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.

On 3 April 2006, the Company entered into an acquisition agreement with the minority shareholders of Sichuan Chengya Expressway Company Limited ("Chengya"), a subsidiary of the Company, pursuant to which the Company agreed to purchase the remaining 37.628% interest in Chengya from its minority shareholders for a consideration of RMB364.9 million. The consideration was determined by reference to a valuation report issued by an independent qualified professional valuer, and approved by the relevant State-owned Assets Supervisory and Administration Commission. The acquisition was completed on 8 August 2006 and the Company has dissolved Chengya and re-registered it as a branch ("Chengya Branch") of the Company on 9 August 2006. Further details are set out in note 29(b).

In the opinion of the directors, the parent and the ultimate holding 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. These financial statements are presented in Renminbi ("RMB") and all values are rounded to nearest thousand except when otherwise indicated. 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 enterprises established in the PRC ("PRC GAAP"). The material differences arising from restating the Group's profit and equity reported under PRC GAAP 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 2006. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries.

During the year, the Group changed accounting policy on the difference between the cost of additional interest in a subsidiary and minority interest's share of assets and liabilities reflected in the consolidated balance sheet at the date of acquisition of minority interest. Such difference is now dealt with in equity directly as the acquisition of minority interest is considered as an equity transaction. In prior years, the difference arising from the acquisition of minority interest is recognised as goodwill. In accordance with HKAS 8, this change has been applied retrospectively and comparative amounts have been restated. The change in accounting policy has decreased the opening reserves and the goodwill of 2006 by RMB12,215,000, respectively.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements, which are relevant to its operations. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretation has had no material effect on these financial statements.

HKAS 39 Amendment	The Fair Value Option
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

The principal changes in accounting policies are as follows:

(a) HKAS 39 Financial Instruments: Recognition and Measurement

Amendment for the fair value option

This amendment has changed the definition of a financial instrument classified as fair value through profit or loss and has restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through the income statement. The Group had not previously used this option, and hence the amendment has had no effect on these financial statements.

(b) HK (IFRIC)-Int 4 Determining whether an Arrangement contains a Lease

The Group has adopted this interpretation as of 1 January 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This interpretation has had no material impact on these financial statements.

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 and are relevant to these financial statements, but are not yet effective, in these financial statements. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1 January 2007:

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 12	Service Concession Arrangements

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 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments and also incorporates many of the disclosure requirements of HKAS 32.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

HK(IFRIC)-Int 10 shall be applied for annual periods beginning on or after 1 November 2006.

HK(IFRIC)-Int 12 shall be applied for annual periods beginning on or after 1 January 2008. This Interpretation applies to companies that participate in service concession arrangements and provide guidance on the accounting by operators in public-to-private service concession arrangements.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of the HKAS 1 Amendment and HKFRS 7 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fundamental accounting concept

As at 31 December 2006, the current liabilities of the Group exceeded its current assets by approximately RMB1,365.8 million. The directors prepared these consolidated financial statements on a going concern basis notwithstanding the net current liabilities position, because based on the correspondences received by the directors, long-term banking facilities amounting to RMB2.0 billion, RMB1.2 billion ,RMB0.5 billion and RMB0.98 billion granted by the Industry and Commercial Bank of China, China Construction Bank, Huaxia Bank and Citic Bank, respectively, are available to the Group. As of 31 December 2006, banking facilities amounting to RMB0.29 billion in aggregate were utilised.

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.

The results of the associates are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in associates are treated as non-current assets and stated at cost less any impairment losses.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses. In the case of associates, 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.

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.

Excess over the cost of business combinations

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 and associates (previously referred to as negative goodwill), after reassessment, is recognised immediately in the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets, goodwill and non-current assets), 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 in those expense categories consistent with the function of the impaired asset.

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 Held for Sale and Discontinued Operations. 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, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred or capitalised as an additional cost of that asset or as a replacement, on the following bases:

- Ad hoc repairs and maintenance expenditure is charged to the income statement in the period in which it is incurred;
- The cost of replacing concrete road surface of expressways is recognised in the carrying amount of expressways and the carrying amount of the replaced concrete road is derecognised;
- The expenditure for upgrading the 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 in 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 in the projected total traffic volume.

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

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

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 methods are reviewed, and adjusted if appropriate, at each balance sheet date.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

An item of property, plan 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 directly 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 and any impairment losses.

Amortisation is provided on the straight-line basis over the periods of the operating rights granted to the Group.

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available for sale or are not classified in any of the other two categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment, or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities at amortised cost (including interest-bearing bank and other loans)

Financial liabilities, including other payables, an amount due to the ultimate holding company and interest-bearing bank and other loans, are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

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. Net realisable value is based on estimated selling prices less any estimated cost to be incurred to completion and disposal.

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.

Employee 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.

