividend of RMB0.03 per share for 2002.

31. APPROVAL OF ACCOUNTS PREPARED IN ACCORDANCE WITH THE HKGAAP

The accounts prepared in accordance with the HKGAAP were approved by the Board of Directors on 23rd April 2003.

GENERAL INFORMATION

Five year financial summary

Results	**2002 RMB'000**	2001 RMB'000	2000 RMB'000	1999 RMB'000	1998 RMB'000
Profit attributable to shareholders	**309,031**	269,972	227,176	206,156	165,360
Assets and liabilities					
Total assets	**5,748,625**	4,978,597	4,881,325	3,559,468	3,568,837
Total liabilities	**(1,590,371)**	(1,543,645)	(1,645,915)	(494,890)	(710,415)
Shareholders' funds	**4,158,254**	3,434,952	3,235,410	3,064,578	2,858,422