

Notes to Financial Statements

31 December 2000

1. CORPORATE INFORMATION

The registered office of Sichuan Expressway Company Limited is located at 252 Wuhouchi Da Jie, Chengdu, Sichuan Province, the People's Republic of China (the "PRC").

During the year, the principal activities of the Group were the construction, management and operation of expressways, class II roads and a toll bridge as well as the development and operation of certain ancillary services.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fundamental accounting concept

These financial statements have been prepared under the going concern concept notwithstanding the net current liabilities position of Rmb621,695,000 as of 31 December 2000 because banking facilities aggregating to Rmb1 billion granted by the Construction Bank of China are available to the Group. As of 31 December 2000, the banking facilities were utilized by an amount of Rmb300 million.

Basis of accounting

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance ("HK GAAP"). They have been prepared under the historical cost convention, except for the remeasurement of investments in listed securities, as further explained below. This basis of accounting differs in certain respects from that used in the preparation of the statutory financial statements of the Group, which were prepared in accordance with the accounting principles and the relevant financial regulations applicable to joint stock limited companies established in the PRC ("PRC GAAP"). The material differences arising from restating net profit attributable to shareholders and shareholders' equity to HK GAAP have been adjusted in these financial statements, but will not be recorded in the accounting records of the Group. The impact of the these HK GAAP adjustments is set out in note 31 to the financial statements.

Basis of consolidation

The consolidated financial statements include the audited financial statements of the Company and its subsidiaries for the year ended 31 December 2000. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors.

Interests in subsidiaries are stated at cost unless, in the opinion of the directors, there have been permanent diminutions in values, when they are written down to values determined by the directors.

Associated companies

An associated company is a company, not being a subsidiary or a joint venture, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of its associated company are included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interest in its associated company is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any provision for permanent diminution in value other than temporary in nature deemed necessary by the directors.

The result of the associated company is included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interest in the associated company is stated at cost less any provision for permanent diminution in value other than temporary in nature deemed necessary by the directors.

Goodwill

Goodwill arising on consolidation of subsidiaries and on acquisition of associated companies represents the excess purchase consideration paid over the fair values ascribed to the net underlying assets acquired and is eliminated against reserves in the year of acquisition. On disposal of subsidiaries or associated companies, the relevant portion of attributable goodwill previously eliminated against reserves is written back and included in the calculation of the gain or loss on disposal.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation. The cost of an asset comprises its purchase price, cost transferred from construction in progress and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after tangible fixed assets have been put into operation, such as repairs and maintenance and overhaul, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the tangible fixed asset, the expenditure is capitalized as an additional cost of that asset.

Depreciation of expressways, tunnels and bridges is provided by using the sinking fund method whereby the aggregate annual depreciation amounts, compounded at average rates from 4.8% to 6.8% per annum, up to the expiry of the underlying expressway concession periods of 27 to 30 years, will equal the total cost of the expressways, tunnels and bridges.

Land represents direct attributable costs of bringing the land to a condition suitable for the construction of the expressways. Cost comprises land use rights and the cost of demolishing buildings and structures, and removal and compensation expenses paid to residents. Depreciation of land is provided for on a straight-line basis to write off the cost of land over the underlying expressway concession periods of 27 to 30 years.

Depreciation of fixed assets other than expressways, tunnels and bridges and land is provided for on a straight-line basis to write off the cost of the assets, less their estimated residual values, being 3% of the cost, over their remaining estimated useful lives. The principal annual rates used for this purpose are as follows:

| | Estimated useful life | Annual depreciation rate |
|--------------------------------------|----------------------------------|---|
| Safety equipment | 10 years | 9.7% |
| Communication and signalling systems | 10 years | 9.7% |
| Toll collection equipment | 8 years | 12.1% |
| Buildings | 30 years | 3.2% |
| Machinery and equipment | 5-10 years | 9.7-19.4% |
| Motor vehicles | 8 years | 12.1% |

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Construction in progress

Construction in progress represents costs incurred in the construction of expressways, tunnels, bridges, safety equipment, communication and signalling systems, as well as the direct attributable costs of bringing the land to a suitable condition for the construction of the expressways. Cost comprises the direct costs of acquisition and construction, the costs of demolishing buildings and structures, the removal and compensation expenses paid to residents, as well as interest charges and certain exchange differences relating to funds borrowed during the period of construction, installation and testing. Construction in progress is not depreciated until such time as the relevant assets are completed and put into use and for expressway sections when the construction of such expressway sections is completed and put into use, or is substantially completed and has commenced toll operations, at which time the relevant costs are transferred to fixed assets.

Operating rights

Operating rights represent the rights to operate high grade roads and are stated at cost less accumulated amortization.

Amortization is provided on a straight-line basis over the periods of the operating rights granted to the Company and its subsidiaries.

Long term investments

Long term investments are non-trading investments in listed and unlisted securities intended to be held on a long term basis.

Listed securities are stated at their fair values on the basis of their quoted market prices at the balance sheet date on an individual investment basis. Unlisted securities are stated at their estimated fair values on an individual basis. These are determined by the directors having regard to, inter-alia, the prices of the most recent reported sales or purchases of the securities or comparison of price/earnings ratios and dividend yields of the securities with those of similar listed securities, with allowance made for the lower liquidity of the unlisted securities.

