

Corporate Information

Name of the Company in Chinese:	江蘇寧滬高速公路股份有限公司
Name of the Company in English:	Jiangsu Expressway Company Limited
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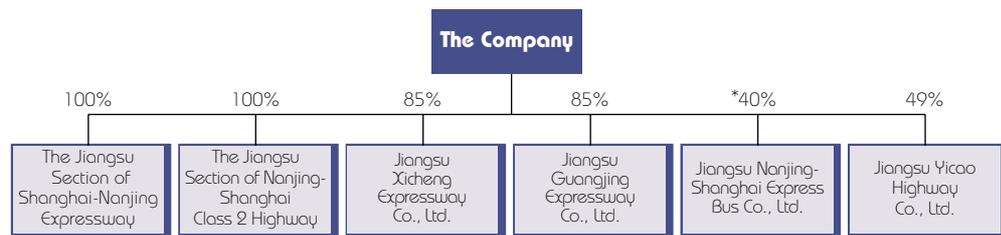
Company Profile

Jiangsu Expressway Company Limited (the "Company") was incorporated on 1st August, 1992 in the People's Republic of China (the "PRC"), with its principal business at the time being the construction of the Jiangsu section of Shanghai-Nanjing Expressway ("Shanghai-Nanjing Expressway"). In November 1994, the Company was approved by the State Council of the PRC as a trial public joint stock limited company engaged in infrastructural projects. On 15th September, 1996, Shanghai-Nanjing Expressway was opened to traffic. On 27th June, 1997, the Company's H shares were successfully listed on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange"). The Company was the first PRC infrastructure company to be exempted from the three-year track record listing requirement.

The Company is principally engaged in the investment, construction, operation and management of Shanghai-Nanjing Expressway and other toll expressways in Jiangsu Province of the PRC. It also provides passenger transport and other related services that include petrol stations, catering, motels, retail stores, car repair and advertisements.

As at the end of 1998, the Company owned the land use right, asset and operating right of Shanghai-Nanjing Expressway (a total length of 258.46 km) for a term of 30 years. The expressway is located in the Yangtze Delta region, one of the most rapidly growing economic zones, and connects Shanghai and Nanjing. The Company also owned the 15 year land use right and operating right of the Jiangsu section of Nanjing-Shanghai Class 2 Highway ("Nanjing-Shanghai Class 2 Highway") (a total length of 271.1 km). The Company also had an 85% interest in the 30 year operating right of each of Xicheng Expressway (a total length of 35 km) and Guangjing Expressway (a total length of 17.2 km) that are now under construction and expected to commence operation by the end of September 1999. The Company had a 40% interest in Jiangsu Nanjing-

Shanghai Express Bus Co., Ltd. (the "Express Bus Co."). It also owned 49% interest in the 10 years operating right of Jiangsu Yicao Expressway ("Yicao Expressway") (a total length of 46.4 km) which connects the rapidly growing areas of Yixing and Caoqiao in Jiangsu Province.



* With effect from 28th January, 1999, the Company's interest in the Express Bus Co. has been increased from 40% to 55%

The Company is the only overseas fund-raising vehicle in Jiangsu Province engaged in transportation infrastructure. The Jiangsu provincial government and the Jiangsu Communications Department are in full support of the development of the Company and have given priority to the Company in investment and acquisition of transportation infrastructure projects in Jiangsu Province. With its outstanding management and advantageous location in the Yangtze Delta region, the Company will be able to demonstrate its leading role in the transportation development of Jiangsu Province and has been able to maintain a strong profit growth for the past few years.

Financial Highlights

	Year Ended 31st December		
	1998 (RMB'000)	1997 (RMB'000)	1996 (RMB'000)
Results Summary			
	(Note 1)	(Note 1)	(Note 1)
Revenue, net (Note 2)	1,052,975	779,673	126,070
Profit before taxation	633,825	337,509	4,626
Profit after taxation	566,363	334,853	3,972
Distributable profit to shareholders (Note 3)	533,211	267,400	3,707
Earnings per share (Note 4)	RMB0.1159	RMB0.0779	RMB0.0021
Assets Summary			
<i>As at 31st December</i>			
Total Assets	12,397,693	12,313,805	6,485,176
Total Liabilities	1,611,986	1,885,185	4,396,340
Net Assets	10,785,707	10,428,620	2,088,836

Notes:

- The 1996 financial statements of the Company only include assets of Shanghai-Nanjing Expressway from 15th September, 1996, its date of opening to traffic to 31st December, 1996. The consolidated financial statements of the Company for the two years ended 31st December, 1997 and 1998 include assets, liabilities and operating results of Shanghai-Nanjing Expressway, Nanjing-Shanghai Class 2 Highway, Xicheng Expressway and Guangjing Expressway.
- Revenue represents mainly income from the operation of toll roads, net of tax. It also includes other incomes such as petrol sales, emergency assistance, catering and advertisements.
- In accordance with the articles of association of the Company, the Company declares dividends based on the lesser of the unappropriated profit report in the statutory accounts prepared in accordance with PRC accounting standards and that reported in the financial statements prepared under IAS. As of 31st December, 1998, unappropriated profit available for distribution to shareholders amounted to approximately RMB533,211,000.
- The calculation of earnings per share for the year ended 31st December, 1998 was based on the consolidated profit after taxation of approximately RMB566,363,000 (1997: RMB334,853,000) divided by the weighted-average number of 4,887,747,500 shares (1997: 4,298,509,144 shares) in issue during the year ended 31st December, 1998.

Chairman's Statement



Mr. Xu Hua Qiang, Chairman

To: All shareholders

I am pleased to present the operating results of the Company and its subsidiaries (the "Group") for the year ended 31st December, 1998.

For the year ended 31st December, 1998, the gross revenue of the Group amounted to RMB1,110,093,000 and the profit after taxation and minority interests reached RMB566,363,000, representing an increase of 69.1% over 1997.

The Company's Board of Directors (the "Board") recommends the payment of a final dividend of RMB0.06 per share for the year ended 31st December 1998. The final dividend is subject to approval by shareholders at an Annual General Meeting to be held on 18th June, 1999 in Nanjing, the PRC and will be paid to the shareholders whose names appear on the register of shareholders on 18th May, 1999.

H share dividends are calculated in Renminbi and paid in Hong Kong dollars at an exchange rate based on the average closing price of Renminbi against Hong Kong dollar quoted by the People's Bank of China during the week prior to payment of dividends.

The year of 1998 saw a dramatic change in the global economic environment. The Asian financial crisis has significantly slowed the economic growth within the region. The PRC suffered from flooding and decline in export, which resulted in a relatively low economic growth in 1998 as compared with 1997. To rectify this adverse situation, the PRC government has adopted an aggressive financial policy. The PRC Government aims to stimulate economic growth by increasing domestic demand. One of its measures in this respect is to increase investment in infrastructure projects. In 1998, total investments in road construction in the PRC amounted to RMB211,800,000,000, representing a total of 37,000 km of new road construction, of which 1,487 km was expressways. As a major economic development area, Jiangsu Province achieved a GDP of RMB720,000,000,000 in 1998, an increase of 11% over the previous year. In 1998, there were eight expressways and two bridges under construction in Jiangsu Province, which signified a new climax for road construction. At present, the total length of expressway under construction is approximately 906 km. These have created a favourable environment for the business development of the Company.

During 1998, the Company seized business opportunities and made efforts in expanding and developing its business. As a result, total revenue of the Company broke the RMB1.1 billion mark and its profit increased 69.1% over last year. The traffic volume of Shanghai-Nanjing Expressway continued to increase, which in turn led to a growth in toll revenue.

In order to step up the management of Nanjing-Shanghai Class 2 Highway and ensure full collection of its toll fees, the Board decided to terminate the appointment of Jiangsu Highway Bureau for the management and maintenance of Nanjing-Shanghai Class 2 Highway effective 1st April, 1998. The Company became directly responsible for the operation and management, which reduced the operating and maintenance costs and enhanced efficiency in toll collection.

During 1998, the Company also strengthened the service culture among its employees. With its quality service and reasonable toll fee, the Company successfully secured more traffic for its highways. The total traffic volume for Shanghai-Nanjing Expressway in 1998 was 14,330,000 vehicles, representing an increase of 15.2% over 1997 in average daily traffic volume.

In 1998, the Company attached great importance to the maintenance and safety of its highways and established a comprehensive maintenance system. By acquisition of large quantity of maintenance equipment

and establishment of a professional maintenance team, the Company has been able to keep the highways in a highly commendable condition. Quality roads and strict safety management helped reduce significantly the accident rate of Shanghai-Nanjing Expressway and made it one of the lowest in the PRC.

In 1998, Shanghai-Nanjing Expressway was awarded the "Luban Prize" (quality national infrastructure project), which is the highest recognition of construction technology in the PRC. In addition, it also received the "Yangtze Prize" (construction project of Jiangsu Province) and "Distinguished Award in Advanced Technology of Jiangsu Province".

The construction of Xicheng Expressway and Guangjing Expressway invested by the Company has been in smooth progress. By the end of 1998, the construction was ahead of schedule and of good construction quality.

On the brink of a new century, we believe 1999 is a critical year that will be filled with challenges and opportunities. The Company will adhere to the principle of "promotion of economic benefits based on quality services", and continue to enhance the existing management operation to achieve a higher return on our core businesses.

To enhance profitability, the Company will actively be involved in the acquisition or capital investment in other completed transportation projects in Jiangsu Province. In addition, further improving the quality of management, particularly in the area of financial control, in respect of projects already acquired will allow the Company to enjoy better returns.

In addition, the Company will strengthen cost control and revenue improvement through staff reduction and decrease in administrative cost.

To build up a capable and efficient working team, the Company will continue to focus on staff training for promoting the technological skills of our employees and cultivating a service culture within the organization.

In 1999, the Company will complete the system upgrades in communication, surveillance and toll collection for Shanghai-Nanjing Expressway. The Company will also set up auto-pass toll lanes and a central surveillance centre.

By the end of September 1999, Xicheng Expressway and Guangjing Expressway are scheduled to commence operation, which will provide a new source of income for the Company.

In the years ahead and as part of her macro economic policy, highway infrastructure will continue to be a major investment area of the PRC. In addition, the economy in the Yangtze Delta region and the PRC as a whole will develop rapidly. As such, the Company will actively seize all business opportunities and be ready to meet any challenge. The Board is confident of the future prospect of the Company.

The outstanding business results of the Company in 1998 are due to the hard work of the management and the staff, as well as the full support of shareholders. On behalf of the Board, I would like to express the deepest gratitude to you. I am confident that the Company will continue to work hard to achieve a better performance in the coming year.



Xu Hua Qiang

Chairman

Nanjing, the PRC
8th April, 1999

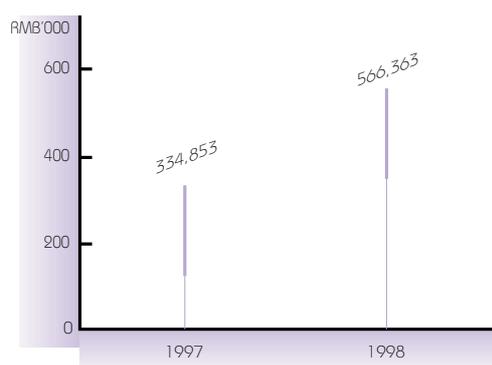
Business Review and Prospects

During 1998, the Company's management was aggressive and innovative in seizing business opportunities which, as a result, led to a noticeable improvement in its business results. The traffic volume and toll revenue of Shanghai-Nanjing Expressway, being a core asset of the Company, steadily increased. The investment projects of the Company started to generate profits, and the Company continued to acquire various quality assets by proper utilization of capital. This has brought forth momentum to the Company's development. In addition, the technology and management improvements have further reduced the operating cost of the Company and laid a good foundation for better returns.

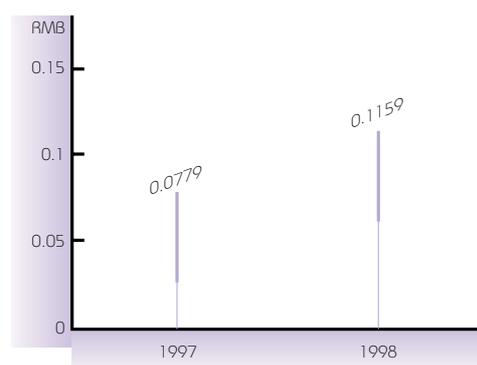
1. Summary of Results

The gross revenue of the Company for the year ended 31st December, 1998 amounted to approximately RMB1,110,093,000. Revenue net of tax was approximately RMB1,052,975,000, representing an increase of 35.1% over the previous year. The gross revenue included toll revenue of approximately RMB748,057,000 from Shanghai-Nanjing Expressway, which accounted for 67.4% of the total revenue. The toll revenue of approximately RMB264,980,000 from Nanjing-Shanghai Class 2 Highway constituted 23.9% of the gross revenue. The income from other businesses amounted to approximately RMB97,056,000, representing 8.7% of the gross revenue. Profit after taxation of the Company was approximately RMB566,363,000. With a profit of approximately RMB9,403,000 attributable to its investment in Express Bus Co., the total profit after taxation and earnings per share of the Company for the year 1998 amounted to approximately RMB566,363,000 and RMB0.1159 respectively, representing an increase of 69.1% and 48.8% over the previous year.

Consolidated Profit after Taxation of the Group



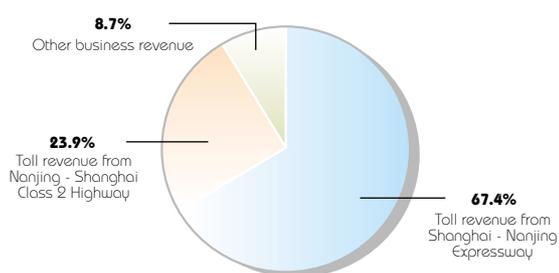
Earnings Per Share of the Group



The main reasons for the increase in profits for the Company during the period are as follows:

- (1) Steady growth in traffic volume of Shanghai-Nanjing Expressway, increasing toll revenue by 30.5% over the previous year to approximately RMB748,057,000;
- (2) Toll revenue of Nanjing-Shanghai Class 2 Highway for the entire period was included in the consolidated results of the Company, an increase of 74.9% over the previous year to approximately RMB264,980,000;
- (3) Adjustment in toll fees of Shanghai-Nanjing Expressway and Nanjing-Shanghai Class 2 Highway on 5th April, 1997 and 10th July, 1997 respectively, and setting up of additional toll stations for Nanjing-Shanghai Class 2 Highway in Nanjing and Suzhou since 15th April and 31st May, 1997 respectively. The benefit of such toll fee adjustments on annual revenue was reflected in 1998;
- (4) Increase in interest income by depositing unused portion of the H shares proceeds into banks. Also, with the reduction in interest rate by national banks, the Company paid back loans of high interest with its own funds, thus resulting in a saving in interest expenses; and
- (5) Reduction of maintenance cost and effective control of operating cost by implementation of strict, modern management system for high quality highways.

Composition of Gross Revenue of the Group in 1998



Profitability of the Group for 1998

Items	RMB'000	Contribution to Gross Revenue (%)
Depreciation of fixed assets and amortisation of start-up costs	201,200	18.10
Business tax	57,120	5.20
Financial expenses	-22,100	-2.00
Other business expenses	166,670	15.00
Operating cost	82,760	7.50
Operating profit	624,420	56.20

2. Business Environment

Economic Development of Jiangsu Province and the PRC

In 1998, the PRC was under severe impact of the international financial turmoil and suffered serious flooding. However, the PRC still managed to achieve an economic growth very close to its target of 8%. More importantly, the PRC maintained a sustainable rapid growth with low inflation rate. The gross domestic product of the PRC for the year 1998 amounted to approximately RMB7,955,300,000,000, representing an increase of approximately 7.8% over 1997. The exchange rate of Renminbi has been stable with prices in the PRC continuing to drop.

As a major developing economic region, Jiangsu's economic performance has been ahead of many other provinces in the PRC. The gross domestic product of Jiangsu Province in 1998 amounted to approximately RMB720,000,000,000, which accounted for approximately 9% of that of the whole country and represented an increase of approximately 11% over that of 1997. Its growth rate was higher than the average of the entire nation by approximately 3.2 percentage points. Compared with 1997, Jiangsu's capital investments grew by approximately 15.1% and export grew by approximately 11%, whereas retail prices dropped by approximately 1.8% and total consumption prices dropped by approximately 0.6%.

The economic development in Jiangsu Province as well as the PRC as a whole is conducive to the growth of the Company.

Road Construction in Jiangsu Province and the PRC

In 1998, the PRC accelerated road construction as an important measure for expanding domestic demand and stimulating economic growth. Total investment in road construction during the year amounted to RMB211,800,000,000, with 37,000 km of newly completed highways, of which 1,487 km were expressways, which set the highest record for highway construction in the PRC. By the end of 1998, total length of highways in the PRC was 1,260,000 km, with a total of 6,258 km being expressways.

