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1. Business Environment

In 2003, the operation of the Group was affected by a series of unfavourable factors, such as the infestation of SARS over the country, an increase in free traffic flow due to the opening of "Green Passage" for the transportation of agricultural products and certain pressure of diverting the traffic flow due to the opening of roads parallel to the Company's road networks. Although the Group's operating environment experienced such changes, the macroeconomic uptrend and the improvement in transportation networks in Sichuan Province effectively mitigated and warded off the adverse impact of the above unfavourable factors on the Group's operating results, which is summarised as follows:

- In 2003, the PRC economy continued to maintain a steady GDP growth rate of 9.1% . As a province with the largest total economic output in the western region, Sichuan Province strived to implement its catching-up strategy for a leap in development in line with the grand development for the western region, and achieved an economic growth rate about 2.7 per cent higher than that of the national average GDP.
- The fast economic growth stimulated the social consumption structure shifting towards the pattern of development and leisure. In 2003, the production volume of private cars in the PRC reached 2,069,000 vehicles, representing an increase of 80.7% over last year. The sales volume of private cars reached 2,040,000 vehicles, representing a growth of 92.8% as compared with the previous year. The rapid introduction of private cars into the family sector effectively led to the growth in traffic flow of expressways and demonstrated the operating advantages and development potential of expressways.

1. Business Environment (continued)

- The smoothly running macro economy provided favourable conditions for the rapid development of transportation construction. At present, the total mileage of roads in Sichuan Province reached 112,500 km, representing the second longest within the whole country. The total mileage of expressways reached 1,500 km, representing the sixth longest within the whole country and the first in the western region. Among the 21 cities in the whole province, 17 cities were covered by expressways, representing that the main skeleton of expressway networks with Chengdu as the centre was basically established.
- The established and maturing expressway networks further stimulated the growth of passenger and cargo transportation through the expressways. Featuring its convenient, fast, comfortable and safe service, expressway is becoming the first choice of transportation for consumers.

2. The Conditions of Assets

The major assets of the Company include Sichuan Chengyu Expressway ("Chengyu Expressway"), Sichuan Chengya Expressway ("Chengya Expressway"), Chengdu Chengbei Exit Expressway ("Chengbei Exit Expressway"), Chengdu Airport Expressway ("Airport Expressway") as well as three Class II roads including Zigong Ring Roads and Lulong Road, Luhe Road and one toll bridge, namely Luzhou Tuojiang Er Bridge in Luzhou which are located in Sichuan Province, a large province in the western region of the PRC. Such networks are the important routes of transportation in Sichuan Province and represent a key and special status among the transportation networks within Sichuan Province.

The basic information of the Company's toll roads and bridge is as follows:

| Toll roads | Category | Mileage (km) | Date of commencement of operation | End of operation period | Number of toll stations | Interests held by the Company |
|--------------------------|---------------|--------------|-----------------------------------|-------------------------|-------------------------|-------------------------------|
| Chengyu Expressway | Expressway | 226 | July 1995 | August 2027 | 15/closed | 100% |
| Chengya Expressway | Expressway | 144 | December 1999 | October 2027 | 15/closed | 62.595% |
| Chengbei Exit Expressway | Expressway | 10.42 | December 1998 | June 2024 | 1/closed | 60% |
| Airport Expressway | Expressway | 11.92 | July 1999 | December 2024 | 1/dual | 25% |
| Zigong Ring Roads | Class II road | 76.1 | December 1998 | December 2003 | 4/single | 59.94% |
| Lulong Road | Class II road | 50 | September 1999 | August 2003 | 2/single | 59.94% |
| Luhe Road | Class II road | 23 | September 1999 | August 2003 | 3/single | 59.94% |
| Tuojiang Er Bridge | Toll bridge | 4.5 | September 1999 | August 2003 | 1/dual | 59.94% |

As at 31 December 2003, the Group's total assets and net assets amounted to approximately Rmb7,885,895,000 and approximately Rmb4,737,173,000 respectively.

3. Business Review and Analysis

1. Business summary

In 2003, despite various unfavourable factors such as the impact from SARS, the Group was still able to achieve relatively satisfactory operating results. The total turnover of the Group reached approximately Rmb937,398,000, representing a 18.5% increase over last year. However, profit attributable to shareholders and earnings per share for the year decreased by 1.3% from last year to Rmb207,664,000 and Rmb0.0812 respectively. The decrease was mainly because the Group's road repairs and maintenance costs and depreciation of road assets increased by Rmb58,373,000 and Rmb17,007,000 respectively over last year, and the Group's income tax increased by Rmb48,159,000 over last year due to the increased tax rate of the Company and the significant increase in profit of Chengbei Company.

