

REPORTS OF THE DIRECTORS

The directors (the "Directors") present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2006.

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 16 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 2006 are as follows:

	Origin/destination	Approximate length	Date of commencement of operations of the entire toll expressway
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 2006 and the state of affairs of the Company and the Group at that date are set out in the annual report on pages 43 to 88.

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 31 May 2007. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of the balance sheet.

REPORTS OF THE DIRECTORS (Continued)

Summary financial information

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 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 goodwill and reserve, as detailed in note 2.1 to the financial statements. This summary does not form part of the audited financial statements.

RESULTS	Year ended 31 December				
	2006 RMB'000	2005 RMB'000	2004 RMB'000	2003 RMB'000	2002 RMB'000
REVENUE	1,016,321	953,165	884,768	937,398	791,142
Other income and gains	64,289	49,628	50,746	101,492	32,589
Gain on disposal of a subsidiary relating to discontinued operation	—	—	2,773	—	—
Total revenue, other income and gains	1,080,610	1,002,793	938,287	1,038,890	823,731
Depreciation and amortisation expenses	(236,031)	(242,706)	(227,690)	(229,488)	(217,697)
Employee costs	(104,794)	(99,056)	(83,041)	(74,029)	(68,874)
Cost of petroleum products sold	—	—	(9,704)	(137,489)	(21,429)
Other operating expenses	(302,865)	(250,668)	(264,614)	(253,577)	(203,109)
Finance costs	(114,900)	(125,752)	(117,087)	(102,405)	(120,944)
Share of profits and losses of associates	5,048	5,449	3,951	2,346	2,200
PROFIT BEFORE TAX	327,068	290,060	240,102	244,248	193,878
Tax	(7,127)	(64,417)	(47,326)	(61,327)	(13,168)
PROFIT FOR THE YEAR	319,941	225,643	192,776	182,921	180,710
Attributable to:					
Equity holders of Company	292,900	248,067	215,598	207,664	210,305
Minority interests	27,041	(22,424)	(22,822)	(24,743)	(29,595)
	319,941	225,643	192,776	182,921	180,710
ASSETS, LIABILITIES AND MINORITY INTERESTS					
TOTAL ASSETS	7,476,133	7,709,853	7,870,457	7,873,680	8,053,518
TOTAL LIABILITIES	(2,412,255)	(2,500,660)	(2,779,924)	(2,889,599)	(3,019,618)
MINORITY INTERESTS	(100,354)	(204,750)	(231,835)	(259,123)	(427,649)
ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	4,963,524	5,004,443	4,858,698	4,724,958	4,606,251

REPORTS OF THE DIRECTORS *(Continued)*

Property, plant and equipment

Details of movements in the property, plant and equipment of the Company and the Group during the year are set out in note 12 to the financial statements.

Share capital

There were no movements in either the Company's registered or issued share 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 People's Republic of China (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 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 enterprises 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").

As at 31 December 2006, the Company's reserves available for distribution, calculated in accordance with HK GAAP, amounted to RMB484,180,000, of which RMB102,322,000 has been proposed as a final dividend for the year. The Company's distributable reserves as at 31 December 2006 determined under HK GAAP were lower than those determined under PRC 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.

REPORTS 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 (the "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 customers and suppliers.

Directors and supervisors

The directors of the Company during the year were:

Executive directors:

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

Independent non-executive directors:

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

Supervisors:

Mr. Feng Bing
Mr. Hou Bin
Mr. Li Aimin
Madam He Kun

According to Article 100 of the Company's articles of association, the Directors and the Supervisors are appointed for a period of three years. The Board would like to report that on 29 March 2007, the Board approved the resignation of each Mr. He Gang and Mr. Zhang Yongnian as Directors of the Company, Madam Zang Dihua and Mr. Yim Chung Wu as independent non-executive Directors of the Company and Mr. Li Aimin as the Supervisors of the Company. It was further reported that the resolutions of appointment of Directors and independent non-executive Directors of the fourth Board and Supervisors of the fourth Supervisory Committee were passed at the Extraordinary General Meeting of the Company (the "EGM") held on 29 March 2007. The details of the appointment of the fourth Board of Directors and Supervisory Committee of the Company at the EGM are set out under the section of the "Profile of Directors, Supervisors and Senior Management" on page 36 of the annual report.

During the year, the Company had 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. As at the date of this report, Madam Luo Xia and Mr. Feng Jian are still considered to be independent.