The gains or losses arising from changes in the fair values of a security are dealt with as movements in the long term investment revaluation reserve, until the security is sold, collected, or otherwise disposed of, or until the security is determined to be impaired, when the cumulative gain or loss derived from the security recognized in the long term investment revaluation reserve, together with the amount of any further impairment, is charged to the profit and loss account for the period in which the impairment arises. Where the circumstances and events which led to an impairment cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged and any appreciation in fair value is credited to the profit and loss account to the extent of the amount previously charged.

Short term investments

Short term investments are investments in securities held for trading purposes and are stated at their fair values on the basis of their quoted market prices at the balance sheet date on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the profit and loss account for the period in which they arise.

Foreign currency transactions

The Group's financial records are maintained and the financial statements are stated in Renminbi ("Rmb").

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the appropriate rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account, unless such exchange differences are incurred for funds borrowed specifically for the financing of construction, which are capitalized to the extent that they can be regarded as adjustments to interest costs.

Retirement benefits

Obligatory retirement benefits in the form of contributions under defined contribution retirement plans to registered insurance institutions are charged to the profit and loss account as incurred.

Inventories

Inventories are mainly spare parts and consumable supplies for repairs and maintenance of expressways and high grade roads and are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on the straight line basis over the lease terms.

Revenue recognition

Revenue is recognized when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) toll revenue, net of any applicable revenue taxes, when received;
- (b) rental income, on a time proportion basis over the lease terms;
- (c) interest income, on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable; and

(d) dividends, when the shareholders' right to receive payment is established.

Tax

PRC income tax is provided at rates applicable to enterprises in the PRC on the income for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes based on existing PRC income tax legislation, practices and interpretations thereof.

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallize in the foreseeable future. A deferred tax asset is not recognized until its realization is assured beyond reasonable doubt.

Capitalization of borrowing costs

Borrowing costs that are directly attributable to the construction of expressways, tunnels and bridges are capitalized as part of the cost of such assets when it is probable that they will result in future economic benefits to the Group and the costs can be measured reliably. Other borrowing costs are recognized as expenses in the period in which they are incurred.

The amount of borrowing costs capitalized is determined by reference to the actual borrowing costs incurred on funds borrowed specifically for the construction of expressways, tunnels and bridges during the period less any investment income arising from the temporary investment of those borrowings.

Capitalization of borrowing costs on funds borrowed specifically for the construction of completed expressway sections ceases when the construction of such expressway sections is completed, or is substantially completed and has commenced toll operations.

Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of balance sheet classification cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

3. TURNOVER AND REVENUE

Turnover mainly represents toll income from operation of expressways, class II roads and a toll bridge, net of relevant revenue taxes. An analysis of turnover and revenue is as follows:

| | 2000 | 1999 |
|------------------------------------|----------------|----------|
| | Rmb'000 | Rmb'000 |
| Toll revenue from: | | |
| - Chengyu Expressway | 437,850 | 405,927 |
| - Chengya Expressway | 97,504 | - |
| - Chengbei Exit Expressway | 26,326 | 17,837 |
| - Zigong Ring Roads | 17,732 | 23,294 |
| - Toll Bridge and Roads in Luzhou | 45,895 | 16,809 |
| | 625,307 | 463,867 |
| Less: revenue taxes | (31,142) | (23,652) |
| Turnover | 594,165 | 440,215 |
| Rental income | 4,215 | 2,746 |
| Road administrative charges | 6,763 | 6,184 |
| Income from short term investments | 11,828 | 1,330 |
| Interest income | 9,962 | 9,636 |
| Exchange gain | 6,726 | - |
| Gain on disposal of fixed assets | 67 | - |
| Miscellaneous | 4,851 | 3,374 |
| Other revenue | 44,412 | 23,270 |
| Revenue | 638,577 | 463,485 |

4. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging:

| | 2000 | 1999 |
|----------------------------------|-----------------------|----------------|
| | <i>Rmb'000</i> | <i>Rmb'000</i> |
| Depreciation: | | |
| Owned fixed assets | 160,054 | 93,908 |
| Operating lease rentals: | | |
| Land and buildings | 790 | 790 |
| Auditors' remuneration | 1,340 | 1,280 |
| Staff costs: | | |
| Wages and salaries | 46,204 | 26,772 |
| Pension contributions | 3,464 | 2,656 |
| Accommodation benefits | 11,258 | 5,614 |
| Amortization of operating rights | 24,991 | 14,991 |
| Loss on disposal of fixed assets | - | 1,263 |

5. FINANCE COSTS

| | 2000 | 1999 |
|---|-----------------------|----------------|
| | <i>Rmb'000</i> | <i>Rmb'000</i> |
| Exchange losses | - | 2,570 |
| Interest on bank loans wholly repayable within five years | 130,495 | 136,703 |
| Interest on other loans | 27,720 | 17,831 |
| Total finance costs | 158,215 | 157,104 |
| Interest capitalized | (5,909) | (84,498) |
| | 152,306 | 72,606 |

6. DIRECTORS' AND SUPERVISORS' REMUNERATION

Directors' and supervisors' remuneration disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance is as follows:

| | 2000 <i>Rmb'000</i> | 1999 <i>Rmb'000</i> |
|--|-------------------------------|------------------------|
| Fees | - | - |
| Other emoluments for directors: | | |
| Basic salaries and allowances and benefits in kind | 1,048 | 1,094 |
| Pension scheme contributions | 19 | 17 |
| Other emoluments for supervisors: | | |
| Basic salaries and allowances and benefits in kind | 238 | 177 |
| Pension scheme contributions | 9 | 9 |
| | 1,314 | 1,297 |

None of the directors or supervisors received remuneration in excess of HK\$1 million during the year.

