1. CORPORATE INFORMATION

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

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

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") 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. 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 the Group's 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 these 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 2005. 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.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The following new and revised HKFRSs affect the Group and are adopted for the first time for the current year's financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKFRS 3	Business Combinations
HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations

The adoption of HKASs 2, 7, 8, 10, 12, 14, 16, 18, 19, 21, 23, 27, 28, 33, 37, 38 and HKFRS 5 had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's financial statements.

HKAS 1 has affected the presentation of minority interests on the face of the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity and other disclosures.

HKAS 24 has expanded the definition of related parties and had no material impact on the Group's related party disclosures.

The adoption of HKASs 32 and 39 do not result in change in measurement of the Group's investments in equity securities.

The impact of adopting the other HKFRSs is summarised as follows:

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

(a) HKAS 17 - Lease

The adoption of HKAS 17 has resulted in a change in accounting policy relating to the reclassification of leasehold land use rights from property, plant and equipment to operating leases. The upfront prepayments made for land use rights are initially stated at cost and subsequently amortised on the straight-line basis over the period of the lease, and where there is impairment, the impairment is expensed in the income statement. In prior years, land use rights were stated at cost less accumulated depreciation and accumulated impairment losses.

The adoption of HKAS 17 has had no effect on the consolidated income statement and retained profits. The comparative amounts of property, plant and equipment and land use rights (notes 13 and 14) in the consolidated balance sheet and the Company's balance sheet have been restated to reflect the reclassification of land use rights.

(b) HKFRS 3 - Business Combinations and HKAS 36 - Impairment of Assets

In prior years, goodwill and negative goodwill arising on acquisitions prior to 1 January 2001 were eliminated against the consolidated retained profits and credited to the consolidated capital reserve, respectively, in the year of acquisition and were not recognised in the income statement until disposal or impairment of the acquired business.

Goodwill arising on acquisitions on or after 1 January 2001 was capitalised and amortised on the straight-line basis over its estimated useful life and was subject to impairment testing when there was any indication of impairment. Negative goodwill was carried in the balance sheet and was recognised in the consolidated income statement on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets.

The adoption of HKFRS 3 and HKAS 36 has resulted in the Group ceasing annual goodwill amortisation and commencing testing for impairment at the cash-generating unit level annually (or more frequently if events or changes in circumstances indicate that the carrying value may be impaired).

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries (previously referred to as negative goodwill), after reassessment, is recognised immediately in the income statement.

The transitional provisions of HKFRS 3 have required the Group to eliminate at 1 January 2005 the carrying amounts of accumulated amortisation with a corresponding adjustment to the cost of goodwill and to derecognise the carrying amounts of negative goodwill (including that remaining in the consolidated capital reserve) against retained profits.

The adoption of HKFRS 3 and HKAS 36 has had no significant impact on the financial statements. The effect of the above changes is reflected in note 16 to financial statements. In accordance with the transitional provisions of HKFRS 3, comparative amounts have not been restated.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs that have been issued but are not yet effective, to these financial statements. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1 January 2006:

HKAS 1 Amendment	Capital Disclosures
HKAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKFRSs 1 & 6 Amendments	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease
HK(IFRIC)-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 will replace HKAS 32 and has modified the disclosure requirements of HKAS 32 relating to financial instruments. This HKFRS shall be applied for annual periods beginning on or after 1 January 2007.

Except as stated above, the Group expects that the adoption of the other pronouncements listed above will not have any significant impact on the Group's financial statements in the period of initial application.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity 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 income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Associates

An associate is an entity, 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 income statement 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 arising from the acquisition of associates is included as part of the Group's interests in associates. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The results of the associates are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in associates are treated as non-current asset and 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 business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is recognised at cost in the consolidated balance sheet as an asset and is subsequently measured at cost less any accumulated impairment losses. 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.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill *(Continued)*

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 "Segment Reporting".

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries, associates and jointly-controlled entities (previously referred to as negative goodwill), after reassessment, is recognised immediately in the income statement.

Impairment of assets

Where an indication of impairment exists, or when annual impairment testing for an asset (other than inventories, financial assets, investment properties, goodwill and non-current assets/disposal group classified as held for sale) is required, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual assets, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises.

An assessment is made at each balance sheet date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that 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 such impairment loss is credited to the income statement in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d); or

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and machinery is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5, Non-current assets and disposal groups held for sale. The cost of an item of property, plant and equipment 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 items of property, plant and equipment have been put into operation is charged to the income statement or capitalised as an additional cost of that asset or as a replacement on the following basis:

- Ad hoc repairs and maintenance expenditures are charged to the income statement 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 expenditure for upgrading asphalt road surface of an expressway is capitalised as an additional cost 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 property, plant and equipment, the expenditure is capitalised as an additional cost of that asset.