The composition and proportion of income from the Group's principal activities were as follows:

| Items | For the year ended 31 December 2003 (Rmb'000) | Percentage to total turnover | Increase/ (decrease) over/(from) 2002 |
|---|---|---------------------------------|--|
| Toll income of Chengyu Expressway | 554,919 | 56.55% | 1.51% |
| Toll income of Chengya Expressway | 170,729 | 17.40% | 2.61% |
| Toll income of Chengbei Exit Expressway | 62,843 | 6.4% | 99.69% |
| Toll income of Class II roads and toll bridge in Zigong and Luzhou | 51,541 | 5.25% | (20.27)% |
| Sales of petroleum products | 141,302 | 14.40% | 505.07% |
| Total | 981,334 | 100.00% | 17.88% |

2. Principal activities - Operation of Toll Roads and Bridge

The operations of the Group's toll roads and bridge during 2003 were as follows:

| Toll roads | Average daily traffic flow (No. of vehicles) | Year-on-year growth/ (decline) (+/-%) | Toll income (Rmb'000) | Year-on-year growth/ (decline) (+/-%) | Net profit/(loss) (Rmb'000) | Year-on-year growth/ (decline) (+/-%) |
|---|--|---------------------------------------|-----------------------|---------------------------------------|-----------------------------|---------------------------------------|
| Chengyu Expressway | 11,091 | 11.97 | 554,919 | 1.51 | 202,141 | -18.86 |
| Chengya Expressway | 7,876 | 4.66 | 170,729 | 2.61 | (70,207) | 0.43 |
| Chengbei Exit Expressway | 26,081 | 84.33 | 62,843 | 99.69 | 19,681 | 1,698.99 |
| Zigong Ring Roads, and the two roads and one bridge in Luzhou | N/A | N/A | 51,541 | -20.27 | 9,011 | -42.9 |

Chengyu Expressway

The 226 km Chengyu Expressway, the core asset wholly owned by the Company, is a dual two-lane highway in the middle of Sichuan Province. The expressway, commenced its construction in July 1990, was completed and open to traffic in July 1995. It is the first expressway in Sichuan Province.

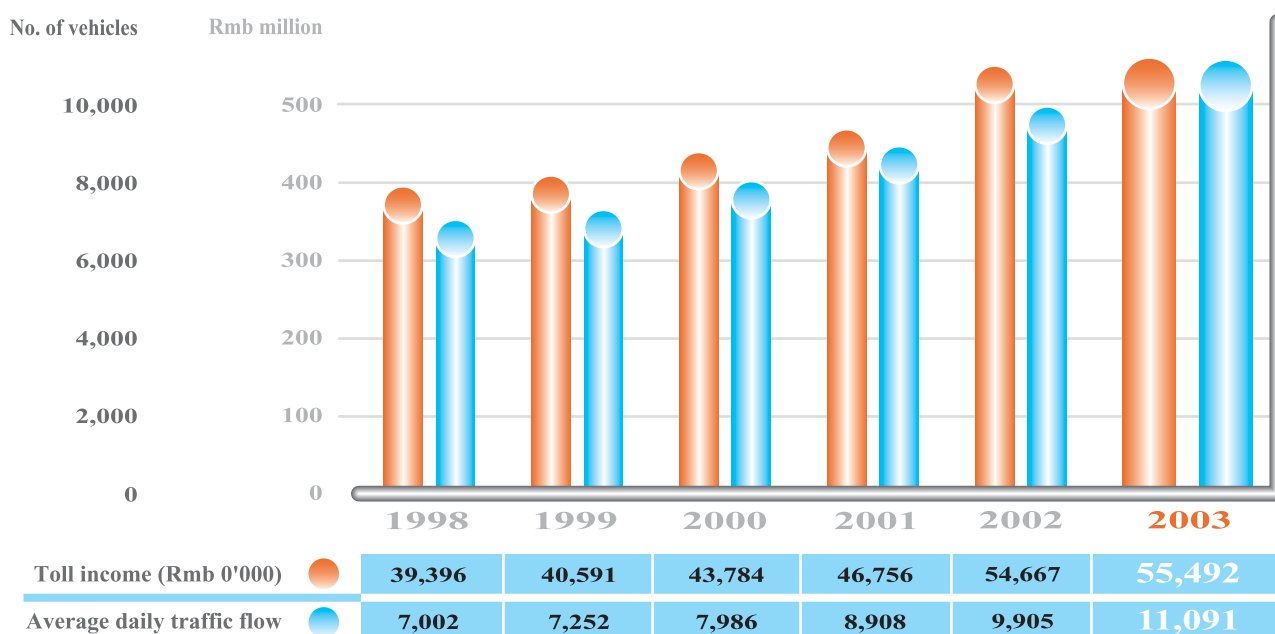
3. Business Review and Analysis (continued)

2. Principal activities - Operation of Toll Roads and Bridge (continued)

Chengyu Expressway (continued)

As a major traffic artery in Sichuan Province, Chengyu Expressway achieved a continuous growth in traffic flow and toll income since its commencement of operation and became the key project contributing earnings to the Group. For the year ended 31 December 2003, the average daily traffic flow of Chengyu Expressway was approximately 11,091 vehicles, representing an increase of approximately 11.97% over last year. Toll income was approximately Rmb554,919,000, increased by approximately 1.51% over last year. However, as repairs and maintenance expenses for Chengyu Expressway recorded an increase of Rmb51,542,000 over the previous year and assets depreciation increased by approximately Rmb10,268,000, the Company's net profit declined by approximately 18.86% from last year to approximately Rmb202,141,000.