Except for two independent non-executive directors who waived their remuneration in the amount of Rmb139,293, there was no arrangement under which a director or a supervisor waived or agreed to waive any remuneration.

Details of emoluments paid to the five highest paid individuals who were also directors or supervisors were:

| | 2000 <i>Rmb'000</i> | 1999 <i>Rmb'000</i> |
|--|-------------------------------|------------------------|
| Basic salaries and allowances and benefits in kind | 792 | 707 |
| Pension scheme contributions | 17 | 17 |
| | 809 | 724 |
| Number of directors | 4 | 5 |
| Number of supervisors | 1 | - |
| | 5 | 5 |

7. TAX

No Hong Kong profits tax has been provided as no assessable profits were earned in or derived from Hong Kong during the year.

Pursuant to an approval document "Wai Jing Mao Zi Shen Zi (1998) No. 15" dated 17 March 1998 issued by the Ministry of Foreign Trade and Economic Co-operation, the Company acquired the legal person status of a Sino-foreign joint stock limited company. Upon the application of the Company and pursuant to a certificate issued by the Sichuan Provincial Branch of the State Tax Bureau dated 25 August 1998:

- * For the two years from 1 January 1998 to 31 December 1999, the Company was exempted from Enterprise Income Tax ("EIT");
- * For the three years from 1 January 2000 to 31 December 2002, the Company is required to pay EIT at 50% of the applicable EIT rate of 24% fixed by the State; and
- * Commencing 1 January 2003, the Company will be required to pay EIT at the applicable EIT rate of 24% fixed by the State.

The Company's subsidiaries and an associated company are required to pay EIT at the standard rate of 33%.

Tax charge for the year is as follows:

| | 2000 | 1999 |
|-------------------------------|---------|---------|
| | Rmb'000 | Rmb'000 |
| Group: | | |
| The PRC | 39,358 | 14,874 |
| Share of tax attributable to: | | |
| An associated company | 102 | - |
| Tax charge for the year | 39,460 | 14,874 |

No provision for deferred taxation has been made because there were no material timing differences.

8. NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The net profit attributable to shareholders dealt with in the financial statements of the Company is Rmb227,745,000 (1999: Rmb220,399,000).

9. DIVIDENDS

| | 2000 <i>Rmb'000</i> | 1999 <i>Rmb'000</i> |
|-------------------------------------|------------------------|------------------------|
| Proposed final dividends | | |
| - Rmb0.03 (1999: Rmb0.03) per share | 76,742 | 76,742 |

10. EARNINGS PER SHARE

The calculation of earnings per share is based on the net profit attributable to shareholders for the year of Rmb166,452,000 (1999: Rmb169,449,000) and 2,558,060,000 (1999: 2,558,060,000) Domestic and H Shares in issue during the year.

11. FIXED ASSETS

Group

| | At 1 January 2000 <i>Rmb'000</i> | Additions/ provided during the year <i>Rmb'000</i> | Transfers from onstruction in progress <i>Rmb'000</i> | Disposals <i>Rmb'000</i> | At 31 December 2000 <i>Rmb'000</i> |
|--------------------------------------|---|--|---|-----------------------------|---|
| Cost: | | | | | |
| Land | 412,756 | 7,554 | 371,558 | - | 791,868 |
| Expressways, tunnels and bridges | 3,551,736 | 67 | 2,698,315 | - | 6,250,118 |
| Safety equipment | 219,252 | 167 | 151,815 | - | 371,234 |
| Communication and signalling systems | 43,475 | 543 | 682 | - | 44,700 |
| Toll collection equipment | 8,581 | 303 | 5,138 | (78) | 13,944 |
| Buildings | 114,795 | 810 | 95,953 | - | 211,558 |
| Machinery and equipment | 56,841 | 13,270 | 2,112 | (150) | 72,073 |
| Motor vehicles | 32,113 | 7,837 | 16,219 | (1,736) | 54,433 |
| | 4,439,549 | 30,551 | 3,341,792 | (1,964) | 7,809,928 |

Accumulated depreciation:

| | | | | | |
|--------------------------------------|---------|---------|---|-------|---------|
| Land | 28,759 | 25,725 | - | - | 54,484 |
| Expressways, tunnels and bridges | 535,201 | 72,307 | - | - | 607,508 |
| Safety equipment | 77,903 | 36,041 | - | - | 113,944 |
| Communication and signalling systems | 16,799 | 4,248 | - | - | 21,047 |
| Toll collection equipment | 1,882 | 1,458 | - | (41) | 3,299 |
| Buildings | 13,332 | 6,784 | - | - | 20,116 |
| Machinery and equipment | 17,945 | 7,340 | - | (68) | 25,217 |
| Motor vehicles | 11,259 | 6,151 | - | (471) | 16,939 |
| | 703,080 | 160,054 | - | (580) | 862,554 |