In 1998, ten major infrastructure projects comprising eight highways and two bridges commenced construction in Jiangsu Province. Total investment in road construction amounted to approximately RMB14,656,000,000 for the entire year, an increase of 37% over the previous year. By the end of 1998,

total length of roads in Jiangsu Province reached 91,778 km, consisting of 401 km of expressways. The role and function of highways in the integrated transportation system are increasingly important. During 1998, the passenger and freight traffic volumes of road transportation system of Jiangsu Province were 56,480,000,000 person-kilometres and 33,750,000,000 tonne-kilometres respectively, both representing an increase of approximately 3.2% over the previous year.

The rapid development of road construction in the PRC, particularly Jiangsu Province, provides tremendous opportunities for the Company's development.

3. Business Review

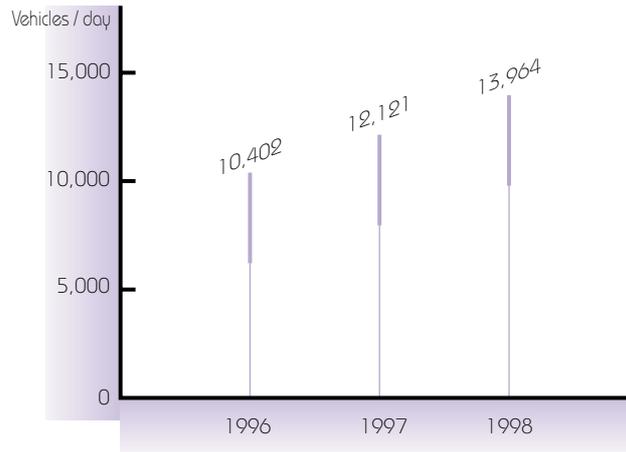
Shanghai-Nanjing Expressway

In 1998, as part of the National Trunk Highway System, Shanghai-Nanjing Expressway continued to provide rapid road transport to support the economic development within the region and, at the same time, generated satisfactory returns for the Company.

Steady increase in traffic volume During 1998, traffic in the Shanghai-Nanjing region continued to shift to Shanghai-Nanjing Expressway. The aggregate number of vehicles using the expressway from January to December was 14,330,000, with a daily average of 39,283 vehicles, and a highest of 53,953 vehicles for one single day. The distance weighted average daily traffic volume for the expressway in 1998 was 13,964 vehicles, representing an increase of approximately 15.2% over 1997.

Enhancement in Vehicle Mix In 1998, the average composite toll for all types of vehicles was RMB0.588/vehicle-kilometre, an increase of 4.1% over the previous year. It showed that more medium and heavy vehicles shifted to use Shanghai-Nanjing Expressway. The distribution by percentage for vehicles of classes 1 to 6 was approximately 45.3%, 23.2%, 24.3%, 6.5%, 0.6% and 0.1% respectively. Compared with the previous year, class 4 vehicles increased by approximately 84.7% and class 5 vehicles by approximately 107.7%. In 1998, the average distance travelled by all classes of vehicles was approximately 90.84 km, an increase of approximately 1.6% over 1997. It also showed that the distance travelled by medium and heavy vehicles was longer than that by light vehicles.

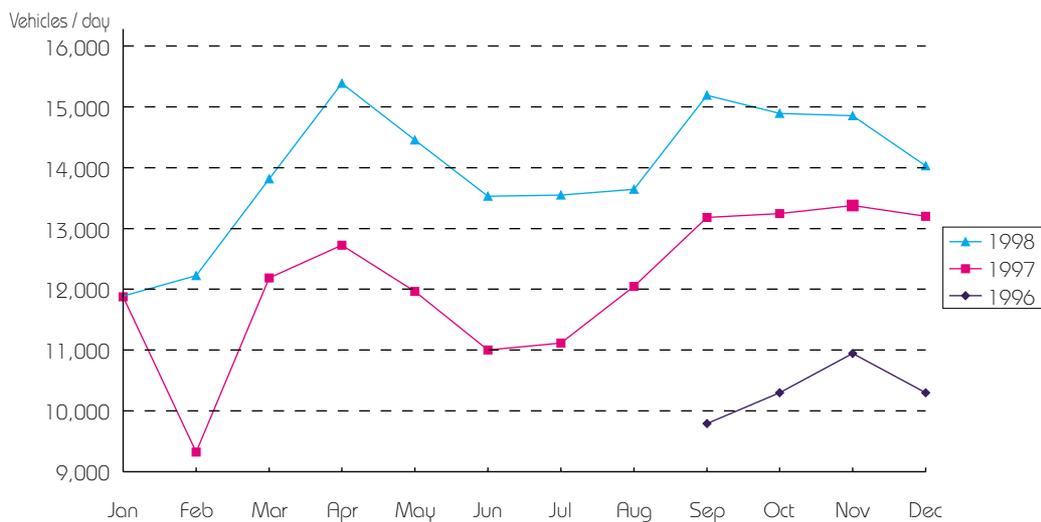
Distance Weighted Average Daily Traffic Volume for Shanghai-Nanjing Expressway



Average Daily Traffic Volume for Shanghai-Nanjing Expressway

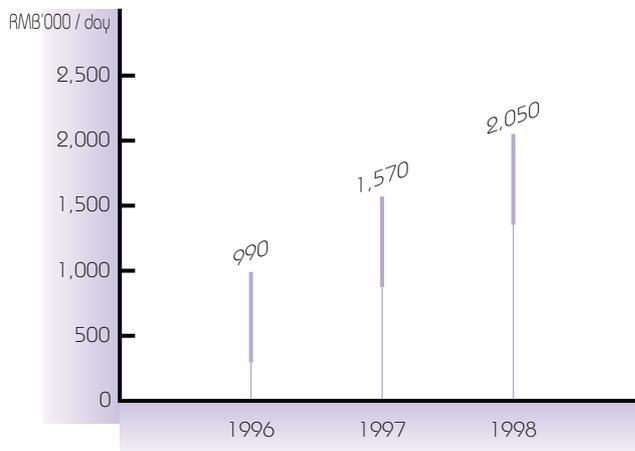
Month	1998 (Vehicles/day)	1997 (Vehicles/day)	YoY (%)
January	11,890	11,876	0.1
February	12,225	9,325	31.1
March	13,865	12,187	13.8
April	15,387	12,725	20.9
May	14,453	11,962	20.8
June	13,530	11,001	23.0
July	13,550	11,115	21.9
August	13,642	12,047	13.2
September	15,186	13,180	15.2
October	14,890	13,245	12.4
November	14,856	13,380	11.0
December	14,027	13,200	6.3
Average for the whole year	13,964	12,121	15.2

Change of Average Daily Traffic Volume for Shanghai-Nanjing Expressway since Opening



Significant Increase in Toll Revenue The aggregate toll revenue for the year 1998 was approximately RMB748,057,000, daily average toll revenue was RMB2,049,500, representing an increase of 30.5% over 1997. (The increase was attributable to the increase in traffic volume by approximately 15.2%, change in vehicle mix by approximately 4.1%, and adjustment of toll fees by approximately 8.8%.) The significant growth in toll revenue from Shanghai-Nanjing Expressway has laid a good foundation for the rapid profit growth of the Company.

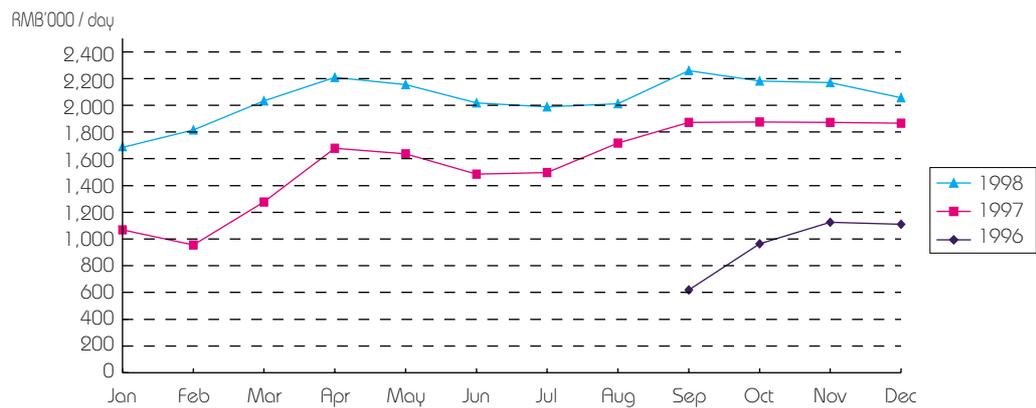
Average Daily Toll Revenue from Shanghai-Nanjing Expressway



Average Daily Toll Revenue from Shanghai-Nanjing Expressway

Month	1998 (RMB'000/day)	1997 (RMB'000/day)	YoY (%)
January	1,689	1,069	58.0
February	1,816	956	90.0
March	2,032	1,278	59.0
April	2,209	1,680	31.5
May	2,155	1,638	31.6
June	2,019	1,485	36.0
July	1,989	1,496	33.0
August	2,011	1,716	17.2
September	2,259	1,873	20.6
October	2,181	1,874	16.4
November	2,170	1,872	15.9
December	2,057	1,867	10.2
Average for the whole year	2,050	1,570	30.5

Changes of Average Daily Toll Revenue from Shanghai-Nanjing Expressway since Opening



Good Performance of Non-core Businesses In 1998, the Company concentrated its efforts on core business by adhering to its quality service, establishing proper procedures and building up its image as Jiangsu's premier infrastructure "window" company. At the same time, the Company also successfully developed its non-core businesses by expanding its product lines and strengthening its assessments of economic performance. Total revenue from non-core businesses of the Company amounted to approximately RMB97,056,000 in 1998, representing an increase of 1% over the previous year. Revenue from petrol sales amounted to approximately RMB78,928,000, advertising along highways approximately RMB7,976,000, emergency service approximately RMB7,908,000, and catering approximately RMB2,244,000.

High Quality Roads with Low Maintenance Cost "Quality is the essence of any construction project, without which there will be no economic benefit." Under such belief, it is always the first priority of the Company to ensure a high quality of construction and to strengthen maintenance work. As such, the Company has set up a comprehensive maintenance system under a quality assurance policy and principle of accountability. As a quality assurance measure, accountability of each working unit and staff is clearly defined. Strict assessment and incentive measures have been put in place. By adopting a comprehensive and modern quality management approach, the Company has strengthened the overall quality control and prevention system. By preventive and remedial measures, the Company has also eliminated potential quality problems of the highways. Inspected by the Ministry of Transport, the road surface, gradient and other major technical aspects of Shanghai-Nanjing Expressway are all maintained at a high standard after two years' of operations. Quality of Shanghai-Nanjing Expressway has received recognition from prestigious national institutions. "The Studies on the Engineering Technology and Building Management of the Jiangsu Section of the Expressway between Shanghai and Nanjing" has received the "1997 Distinguished Award in Advanced Technology of Jiangsu Province". In 1998, Shanghai-Nanjing Expressway was awarded the "Yangtze Prize" of Jiangsu infrastructure projects and "Luban Prize" (quality national infrastructure project), the highest recognition of construction projects in the PRC. Outstanding quality of the expressway has further reduced maintenance cost.

Continued Improvement in Road Safety In 1998, the Company strictly enforced the road management system to actively monitor road safety by regular patrol. When vehicles with potential problems were identified, the Company's staff would provide immediate guidance, thus effectively preventing road accidents.

The Company also adopted effective measures to prevent bad weather from affecting the operation of the expressway. Obstructions would be removed as soon as possible to ensure the smooth operation of the expressway and to eliminate potential hazards. Compared with the previous year, the accident rate per one million vehicles-kilometre dropped from 0.183 to 0.128, representing a decrease of approximately 30.1%. The injury rate and the mortality rate decreased by 37.7% and 13.6% respectively.

Nanjing-Shanghai Class 2 Highway

The Board has resolved to terminate the appointment of Jiangsu Highways Bureau for the management of Nanjing-Shanghai Class 2 Highway from 1st April, 1998. The highway is now under the direct management of the Company.

Under a unified management, the Company established various standards for the operation of the highway. Maintenance contractors were selected by tender, which has enhanced the road condition. In addition, the Company strengthened the operation of toll collection. To ensure full collection of toll fees, the facilities in five toll stations have been upgraded, with installation of drop bars, toll fee monitoring system and electronic payment system. At the same time, the Company enforced strict control over operating expenses. Outstanding results have been achieved after implementation of these measures for over a period of nine months.

In 1998, the segregation of vehicles using the two highways linking Shanghai and Nanjing was achieved. In view of the capacity of Nanjing-Shanghai Class 2 Highway and the addition of two toll stations in 1997, the Company reduced toll fees of Shanghai-Nanjing Expressway for medium and heavy vehicles in April 1997. At the same time, the Company increased toll fees of Nanjing-Shanghai Class 2 Highway in July. This has reduced the difference in toll fees between the two highways, which led to a segregation of vehicles using these two highways linking Shanghai and Nanjing that are almost running parallel. More longhaul heavy vehicles and large passenger coaches shifted to Shanghai-Nanjing Expressway that has a higher toll charge but is faster and more efficient. Average daily traffic volume for Nanjing-Shanghai Class 2 Highway in 1998 was 45,174 vehicles, representing a drop of approximately 4.9% over the previous year. Total toll revenue from Nanjing-Shanghai Class 2 Highway in 1998 amounted to approximately RMB264,980,000, or a daily average of RMB725,973. In spite of the decline in traffic volume in 1998, the toll revenue increased by approximately 1.8% over the previous year.

Xicheng Expressway

Construction of Xicheng Expressway proceeded well according to the schedule. By the end of 1998, other than the asphalt concrete surface, all the main construction works have been completed. With protection fences and central dividers in final implementation stage, 95% of the total prevention and maintenance work was completed. The construction of toll stations and service centres is currently in the final stage. Pipelines and pre-laid foundation works have been completed, while installation of the systems for toll collection, communication and surveillance are currently underway.

A sound quality management system, reliable technologies and strict controls ensure the quality of construction works for Xicheng Expressway. Inspected by the Ministry of Transport and the Provincial Quality Centre, all major technical aspects of the highway met or exceeded the national standards. The construction of Xicheng Expressway is expected to be completed by the end of September 1999 and operations will commence soon thereafter.

As at the end of 1998, investment in completed portions of Xicheng Expressway amounted to approximately RMB1,280,444,000, representing 73.2% of the total investment, of which approximately RMB1,114,000,000 was contributed by the Company, representing 74.9% of the Company's total investment.

Guangjing Expressway

Construction of Guangjing Expressway has been carrying out smoothly. By the end of 1998, other than the asphalt concrete surface, all the main construction works have been completed and 96% of the total prevention and maintenance work was completed. Installation of safety facilities has been proceeding in full scale with building construction reaching the final stage. Pipelines and pre-laid foundation works have been completed, while installation of systems for toll collection, communication and surveillance are currently underway.

Construction engineers of Guangjing Expressway have set up various quality control systems to ensure that construction quality exceeds the national standards. With strengthened site supervision and strict quality control, construction quality has been effectively monitored. Inspected by the Ministry of Transport and the Provincial Quality Centre, all major technical aspects of the highway met or exceeded the national standards. The construction of Guangjing Expressway is expected to complete by the end of September 1999 and operations will commence soon thereafter.

As at the end of 1998, investment in completed portions of Guangjing Expressway amounted to approximately RMB475,842,000, representing 63.4% of the total investment, of which approximately RMB331,080,000 was contributed by the Company, representing 51.9% of the Company's total investment.

Express Bus Co.

Established in June 1996, Express Bus Co. is a modern passenger transportation company, jointly set up by the Company and six state-owned vehicle transportation corporations located along Shanghai-Nanjing Expressway. At present, Express Bus Co. has 260 staff and 110 passenger vehicles. The 110 passenger vehicles comprise 90 medium and large-size Volvo passenger coaches and 20 medium-size Iveco passenger vehicles, with a total seating capacity of 4,038.

On 29th April, 1998, the Company signed an agreement with Jiangsu Provincial Automobile Transportation Company ("JPATC") for the acquisition of 15% equity interests in Express Bus Co. held by JPATC for a consideration of RMB8,700,000. Upon completion of the transaction on 28th January, 1999, the Company's equity interests in Express Bus Co. increased from 40% to 55% and Express Bus Co. has since become a subsidiary of the Company.

As competition intensified in 1998, the management of Express Bus Co. adopted a market-oriented approach in managing its business. It has implemented effective cost control measures and fully utilized the economies of scale. With an enhanced management system and preventive measures to ensure transport safety, Express Bus Co. has promoted its service quality. The brand name of "Speedy Deer" established by Express Bus Co. has enhanced its competitiveness and market share. These has resulted in a satisfactory business performance and a profit after taxation attributable to the company of approximately RMB7,351,000, representing an increase of 35% over last year.

