1. CORPORATE INFORMATION

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

During the year, the principal activities of the Company and its subsidiaries (the "Group") were the construction, management and operation of expressways, high grade roads and a toll bridge as well as the development and operation of certain ancillary services.

In the opinion of the directors, the ultimate holding company is Sichuan Highway Development Holding Company ("Sichuan Highway Development"), a state-owned enterprise established in the PRC.

2. IMPACT OF A REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE ("SSAP")

The following revised SSAP is effective for the first time for the current year's financial statements and has had a significant impact thereon:

- SSAP 12 (Revised): "Income taxes"

SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

The principal impact of the revision of this SSAP on these financial statements is that the related note disclosures are now more extensive than previously required. These disclosures are presented in note 9 to the financial statements and include a reconciliation between the accounting profit and the tax expense for the year.

3. 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 the Group of Rmb322,508,000 (2002: Rmb870,690,000) as at 31 December 2003 because long term banking facilities amounting to Rmb1.20 billion (2002: Rmb1.20 billion) and Rmb1.27 billion (2002: Rmb1.27 billion) granted by China Construction Bank and Industrial and Commercial Bank of China, respectively, are available to the Group. As at 31 December 2003, amounts of Rmb200 million (2002: Rmb300 million) and Rmb1,159 million (2002: Rmb1,089 million), respectively, were utilised.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of preparation

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 periodic remeasurement of equity investments, 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 these HK GAAP adjustments is set out in note 35 to the financial statements.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2003. 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.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities. The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Associates

An associate is a company, not being a subsidiary or a jointly-controlled entity, 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 associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Goodwill or negative goodwill arising from the acquisition of associates is included as part of the Group's interests in associates.

The results of the associates are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in associates are treated as long term assets and are stated at cost less any impairment losses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill

Goodwill arising on the acquisition of subsidiaries and associates represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of 10 years. In the case of associates, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

Prior to the adoption of SSAP 30 "Business combination" in 2001, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of the SSAP that permitted such goodwill to remain eliminated against consolidated reserves. Goodwill on acquisition subsequent to the adoption of the SSAP is treated according to the SSAP 30 goodwill accounting policy above.

On disposal of subsidiaries or associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Negative goodwill

Negative goodwill arising on the acquisition of subsidiaries and associates represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill, not exceeding the fair value of the acquired non-monetary assets, is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

In the case of associates, any negative goodwill not yet recognised in the consolidated profit and loss account is included in the carrying amount thereof, rather than as a separately identified item on the consolidated balance sheet.

On disposal of subsidiaries or associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account and any relevant reserves as appropriate.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of an asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises.

Fixed assets and depreciation

Fixed assets, other than construction in progress, are stated at cost less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after tangible fixed assets have been put into operation, such as repairs and maintenance, 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 capitalised as an additional cost of that asset.

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 25.5 to 30 years.

Depreciation of expressways, tunnel and bridges construction costs is calculated to write off the cost thereof over their estimated useful lives using a method whereby an aggregate annual depreciation amounts, compounded at average rates ranging from 4.8% to 6.8% per annum, up to the expiry of the underlying expressway concession periods of 25.5 to 30 years, will be equal to the total construction costs of the expressways, tunnel and bridges. The aforementioned average rates are based on the traffic volumes and forecast annual growth rates of the traffic volume over the respective expressway concession periods. This method is more commonly referred to as the unit-of-usage method.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fixed assets and depreciation *(continued)*

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:

	Annual 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.

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 expressways. Cost comprises the direct costs of construction, the costs of demolishing buildings and structures, the removal and compensation expenses paid to residents, and capitalised borrowing costs on related borrowing funds during the period of construction, installation and testing. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

Operating rights

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

Amortisation is provided on a straight-line basis over the periods of the operating rights granted to the Group.

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. The estimated fair values of unlisted investments 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 recognised 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

Inventories

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

Road maintenance contracts

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

Revenue from fixed price road maintenance contracts is recognised on the percentage of completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers.

Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Retirement benefits

Obligatory retirement benefits in the form of contributions under a defined contribution retirement scheme to a local social security bureau are charged to the profit and loss account as incurred.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under operating leases are charged to the profit and loss account on the straight line basis over the lease terms.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 capitalised to the extent that they can be regarded as adjustments to interest costs.

Revenue recognition

Revenue is recognised 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) sale of petroleum products, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the petroleum products sold;

(c) from road maintenance contracts, on the percentage of completion basis, as further explained in the accounting policy for "Road maintenance contracts" above;

(d) rental income, on a time proportion basis over the lease terms;

(e) interest income, on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable; and

(f) dividends, when a shareholder's right to receive payment has been established.

Income tax

Income tax comprises current and deferred 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 temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and associates, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Borrowing costs

Borrowing costs that are directly attributable to the construction of expressways, tunnels and bridges are capitalised 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 recognised as expenses in the period in which they are incurred.

The amount of borrowing costs capitalised 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.

