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 trading of petroleum products (discontinued during the year, refer to note 9 to the financial statements).

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 Recently Issued Hong Kong Financial Reporting Standards ("HKFRSs")

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("HKAS"), herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004, except the early adoption of HKAS 16. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

HKAS 16 prescribes the accounting treatment for replacing part of a fixed asset. Parts of some items of a fixed asset may require replacement at regular intervals. The cost of replacing part of a fixed asset when that cost is incurred if the recognition criteria are met is recognised in the carrying amount of a fixed asset. The carrying amount of those parts that are replaced is derecognised. The adoption of HKAS 16 has resulted in the Group's recognition of cost of replacing concrete road surface of an expressway and the derecognition of the carrying amount of the replaced concrete road surface of the expressway. The Group's concrete road surface replacement project commenced in 2004 and, therefore, the adoption of HKAS 16 has had no significant effect on the Group's results for the prior accounting periods.

3. Summary of Significant Accounting Policies

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, 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 re-measurement 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 34 to the financial statements.

3. Summary of Significant Accounting Policies *(Continued)*

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2004. 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 inter company 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.

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 un-amortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

3. Summary of Significant Accounting Policies *(Continued)*

Goodwill *(Continued)*

Prior to the adoption of SSAP 30 "Business combinations" 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 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 un-amortised and any relevant reserves, as appropriate.

The carrying amount of goodwill 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.

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.

3. Summary of Significant Accounting Policies *(Continued)*

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 and 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.

For expenditure incurred after fixed assets have been put into operation:

— Ad hoc repairs and maintenance expenditures are charged to the profit and loss account in the period in which they are incurred;

— The cost of replacing concrete road surface of expressways is recognised in the carrying amount of expressways and the carrying amount of replaced concrete road is derecognised;

— The expenditures for upgrading asphalt road surface of an expressways are capitalised as additional costs of the expressway; and

— In other 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 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.

3. Summary of Significant Accounting Policies *(Continued)*

Fixed assets and depreciation *(Continued)*

Depreciation of costs of expressways, tunnels and bridges is calculated to write off the costs 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 costs of the expressways, tunnel and bridges. The aforementioned average rates are based on forecast annual growth rates of traffic volume over the respective expressway concession periods. This method is more commonly referred to as the unit-of-usage method.

Pursuant to the agreement entered into between Sichuan Chengya Expressway Co, Ltd. ("Chengya Company") and the Sichuan Provincial Department of Communications (the "SPDC"), as authorised by the Sichuan Provincial Government, has granted the concession rights in respect of the Chengya Expressway (the "Concession Rights") to Chengya Company for a term of 30 years from 6 November 1997, being the date of incorporation of Chengya Company. The Chengya Expressway was completed and opened to traffic on 28 December 1999. The remaining period of the Concession Rights had been approximately 28 years, and therefore 28 years was adopted for the computation of depreciation charges in respect of fixed assets of the Chengya Expressway in prior accounting periods.

According to a document "Chuan Jiao Fa [2005] No.15" dated 28 February 2005 jointly issued by the SPDC and the Sichuan Provincial Price Bureau (the "SPPB"), Chengya Company was granted a revised term of 30 years from 1 January 2000 to 31 December 2029 in respect of the Concession Rights.

As a result thereof, the estimated useful life of the land and expressway of the Chengya Expressway has been changed from 28 years to 30 years, and the change in the estimated useful life is adopted prospectively from 1 January 2004.

The change has the effect of increasing the current year's profit before tax by approximately Rmb5,427,000.

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

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

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

3. Summary of Significant Accounting Policies *(Continued)*

Fixed assets and depreciation *(Continued)*

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 a bridge and are stated at cost less accumulated amortisation.

Amortisation is provided on the 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.

Inventories

Inventories are mainly petroleum products, spare parts and consumable supplies for the 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.

3. Summary of Significant Accounting Policies *(Continued)*

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.

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.

3. Summary of Significant Accounting Policies *(Continued)*

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:

- toll revenue, net of any applicable revenue taxes, when received;
- 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;
- from road maintenance contracts, on the percentage of completion basis, as further explained in the accounting policy for "Road maintenance contracts" above;
- rental income, on a time proportion basis over the lease terms;
- interest income, on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable; and
- dividend income, 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.

