

Report of the Directors

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2002.

Principal activities

The principal activities of the Company are the management and operation of the Chengyu Expressway. Details of the principal activities of the subsidiaries and associates are set out in notes 17 and 18 to the financial statements. There were no changes in the nature of Group's principal activities during the year.

Summary particulars of the expressways, high grade roads and a bridge managed and operated by the Group are as follows:

	Origin/ destination	Approximate length	Date of the entire toll expressway, road or bridge commenced operations
Chengyu Expressway	Chengdu/Shangjiapo	226km	1 July 1995
Chengya Expressway	Chengdu/Duiyan	144km	28 December 2000
Chengbei Exit Expressway	Qinglongchang/Baihelin	10.4km	21 December 1998
Zigong Ring Road Section 1	Dengguan/Zigong	30km	1 December 1998
Zigong Ring Road Section 2	Yanggongqiao/Rongxian	46.1km	1 December 1998
Lulong Road Luzhou Section	Luzhou/Jiamingzheng	49.7km	1 September 1999
Luhe Road Luzhou Section	Luzhou/Mituo Zheng	22.8km	1 September 1999
Luzhou Tuojiang Er Bridge	Luzhou	4.5km	1 September 1999

Segmental information

During the year, the Group's turnover and contribution to profit from operating activities were derived from expressways, high grade roads and a bridge, as well as the sale of petroleum products in Sichuan Province, the PRC. Accordingly, no segment information by geographical segments is presented. An analysis of the Group's turnover and contribution to profit from operating activities by principal activities for the year ended 31 December 2002 is set out in note 4 to the financial statements.

Results and dividends

The Group's profit for the year ended 31 December 2002 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 36 to 67.

The directors recommend the payment of a final dividend of Rmb0.03 per share in respect of the year, to shareholders on the register of members on 27 May 2003. This recommendation has been incorporated in the financial statements as an allocation of retained earnings within capital and reserves in the balance sheet. Further details of this accounting treatment are set out in note 11 to the financial statements.

Summary financial information

The following is a summary of the published results and assets and liabilities of the Group for the last five financial years, as prepared on the basis set out in the note below.

Results	Year ended 31 December				
	2002 Rmb'000	2001 Rmb'000	2000 Rmb'000	1999 Rmb'000	1998 Rmb'000
Turnover	791,142	664,607	594,165	440,215	375,966
Other revenue and gains	32,589	35,278	44,412	23,270	19,287
Depreciation and amortisation expenses	(217,697)	(204,558)	(185,045)	(108,899)	(81,376)
Staff costs	(68,874)	(56,778)	(60,926)	(35,042)	(25,722)
Other operating expenses	(224,538)	(136,743)	(81,833)	(69,961)	(48,347)
Profit from operating activities	312,622	301,806	310,773	249,583	239,808
Finance costs	(120,944)	(134,375)	(152,306)	(72,606)	(58,851)
Share of profits less losses of associates	2,200	1,063	309	117	—
Profit before tax	193,878	168,494	158,776	177,094	180,957
Tax	(13,168)	(32,707)	(39,460)	(14,874)	(262)
Profit before minority interests	180,710	135,787	119,316	162,220	180,695
Minority interests	29,595	38,789	47,136	7,229	115
Net profit from ordinary activities attributable to shareholders	210,305	174,576	166,452	169,449	180,810
Assets, liabilities and minority interests					
Total assets	8,053,518	7,907,440	8,125,918	7,654,455	6,651,998
Total liabilities	3,019,618	2,980,246	3,264,502	2,839,869	2,032,490
Minority interests	427,649	454,506	486,562	528,656	426,285
Net assets	4,606,251	4,472,688	4,374,854	4,285,930	4,193,223

Note:

The consolidated results of the Group for the four years ended 31 December 2001 have been extracted from the Company's 2001 annual report dated 21 March 2002, while those of the year ended 31 December 2002 were prepared based on the consolidated profit and loss account as set out on page 36 of the financial statements. This summary does not form part of the audited financial statements.

Fixed assets

Details of movements in the fixed assets of the Company and the Group during the year are set out in note 13 to the financial statements.

Issued capital

Details of the Company's issued capital are set out in note 26 to the financial statements.

Pre-emptive rights

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the PRC which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Purchase, redemption or sale of listed securities of the Company

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 27 to the financial statements.

Distributable reserves

At 31 December 2002, the Company's reserves available for distribution, calculated in accordance with the provision of the PRC legislation, amounted to Rmb329,265,000 (before the proposed final dividend). In addition, in accordance with the Company Law of the PRC, the Company's share premium account, in the amount of Rmb1,413,597,000, is available for distribution by way of capitalisation issues.

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Major customers and suppliers

The five largest customers and suppliers contributed less than 30% of total operating revenues and purchases, respectively, of the Group during the year. Accordingly, a corresponding analysis of major customers and suppliers is not presented.