Capitalisation 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends are approved by the shareholders and declared, they are recognised as a liability.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

4. SEGMENT INFORMATION

In accordance with the Group's internal financial reporting, the Group has determined that business segments are its primary reporting format. During the year, the entire turnover of the Group were derived from and all of the Group's assets are located in the Sichuan Province in the PRC. Accordingly, no further geographical segment information is presented.

Business segments

The Group's operating businesses are organised and managed separately, according to the nature of services and products provided, with each segment representing a strategic business unit that serves different markets:

— Toll operation segment represents the construction, management and operation of expressways and the collection of the expressway tolls.

— Ancillary businesses mainly represent the trading of petroleum products.

4. SEGMENT INFORMATION *(continued)*

Business segments *(continued)*

Group	Toll operation 2003 Rmb'000	Toll operation 2002 Rmb'000	Ancillary businesses 2003 Rmb'000	Ancillary businesses 2002 Rmb'000	Consolidated 2003 Rmb'000	Consolidated 2002 Rmb'000
Segment revenue:						
Turnover	**796,096**	767,789	**141,302**	23,353	**937,398**	791,142
Other revenue and gains	**101,284**	32,422	**208**	167	**101,492**	32,589
Total revenue	**897,380**	800,211	**141,510**	23,520	**1,038,890**	823,731
Segment results	**345,472**	314,918	**(1,165)**	(2,296)	**344,307**	312,622
Finance costs					**(102,405)**	(120,944)
Share of profits and losses of associates	**2,346**	2,200	**–**	–	**2,346**	2,200
Profit before tax					**244,248**	193,878
Tax					**(61,327)**	(13,168)
Profit before minority interests					**182,921**	180,710
Minority interests					**24,743**	29,595
Net profit from ordinary activities attributable to shareholders					**207,664**	210,305
Segment assets	**7,771,650**	7,941,306	**50,181**	66,180	**7,821,831**	8,007,486
Interests in associates	**51,981**	47,855	**990**	990	**52,971**	48,845
Goodwill	**11,093**	(2,813)	**–**	–	**11,093**	(2,813)
Total assets	**7,834,724**	7,986,348	**51,171**	67,170	**7,885,895**	8,053,518
Segment liabilities	**2,883,949**	3,001,673	**5,650**	17,945	**2,889,599**	3,019,618
Other segment information:						
Depreciation and amortisation	**227,098**	216,021	**2,504**	1,676	**229,602**	217,697
Bad debt expenses	**1,363**	14,114	**–**	–	**1,363**	14,114
Impairment of interest in an associate	**–**	8,953	**–**	–	**–**	8,953
Capital expenditure	**116,557**	300,525	**533**	15,828	**117,090**	316,353

5. TURNOVER, REVENUE AND GAINS

An analysis of turnover, other revenue and gains is as follows:

	Notes	2003 Rmb'000	2002 Rmb'000
Turnover			
Toll revenue			
— Chengyu Expressway		**554,919**	546,665
— Chengya Expressway		**170,729**	166,381
— Chengbei Exit Expressway		**62,843**	31,471
— Toll Bridge and Roads in Luzhou		**27,520**	41,250
— Zigong Ring Roads		**24,021**	23,397
		840,032	809,164
— Sale of petroleum products		**141,302**	23,353
		981,334	832,517
Less: Revenue taxes		**(43,936)**	(41,375)
		937,398	791,142
Other revenue			
Road maintenance income		**33,671**	6,701
Rental income		**12,701**	9,652
Interest income		**5,928**	6,523
Dividend income from a long term investment		**681**	—
Income from short term investments		**—**	2,144
Miscellaneous		**3,793**	7,057
		56,774	32,077
Gains			
Negative goodwill recognised	16	**321**	321
Gain on disposal of subsidiaries	29(b)	**44,397**	111
Gain on disposal of fixed assets		**—**	80
		44,718	512
Other revenue and gains		**101,492**	32,589

6. PROFIT FROM OPERATING ACTIVITIES

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

	Notes	**2003 Rmb'000**	2002 Rmb'000
Depreciation	13	**209,497**	192,490
Amortisation of operating rights	14	**19,991**	24,991
Goodwill:			
Amortisation for the year*	16	**114**	216
Minimum lease payments under operating leases:			
Land and buildings		**847**	1,050
Auditors' remuneration		**1,375**	1,441
Staff costs (excluding directors' remuneration (note 8)):			
Wages and salaries		**62,705**	54,298
Pension scheme contributions		**7,768**	12,316
Accommodation benefits		**3,556**	2,260
		74,029	68,874
Loss on disposal of fixed assets		**1,926**	—
Cost of petroleum products sold		**137,489**	21,429
Bad debt expenses		**1,363**	14,114
Impairment of interest in an associate*		**—**	8,953

* The amortisation of goodwill for the year and the impairment of interest in an associate for the year ended 31 December 2002 are included in "Other operating expenses" on the face of the consolidated profit and loss account.