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.

3. Summary of Significant Accounting Policies *(Continued)*

Income tax *(Continued)*

Deferred tax assets are recognised for all deductible temporary differences, carry-forward 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.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is deducted from the carrying amount of the asset and released to the profit and loss account by way of a reduced depreciation/amortisation charge.

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 to use business segments as its primary segment reporting format. During the year, the entire turnover and contribution to profit from operating activities of the Group were derived from the Sichuan Province in the PRC. Accordingly, a further analysis of the turnover and contribution to profit from operating activities by geographical area is not presented.

Business segments

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

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

— The petroleum segment represents the trading of petroleum products.

4. Segment Information *(Continued)*

Business segments *(Continued)*

Group	Tolls 2004 Rmb'000	Tolls 2003 Rmb'000	Petroleum products 2004 Rmb'000	Petroleum products 2003 Rmb'000	Consolidated 2004 Rmb'000	Consolidated 2003 Rmb'000
Segment revenue:						
Turnover	**875,016**	796,096	**9,752**	141,302	**884,768**	937,398
Other revenue and gains	**50,252**	101,284	**494**	208	**50,746**	101,492
Gain on disposal of a subsidiary relating to discontinued operation	**–**	–	**2,773**	–	**2,773**	–
Total revenue	**925,268**	897,380	**13,019**	141,510	**938,287**	1,038,890
Segment results	**353,779**	345,472	**(541)**	(1,165)	**353,238**	344,307
Finance costs	**(116,073)**	(99,920)	**(1,014)**	(2,485)	**(117,087)**	(102,405)
Share of profits and losses of associates	**4,619**	2,346	**–**	–	**4,619**	2,346
Profit before tax					**240,770**	244,248
Tax					**(47,994)**	(61,327)
Profit before minority interests					**192,776**	182,921
Minority interests					**22,822**	24,743
Net profit from ordinary activities attributable to shareholders					**215,598**	207,664
Segment assets	**7,814,328**	7,771,650	**–**	50,181	**7,814,328**	7,821,831
Interests in associates	**56,129**	52,971	**–**	–	**56,129**	52,971
Goodwill	**12,215**	11,093	**–**	–	**12,215**	11,093
Total assets	**7,882,672**	7,835,714	**–**	50,181	**7,882,672**	7,885,895
Segment liabilities	**2,779,924**	2,883,949	**–**	5,650	**2,779,924**	2,889,599
Other segment information:						
Depreciation and amortisation	**225,960**	227,098	**1,730**	2,504	**227,690**	229,602
Bad debt expenses	**2,022**	1,363	**–**	–	**2,022**	1,363
Capital expenditure	**164,418**	116,557	**–**	533	**164,418**	117,090

5. Turnover, Revenue and Gains

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

	Notes	2004 Rmb'000	2003 Rmb'000
Turnover			
Continuing operations:			
Toll revenue			
— Chengyu Expressway		**656,939**	554,919
— Chengya Expressway		**211,351**	170,729
— Chengbei Exit Expressway		**54,789**	62,843
— Toll Bridge and Roads in Luzhou		**—**	27,520
— Zigong Ring Roads		**—**	24,021
		923,079	840,032
Less: Revenue taxes		**(48,063)**	(43,936)
Sub-total		**875,016**	796,096
Discontinued operation:			
Trading of petroleum products		**9,752**	141,302
Total turnover		**884,768**	937,398
Other revenue			
Road maintenance income		**14,135**	33,671
Rental income		**16,685**	12,701
Interest income		**11,494**	5,928
Dividend income from a long term investment		**512**	681
Miscellaneous		**7,614**	3,793
		50,440	56,774
Gains			
Negative goodwill recognised as income	16	**306**	321
Gain on disposal of subsidiaries	28(b)	**—**	44,397
		306	44,718
Other revenue and gains		**50,746**	101,492
Gain on disposal of a subsidiary relating to discontinued operation	28(b)	**2,773**	—
Total turnover, revenue and gains		**938,287**	1,038,890