Net book value:

| | | | | | |
|--------------------------------------|-----------|--|--|--|-----------|
| Land | 383,997 | | | | 737,384 |
| Expressways, tunnels and bridges | 3,016,535 | | | | 5,642,610 |
| Safety equipment | 141,349 | | | | 257,290 |
| Communication and signalling systems | 26,676 | | | | 23,653 |
| Toll collection equipment | 6,699 | | | | 10,645 |
| Buildings | 101,463 | | | | 191,442 |
| Machinery and equipment | 38,896 | | | | 46,856 |
| Motor vehicles | 20,854 | | | | 37,494 |
| | 3,736,469 | | | | 6,947,374 |

In September 1997, Sichuan Chengya Expressway Co., Ltd. ("Chengya Co."), the Company's subsidiary which owns the Chengya Expressway, entered into a fixed price and fixed term construction contract (the "Fixed Price Construction Contract") with the Chengya Expressway executive construction office (the "Contractor"), which was established by the Sichuan Provincial Bureau of Communications. The Fixed Price Construction Contract stipulates that the construction of the entire Chengya Expressway shall be completed in October 2000 at a fixed price of approximately Rmb2,944 million which includes, among other things, all land requisition costs and land use right fees. During the construction of the Chengya Expressway, Chengya Co. and the Contractor made variations to the details of the construction of the Chengya Expressway. As a result of the variations, the total actual construction costs of the Chengya Expressway will exceed the fixed price stipulated in the Fixed Price Construction Contract by approximately Rmb586 million. The additional costs incurred as of 31 December 2000 amounted to Rmb498 million have been included in the fixed assets of the Group.

As of the date on which these financial statements were approved, Chengya Co. had completed requisitioning all of the land required and is in the process of applying for the land use right certificates in respect thereof. The directors are of the view that, subject to the payment of the relevant land use right fees by the Contractor, there should be no legal impediments for the Group in obtaining the land use right certificates for the Chengya Expressway.

Company

| | At 1 January 2000 <i>Rmb'000</i> | Additions/ provided during the year <i>Rmb'000</i> | Transfers from onstruction in progress <i>Rmb'000</i> | Disposals <i>Rmb'000</i> | At 31 December 2000 <i>Rmb'000</i> |
|--------------------------------------|---|---|--|-------------------------------------|---|
| Cost: | | | | | |
| Land | 320,992 | - | - | - | 320,992 |
| Expressways, tunnels and bridges | 3,295,652 | 67 | 770 | - | 3,296,489 |
| Safety equipment | 209,775 | 167 | 2,165 | - | 212,107 |
| Communication and signalling systems | 42,369 | 32 | 776 | - | 43,177 |
| Toll collection equipment | 3,570 | 172 | 50 | (78) | 3,714 |
| Buildings | 100,852 | 247 | 3,437 | - | 104,536 |
| Machinery and equipment | 41,169 | 3,282 | 290 | (97) | 44,644 |
| Motor vehicles | 25,632 | 896 | - | (1,736) | 24,792 |
| | 4,040,011 | 4,863 | 7,488 | (1,911) | 4,050,451 |
| Accumulated depreciation: | | | | | |
| Land | 25,475 | 10,702 | - | - | 36,177 |
| Expressways, tunnels and bridges | 530,384 | 38,428 | - | - | 568,812 |
| Safety equipment | 76,841 | 20,450 | - | - | 97,291 |
| Communication and signalling systems | 16,748 | 4,146 | - | - | 20,894 |
| Toll collection equipment | 1,452 | 448 | - | (41) | 1,859 |
| Buildings | 12,146 | 3,356 | - | - | 15,502 |
| Machinery and equipment | 14,356 | 4,953 | - | (63) | 19,246 |
| Motor vehicles | 10,136 | 3,017 | - | (471) | 12,682 |
| | 687,538 | 85,500 | - | (575) | 772,463 |
| Net book value: | | | | | |
| Land | 295,517 | | | | 284,815 |
| Expressways, tunnels and bridges | 2,765,268 | | | | 2,727,677 |
| Safety equipment | 132,934 | | | | 114,816 |
| Communication and signalling systems | 25,621 | | | | 22,283 |

| | | |
|---------------------------|-----------|-----------|
| Toll collection equipment | 2,118 | 1,855 |
| Buildings | 88,706 | 89,034 |
| Machinery and equipment | 26,813 | 25,398 |
| Motor vehicles | 15,496 | 12,110 |
| | 3,352,473 | 3,277,988 |

12. CONSTRUCTION IN PROGRESS

| | At 1 January 2000 <i>Rmb'000</i> | Additions <i>Rmb'000</i> | Transfers to fixed assets <i>Rmb'000</i> | At 31 December 2000 <i>Rmb'000</i> |
|--------------|---|-----------------------------|---|---|
| Company | 16,401 | 51,983 | (7,488) | 60,896 |
| Subsidiaries | 2,936,153 | 413,804 | (3,334,304) | 15,653 |
| Group | 2,952,554 | 465,787 | (3,341,792) | 76,549 |