7. FINANCE COSTS

	2003 Rmb'000	2002 Rmb'000
Interest on bank loans wholly repayable within five years	**93,526**	96,907
Interest on other loans	**8,654**	23,935
Exchange losses	**225**	102
	102,405	120,944

8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	2003 **Rmb'000**	2002 Rmb'000
Fees	**–**	–
Other emoluments:		
Basic salaries and allowances and benefits in kind	**1,145**	1,149
Pension scheme contributions	**11**	750
	1,156	1,899

Basic salaries, allowances and benefits in kind include Rmb130,000 (2002: Rmb130,000) payable to one independent non-executive director. There were no other emoluments payable to the independent non— executive directors during the year (2002: Nil).

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

Except for one independent non-executive director who waived her remuneration in the amount of Rmb130,000, there was no arrangement under which a director waived or agreed to waive any remuneration during the year.

The five highest paid individuals were also the Company's directors.

9. 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, the Company was exempted from Enterprise Income Tax ("EIT") for the first two years commencing from 1 January 1998, and was required to pay 50% of the applicable EIT rate from the third to fifth years.

Pursuant to documents "Cai Shui [2001] No. 202" and "Guo Shui Fa [2002] No. 47" issued by the State Tax Bureau and approval documents "Chuan Guo Shui Han [2002] No. 244" dated 16 October 2002 and "Chuan Guo Shui Zhi Han [2002] No. 30" dated 21 November 2002 issued by the Sichuan Provincial Branch of the State Tax Bureau:

- For the two years from 1 January 2001 to 31 December 2002, the Company was required to pay 50% of EIT at the preferential rate of 15%; and

- For the eight years from 1 January 2003, the Company is required to pay EIT at the preferential rate of 15%.

9. TAX *(continued)*

Pursuant to a document "Guo Ban Fa [2001] No. 73" dated 29 September 2001 issued by the State Council of the PRC and approval by local tax authorities, the Company's then subsidiaries, Zigong Shunan Ring Road Company Limited and Luzhou Shulu Road Company Limited, and the Company's associate, Chengdu Airport Expressway Company Limited, were granted a tax concession to pay EIT at the preferential rate of 15% for a period of 10 years from 1 January 2001 to 31 December 2010.

The other subsidiaries and associates of the Company are required to pay EIT at the standard rate of 33%.

Major components of income tax expenses for the year are as follows:

	2003 Rmb'000	2002 *Rmb'000*
Group:		
Current - PRC		
Charge for the year	**60,902**	22,924
Overprovision in prior years	**–**	(10,813)
	60,902	12,111
Share of tax attributable to:		
Associates	**425**	1,057
Total tax charge for the year	**61,327**	13,168

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company, its subsidiaries and associates are domiciled to the tax expense at the effective tax rates are as follows:

	2003 Rmb'000	2002 *Rmb'000*
Profit before tax	**244,248**	193,878
Tax at an applicable tax rate of		
33%	**25,197**	(4,381)
15%	**25,184**	(7,781)
7.5%	**–**	19,427
Subtotal	**50,381**	7,265
Overprovision in prior years	**–**	(10,813)
Expenses not deductible for tax	**135**	4,331
Income not subject to tax	**(2,480)**	–
Tax losses of subsidiaries	**13,291**	12,385
Actual tax expense	**61,327**	13,168

10. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31 December 2003 dealt with in the financial statements of the Company was Rmb202,141,000 (2002: Rmb249,134,000) (note 28).

11. DIVIDEND

	2003	2002
	Rmb'000	*Rmb'000*
Proposed final dividend — Rmb0.032 (2002: Rmb0.030) per share	**81,858**	76,742

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting and is included in the proposed final dividend reserve account within the capital and reserve section of the balance sheet.

12. EARNINGS PER SHARE

The calculation of earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year of Rmb207,664,000 (2002: Rmb210,305,000) and 2,558,060,000 (2002: 2,558,060,000) Domestic and H Shares in issue during the year.

Diluted earnings per share amounts for the years ended 31 December 2003 and 2002 have not been disclosed as no diluting events existed during these years.