6. Profit from Operating Activities

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

	Notes	**2004** **Rmb'000**	2003 *Rmb'000*
Depreciation	14	**223,895**	209,497
Amortisation of operating rights	15	**3,795**	19,991
Goodwill:			
Amortisation for the year	16	**1,370**	114
Minimum lease payments under operating leases:			
Land and buildings		**999**	847
Machinery and equipment		**2,334**	—
Auditors' remuneration		**1,605**	1,375
Staff costs (excluding directors' remuneration (note 8)):			
Wages and salaries		**69,250**	62,705
Pension scheme contributions		**8,427**	7,768
Accommodation benefits		**5,364**	3,556
		83,041	74,029
Loss on disposal of fixed assets		**4,444**	1,926
Cost of petroleum products sold		**9,704**	137,489
Impairment of goodwill		**210**	—
Bad debt expenses		**2,022**	1,363

7. Finance Costs

	2004 **Rmb'000**	2003 *Rmb'000*
Interest on bank loans wholly repayable within five years	**108,200**	93,526
Interest on other loans	**8,807**	8,654
Exchange losses	**80**	225
	117,087	102,405

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:

	2004	2003
	Rmb'000	*Rmb'000*
Fees	**140**	130
Other emoluments:		
Basic salaries and allowances and benefits in kind	**1,069**	1,015
Pension scheme contributions	**11**	11
	1,220	1,156

Fees include Rmb140,000 (2003: Rmb130,000) payable to three independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (2003: Nil).

None of the directors received remuneration in excess of HK$1 million during the two years ended 31 December 2004.

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 during the two years ended 31 December 2004.

9. Discountinued Operation

Pursuant to a resolution passed by the board of directors dated 30 August 2004, the Group discontinued its petroleum products trading business through the disposal of a subsidiary, Sichuan Chengyu Energy Co., Ltd., which is principally engaged in the trading of petroleum products, on 31 August 2004. The disposal is consistent with the Group's strategy to focus on its core and more profitable business, as the petroleum products trading business has underperformed over recent years.

9. Discountinued Operation *(Continued)*

The turnover, other revenue, expenses and results of the petroleum products trading business for the two years ended 31 December 2004 are as follows:

	2004 **Rmb'000**	2003 Rmb'000
TURNOVER	**9,752**	141,302
Other revenue and gains	**494**	208
Depreciation and amortisation expenses	**(1,730)**	(2,504)
Cost of petroleum products sold	**(9,704)**	(137,489)
Staff costs	**(593)**	(1,038)
Other operating expenses	**(1,533)**	(1,644)
LOSS FROM OPERATING ACTIVITIES	**3,314**	1,165
Finance costs	**(1,014)**	(2,485)
LOSS BEFORE TAX	**4,328**	3,650
Tax	**–**	–
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	**4,328**	3,650

The carrying amounts of the total assets and liabilities relating to the discontinued operation at 31 December are as follows:

	2004 **Rmb'000**	2003 Rmb'000
Total assets	**–**	50,181
Total liabilities	**–**	(5,650)
	–	44,531

The gain on disposal of the discontinued operation of approximately Rmb2,773,000, related to the disposal of a subsidiary on 31 August 2004 for a consideration of Rmb5,953,000.

10. 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 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 EIT at half of the preferential rate of 15%; and

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

Pursuant to an approval document "Chuan Di Shui Han [2004] No. 283" dated 19 July 2004 issued by the Sichuan Provincial Branch of the State Tax Bureau, the Company's subsidiary, Chengdu Chengbei Exit Expressway Company Limited ("Chengbei Company"), was granted a tax concession to pay EIT at a preferential rate of 15% for a period from 1 January 2003 to 21 December 2010.

Pursuant to a document "Guo Ban Fa [2001] No. 73" dated 29 September 2001 issued by the State Council of the PRC and approval of the local tax authorities, the Company's associate, Chengdu Airport Expressway Company Limited, was granted a tax concession to pay EIT at a 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:

	2004 ***Rmb'000***	2003 *Rmb'000*
Group:		
Current - PRC		
Charge for the year	**52,739**	60,902
Overprovision in prior years	**(5,413)**	—
	47,326	60,902
Share of tax attributable to associates	**668**	425
Total tax charge for the year	**47,994**	61,327

10. Tax *(Continued)*

A reconciliation between the tax expenses and the product of profit before tax multiplied by the applicable statutory rates for the country in which the Company, its subsidiaries and associates are domiciled is as follows:

