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”) on 1st August 1992 as a joint stock limited company. The Company is principally engaged in the investment, construction, operation and management of the Jiangsu section of Shanghai-Nanjing Expressway (“Shanghai-Nanjing Expressway”), the Jiangsu section of the 312 National Highway (the “Nanjing-Shanghai Class 2 Highway”), Nanjing-Lianyungang class 1 Highway-Nanjing Section (“Nanjing Section”) and other toll roads in Jiangsu Province, and the provision of passenger transport services and other supporting services along the toll roads.

In June 1997 and December 2000, the Company issued 1,222,000,000 overseas public shares (“H shares”) and 150,000,000 domestic public shares (“A shares”) with a par value of RMB 1 each to its overseas and domestic investors respectively. The H shares and A share were subsequently listed on The Stock Exchange of Hong Kong Limited and Shanghai Stock Exchange on 27th June 1997 and 16th January 2001 respectively.

In 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. Jiangsu Xicheng and Jiangsu Guangjing are principally engaged in the construction, management and operation of Xicheng Expressway and Guangjing Expressway respectively. In September 1999, the construction of these expressways was completed and these expressways were operational.

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

The ultimate parent company of the Company is Jiangsu Communications Holding Company Ltd. (formerly known as Jiangsu Communication Investment Corporation), a state owned enterprise incorporated in the PRC. As of 31st December 2000, the number of employees of the Company is 1,561 (1999: 1,552). The registered address of the Company is 69 Shigu Road Nanjiang, Jiangsu, P. R. China.
2. Principal Accounting Policies

The principal accounting policies adopted in preparing financial statements of the Company and of the 
Group are as follows:

(a) Basis of presentation

The financial statements have been prepared in accordance with International Accounting 
Standards ("IAS") issued by the International Accounting Standards Committee, 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 Company's and of the Group's statutory accounts which 
are prepared in accordance with PRC Accounting Standards for Enterprises and the Accounting 
Regulations of the PRC for Joint Stock Limited Companies ("Statutory Accounts"). The 
adjustments made to conform the statutory accounts of the Group to IAS are shown in Note 26.

(b) Principles of consolidation

The consolidated financial statements of the Group include those of the Company and its 
subsidiaries and also incorporate the Group's interest in an associate on the basis as set out in 
Notes 2(c) and 2(d) below.

All significant intercompany balances and transactions, including intercompany profits and 
unrealized profits and losses are eliminated on consolidation. Consolidated financial statements 
are prepared using uniform accounting policies for like transactions and other events in similar 
circumstances. The equity and net income attributable to minority shareholders' interests are 
shown separately in the consolidated balance sheets and consolidated income statements, 
respectively.

The purchase method of accounting is used for acquired businesses. Results of subsidiaries and 
associates acquired or disposed during the year are included in the consolidated financial 
statements from the date of acquisition or to the date of disposal.

(c) Subsidiaries

A subsidiary is a company in which the Company has control. Control exists when the Company 
has the power to govern the financial and operating policies of the subsidiary so as to obtain 
benefits from its activities.

In the Company's financial statements, investments in subsidiaries are accounted for using the 
equity method. An assessment of investments in subsidiaries is performed when there is an 
indication that the asset has been impaired or the impairment losses recognized in prior years no 
longer exist.
2. Principal Accounting Policies (Cont'd)

(d) Associates

An associate is a company, not being a subsidiary or a joint venture, in which the Company has significant influence. Significant influence exists when the Company has the power to participate in, but not control, the financial and operating decisions of the associate.

Investments in associates are accounted for using the equity method. An assessment of investments in associates is performed when there is an indication that the asset has been impaired or the impairment losses recognized in prior years no longer exist.

(e) Long-term investment

Investment held for the long-term are stated at cost less any impairment in value. An assessment of long-term investments is performed when there is an indication that the asset has been impaired or the impairment losses recognized in prior years no longer exist.

Upon disposal of a long-term investment, the difference between net disposal proceeds and the carrying amount is charged or credited to the income statement.

(f) Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment loss. The initial cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditures incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance and overhaul costs, are recognized as an expense in the year in which they are incurred. In situations where it is probable that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of the asset beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of the asset.

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%, 8%, 5%, 8% and 9% per annum for Shanghai-Nanjing Expressway, Nanjing-Shanghai Class 2 Highway, Nanjing Section, Xicheng Expressway and Guangjiang Expressway 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; Nanjing Section: 30 years; Xicheng Expressway: 30 years; Guangjing Expressway: 30 years).
2. Principal Accounting Policies (Cont’d)

(f) Property, plant and equipment and depreciation (Cont’d)

Depreciation of property, plant and equipment other than toll roads, structures and operating rights is calculated using the straight-line method to write off the cost (or revalued amount), after taking into account the estimated residual value of 3%, of each asset over its expected useful life. The expected useful lives are as follows:

<table>
<thead>
<tr>
<th>Asset Category</th>
<th>Useful Life</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buildings</td>
<td>30 years</td>
</tr>
<tr>
<td>Safety equipment</td>
<td>10 years</td>
</tr>
<tr>
<td>Communication and signalling equipment</td>
<td>10 years</td>
</tr>
<tr>
<td>Toll stations and ancillary equipment</td>
<td>8 years</td>
</tr>
<tr>
<td>Motor vehicles</td>
<td>8 years</td>
</tr>
<tr>
<td>Other machinery and equipment</td>
<td>5-8 years</td>
</tr>
</tbody>
</table>

The useful lives of assets and depreciation method are reviewed periodically.