Yicao Expressway

Situated at the Yangtze Delta region of Jiangsu Province, Yicao Expressway is a four-lane, first-class toll highway. The starting point of Yicao Expressway was originally at Yixing and ended at Caoqiao, with a total length of 26.1 km. To improve the traffic in the area, Yicao Expressway undertook extension work in 1995. Its original starting point was extended in the southeast direction to the National Highway 104. After the completion of the extension work, the total length of the expressway reached 46.4 km.

The construction of extension of Yicao Expressway was managed by the Jiangsu Yicao Highway Company Limited (the "Yicao Highway Co."), which was jointly established by the Company and the Yixing Communications Construction and Development Company Limited (the "Yixing Communications Construction Co."). Total investment of Yicao Expressway will amount to RMB360,000,000, of which the Company will contribute RMB176,400,000. The Company should contribute RMB100,000,000 at the time of establishment of Yicao Highway Co.. The balance of RMB76,400,000 will be contributed in stages according to the progress of the extension work. Registered capital of Yicao Highway Co. is RMB120,000,000, of which RMB58,800,000 was contributed by the Company, representing a 49% interest. The Yicao Highway Co. is registered in Yixing City on 25th December, 1998, with an operating right for a term of 10 years. Upon the liquidation of Yicao Highway Co., all residual assets will be handed over to the government unconditionally.

As a new extension project, Yicao Expressway has a relatively low maintenance and operating costs. Yixing is a city renowned for its pottery industry and scenic spots. As the economy of the city develops, the traffic volume in this area will grow, which will in turn benefit the Company.

To improve the management of the Yicao Highway Co. and to ensure the return of the Company's investment, the Company has signed an agreement with Yixing Communications Construction Co. to subcontract the operation of Yicao Expressway and the management of the Yicao Highway Co. to Yixing Communications Construction Co.. Agreed by Yixing Communications Construction Co. and guaranteed by Yixing Investment Corporation, the Company shall enjoy preferential annual profit distribution by the Yicao Highway Co. to ensure that upon the Company's initial capital contribution, the annual profit after taxation attributable to the Company to be not less than RMB17,800,000.

Human Resources

The Company has a head office and five management offices. The head office is responsible for formulating business strategies and administration. The five management offices located in Nanjing, Zhenjiang, Changzhou, Wuxi and Suzhou are responsible for management and operation of the Shanghai-Nanjing Expressway and the Nanjing-Shanghai Class 2 Highway, including toll collection, daily operation and maintenance as well as the management of toll stations, service centres and other supporting facilities.

The Company at present has a workforce of 1,551, with an average age of 35. 23% of the work force has received tertiary education. This is a young, highly capable and enthusiastic working team.

The Company has established a system accountable by the general manager and under the leadership of the Board. To fully implement a target-oriented management system, the Company has set up an organization structure of "a hierarchical management under a unified leadership". The Company has also combined specific features of a public listed company and the industry itself to further enhance the implementation of the various rules and regulations. A comprehensive human resources management system has been put in place to ensure a mechanism of equal opportunity. Proper and frequent assessment with a clear award and penalty system has ensured economic returns for the Company.

In 1998, the Company integrated its business nature into the basic training and specific job training for its staff. Based on business needs during different periods, the Company has introduced various short-term training courses, with topics covering toll collection, road administration, construction technology and data information. This has significantly upgraded the overall quality of the staff and laid a good foundation for further profit growth.

4. Future Prospects

Continual progress is seen in the economic development of Jiangsu Province and the PRC. During 1998, the policies and measures adopted by the PRC, together with the large-scale highway construction projects initiated by Jiangsu Province have both created a favourable business environment for the Company. The Company also enjoys an advantageous position as a result of its advanced facilities, favourable geographical location and leading market position. In addition, there are other positive factors contributing to the Company's success such as the traffic growth, returns from investment projects, enhancement in the scale and quality of assets and the extensive managerial experience. All of these will ensure steady growth of the Company's profit.

Steady Growth of Revenue from Core Business

The economy of Jiangsu Province is expected to grow at a faster rate than the national average in 1999. This will lead to a greater demand for road transportation. The transformation and enhancement of industry mix as well as the emphasis on high added value and new technologies for manufactured goods will stimulate the use of highways for transportation. In addition, as living standard improves and tourism

develops, highways, being a convenient mode of transportation, will increasingly be utilized. As a result of this, vehicles ownership will continue to grow. All these should result in the growth of traffic volume within the region. The Company has installed systems for toll collection, communication and surveillance, and has set up auto-pass toll lanes. These will further enhance the efficiency of toll collection and ensure a steady growth of revenue from the Company's core business.

Economic Benefit of Investment Projects

The Company's Xicheng Expressway and Guangjing Expressway are expected to be completed and commence operation at the same time as Jiangyin Yangtze Bridge ("Jiangyin Bridge") by the end of September 1999. As a major road connection for the Yangtze region, such expressways will certainly attract a large traffic volume and generate new source of income for the Company. Yicao Expressway, in which the Company took up an equity interest at the end of 1998, is also expected to produce steady return in 1999. Express Bus Co., operating on high-class highways, has a highly flexible door-to-door express service. With its large-scale operation and brand-name effect, the Express Bus Co. will maintain a steady profit growth. As the Company has increased its stake in the Express Bus Co., a higher return is expected.

Acquisition of Quality Assets

The Committee of Jiangsu Province and Jiangsu provincial government have set up a target of "ensuring the completion of the entire provincial highway network within five years". In 1999, the total length of highways under construction in the province will reach 906 km. To seize the opportunity of the rapidly growing road construction programme in Jiangsu, the Company will make its best effort to capitalise itself by issuing A Shares to the public in the PRC. The proceeds so raised will be used selectively for participation in or acquisition of infrastructure projects or toll highways in Jiangsu to enhance the utilization and returns of the Company's capital. Acquisition of quality assets will definitely boost the development and profitability of the Company.

The Company is at present undertaking research on various projects and making in-depth analysis of their traffic volumes and returns in order to select those with good investment potential. The Company has reached agreements with the relevant parties on the following projects, the completion of which will be conditional upon, among other conditions, obtaining approval from independent shareholders of the Company:

Jiangyin Bridge is a portion of the major transportation network between Tungjiang and Sanya, and an important passage for crossing the Yangtze River. Jiangyin Bridge is a six-lane suspension bridge with a primary span of 1,385 metres. It is expected that Jiangyin Bridge will be completed and open to traffic by the end of September 1999. The funding and construction of the bridge have been arranged by Jiangsu Yangtze Bridge Company Limited, in which the Company intends to acquire a 17.83% interest.

The Nanjing section of the Nanjing-Lianyungang Class 1 Highway ("Nanjing Section") is a portion of an expressway connecting Nanjing and Lianyungang. The four-lane, class 1 Nanjing Section has a total length of 29.77 km. As one of the main highways in Jiangsu, it was opened to traffic on 28th September, 1996. The Company intends to acquire the operating rights of the Nanjing Section for a period of 30 years.

Higher Returns through Better Management

In 1999, the Company will continue to operate under its principle of "profitability through management" to enhance the quality of management with the view to improving investment return. The Company will adopt effective measures to ensure full collection of toll fees and devise preventive and remedial measures to minimize highway maintenance cost. For non-core businesses, the Company will strengthen the existing management, enhance service quality and develop new businesses to further increase operating profit. Upholding the principle of "capability and efficiency through strict enforcement of financial management", the Company will lower headcount, enhance efficiency and effectively reduce cost and expenditure. It will also apply modern financial techniques to control operating cost and financing expense, thus ensuring the growth of profits for shareholders.



Cai Jia Fan

Vice Chairman and General Manager

Nanjing, the PRC
8th April, 1999

Report of the Board

To: All shareholders

The Board of Directors is pleased to present the report of the Board and the audited financial statements of the Company for the year ended 31st December, 1998.

1. Operations and Results

The Group is principally engaged in the investment, construction, operation and management of the Shanghai-Nanjing Expressway and other expressways in Jiangsu Province, and the development of passenger transport and other ancillary services (including fuelling, accommodation, catering, shopping, car repair and advertising) along the expressways.

The consolidated results of the Group for the year ended 31st December, 1998 and the financial condition of the Company and the Group as at 31st December, 1998 are set out respectively on page 47 to page 82 of the annual report.

2. Profit Distribution

The Board of Directors recommends the following profit distribution scheme for the year ended 31st December, 1998:

	RMB'000
Profit after taxation	566,363
Profit attributable to shareholders	566,363
Transfers to:	
Statutory surplus reserve	(54,273)
Statutory public welfare fund	(27,137)
Discretionary common reserve	—
Unappropriated profit brought forward	92,593
Transfer of valuation surplus to unappropriated profit	395
Dividends	(293,265)
Unappropriated profit carried forward	284,676
Earnings per share	RMB0.1159

The Board of Directors submits the aforesaid profit distribution scheme to the 1998 Annual General Meeting of shareholders for consideration and approval.

Pursuant to the relevant provisions of the Ministry of Finance and the Articles of Association of the Company, the accounting standards of the PRC and the International Accounting Standards shall both be adopted. Where a difference in profits arises, the lower of the two shall prevail.

3. Dividends

The eleventh meeting of the second Board of Directors of the Company held on 8th April, 1999 recommended payment of a final dividend of RMB0.06 per share to all its shareholders.

The holders of H shares whose names appear on the register of members of the Company on 18th May, 1999 are all entitled to receive the final dividend. The register of members of the Company will be closed for transfer of H shares on 18th May, 1999. The method and timing of the dividend payment and registration of shareholdings in respect of the holders of A shares will be announced in due course.

The holders of H shares who wish to receive the final dividend should lodge their share certificates with HKSCC Registrars Limited on 2/F., Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong, for registration of share transfer no later than 4:00 pm on 17th May, 1999.

The payment of final dividends in respect of A shares and H shares is subject to the approval of the 1998 Annual General Meeting of shareholders to be held on 18th June, 1999. The date of payment will be announced in due course.

Pursuant to the Articles of Association of the Company, dividends of the A shares are to be paid in Renminbi, while that of the H shares be paid in Hong Kong dollars, the conversion of which will be based on the average of the closing exchange rate of Renminbi against Hong Kong dollars as quoted by the People's Bank of China during the week immediately preceding 18th June, 1999.

4. Summary of the Financial Information

The results and total assets of the Company for the two years ended 31st December, 1998 are set out on page 5 of this report.

5. Bank Loans and Other Borrowings

The bank loans and other borrowings of the Company as at 31st December, 1998 are detailed in notes to the financial statements.

6. Fixed Assets

The changes in the fixed assets during the year are set out in notes to the financial statements.

7. Subsidiaries

As at 31st December, 1998, details of the subsidiaries and associated companies of the Company are as follows:

Name of company (status of legal entity)	Date and place of incorporation	Attributable equity interest	Registered capital (RMB'000)	Principal activities
Jiangsu Xicheng Expressway Co., Ltd. (limited liabilities)	16th September, 1997 The PRC	85%	600,000	Construction, operation, maintenance and toll collection of Xicheng Expressway and related business of storage yard, passenger and goods transport and vehicle maintenance
Jiangsu Guangjing Expressway Co., Ltd. (limited liabilities)	16th September, 1997 The PRC	85%	250,000	Construction, operation, maintenance and toll collection of Guangjing Expressway and related business of storage yard, passenger and goods transport and vehicle maintenance
Jiangsu Nanjing- Shanghai Express Bus Co., Ltd. (limited liabilities)	21st June, 1996 The PRC	*40%	58,000	Road transportation, vehicle maintenance and storage of vehicles (excluding sedans) and spare parts
Jiangsu Yicao Highway Co., Ltd. (limited liabilities)	25th December, 1998 The PRC	49%	120,000	Construction and operation of Yicao Highway

* With effect from 28th January, 1999, the Company's interest in the Express Bus Co. has been increased from 40% to 55%.

8. Reserves

The movement in the reserves of the Company is set out in notes to the financial statements.

Details of the nature, application, movement and bases of allocation (including the percentage used and the profit amount for calculation) in respect of the statutory surplus reserve and the statutory public welfare fund are set out in notes to the financial statements.

9. Staff Pension Scheme

The Group participates in the central retirement and pension fund scheme organised by the local government. According to the scheme, the Group made an annual contribution representing 20% (in addition to a 5% contribution by the employees) of the total annual wages of employees to the aforesaid retirement and pension fund for 1998, out of which the pensions of the Group's retired workers are paid.

10. Sale of the Staff Quarters

In accordance with the "Proposal on Further Reform of Housing Policy in Urban Areas" of the State and the "Implementation Scheme for Staff Quarters of the Jiangsu Province" of the Jiangsu Provincial Government, the Company is in preparation for the sale of the staff quarters to its employees. According to the Company's plan, the existing staff quarters will be sold to its employees on voluntary basis at a price determined by the State. As at 31st December, 1998, no sale and purchase agreement was entered into between the Company and its employees. The management of the Company believes that such arrangement will not have any material adverse effect on the profitability of the Company.

11. Pre-emptive Rights

Pursuant to the Articles of Association of the Company and the laws of the PRC, the Company is not subject to any pre-emptive rights requiring it to propose new issues to its existing shareholders in proportion to their shareholdings.

12. Movement in Share Capital and Details of Shareholdings

The share capital as at 1st January, 1998 and 31st December, 1998 were as follows:

Shareholding Structure	Number of Shares	Percentage (%)
A Shares - State	3,376,134,600	69.07
- Legal person	289,612,900	5.93
H Shares	1,222,000,000	25.00
Total	4,887,747,500	100.00

13. Shareholding of Major Shareholders

As at 31st December, 1998, the shareholder holding more than 10% of the issued A Shares of the Company was as follows:

Shareholder	Number of A Shares	Percentage (%)
Jiangsu Communications Investment Corp.	3,376,134,600	92.1

As at 31st December, 1998, shareholders holding more than 10% of the issued H Shares of the Company, recorded in the register required to be kept under Section 16(1) of the Securities (Disclosure of Interest) Ordinance, were as follows:

Shareholders	Number of H Shares	Percentage (%)
Real Cheer Ltd.*	152,463,500	12.5
Lotsfund Limited*	152,463,500	12.5
New World Infrastructure Limited*	152,463,500	12.5
Mombasa Limited*	152,463,500	12.5
New World Development (China) Limited*	152,463,500	12.5
New World Development Company Limited*	152,463,500	12.5
Chow Tai Fook Enterprises Limited*	152,463,500	12.5

* Duplicate interest of 152,463,500 shares held by Real Cheer Ltd.

14. Shareholdings of the Company's Directors and Supervisors

As at 31st December, 1998, none of the directors, supervisors, senior management and their associates had any beneficial interest in the Company's issued share capital, which are required to be registered in the register required to be kept under Section 29 of the Securities (Disclosure of Interest) Ordinance.

At no time during the year was the Company or its associated companies a party to any arrangement to enable the directors, supervisors, chief executives of the Company and their respective associates to acquire benefits by means of the acquisition of shares in, or debentures of the Company or its associated companies.

15. Purchase, Sale or Redemption of Listed Shares of the Company

During the year ended 31st December, 1998, the Company did not purchase, sell or redeem any of its listed shares.

16. Director's Interests in Contracts

Save as mentioned above, none of the Directors had any beneficial interest in the material contracts entered into by the Company or its subsidiaries during the year.

No service contracts which can only be terminated by the Company within one year with compensation (other than statutory compensation) have been entered into between the Company and its Directors.

17. Use of Proceeds of the H Share Issue

The Company issued 1,222,000,000 H Shares in 1997 at an issue price of HK\$3.11 (RMB3.33) per H Share and raised approximately RMB4,065,000,000 with net proceeds (after deduction of expenses) amounted to approximately RMB3,926,000,000. As at 31st December, 1998, as disclosed in the prospectus, the proceeds of the H Share Issue were used as follows:

- RMB1,345,786,000 was used in the acquisition of the land use rights and the operating rights of Nanjing-Shanghai Class 2 Highway for a term of 15 years;

- approximately RMB1,114,000,000 and RMB331,080,000 was used in connection with the Xicheng Expressway and Guangjing Expressway (in each case, the Company holds an 85% equity interest) respectively;
- RMB71,330,845 was used in the construction and upgrading of the surveillance and control, communication and toll systems for Shanghai-Nanjing Expressway;
- RMB250,000,000 was used for the repayment of loans; and
- the balance of RMB813,803,155 was deposited in the China Merchants Bank, Nanjing Branch and the Construction Bank of China, Jiangsu Branch and will be used strictly for the purposes stated in the prospectus and according to the work progress.

18. Acquisitions

In 1998, the Company invested in Yicao Highway Co., details of which are set out on page 20 to page 21.

19. Proposed Issue of A Shares

The Company is taking positive steps to prepare for the issue of its A Shares and will, as soon as possible, submit an application to the relevant authorities of Jiangsu Province and the State for approval in 1999.