	2004 **Rmb'000**	2003 *Rmb'000*
Profit before tax	**240,770**	244,248
Tax at applicable tax rates of		
33%	**5,278**	25,197
15%	**33,717**	25,184
Sub-total	**38,995**	50,381
Overprovision in prior years	**(5,413)**	—
Expenses not deductible for tax	**1,395**	135
Income not subject to tax	**(110)**	(2,480)
Tax losses of subsidiaries	**13,127**	13,291
Actual tax expense	**47,994**	61,327

11. Net Profit from Ordinary Activities Attributable to Shareholders

The net profit from ordinary activities attributable to shareholders for the year ended 31 December 2004 dealt with in the financial statements of the Company was Rmb249,442,000 (2003: Rmb202,141,000) (note 27).

12. Dividend

	2004 **Rmb'000**	2003 *Rmb'000*
Proposed final dividend		
- Rmb0.04 (2003: Rmb0.032) per share	**102,322**	81,858

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 reserves section of the balance sheet.

13. 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 Rmb215,598,000 (2003: Rmb207,664,000) and 2,558,060,000 (2003: 2,558,060,000) Domestic and H Shares in issue during the year.

Diluted earnings per share for the years ended 31 December 2004 and 2003 have not been disclosed as no diluting events existed during these years.

14. Fixed Assets

Group

	At 1 January 2004 *Rmb'000*	Adjustments upon finalisation of project costs *Rmb'000*	Additions/ provided during the year *Rmb'000*	Disposals *Rmb'000*	Disposal of subsidiaries *Rmb'000*	Transfers *Rmb'000*	At 31 December 2004 *Rmb'000*
Cost:							
Land	813,614	(48,722)	–	–	(12,827)	–	752,065
Expressways, tunnels and bridges	6,329,596	1,149	–	(9,254)	–	78,263	6,399,754
Safety equipment	389,040	41,812	889	–	–	4,091	435,832
Communication and signalling systems	158,634	(2,226)	7	(23)	–	696	157,088
Toll collection equipment	51,638	39,728	1,008	(19)	–	3,992	96,347
Buildings	307,121	(58,473)	7,536	(11,144)	(8,678)	5,481	241,843
Machinery and equipment	125,011	5,638	13,608	(6,537)	(15,590)	923	123,053
Motor vehicles	52,524	1,709	8,796	(4,274)	(1,868)	–	56,887
Construction in progress	6,967	–	93,754	–	–	(93,446)	7,275
	8,234,145	(19,385)	125,598	(31,251)	(38,963)	–	8,270,144
Accumulated depreciation:							
Land	140,037		25,093	–	(880)	–	164,250
Expressways, tunnels and bridges	877,807		96,113	(473)	–	–	973,447
Safety equipment	222,995		44,832	–	–	–	267,827
Communication and signalling systems	49,560		10,139	–	–	–	59,699
Toll collection equipment	11,303		18,019	(3)	–	–	29,319
Buildings	43,394		7,943	(1,230)	(1,567)	–	48,540
Machinery and equipment	55,298		15,439	(438)	(4,013)	–	66,286
Motor vehicles	27,193		6,317	(1,426)	(389)	–	31,695
	1,427,587		223,895	(3,570)	(6,849)	–	1,641,063
Net book value:							
Land	673,577						587,815
Expressways, tunnels and bridges	5,451,789						5,426,307
Safety equipment	166,045						168,005
Communication and signalling systems	109,074						97,389
Toll collection equipment	40,335						67,028
Buildings	263,727						193,303
Machinery and equipment	69,713						56,767
Motor vehicles	25,331						25,192
Construction in progress	6,967						7,275
	6,806,558						6,629,081

14. Fixed Assets *(Continued)*

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

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 Rmb52,030,000 (2003: Rmb54,201,000) as at 31 December 2004. The Group's buildings can only be sold, transferred or mortgaged if the relevant property certificates have been obtained.

As at 31 December 2004, the concession rights pertaining to the Chengya Expressway and the Chengbei Exit Expressway were pledged to secure bank loans amounting to Rmb580,000,000 (2003: Nil) and Rmb213,600,000 (2003: Nil), respectively (note 24).