Bar Chart showing Toll Income and Traffic Flow of Chengyu Expressway from 1998 to 2003



For the year 2003, the increase in traffic flow and toll income of Chengyu Expressway was mainly attributable to the following factors:

- Following SARS raged itself out, traffic flow of Chengyu Expressway witnessed a quick recovery and steady increase due to the fast growing domestic economy especially in Sicuan Province .
- As a result of the PRC's accession to WTO and the gradually declining tariff for imported cars, prices of private cars in domestic market decreased significantly. Private cars quickly became one of the common items in families. In 2003, the retail sales volume of private cars in Chengdu district amounted to approximately 25,000 vehicles, representing an increase of 60% as compared with last year. Chengdu ranks as the second city in the PRC in terms of private car ownership, which is playing an active role for the increasing traffic flow.

3. Business Review and Analysis (continued)

2. Principal activities - Operation of Toll Roads and Bridge (continued)

Chengyu Expressway (continued)

- With Sichuan Province's more efforts in development of tourist industry, one of the focuses of economy in 2003, districts along Chengyu Expressway witnessed a better exploitation of tourist resources and an upward trend of tourist industry. The booming tourist industry effectively led to the increase in traffic flow.
- On 1st March, 2003, the IC card toll collection system of Chengyu Expressway was fully put into trial operation. The system is operating smoothly with sound and reliable data. In the mid of December 2003, the system passed the test and duly commenced commercial operation, representing a comprehensive automation of the three control systems in toll collection, telecommunication and traffic surveillance and a change in toll condition and collecting method of Chengyu Expressway. Therefore, intentional or unintentional evasion of toll fee are effectively eliminated and the image of Chengyu Expressway was enhanced.

Chengya Expressway

Chengya Expressway, 144 km long, starts from Chengdu and ends at Duiyan, Ya'an City. It is a closed dual two-lane and partly dual three-lane expressway. The main section (129 km) of Chengya expressway was opened to traffic and put into trial operation on 28 December 1999. Chengya Expressway was fully completed and put into operation on 28 December 2000. The Company has 62.595% equity interests in Chengya Company.

Yaan Transportation Development Company ("Yaan Company"), one of the promoters of Chengya Company, failed to fully pay up the required contribution into the registered capital of Chengya Company, resulting in a deficiency of Rmb 28,974,547 and a breach of the relevant terms set out in the promoters agreement. In view of this, as requested by Yaan Company and approved by the board of directors and the general meeting of Chengya Company, the Company injected Rmb 28,974,547 into Chengya Company on 30 November 2003 as a capital contribution to cover the deficiency in the registered capital. As a result, the Company's equity interests in Chengya Company increased by 3.62% to 62.595% from 58.975%. The equity interests held by Yaan Company was reduced to 11.005% from 14.625% to reflect the proportion of its actual paid up contribution into the registered capital. Details of the capital injection were disclosed in the announcement published in Hong Kong Economic Times and The Standard on 5 January 2004.

The traffic flow and toll income of Chengya Expressway has demonstrated an upward trend in each year since the commencement of its operation. The rate of growth in operating results of Chengya Expressway decreased in 2003. The average daily traffic flow for the year 2003 was approximately 7,876 vehicles, representing an increase of 4.66% as compared with the previous year. Toll income recorded approximately Rmb170,729,000, representing an increase of 2.61% over last year. A loss of Rmb70,207,000 for the year was incurred, representing a mere reduction of about 0.43% in losses or Rmb300,000 when compared with the previous year.

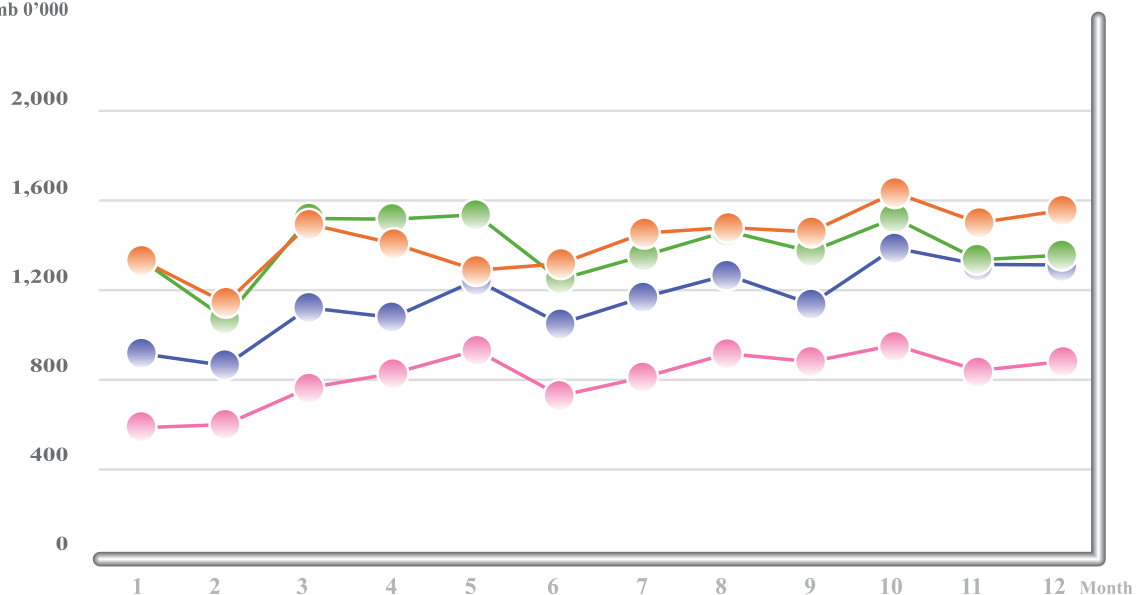
3. Business Review and Analysis (continued)