Depreciation of expressways, tunnels and bridges is calculated to write off their costs on a unit-of-usage basis whereby the depreciation is provided based on the share of traffic volume for a particular period over the projected total traffic volume throughout the periods for which the Group is granted to operate those expressways, tunnels and bridges. It is the Group's policy to review regularly the projected total traffic volume throughout the operating periods of the respective expressways, tunnels and bridges. If it is considered appropriate, independent professional traffic studies will be performed. Appropriate adjustment will be made should there be a material change.

Depreciation of items of property, plant and equipment, other than expressways, tunnels and bridges, is provided for on the straight-line basis to write off their costs, less their estimated residual values, over their remaining estimated useful lives. The principal estimated useful lives used for this purpose are as follows:

	Estimated useful life
Safety equipment	10 years
Communication and signalling systems	10 years
Toll collection equipment	8 years
Buildings	30 years
Machinery and equipment	5-10 years
Motor vehicles	8 years

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment and depreciation *(Continued)*

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement of an item of property, plant and equipment recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant item.

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, which are stated at costs less any impairment losses, and are not depreciated. 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 property, plant and equipment 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.

Available-for-sale investments

The fair value of the unlisted equity investments cannot be reliably measured because the variability in the range of reasonable fair value estimates is significant for the investments and the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value. As a result, the investments are stated at cost less any impairment losses.

Inventories

Inventories are mainly 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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 income statement 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 lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases are charged to the income statement on the straight-line basis over the lease terms.

The prepayment made for land use rights are initially stated at cost and subsequently amortised on the straight-line basis over the period of the lease, and where there is impairment, the impairment loss is charged to the income statement in the period in which it arises.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process.

Foreign currency transactions

These financial statements are presented in Renminbi ("RMB"), which is the Group's functional and presentation currency.

Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to profit or loss, 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. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Income tax

Income tax comprises current and deferred tax. PRC income tax is provided at rates applicable to enterprises establish 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.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

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.

2.4 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 that is not a business combination 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, 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 credits 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 credits 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 that is not a business combination 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 reassessed at each balance sheet date and 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.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 income statement by way of a reduced depreciation/amortisation charge.

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) the 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) road maintenance income, 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 an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial assets; and

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

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 expressway sections ceases when the construction of such expressway sections is completed, or is substantially completed and has commenced toll operations.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity 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.

2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements and estimations

In the process of applying the Group's accounting policies, management has made the following judgements and those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

(a) Impairment assessment for bad and doubtful debts

Provision for bad and doubtful debts is made based on assessment of the recoverability of other receivables. The identification of bad and doubtful debts requires management judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of the receivables and bad and doubtful debt expenses/write-back in the period in which such estimate has been changed.

(b) Depreciation of costs of expressways, tunnels and bridges

Depreciation of expressways, tunnels and bridges is calculated to write off their costs on a unit-of-usage basis whereby the depreciation is provided based on the share of traffic volume for a particular period over the projected total traffic volume throughout the periods for which the Group is granted to operate those expressways, tunnels and bridges. The projected total traffic volume over the respective concession periods could change significantly. The Group reviews regularly the projected total traffic volume throughout the operating periods of the respective expressways, tunnels and bridges. If it is considered appropriate, independent professional traffic studies will be performed. Appropriate adjustment will be made should there be a material change.

(c) Impairment assessment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating unit to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2005 was RMB12,215,000 (2004: RMB12,215,000). More details are given in note 16.1 to the financial statements.

3. SEGMENT INFORMATION

The entire revenue and contribution to profit from operating activities of the Group are derived from the Sichuan Province in the PRC. Accordingly, no segment analysis by geographical area is presented. In accordance with the Group's internal financial reporting, the Group has previously determined to use business segments as its primary segment reporting format which included:

- tolls segment that represents the design, construction, operation and management of expressways and the collection of expressway tolls; and

- petroleum products segment that represents the trading of petroleum products.

In 2004, the Group discontinued its petroleum product trading business through the disposal of a relevant subsidiary in order to focus on its core business. More details are given in note 8 to the financial statements. During the current year, the entire revenue and contribution to profit from operating activities are all derived from tolls segment and the principal assets employed by the Group are relevant to the tolls segment, therefore, no segment by business is provided.