The proposed A Share Issue of the Company was approved by the State Planning Commission and Securities Commission of the State Council in 1995 and was disclosed in the prospectus issued by the Company in respect of the listing of its H Shares in 1997. In order to finance the acquisition of quality assets by the Company, it is proposed to increase the number of A Shares to be issued from 50,000,000 shares as initially approved by the shareholders to 150,000,000 shares. The Company plans to issue A Shares for listing in 1999. Currently, the Company is preparing the proposed A Shares issue with the lead underwriter. The proceeds of the issue of additional 150,000,000 A Shares is estimated to be approximately RMB500,000,000. However, the time, number of shares, issue price, proceeds and the listing stock exchange of the A Share Issue are subject to approval of the China Securities Regulatory Commission.

In conjunction with such issue, the Directors will propose a special resolution for the issue of additional 150,000,000 A Shares for shareholders' approval as a special business at the Annual General Meeting to be held on 18th June, 1999.

20. Deposits

As at 31st December, 1998, the Company did not have any trust deposits in any financial institutions in the PRC and there were no fixed deposits which could not be repaid upon maturity.

21. Risk on Foreign Exchange

As at 31st December, 1998, the borrowings of the Company amounted to approximately RMB770,439,000, including foreign currency borrowings of only RMB439,000. Therefore, the Company has no significant foreign currency exposure. The current weighted average interest rate of the Company is about 7.26%, a greater degree of decrease as compared to the previous year.

In September 1998, the Company was granted a Loan from the Spanish Government of US\$9,800,000 on-lent by The Bank of China, Jiangsu Branch. The loan would be used to acquire equipment and technology from overseas for the automatic communication, toll collection and monitoring systems of Shanghai-Nanjing Expressway. As at 31st December, 1998, approximately US\$53,000 was utilised and the balance of the loan approximately US\$9,747,000 will be utilised in 1999.

22. Income Tax Rate

The Company has noted that there were reports in the media on the State Council's new policy on income tax. However, the Company has not received any notice from the relevant provincial authorities about the cancellation of financial subsidies. The Company is still entitled to the 18% tax rebate in accordance with the notice from the Jiangsu Financial Department on 8th April, 1997. However, there is no assurance that the Company shall continue to be entitled to such rebate in the future.

23. The Year 2000 Issue

The Group's computer systems for operation and management were developed by professional software developers prior to the operation of Shanghai-Nanjing Expressway in September 1996 when the year 2000 issue was well recognised. The vendors have confirmed that they have taken necessary measures in developing the systems and that all the systems are year 2000 compliant. The Company has recently completed the examination of the systems by IT professional and concluded that the systems are year 2000 compliant. The management believes that it is not necessary to replace or modify the hardware and software of the operation and management computer systems of the Company and that the normal operation of the Company will not be affected by the year 2000 issue. The Company has not proposed any contingency plan in this respect and no expenses were so incurred in 1998. No such cost will be incurred in 1999.

24. Termination of Material Contract

The fifth meeting of the second Board of Directors of the Company held on 26th March, 1998 resolved to terminate the operation and maintenance contract of the Nanjing-Shanghai Class 2 Highway entered into between the Company and the Jiangsu Highways Bureau on 11th June, 1997. On 31st March, 1998, the Company entered into an agreement with the Jiangsu Highways Bureau to terminate the operation and maintenance contract in respect of the Nanjing-Shanghai Class 2 Highway. With effect from 1st April, 1998, the Company resumed management of all relevant assets and operation of the Highway. A press announcement in relation to this matter was made in the South China Morning Post and the Hong Kong Economic Times on 1st April, 1998.

25. The Impact of the Recent Financial Turmoil in Southeast Asia

The recent financial turmoil in Southeast Asia has no adverse effects on the business operations of the Company.

26. Material Litigation

The Company had not been involved in any material litigation during the period.

27. Code of Best Practice

During the period ended 31st December, 1998, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange.

28. Office Relocation

The Company has relocated its office to Jiangsu Communications Building.

Address : Jiangsu Communications Building, 69 Shigu Road, Nanjing, the PRC

Postcode : 210004

Telephone : (86 25) 420 0999 (General Line),

(86 25) 446 9568/446 9332 (Securities Department)

Fax : (86 25) 420 7788 (General Line),

(86 25) 446 6643 (Securities Department)

Website : <http://www.jsexpressway.com>

29. Auditors

During 1998, Arthur Andersen • Hua Qiang Certified Public Accountants remained as the PRC auditors of the Company, while Arthur Andersen & Co. continued to be its international auditors. At the forthcoming Annual General Meeting of shareholders, the Company will propose the re-appointment of Arthur Andersen • Hua Qiang Certified Public Accountants and Arthur Andersen & Co. respectively as its PRC and international auditors for the year 1999.

30. Connected Transaction

Related party transactions of the Company during the year ended 31st December, 1998

1. Other than the bank loans of RMB240,000,000 (1997: RMB350,000,000) guaranteed by Jiangsu Communications Investment Corporation, all short-term bank loans are unsecured and denominated in Renminbi. Short-term bank loans are repayable within one year with interests charged at the prevailing market rates quoted by the People's Bank of China. The interest rates of short-term loans outstanding as at 31st December, 1998 ranged between 6.12% and 6.57% (1997: 7.65% to 11.09%) per annum.
2. Long term bank loans of approximately RMB50,439,000, which bear an annual interest rate of 6.77% and 10.98%, were guaranteed by Jiangsu Communications Investment Corporation.
3. As at 31st December, 1998, the Company had been granted facilities of approximately US\$9,800,000 (or RMB81,140,000) from a bank for the import of equipment and technology. As at 31st December, 1998, unused facilities amounted to approximately US\$9,747,000 (or RMB80,700,000). Interest rates of such loans ranged between 1% and 6.77%. Such loans were guaranteed by Jiangsu Communications Investment Corporation.
4. On 29th April, 1998, the Company and Jiangsu Provincial Automobile Transportation Company ("JPATC", one of the promoters of the Company and the Express Bus Co.) entered into a share transfer agreement pursuant to which the Company acquired a 15% interest in the Express Bus Co. from JPATC at a cash consideration of RMB8,700,000. However, since JPATC is a party to a civil action regarding of a guarantee and such interest in the Express Bus Co. held by JPATC was then frozen by the Nanjing Intermediate People's Court (the "Court"). In December 1998, the Company paid RMB8,700,000 to the Court according to the agreement and such payment was stated in its financial statements as at 31st December, 1998 as investment deposit.
On 28th January, 1999, the Court released and transferred to the Company the 15% interest in the Express Bus Co.. As a result, the Company's interest in the Express Bus Co. increased from 40% to 55%, and its share of the registered capital in the Express Bus Co. increased from RMB23,200,000 to RMB31,900,000.
5. On 16th September, 1997, the Company and Huajian Transportation Economic Development Centre (a subsidiary of the Ministry of Communications of the PRC) jointly established Jiangsu Xicheng Expressway Co., Ltd. ("Jiangsu Xicheng") and Jiangsu Guangjing Expressway Co., Ltd. ("Jiangsu Guangjing"). Jiangsu Xicheng and Jiangsu Guangjing was principally engaged in the construction, operation and management of Xicheng Expressway and Guangjing Expressway respectively.

Pursuant to the main contractor's contracts entered by Jiangsu Xicheng and Jiangsu Guangjing with Wuxi Expressway Command Office and Taizhou Guangjing Expressway Command Office respectively, the total value of the contract for Xicheng Expressway and Guangjing Expressway was RMB1,750,000,000 and RMB750,000,000 respectively. The construction of Xicheng Expressway and Guangjing Expressway is expected to be completed by September 1999. The progress of such construction as at 31st December, 1998 is summarized as follows:

	Xicheng Expressway	Guangjing Expressway	Total
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Construction-in-progress (cost incurred)	1,280,444	475,842	1,756,286
Capital commitment (cost to be incurred)	469,556	274,158	743,714
Total contract value	1,750,000	750,000	2,500,000

6. As at 31st December, 1998, advances from Jiangsu Communications Investment Corporation to pay construction costs of Shanghai-Nanjing Expressway amounted to approximately RMB3,000,000 (1997: RMB3,000,000). These advances are unsecured, interest-free and with no fixed terms of repayment.
7. On 11th June, 1998, the Company and Jiangsu Highways Bureau entered into a service contract for the operation and maintenance of the Nanjing-Shanghai Class 2 Highway. In accordance with the contract, the Company paid an initial deposit of RMB4,000,000 as working capital and monthly service fee at a rate of 18% of its toll revenues. On 31st March, 1998, the Company terminated the contract and took over the operation and management of the Nanjing-Shanghai Class 2 Highway with effect from 1st April, 1998. Jiangsu Highways Bureau had refunded the initial working capital of RMB4,000,000 to the Company. During 1998, the total service fee paid by the Company to Jiangsu Highways Bureau amounted to approximately RMB15,030,000 (1997: RMB27,271,000).
8. As at 31st December, 1998, the Company had contributed approximately RMB32,400,000 (1997: RMB32,400,000) to an office building development project known as "Jiangsu Communications Building" which is controlled by the Jiangsu Communications Department. The development was completed in early 1998. During the year, the Company has taken up certain floors in Jiangsu Communications Building for its own use as offices in return for its contribution. Title to these floors had not yet been transferred to the Company as at 31st December, 1998.

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

- (a) Such transactions were entered into in the ordinary course of business;
- (b) Such transactions were entered into in accordance with relevant contracts and (1) by normal commercial terms (being terms for transaction with similar nature by similar entities in the PRC) or (2) if there was no comparable terms, by terms not less favourable available from the Company to third parties or from third parties to the Company; and
- (c) Such transactions were fair and reasonable so far as shareholders of the Company concerned.

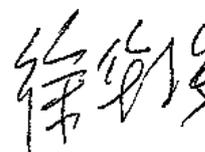
31. Off Balance Sheet Financial Instruments

The Company has no off balance sheet investment in other financial instruments (i.e. forward contract, future contract, option and other derivatives on various assets, interest, foreign exchange or index).

32. Practice Note 19

The Company has not been involved in any financial activities which are required to be disclosed in accordance with the Practice Note 19 of the Rules Governing the Listing of Securities on the Stock Exchange.

By order of the Board



Xu Hua Qiang
Chairman

Nanjing, the PRC
8th April, 1999

Report of the Supervisory Committee

To: All shareholders

Pursuant to the Company Law of the People's Republic of China and the Articles of Association of the Company, the Supervisory Committee of Jiangsu Expressway Company Limited has faithfully discharged its duties in respect of the management, operation, cost-effectiveness and development of the Company as prescribed by the Articles of Association of the Company for the purpose of safeguarding the lawful interests of the Company and its shareholders, within the framework as laid down by the laws and regulations and the Listing Rules. We attended the Board meetings and the work meetings of the general manager, took part in major activities of the Company, and exercised to the fullest and widest extent effective supervision on the implementation and procedure of decision-making and management behaviour of the Company's directors, general manager, senior management, as well as their protection of the Company's operational and management aspects. We put forward opinions and recommendations in respect of the Company's management, operation, investment in new development projects and reform measures, for the information of its senior management, with a view to promoting the logical decision-making and standardisation of management, and fostering a rapid growth of the Company's economic gains.

We have reviewed the 1998 financial statements, the Directors' report and the dividend distribution scheme prepared by the Board of Directors and audited by Arthur Andersen & Co. for distribution to the shareholders. We are of the view that the operating results of the Company are fairly and accurately reflected. The distribution of dividend is in the interest of local and overseas shareholders as well as the long-term development of the Company and is made after the allocation of surplus fund and public welfare fund. It also complies with all relevant laws, regulations and the Articles of Association of the Company.

We consider that the Company's directors, general manager and other senior management have all complied with the requirements as stipulated in its Articles of Association and the Listing Rules, discharged their duties, and had a lawful operation in an active, cautious, and diligent manner, bearing in mind the full interests of the Company. We have found no acts of theirs in contravention with the laws and regulations and the provisions of the Articles of Association of the Company or infringing upon the interests of the Company or its shareholders.

During the year, the Company was not involved in any material litigation or proceedings. All business activities and connected transactions were conducted in its ordinary normal operations and on terms and conditions fair and reasonable to our shareholders.

In the opinion of the Supervisory Committee, the Company achieved outstanding performances in all aspects of its work in the year. This was made possible with the leadership of the Board of Directors and the support of all relevant government authorities. Under the distinguished management of the Chairman and General Manager, the Company adhered to an open-minded and realistic principle and implemented a modern management system to promote diligent work. We strive to equip ourselves with superb facilities and management to provide excellent services for a satisfactory economic return. Towards this goal, the Company has managed to increase income and tightly controlled its expenses. It has also enhanced its operation and spearheaded new initiatives to expand its business.

In 1998, the Company focused on management improvement and launched a target-oriented accountability system. During the year, with emphasis on economic benefits, the Company concentrated its effort on enhancement of road conditions, service quality and work safety. Under the provisions of company law and the spirit of modern corporations, the Company strengthened its management system and further established rules and regulations for its staff. The improvement in management has yielded a satisfactory return to us, since better management meant better services to customers and drew more vehicles to use our highways. The recognition of our quality service has prompted a steady growth in the traffic volume of Shanghai-Nanjing Expressway, resulting in a significant increase in our toll revenue.

The Company has established a comprehensive road maintenance system to ensure an outstanding road condition. The high quality of our expressways has won us the Luban Prize (quality infrastructure project) by National Infrastructure Project Committee in 1998. Our "Studies on the Engineering Technology and Building Management of the Jiangsu Section of the Expressway between Shanghai and Nanjing" has also received the Distinguished Award in Advanced Technology of Jiangsu Province. In addition, the Company focused on promotion of road safety and strictly implemented various safety measures. As a result, accident rate of the Shanghai-Nanjing Expressway significantly dropped in 1997 and all major assessment indices improved in 1998, which reflected a high degree of safety on our highways.

The construction of Xicheng Expressway and Guangjing Expressway invested by the Company has been proceeding smoothly. Various examinations have been conducted by experts of the Ministry of Communications, which all indicated the quality of construction has met a high standard. It is expected that two highways can be completed as planned and will commence operation by 1st October, 1999. Besides, the Nanjing-Shanghai Express Bus, in which the Company has share interests, has been performing very well. Its steady growth in business has generated a satisfactory return to the Company.

We believe the outstanding operating results achieved by Jiangsu Expressway Company Limited in the year can meet the expectation of all shareholders. During the year, we received various inquiries and valuable suggestions from our shareholders regarding the business development of the Company. The Supervisory Committee has carefully considered and accurately referred to the senior management and decision makers of the Company all the recommendations made by shareholders. We have also given comments with complete analysis of shareholders' suggestions with a perception of the actual situation of the Company. We understand that the Company highly regarded the opinion of shareholders and accepted and implemented many of the constructive ideas. It is thus crucial to maintain a communication channel between shareholders and the Supervisory Committee. We hope our shareholders and all sectors of the community can continuously support and encourage us. This will be a driving momentum for the Company to strive for a rapid growth and better service, which will lead to a better operating result and a satisfactory return to shareholders. We are determined to work together and accelerate the pace of our development. In addition, we will seize all business opportunities and strive towards the target of establishing ourselves as a leading modern enterprise both the PRC and overseas countries.

The members of Supervisory Committee unanimously endorse the report of the Board of Directors for 1998. We pledge to conscientiously render our duties and effectively supervise the Company to ensure its profit and protect the interests of shareholders. As a final note, we are determined to fulfil our obligations for shareholders.

By order of the Supervisory Committee
Zhong Zhang Wan
Chairman of the Supervisory Committee

Nanjing, the PRC
8th April, 1999

Notice of the Annual General Meeting

NOTICE IS HEREBY GIVEN THAT the Annual General meeting ("AGM") of Jiangsu Expressway Company Limited (the "Company") will be held at Jiangsu Communications Building, 69 Shigu Road, Nanjing, the PRC on Friday, 18th June, 1999, at 9:00 a.m. for the following purposes:

Ordinary Business

1. To consider and approve the report of the Board of Directors for the year ended 31st December, 1998;
2. To consider and approve the report of the Supervisory Committee for the year ended 31st December, 1998;
3. To consider and approve the audited accounts and the auditors' report for the year ended 31st December, 1998;
4. To consider and approve the re-appointment of Arthur Andersen & Co. and Arthur Andersen • Huaqiang Certified Public Accountants as the Company's international and PRC auditors respectively and to authorise the Board of Directors to fix their remuneration;
5. To approve the final dividend distribution proposal for the year 1998;
6. (i) To consider and approve Mr. Le Jia Hua as Director of the Company;
(ii) To consider and approve Ms. Xu Yi Qun as Director of the Company;
(iii) To consider and approve Mr. Xing Guo Qiang as Supervisor of the Company;
7. (i) To consider and approve the contract for the acquisition of operating rights of the Nanjing Section (as defined in an announcement dated 8th April, 1999 issued by the Company) and to authorize the Directors of the Company to do such things as the Directors, in their opinion deem necessary, desirable or expedient to give effect to the contract;
(ii) To consider and approve the contract for the acquisition of shares in Yangzi Bridge Company (as defined in an announcement dated 8th April, 1999 issued by the Company) from Jiangsu Communications Investment Corp., and to authorize the Directors of the Company to do such things as the Directors, in their opinion deem necessary, desirable or expedient to give effect to the contract; and
(iii) To consider and approve the Nanjing Section Service Contract (as defined in an announcement dated 8th April, 1999 issued by the Company), and to authorize the Directors of the Company

to do such things as the Directors, in their opinion deem necessary, desirable or expedient to give effect to the Nanjing Section Service Contract.