13. FIXED ASSETS

Group

	At 1 January 2003 Rmb'000	Additions/ provided during the year Rmb'000	Disposals Rmb'000	Disposal of subsidiaries Rmb'000	Transfers Rmb'000	At 31 December 2003 Rmb'000
Cost:						
Land	814,573	–	(959)	–	–	813,614
Expressways, tunnels and bridges	6,323,054	–	–	–	6,542	6,329,596
Safety equipment	372,110	16,930	–	–	–	389,040
Communication and signalling systems	159,073	440	–	(879)	–	158,634
Toll collection equipment	51,485	153	–	–	–	51,638
Buildings	252,790	1,539	(2,208)	–	55,000	307,121
Machinery and equipment	120,827	3,204	(1,935)	(588)	3,503	125,011
Motor vehicles	51,999	2,708	(526)	(1,657)	–	52,524
Construction in progress	45,216	26,796	–	–	(65,045)	6,967
	8,191,127	51,770	(5,628)	(3,124)	–	8,234,145
Accumulated depreciation:						
Land	111,848	28,343	(154)	–	–	140,037
Expressways, tunnels and bridges	781,759	96,048	–	–	–	877,807
Safety equipment	186,250	36,745	–	–	–	222,995
Communication and signalling systems	34,608	15,190	–	(238)	–	49,560
Toll collection equipment	5,223	6,080	–	–	–	11,303
Buildings	35,396	8,515	(517)	–	–	43,394
Machinery and equipment	43,444	12,339	(242)	(243)	–	55,298
Motor vehicles	22,000	6,237	(429)	(615)	–	27,193
	1,220,528	209,497	(1,342)	(1,096)	–	1,427,587
Net book value:						
Land	702,725					673,577
Expressways, tunnels and bridges	5,541,295					5,451,789
Safety equipment	185,860					166,045
Communication and signalling systems	124,465					109,074
Toll collection equipment	46,262					40,335
Buildings	217,394					263,727
Machinery and equipment	77,383					69,713
Motor vehicles	29,999					25,331
Construction in progress	45,216					6,967
	6,970,599					6,806,558

The Group's land included above is situated in Sichuan Province, the PRC, and held under medium lease term.

The Group is in the process of applying for property certificates for three floors in an office building purchased in 2002, with a net book value of approximately Rmb54,201,000 (2002: Rmb44,400,000) as at 31 December 2003. The Group's buildings can only be sold, transferred or mortgaged if the relevant property certificates have been obtained.

As at 31 December 2003, one of the Group's buildings with a net book value of approximately Rmb17,327,000 (2002: Nil) was pledged to secure bank loans amounting to Rmb5,000,0000 (note 25).

13. FIXED ASSETS *(continued)*

Company

	At 1 January 2003 Rmb'000	Additions/ provided during the year Rmb'000	Disposals Rmb'000	Transfers Rmb'000	At 31 December 2003 Rmb'000
Cost:					
Land	329,943	–	–	–	329,943
Expressways, tunnels and bridges	3,308,113	–	–	–	3,308,113
Safety equipment	212,805	942	–	–	213,747
Communication and signalling systems	92,734	305	–	–	93,039
Toll collection equipment	41,051	47	–	–	41,098
Buildings	110,520	589	(2,265)	37,538	146,382
Machinery and equipment	53,378	1,073	–	803	55,254
Motor vehicles	30,157	265	(489)	–	29,933
Construction in progress	30,760	8,909	–	(38,341)	1,328
	4,209,461	12,130	(2,754)	–	4,218,837
Accumulated depreciation					
Land	57,697	10,763	–	–	68,460
Expressways, tunnels and bridges	653,104	46,611	–	–	699,715
Safety equipment	138,471	20,651	–	–	159,122
Communication and signalling systems	29,426	9,020	–	–	38,446
Toll collection equipment	1,649	4,976	–	–	6,625
Buildings	22,031	3,759	(517)	–	25,273
Machinery and equipment	27,644	5,241	–	–	32,885
Motor vehicles	15,180	3,468	(391)	–	18,257
	945,202	104,489	(908)	–	1,048,783
Net book value:					
Land	272,246				261,483
Expressways, tunnels and bridges	2,655,009				2,608,398
Safety equipment	74,334				54,625
Communication and signalling systems	63,308				54,593
Toll collection equipment	39,402				34,473
Buildings	88,489				121,109
Machinery and equipment	25,734				22,369
Motor vehicles	14,977				11,676
Construction in progress	30,760				1,328
	3,264,259				3,170,054

14. OPERATING RIGHTS

Group

	2003 **Rmb'000**	2002 Rmb'000
Cost:		
At 1 January	**469,820**	469,820
Disposal of subsidiaries (note 29(b))	**(469,820)**	—
At 31 December	**–**	469,820
Accumulated amortisation:		
At beginning of year	**90,797**	65,806
Provided during the year	**19,991**	24,991
Disposal of subsidiaries (note 29(b))	**(110,788)**	—
At 31 December	**–**	90,797
Net book value:		
At 31 December	**–**	379,023

15. PAYMENTS IN ADVANCE

	2003 **Rmb'000**	2002 Rmb'000
Payments in advance in respect of acquisition of operating rights	**219,356**	154,036

Pursuant to a set of approval documents issued by the Sichuan Provincial Government and Sichuan Provincial Department of Communications (the "Relevant Approval") in 2002, Chengdu Chengbei Exit Expressway Company Limited ("Chengbei Company") was approved to acquire the operating rights of a toll road, which runs in parallel with the Chengbei Exit Expressway, and a toll bridge, which is connected to the Chengbei Exit Expressway, from Chengdu Municipal Department of Communications ("CMDC") for a consideration of approximately Rmb253 million. The toll road pertaining to the operating rights is in the process of renovation and is expected to be open for traffic by June 2004. Accordingly, the acquisition of the operating rights has not been completed as at the date of approval of these financial statements. According to the relevant approval, payments in advance amounting to Rmb219,356,000 have been made to CMDC by Chengbei Company up to 31 December 2003. The directors are of the opinion that, subject to the payment of the remaining consideration, there should be no legal impediments for the Group in acquiring the operating rights upon the completion of the renovation of the toll road.