4. REVENUE, OTHER INCOME AND GAINS

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

	Notes	2005 RMB'000	2004 RMB'000
Revenue			
Continuing operations:			
Toll revenue			
— Chengyu Expressway		**686,226**	656,939
— Chengya Expressway		**236,637**	211,351
— Chengbei Exit Expressway		**70,096**	54,789
		992,959	923,079
Less: Revenue taxes		**(39,794)**	(48,063)
Sub-total		**953,165**	875,016
Discontinued operation:			
Trading of petroleum products		**—**	9,752
Total revenue		**953,165**	884,768
Other income			
Road maintenance income		**12,174**	14,135
Rental income		**18,676**	16,685
Interest income		**12,426**	11,494
Dividend income from a long term investment		**—**	512
Miscellaneous		**6,352**	7,614
		49,628	50,440
Gains			
Negative goodwill recognised as income	16,29(a)	**—**	306
Total other income and gains		**49,628**	50,746
Gain on disposal of a subsidiary relating to discontinued operation	29(b)	**—**	2,773
Total revenue, other income and gains		**1,002,793**	938,287

5. PROFIT FROM OPERATING ACTIVITIES

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

	Notes	2005 RMB'000	2004 RMB'000 (Restated)
Repairs and maintenance		**127,002**	178,687
Depreciation	13	**206,393**	198,802
Amortisation of land use rights	14	**24,929**	25,093
Amortisation of operating rights	15	**11,384**	3,795
Goodwill:			
Amortisation for the year	16	**–**	1,370
Minimum lease payments under operating leases:			
Land and buildings		**1,551**	999
Machinery and equipment		**–**	2,334
Auditors' remuneration		**1,653**	1,605
Employee costs (excluding directors' remuneration (note 7)):			
Wages and salaries		**80,988**	69,250
Pension scheme contributions		**9,995**	8,427
Accommodation benefits		**8,073**	5,364
		99,056	83,041
Loss on disposal of property, plant and equipment		**1,837**	4,444
Cost of petroleum products sold		**–**	9,704
Impairment of goodwill		**–**	210
Impairment of long term investment		**350**	–
Provision for slow-moving inventories		**856**	–
Provision for doubtful debts		**27,773**	2,022

6. FINANCE COSTS

	2005 RMB'000	2004 RMB'000
Interest on bank loans wholly repayable within five years	**126,380**	108,200
Interest on other loans	**–**	8,807
Exchange (gains)/losses	**(628)**	80
	125,752	117,087

7. DIRECTORS' AND SUPERVISORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

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

	2005	2004
	RMB'000	*RMB'000*
Fees	**380**	140
Other emoluments:		
Salaries, allowances and benefits in kind	**1,014**	1,069
Pension scheme contributions	**12**	11
	1,406	1,220

(1) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2005	2004
	RMB'000	*RMB'000*
Madam Zang Dihua	**130**	–
Madam Luo Xia	**60**	5
Mr. Yim Chung Wu	**130**	130
Mr. Feng Jian	**60**	5
	380	140

There were no other emoluments payable to the independent non-executive directors during the year (2004: Nil).

7. DIRECTORS' AND SUPERVISORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES *(Continued)*

(2) Executive directors and supervisors

2005	Salaries, allowances and benefits in kind *RMB'000*	Pension scheme contributions *RMB'000*	Total *RMB'000*
Executive directors:			
Mr. Zhou Liming	147	3	150
Mr. Zhang Zhiying	147	3	150
Mr. Zhang Wensheng	130	—	130
Mr. He Gang	130	—	130
Mr. Liu Mingli	127	3	130
Mr. Zhang Yongnian	127	3	130
Mr. Gao Chun	76	—	76
Madam Zhang Yang	130	—	130
	1,014	12	1,026
Supervisors:			
Mr. Feng Bing	129	—	129
Mr. Hou Bin	—	—	—
Mr. Li Aimin	—	—	—
Madam He Kun	—	—	—
Mr. Chen Zhiquan	—	—	—
	129	—	129
2004			
Executive directors:			
Mr. Zhou Liming	147	3	150
Mr. Zhang Zhiying	147	3	150
Mr. Zhang Wensheng	127	3	130
Mr. Yang Xiaokun	128	2	130
Mr. He Gang	130	—	130
Mr. Liu Mingli	130	—	130
Mr. Zhang Yongnian	130	—	130
Madam Zhang Yang	130	—	130
	1,069	11	1,080
Supervisors:			
Mr. Hou Bin	—	—	—
Mr. Li Aimin	—	—	—
Madam He Kun	—	—	—
Mr. Chen Zhiquan	91	—	91
	91	—	91

7. DIRECTORS' AND SUPERVISORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES *(Continued)*

(3) There was no arrangement under which a director or supervisor waived or agreed to waive any remuneration during the year.

(4) The five highest paid individuals were also the Company's directors during the two years ended 31 December 2005.