Special Business

8. To consider and approve an increase of the proposed A Share Issue approved by the Company at the general meeting held in April 1997 from 50,000,000 A Shares to 150,000,000 A Shares and to authorize the Directors of the Company to do such things as the Directors, in their opinion deem necessary, desirable or expedient and to consider and approve any necessary amendment to the articles of association of the Company as a result of such proposed A Share Issue.

By order of the Board
Yao Yong Jia Lam Che Wah, Danny
Joint Company Secretaries

Nanjing, the PRC
8th April, 1999

Notes:

1. Persons who hold shares of the Company and whose names appear on the register of members as at 18th May, 1999 shall be entitled to attend the AGM after completing and returning to the Company the attached confirmation slip by 28th May, 1999. Further details are set out in the confirmation slip and explanation thereto.
2. The Company's register of members will be closed from 18th May, 1999 to 18th June, 1999 (both days inclusive), during which period no transfer of H shares will be registered. Holders of H shares who wish to rank for the distribution of final dividend must deliver their instruments of transfer together with the relevant share certificates to HKSCC, the Registrar of H shares of the Company, on 2/F, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong, by no later than 4:00 p.m. on Monday, 17th May, 1999. The record date of holders of A shares and the method and time for distribution of dividend will be announced as soon as practicable.
3. A shareholder who has the right to attend and vote at the AGM is entitled to appoint a proxy (whether or not a member) to attend and vote on his behalf. A shareholder (or his proxy) is entitled to exercise his voting rights in proportion of his shareholding. Notwithstanding completion and delivery of the form of proxy, a shareholder may still attend and vote at the AGM.

4. The instrument appointing a proxy must be in writing under the hand of the appointor or his attorney duly authorised in writing. In the event that such instrument is signed by an attorney of the appointor, an authorisation that authorised such signatory shall be notarized. To be valid, such notarized authorization together with the form of proxy must be delivered to the Secretary's Office of the Company not less than 24 hours before the time appointed for holding of the AGM. The form of proxy for use at the AGM is despatched to shareholders together with the Annual Report of the Company and the circular dated 29th April, 1999.
5. Resolution no.7 concerns connected transaction and is required to be approved by independent shareholders. Ninglian Ningtong Management Office and their respective associates shall abstain from voting.
6. Note to the special business:

In respect of the resolution no.8, in accordance with the Notice (ref: No.1 of 1998) of the PRC Securities Regulatory Commission on the "Article 85 of the Mandatory Provisions for the Articles of Association of Overseas Listing Companies" and the articles of association of the Company, the Directors may be authorized to allot new shares in the Company by shareholders' resolution at general meeting. The authorization is sought to enable the Directors to enter into transaction requiring the issue of shares when necessary. The special business will be approved by way of a special resolution.
7. Shareholders attending the AGM will be responsible for their own accommodation and travelling expenses.
8. Address: The Securities Department

 Jiangsu Expressway Company Limited

 27th Floor, Jiangsu Communications Building

 69 Shigu Road, Nanjing, the PRC

Postal code : 210004

Tel : (86 25) 420 0999 (ext. 4706/4716)

Fax : (86 25) 446 6643/420 7788

Report of the Auditors

AUDITORS' REPORT TO THE SHAREHOLDERS OF

JIANGSU EXPRESSWAY COMPANY LIMITED

(A joint stock company incorporated in the People's Republic of China with limited liability)

We have audited the financial statements of Jiangsu Expressway Company Limited (the "Company") and its subsidiaries (hereinafter together with the Company referred to as the "Group") on pages 47 to 82 which have been prepared in accordance with International Accounting Standards ("IAS").

Respective Responsibilities of Directors and Auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of Opinion

We conducted our audit in accordance with International Standards on Auditing. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as of 31st December, 1998 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with IAS and the disclosure requirements of the Hong Kong Companies Ordinance.

Arthur Andersen & Co.

Hong Kong

8th April, 1999

Consolidated Profit and Loss Account

	<i>Note</i>	1998	1997 (Note 24)
Revenue, net	3	1,052,975	779,673
Profit before taxation and share of results of an associated company		624,422	329,393
Share of results of an associated company		9,403	8,116
Profit before taxation	4	633,825	337,509
Taxation	6		
– The Group		(65,410)	—
– Associated company		(2,052)	(2,656)
Profit attributable to shareholders	8	566,363	334,853
Unappropriated profit brought forward		92,593	679
Transfer of valuation surplus to unappropriated profit	18	395	—
Transfer to statutory surplus reserve	18	(54,273)	(31,376)
Transfer to statutory welfare fund	18	(27,137)	(15,688)
Dividends	7	(293,265)	(195,875)
Unappropriated profit carried forward		284,676	92,593
Earnings per share	8	RMB 0.1159	RMB 0.0779

The accompanying notes form an integral part of these consolidated financial statements.

For the year ended 31st December, 1998
(Amounts expressed in thousands of Renminbi, except for earnings per share)

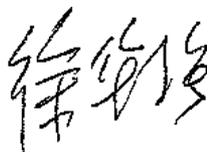
Consolidated Balance Sheet

	<i>Note</i>	1998	1997 (Note 24)
Fixed assets, net	11	10,939,308	10,164,016
Investment in an associated company	13	39,699	29,671
Long-term receivable	14	58,800	—
Pre-operating expenses, net	15	19,253	29,575
CURRENT ASSETS:			
Cash and cash equivalents	9	1,213,773	2,017,100
Prepayments and other receivables	10	111,386	55,787
Inventories and supplies		15,474	15,768
Due from related companies	19	—	1,888
Total current assets		1,340,633	2,090,543
CURRENT LIABILITIES:			
Short-term bank loans	16(a)	(720,000)	(605,000)
Current portion of long-term loans	16(b)	(50,439)	(132,328)
Current portion of long-term debentures payable	16(c)	—	(125,608)
Payables on construction project		(125,636)	(219,594)
Other payables and accruals		(102,199)	(69,761)
Due to Jiangsu Communications Investment Corporation	19	(3,000)	(3,000)
Due to Jiangsu Communication Department	19	(7,342)	—
Due to a related company	19	—	(5,149)
Taxes payable	6	(107,288)	(5,265)
Dividends payable	7	(293,266)	(198,514)
Total current liabilities		(1,409,170)	(1,364,219)
NET CURRENT (LIABILITIES) ASSETS		(68,537)	726,324

As of 31st December, 1998
(Amounts expressed in thousands of Renminbi)

	<i>Note</i>	1998	1997 (Note 24)
NON-CURRENT LIABILITIES			
Long-term loans, non-current portion	<i>16(b)</i>	—	(320,966)
Long-term debentures payable, non-current portion	<i>16(c)</i>	(200,000)	(200,000)
Deferred income taxes	<i>6, 18</i>	(2,816)	—
		(202,816)	(520,966)
		10,785,707	10,428,620
REPRESENTING:			
SHARE CAPITAL	<i>17</i>	4,887,748	4,887,748
RESERVES	<i>18</i>	5,685,474	5,415,387
SHAREHOLDERS' EQUITY		10,573,222	10,303,135
MINORITY INTERESTS		212,485	125,485
		10,785,707	10,428,620

The financial statements were approved by the Board of Directors on 8th April, 1999.



Xu Huaqiang
Chairman



Cai Jiafan
Vice Chairman and General Manager

The accompanying notes form an integral part of these consolidated financial statements.

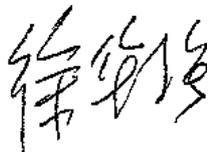
Balance Sheet

	<i>Note</i>	1998	1997 (Note 24)
Fixed assets, net	11	9,183,023	9,265,145
Investment in subsidiaries	12	1,445,080	711,080
Investment in an associated company	13	39,699	29,671
Long-term receivable	14	58,800	—
Pre-operating expenses, net	15	19,253	29,575
CURRENT ASSETS:			
Cash and cash equivalents	9	1,201,916	2,015,356
Prepayments and other receivables	10	111,256	55,544
Inventories and supplies		15,474	15,768
Due from related companies	19	—	1,888
Total current assets		1,328,646	2,088,556
CURRENT LIABILITIES:			
Short-term bank loans	16(a)	(720,000)	(605,000)
Current portion of long-term loans	16(b)	(50,439)	(132,328)
Current portion of long-term debentures payable	16(c)	—	(125,608)
Payables on construction project		(14,928)	(155,301)
Other payables and accruals		(102,200)	(69,761)
Due to Jiangsu Communications Investment Corporation	19	(3,000)	(3,000)
Due to Jiangsu Communications Department	19	(7,342)	—
Due to a related company	19	—	(5,149)
Taxes payable	6	(107,288)	(5,265)
Dividends payable	7	(293,266)	(198,514)
Total current liabilities		(1,298,463)	(1,299,926)
NET CURRENT ASSETS		30,183	788,630

As of 31st December, 1998
(Amounts expressed in thousands of Renminbi)

	<i>Note</i>	1998	1997 (Note 24)
NON-CURRENT LIABILITIES			
Long-term loans, non-current portion	<i>16(b)</i>	—	(320,966)
Long-term debentures payable, non-current portion	<i>16(c)</i>	(200,000)	(200,000)
Deferred income taxes	<i>6, 18</i>	(2,816)	—
		(202,816)	(520,966)
		10,573,222	10,303,135
REPRESENTING:			
SHARE CAPITAL	<i>17</i>	4,887,748	4,887,748
RESERVES	<i>18</i>	5,685,474	5,415,387
SHAREHOLDERS' EQUITY		10,573,222	10,303,135

The financial statements were approved by the Board of Directors on 8th April, 1999.



Xu Huaqiang

Chairman



Cai Jiafan

Vice Chairman and General Manager

The accompanying notes form an integral part of these financial statements.

Consolidated Statements of Cash Flow

	1998	1997
		(Note 24)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Profit before taxation	633,825	337,509
Adjustments for:		
Share of results of an associated company	(9,403)	(8,116)
Depreciation of fixed assets and amortisation of pre-operating expenses	208,526	153,564
Unrealised foreign exchange gain	—	(188)
Interest income	(120,862)	(84,451)
Interest expenses	97,913	176,657
Increase in prepayments and other receivables	(56,311)	(7,368)
Decrease (increase) in inventories and supplies	296	(4,972)
Decrease in due from related companies	1,888	4,766
Increase (decrease) in taxes payable, accruals and other payables	161,352	(43,871)
Cash generated from operations	917,224	523,530
Interest paid	(91,995)	(187,722)
Income tax paid	(98,415)	(1,033)
Net cash generated from operating activities	726,814	334,775
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in an associated company	(8,700)	—
Long term receivable from Yicao Highway Co.	(58,800)	—
Acquisition of fixed assets (Note (a))	(1,065,261)	(2,513,789)
Interest received	122,210	57,433
Dividends received	5,386	—
Net cash used in investing activities	(1,005,165)	(2,456,356)

For the year ended 31st December, 1998
(Amounts expressed in thousands of Renminbi)

	1998	1997 (Note 24)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in short-term bank loans	115,000	505,000
Increase in due to Jiangsu Communications Investment Corporation	—	13,000
Increase in long-term loans	439	—
Repayment of long-term loans	(403,294)	(623,236)
Increase in long-term debentures	—	200,000
Repayment of long-term debentures	(125,608)	(133,050)
Capital contributed by the minority shareholder	87,000	115,588
Net proceeds from issuance of "H" shares	—	3,925,910
Dividend paid	(198,513)	—
Net cash (used in) generated from financing activities	(524,976)	4,003,212
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		
CASH EQUIVALENTS	(803,327)	1,881,631
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,017,100	135,469
CASH AND CASH EQUIVALENTS, END OF YEAR	1,213,773	2,017,100
Supplemental Cash Flow Information:		
(a) Acquisition of fixed assets		
Acquisition of fixed assets	973,496	4,061,386
Add: Payables on construction project, beginning of year	219,594	381,762
Due to a related company, beginning of year	5,149	11,472
Less: Payables on construction project, end of year	(125,636)	(219,594)
Due to a related company, end of year	—	(5,149)
Due to Jiangsu Communication Department, end of year	(7,342)	—
The injection of land use rights as capital (Note 17)	—	(1,716,088)
Cash paid for acquisition of fixed assets	1,065,261	2,513,789

The accompanying notes form an integral part of these consolidated financial statements.

For the year ended 31st December, 1998
(Amounts expressed in thousands of Renminbi)

Notes to the Financial Statements

1. ORGANISATION AND BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

Jiangsu Expressway Company Limited (the "Company") was incorporated in the People's Republic of China (the "PRC") as a joint stock limited company on 1st August, 1992. The Company is principally engaged in the investment, construction, operation and management of the Jiangsu section of Shanghai - Nanjing Expressway ("Shanghai-Nanjing Expressway") and other toll roads in Jiangsu Province, and, the provision of passenger transport services and other supporting services along the toll roads.

On 27th June, 1997, the Company acquired from the Highways Bureau of Jiangsu Province ("Jiangsu Highways Bureau") the right to operate the Jiangsu section of the 312 National Highway (the "Nanjing-Shanghai Class 2 Highway") together with the land use rights in respect thereof for a term of 15 years at a consideration of RMB 1,345,786,000.

On 16th September, 1997, Jiangsu Xicheng Expressway Company Limited ("Jiangsu Xicheng") and Jiangsu Guangjing Expressway Company Limited ("Jiangsu Guangjing") were jointly established by the Company and Huajian Transportation Economic Development Centre, a subsidiary of the Ministry of Communications of the PRC. Jiangsu Xicheng and Jiangsu Guangjing are principally engaged in the construction, management and operation of Xicheng Expressway and Guangjing Expressway respectively. The construction of these expressways are expected to be completed by the end of September, 1999.

The Company, Jiangsu Xicheng and Jiangsu Guangjing are collectively referred to as the Group.

As at 31st December, 1998, the consolidated financial statements of the Group include the financial statements of the Company and the following subsidiaries:

Name of Subsidiaries	Country of establishment and operation	Date of Registration	Percentage of equity interest	Registered and paid-up capital RMB'000	Principal activities
Jiangsu Xicheng	PRC	16th September, 1997	85%	600,000	Construction, management and operation of expressway
Jiangsu Guangjing	PRC	16th September, 1997	85%	250,000	Construction, management and operation of expressway

For the year ended 31st December, 1998
(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES

The accompanying financial statements have been prepared in accordance with International Accounting Standards ("IAS"), and the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. This basis of accounting differs from that used in the preparation of the Group's statutory accounts which are prepared in accordance to accounting principles and financial regulations applicable to joint stock limited companies in the PRC. The adjustments made to conform the statutory accounts of the Group to IAS are shown in Note 22.

The following accounting policies were adopted in the preparation of the accompanying financial statements:

(a) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries. All significant intra-group transactions and balances have been eliminated on consolidation.

(b) Subsidiaries and associated companies

A subsidiary is a company in which the Company (i) holds, directly or indirectly, more than 50 per cent of its issued voting share capital/equity interest as a long-term investment; or (ii) has the power to cast the majority of votes at meetings of the management committee or the board of directors. In the Company's financial statements, investment in subsidiaries is accounted for using the equity method of accounting.

An associated company is a company, in which the Company holds at least 20%, but not more than 50% of its issued voting share capital/equity interest as a long-term investment and is in a position to exercise significant influence over its management and its financial and operating policy decisions. In the Group's and Company's financial statements, investment in associated companies is accounted for using the equity method of accounting.

2. PRINCIPAL ACCOUNTING POLICIES (cont'd)**(c) Inventories and supplies**

Inventories and supplies mainly represent materials for the repair and maintenance of expressways and the petrol for sale, and are stated at the lower of cost and net realisable value. Cost is computed using the first-in first-out method.

(d) Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation. Major renewals and betterment which will result in future economic benefits are capitalised, while maintenance and repair costs are normally charged to the profit and loss accounts when incurred.

Depreciation of toll roads, structures and operating rights is provided for on the basis of a sinking fund calculation whereby annual depreciation amounts compounded at an average rate of 6% and 8% per annum for Shanghai-Nanjing Expressway and Nanjing-Shanghai Class 2 Highway will approximate the total carrying value of the toll roads structures and operating rights at the end of the concession period (Shanghai-Nanjing Expressway: 30 years; Nanjing-Shanghai Class 2 Highway: 15 years).