16. GOODWILL AND NEGATIVE GOODWILL

The amounts of the goodwill and negative goodwill recognised in the consolidated balance sheet, arising from the acquisition of a subsidiary or minority interests in a subsidiary, are as follows:

Group

	Goodwill *Rmb'000*	Negative Goodwill *Rmb'000*
Cost:		
At beginning of year	–	(3,214)
Acquisition of an additional interest in a subsidiary	13,699	–
At 31 December 2003	13,699	(3,214)
Accumulated amortisation/(recognition as income):		
At beginning of year	–	(401)
Amortisation provided/ (recognised as income) during the year	114	(321)
At 31 December 2003	114	(722)
Net book value:		
At 31 December 2003	13,585	(2,492)
At 31 December 2002	–	(2,813)

As detailed in note 3 to the financial statements, on the adoption of SSAP 30 in 2001, the Group applied the transitional provision of SSAP 30 that permitted goodwill in respect of acquisitions which occurred prior to the adoption of the SSAP, of Rmb786,000 to remain eliminated against consolidated reserves. There was no movement in respect of this goodwill during the year.

17. INVESTMENTS IN SUBSIDIARIES

Company

	2003 ***Rmb'000***	2002 *Rmb'000*
Unlisted investments, at cost	890,816	810,841

The amounts due from/to subsidiaries included in the Company's current assets and current liabilities are unsecured, interest– free and have no fixed terms of repayment, except for an aggregate amount of Rmb811,400,000 (2002: Rmb697,000,000) due from Sichuan Chengya Expressway Company Limited ("Chengya Company"), Chengbei Company, Sichuan Expressway Energy Development Company Limited and Sichuan Shusha Enterprise Company Limited, which bear interest at rates ranging from 4.94% to 5.31% (2002: from 5.04% to 6.21%) per annum.

17. INVESTMENTS IN SUBSIDIARIES *(continued)*

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 Direct	Percentage of equity attributable to the Group Indirect	Principal activities
Sichuan Chengya Expressway Company Limited	Joint stock limited company	800,000	62.37	0.225	Construction and operation of the Chengya Expressway
Chengdu Chengbei Exit Expressway Limited company	Limited Company	220,000	60	–	Construc tion and operation of the Chengbei Exit Expressway
Chengdu Shuhai Investment Management Company Limited	Limited company	200,000	99.9	–	Investment holding
Sichuan Shugong Expressway Engineering Company Limited	Limited company	30,000	95	–	Repairs and maintenance of expressways
Sichuan Shusha Enterpris Company Limited	Limited company	30,000	99.5	–	Provision of ancillary services and property development
Sichuan Expressway Energy Development Company Limited	Limited company	20,000	–	69.65	Trading of petrochemical products
Sichuan Chengyu Expressway Advertising Company Limited	Limited company	1,000	–	59.7	Design and production of advertisements
Mingshan Mingyuan Tea Company Limited	Limited company	7,300	–	38*	Sale and production of beverages

* Chengya Company, a subsidiary of th e Company, holds 61.04% interest in Mingshan Mingyuan Tea Company Limited.

18. INTERESTS IN ASSOCIATES

	Group		Company	
	2003	2002	**2003**	2002
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Unlisted investment, at cost	**–**	–	**38,438**	38,438
Share of net assets	**60,032**	55,906	**–**	–
Goodwill on acquisition	**1,892**	1,892	**–**	–
	61,924	57,798	**38,438**	38,438
Provision for impairment	**(8,953)**	(8,953)	**–**	–
	52,971	48,845	**38,438**	38,438

The Group's share of the accumulative reserves of the associates at 31 December 2003 was Rmb873,000 (2002: Rmb886,000).

Particulars of the associates, which are established and operate in the PRC, are as follows:

Name	Legal person status	Percentage of equity attributable to the Group		Principal activities
		2003	2002	
Chengdu Airport Expressway Company Limited	Limited company	**25**	25	Construction and operation of the New Chengdu Airport Expressway
Sichuan Chuanda Scientific Technology Result Transfer Centre Company Limited	Limited company	**20**	20	Development and sale of high-tech products
Sichuan Chengya Oil Supply Company Limited	Limited company	**27**	27	Trading of petroleum products
Chengdu Stone Elephant Lake Communication Restaurant Company Limited	Limited company	**32.4**	32.4	Provision of accommodation, meeting reception and entertainment services

19. LONG TERM INVESTMENTS

	Group		Company	
	2003	2002	**2003**	2002
	Rmb'000	*Rmb'000*	**Rmb'000**	*Rmb'000*
Unlisted equity investments, at approximate fair value	**34,795**	34,795	**21,000**	21,000

20. INVENTORIES

	Group		Company	
	2003	2002	**2003**	2002
	Rmb'000	*Rmb'000*	**Rmb'000**	*Rmb'000*
Petroleum products	**2,738**	4,047	**–**	–
Spare parts and consumable supplies	**22,687**	5,703	**733**	4,716
	25,425	9,750	**733**	4,716

21. TRADE RECEIVABLES

Trade receivables represent receivables from the sale of petroleum products. The credit period is generally for a period of three months for major customers. Each major customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the senior management.