8. DISCONTINUED 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 the recent years.

The revenue, other income and gains, expenses and results of the petroleum products trading business for the year ended 31 December 2004 were as follows:

	2004 *RMB'000*
REVENUE	9,752
Other income and gains	494
Depreciation and amortisation expenses	(1,730)
Cost of petroleum products sold	(9,704)
Employee costs	(593)
Other operating expenses	(1,533)
LOSS FROM OPERATING ACTIVITIES	(3,314)
Finance costs	(1,014)
LOSS BEFORE TAX	(4,328)
Tax	—
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	(4,328)

8. DISCONTINUED OPERATION *(Continued)*

The carrying amounts of the total assets and liabilities relating to the discontinued operation at 31 December 2004 are as follows:

	2004
	RMB'000
Total assets	–
Total liabilities	–
	–

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.

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 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 enterprise income tax ("EIT") at half of the preferential rate of 15%; and

- For the eight years from 1 January 2003 to 31 December 2010, the Company was 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 31 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.

9. TAX *(Continued)*

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:

	2005 RMB'000	2004 RMB'000
Group:		
Current - PRC		
Charge for the year	**60,454**	52,739
Deferred tax liability (note 26)	**3,963**	—
Overprovision in prior years	**—**	(5,413)
Total tax charge for the year	**64,417**	47,326

A reconciliation of the tax expenses applicable to profit before tax using the statutory tax rates for the Group to the tax expenses at the effective tax rate, is as follows:

	2005 RMB'000	2004 RMB'000
Profit before tax	**290,060**	240,102
Tax at applicable tax rates of		
33%	**5,722**	5,278
15%	**42,854**	33,717
Sub-total	**48,576**	38,995
Overprovision in prior years	**—**	(5,413)
Profits attributable to associates	**(961)**	(668)
Expenses not deductible for tax	**3,968**	1,395
Income not subject to tax	**—**	(110)
Tax losses of subsidiaries	**12,834**	13,127
Actual tax expense	**64,417**	47,326

10. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The net profit from ordinary activities attributable to equity holders of the parent for the year ended 31 December 2005 dealt with in the financial statements of the Company was RMB301,195,000 (2004: RMB249,442,000) (note 28).

11. DIVIDEND

	2005	2004
	RMB'000	*RMB'000*
Proposed final dividend		
— RMB0.04 (2004: RMB0.04) per ordinary share	**102,322**	102,322

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 account within the equity section of the balance sheet.

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of earnings per share amount is based on the net profit for the year from ordinary activities attributable to equity holders of the parent of RMB248,067,000 (2004: RMB215,598,000) and 2,558,060,000 (2004: 2,558,060,000) Domestic and H Shares in issue during the year.

Diluted earnings per share amounts for the years ended 31 December 2005 and 2004 equal to that of basic earnings per share as no diluting events existed during these years.

13. PROPERTY, PLANT AND EQUIPMENT

Group

31 December 2005	**At 1 January 2005** *RMB'000* (Restated)	**Additions/ provided during the year** *RMB'000*	**Disposals** *RMB'000*	**Transfers** *RMB'000*	**At 31 December 2005** *RMB'000*
Cost:					
Expressways, tunnels and bridges	6,399,754	81	–	73,093	6,472,928
Safety equipment	435,832	1,050	(732)	–	436,150
Communication and signalling systems	157,088	20	(44)	–	157,064
Toll collection equipment	96,347	3,101	–	6,138	105,586
Buildings	241,843	1,372	–	9,761	252,976
Machinery and equipment	123,053	10,155	(107)	330	133,431
Motor vehicles	56,887	4,712	(2,639)	–	58,960
Construction in progress	7,275	96,310	–	(89,322)	14,263
	7,518,079	116,801	(3,522)	–	7,631,358
Accumulated depreciation:					
Expressways, tunnels and bridges	973,447	104,598	–	–	1,078,045
Safety equipment	267,827	45,539	–	–	313,366
Communication and signalling systems	59,699	15,470	–	–	75,169
Toll collection equipment	29,319	13,598	–	–	42,917
Buildings	48,540	7,852	–	–	56,392
Machinery and equipment	66,286	13,637	(104)	–	79,819
Motor vehicles	31,695	5,699	(1,799)	–	35,595
	1,476,813	206,393	(1,903)	–	1,681,303
Net book value:					
Expressways, tunnels and bridges	5,426,307				5,394,883
Safety equipment	168,005				122,784
Communication and signalling systems	97,389				81,895
Toll collection equipment	67,028				62,669
Buildings	193,303				196,584
Machinery and equipment	56,767				53,612
Motor vehicles	25,192				23,365
Construction in progress	7,275				14,263
	6,041,266				5,950,055

13. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Group

31 December 2004	At 1 January 2004 *(RMB'000)* (Restated)	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)* (Restated)
Cost:							
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
	7,420,531	29,337	125,598	(31,251)	(26,136)	–	7,518,079
Accumulated depreciation:							
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
	1,287,550	–	198,802	(3,570)	(5,969)	–	1,476,813
Net book value:							
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
	6,132,981						6,041,266

The Group is in the process of applying for property certificates for an office building built in 2005 with a net book value of approximately RMB2,795,000 (2004: RMB52,030,000) as at 31 December 2005. The Group's buildings can be sold, transferred or mortgaged if the relevant property certificates have been obtained.