Land use rights relate to the Shanghai-Nanjing Expressway and are stated at cost less accumulated amortisation. Amortisation of land use rights is provided for on the basis of a sinking fund calculation whereby annual amortisation amounts compounded at an average rate of 6% per annum will approximate the total carrying value of the land use rights at the end of the thirty-year concession period.

Depreciation of fixed assets other than toll roads, structures and operating rights and land use rights is provided for on a 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 estimated useful lives of the various categories of fixed assets are as follows:

Buildings	30 years
Safety equipment	10 years
Communication and signalling equipment	10 years
Toll stations and ancillary equipment	8 years
Motor vehicles	8 years
Other machinery and equipment	5-8 years

2. PRINCIPAL ACCOUNTING POLICIES (cont'd)

(e) Construction-in-progress

Construction-in-progress represents toll roads, structures and facilities, including buildings and maintenance facilities under construction, and machinery pending installation. Construction-in-progress is stated at cost which includes construction and acquisition costs, and capitalised interest charges arising from borrowings used to finance these assets during the period of construction, installation and testing. As assets are brought into use, the related costs are transferred to fixed assets and depreciated in accordance with the policy stated above.

(f) Pre-operating expenses

Pre-operating expenses represent those expenses incurred prior to commencement of the operation of the Shanghai-Nanjing Expressway and are amortized on a straight-line basis over a period of five years.

(g) Foreign currency translation

The Company and its subsidiaries maintain their books and records in RMB. Transactions denominated in currencies other than RMB are translated into RMB at the applicable exchange rate prevailing at the dates of the transactions. Monetary assets and liabilities denominated in other currencies are translated into RMB at the applicable rates of exchange prevailing at the balance sheet dates. Non-monetary assets and liabilities denominated in other currencies are translated at historical rates. Exchange differences that are attributable to the translation of borrowings denominated in currencies other than RMB and used for financing the fixed assets during the period of construction are included in the costs of the related construction-in-progress. Other exchange differences arising from changes in exchange rates subsequent to the transaction dates are included in the determination of the current year's results.

2. PRINCIPAL ACCOUNTING POLICIES (cont'd)

(h) Cash and cash equivalents

Cash represents cash in hand and deposits with banks or other financial institutions which are repayable on demand.

Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash and which are within three months of maturity when acquired, less advances from banks repayable within three months from the dates of the advances.

(i) Taxation

The Company and its subsidiaries provide for Enterprise Income Tax ("EIT") on the basis of their statutory profit for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes and after considering all available tax benefits.

Other taxes are provided in accordance with the prevailing PRC tax regulations.

Deferred taxation is provided under the balance sheet liability method in respect of significant temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax bases of such assets and liabilities. Deferred tax assets are recognized to the extent that it is probable that sufficient taxable profit will be available against which the deductible temporary differences can be utilized.

(j) Revenue recognition

Revenue represents mainly income from the operation of toll roads, net of revenue tax. Revenue also includes other miscellaneous income such as sales of petrol, emergency assistance and advertising income.

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

Sales of petrol are recognised upon passage of title to customers.

Income from emergency assistance and advertising are recognised when services are rendered.

3. REVENUE

	1998 RMB'000	1997 RMB'000
Revenue		
– Toll income	1,013,037	724,586
– Sales of petrol	78,928	82,252
– Advertising income	7,976	7,259
– Emergency assistance income	7,908	6,745
– Sales of food and beverages	2,244	—
	1,110,093	820,842
Less: Tax related to revenue	(57,118)	(41,169)
Revenue, net	1,052,975	779,673

Tax related to revenue comprises Business Tax ("BT") and other ancillary taxes. The Company and its subsidiaries are subject to BT at the rate of 5% of toll income, emergency assistance income, advertising income and sales of food and beverages.

In addition to BT, the Company and its subsidiaries are subject to the following types of taxes related to revenue:

- City Development Tax, levied at 7% of BT and net VAT.
- Education Supplementary Tax, levied at 4% of BT and net VAT.

The Company and its subsidiaries are also subject to Value-Added-Tax ("VAT") on sales of petrol, which is charged at a general rate of 17%. An input credit is available whereby VAT previously paid on purchases of petrol or other materials can be used to offset against the VAT on sales of petrol or other materials to arrive at the net VAT payable to relevant government authorities.

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4. PROFIT BEFORE TAXATION

- a. Profit before taxation was arrived at after charging (crediting) the following items:

	1998	1997
	RMB'000	RMB'000
After charging: Interest expenses on loans	97,913	176,657
Less: Amounts capitalised in construction-in-progress and fixed assets	—	—
Net interest expenses on loans	97,913	176,657
Foreign exchange loss	849	1,045
Depreciation of fixed assets and amortisation of pre-operating expenses	208,526	153,564
Auditors' remuneration	1,300	1,300
Pension contribution	5,285	4,772
Provision for staff welfare and bonus	18,209	17,463
After crediting:		
Interest income	(120,862)	(84,451)

- b. Pension scheme

The Company and its subsidiaries contribute annually to a government-sponsored pension scheme, an amount equivalent to 20% of the total basic salary of their employees. This government sponsored pension scheme will be responsible for payment of the pension liabilities relating to the retirees of the Company and its subsidiaries.

- c. Sales of staff quarters

Pursuant to the "Implementation Scheme for Selling Staff Quarters of the Jiangsu Province", the Company is in the process of setting up a scheme for selling staff quarters to the Company's staff. The Company has not signed contracts with its employees and has not sold any of its staff quarters during the year ended 31st December, 1998.

5. DIRECTORS', SUPERVISORS' AND SENIOR EXECUTIVES' EMOLUMENTS

- a. Details of directors' and supervisors' emoluments were:

	1998 RMB'000	1997 RMB'000
Fees for executive directors	840	760
Fees for non-executive directors	—	—
Fees for supervisors	370	340
Other emoluments for executive directors		
- Basic salaries and allowances	—	—
- Bonus	—	—
Other emoluments for non-executive directors	—	—
Other emoluments for supervisors	—	—
	1,210	1,100

No directors and supervisors waived any emoluments during each of the two years ended 31st December, 1998 and 1997.

- b. Details of emoluments paid to the five highest paid individuals (including directors, supervisors and employees) were:

	1998 RMB'000	1997 RMB'000
Basic salaries and allowances	440	440
Bonus	—	—
	440	440
Number of directors	5	5
Number of supervisors	—	—
Number of senior executives	—	—
	5	5

All five highest paid individuals were directors of the Company, their emoluments have been included in Note 5(a). The emoluments paid to each of the five highest paid individuals during the year ended 31st December, 1998 and 1997 were less than RMB1,000,000. During the year ended 31st December, 1998, no emoluments were paid to the five highest paid individuals as an inducement to join the Company or as compensation for loss of office.

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(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

6. TAXATION

Taxation in the profit and loss accounts comprised:

	1998 RMB'000	1997 RMB'000
Taxation		
- current	200,615	—
- financial refunds	(135,010)	—
- share of income tax of an associated company	2,052	2,656
	67,657	2,656
Deferred taxation	(195)	—
	67,462	2,656

As a result of the Group's adoption of International Accounting Standard No.12 which became operative for financial statements covering periods beginning on or after 1st January, 1998, the Company recognised a deferred tax liability arising from valuation surplus of the Company's property interests (see Note 11(b)). According to IAS 12, the deferred tax liability of RMB3,011,000 relating to this temporary difference has been recognised with a corresponding adjustment to revaluation surplus reserve where the difference was originally reflected. This change in accounting policy has not been accounted for retroactively because the effect of the new policy on prior years' results is insignificant.

Movements in deferred taxation were as follows:

	1998 RMB'000	1997 RMB'000
Balance at beginning of year	—	—
Deferred income tax arising from valuation surplus of the Company's property interests (Note 18)	3,011	—
Transfer to profit and loss account	(195)	—
Balance at end of year	2,816	—

6. TAXATION (cont'd)

The Company and its subsidiaries are subject to CIT 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 the Finance Department of Jiangsu Province (the "Jiangsu Finance Department"), the Company was granted financial refunds equal to 18% of its taxable income in respect of CIT paid on the income generated from the operations of the Shanghai-Nanjing Expressway.

Pursuant to the relevant documents mentioned above, income generated from the operations of the Nanjing-Shanghai Class 2 Highway was granted financial refunds equal to 33% of its taxable income in respect of CIT.

There is no assurance that the Company will continue to enjoy such financial refunds in the future. However, the Company is not aware of any government policy changes such that the said refunds will cease to be available to the Company.

Pursuant to a notice dated 22nd May, 1997 issued by the Jiangsu Local Taxation Bureau, the Company is fully exempted from CIT for the year ended 31st December, 1997.

There were no Hong Kong profits tax liabilities as the Company and its subsidiaries did not earn any income assessable to Hong Kong profits tax.

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7. DIVIDENDS

In accordance with the articles of association of the Company, the Company declares dividends based on the lesser of the unappropriated profit reported in the statutory accounts and that reported in the financial statements prepared in accordance with IAS. As the statutory accounts have been prepared in accordance with PRC accounting standards and regulations, the unappropriated profit reported in the statutory accounts will be different from the amount reported in the accompanying financial statements. As of 31st December, 1998, unappropriated profit available for distribution to shareholders, amounted to approximately RMB533,211,000 (1997: RMB267,400,000).

On 8th April, 1999, the Board of Directors proposed a dividend of RMB0.06 (1997: RMB0.04) per share totalling RMB293,264,850 (1997: RMB195,509,900) for the year ended 31st December, 1998.

The proposed dividend distribution is subject to approval by the shareholders in the next annual general meeting.

8. EARNINGS PER SHARE

The calculation of earnings per share for the year ended 31st December, 1998 was based on the profit after taxation of approximately RMB566,363,000 (1997: RMB334,853,000) divided by the weighted-average number of 4,887,747,500 shares (1997: 4,298,509,144 shares) in issue during the year ended 31st December, 1998.

9. CASH AND CASH EQUIVALENTS

	Group		Company	
	1998 RMB'000	1997 RMB'000	1998 RMB'000	1997 RMB'000
Cash in hand	65	143	65	143
Bank deposits:				
– Savings deposits	444,471	243,901	432,614	242,157
– Fixed deposits	769,237	1,773,056	769,237	1,773,056
	1,213,773	2,017,100	1,201,916	2,015,356

Bank deposits were placed for a period not longer than three months and bear interest at commercial rates.

10. PREPAYMENTS AND OTHER RECEIVABLES

	Group		Company	
	1998 RMB'000	1997 RMB'000	1998 RMB'000	1997 RMB'000
Interest receivable	25,672	27,019	25,672	27,019
Financial refund receivable (Note 6)	69,430	—	69,430	—
Prepayment for materials and equipment	3,444	16,620	3,444	16,620
Others	12,840	12,148	12,710	11,905
	111,386	55,787	111,256	55,544

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For the year ended 31st December, 1998
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11. FIXED ASSETS

Movements in fixed assets were as follows:

	Group 1998									Company 1997	
	Land Use Rights	Toll roads, structures and operating rights	Buildings	Safety equipment	Communication and signalling equipment	Toll stations and ancillary equipment	Motor vehicles	Other machinery and equipment	Construction- in-progress	Total	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost											
Beginning of year	1,716,088	6,794,274	383,554	297,263	15,846	29,163	68,556	51,654	981,268	10,337,666	6,270,629
Additions	—	—	5,753	—	—	—	15,040	35,659	917,044	973,496	4,061,386
Revaluation	—	—	—	—	—	—	—	—	—	—	9,182
Reclassification* and transfer of construction-in- progress	—	(154,056)	11,430	77,389	100,717	3,695	—	4,457	(43,632)	—	(3,471)
End of year	1,716,088	6,640,218	400,737	374,652	116,563	32,858	83,596	91,770	1,854,680	11,311,162	10,337,666
Accumulated depreciation											
Beginning of year	15,802	84,464	16,973	37,263	1,871	4,243	4,836	8,198	—	173,650	27,848
Depreciation	18,164	98,892	11,696	36,342	11,301	3,984	3,965	13,930	—	198,204	145,802
End of year	33,966	183,286	28,669	73,605	13,172	8,227	8,801	22,128	—	371,854	173,650
Net book value											
End of year	1,682,122	6,456,932	372,068	301,047	103,391	24,631	74,795	69,642	1,854,680	10,939,308	10,164,016
Beginning of year	1,700,286	6,709,810	366,581	260,000	13,975	24,920	63,720	43,456	981,268	10,164,016	6,242,781

	Company 1998									Company 1997	
	Land Use Rights	Toll roads, structures and operating rights	Buildings	Safety equipment	Communication and signalling equipment	Toll station and ancillary equipment	Motor vehicles	Other machinery and equipment	Construction- in-progress	Total	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost											
Beginning of year	1,716,088	6,794,274	383,554	297,263	15,846	29,163	68,556	51,654	82,397	9,438,795	6,270,629
Additions	—	—	5,753	—	—	—	15,040	35,659	59,630	116,082	3,162,515
Revaluation	—	—	—	—	—	—	—	—	—	—	9,182
Reclassification* and transfer of construction-in- progress	—	(154,056)	11,430	77,389	100,717	3,695	—	4,457	(43,632)	—	(3,471)
End of year	1,716,088	6,640,218	400,737	374,652	116,563	32,858	83,596	91,770	98,395	9,554,877	9,438,795
Accumulated depreciation											
Beginning of year	15,802	84,464	16,973	37,263	1,871	4,243	4,836	8,198	—	173,650	27,819
Depreciation	18,164	98,892	11,696	36,342	11,301	3,984	3,965	13,930	—	198,204	145,831
End of year	33,966	183,286	28,669	73,605	13,172	8,227	8,801	22,128	—	371,854	173,650
Net book value											
End of year	1,682,122	6,456,932	372,068	301,047	103,391	24,631	74,795	69,642	98,395	9,183,023	9,265,145
Beginning of year	1,700,286	6,709,810	366,581	260,000	13,975	24,920	63,720	43,456	82,397	9,265,145	6,242,781

* The Shanghai-Nanjing Expressway has passed the formal inspection and acceptance of works conducted by the relevant government authorities. Certain categories of fixed assets have been reclassified in current year to conform to the classification as stated in the report on formal inspection and acceptance of works.

11. FIXED ASSETS (cont'd)

- (a) On 31st December, 1996, the land use rights in respect of the land on which the Company's Shanghai-Nanjing Expressway are located were valued by a PRC asset valuer at approximately RMB1,716,088,000, and this value was confirmed by the State Land Administration Bureau. The right to use the land for a period of 30 years commencing 1st January, 1997 was injected into the Company in exchange for 787,196,300 State shares (see Note 17).

In accordance with the "Interim Regulations of the People's Republic of China Concerning the Assignment and Transfer of the Right to the Use of the State-Owned Land in Urban Areas", upon the expiration of the term of use, the right to the use of the land and the ownership of the buildings and other attached objects on the land thereon shall be acquired by the State without compensation.

- (b) In preparation for the listing of the Company's H shares, the Company's property interests in the six service areas along the Shanghai-Nanjing Expressway and staff dormitory facilities were valued by an asset valuer at RMB341,960,000. The Company's net book value for such property interests was approximately RMB332,838,000 as at 31st March, 1997, resulting in a surplus of approximately RMB9,122,000 which has been recorded as buildings in the accompanying financial statements of the Group and the Company.

- (c) The Company's fixed assets as at 31st December, 1996 with a net book value of approximately RMB 6,242,781,000 were valued at approximately RMB 7,995,916,000 by a PRC asset valuer in preparation for the listing of the H shares of the Company. The surplus arising from this valuation amounting to approximately RMB1,753,135,000 was incorporated in the Group's and the Company's statutory accounts. The Group's and the Company's fixed assets, stated at historical cost, in the Group's and the Company's financial statements prepared in conformity with IAS is therefore lower than that recorded in the statutory accounts. This difference will impact the results of operations of the Group and the Company over the useful lives of the corresponding property interests in the form of higher annual and cumulative depreciation and amortization charges being reported in the statutory accounts of the Group and the Company.