13. OPERATING RIGHTS

Group

| | 2000 <i>Rmb'000</i> | 1999 <i>Rmb'000</i> |
|---------------------------|------------------------|------------------------|
| Cost: | | |
| At beginning of year | 469,820 | 199,820 |
| Additions | - | 270,000 |
| At 31 December | 469,820 | 469,820 |
| Accumulated amortization: | | |
| At beginning of year | 15,824 | 833 |
| Provided during the year | 24,991 | 14,991 |
| At 31 December | 40,815 | 15,824 |
| Net book value: | | |
| At 31 December | 429,005 | 453,996 |

14. INTERESTS IN SUBSIDIARIES

Company

| | 2000 | 1999 |
|-------------------------------|----------------|----------------|
| | Rmb'000 | Rmb'000 |
| Unlisted investments, at cost | 820,391 | 752,400 |
| Due from subsidiaries | 773,284 | 784,560 |
| | 1,593,675 | 1,536,960 |

Particulars of the Company's subsidiaries, which are all established and operate in the PRC, are as follows:

| Name | Legal person status | Nominal value of issued/registered capital Rmb'000 | Percentage of equity attributable to the Group | | Principal activities |
|--|-----------------------------|---|--|----------|--|
| | | | Direct | Indirect | |
| Sichuan Chengya Expressway Company Limited | Joint stock limited company | 800,000 | 58.75% | 0.225% | Construction and operation of the Chengya Expressway |
| Chengdu Chengbei Exit Expressway Company Limited | Limited company | 135,000 | 60% | - | Construction and operation of the Chengbei Exit Expressway |
| Chengdu Shuhai Investment Management Company Limited | Limited company | 200,000 | 99.9% | - | Investment holding |
| Zigong Shunan Ring Road Company Limited | Limited company | 199,982 | - | 59.94% | Operation of two high grade roads in Zigong |
| Sichuan Shugong Expressway Engineering Company Limited | Limited company | 30,000 | 95% | - | Repairs and maintenance of expressways |

| | | | | | |
|---|-----------------|---------|-------|--------|--|
| Sichuan Shusha Enterprise Company Limited | Limited company | 20,000 | 99.5% | - | Development of ancillary services and property |
| Luzhou Shulu Road Company Limited | Limited company | 270,000 | - | 59.94% | Operation of two high grade roads and a toll bridge in Luzhou |
| Sichuan Shutong Expressway Industrial Company Limited | Limited company | 20,000 | 97.5% | - | Construction and operation of the southern part of Dajian Road |

15. INTEREST IN AN ASSOCIATED COMPANY

| | Group | | Company | |
|------------------------------|-----------------|-----------------|-----------------|-----------------|
| | 2000 Rmb'000 | 1999 Rmb'000 | 2000 Rmb'000 | 1999 Rmb'000 |
| Unlisted investment, at cost | - | - | 38,438 | 38,438 |
| Share of net assets | 38,668 | 38,555 | - | - |
| | 38,668 | 38,555 | 38,438 | 38,438 |

The Group's share of the accumulated reserves of the associated company at 31 December 2000 was Rmb230,000 (1999: Rmb117,000).

Particulars of the associated company, which is established and operates in the PRC, are as follows:

| Name | Legal person status | Percentage of equity attributable to the Group | | Principal activities |
|--|---------------------|--|------|--|
| | | 2000 | 1999 | |
| Chengdu Airport Expressway Company Limited | Limited company | 25% | 25% | Construction and operation of the New Chengdu Airport Expressway |

16. LONG TERM INVESTMENTS

| | Group | | Company | |
|-----------------------------|-----------------|-----------------|-----------------|-----------------|
| | 2000 Rmb'000 | 1999 Rmb'000 | 2000 Rmb'000 | 1999 Rmb'000 |
| Unlisted equity investments | 2,000 | - | 1,500 | - |

17. SHORT TERM INVESTMENTS

| | Group | | Company | |
|---|-----------------|-----------------|-----------------|-----------------|
| | 2000 Rmb'000 | 1999 Rmb'000 | 2000 Rmb'000 | 1999 Rmb'000 |
| Government debentures, at market value | - | 22,416 | - | 22,416 |
| Listed equity investments, at market value | 23,036 | 16,733 | 23,036 | 6,387 |
| | 23,036 | 39,149 | 23,036 | 28,803 |

18. INVENTORIES

| | Group | | Company | |
|-------------------------------------|---------|---------|---------|---------|
| | 2000 | 1999 | 2000 | 1999 |
| | Rmb'000 | Rmb'000 | Rmb'000 | Rmb'000 |
| Spare parts and consumable supplies | 2,909 | 2,677 | 2,577 | 2,449 |

19. OTHER RECEIVABLES

| | Group | | Company | |
|----------------------------|---------|---------|---------|---------|
| | 2000 | 1999 | 2000 | 1999 |
| | Rmb'000 | Rmb'000 | Rmb'000 | Rmb'000 |
| Prepayments | 26,730 | 25,431 | 1,656 | 10,024 |
| Deposits and other debtors | 7,259 | 24,719 | 10,569 | 5,962 |
| | 33,989 | 50,150 | 12,225 | 15,986 |

