

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 2005.

Principal activities

The principal activities of the Company are the management and operation of Chengyu Expressway. Details of the principal activities of the subsidiaries are set out in note 17 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 at 31 December 2005 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 2005 and the state of affairs of the Company and the Group at that date are set out in the financial statements of this annual report.

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 1 June 2006. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of the balance sheet.

Share capital

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

Repurchase, redemption or sale of listed securities of the Company

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

REPORT OF THE DIRECTORS (*Continued*)

Directors and supervisors

The directors and supervisors of the Company during the year were:

Executive directors:

Mr. Zhou Liming
Mr. Zhang Zhiying
Mr. Zhang Wensheng
Mr. Gao Chun (appointed on 2 June 2005)
Mr. He Gang
Mr. Liu Mingli
Mr. Zhang Yongnian
Madam Zhang Yang
Mr. Yang Xiaokun (resigned on 2 June 2005)

Independent non-executive directors:

Madam Zang Dihua
Madam Luo Xia
Mr. Yim Chung Wu
Mr. Feng Jian

Supervisors

Mr. Feng Bing (appointed on 2 June 2005)
Mr. Hou Bin
Mr. Li Aimin
Madam He Kun
Mr. Chen Zhiquan (resigned on 2 June 2005)

According to articles 100 and 119 of the Company's articles of association, the directors and the supervisors are appointed for a period of three years.

The Company has received annual confirmations of independence from Madam Zang Dihua, Madam Luo Xia, Mr. Yim Chung Wu and Mr. Feng Jian as required by Rule 3.13 of the Listing Rules and as at the date of this report, they are still considered to be independent.

Directors', supervisors' and senior management's biographies

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



Directors', supervisors' and chief executives' interests in shares and underlying shares and/or debentures

So far as to the knowledge of the Company, as at 31 December 2005, none of the directors, supervisors or chief executives of the Company or their respective associates had any interests 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 Divisions 7 and 8 of Part XV of the SFO (including such requirement of the SFO that was deemed or have interest or short positions held by directors, supervisors, chief executive officers or senior management), or interest 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 Listed Issuers.

Directors' and supervisors' rights to acquire shares

At no time during 1 January 2005 to 31 December 2005 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or supervisor or their respective spouse or minor children, or were such rights exercised by them, or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors or supervisors to acquire such rights in any other body corporate.

Directors', supervisors' and chief executives' interest in a competing business

During the year and up to the date of this report, none of the directors, supervisors or chief executives of the Company had any interest in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

Substantial shareholders' and other persons' interests in shares

At 31 December 2005, 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 shares	Number of shares	Percentage of the Company's issued share capital	Short positions	Pledge or frozen
Sichuan Highway Development	State-owned Shares	1,005,290,000	39.30%	—	Note 1
HKSCC Nominees Limited	H Shares	885,451,999	34.62%	Note 2	Note 2
Huqian Centre	legal person Shares	657,450,000	25.70%	—	Nil

Save as disclosed above, as far as the Company is aware, as at 31 December 2005, 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.

REPORT OF THE DIRECTORS (*Continued*)

- 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) 885,451,999 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.

Directors' 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 and supervisor, 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 of compensation, other than statutory compensation.

Directors' and supervisors' material interests in contracts of significance

None of the directors and supervisors 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.

Remuneration of Directors and Supervisors

Criteria for determining the remuneration of directors of the Company and the information of remuneration of the directors and supervisors of 2005 are set out in Item V of the Report of Corporate Governance and Note 7 to the financial statements in this annual report.



Summary financial information

A summary of the results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out below. The amounts for each year in the five year financial summary have been adjusted for the effects of the retrospective changes in accounting policy affecting minority interests, as detailed in note 2.2 to the financial statements. This summary does not form part of the audited financial statements.

Results	Year ended 31 December				
	2005 RMB'000	2004 RMB'000	2003 RMB'000	2002 RMB'000	2001 RMB'000
Revenue	953,165	884,768	937,398	791,142	664,607
Other income and gains	49,628	50,746	101,492	32,589	35,278
Gain on disposal of a subsidiary relating to discontinued operation	—	2,773	—	—	—
Total revenue	1,002,793	938,287	1,038,890	823,731	699,885
Depreciation and amortisation expenses	(242,706)	(227,690)	(229,488)	(217,697)	(204,558)
Employee costs	(99,056)	(83,041)	(74,029)	(68,874)	(56,778)
Cost of petroleum products sold	—	(9,704)	(137,489)	(21,429)	—
Other operating expenses	(250,668)	(264,614)	(253,577)	(203,109)	(136,743)
Profit from operating activities	410,363	353,238	344,307	312,622	301,806
Finance costs	(125,752)	(117,087)	(102,405)	(120,944)	(134,375)
Share of profits and losses of associates	5,449	3,951	2,346	2,200	1,063
Profit before tax	290,060	240,102	244,248	193,878	168,494
Tax	(64,417)	(47,326)	(61,327)	(13,168)	(32,707)
Profit for the year	225,643	192,776	182,921	180,710	135,787
Attributable to:					
Equity holders of parent	248,067	215,598	207,664	210,305	174,576
Minority interests	(22,424)	(22,822)	(24,743)	(29,595)	(38,789)
	225,643	192,776	182,921	180,710	135,787
Assets, liabilities and minority interests					
Total assets	7,722,068	7,882,672	7,885,895	8,053,518	7,907,440
Total liabilities	(2,500,660)	(2,779,924)	(2,889,599)	(3,019,618)	(2,980,246)
Minority interests	(204,750)	(231,835)	(259,123)	(427,649)	(454,506)
Attributable to equity holders of parent	5,016,658	4,870,913	4,737,173	4,606,251	4,472,688

REPORT OF THE DIRECTORS (*Continued*)

Post balance sheet events

Details of the significant post balance sheet events of the Group are set out in note 37 to the financial statements.

External guaranty

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

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.

Property, plant and equipment and land use rights

Details of movements in the property, plant and equipment and land use rights of the Company and the Group during the year are set out in note 13 and 14 to the financial statements.

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



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

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 28 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 the following generally accepted accounting principles:

- the accounting principles and the relevant financial regulations applicable to joint stock limited companies established in the PRC ("PRC GAAP"); and
- 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").

At 31 December 2005, the Company's reserves available for distribution, calculated in accordance with PRC GAAP and the provision of the PRC legislation and the Company's articles of association, amounted to RMB437,555,000, of which RMB102,322,000 has been proposed as a final dividend for the year. The Company's distributable reserves as at 31 December 2005 determined under PRC GAAP were lower than those 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, can be distributed in the form of fully paid bonus shares.

Auditors

For the past three years, there was no change to the Company's auditors, and Sichuan Jun He Accountants and Ernst & Young Certified Public Accountants were the domestic and international auditors of the Company respectively.

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

REPORT OF THE DIRECTORS (*Continued*)

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.

None of the directors and supervisors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in any of the Group's five largest suppliers and customers.

Sufficiency of public float

Based on information that is publicly available to the Company and within the knowledge of the directors, the Board confirms that at least 25% of the Company's total issued share capital is holding by the public as at the date of this report.

ON BEHALF OF THE BOARD



Zhou Liming
Chairman

Chengdu, Sichuan Province, the PRC
30 March 2006