As at 31 December 2005, the concession rights pertaining to the Chengya Expressway and the Chengbei Exit Expressway were pledged to secure bank loans amounting to RMB580,000,000 (2004: RMB580,000,000) and RMB243,600,000 (2004: RMB213,600,000), respectively (note 25).

13. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Company

31 December 2005	At 1 January 2005 RMB'000 (Restated)	Additions/ provided during the year RMB'000	Disposals RMB'000	Transfers RMB'000	At 31 December 2005 RMB'000
Cost:					
Expressways, tunnels and bridges	3,378,417	–	–	74,654	3,453,071
Safety equipment	213,927	1,050	–	–	214,977
Communication and signalling systems	92,990	–	–	–	92,990
Toll collection equipment	44,373	985	–	1,381	46,739
Buildings	145,048	747	–	9,546	155,341
Machinery and equipment	48,885	6,410	–	–	55,295
Motor vehicles	25,706	1,610	–	–	27,316
Construction in progress	5,204	91,951	–	(85,581)	11,574
	3,954,550	102,753	–	–	4,057,303
Accumulated depreciation:					
Expressways, tunnels and bridges	748,701	55,883	–	–	804,584
Safety equipment	179,856	20,802	–	–	200,658
Communication and signalling systems	46,290	7,000	–	–	53,290
Toll collection equipment	11,608	5,063	–	–	16,671
Buildings	29,551	4,944	–	–	34,495
Machinery and equipment	34,905	5,005	–	–	39,910
Motor vehicles	16,684	2,058	–	–	18,742
	1,067,595	100,755	–	–	1,168,350
Net book value:					
Expressways, tunnels and bridges	2,629,716				2,648,487
Safety equipment	34,071				14,319
Communication and signalling systems	46,700				39,700
Toll collection equipment	32,765				30,068
Buildings	115,497				120,846
Machinery and equipment	13,980				15,385
Motor vehicles	9,022				8,574
Construction in progress	5,204				11,574
	2,886,955				2,888,953

13. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Company

31 December 2004	At 1 January 2004 RMB'000 (Restated)	Additions/ provided during the year RMB'000	Disposals RMB'000	Transfers RMB'000	At 31 December 2004 RMB'000
Cost:					
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
	3,888,894	92,717	(27,061)	–	3,954,550
Accumulated depreciation:					
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
	980,323	95,166	(7,894)	–	1,067,595
Net book value:					
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
	2,908,571				2,886,955

14. LAND USE RIGHTS

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Restated carrying amount at 1 January (reclassified from property, plant and equipment)	**587,815**	673,577	**250,682**	261,483
Adjustments upon finalisation of project costs	**—**	(48,722)	**—**	—
Disposal	**(1,973)**	—	**(1,973)**	—
Disposal of subsidiaries	**—**	(11,947)	**—**	—
Amortisation during the year	**(24,929)**	(25,093)	**(10,800)**	(10,801)
Carrying amount at 31 December	**560,913**	587,815	**237,909**	250,682

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

15. OPERATING RIGHT

Group

	2005	2004
	RMB'000	*RMB'000*
Cost:		
At 1 January	**222,938**	—
Addition	**—**	222,938
At 31 December	**222,938**	222,938
Accumulated amortisation:		
At beginning of year	**3,795**	—
Provided during the year	**11,384**	3,795
At 31 December	**15,179**	3,795
Net book value:		
At 31 December	**207,759**	219,143

The concession period of the operating right, in respect 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, is approximately 19.5 years from 30 August 2004. Other than the above, the Group has not entered into any other concession arrangement with the local authorities.

16. GOODWILL/NEGATIVE GOODWILL

Group

31 December 2005	**Goodwill** *RMB'000*	**Negative goodwill** *RMB'000*
Cost at 1 January 2005		
As previously reported	13,699	(91)
Effect of adopting HKFRS 3 (note 2.2(b))	(1,484)	91
As restated	12,215	—
Accumulated amortisation at 1 January 2005		
As previously reported	(1,484)	91
Effect of adopting HKFRS 3 (note 2.2(b))	1,484	(91)
As restated	—	—
Cost and carrying amount at 1 January and 31 December 2005	12,215	—

31 December 2004	**Goodwill** *RMB'000*	**Negative goodwill** *RMB'000*
Cost:		
At beginning of year	13,699	(3,214)
Disposal of subsidiaries	—	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)
Provided/(recognised as income) during the year	1,370	(306)
Disposal of subsidiaries	—	937
At 31 December 2004	1,484	(91)
Net book value:		
At 31 December 2004	12,215	—

16. GOODWILL/NEGATIVE GOODWILL *(Continued)*

16.1 Impairment testing of goodwill

Goodwill relates to the acquisition of shareholding interest in a subsidiary and is tested for impairment annually. The recoverable amount of the goodwill has been determined based on value in use calculation using cash flow projections based on a discounted cash flow forecast approved by management covering the business period of the subsidiary.