2. Principal activities - Operation of Toll Roads and Bridge (continued)

Chengya Expressway (continued)

Comparison of toll income of Chengya Expressway from 2000 to 2003

Rmb 0'000



| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | Month |
|-------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|-------|
| 2003 | 1,332.50 | 1,141.78 | 1,494.93 | 1,408.75 | 1,288.38 | 1,317.28 | 1,454.92 | 1,479.65 | 1,460.30 | 1,636.46 | 1,500.99 | 1,556.92 | |
| 2002 | 1,333.57 | 1,072.52 | 1,520.84 | 1,517.78 | 1,537.51 | 1,247.77 | 1,353.84 | 1,463.94 | 1,372.89 | 1,522.43 | 1,338.41 | 1,356.60 | |
| 2001 | 914.85 | 861.35 | 1,120.61 | 1,076.87 | 1,244.75 | 1,049.15 | 1,167.81 | 1,267.35 | 1,137.69 | 1,388.72 | 1,314.89 | 1,312.59 | |
| 2000 | 583.05 | 596.99 | 762.26 | 826.01 | 929.83 | 726.31 | 808.75 | 914.87 | 878.89 | 953.31 | 839.28 | 879.26 | |

The main reasons for the slower growth in operating results of Chengya Expressway were as follows:

- As tourist industry accounts for a major percentage in local economy along the Chengya Expressway, the impact of SARS posed a relatively apparent negative effect on the traffic flow and toll income of Chengya Expressway.
- As most of districts along Chengya Expressway were agricultural economic areas, the "Green Passage", which was implemented by the provincial government on 1st June 2003 for toll-free motor vehicles across the roads within the province relating to the transportation of fresh and live agricultural products, had a material impact on the traffic flow and toll income of Chengya Expressway. Up to 31st December 2003, the exempted toll income of Chengya Expressway amounted to approximately Rmb 9,630,000 and daily average number of vehicles exempt from toll fee was approximately 450. This led to the reduction in the level of toll income for Chengya Expressway in the second half of the year.
- Under the renewed loan agreements, interest rates for Chengya Company's shareholders' loans and bank loans totalling Rmb 1,500 million decreased by 10% respectively in accordance with the State's standard interest rate. Accordingly, the finance costs decreased by 7.71% or approximately Rmb 8,940,000 as compared with the previous year. However, this is far from relieving Chengya Company from its heavy burden of capital cost and significant finance costs resulting from the high gearing ratio.

3. Business Review and Analysis (continued)

2. Principal activities - Operation of Toll Roads and Bridge (continued)

Chengbei Exit Expressway

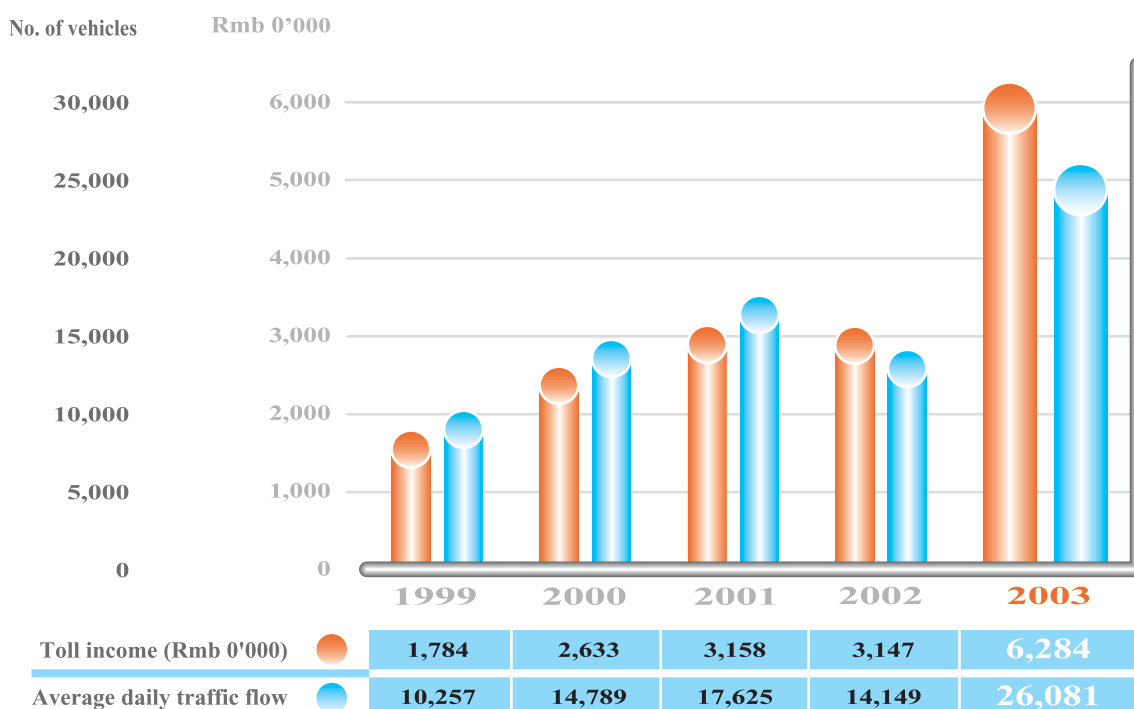
Chengbei Exit Expressway, 10.42 km long, starts from Qinglongchang and ends at Baihelin. It is a closed dual three-lane system which connects Chengdu and Chengmian Expressway. Chengbei Exit Expressway was completed and open to traffic in December 1998. The Company has 60% equity interests in Chengbei Company.