An aged analysis of the Group's trade receivables as at the balance sheet date, based on invoice date, is as follows:

	2003	2002
	Rmb'000	*Rmb'000*
Within three months	**4,532**	–

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2003	2002	**2003**	2002
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Prepayments	**11,169**	22,550	**4,050**	2,226
Deposits and other receivables	**101,985**	15,029	**2,640**	2,257
	113,154	37,579	**6,690**	4,483

23. CASH AND CASH EQUIVALENTS

	Group		Company	
	2003	2002	**2003**	2002
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Cash and bank balances	**590,834**	298,454	**380,066**	229,454
Time deposits with original maturities of three months or less	**–**	40,113	**–**	40,113
Time deposits with original maturities of over three months	**27,177**	69,011	**12 ,177**	53,547
	618,011	407,578	**392,243**	323,114

24. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2003	2002	**2003**	2002
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Accruals	**6,175**	11,675	**4,439**	10,935
Other liabilities	**235,500**	272,661	**37,447**	35,831
	241,675	284,336	**41,886**	46,766

25. INTEREST– BEARING BANK AND OTHER LOANS

	Group		Company	
	2003	2002	**2003**	2002
	Rmb'000	Rmb'000	**Rmb'000**	Rmb'000
Bank loans:				
Secured	**5,000**	–	**–**	–
Unsecured	**1,767,324**	1,681,620	**309,289**	447,185
Other loans, unsecured	**247,728**	467,600	**–**	–
	2,020,052	2,149,220	**309,289**	447,185
Bank loans repayable:				
Within one year	**214,083**	299,325	**40,048**	137,890
In the second year	**242,381**	1,040,050	**242,381**	40,050
In the third to fifth years, Inclusive	**1,315,860**	342,245	**26,860**	269,245
	1,772,324	1,681,620	**309,289**	447,185
Other loans repayable:				
Within one year	**–**	170,000	**–**	–
In the second year	**–**	27,600	**–**	–
In the third to fifth years, inclusive	**72,728**	20,000	**–**	–
Beyond five years	**175,000**	250,000	**–**	–
	247,728	467,600	**–**	–
Total bank and other loans	**2,020,052**	2,149,220	**309,289**	447,185
Portion classified as current liabilities	**(214,083)**	(469,325)	**(40,048)**	(137,890)
Long term portion	**1,805,969**	1,679,895	**269,241**	309,295

The bank loans bear interest at rates ranging from 4.78% to 6.90% (2002: from 4.78% to 7.72%) per annum.

Bank loans amounting to Rmb5,000,000 (2002: Nil) are secured by the pledge of one of the Group's buildings with a net book value of Rmb17,327,000 as at 31 December 2003 (note 13).

Bank loans amounting to Rmb470,000,000 (2002: Rmb482,500,000) are guaranteed by Sichuan Highway Development.

Other loans are unsecured and bear interest at rates ranging from 2.55% to 5% (2002: from 2.55% to 5.76%) per annum.

26. DUE TO THE ULTIMATE HOLDING COMPANY

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

27. ISSUED CAPITAL

	2003 Number of shares	2002 Number of shares	**2003 *Rmb'000***	2002 *Rmb'000*
Authorised, 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.

28. RESERVES

	Share premium account Rmb'000	Statutory surplus reserve Rmb'000	Statutory public welfare fund Rmb'000	General surplus reserve Rmb'000	Proposed general surplus reserve Rmb'000	Retained profits Rmb'000	Total Rmb'000
Group							
At 1 January 2002	1,413,597	96,530	89,969	132,346	32,987	72,457	1,837,886
Net profit for the year	–	–	–	–	–	210,305	210,305
Transfer from/(to) reserves	–	21,355	20,674	32,987	(32,987)	(42,029)	–
Transfer from the general surplus reserve to retained profits (note (d))	–	–	–	(8,530)	–	8,530	–
Proposed general surplus reserve (note (c))	–	–	–	–	39,986	(39,986)	–
Proposed dividends (note 11)	–	–	–	–	–	(76,742)	(76,742)
At 31 December 2002 and beginning of year	1,413,597	117,885	110,643	156,803	39,986	132,535	1,971,449
Net profit for the year	–	–	–	–	–	207,664	207,664
Transfer from/(to) reserves	–	23,498	21,767	39,986	(39,986)	(45,265)	–
Proposed general surplus reserve (note (c))	–	–	–	–	40,054	(40,054)	–
Proposed dividends (note 11)	–	–	–		–	(81,858)	(81,858)
At 31 December 2003	1,413,597	141,383	132,410	196,789	40,054	173,022	2,097,255
Company							
At 1 January 2002	1,413,597	89,802	85,816	130,673	32,987	298,548	2,051,423
Net profit for the year	–	–	–	–	–	249,134	249,134
Transfer from/(to) reserves	–	19,993	19,993	32,987	(32,987)	(39,986)	–
Transfer from the general surplus reserve to retained profits (note (d))	–	–	–	(8,530)	–	8,530	–
Proposed general surplus reserve (note (c))	–	–	–	–	39,986	(39,986)	–
Proposed dividends (note 11)	–	–	–	–	–	(76,742)	(76,742)
At 31 December 2002 and beginning of year	1,413,597	109,795	105,809	155,130	39,986	399,498	2,223,815
Net profit for the year	–	–	–	–	–	202,141	202,141
Transfer from/(to) reserves	–	20,027	20,027	39,986	(39,986)	(40,054)	–
Proposed general surplus reserve (note (c))	–	–	–	–	40,054	(40,054)	–
Proposed dividends (note 11)	–	–	–	–	–	(81,858)	(81,858)
At 31 December 2003	1,413,597	129,822	125,836	195,116	40,054	439,673	2,344,098