The resolution of appointment of Mr. Zhao Zesong as independent non-executive Director of the fourth Board was passed at the EGM. The Company has received the confirmation of independence from Mr. Zhao Zesong as required by Rule 3.13 of the Listing Rules. As of the date of this report, Mr. Zhao Zesong is still considered to be independent.

REPORTS OF THE DIRECTORS *(Continued)*

Directors', supervisors' and senior management's biographies

Biographical details of the Directors, the Supervisors and the senior management of the Company are set out under the section of the "Profile of Directors, Supervisors and Senior Management" on the page 36 of the annual report.

Directors' service contracts

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

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' remuneration

The basis used to determine the Directors' and Supervisors' remunerations of the Company and details of the Directors' and Supervisors' remuneration in 2006 are both set out under section IV Remuneration of Directors and Supervisors of Corporate Government Report and in note 7 to the financial statements.

Directors' and supervisors' interests in contracts

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, or any of its holding companies, subsidiaries or fellow subsidiaries was a party during the year.

Directors' and supervisors' interests in shares and underlying shares and debentures

As at 31 December 2006, none of the Directors and Supervisors of the Company had registered an interest or short position in the shares, underlying shares or debentures 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 (i) 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 for Directors, Supervisors, chief executive officers or senior management who have interest or short positions); (ii) required to be registered pursuant to Section 352 of the SFO; or otherwise (iii) required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

Directors' and supervisors' rights to acquire shares or debentures

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Directors or Supervisors or their respective spouse or minor children, or were such rights exercised by them, or was the Company, or any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors or Supervisors to acquire such rights in any other body corporate.

REPORTS OF THE DIRECTORS (Continued)

Substantial shareholders' and other persons' interests in shares and underlying shares

As at 31 December 2006, 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	Pledged or frozen
Sichuan Highway Development Holding Company	State-owned shares	1,005,290,000	39.30%	—	Note 1
HKSCC Nominees Limited	H Shares	885,939,999	34.63%	Note 2	Note 2
Huajian Communication and Economic Development Centre	Legal person shares	657,450,000	25.70%	—	Nil

Save as disclosed above, as far as the Directors are aware, as at 31 December 2006, no person (persons other than the directors or supervisors and their respective associates) had interests or short positions in the shares or underlying shares (as the case may be) of the Company or any of its associated corporations (as defined in Part XV of the SFO) which were required to be notified to the Company or the Stock Exchange in accordance with divisions 2 and 3 of Section XV of the SFO.

Notes: (1) Among the 1,005,290,000 state-owned shares held by Sichuan Highway Development Holding Company, 310,333,000 shares were pledged to a sub-branch of Sichuan branch of China Construction Bank as at 29 November 2002.

(2) 885,939,999 H Shares are held by HKSCC Nominees Limited on behalf of a number of clients. The Company is not aware of any short positions, pledges or freezing of any portion of shares representing over 5% of the share capital of the Company held by any individual shareholders.

Directors' and supervisors' interests in a competing business

During the year and up to the date of this report, none of the Directors or Supervisors of the Company are considered to have any interests in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, as defined in the Listing Rules.

Retirement scheme

As stipulated by the state regulations in 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 or wages of the current year, up to an amount equivalent to 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 RMB11,900,000 (2005: RMB10,007,000).

REPORTS OF THE DIRECTORS *(Continued)*

Accommodation benefits for employees

According to the 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 or wages of the last year, up to an amount equivalent to three times the employees' average basic salaries within the geographical area where the employees are employed, to an accommodation fund. Apart from such contributions to the accommodation fund, there are no further obligations on the part of the Group. During the year, the Group's contributions to the accommodation fund amounted to approximately RMB9,309,000 (2005: RMB8,073,000).

Continuing Connected Transactions

During the year, the Group paid RMB3,756,000 to Sichuan Zhineng Transportation System Management Company ("Sichuan Zhineng"), a subsidiary of Sichuan Highway Development, for the provision of a computer system on highways network toll fee clearing and technological service to the Group during 1 January 2005 to 31 December 2005. The amount of service fees was based on 0.5% of the toll fees belonging to the Group after clearing by the said system and discount was given to the Group.

The Directors (including the independent non-executive Directors) confirmed that the service fees were in the ordinary and usual course of business, on normal commercial terms and on terms that are fair and reasonable and in the interest of the shareholders as a whole.

Post balance sheet events

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

Sufficiency of public float

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

Auditors

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.

ON BEHALF OF THE BOARD



Chairman

Chengdu, Sichuan Province, the PRC
29 March 2007