20. CASH AND CASH EQUIVALENTS

| | Group | | Company | |
|--|---------|---------|---------|---------|
| | 2000 | 1999 | 2000 | 1999 |
| | Rmb'000 | Rmb'000 | Rmb'000 | Rmb'000 |
| Cash and bank balances | 461,462 | 254,689 | 220,724 | 148,183 |
| Time deposits with original maturities of three months or less | 41,242 | 106,216 | 26,242 | 71,216 |
| Time deposits with original maturities of over three months | 69,684 | 20,000 | 69,684 | 20,000 |
| | 572,388 | 380,905 | 316,650 | 239,399 |

21. OTHER PAYABLES AND ACCRUALS

| | <i>Notes</i> | Group | | Company | |
|--------------------------|--------------|-----------------------|----------------|-----------------------|----------------|
| | | 2000 | 1999 | 2000 | 1999 |
| | | <i>Rmb'000</i> | <i>Rmb'000</i> | <i>Rmb'000</i> | <i>Rmb'000</i> |
| Accruals | | 14,775 | 24,450 | 12,930 | 11,085 |
| Other liabilities | | 265,983 | 133,934 | 19,261 | 26,248 |
| Due to holding company | 23 | 426,133 | 139,424 | 5,054 | 5,054 |
| Proposed final dividends | 9 | 76,742 | 76,742 | 76,742 | 76,742 |
| | | 783,633 | 374,550 | 113,987 | 119,129 |

22. INTEREST-BEARING BANK AND OTHER LOANS

| | Group | | Company | |
|---|-----------------------|----------------|-----------------------|----------------|
| | 2000 | 1999 | 2000 | 1999 |
| | <i>Rmb'000</i> | <i>Rmb'000</i> | <i>Rmb'000</i> | <i>Rmb'000</i> |
| Bank loans, unsecured | 2,083,610 | 2,129,517 | 734,610 | 789,517 |
| Other loans, unsecured | 452,000 | 402,000 | - | - |
| | 2,535,610 | 2,531,517 | 734,610 | 789,517 |
| Bank loans repayable: | | | | |
| Within one year | 348,383 | 298,473 | 49,383 | 48,473 |
| In the second year | 101,246 | 70,187 | 51,246 | 50,187 |
| In the third to fifth years, inclusive | 1,466,354 | 1,272,283 | 466,354 | 262,283 |
| Beyond five years | 167,627 | 488,574 | 167,627 | 428,574 |
| | 2,083,610 | 2,129,517 | 734,610 | 789,517 |
| Other loans repayable: | | | | |
| Within one year | 100,000 | 140,000 | - | - |
| In the second year | 20,000 | - | - | - |
| In the third to fifth years, inclusive | 82,000 | 62,000 | - | - |
| Beyond five years | 250,000 | 200,000 | - | - |

| | | | | |
|---|-----------|-----------|----------|----------|
| | 452,000 | 402,000 | - | - |
| Total bank and other loans | 2,535,610 | 2,531,517 | 734,610 | 789,517 |
| Portion classified as current liabilities | (448,383) | (438,473) | (49,383) | (48,473) |
| Long term portion | 2,087,227 | 2,093,044 | 685,227 | 741,044 |

The bank loans are unsecured and bear interest at rates ranging from 4% to 8.06% per annum.

Bank loans amounting to Rmb569,000,000 (1999: Rmb540,000,000) are guaranteed by Sichuan Highway Development Holding Company ("Sichuan Highway Development"), the Company's holding company.

The other loans are unsecured and bear interest at rates ranging from 5% to 6.435% per annum.

23. DUE TO HOLDING COMPANY

The amount due to the holding company is unsecured, interest-free and is repayable on demand.

24. SHARE CAPITAL

Group and Company

| | 2000 | 1999 | 2000 | 1999 |
|------------------------------------|---------------|---------------|-----------|-----------|
| | Number | Number | Rmb'000 | Rmb'000 |
| | of shares | of shares | | |
| Authorized, issued and fully paid: | | | | |
| Domestic Shares of Rmb1.00 each | 1,662,740,000 | 1,662,740,000 | 1,662,740 | 1,662,740 |
| H Shares of Rmb1.00 each | 895,320,000 | 895,320,000 | 895,320 | 895,320 |
| | 2,558,060,000 | 2,558,060,000 | 2,558,060 | 2,558,060 |

The Domestic Shares are not currently listed on any stock exchange.

The H Shares have been issued and listed on The Stock Exchange of Hong Kong Limited since October 1997.

All the Domestic and H Shares rank pari passu with each other as to dividend and voting rights.

25. RESERVES

| | Share premium account <i>Rmb'000</i> | Statutory surplus reserve <i>Rmb'000</i> | Statutory public welfare fund <i>Rmb'000</i> | General surplus reserve <i>Rmb'000</i> | Retained profits <i>Rmb'000</i> | Total <i>Rmb'000</i> |
|---|---|---|--|---|---------------------------------------|-------------------------|
| Group | | | | | | |
| At beginning of year | 1,413,597 | 56,124 | 51,524 | 93,894 | 35,989 | 1,651,128 |
| Goodwill arising on acquisition of additional interest in a subsidiary | - | - | - | - | (786) | (786) |
| Net profit for the year | - | - | - | - | 166,452 | 166,452 |
| Transfer from / (to) reserves | - | 21,277 | 20,633 | 38,452 | (80,362) | - |
| Dividends (note 9) | - | - | - | - | (76,742) | (76,742) |
| At 31 December 2000 | 1,413,597 | 77,401 | 72,157 | 132,346 | 44,551 | 1,740,052 |
| Company | | | | | | |
| At beginning of year | 1,413,597 | 54,847 | 50,861 | 93,751 | 146,682 | 1,759,738 |
| Net profit for the year | - | - | - | - | 227,745 | 227,745 |
| Transfer from / (to) reserves | - | 18,461 | 18,461 | 36,922 | (73,844) | - |
| Dividends (note 9) | - | - | - | - | (76,742) | (76,742) |
| At 31 December 2000 | 1,413,597 | 73,308 | 69,322 | 130,673 | 223,841 | 1,910,741 |