Company

	At 1 January 2004 *Rmb'000*	Additions/ provided during the year *Rmb'000*	Disposals *Rmb'000*	Transfers *Rmb'000*	At 31 December 2004 *Rmb'000*
Cost:					
Land	329,943	–	–	–	329,943
Expressways, tunnels and bridges	3,308,113	–	(6,701)	77,005	3,378,417
Safety equipment	213,747	152	–	28	213,927
Communication and signalling systems	93,039	7	(56)	–	92,990
Toll collection equipment	41,098	345	(19)	2,949	44,373
Buildings	146,382	1,262	(4,920)	2,324	145,048
Machinery and equipment	55,254	2,487	(8,856)	–	48,885
Motor vehicles	29,933	2,282	(6,509)	–	25,706
Construction in progress	1,328	86,182	–	(82,306)	5,204
	4,218,837	92,717	(27,061)	–	4,284,493
Accumulated depreciation					
Land	68,460	10,801	–	–	79,261
Expressways, tunnels and bridges	699,715	49,614	(628)	–	748,701
Safety equipment	159,122	20,734	–	–	179,856
Communication and signalling systems	38,446	7,877	(33)	–	46,290
Toll collection equipment	6,625	4,986	(3)	–	11,608
Buildings	25,273	4,765	(487)	–	29,551
Machinery and equipment	32,885	4,786	(2,766)	–	34,905
Motor vehicles	18,257	2,404	(3,977)	–	16,684
	1,048,783	105,967	(7,894)	–	1,146,856
Net book value:					
Land	261,483				250,682
Expressways, tunnels and bridges	2,608,398				2,629,716
Safety equipment	54,625				34,071
Communication and signalling systems	54,593				46,700
Toll collection equipment	34,473				32,765
Buildings	121,109				115,497
Machinery and equipment	22,369				13,980
Motor vehicles	11,676				9,022
Construction in progress	1,328				5,204
	3,170,054				3,137,637

15. Operating Right

Group

	2004 *Rmb'000*	2003 *Rmb'000*
Cost:		
At 1 January	–	469,820
Addition	222,938	–
Disposal of subsidiaries (note 28(b))	–	(469,820)
At 31 December	222,938	–
Accumulated amortisation:		
At beginning of year	–	90,797
Provided during the year	3,795	19,991
Disposal of subsidiaries (note 28(b))	–	(110,788)
At 31 December	3,795	–
Net book value:		
At 31 December	219,143	–

Pursuant to a set of approval documents issued by the Sichuan provincial government and the SPDC (the "Relevant Approval") in 2003, Chengdu Chengbei Exit Expressway Co., Ltd. ("Chengbei Company"), a subsidiary of the Company, was approved to acquire the operating right 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 the Chengdu Municipal Department of Communications the ("CMDC") for a consideration of approximately Rmb258,176,000. In addition, according to the Relevant Approval, a government subsidy of approximately Rmb35,238,000 was granted to Chengbei Company to finance in part Chengbei Company's acquisition of the operating right. The government grant is credited to the carrying amount of the operating right when the condition of the grant is met upon Chengbei Company's acquisition of the operating right. According to an approval document "Chuan Jiao Gong Lu [2004] No. 161" dated 30 August 2004 jointly issued by the SPDC and the SPPB, the concession period of the operating right is approximately 19.5 years from 30 August 2004, the date of the approval document, to 17 March 2024.

16. Goodwill and Negative Goodwill

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

Group

	Goodwill *Rmb'000*	**Negative goodwill** *Rmb'000*
Cost:		
At beginning of year	**13,699**	(3,214)
Disposal of subsidiaries (note 28(b))	**—**	3,214
Acquisition of minority interests	**—**	(91)
At 31 December 2004	**13,699**	(91)
Accumulated amortisation/(recognition as income):		
At beginning of year	**114**	(722)
Amortisation provided/(recognised as income) during the year	**1,370**	(306)
Disposal of subsidiaries (note 28(b))	**—**	937
At 31 December 2004	**1,484**	(91)
Net book value:		
At 31 December 2004	**12,215**	—
At 31 December 2003	**13,585**	(2,492)

17. Investments in Subsidiaries

Company

	2004 ***Rmb'000***	2003 *Rmb'000*
Unlisted investments, at cost	**905,384**	890,816

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 Rmb738,000,000 (2003: Rmb811,400,000) due from Chengya Company, Chengbei Company and Sichuan Shusha Enterprise Company Limited, which bear interest at rates ranging from 4.94% to 5.49% (2003: from 4.94% to 5.31%) per annum.

