

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 2004.

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 are set out in note 17 to the financial statements. Other than the disposal and discontinuance of the Group's petroleum products trading business, further details of which are included in note 9 to the financial statements, there were no significant changes in the nature of Group's principal activities during the year.

Particulars of the expressways managed and operated by the Group as of 31 December 2004 are as follows:

	Origin/ destination	Approximate length	Date of the entire toll expressway 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

Results and dividends

The Group's profit for the year ended 31 December 2004 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 33 to 70.

The directors recommend the payment of a final dividend of Rmb0.04 per share in respect of the year, to shareholders on the register of members on 2 June 2005. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the capital and reserves section of the balance sheet.

Summary financial information

The following is a summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years as extracted from the audited financial statements. This summary does not form part of the audited financial statements.

Results	Year ended 31 December				
	2004 Rmb'000	2003 Rmb'000	2002 Rmb'000	2001 Rmb'000	2000 Rmb'000
Turnover	884,768	937,398	791,142	664,607	594,165
Other revenue and gains	50,746	101,492	32,589	35,278	44,412
Gain on disposal of a subsidiary relating to discontinued operation	2,773	—	—	—	—
Depreciation and amortisation expenses	(227,690)	(229,488)	(217,697)	(204,558)	(185,045)
Staff costs	(83,041)	(74,029)	(68,874)	(56,778)	(60,926)
Cost of petroleum products sold	(9,704)	(137,489)	(21,429)	—	—
Other operating expenses	(264,614)	(253,577)	(203,109)	(136,743)	(81,833)
Profit from operating activities	353,238	344,307	312,622	301,806	310,773
Finance costs	(117,087)	(102,405)	(120,944)	(134,375)	(152,306)
Share of profits and losses of associates	4,619	2,346	2,200	1,063	309
Profit before tax	240,770	244,248	193,878	168,494	158,776
Tax	(47,994)	(61,327)	(13,168)	(32,707)	(39,460)
Profit before minority interests	192,776	182,921	180,710	135,787	119,316
Minority interests	22,822	24,743	29,595	38,789	47,136
Net profit from ordinary activities attributable to shareholders	215,598	207,664	210,305	174,576	166,452
Assets, liabilities and minority interests					
Total assets	7,882,672	7,885,895	8,053,518	7,907,440	8,125,918
Total liabilities	2,779,924	2,889,599	3,019,618	2,980,246	3,264,502
Minority interests	231,835	259,123	427,649	454,506	486,562
Shareholder's equity	4,870,913	4,737,173	4,606,251	4,472,688	4,374,854

Report of the Directors (*Continued*)

Fixed assets

Details of movements in the fixed assets of the Company and the Group during the year are set out in note 14 to the financial statements.

Issued capital

There were no movements in either the Company's authorised or issued capital during the year.

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

According to the Company's articles of association, the Company is required to distribute dividends based on the lower of the Company's profits determined under PRC GAAP and HK GAAP. At 31 December 2004, the Company's reserves available for distribution, calculated in accordance with the provision of the PRC legislation and the Company's articles of association, amounted to Rmb399,710,000 of which Rmb102,322,000 has been proposed as a final dividend for the year. The Company's distributable reserves as at 31 December 2004 were determined under PRC GAAP, which were lower than that determined under HK GAAP. 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, may be distributed in the form of fully paid bonus shares.

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 were:

Executive directors:

Mr. Zhou Liming
Mr. Zhang Zhiying
Mr. Zhang Wengsheng
Mr. Yang Xiaokun
Mr. He Gang
Mr. Liu Mingli
Mr. Zhang Yongnian
Madam Zhang Yang

Independent non-executive directors:

Madam Zang Dihua
Mr. Yim Chung Wu
Madam Luo Xia (appointed on 29 November 2004)
Mr. Feng Jian (appointed on 29 November 2004)

According to article 100 of the Company's articles of association, the directors are appointed for a period of three years. The remuneration of the directors were set out in Note 8 of the Financial Statements of this annual report.

The Company has received annual confirmations of independence from Madam Zang Dihua, Madam Luo Xia, Mr. Yim Chung Wu and Mr. Feng Jian, and as at 31 March 2005, they are still considered to be independent.

Directors', supervisors' and senior management's biographies

Biographical details of the directors of the Company and the senior management of the Group are set out under the section of the Profile of Directors, Supervisors and the Management of the annual report.

Directors' and supervisors' service contracts

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

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

The directors' emoluments are determined by the Company's board of directors with reference to the pay scale applicable to directors of listed State-controlled companies in the PRC.

Interests of Directors and supervisors in contracts

None of the directors or supervisors currently or once had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries and fellow subsidiaries was a party during the year.

Rights of Directors and supervisors to subscribe shares

In 2004 and as at 31 December 2004, none of the directors, supervisors, chief executive officers or any of their respective spouses or children under 18 years of age were granted any right and the Company (or its subsidiaries, controlling companies or subsidiaries of controlling companies) had not made and was not a party to any arrangements, which allowed such persons to subscribe any equity securities or debt or any other legal corporate.