In accordance with the Company Law of the PRC and the Company's articles of association, the Company is required to allocate 10% of its profit after tax, as determined in accordance with PRC accounting standards and regulations applicable to the Company, to the statutory surplus reserve ("SSR") until such reserve reaches 50% of the registered capital of the Company. Subject to certain restrictions set out in the Company Law of the PRC and the Company's articles of association, part of the SSR may be converted to increase share capital, provided that the remaining balance after the capitalization is not less than 25% of the registered capital.

In accordance with the Company Law of the PRC, the Company and certain subsidiaries are required to transfer 5% to 10% of its profit after tax, as determined in accordance with PRC accounting standards and regulations applicable to the Company, to its public welfare fund ("PWF") which is a non-distributable reserve other than in the event of the liquidation of the Company. The PWF must be used for capital expenditure on staff welfare facilities and these facilities remain the property of the Company.

When the PWF is utilized, an amount equal to the lower of the cost of the assets and the balance of the PWF is transferred from the PWF to the general surplus reserve ("GSR"). The GSR is non-distributable other than in liquidation. On disposal of the relevant assets, the original transfers from the PWF are reversed.

According to the relevant regulations in the PRC, the reserve available for distribution is the lower of the amount determined under PRC accounting standards and the amount determined under HK GAAP. The current year's reserve available for distribution is the amount determined under HK GAAP.

At 31 December 2000, the amount of retained profits of the Company available for distribution as dividend amounted to approximately Rmb223,841,000 (1999: Rmb146,682,000).

26. NOTES TO THE CASH FLOW STATEMENT

(a) Reconciliation of profit from operating activities to net cash inflow from operating activities

| | 2000 | 1999 |
|--|-----------------------|----------------|
| | <i>Rmb'000</i> | <i>Rmb'000</i> |
| Profit from operating activities | 310,773 | 249,583 |
| Depreciation | 160,054 | 93,908 |
| Amortization of operating rights | 24,991 | 14,991 |
| Loss/(gain) on disposal of fixed assets | (67) | 1,263 |
| Income from short term investments | (11,828) | (1,330) |
| Interest income | (9,962) | (9,636) |
| Decrease in prepayments, deposits and other receivables | 16,173 | 390 |
| Decrease/(increase) in inventories | (232) | 1,086 |
| Increase/(decrease) in accruals and other liabilities | (34,286) | 56,850 |
| Increase in amount due to holding company | 286,000 | 130,000 |
| Net cash inflow from operating activities | 741,616 | 537,105 |

(b) Analysis of changes in financing during the year

| | Share capital | Bank | Minority |
|--|----------------------|------------------|------------------|
| | (including | and other | interests |
| | premium) | loans | |
| | <i>Rmb'000</i> | <i>Rmb'000</i> | <i>Rmb'000</i> |
| Balance at beginning of year | 3,971,657 | 2,531,517 | 528,656 |
| Land use rights injected by a minority shareholder as capital injection - note 26(c) | - | - | 7,554 |
| Net cash inflow from financing | - | 4,093 | 18,500 |
| Acquisition of additional interest in a subsidiary from a minority shareholder | - | - | (21,012) |
| Loss attributable to minority shareholders | - | - | (47,136) |
| Balance at end of year | 3,971,657 | 2,535,610 | 486,562 |

(c) **Major non-cash transactions**

During the year, a minority shareholder injected certain land use rights in the Chengya Expressway at a pre-determined value of Rmb7,554,000 into a subsidiary of the Company as the minority shareholder's capital contribution.

27. CONTINGENT LIABILITIES

| | Group | | Company | |
|---|----------------|---------|----------------|-----------|
| | 2000 | 1999 | 2000 | 1999 |
| | Rmb'000 | Rmb'000 | Rmb'000 | Rmb'000 |
| Guarantees given to banks in connection with facilities granted to subsidiaries | - | - | 1,080,000 | 1,080,000 |

28. COMMITMENTS

| | Group | | Company | |
|--|----------------|---------|----------------|---------|
| | 2000 | 1999 | 2000 | 1999 |
| | Rmb'000 | Rmb'000 | Rmb'000 | Rmb'000 |
| Contracted, but not provided for | 272,123 | 304,234 | 24,751 | 310,483 |
| Authorised, but not contracted for | 11,472 | 13,295 | 4,939 | 5,156 |
| | 283,595 | 317,529 | 29,690 | 315,639 |
| Annual commitments payable in the following year under non-cancellable operating leases in respect of land and buildings expiring: | | | | |
| In the second to fifth years, inclusive | 950 | 790 | 950 | 790 |
| After five years | 100 | - | - | - |
| | 1,050 | 790 | 950 | 790 |