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11. FIXED ASSETS (cont'd)

Pursuant to the main contractor's contracts entered into between Jiangsu Xicheng and Jiangsu Guangjing with Wuxi Expressway Command Office and Taizhou Guangjing Expressway Command Office respectively, the contractors have undertaken the construction of the Xicheng Expressway and Guangjing Expressway at the fixed cost of RMB1,750,000,000 and RMB750,000,000 respectively. In addition, Jiangsu Communications Investment Corporation, has guaranteed the performance of the main contractor's obligations under the relevant contracts. Both expressways are expected to be completed by the end of September 1999. As at 31st December, 1998, the status of construction of these expressways was as follows:

	Xicheng Expressway RMB'000	Guangjing Expressway RMB'000	Total RMB'000
Construction-in-progress (cost incurred)	1,280,444	475,842	1,756,286
Capital commitments (cost not yet incurred)	469,556	274,158	743,714
As stated in contracts	1,750,000	750,000	2,500,000

12. INVESTMENT IN SUBSIDIARIES

	Company	
	1998 RMB'000	1997 RMB'000
Unlisted shares, at cost	722,500	655,000
Amounts due from subsidiaries	722,580	56,080
	1,445,080	711,080

13. INVESTMENT IN AN ASSOCIATED COMPANY

	Group and Company	
	1998	1997
	RMB'000	RMB'000
Unlisted shares, at cost	23,200	23,200
Share of post-acquisition profit	7,799	5,834
Amounts due from an associated company	—	637
Investment deposit	8,700	—
	39,699	29,671

Details of the Company's associated company as at 31st December, 1998 were as follows:

Name	Country of establishment and operations and date of establishment	Equity interest directly held by the Company	Registered capital	Principal activities
			RMB'000	
Jiangsu Nanjing-Shanghai Express Bus Co., Ltd. ("Express Bus Co.")	PRC, 21st June, 1996	40%	58,000	Provision of passenger transportation service along the Shanghai-Nanjing Expressway

On 29th April, 1998, the Company entered into a share transfer agreement with Jiangsu Provincial Automobile Transportation Company ("JPATC", one of the promoters of the Company and Express Bus Co.). Pursuant to the agreement, the Company is to acquire from JPATC its 15% equity interest in Express Bus Co. at a cash consideration of RMB 8,700,000. However, since JPATC is a party to a civil action regarding a guarantee given by JPATC, the 15% equity interest in Express Bus Co. was frozen by the Nanjing Intermediate People's Court (the "Court").

In December 1998, the Company paid RMB 8,700,000 to the Court in accordance to the aforesaid agreement. The Company has recorded the RMB8,700,000 paid in December 1998 as an investment deposit as at 31st December, 1998.

On 28th January, 1999, the Court released the aforesaid 15% equity interest in Express Bus Co. to the Company. Accordingly, the Company's equity interest in Express Bus Co. increased from 40% to 55% and the Company's share of the registered capital in Express Bus Co. increased from RMB 23,200,000 to RMB 31,900,000.

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14. LONG-TERM RECEIVABLE

On 25th December, 1998, the Company formed a joint venture Jiangsu Yicao Highway Co., Ltd. ("Yicao Highway Co.") with Yixing Communications Construction and Development Co., Ltd. ("Yixing Communications Construction Co."). The joint venture period is 10 years from the date of its incorporation. Yicao Highway Co. is principally engaged in the construction, operation and management of highway linking Yixing and Caoqiao. The registered capital of Yicao Highway Co. is RMB120 million. The Company and Yixing Communications Construction Co. has contributed RMB 58,800,000 and RMB 61,200,000 representing 49% and 51% respectively of the registered capital of Yicao Highway Co.. Pursuant to the supplementary operating agreement dated 31st December, 1998, apart from the capital contribution of RMB58,800,000, the Company is required to provide an additional RMB117,600,000 as a construction loan. As at 31st December, 1998, the Company had not provided loans under the supplementary operating agreement.

According to the aforesaid agreement, Yixing Communications Construction Co. is authorized by the Company to be solely responsible for the operation and management of Yicao Highway Co. In addition, Yixing Communications Construction Co. shall pay the Company a fixed annual investment return of 17.8% per annum in return for its construction loan and capital contribution at the end of each fiscal year during the operating period of Yicao Highway Co.. Yixing Investment Corporation, a controlling shareholder of Yixing Communications Construction Co., has guaranteed the payment of the aforesaid investment return.

At the end of the operation period of Yicao Highway Co., the residual net assets shall be acquired by the State without compensation and the Company will not be entitled to any further distribution. Accordingly, the capital contribution to the Yicao Highway Co. and subsequent construction loan is considered to be a finance loan in substance and therefore has been recorded as a long-term receivable.

15. PRE-OPERATING EXPENSES

	Group and Company	
	1998	1997
	RMB'000	RMB'000
Cost	39,406	39,406
Less: Accumulated amortisation	(20,153)	(9,831)
	19,253	29,575

16. LOANS

Group and Company

(a) Short-term bank loan

Short-term bank loans are repayable within one year with interest charged at the prevailing market rates based on the rates quoted by the People's Bank of China. The interest rates related to loans outstanding as at 31st December, 1998 ranged between 6.12% and 6.57% per annum (1997: 7.65% to 11.09%).

Except for bank loans of RMB240,000,000 (1997: RMB350,000,000) which were guaranteed by Jiangsu Communications Investment Corporation, all short-term bank loans were unsecured and denominated in Renminbi.

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16. LOANS (cont'd)

(b) Long-term loans

As at 31st December, 1998, all long-term loans were unsecured and comprised:

	1998 RMB'000	1997 RMB'000
Bank loans	50,439	447,794
State loans	—	5,500
Total long-term loans	50,439	453,294
Less: amount repayable within one year	(50,439)	(132,328)
Long-term portion	—	320,966

All long-term bank loans were borrowed to finance the construction of the Shanghai-Nanjing Expressway.

Interest rate and final maturity		1998 RMB'000	1997 RMB'000
Renminbi denominated loans	Interest rates at 10.98% per annum as at 31st December, 1998 (1997: 10.98%-12.42%)	50,000	365,000
U.S. dollar denominated loans	Interest rates at 6.77% per annum as at 31st December, 1998 (1997: LIBOR +0.45%)	439	82,794
Total long-term bank loans		50,439	447,794
Less: current portion		(50,439)	(126,828)
Long-term portion		—	320,966

All long-term bank loans were guaranteed by Jiangsu Communications Investment Corporation (see Note 19).

As at 31st December, 1998, the Group and the Company had aggregate banking facilities of approximately United States Dollar ("USD") 9,800,000 (RMB81,140,000) from a bank for loans to finance the purchase of imported equipment and technology. Unused facilities as at 31st December, 1998 amounted to approximately USD9,747,000 (RMB80,700,000). These facilities were guaranteed by Jiangsu Communications Investment Corporation.

16. LOANS (cont'd)

(c) Long-term debentures payable

As at 31st December, 1998, all long-term debentures payable were unsecured, guaranteed by an unrelated company, bore fixed interest rates of 11% per annum (1997: 11% to 17.14%) and will mature in April 2000. The debentures comprised:

	1998 RMB'000	1997 RMB'000
Debentures issued to		
– employees of the Company and other affiliates of the Jiangsu Communications Department	—	115,608
– other PRC enterprises	—	10,000
– the public	200,000	200,000
	200,000	325,608
Less: current portion	—	(125,608)
Long-term portion	200,000	200,000

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For the year ended 31st December, 1998
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17. SHARE CAPITAL

The authorised, issued and fully paid share capital of the Company is RMB4,887,747,500 (1997: RMB4,887,747,500) divided into 4,887,747,500 shares (1997: 4,887,747,500 shares) of RMB 1 each.

Movements in share capital were as follows:

	1998			1997		
	Percentage %	Number of Shares	Amount RMB'000	Percentage %	Number of Shares	Amount RMB'000
Beginning of year						
State shares	69.07	3,376,134,600	3,376,135	84.86	1,626,320,000	1,626,320
State legal person shares	0.06	3,000,000	3,000	0.19	3,600,000	3,600
Legal person shares	5.87	286,612,900	286,613	14.95	286,612,900	286,613
Overseas-listed foreign shares ("H" shares)	25.00	1,222,000,000	1,222,000	—	—	—
	100.00	4,887,747,500	4,887,748	100.00	1,916,532,900	1,916,533
Additions						
Capitalisation of Shareholder's loan and advances (a)	—	—	—	—	1,112,018,300	1,112,018
Injection of land use rights (b)	—	—	—	—	787,196,300	787,197
Reallocation of bonus shares (b)						
– State shares	—	—	—	—	(149,400,000)	(149,400)
– State legal person shares	—	—	—	—	(600,000)	(600)
H shares (c)	—	—	—	—	1,222,000,000	1,222,000
	—	—	—	—	2,971,214,600	2,971,215
End of year						
State shares	69.07	3,376,134,600	3,376,135	69.07	3,376,134,600	3,376,135
State legal person shares	0.06	3,000,000	3,000	0.06	3,000,000	3,000
Legal person shares	5.87	286,612,900	286,613	5.87	286,612,900	286,613
H shares	25.00	1,222,000,000	1,222,000	25.00	1,222,000,000	1,222,000
	100.00	4,887,747,500	4,887,748	100.00	4,887,747,500	4,887,748

17. SHARE CAPITAL (cont'd)

- (a) Pursuant to the resolutions passed at the annual general meeting of the Company on 2nd April, 1997 and endorsed by the State Assets Administration Bureau, the Shareholder's loan and advances totalling approximately RMB2,424,200,000 as at 31st December, 1996 were capitalised into 1,112,018,300 State shares with a nominal value of RMB1,112,018,300 held by Jiangsu Communications Investment Corporation. The difference between the nominal value of the State shares and the Shareholder's loan and advances of approximately RMB1,312,181,700 were recorded as share premium.
- (b) Pursuant to the resolutions passed by the shareholders at the aforesaid annual general meeting and as endorsed by the State Land Administration Bureau, the land use rights in respect of the land on which Shanghai-Nanjing Expressway is located, valued at approximately RMB1,716,088,000 as at 31st December, 1996, were injected into the Company in exchange for 787,196,300 State shares. Pursuant to a circular issued by the Expressways Construction Command Office of Jiangsu Province ("Jiangsu Expressways Command Office") on 2nd December, 1992, the Company had originally issued 150,000,000 shares in exchange for the land use rights of Shanghai-Nanjing Expressway to its four promoters as bonus shares. Thereafter, the bonus issue became ineffective under the "Interim Provisions on management of Land Use Rights by Joint Stock Limited Companies" jointly issued by the State Land Administration Bureau and the State Commission for Restructuring the Economic System of the PRC on 2nd December, 1994. Accordingly, the 150,000,000 bonus shares originally issued to the four promoters were reallocated to Jiangsu Communications Investment Corporation in satisfaction of part of the 787,196,300 State shares issued pursuant to the shareholders' resolution passed on 2nd April, 1997. All of the shares are currently held by Jiangsu Communications Investment Corporation on behalf of the State.
- (c) On 23rd June, 1997, the Company issued 1,222,000,000 H shares which were listed on the Stock Exchange of Hong Kong Limited on 27th June, 1997 with a par value of RMB1 each at an issue price of HKD3.11 (RMB3.33) per share.

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(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

18. RESERVES

Group and Company

(In RMB'000)	Share premium Note 18(a)	Statutory Surplus Reserve Note 18(b)	Statutory Public Welfare Fund Note 18(c)	Revaluation surplus Note 18(d)	Unappro- priated profit	Total
Balance as at 1st January, 1997	170,970	436	218	—	679	172,303
Capitalization of Shareholders' loan and advances	1,312,182	—	—	—	—	1,312,182
Injection of land use rights	928,892	—	—	—	—	928,892
Reallocation of bonus shares	150,000	—	—	—	—	150,000
Valuation surplus of the Company's property interests as at 31st March, 1997 (Note 11)	—	—	—	9,122	—	9,122
Premium arising from issuance of H shares	2,842,929	—	—	—	—	2,842,929
Expenses on issuance of H shares	(139,019)	—	—	—	—	(139,019)
Profit after taxation for the year ended 31st December, 1997	—	—	—	—	334,853	334,853
Profit appropriations	—	31,376	15,688	—	(47,064)	—
Dividends declared (Note 7)	—	—	—	—	(195,875)	(195,875)
Balance as at 1st January, 1998	5,265,954	31,812	15,906	9,122	92,593	5,415,387
Profit after taxation for the year ended 31st December, 1998	—	—	—	—	566,363	566,363
Profit appropriations	—	54,273	27,137	—	(81,410)	—
Dividends declared	—	—	—	—	(293,265)	(293,265)
Deferred income tax arising from valuation surplus of the Company's property interests (Note 11)	—	—	—	(3,011)	—	(3,011)
Transfer of valuation surplus to unappropriated profit	—	—	—	(395)	395	—
Balance as at 31st December, 1998	5,265,954	86,085	43,043	5,716	284,676	5,685,474

18. RESERVES (cont'd)

(a) Share Premium

Share premium represents premium arising from issuance of legal person shares, 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, fees for professional advisors and promotional expenses, and also premium arising from the capitalisation of shareholder's loan and advances and land use rights (see Note 17).

(b) Statutory Surplus Reserve

In accordance with the Company Law and the Company's articles of association, the Company 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 increase capital. However, such statutory surplus reserve must be maintained at a minimum of 25% of share capital after such issuance.

(c) Statutory Public Welfare Fund

According to the relevant financial regulations of the PRC and the Company's articles of association, the Company is also 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 employees of the Company. For the year ended 31st December, 1998, the directors have proposed that 5% (1997: 5%) of the statutory profit after taxation be appropriated to this reserve.

(d) Revaluation Surplus

The valuation surplus arising from the valuation of the Company's property interests in six service areas along Shanghai-Nanjing Expressway and staff dormitory facilities resulting from the valuation carried out by the international asset valuer (Note 11(b)) is recorded as revaluation surplus reserve. Each year, the Group and the Company transfers an amount equal to the difference between the depreciation based on the revalued fixed assets and that based on the historical cost of those assets, net of related deferred tax, from the revaluation surplus to unappropriated profit.

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19. RELATED PARTY TRANSACTIONS

Apart from those disclosed in Note 1, 11, 13 and 16, the Group and the Company had the following significant related party transactions during the year ended 31st December, 1998:

- (a) Jiangsu Communications Investment Corporation (controlling shareholder of the Company)

As of 31st December, 1998, advances from Jiangsu Communications Investment Corporation to pay construction costs of Shanghai-Nanjing Expressway amounted to approximately RMB3,000,000 (1997: RMB 3,000,000). These advances are unsecured, interest-free and have no fixed terms of repayment.

- (b) Jiangsu Communications Department (ultimate controlling shareholder of the Company)

As at 31st December, 1998, the Company had contributed approximately RMB32,400,000 (1997: RMB32,400,000) to an office building development project known as "Jiangsu Communications Building" which is controlled by the Jiangsu Communications Department. The development was completed in early 1998. During the year, the Company has taken up certain floors in Jiangsu Communications Building for its own use as offices in return for its contribution. Title to these floors had not yet been transferred to the Company as at 31st December, 1998.

- (c) Jiangsu Highways Bureau (an entity under the Jiangsu Communications Department)

On 11th June, 1997, the Company entered into a service contract with Jiangsu Highways Bureau, pursuant to which Jiangsu Highways Bureau is responsible for providing day-to-day routine operational and maintenance services for the Nanjing-Shanghai Class 2 Highway in return for a service fee calculated at 18% of the gross toll revenue. In accordance to the service contract, the Company had paid RMB 4 million to Jiangsu Highways Bureau to finance the working capital required for the first month of operation of the service contract. On 31st March, 1998, the Company terminated the aforesaid service contract. Effective 1st April, 1998, the Company took over the responsibility for the operation and maintenance of the Nanjing-Shanghai Class 2 Highway. As such, Jiangsu Highways Bureau had returned the working capital of RMB 4 million to the Company. In 1998, the Company has paid service fees to Jiangsu Highways Bureau amounting to approximately RMB 15,030,000 (1997: RMB27,271,000).

20. FINANCIAL INSTRUMENTS

The carrying amounts of the Company and its subsidiaries' cash and cash equivalents, short-term bank loans, amounts due to related parties and payables on construction project approximate their fair values because of the short maturity of these instruments. In addition, the carrying amounts of the long-term receivable, long-term debentures payable and long-term loans including current portions approximate their fair values based on current market interest rates for comparable instruments.

21. COMMITMENTS

Apart from those disclosed in Note 11 and Note 14, as at 31st December, 1998, the Group and the Company had capital expenditure commitments of approximately RMB 128,000,000 (which had been contracted but not provided for), mainly to upgrade the present communications, surveillance and control and toll collection system for the Shanghai-Nanjing Expressway.

22. IMPACT OF IAS ADJUSTMENTS ON PROFIT AFTER TAX / NET ASSETS

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

	Profit after taxation		Net assets	
	Year ended		As of	
	31st December,		31st December,	
	1998	1997	1998	1997
	RMB'000	RMB'000	RMB'000	RMB'000
As reported in the statutory accounts	542,731	313,762	12,489,346	12,152,880
IAS adjustment:				
Valuation, depreciation and amortization of fixed assets	23,437	21,091	(1,700,823)	(1,724,260)
Deferred taxation	195	—	(2,816)	—
As reported under IAS	566,363	334,853	10,785,707	10,428,620

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23. SUBSEQUENT EVENTS

- a) On 8th April, 1999 the Company entered into an agreement with Ninglian Ningtong Management Office ("Ninglian Management Office", a state-owned legal enterprise and a department under the control of Jiangsu Communications Department). Pursuant to the agreement, the Company will acquire from Ninglian Management Office the right to operate the Nanjing-Lianyungang Class 1 Highway - Nanjing section ("Nanjing Section") for a term of thirty years at a consideration of not more than RMB505,000,000. Nanjing-Lianyungang Highway is a close-end, dual two-lane, class one highway which runs from Nanjing to Lianyungang on the northeastern coast of Jiangsu Province. Nanjing Section is 29.77km long and has one toll station.