Key assumptions were used in the value in use calculation for 31 December 2005. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins - The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budgeted year, increased for expected efficiency improvements.

Discount rates - The discount rates used are before tax and reflect specific risks relating to the relevant unit.

17. INVESTMENTS IN SUBSIDIARIES

Company

	2005 ***RMB'000***	2004 *RMB'000*
Unlisted investments, at cost	**905,384**	905,384

The amounts due from subsidiaries included in the Company's current assets are unsecured, interest-free and have no fixed terms of repayment, except for an aggregate amount of RMB720,000,000 (2004: RMB738,000,000) due from Sichuan Chengya Expressway Company Limited, Chengbei Company and Sichuan Shusha Enterprise Company Limited, which bear interest at rates ranging from 4.94% to 5.18% (2004: from 4.94% to 5.49%) per annum. The carrying amounts of these amounts due from subsidiaries approximate to their fair values.

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 including high grade roads and a toll bridge
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 2005 RMB'000	Group 2004 RMB'000	Company 2005 RMB'000	Company 2004 RMB'000
Unlisted investment, at cost	**–**	–	**38,438**	38,438
Share of net assets	**67,281**	63,190	**–**	–
Goodwill on acquisition	**–**	2,102	**–**	–
	67,281	65,292	**38,438**	38,438
Provision for impairment	**(9,163)**	(9,163)	**–**	–
	58,118	56,129	**38,438**	38,438

The Group's share of the accumulative reserves of the associates at 31 December 2005 was approximately RMB2,258,000 (2004: RMB1,440,000).

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

Name	Legal person status	Percentage of equity attributable to the Group 2005	Percentage of equity attributable to the Group 2004	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	45	Sale and production of asphalt, additive, chemical products and architecture materials

19. AVAILABLE-FOR-SALE INVESTMENTS

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Unlisted equity investments, at cost	**34,445**	34,795	**21,000**	21,000

20. INVENTORIES

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Spare parts and consumable supplies	**9,372**	4,814	**471**	471

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Prepayments	**107,708**	5,194	**7,141**	3,727
Deposits and other receivables	**37,520**	44,927	**22,164**	26,617
	145,228	50,121	**29,305**	30,344

Included in prepayment is a down payment of RMB100,000,000 made in respect of a proposed acquisition of a 21.16% equity interest in Jiuzhai Huanglong Airport Co., Ltd., as further disclosed in note 37 to the financial statements.

22. CASH AND CASH EQUIVALENTS

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash and bank balances	**743,948**	699,206	**581,110**	582,323
Time deposits with original maturities of over three months	**15**	177,168	**15**	12,168
	743,963	876,374	**581,125**	594,491

23. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Accruals	**1,513**	2,239	**1,510**	2,171
Other payables	**138,442**	180,184	**51,038**	51,602
	139,955	182,423	**52,548**	53,773

Other payables are non-interest-bearing and have an average term of three months, except for warranty payables for construction of expressway, which have a longer term of approximately 1 year.

24. INTEREST-BEARING BANK AND OTHER LOANS

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Bank loans:				
Secured	**823,600**	793,600	**–**	–
Unsecured	**1,295,874**	1,538,675	**26,439**	269,240
Other loans, unsecured	**202,273**	225,000	**–**	–
	2,321,747	2,557,275	**26,439**	269,240
Bank loans repayable:				
Within one year	**506,874**	326,416	**26,439**	242,381
In the second year	**570,000**	506,859	**–**	26,859
In the third to fifth years, inclusive	**1,042,600**	1,499,000	**–**	–
	2,119,474	2,332,275	**26,439**	269,240
Other loans repayable:				
Within one year	**22,728**	22,727	**–**	–
In the third to fifth years, inclusive	**90,909**	156,818	**–**	–
Beyond five years	**88,636**	45,455	**–**	–
	202,273	225,000	**–**	–
Total bank and other loans	**2,321,747**	2,557,275	**26,439**	269,240
Portion classified as current liabilities	**(529,601)**	(349,143)	**(26,439)**	(242,381)
Long term portion	**1,792,146**	2,208,132	**–**	26,859

The bank loans bear interest at rates ranging from 5.11% to 6.12% (2004: from 4.78% to 6.90%) per annum.