28. RESERVES *(continued)*

Notes:

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

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

When the PWF is utilised, 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 (the "GSR"). The GSR is non-distributable other than in liquidation. On disposal of the relevant assets, the original transfers from the PWF are reversed.

(c) In addition to the above statutory reserves which are required by the Company Law of the PRC and respective articles of association of the Company, its subsidiaries and associates, the directors proposed for approval at the forthcoming annual general meeting to transfer 20% of its profit after taxation to the GSR.

(d) In 2000, the Company provided additional housing benefits to 25 eligible employees of the Company whereby quarters were purchased for these employees. The provision of the additional housing benefits was approved by the Chengdu Housing Committee. The cost of providing the additional housing benefits amounting to Rmb9,465,000 was charged to the profit and loss account for the year 2000. Pursuant to a directive numbered "Cai Kuai [2001] No. 5" issued by the Ministry of Finance of the PRC and a resolution passed by the 2001 general meeting of shareholders of the Company held on 28 May 2002, the aforesaid additional housing benefits in an amount of Rmb8,530,000 was approved to be utilised from the GSR, and the amount has been transferred from the GSR to retained profits during that year.

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

(f) At 31 December 2003, the amount of retained profits of the Company available for distribution as dividend amounted to approximately Rmb358,232,000 (before the proposed final dividend) (2002: Rmb329,265,000).

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	Notes	**2003 Rmb'000**	2002 Rmb'000
Profit from operating activities		**344,307**	312,622
Depreciation	6	**209,497**	192,490
Amortisation of operating rights	6	**19,991**	24,991
Bad debt expenses	6	**1,363**	14,114
Impairment of an interest in an associate	6	**–**	8,953
Goodwill amortisation	6	**114**	216
Negative goodwill recognised as income	5	**(321)**	(321)
Loss/(gain) on disposal of fixed assets	5, 6	**1,926**	(80)
Gain on disposal of subsidiaries	5	**(44,397)**	(111)
Income from short term investments	5	**–**	(2,144)
Dividend income from a long term investment	5	**(681)**	–
Interest income	5	**(5,928)**	(6,523)
Exchange losses	7	**(225)**	(102)
Operating profit before working capital changes		**525,646**	544,105
Increase in trade receivables		**(4,532)**	–
Increase in prepayments, deposits and other receivables		**(129,117)**	(26,528)
Increase in inventories		**(15,675)**	(6,197)
Increase in other payables and accruals		**(27,578)**	72,497
Increase/(decrease) in an amount due to the ultimate holding company		**27,185**	(1,249)
EIT paid		**(17,031)**	(39,046)
Net cash inflow from operating activities		**358,898**	543,582

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(b) Disposal of subsidiaries

	Notes	**2003 Rmb'000**	2002 Rmb'000
Net assets disposed of:			
Fixed assets	13	**2,028**	8,642
Operating rights	14	**359,032**	—
Cash and bank balances		**9,727**	2,324
Prepayments, deposits and other receivables		**135,179**	10,132
Tax payables		**(15,120)**	—
Other payables and accruals		**(15,083)**	(1,212)
Minority interests		**(191,473)**	(497)
		284,290	19,389
Gain on disposal of subsidiaries	5	**44,397**	111
		328,687	19,500
Satisfied by:			
Cash		**245,687**	19,500
Prepayments, deposits and other receivables		**83,000**	—
		328,687	19,500

Analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2003 Rmb'000	2002 Rmb'000
Cash consideration	**245,687**	19,500
Cash and bank balances disposed of	**(9,727)**	(2,324)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	**235,960**	17,176

The turnover and profit after tax of the subsidiaries disposed of in the year ended 31 December 2003 amounted to Rmb51,541,000 and Rmb9,011,000, respectively. The results of the subsidiary disposed of in the year ended 31 December 2002 had no significant impact on the Group's consolidated turnover or profit after tax for that year.