Completion of this agreement is conditional on the fulfillment of the following conditions:

- (i) Confirmation by Jiangsu State Asset Administration Bureau on the business value of the operating rights;
- (ii) Approval by independent shareholders of the Company at the annual general meeting;
- (iii) Approval by Jiangsu Provincial Government of the transfer of the operating rights of the Nanjing Section;
- (iv) The necessary approvals and permissions from government and regulatory authorities in respect of the transfer of the operating rights;
- (v) Completion of a legal and financial due diligence review to the satisfaction of the Company;
and
- (vi) A valid Chinese legal opinion to the satisfaction of the Company.

The Company is currently in the process of fulfilling the above conditions.

23. SUBSEQUENT EVENTS (cont'd)

- b) On 8th April, 1999 the Company entered into a service contract with Ninglian Management Office in respect of the daily operation of Nanjing Section. Pursuant to the service contract, Ninglian Management Office will be responsible for, and provide the necessary labors and equipment to carry out, toll collection and daily maintenance and repair of the Nanjing Section for a term of thirty years after completion of the acquisition. In return, the Company will pay Ninglian Management Office a service charge at a fixed rate of 17% of the total toll collected per annum. Either party to the service contract may terminate the contract by way of three months-advanced notice in writing.

Completion of this service contract is conditional on the fulfillment of the following conditions:

- (i) Approval by independent shareholder at the annual general meeting; and
- (ii) Completion of the agreement to acquire the operating rights of Nanjing Section (see Note 23a)).

Upon the effective commencement of this service contract, the Company will advance RMB 800,000 to Ninglian Management Office to cover the expenses incurred during the first month in the daily operation and maintenance of the Nanjing Section. Such advances will be returned to the Company when the service contract is terminated.

- c) On 8th April, 1999 the Company entered into an agreement with Jiangsu Communications Investment Corporation to acquire 17.83% equity interest (representing 381,185,660 shares) in Jiangsu Yangtze Bridge Company Limited ("Yangtze Bridge Company"). Yangtze Bridge Company has been a joint stock limited company incorporated in the PRC since December 1992 with a registered capital of RMB1,200,000,000. It is principally engaged in the construction, management and operation of Jiangyin Yangtze Highway Bridge ("Jiangyin Bridge"). Jiangsu Communications Investment Corporation currently holds approximately 62.2% equity interest in Yangtze Bridge Company. The consideration of the acquisition is approximately RMB 472,670,000, which was determined with reference to the business valuation of the operating rights and assets of Yangtze Bridge Company conducted by an independent professional valuer.

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23. SUBSEQUENT EVENTS (cont'd)

Completion of this agreement is conditional on the fulfillment of the following conditions:

- (i) Approval by the independent shareholder at the annual general meeting;
- (ii) Approval of the shareholders of Yangtze Bridge Company of the transfer and waiver by such shareholders of their pre-emptive rights in relation to the shares to be acquired by the Company under this agreement;
- (iii) All necessary consents and authorizations which may be required by the Company and Jiangsu Communications Investment Corporation to implement this agreement under any existing contractual arrangements or under loan or financing documentation, having been obtained, if any;
- (iv) All authorizations, consents and approvals of all governmental or regulatory authorities, agencies or bodies having been obtained;
- (v) Confirmation from the relevant government authorities in respect of toll rates to be charged by the Yangtze Bridge Company as specified in this agreement;
- (vi) Completion of a legal and financial due diligence review.

The Company is currently in the process of fulfilling the above conditions.

24. PRIOR YEAR COMPARATIVES

Certain 1997 comparative figures have been reclassified to conform to the current year's presentation.

25. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 8th April, 1999.

Directors, Supervisors and Senior Management

Directors

Executive Directors

Mr. Xu Hua Qiang, aged 61, tertiary educated, associate professor of the Dongnan University, senior engineer, has been Chairman of the Board of Directors since the establishment of the Company in August 1992. Mr. Xu was once a director of The No. 2 Motor Transport Department of Jiangsu Province, Communist Party committee secretary, provincial committee member, director of the Policy Office of the Jiangsu Provincial Government, director of the General Office of the Jiangsu Communications Department, head and deputy head of the Jiangsu Communications Department. Mr. Xu has nearly 40 years of experience in traffic, infrastructure projects and transport management, and has been the chief and deputy chief co-ordinator of various major infrastructure projects in Jiangsu Province.

Mr. Cai Jia Fan, aged 63, university educated, associate professor of the Hehai University, senior engineer, has been Vice-chairman of the Board of Directors and general manager of the Company since its establishment in August 1992. He was once a deputy head and head of the Communications Design and Planning Institute of Jiangsu Province, head of the Planning Division of the Jiangsu Communications Department, chief engineer and deputy head of the Jiangsu Communications Department, and deputy chief co-ordinator of the Jiangsu Communications Highway Construction Command Office. Mr. Cai has 40 years of experience in communications planning and management of infrastructure projects.

Mr. Li Da Peng, aged 46, tertiary educated, economist, is a director and Deputy General Manager of the Company. Mr. Li joined the Company in January 1996. He was once deputy head of the Communications Design and Planning Institute of Jiangsu Province and chairman of the board of directors of Jiangsu Nanjing-Shanghai Express Bus Co. Ltd.. Mr. Li has over 20 years of experience in economic and transport management.

Mr. Zhang Quan Geng, aged 58, university graduate, senior engineer, is a director and Deputy General Manager of the Company. Mr. Zhang joined the Company in August 1992. He was once a technician with the Research Institute of the Ministry of Communications, deputy researcher of the Chongqing Research Institute under the Ministry of Communications, deputy director of the Research Institute of the Jiangsu Communications Department and deputy director of the Jiangsu Expressways Command Office. He has over 30 years of experience in traffic scientific research and management of infrastructure projects.

Mr. Liu Bu Cun, aged 49, university graduate, economist, is Director and Deputy General Manager of the Company. Mr. Liu joined the Company in August 1992. He was once a deputy director of the general office of the Jiangsu Communications Department, and deputy director of the Jiangsu Expressways Command Office. He has over 20 years of experience in legal and economic management.

Mr. Ye Yi Ming, aged 61, university graduate, senior economist, is Director of the Company and Deputy General Manager and Chairman of the Jiangsu Roads & Bridges Construction Co.. Mr. Ye joined the Company in August 1992. Mr. Ye was once an interpreter with the Jiangsu Foreign Affairs Office, section head of the Finance and Materials Division of the Office for Assistance to Sudan and deputy head of the External Assistance Division of the Jiangsu Communications Department. Mr. Ye has considerable experience in the construction and management of infrastructure projects.

Mr. Lu Zhi Jing, aged 61, tertiary educated, senior engineer, is Director of the Company and General Manager of the Jiangsu Communications Construction Company. Before Mr. Lu joined the Company in August 1992, he had been an executive, director, deputy general manager and general manager of the Jiangsu Communications Construction Company. Mr. Lu has over 30 years of experience in management of traffic, infrastructure projects.

Mr. Zhang Chong Jie, aged 62, tertiary educated, senior engineer, is Director of the Company. Before Mr. Zhang joined the Company in August 1992, he had been a deputy manager of the Repair Factory of the Jiangsu Motor Company, officer of the Transportation Section of the Jiangsu Communications Department, deputy director of the Office for Assisting the Construction of Roads in Sudan under the Jiangsu Communications Department, and director, deputy manager and manager of the Office of the Jiangsu Automobile Transport Company. Mr. Zhang has nearly 40 years of experience in transport management.

Ms. Fan Yu Shu, aged 46, tertiary educated, accountant, is Director of the Company and Deputy Manager of Jiangsu Communications Investment Corp.. Ms. Fan joined the Company in August 1993. She has 20 years of experience in finance, and financial management. She was once an accountant, and transport business manager of Jiangsu Provincial Leasing Company.

Having attained the retirement age, Mr. Lu Zhi Jiang and Mr. Zhang Chong Jie have submitted their resignations which were approved by the Board of Directors on 8th April, 1999. The Board of Directors of the Company will propose resolutions at the Annual General Meeting to be held on 18th June, 1999 for the approval of the appointment of the following persons as Directors of the Company to fill the vacancies of the retired directors:

Mr. Le Jia Hua, aged 53, university graduate, engineer, is Director of the Company and general manager of the Jiangsu Communications Construction Company. He started his career in 1966 and had been a technician of Road Engineering Division of Jiangsu Communications Department, supervisor and the manager of production technology of Zhenjiang Machinery Factory and deputy general manager and general manager of Jiangsu Communications Construction Company.

Ms. Xu Yi Qun, aged 35, tertiary educated, is Director and Manager of the Finance Department of Jiangsu Communications Investment Corp.. Ms. Xu was an accountant and chief accountant of the Finance Department of Jiangsu Jinling Automobile Communications Company, a deputy general manager of Jiangsu Leasing Company and a deputy director and director of the Finance Department of Jiangsu Communications

Investment Corp.. Ms. Xu has extensive experience in accounting, financing and leasing and has participated in the financing of certain key communication construction projects such as Shanghai-Nanjing Expressway and the Jiangyin-Yangtze Bridge. She is a daughter of Mr. Xu Hua Qiang, a Director of the Company.

Independent Non-executive Directors

Ms. Cheng Chang Yung Tsung, Alice, aged 67, is a non-executive Director. She was member of the Preparatory Committee for the Hong Kong Special Administrative Region, and is Standing Committee member of the National Committee of the Chinese People's Political Consultative Conference, advisor on Hong Kong affairs for the Hong Kong & Macau Affairs Office and the Xinhua News Agency (Hong Kong Branch) and Chairman of the Business Enterprise Management Centre of the Hong Kong Management Association. She is also managing director of Taching Petroleum Co. Ltd., China Senior Advisor for Telefonaktiebolaget LM Ericsson, senior advisor for both Volvo Car International AB and ADTrans China. Ms. Cheng has more than 20 years of experience in business development and investment. Ms. Cheng has been awarded Commander of the Royal Order of the Polar Star, Kingdom of Sweden by King Carl Gustav XVI of Sweden.

Mr. Taochaifu Choofuang, aged 76, university graduate, mechanical engineer, is non-executive Director of the Company and Chairman of Chong Lai Company Limited and Managing Director of the New Heritage Development Ltd. in Hong Kong. He is also Director of Overseas Realty (Ceylon) Ltd., which is listed on the Stock Exchange of Colombo, Sri Lanka. Mr. Tao has 50 years of experience in business development and investment. He has been involved in the shipping business and he co-founded the Ocean Shipping & Enterprises Ltd. in 1962, which was based in Hong Kong. In 1978, he founded the Nanjing Jinling Hotel. Mr. Tao currently also serves as the vice chairman of Beijing Landmark Towers Company Limited, which owns the Landmark Hotel, Apartments and Office Tower Complex in Beijing. Mr. Tao was also appointed an Honorary Citizen by the Municipal Government of Suzhou in 1995.

Supervisors

Mr. Zhong Zhang Wan, aged 55, tertiary educated, is Chairman of the Supervisory Committee and Deputy Director of the Securities Department of the Company. Before Mr. Zhong joined the Company in August 1992, he had been a deputy manager of the Jiangsu United Transport Company, and a deputy director of the Business Development Department of the Jiangsu Expressways Command Office. He has considerable experience in economic management and possesses 10 years of experience in investment and securities financing.

Mr. Jia Da Kang, aged 55, university graduate, senior administrator, is Supervisor and Head of the Road Administration Department of the Company. Before Mr. Jia joined the Company in October 1996, he had been a deputy director and director of the Jiangsu Highways Bureau, a deputy director of Jiangsu

Mariners and Highway Transport Union, and a member and secretary-general of the Jiangsu Communications Engineering Institute. He has been engaged in economic management and transport management for almost 30 years.

Ms. Xu Yi Qun, aged 35, tertiary educated, is Supervisor and Director of the Finance Department of Jiangsu Communications Investment Corp.. Ms. Xu was once an accountant and chief accountant of the Finance Department of Jiangsu Jinling Automobile Communications Company, a deputy general manager of Jiangsu Leasing Company and a deputy director of the Finance Department of Jiangsu Communications Investment Corp. Ms. Xu will be nominated as Director of the Company at the forthcoming Annual General Meeting on 18th June, 1999. Immediately following the passing of the relevant resolution, Ms. Xu will resign as Supervisor.

Mr. Geng Liu Yu, aged 46, tertiary educated, economist, is Supervisor and Deputy Director of the Personnel and Human Resources Department of the Company. Before Mr. Geng joined the Company in October 1996, he had been an officer of the Labour and Management Department of Jiangsu Xinhua Shipyard, a deputy director and director of the Labour and Management Section of the Political Department under the Jiangsu Communications Department. He has been involved in economic management and personnel matters for more than 20 years.

Mr. Wu Zan Ping, aged 35, university graduate, senior engineer, is Supervisor and Deputy Director of the Engineering and Technology Department of the Company. Before Mr. Wu joined the Company in August 1992, he had been a deputy director and director of the Jiangsu Expressways Command Office. He has been involved in the management of transportation projects for more than 10 years.

Ms. Xu Yi Qun will be nominated as Director of the Company at the forthcoming Annual General Meeting on 18th June, 1999. Her office of Supervisor will be replaced by Mr. Xing Guo Qiang. A resolution will be proposed at the Annual General Meeting on 18th June, 1999 for approval of the appointment of the following person as Director of the Company subject to the appointment of Ms. Xu Yi Qun as Director of the Company. The biography of Mr. Xing Guo Qiang is as follows:

Mr. Xing Guo Qiang, aged 35, tertiary educated, is a Supervisor of the Company. He is also an assistant accountant and deputy director of the Administration Office of Jiangsu Communications Investment Corp.. Mr. Xing graduated from Jiangsu Commercial School in 1986. He had worked in Jinagsu Communications Department and Jiangsu Communications Investment Corp..

Company Secretaries

Mr. Yao Yong Jia, aged 35, postgraduate (with a Master's degree), senior engineer, is Company Secretary of the Company. Mr. Yao joined the Company in August 1992. He had worked in the Communications Design and Planning Institute of Jiangsu Province and the Jiangsu Expressways Command Office, and had been section head of the Securities Department of the Company. He has over 10 years of experience in project management, investment analyses, financing and securities matters.

Mr. Lam Che Wah, Danny, aged 34, the Company's Secretary in Hong Kong. Mr. Lam is a member of the Institute of Chartered Secretaries and Administrators of United Kingdom and Hong Kong Institute of Company Secretaries, and is the Secretary of the Company responsible for observance of the relevant provisions of Hong Kong. He is also the Company Secretary of the Company in Hong Kong, the receiver for the acceptance of service of process and notice, and an employee of Richards Butler, the Hong Kong legal adviser of the Company.

Senior Management

Ms. Liu Wei, aged 42, tertiary educated, accountant, is deputy division chief of the Finance Department of the Company. Ms. Liu joined the Company in August 1992. She had been the deputy section chief of the Planning Division of the Jiangsu Communications Department, the person-in-charge of the Finance Department of the Jiangsu Roads & Bridges Construction Co. and the section chief of the Finance Division of the Jiangsu Expressways Command Office.

Ms. Sun Xian Ping, aged 45, university graduate, economist, is Deputy Director of the Office of the General Manager of the Company. Ms. Sun joined the Company in October 1996. She had been an executive of the Public Relations Section, and the secretary of the General Office of the Jiangsu Communications Department.

Mr. Wu Wei Ping, aged 45, postgraduate (with a Master's degree), senior economist, is Deputy Director of the Office of the General Manager of the Company. Mr. Wu joined the Company in October 1996. He had been the secretary at the section chief level to the Communist Party Committee of the Jiangsu Communications Department and the section chief of the General Section of the Quality Control Station of the Jiangsu Communications Department.

Ms. Wang Xiao Lu, aged 46, tertiary educated, economist, is the deputy division chief of the Business Development Department of the Company. Ms. Wang joined the Company in October 1996. She had been section chief of the Statistics Branch under the Planning Division of both the Jiangsu Communications Department, manager of the department store and the Mechanical and Electrical Division of the Materials Company of the Jiangsu Communications Department.

Mr. Zhou Hao Xiang, aged 51, tertiary educated, economist, is Vice-chairman of the labour union of the Company. Mr. Zhou joined the Company in August 1992. He had been a director of the General Office and the deputy division manager of the Jiangsu United Transport Company, and a deputy division chief of the General Division of the Jiangsu Expressways Command Office.