24. INTEREST-BEARING BANK AND OTHER LOANS *(Continued)*

Bank loans amounting to RMB580,000,000 (2004: RMB580,000,000) and RMB243,600,000 (2004: RMB213,600,000) are secured by the pledge of the concession rights of the Chengya Expressway and the Chengbei Exit Expressway, respectively (note 13).

Bank loans amounting to RMB279,000,000 (2004: RMB489,500,000) are guaranteed by Sichuan Highway Development, the ultimate holding company.

Other loans are unsecured and bear interest at rates ranging from 2.28% to 5% (2004: 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. DEFERRED TAX

The movements in deferred tax liabilities during the year are as follows:

Group

	Accelerated tax depreciation	
	2005	2004
	RMB'000	*RMB'000*
At 1 January	**–**	–
Deferred tax charged to the income statement during the year (note 9)	**3,963**	–
At 31 December	**3,963**	–

Deferred tax assets have not been recognised as the amount is immaterial.

27. ISSUED CAPITAL

	2005	2004		
	Number	Number	**2005**	2004
	of shares	*of shares*	***RMB'000***	*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 in terms of dividend and voting rights.

28. RESERVES

	Share premium account RMB'000	Statutory surplus reserve RMB'000 (note (a))	Statutory public welfare fund RMB'000 (note (b))	General surplus reserve RMB'000	Proposed general surplus reserve RMB'000	Retained profits RMB'000	Total RMB'000
Group							
At 1 January 2004	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 final dividend (note 11)	–	–	–	–	–	(102,322)	(102,322)
At 31 December 2004 and beginning of year	1,413,597	153,612	145,399	236,843	–	261,080	2,210,531
Net profit for the year	–	–	–	–	–	248,067	248,067
Transfer from/(to) reserves	–	23,744	23,416	46,179	–	(93,339)	–
Proposed final dividend (note 11)	–	–	–	–	–	(102,322)	(102,322)
At 31 December 2005	1,413,597	177,356	168,815	283,022	–	313,486	2,356,276
Company							
At 1 January 2004	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 final dividend (note 11)	–	–	–	–	–	(102,322)	(102,322)
At 31 December 2004 and beginning of year	1,413,597	143,511	139,526	235,170	–	559,414	2,491,218
Net profit for the year	–	–	–	–	–	301,195	301,195
Transfer from/(to) reserves	–	23,089	23,089	46,179	–	(92,357)	–
Proposed final dividend (note 11)	–	–	–	–	–	(102,322)	(102,322)
At 31 December 2005	1,413,597	166,600	162,615	281,349	–	665,930	2,690,091

(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 assets of the Company, its subsidiaries and associates.

28. RESERVES *(Continued)*

(b) *(continued)*

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.

According to the revised Company Law of the PRC effective from 1 January 2006, the Company and its subsidiaries are not required to transfer their profit after tax to PWF.

(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.

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	Notes	**2005** ***RMB'000***	2004 *RMB'000*
Profit from operating activities		**410,363**	353,238
Share of profits and losses of associates		**242**	–
Depreciation	5	**206,393**	198,802
Amortisation of land use rights	5	**24,929**	25,093
Amortisation of operating rights	5	**11,384**	3,795
Provision for doubtful debts	5	**27,773**	2,022
Provision for slow-moving inventories	5	**856**	–
Goodwill amortisation	5	**–**	1,370
Negative goodwill recognised as income	4	**–**	(306)
Impairment of goodwill	5	**–**	210
Impairment of long term investment	5	**350**	–
Loss on disposal of property, plant and equipment	5	**1,837**	4,444
Gain on disposal of a subsidiary	4,8	**–**	(2,773)
Dividend from a long term investment	4	**–**	(512)
Interest income	4	**(12,426)**	(11,494)
Exchange gains/(losses)	6	**628**	(80)
Operating profit before working capital changes		**672,329**	573,809
Decrease in trade receivables		**–**	4,532
(Increase)/decrease in prepayments, deposits and other receivables		**(122,880)**	60,997
(Increase)/decrease in inventories		**(5,414)**	20,609
Decrease in other payables and accruals		**(42,468)**	(17,565)
Decrease in due to the ultimate holding company		**(11,750)**	(583,570)
EIT paid		**(53,935)**	(51,402)
Net cash inflow from operating activities			
Continuing operations		**435,882**	3,845
Discontinued operation		**–**	3,565
Total net cash inflow from operating activities		**435,882**	7,410

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

(b) Disposal of a subsidiary

	Notes	2004 RMB'000
Net assets disposed of:		
Property, plant and equipment	13	20,167
Land use rights	14	11,947
Cash and cash equivalents		4
Prepayments, deposits and other receivables		14
Inventories		2
Other payables and accruals		(22,302)
Negative goodwill	16	(2,277)
Minority interests		(4,375)
		3,180
Gain on disposal of a subsidiary relating to discontinued operation	4,8	2,773
		5,953
Satisfied by:		
Cash		5,953

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

	2004 RMB'000
Cash consideration	5,953
Cash and cash equivalents disposed of	(4)
Net inflow of cash and cash equivalents	5,949

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. There was no disposal of subsidiaries during the year.