For the year ended 31 December 2003, the average daily traffic flow of Chengbei Exit Expressway for the year was approximately 26,081 vehicles, representing a surge of 84.33% over last year; toll income amounted to approximately Rmb62,843,000, representing an increase of 99.69% over the previous year; net profit for the year amounted to approximately Rmb19,681,000, up almost 17 times as compared with last year, representing a significant increase in operating results.

The increase in operating results of Chengbei Exit Expressway was mainly attributable to the following factors:

According to the relevant approvals from Sichuan Provincial Government and Sichuan Provincial Department of Communications, Chengbei Company was approved to acquire the toll-collecting and operating rights of Chengbei Exit Dajian Road and Qinglongchang Bridge, which respectively runs in parallel and is connected to Chengbei Exit Expressway, from Chengdu Municipal Bureau of Communications, and was appointed by Chengdu Municipal Bureau of Communications to carry out the renovation of Chengbei Exit Dajian Road before obtaining such toll-collecting and operating rights. Accordingly, Chengbei Company commenced the renovation project along the whole section of the 8.6 km long Chengbei Exit Dajian Road in 2003, and a traffic arrangement plan for Chengbei Exit Dajian Road was implemented. As a result, the traffic flow of that section was restricted, resulting in a significant increase in traffic flow of Chengbei Exit Expressway.

Bar Chart showing Traffic Flow and Toll Income of Chengbei Exit Expressway from 1999 to 2003



3. Business Review and Analysis *(continued)*

2. Principal activities - Operation of Toll Roads and Bridge *(continued)*

Airport Expressway

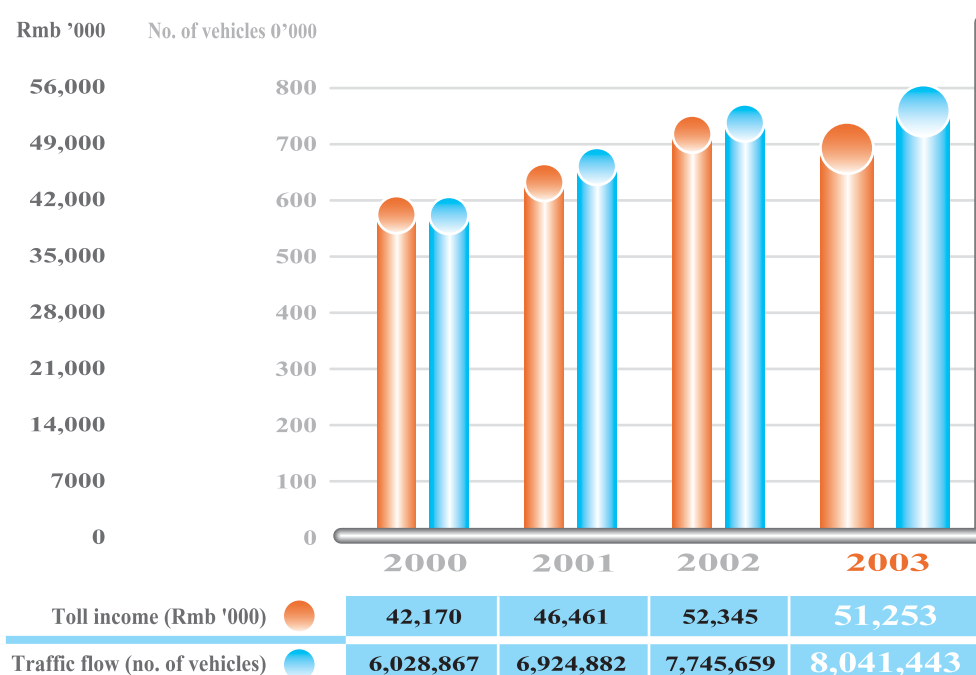
Airport Expressway, 11.92 km long, is an affiliated project of Chengdu Shuangliu International Airport. It is a closed dual three-lane expressway system connecting Chengdu and Shuangliu International Airport. Airport Expressway commenced its trial operation on 9 July 1999. The Company has 25% equity interests in Airport Expressway Company.