17. Investments in Subsidiaries *(Continued)*

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

Name	Legal person status	Nominal value of issued/ registered capital	Percentage of equity attributable to the Group		Principal activities
		Rmb'000	*Direct*	*Indirect*	
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 Company Limited	Limited company	220,000	60	–	Construction 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	44,658	96.64	–	Repairs and maintenance of expressways
Sichuan Shusha Enterprise Company Limited	Limited company	30,000	99.5	–	Provision of ancillary services and property development
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

* Sichuan Chengya Expressway Company Limited, a subsidiary of the Company, holds a 61.04% interest in Mingshan Mingyuan Tea Company Limited.

18. Interests in Associates

	Group		Company	
	2004	2003	**2004**	2003
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Unlisted investment, at cost	**–**	–	**38,438**	38,438
Share of net assets	**63,190**	60,032	**–**	–
Goodwill on acquisition	**2,102**	1,892	**–**	–
	65,292	61,924	**38,438**	38,438
Provision for impairment	**(9,163)**	(8,953)	**–**	–
	56,129	52,971	**38,438**	38,438

The Group's share of the accumulative reserves of the associates at 31 December 2004 was approximately Rmb1,440,000 (2003: Rmb873,000).

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

Name	**Legal person status**	**Percentage of equity attributable to the Group** 2004	2003	**Principal activities**
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	Operation of oil stations
Chengdu Stone Elephant Lake Communication Restaurant Company Limited	Limited company	32.4	32.4	Provision of accommodation, meeting reception and entertainment services
Sichuan Chengyu Asphalt High-tech Company Limited	Limited company	45	–	Sale and production of asphalt, additive, chemical products and architecture materials

19. Long Term Investments

	Group		Company	
	2004	2003	**2004**	2003
	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	
	2004	2003	**2004**	2003
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Petroleum products	**—**	2,738	**—**	—
Spare parts and consumable supplies	**4,814**	22,687	**471**	733
	4,814	25,425	**471**	733

21. Prepayments, Deposits and Other Receivables

	Group		Company	
	2004	2003	**2004**	2003
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Prepayments	**5,194**	11,169	**3,727**	4,050
Deposits and other receivables	**44,927**	101,985	**26,617**	2,640
	50,121	113,154	**30,344**	6,690

22. Cash and Cash Equivalents

	Group		Company	
	2004	2003	**2004**	2003
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Cash and bank balances	**699,206**	590,834	**582,323**	380,066
Time deposits with original maturities of over three months	**177,168**	27,177	**12,168**	12,177
	876,374	618,011	**594,491**	392,243

23. Other Payables and Accruals

	Group		Company	
	2004	2003	**2004**	2003
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Accruals	**2,239**	6,175	**2,171**	4,439
Other liabilities	**180,184**	235,500	**51,602**	37,447
	182,423	241,675	**53,773**	41,886

24. Interest-Bearing Bank and Other Loans

	Group		Company	
	2004	2003	**2004**	2003
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Bank loans:				
Secured	**793,600**	5,000	**—**	—
Unsecured	**1,538,675**	1,767,324	**269,240**	309,289
Other loans, unsecured	**225,000**	247,728	**—**	—
	2,557,275	2,020,052	**269,240**	309,289
Bank loans repayable:				
Within one year	**326,416**	214,083	**242,381**	40,048
In the second year	**506,859**	242,381	**26,859**	242,381
In the third to fifth years, inclusive	**1,499,000**	1,315,860	**—**	26,860
	2,332,275	1,772,324	**269,240**	309,289
Other loans repayable:				
Within one year	**22,727**	—	**—**	—
In the third to fifth years, inclusive	**156,818**	72,728	**—**	—
Beyond five years	**45,455**	175,000	**—**	—
	225,000	247,728	**—**	—
Total bank and other loans	**2,557,275**	2,020,052	**269,240**	309,289
Portion classified as current liabilities	**(349,143)**	(214,083)	**(242,381)**	(40,048)
Long term portion	**2,208,132**	1,805,969	**26,859**	269,241

24. Interest-Bearing Bank and Other Loans *(Continued)*

The bank loans bear interest at rates ranging from 4.78% to 6.90% (2003: from 4.78% to 6.90%) per annum.