When assets are sold or retired, their costs and accumulated depreciation and accumulated impairment loss are eliminated from the accounts and any gain or loss resulting from their disposal is included in the income statement.

(g) Land use rights

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 amount of the land use rights at the end of the thirty-year concession period.

(h) Construction-in-progress

Construction-in-progress represents toll roads, structures and facilities, including buildings and maintenance facilities under construction and is stated at cost. This includes cost of construction, plant and equipment and other direct costs plus borrowing costs which include interest charges and exchange differences arising from foreign currency borrowings used to finance these projects during the construction period, to the extent these are regarded as an adjustment to interest costs.

Construction-in-progress is not depreciated until such time as the assets are completed and put into operational use.
2. Principal Accounting Policies (Cont’d)

(i) Intangible assets
Intangible assets are measured initially at cost. Intangible assets are recognized if it is probable that the future economic benefits that are attributable to the assets will flow to the enterprise; and the cost of the asset can be measured reliably. After initial recognition, intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses. Intangible assets are amortized on a straight-line basis over the best estimate of their useful lives (5 years). The amortization period and the amortization method are reviewed annually at each financial year-end.

(j) Inventories
Inventories are stated at the lower of cost and net realizable value. Cost, calculated on the first-in first-out method basis, comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognized as an expense in the year in which the related revenue is recognized. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value, is recognized as a reduction in the amount of inventories recognized as an expense in the year in which the reversal occurs.

(k) Receivables
Receivables are stated at face value, after provision for doubtful accounts.

(l) 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 with original maturities of three months or less and that are subject to an insignificant risk of change in value.
2. Principal Accounting Policies (Cont'd)

(m) 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 tax base of an asset or liability and its carrying amount in the balance sheet. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes. Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which the deductible temporary difference can be utilized.

(n) Revenue recognition

Provided it is probable that the economic benefits associated with a transaction will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognized on the following bases:

(i) Toll income

Toll income represents mainly income from the operation of toll roads, net of revenue tax. Toll income is recognised on a receipt basis.

(ii) Sales of petrol

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

(iii) Interest income

Interest income is recognised on a time proportion basis that take into account the effective yield on the assets.

(o) Foreign currency transactions

The Company and its subsidiaries maintain their books and records in RMB (the "reporting currency"), which is not a freely convertible currency. Transactions in other currencies are translated into the reporting currency at exchange rates prevailing at the time of the transactions. Monetary assets and liabilities denominated in other currencies at the balance sheet date are re-translated at exchange rates prevailing at that date. Non-monetary assets and liabilities in other currencies are translated at historical rates. Exchange differences other than those capitalized as a component of borrowing costs are recognized in the income statement in the year in which they arise.
2. Principal Accounting Policies (Cont’d)

(p) Borrowing costs

Borrowing costs include interest charges and other costs incurred in connection with the borrowings of funds. Borrowing costs are expensed as incurred, except when they are directly attributable to the acquisition, construction or production of the toll roads, structures and facilities, including buildings and maintenance facilities that necessarily takes a substantial period of time to get ready for its intended use in which case they are capitalized as part of the cost of that asset.

Capitalization of borrowing costs commences when expenditures for the asset and borrowing costs are being incurred and the activities to prepare the asset for its intended use are in progress. Borrowing costs are capitalized at the weighted average cost of the related borrowings until the asset is ready for its intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded.

(q) Pension scheme

Pursuant to the PRC laws and regulations, contributions to the basic old age insurance for the Group’s local staff are made monthly to a government agency based on 26% of the standard salary set by the provincial government, of which 20% is borne by the Company and its subsidiaries and the remainder is borne by the staff. The government agency is responsible for the pension liabilities relating to such staff on their retirement. The Company and its subsidiaries account for these contributions on an accrual basis.

(r) Financial instruments

Financial assets and financial liabilities carried on the balance sheet include cash and cash equivalents, and other receivables and payables, long-term receivable and loans. The accounting policies on recognition and measurement of these items are disclosed in the respective accounting policies found in this Note.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains, and losses relating to a financial instrument classified as a liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Company has a legally enforceable right to offset and intends to settle either on a net basis or to realize the asset and settle the liability simultaneously.