30. CONTINGENT LIABILITIES

	Group 2003 Rmb'000	Group 2002 Rmb'000	Company 2003 Rmb'000	Company 2002 Rmb'000
Guarantees given to banks in connection with banking facilities granted to subsidiaries	**–**	–	**1,000,000**	1,000,000
	–	–	**1,000,000**	1,000,000

31. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its billboards under operating lease arrangements, leases for billboards are negotiated for terms ranging from one to three years.

At 31 December 2003, the Group and the Company had total future minimum lease payments under non–cancellable operating leases falling due as follows:

	Group 2003 Rmb'000	Group 2002 Rmb'000	Company 2003 Rmb'000	Company 2002 Rmb'000
Within one year	**238**	733	**–**	633
In the second to fifth years, inclusive	**150**	400	**–**	–
After five years	**–**	1,000	**–**	–
	388	2,133	**–**	633

32. COMMITMENTS

	Group 2003 Rmb'000	Group 2002 Rmb'000	Company 2003 Rmb'000	Company 2002 Rmb'000
Contracted, but not provided for	**26,164**	5,445	**–**	3,580
Authorised, but not contracted for	**27,560**	142,358	**–**	25,010
	53,724	147,803	**–**	28,590

32. COMMITMENTS *(continued)*

Further details of the capital commitments of the Company and the Group as of 31 December 2003 are analysed as follows:

	Group		**Company**	
	2003	2002	**2003**	2002
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
In respect of:				
—Acquisition of the operating rights	**33,900**	98,644	**–**	–
—Others	**19,824**	49,159	**–**	28,590
	53,724	147,803	**–**	28,590

33. RETIREMENT SCHEME AND EMPLOYEE ACCOMMODATION BENEFITS

As stipulated by 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 a local social security bureau at a rate of 20% of the employees' average salaries and wages of the current year, limited to a ceiling amount of three times the employees' average basic salaries within the geographical area where the employees are employed. The Group has no obligation for the payment of pension benefits beyond the annual contributions to the local social security bureau.

During the year, contributions to the local social security bureau made by the Group under the defined contribution retirement scheme amounted to Rmb7,779,025 (2002: Rmb6,138,153).

According to relevant rules and regulations of the Sichuan Province, the Group and its employees are each required to make contributions, which are in proportion to the employees' average salaries and wages of the last year, limited to a ceiling amount of three times the employees' average basic salaries within the geographical area where the employees are employed, 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 Rmb3,555,663 (2002: Rmb2,260,129).

34. RELATED PARTY TRANSACTIONS

In the previous years, the Group obtained State loans amounting to Rmb250 million (2002: Rmb250 million) in aggregate pursuant to loan repayment agreements (the "Loan Repayment Agreements") entered into between Sichuan Highway Development, the ultimate holding company of the Company, and the Company. 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. During the year, the Group repaid certain part of the State loans amounting to Rmb2,272,000 (2002: Nil). The State loans have been included in other loans as set out in note 25 to the financial statements.

At 31 December 2003, the Group's bank loans amounting to Rmb470 million (2002: Rmb483 million) were guaranteed by Sichuan Highway Development.

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

35. 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	
	2003	2002	**2003**	2002
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
As reported in statutory financial statements of the Group prepared in accordance with PRC GAAP	**201,916**	201,692	**4,729,199**	4,618,378
HK GAAP adjustments:				
(a) Other expenses previously recognised as deferred assets under PRC GAAP	**191**	49	**(47)**	(238)
(b) Accrual for additional accommodation benefits	**–**	–	**(935)**	(935)
(c) Overstatement/(understatement) of provision for bad and doubtful debts under PRC GAAP	**3,189**	(993)	**1,015**	(2,174)
(d) Tax	**(15,352)**	10,813	**(4,539)**	(3,655)
(f) Goodwill eliminated directly against reserves	**–**	–	**(786)**	(786)
(g) Gain on disposal of subsidiaries	**15,100**	–	**15,100**	–
(h) Others	**2,620**	(1,256)	**(1,834)**	(4,339)
As restated in these financial statements	**207,664**	210,305	**4,737,173**	4,606,251

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.

36. POST BALANCE SHEET EVENTS

On 12 March 2004, Chengya Company, a subsidiary of the Company, obtained a bank loan amounting to Rmb110 million from Industrial and Commercial Bank of China. The loan has a term of five years and is guaranteed by Sichuan Highway Development, the ultimate holding company of the Company, bears interest at 5.022% per annum.

On 25 March 2004, Chengya Company obtained a bank loan amounting to Rmb480 million from China Minsheng Banking Corp. Ltd. The loan has a term of five years and is secured by the pledge of toll right attributable to the Chengya Expressway, bears interest at 5.022% per annum.

On 15 March 2004 and 25 March 2004, Chengya Company repaid the ultimate holding company an amount aggregating to Rmb595,320,000. The amount due was borrowed from the ultimate holding company for financing the construction of the Chengya Expressway in prior years.

37. COMPARATIVE AMOUNTS

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

38. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 1 April 2004.