30. CONTINGENT LIABILITIES

	Group		Company	
	2005	2004	**2005**	2004
	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

31. 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 2005, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within one year	**1,187**	3,558	**–**	–
In the second to fifth years, inclusive	**262**	1,040	**–**	–
	1,449	4,598	**–**	–

32. COMMITMENTS

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Contracted, but not provided for	**49,190**	10,063	**49,091**	9,715
Authorised, but not contracted for	**329,595**	455,897	**328,507**	447,220
	378,785	465,960	**377,598**	456,935

Further details of the capital commitments of the Company and the Group as at 31 December 2005 are analysed as follows:

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
In respect of:				
Construction works to upgrade the Chengyu Expressway	**324,287**	443,000	**324,287**	443,000
Others	**54,498**	22,960	**53,311**	13,935
	378,785	465,960	**377,598**	456,935

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' 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 RMB10,007,000 (2004: RMB8,438,000).

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 RMB8,073,000 (2004: RMB5,364,000).

34. RELATED PARTY TRANSACTIONS

In the previous years, the Group obtained State loans in an original amount of RMB250,000,000 (2004: RMB250,000,000) 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 RMB22,727,000 (2004: RMB22,728,000). The State loans have been included in other loans as set out in note 25 to the financial statements.

As at 31 December 2005, the Group's bank loans amounting to RMB279,000,000 (2004: RMB489,500,000) 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 PRC GAAP STATUTORY FINANCIAL STATEMENTS AND HK GAAP

	Net profit attributable to shareholders for the year ended 31 December		Shareholders' equity as at 31 December	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
As reported in PRC GAAP statutory financial statements of the Group	**252,563**	229,635	**5,010,326**	4,860,081
HK GAAP adjustments:				
(a) Disposal of subsidiaries				
Gain on disposal of subsidiaries	**—**	(15,100)	**—**	—
Tax expense	**—**	4,539	**—**	—
(b) Depreciation of property, plant and equipment	**(7,643)**	(7,601)	**12,009**	19,651
(c) Deferred tax liability	**(3,963)**	—	**(3,963)**	—
(d) Others	**7,110**	4,125	**(1,714)**	(8,819)
As restated in these financial statements	**248,067**	215,598	**5,016,658**	4,870,913

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. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank loans, other interest-bearing loans, and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations.

It is, and has been, throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are cash flow interest rate risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

Cash flow interest rate risk

The interest rate and terms of repayment of interest-bearing loans are disclosed in note 25. The Group does not have any significant exposure to the risk of changes in market interest rates as the Group does not have any long term receivables or long term debt obligations with a floating interest rate.

Liquidity risk

The Group does not have any significant exposure to liquidity risk as the Group does not rely on external financing and the Group is in net current asset position as at 31 December 2005. 28.2% of the Group's liabilities would mature in less than one year as at 31 December 2005 (2004: 20.6%).

Fair values

The fair values of the Group's financial instruments are not materially different from their carrying amounts. Fair value estimates are made at a specific point in time and based on relevant market information and information about the financial instruments. These estimates are subjective in nature, involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

37. POST BALANCE SHEET EVENTS

Pursuant to Letters of Intent to increase investment for addition equity dated 8 December 2005 and 15 March 2006 entered into by Chengdu Shuhai Investment Management Co., Ltd. ("Shuhai Company"), a 99.9% subsidiary of the Company, with Sichuan Highway Development (the ultimate holding company of the Company), Abazhou State-owned Assets Management Company and Sichuan Road & Bridge Construction Group, Shuhai Company intends to invest RMB200,000,000 to acquire an equity interest of 21.16% of Jiuzhai Huanglong Airport Company (the "Proposed Investment"). The Proposed Investment is subject to approval of the shareholders of the Company pursuant to the Hong Kong Listing Rules.

As of 31 December 2005, a down payment of RMB100,000,000 has been made by Shuhai Company for this purpose.

38. COMPARATIVE AMOUNTS

As further explained in note 2.2 to the financial statements, due to the adoption of new HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year and opening balance adjustments have been made and certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 30 March 2006.