In 2003, the growth in operating results of Airport Expressway slowed down. Daily traffic flow for the year was approximately 22,031 vehicles, representing an increase of 3.82% as compared with previous year. Toll income amounted to approximately Rmb51,253,000 representing a decrease of 2.09% from last year. Net profit for the year amounted to approximately Rmb9,628,000, representing a significant increase of 12.06% over previous year.

The slower rate of growth in operating results was mainly attributable to the following factors:

- During the first half of the year, the infestation of SARS throughout the whole country had a significant impact on the domestic air travel industry, which directly led to a sudden decrease in the number of flight for Shuangliu Airport and a significant shrinkage in the volume of passenger and cargo transportation. As a result, there was a significant decrease in the toll income of Airport Expressway in the first half of the year.
- The opening of "Green Passage" also affected operating results to a certain extent in the second half of the year.
- In accordance with the requirements of Chengdu Municipal Government, all advertisement billboards along both sides of Airport Expressway were demounted during the year. This affected the advertising rental income of Airport Expressway Company and the profit for the company.

Bar Chart of Toll Income and Traffic Flow of Airport Expressway from 2000 to 2003



3. Business Review and Analysis (continued)

2. Principal activities - Operation of Toll Roads and Bridge (continued)

Toll Roads and Bridge in Zigong and Luzhou

The Company holds, through its subsidiary - Shuhai Company 59.94% of the interests in each of Zigong Ring Roads in Zigong, and Lulong Road, Luhe Road and Tuojiang Er Bridge in Luzhou.

Following the rapid development of the economy of the Sichuan Province, the large and medium cities and the regions around within the province accelerated the pace of development. The faster urbanisation led to the gradual integration of toll roads into the city road networks. To cope with the need of city development, Shuhai Company assigned its 60% of the interests in the two roads and one bridge in Luzhou to Luzhou Municipal Bureau of Communications on 31st August 2003. The consideration for the assignment of shareholding amounted to Rmb194,804,000 (Shuhai Company acquired 60% of the interests in the two roads and one bridge at a consideration of Rmb162,000,000 in 1999). Effective on 31st December 2003, Shuhai Company assigned 60% of the interests in Zigong Ring Roads to Zigong Municipal Bureau of Communications by entering into an equity transfer agreement with Zigong Municipal Bureau of Communications at a consideration of Rmb133,883,000 (Shuhai Company acquired 60% of the interests in such roads at a consideration of Rmb119,892,000 in 1998).

As a result of the above assignment of the relevant interests in the roads and bridge, the income generated by these roads and bridge for the year ended 31st December 2003 amounted to approximately Rmb51,541,000, representing a decrease of 20.2% from the last year. Net profit amounted to approximately Rmb9,011,000, representing a decrease of 42.9% as compared with the previous year.

3. Other Businesses

Apart from improving the operation and management of its principal activities, the Company also devoted significant efforts on developing road-related businesses and multiple operations beyond the road based on its principal activities, so as to explore the potential profitability of supplementary highway facilities and expand the room for the Company's development.



3. Business Review and Analysis *(continued)*

3. Other Businesses *(continued)*

The Company's non-core businesses are principally undertaken by the following three subsidiaries:

1. Shuhai Company

Shuhai Company is an investment management limited company and its major scope of businesses includes investment in road infrastructure projects and other projects, investment consulting (excluding financial and security business), high-tech products and technological development. The Company holds 99.9% equity interests in Shuhai Company. Currently, the income of Shuhai Company is mainly derived from road infrastructure investments (in the toll roads and bridge in Zigong and Luzhou).

Due to the assignment of the shareholding in the above two major investments by Shuhai Company, Shuhai Company experienced a significant change in the asset structure. The company is confronted by a repositioning of investment target and scope. Leveraging its own competitive advantage and the experience obtained in the past years, Shuhai Company has put its focus on infrastructure projects in the transportation industry, and is committed to building a sufficient project reserve and repositioning itself as soon as possible so as to secure a sustainable development of the company.

2. Shusha Company

Shusha Company is principally engaged in gas station operation, advertisement billboard leasing, vehicle maintenance and mobile emergency repair services along Chengyu Expressway and multiple operations beyond the road. The Company holds 99.5% equity interests in Shusha Company.

For the year ended 31 December 2003, principal operating income of Shusha Company amounted to approximately Rmb6,471,000, representing an increase of 10.2% over the last year, of which there was an increase of Rmb1,245,000 in revenue from advertising business as compared with the previous year. Net profit for the year amounted to Rmb1,310,000. However, as Chengyu Energy Company, a subsidiary of Shusha Company, was adversely affected by various factors such as the Iraq war, adjustments to prices under the State policy, shortage in resources and heavy expense burden, Chengyu Energy Company incurred a loss of approximately Rmb3,650,000 for the year. As a result, Shusha Company recorded a consolidated loss of approximately Rmb848,000.