Bank loans amounting to Rmb580,000,000 (2003: Nil) and Rmb213,600,000 (2003: Nil) are secured by the pledge of the concession rights of the Chengya Expressway and the Chengbei Exit Expressway, respectively.

Bank loans amounting to Rmb489,500,000 (2003: Rmb470,000,000) are guaranteed by Sichuan Highway Development.

Other loans are unsecured and bear interest at rates ranging from 2.55% to 5% (2003: from 2.55% to 5%) per annum.

25. Due to the Ultimate Holding Company

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

26. Issued Capital

	2004 *Number of shares*	2003 *Number of shares*	**2004 *Rmb'000***	2003 *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.

27. 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 2003	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	–	–	–	–	40,054	(40,054)	–
Proposed dividends (note 12)	–	–	–	–	–	(81,858)	(81,858)
At 31 December 2003 and beginning of year	1,413,597	141,383	132,410	196,789	40,054	173,022	2,097,255
Net profit for the year	–	–	–	–	–	215,598	215,598
Transfer from/(to) reserves	–	12,229	12,989	40,054	(40,054)	(25,218)	–
Proposed dividends (note 12)	–	–	–	–	–	(102,322)	(102,322)
At 31 December 2004	1,413,597	153,612	145,399	236,843	–	261,080	2,210,531
Company							
At 1 January 2003	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	–	–	–	–	40,054	(40,054)	–
Proposed dividends (note 12)	–	–	–	–	–	(81,858)	(81,858)
At 31 December 2003 and beginning of year	1,413,597	129,822	125,836	195,116	40,054	439,673	2,344,098
Net profit for the year	–	–	–	–	–	249,442	249,442
Transfer from/(to) reserves	–	13,689	13,690	40,054	(40,054)	(27,379)	–
Proposed dividends (note 12)	–	–	–	–	–	(102,322)	(102,322)
At 31 December 2004	1,413,597	143,511	139,526	235,170	–	559,414	2,491,218

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.

27. Reserves *(Continued)*

(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) 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 reserves available for distribution is the amount determined under PRC GAAP.

28. Notes to the Consolidated Cash Flow Statement

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

	Notes	**2004** **Rmb'000**	2003 Rmb'000
Profit from operating activities		**353,238**	344,307
Depreciation	6	**223,895**	209,497
Amortisation of operating rights	6	**3,795**	19,991
Bad debt expenses	6	**2,022**	1,363
Goodwill amortisation	6	**1,370**	114
Negative goodwill recognised as income	5	**(306)**	(321)
Impairment of goodwill	6	**210**	—
Loss on disposal of fixed assets	6	**4,444**	1,926
Gain on disposal of a subsidiary	5, 9	**(2,773)**	(44,397)
Dividend from a long term investment	5	**(512)**	(681)
Interest income	5	**(11,494)**	(5,928)
Exchange losses	7	**(80)**	(225)
Operating profit before working capital changes		**573,809**	525,646
Decrease/(increase) in trade receivables		**4,532**	(4,532)
Decrease/(increase) in prepayments, deposits and other receivables		**60,997**	(129,117)
Decrease/(increase) in inventories		**20,609**	(15,675)
Decrease in other payables and accruals		**(17,565)**	(27,578)
(Decrease)/increase in an amount due to the ultimate holding company		**(583,570)**	27,185
EIT paid		**(51,402)**	(17,031)
Net cash inflow from operating activities			
Continuing operations		**3,845**	358,898
Discontinued operation		**3,565**	—
Total		**7,410**	358,898