Further details of the capital commitments of the Company and the Group as of 31 December 2000 are analysed as follows:

| | Group | | Company | |
|---|-----------------|-----------------|-----------------|-----------------|
| | 2000 Rmb'000 | 1999 Rmb'000 | 2000 Rmb'000 | 1999 Rmb'000 |
| In respect of: | | | | |
| - The construction of the Chengya Expressway | 87,563 | 94,652 | - | 94,000 |
| - The construction of the Chengbei Exit Expressway | - | 9,067 | - | 12,000 |
| - Construction work to upgrade the Chengyu Expressway | 29,690 | 63,639 | 29,690 | 63,639 |
| - Construction of the southern part of the Dajian Road | 143,892 | 146,000 | - | 146,000 |
| - Others | 22,450 | 4,171 | - | - |
| | 283,595 | 317,529 | 29,690 | 315,639 |

29. RETIREMENT SCHEME AND EMPLOYEE ACCOMMODATION BENEFITS

As stipulated by the State regulations of the PRC, the Group participates in a defined contribution retirement scheme. All employees are entitled to an annual pension equal to a fixed proportion of the average basic salary amount within the geographical area of their last employment at their retirement date. During the year, the Group was required to make contributions to registered insurance companies at a rate of 20% of the average basic salaries within the geographical area where the employees are under employment with the Group. The Group has no obligation for the payment of pension benefits beyond the annual contributions to the registered insurance companies.

During the year, contributions to registered insurance companies made by the Group under the defined contribution retirement scheme amounted to Rmb3,463,694 (1999: Rmb2,656,311).

According to relevant rules and regulations of Sichuan Province, the Group and its employees are each required to make contributions, which are in proportion to the salaries and wages of the employees, to an accommodation fund. There are no further obligations on the part of the Group except for such contributions to the accommodation fund. During the year, the Group's contributions to the accommodation fund amounted to Rmb1,141,433 (1999: Rmb613,861).

The Group provided additional housing benefits to certain selected employees. The additional housing benefits covered 25 employees of the Company and 12 employees of Sichuan Chengya Expressway Company Limited, a subsidiary of the Company. The cost of providing the additional housing benefits amounted to Rmb10,116,434 (1999: Rmb5,000,531) has been charged to the profit and loss account for the year.

30. RELATED PARTY TRANSACTIONS

Material related party transactions for the year ended 31 December 2000 are summarized as follows:

- (a) During the year, the Group obtained additional State loans amounted to Rmb50 million (1999: Rmb125 million) pursuant to loan repayment agreements entered into between Sichuan Highway Development, the ultimate holding company of the Company, and the Company (the "Loan Repayment Agreements"). The State loans were originally made to the Sichuan Provincial Government through the Ministry of Finance for infrastructure development of the Sichuan Province. For the purpose of financing the construction of the Chengya Expressway, Sichuan Highway Development had initially obtained the State loans and pursuant to the Loan Repayment Agreements, the State loans were then transferred to the Group. As of 31 December 2000, the State loans amounted to Rmb250 million (1999: Rmb200 million) and have been included in other loans as set out in note 22.
- (b) As of 31 December 2000, the Group's bank loans amounted to Rmb569 million (1999: Rmb540 million) were guaranteed by Sichuan Highway Development.

These transactions were carried out in accordance with the terms of the agreements governing such transactions.

31. DIFFERENCES IN FINANCIAL STATEMENTS PREPARED UNDER HK GAAP AND PRC GAAP

| | Net profit attributable to shareholders for the year ended 31 December | | Shareholders' equity as of 31 December | |
|---|---|------------------------|---|------------------------|
| | 2000 <i>Rmb'000</i> | 1999 <i>Rmb'000</i> | 2000 <i>Rmb'000</i> | 1999 <i>Rmb'000</i> |
| As reported in statutory financial statements of the Group prepared in accordance with PRC GAAP | 184,649 | 202,403 | 4,336,257 | 4,228,350 |
| HK GAAP adjustments: | | | | |
| (a) The recognition of expenses directly charged to retained earnings | - | (14,120) | - | - |
| (b) The derecognition of deferred repairs and maintenance expenses | (1,021) | (6,188) | (7,209) | (6,188) |
| (c) Accrual for additional accommodation benefits | (9,926) | (5,001) | (14,927) | (5,001) |
| (d) Additional provision for bad and doubtful debts | (3,438) | (2,196) | (5,634) | (2,196) |
| (e) Tax | (7,208) | (5,589) | (12,797) | (5,589) |
| (f) Recognition of investment income from short term investments | 1,830 | - | 1,830 | - |
| (g) Goodwill eliminated directly against reserve | 23 | - | (786) | - |
| (h) Others | 1,543 | 140 | 1,378 | (188) |

As restated in these
financial statements

166,452 169,449 4,298,112 4,209,188

Under the Company's articles of association, the amount available to the Company for the purpose of paying dividends is the lesser of (i) the net after-tax income of the Company determined in accordance with PRC GAAP; and (ii) the net after-tax income of the Company determined in accordance with HK GAAP.

32. ULTIMATE HOLDING COMPANY

In the opinion of the directors, the ultimate holding company of the Company is Sichuan Highway Development, a State-owned enterprise established in the PRC.

33. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with the current year's presentation.

34. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 22 March 2001.