3. Shugong Company

Shugong Company is a mechanical engineering company principally engaged in the construction and maintenance of infrastructures such as road, bridge and tunnel and the sale of materials. The Company holds 95% equity interests in Shugong Company.

Following Chengyu Expressway's entering into an overhaul stage in 2003, Shugong Company undertook a large quantity of maintenance work on Chengyu Expressway and other repair business outside the Group, resulting in a significant increase in its business volume. For the year ended 31 December 2003, principal operating income of Shugong Company amounted to approximately Rmb150,670,000 (of which Rmb27,256,000 was the income from repair business outside the Group), representing an increase of almost 33 times over last year. Net profit recorded approximately Rmb4,557,000, representing an increase of almost 52 times over the previous year.

4. Financial Analysis

Summary of the Group's Results

| | For the year ended 31 December | |
|-------------------------------------|-----------------------------------|-----------------|
| | 2003 Rmb'000 | 2002 Rmb'000 |
| Turnover | 937,398 | 791,142 |
| Operating profit before tax | 244,248 | 193,878 |
| Profit attributable to shareholders | 207,664 | 210,305 |
| Earnings per share (Rmb) | 0.0812 | 0.0822 |

Summary of the Group's Assets

| | As at 31 December 2003 Rmb'000 | As at 31 December 2002 Rmb'000 |
|----------------------------|--------------------------------------|--------------------------------------|
| Total assets | 7,885,895 | 8,053,518 |
| Total liabilities | 2,889,599 | 3,019,618 |
| Minority interests | 259,123 | 427,649 |
| Total net assets | 4,737,173 | 4,606,251 |
| Net assets per share (Rmb) | 1.85 | 1.80 |

Profit Contribution by Business Operation for 2003

| | Turnover Rmb'000 | Contribution to operating profit/(loss) Rmb'000 |
|--|---------------------|--|
| Chengyu Expressway | 527,174 | 257,612 |
| Chengya Expressway | 160,828 | 36,767 |
| Chengbei Exit Expressway | 59,369 | 40,495 |
| Two Class II roads in Zigong | 22,727 | 593 |
| Two Class II roads and one toll bridge in Luzhou | 25,998 | 10,009 |
| Sales of petroleum products | 141,302 | (1,169) |
| | 937,398 | 344,307 |

4. Financial Analysis (continued)

Analysis of financial results

In light of its active and prudent financial policies and the guideline for sustainable development, the Group was committed to cutting down operating costs and strictly controlling investment risks, so as to maximise the interests of the Company and shareholders.

During the year ended 31 December 2003, the Group maintained a healthy financial position. However, the Group's operating results were partially offset by certain factors such as the unsatisfactory growth for the year in toll revenue and an increase in road repair costs from last year. Accordingly, the Group's turnover for the year amounted to approximately Rmb937,398,000, up 18.5% over last year, whereas profit attributable to shareholders amounted to approximately Rmb207,664,000, representing a decrease of 1.3% from last year.

The Group's profit attributable to shareholders was principally affected by the following factors: 1. except that toll revenue of Chengbei Exit Expressway recorded a noticeable increase from last year due to renovation of the parallel road, Chengyu Expressway and Chengya Expressway only recorded a minor increase due to external reasons; 2. road repair and maintenance costs increased by Rmb58,373,000 over last year; 3. depreciation for 2003 increased by Rmb17,007,000, which was attributable to the higher annual depreciation rate as compared with last year due to adoption of the vehicle traffic method for provision of road asset depreciation, as well as new acquisition of assets such as electromechanical systems; 4. oil products recorded an increase of 505.07% in sales revenue but an operating loss of Rmb3,650,000; 5. income tax for the year increased by Rmb48,159,000 over 2002 due to the higher tax rate and a noticeable increase in profit of Chengbei Company.

Under the preferential tax policy regarding the grand development of west region promulgated by the State Council, the Company was granted an enterprise income tax rate of 15% from 2001 to 2010 by the Sichuan Provincial State Administration of Taxation, and the Company was entitled to a 50% reduction in enterprise income tax from 2000 to 2002 under the preferential policy. Therefore, the Company's actual tax rate from 2001 to 2002 was 7.5%. During 2003, the Company paid income tax of approximately Rmb34,191,000 under the tax rate of 15%, representing an increase of Rmb24,798,000 from the last year. By virtue of its improved internal cost control and management as well as reasonable adjustment to debts and repayment of loans on a timely basis, the Group's financial costs decreased by approximately Rmb18,539,000 from last year.