28. Notes to the Consolidated Cash Flow Statement *(Continued)*

(b) Disposal of subsidiaries

	Notes	2004 Rmb'000	2003 Rmb'000
Net assets disposed of:			
Fixed assets	14	**32,114**	2,028
Operating rights	15	**—**	359,032
Cash and cash equivalents		**4**	9,727
Prepayments, deposits and other receivables		**14**	135,179
Inventories		**2**	—
Tax payables		**—**	(15,120)
Other payables and accruals		**(22,302)**	(15,083)
Negative goodwill	16	**(2,277)**	—
Minority interests		**(4,375)**	(191,473)
		3,180	284,290
Gain on disposal of subsidiaries	5	**—**	44,397
Gain on disposal of a subsidiary relating to discontinued operation	5, 9	**2,773**	—
		5,953	328,687
Satisfied by:			
Cash		**5,953**	245,687
Prepayments, deposits and other receivables		**—**	83,000
		5,953	328,687

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

	2004 Rmb'000	2003 Rmb'000
Cash consideration	**5,953**	245,687
Cash and cash equivalents disposed of	**(4)**	(9,727)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	**5,949**	235,960

The turnover and net loss of the subsidiary disposed of during the year ended 31 December 2004 amounted to Rmb9,752,000 and Rmb4,328,000 respectively.

29. Contingent Liabilities

	Group		Company	
	2004	2003	**2004**	2003
	Rmb'000	*Rmb'000*	***Rmb'000***	*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

30. Operating Lease Arrangements

The Group entered into commercial leases on certain office building and machinery and equipment where it is not in the best interest of the Group to purchase these assets. These leases have an average life of one to three years.

At 31 December 2004, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2004	2003	**2004**	2003
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Within one year	**3,558**	238	**–**	–
In the second to fifth years, inclusive	**1,040**	150	**–**	–
	4,598	388	**–**	–

31. Commitments

	Group		Company	
	2004	2003	**2004**	2003
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Contracted, but not provided for	**10,063**	26,164	**9,715**	–
Authorised, but not contracted for	**455,897**	27,560	**447,220**	–
	465,960	53,724	**456,935**	–

Further details of the capital commitments of the Company and the Group as at 31 December 2004 are analysed as follows:

	Group		Company	
	2004	2003	**2004**	2003
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
In respect of:				
— Acquisition of operating rights	**–**	33,900	**–**	–
— Construction works to upgrade the Chengyu Expressway	**443,000**	–	**443,000**	–
— Others	**22,960**	19,824	**13,935**	–
	465,960	53,724	**456,935**	–

32. Retirement Scheme and Empolyee 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' salaries and wages of the current year, limited to a ceiling amount of three times the employees' average 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 approximately Rmb8,438,000 (2003: Rmb7,779,025).

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' salaries and wages of the last year, limited to a ceiling amount of three times the employees' average 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 approximately Rmb5,364,000 (2003: Rmb3,555,663).

33. Related Party Transactions

In the previous years, the Group obtained State loans amounting to Rmb250 million (2003: Rmb250 million) in aggregate pursuant to loan repayment agreements (the "Loan Repayment Agreements") entered into between the Company and Sichuan Highway Development, the ultimate holding company of the Company. The State loans were originally made to the Sichuan Provincial Government through the Ministry of Finance for infrastructure development in 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 made partial repayment of the State loans in an amount of Rmb22,728,000 (2003:Rmb2,272,000). The State loans have been included in other loans as set out in note 24 to the financial statements.

As at 31 December 2004, the Group's bank loans amounting to Rmb489.5 million (2003:Rmb470 million) were guaranteed by Sichuan Highway Development.

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

34. Differences in Financial Statements Prepared under HK GAAP and The PRC GAAP Statutory Financial Statements

	Net profit attributable to shareholders for the year ended 31 December		Shareholders' equity as of 31 December	
	2004	2003	**2004**	2003
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
As reported in the PRC GAAP statutory financial statements of the Group	**229,635**	201,916	**4,860,081**	4,729,199
HK GAAP adjustments:				
(a) Disposal of subsidiaries				
— Gain on disposal of subsidiaries	**(15,100)**	15,100	**–**	15,100
— Tax expense	**4,539**	(15,352)	**–**	(4,539)
(b) Depreciation of fixed assets	**(7,601)**	–	**19,651**	–
(c) Others	**4,125**	6,000	**(8,819)**	(2,587)
As restated in these financial statements	**215,598**	207,664	**4,870,913**	4,737,173

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.

35. Post Balance Sheet Events

No significant post balance sheet events of the Group occurred up to the reporting date.

36. Comparative Amounts

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

37. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 31 March 2005.