Report of the Directors (Continued)

Interests of directors and supervisors in shares, underlying shares and debentures

As far as the Company is aware, as at 31 December 2004, none of the directors, supervisors and chief executive officer or their respective associates have any interests or short positions in shares, underlying shares and/or debentures (as the case may be) of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the 'SFO') that was required to be notified to the Company and the Stock Exchange pursuant to division 7 and 8 of Part XV of the SFO (including such requirement of the SFO that was deemed or have interests or short positions held by directors, supervisors, chief executive officer or senior management), or interests or short positions required to be registered pursuant to Section 352 of the SFO, or which was otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

Interests and short positions of substantial shareholders and other persons in shares, underlying shares and debentures

As far as the Company is aware, as at 31 December 2004, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Name	Type of share	Number of shares	Percentage to the Company's issued share capital	Short positions	Pledged or frozen
Sichuan Highway Development	State-owned Shares	1,005,290,000	39.30%	—	Note (1)
HKSCC Nominees Limited	H Shares	884,489,999	34.58%	Note (2)	Note (2)
Huajian Communication and Economic Development Centre	State-owned legal person Shares	657,450,000	25.70%	—	Nil

Save as disclosed above, as far as the Company is aware, as at 31 December 2004, no person (persons other than the directors, supervisors or chief executive officer and their respective associates) had interests or short positions in the shares, underlying shares and debentures (as the case may be) in the Company or any of its associated corporations (as defined in Part XV of the SFO) which was required to be notified to the Company or the Stock Exchange in accordance with divisions 2 and 3 of Section XV of the SFO.

Note: (1) The total number of 310,333,000 shares, amongst the 1,005,290,000 state-owned shares held by Sichuan Highway Development was pledged to the underneath sub-branch of Sichuan branch of China Construction Bank as at 29 November, 2002.

(2) 884,489,999 H Shares are held by HKSCC Nominees Ltd on behalf of a number of clients. The Company is not aware of short positions, pledges or freezing of relevant shares or shares representing over 5% of share capital of the Company held by any individual shareholder.

Deposits

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' salaries and wages of the current year, limited to a ceiling amount of three times the employees' average basic salaries of the current year within the geographical area where the employees are employed. The Group has no obligation for the payment of pension benefits beyond the annual contributions. During the year, contributions to the local social security bureau made by the Group under the defined contribution retirement scheme amounted to approximately Rmb8,438,000 (2003: Rmb7,779,025).

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 employees' average basic salaries within the geographical area where the employees are employed, to an accommodation fund. There are no further obligations on the part of the Group except for such contributions to the accommodation fund. During the year, the Group's contributions to the accommodation fund amounted to approximately Rmb5,364,000 (2003: Rmb3,555,663).

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.

Post balance sheet events

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

Code of Best Practice

In the opinion of the directors, the Company complied with the then prevailing Code of Best Practice as set out in Appendix 14 of the Listing Rules, throughout the accounting period covered by the annual report during the year.

Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules ("Model Code") as the Company's code of conduct for dealings in securities of the Company by the directors. Based on specific enquiry of the Company's directors, the directors have complied with the required standard set out in the Model Code, throughout the accounting period covered by the annual report.

Audit Committee

The Company has an audit committee which was established in accordance with Rule 3.21 of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises three independent non-executive directors. They are Madam Zang Dihua, Madam Luo Xia and Mr. Feng Jian respectively.

The Audit Committee of the Company had considered and recognized the financial statements for the year ended 31 December 2004.

Auditors

For the past three years, there was no change to the Company's auditors. The Company will put forth resolution in the coming 2004 Annual General Meeting for the re-appointment of Sichuan Jun He Accountants and Ernst & Young Certified Public Accountants to be the domestic and international auditors of the Company for the year of 2005.

Report of the Directors (*Continued*)

Sufficient Public Float

Based on the information that is publicly available to the Company as at the latest practicable date prior to issue of this annual report and as far as the Directors are aware, the Directors believed that the Company has at all times during the year ended 31 December 2004 maintained the relevant applicable minimum percentage of the listing securities as prescribed by Rule 8.08 of the Listing Rules.

External guaranty and execution

During the year, the Company, its subsidiaries and the jointly controlled entities had not granted any external guaranty.

Material litigations and arbitrations

During the year, the Company, its subsidiaries and the jointly controlled entities were not involved in material litigation and arbitration.

Other significant events

On 20 May 2004, the Company has entered into a conditional purchase and sale agreement with Sichuan Highway Development, the controlling shareholder holding 39.3% of equity interests in the Company. Pursuant to the agreement, the Company intended to acquire 99.18% of equity interests in Sichuan Chengle Expressway Company Limited held by Sichuan Highway Development. The Company proposed to issue A Shares to finance the acquisition. On 4 June 2004, the Company issued an announcement in relation to the major and connected transaction proposed acquisition of interest in Sichuan Chengle Expressway Company Limited proposed issue of A Shares (details of which can be referred to the announcement published on the Hong Kong Economic Times and the Standard dated 7 June 2004). On 20 June 2004, the Company received a letter from Oriental Harvest Infrastructure Investment (China) Limited ('Oriental Harvest') opposing the acquisition of equity interests in Sichuan Chengle Expressway Company Limited. To protect the best interests of the Company investors, the Company decided to suspend the proceeding in the conditional purchase and sale agreement and the issue of A Shares (details of which can be referred to the announcement in relation to the suspension to proceed with a major and connected transaction and proposed issue of a shares published on the Hong Kong Economic Times and the Standard dated 16 July 2004). Hereafter, the Company will consider, as the case may be, the resumption or termination of the proceeding in the conditional purchase and sale agreement and the issue of A Shares. The suspension of the above matters will not incur adverse impact of the operation and financial conditions of the Company.

(Additional information of the above conditional purchase and sale agreement can be referred to the 'Announcement of Interim Results 2004' dated 18 August 2004 published on The Standard/ Hong Kong Economic Times and The Interim Results Report 2004 of the Company).

ON BEHALF OF THE BOARD



Zhou Liming
Chairman

Chengdu, Sichuan Province, the PRC
31 March 2005