Liquidity of Capital and Sources of Finance

In 2003, capital expenditure of the Group reached Rmb117,090,000, which was mainly financed by funds derived from operations and bank loans. As at 31 December 2003, the Group's bank loans amounted to Rmb1,772,324,000 with an average interest rate of approximately 4.6%. As at 31 December 2003, unutilised banking facilities of the Group amounted to Rmb1,111 million, which are all five-year long-term loans. The amount is a standby loan and will be utilised when appropriate. The gearing ratio of the Group was 36.64% as at 31 December 2003. Details of capital structure together with comparative figures as at 31 December 2002 are set out as follows:

| | As at 31 December 2003 | | As at 31 December 2002 | |
|----------------------------------|---------------------------|-------------------|---------------------------|-------------------|
| | Total amount (Rmb'000) | Percentage (%) | Total amount (Rmb'000) | Percentage (%) |
| Shareholders' equity | 4,737,173 | 60.07 | 4,606,251 | 57.20 |
| Debt with floating interest rate | 2,020,052 | 25.62 | 2,149,220 | 26.68 |
| Interest-free debt | 869,547 | 11.03 | 870,398 | 10.81 |
| Minority interests | 259,123 | 3.28 | 427,649 | 5.31 |
| Total | 7,885,895 | 100 | 8,053,518 | 100 |
| Debt-equity swap ratio | 61.00% | | 65.55% | |

4. Financial Analysis (continued)

Financial Policy

The Group has stringent cash management and risk control measures. The Group usually places its cash as short-term deposits in Renminbi. Among the Group's debts with floating interest rate, there is a loan of US\$9,459,000 lent by the World Bank which was on-lent through Sichuan Highway Development, the parent company. The Company makes payment of the principal and related interest through purchase of foreign exchange from its parent company with Renminbi at floating exchange rate. Other loans are denominated in Renminbi and repaid from Renminbi income. In addition, the Group purchases foreign exchange to make dividend distribution to holders of H Shares. The Group evaluates exchange risk as follows: In 2004, foreign trade of the PRC will continue to increase and the inflow of foreign capital will continue to expand. It is expected that the foreign trade of the PRC will continue to maintain an increasing trend and exchange rate of Renminbi will continue to be stable. Accordingly, the present exchange risk faced by the Company in respect of its loans denominated in US dollars is very low.

As a result of the decrease in US dollar interest rate, interest expenses for certain loans of the Company denominated in US dollar and with floating interest rate were reduced.

Capital Commitment

Details of the Group's capital commitment are set out in note 32 to the financial statements.

5. Prospects and Outlook

In 2004, the PRC government will continue to implement an active fiscal policy and prudent monetary policy. Such macroeconomic policy and the strategy for the grand development of the western region will effectively stimulate the fast and healthy economic development of Sichuan Province and the comprehensive improvement of various social activities.

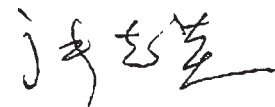
To cope with the need for coordination in further economic and social development in Sichuan Province, Sichuan Provincial Government will prioritise the construction of transportation infrastructure as the key investment and development projects. The favourable condition for the development of the transportation in Sichuan Province will also bring a higher demand for construction of transportation infrastructure in Sichuan Province. In view of the new circumstances, Sichuan Provincial Department of Communications has made a specific arrangement for transportation construction in 2004 with the target of ensuring the completion of investment in construction amounting to Rmb 13,500 million, representing an increase of 12.5% over last year. With the investment in building new expressways with mileage of 257 km, the total mileage of the expressways in Sichuan Province will reach 1,759 km, which will further enhance the backbone network of expressways in the province and facilitate the catching-up and leaping development in Sichuan Province. The Company is the only listed company within the transportation industry in Sichuan Province which is engaged in the operation of expressways. During the new phase of transportation construction symbolized by expressway networks, the Company will focus on faster development, seize the opportunities, meet the challenges and elaborate the function of the Company as the leader of the transportation business in Sichuan Province. The Company aims to its own development with a contribution to the grand development of transportation in Sichuan Province,

In 2004, the Company will further focus on the following works for its future development:

1. Based on the active and prudent approach and in accordance with the requirements for stimulating the staff morale, enhancing the effectiveness in various tasks and facilitating its development, the Company will continue to rationalize its corporate system, establish and improve its organisation frame and regulation system and strengthen internal management. The Company will strive to achieve scientific decision-making, rational operation, standardisation of services and systematic inspection in order to enhance the quality of corporate governance.

5. Prospects and Outlook *(continued)*

2. The Company will actively identify and select investment projects with good development potential and cautiously set out a practicable and feasible investment plan in line with the development plan of transportation networks in Sichuan Province and the actual conditions of the Company. The Company will fully utilise the Company's good standing in the market for fund-raising and its creditability to expand the channels of fund-raising on the basis of securing the interest of shareholders. The Company will strive to seek new sources of fund , so as to ensure the smooth implementation of its investment plan and strengthen its capability for sustainable growth.
3. With the significant progress in repairs and maintenance of Chengyu Expressway in 2003, the Company will continue to focus on repairs and maintenance for Chengyu Expressway as well as a safe and smooth operation of its expressways in 2004. The Company will enhance the image of the road in all aspects to maintain and strengthen its competitiveness in the market.
4. The Company will further strengthen the management on toll collection of Chengyu Expressway. In response to new conditions and characteristics arising from toll collection, the Company will polish and update its management concepts, management system and management methods. By way of improving service awareness and quality, the Company will strive to achieve a good economic benefit.
5. The Company will continue to foster its corporate culture, namely, "Build a career, altruistic, industrious and innovative morale",aiming to an improvement in quality of the staff as a whole and a better corporate cohesion for its development in the future.



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Manager*

Chengdu, Sichuan, the PRC
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