Directors

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Mr. Zhou Liming	(appointed on 2 September 2002)
Mr. Zhang Zhiying	(appointed on 17 February 2003)
Mr. Zhang Wengsheng	
Mr. Yang Xiaokun	
Mr. Liu Mingli	
Mr. Zhang Yongnian	
Ms. Zhang Yang	
Ms. Yang Shuzhuang	(resigned on 2 September 2002)
Mr. Tan Shiqiao	(resigned on 2 September 2002)
Mr. Yang Kunping	(resigned on 17 February 2003)

Independent non-executive directors:

Ms. Zang Dihua
Mr. Yan Zhonghe

According to Article 100 of the Company's articles of association, directors are appointed for a period of three years. In accordance with the Company's articles of association, all the directors continue in office.

Directors and senior management biographies

Biographical details of the directors of the Company and the senior management of the Group are set out under the Profile of Directors, Supervisors and the Management Section of the Annual Report.

Directors' service contracts

Each of the directors of the Company has entered into a service agreement with the Company with effect from the date of appointment of the respective director, for a term of three years.

None of the directors of the Company has entered into any service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.

Directors' interests in contracts

No director had a significant beneficial interest in any contract of significance to the business of the Group to which the Company or any of its subsidiaries or fellow subsidiaries was a party during the year.

Directors' rights to acquire shares

At no time during the year was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in the Company or any other body corporate.

Substantial shareholders

At 31 December 2002, the following interests of 10% or more of the share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"):

Name	Number of shares	Percentage
Sichuan Highway Development	1,005,290,000	39.30%
HKSCC Nominees Limited	883,365,999	34.53%
Huajian Communication and Economic Development Centre	657,450,000	25.70%

Save as disclosed above, no person had registered an interest in the share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance.

Directors' interests in shares and warrants

At 31 December 2002, none of the directors or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company as defined in the SDI Ordinance.

Deposits

In 1998, the Group placed a deposit amounting to Rmb10 million, which was due to mature in August 2002, with the Guanghua Office of Sichuan Trust and Investment Corporation (the "Guanghua Office"). As at 31 March 2002, the outstanding balance of principal plus interest was approximately Rmb11.17 million. In April 2002, pursuant to decisions made by the People's Bank of China and the Sichuan Provincial Government, the Guanghua Office was ordered to be dissolved and liquidation procedures commenced. The Group registered its creditor's rights with the liquidation committee on 25 May 2002. Based on the relevant information of the Guanghua Office, the Directors are unable to assess the amount recoverable. The Directors considered it prudent to make provision for the principal plus interest.

The aforesaid deposit represented 0.25% of the net assets of the Group. Accordingly, the non-recovery of the deposit with Guanghua Office would not have a material impact on the working capital and operations of the Group.

Save as aforesaid, the Group had no designated deposits and overdue time deposits placed with any financial institution which could not be recovered in the year.

Retirement scheme

As stipulated by State regulations of the PRC, the Group participates in a defined contribution retirement scheme. All retired employees are entitled to an annual pension equal to a fixed proportion of the average basic salary amount within the geographical area of their last employment at their retirement date. During the year, the Group was required to make contributions to a local social security bureau at a rate of 20% of the employees' average salaries and wages of the last year, limited to a ceiling amount of three times the average basic salaries within the geographical area where employees are employed. The Group has no obligation for the payment of pension benefits beyond the annual contributions to the registered insurance companies. During the year, contributions to the local social security bureau made by the Group under the defined contribution retirement scheme amounted to Rmb6,138,153 (2001: Rmb5,538,469).

During the year, the Group provided a one-off additional pension contribution to a registered insurance company for eligible employees. The one-off additional pension contribution covered 195 existing long serving employees of the Company. The cost of providing the one-off additional pension contribution amounted to Rmb6,928,154 (2001: Nil) has been charged to the profit and loss account for the year.

Accommodation benefits for employees

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 average basic salaries within the geographical area where 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 Rmb2,260,129 (2001: Rmb1,284,588).

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Connected transactions

The Group had connected transactions during the year, as more fully described in note 33 to the financial statements, with Sichuan Highway Development, a State-owned enterprise established in the PRC. In the opinion of the directors, including the independent non-executive directors of the Company, these transactions were:

- (i) conducted in the ordinary course of business of the Group;
- (ii) entered into in accordance with the terms of the agreements governing such transactions; and
- (iii) fair and reasonable so far as the shareholders of the Company are concerned.

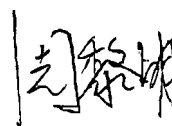
Code of best practice

Other than the setting up of an Audit Committee aiming at reviewing and supervising the Company's financial reporting process and internal controls, the Company has complied with the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited during the year. The Company's organisational structure has, in lieu, a Supervisory Committee which carries out functions similar to that of an Audit Committee, and the principal difference is that the Company's Supervisory Committee comprises four representatives (one of which shall be an employee of the Company) who are elected and removed in the general meeting of shareholders, and which reports to the general meeting of shareholders, whereas an Audit Committee is appointed amongst the non-executive directors of a company.

Auditors

Ernst & Young retire and a resolution for their reappointment as international auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD



Zhou Li Ming
Chairman

Chengdu, Sichuan Province, the PRC
20 March 2003