Contribution to an accommodation fund administered by the Public Accumulation Funds Administration Centre is charged to the income statement as incurred.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

Prepaid land lease payments under operating lease are initially stated at cost and subsequently recognised on the straight-line basis over lease terms.

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 the income statement, 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.

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 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

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 in a 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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) road maintenance income, on the percentage of completion basis, as further explained in the accounting policy for "Road maintenance contracts" above;

(c) rental income, on a time proportion basis over the lease terms;

(d) 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

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

Borrowing costs

Borrowing costs directly attributable to the construction of expressways, tunnels and bridges are capitalised as part of the cost of these assets when it is probable that they will result in future economic benefits to the Group and the costs can be measured reliably. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

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 estimation uncertainty

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 an 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 in 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 in the projected total traffic volume.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to the recognised unused tax losses at 31 December 2006 was RMB37,255,000 (2005: Nil). Further details are contained in note 19 to the financial statements.

3. SEGMENT INFORMATION

The Group's revenue and contribution to profit from operating activities for the two years ended 31 December 2006 were mainly derived from toll operation. The principal assets employed by the Group are located in the Sichuan Province, the PRC. Accordingly, no segment analysis by business or geographical segments is provided.

4. REVENUE, OTHER INCOME AND GAINS

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

	2006 RMB'000	2005 RMB'000
Revenue		
Toll income		
— Chengyu Expressway	**665,548**	686,226
— Chengya Expressway	**303,275**	236,637
— Chengbei Exit Expressway, Qinglongchang Bridge and Chengbei Exit Dajian Road	**80,388**	70,096
	1,049,211	992,959
Less: Revenue taxes	**(32,890)**	(39,794)
	1,016,321	953,165
Other income and gains		
Road maintenance income	**33,944**	12,174
Rental income	**15,616**	18,676
Interest income	**10,359**	12,426
Miscellaneous	**4,370**	6,352
	64,289	49,628
Total revenue, other income and gains	**1,080,610**	1,002,793

5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	Notes	2006 RMB'000	2005 RMB'000
Employee costs (excluding directors' remuneration *(note 7)*):			
Wages and salaries		**83,601**	80,988
Pension scheme contributions			
— Defined contribution fund		**11,884**	9,995
Accommodation benefits			
— Defined contribution fund		**9,309**	8,073
		104,794	99,056
Repairs and maintenance		**181,005**	127,002
Depreciation	12	**199,474**	206,393
Amortisation of prepaid land lease payments	13	**25,173**	24,929
Amortisation of operating rights	14	**11,384**	11,384
Minimum lease payments under operating leases:			
Land and buildings		**1,692**	1,551
Auditors' remuneration		**1,664**	1,653
Loss on disposal of items of property, plant and equipment		**2,602**	1,837
Impairment of a long-term investment		**—**	350
Provision for slow-moving inventories		**—**	856
Provision for doubtful debts		**7,267**	27,773

6. FINANCE COSTS

	2006 RMB'000	2005 RMB'000
Interest on bank loans wholly repayable within five years	**109,495**	126,380
Amortisation of discount on short-term commercial papers	**5,410**	—
Exchange gains	**(5)**	(628)
	114,900	125,752

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:

	2006 RMB'000	2005 RMB'000
Fees	**380**	380
Other emoluments:		
Salaries, allowances and benefits in kind	**1,206**	1,143
Pension scheme contributions	**16**	12
	1,222	1,155
	1,602	1,535

(1) Independent non-executive directors

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

	2006 RMB'000	2005 RMB'000
Madam Zang Dihua	**130**	130
Madam Luo Xia	**60**	60
Mr. Yim Chung Wu	**130**	130
Mr. Feng Jian	**60**	60
	380	380

There were no other emoluments payable to the independent non-executive directors during the year (2005: Nil).

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

(2) Executive directors and supervisors

2006	Salaries, allowances and benefits in kind *RMB'000*	Pension scheme contributions *RMB'000*	Total *RMB'000*
Executive directors:			
Mr. Zhou Liming	146	4	150
Mr. Zhang Zhiying	146	4	150
Mr. Zhang Wengsheng	130	—	130
Mr. Gao Chun	130	—	130
Mr. He Gang	130	—	130
Mr. Liu Mingli	126	4	130
Mr. Zhang Yongnian	126	4	130
Madam Zhang Yang	130	—	130
	1,064	16	1,080

2006	Salaries, allowances and benefits in kind *RMB'000*	Pension scheme contributions *RMB'000*	Total *RMB'000*
Supervisors:			
Mr. Feng Bing	142	—	142
Mr. Hou Bin	—	—	—
Mr. Li Aimin	—	—	—
Madam He Kun	—	—	—
	142		142

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

(2) Executive directors and supervisors *(continued)*

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 Wengsheng	130	—	130
Mr. Gao Chun	76	—	76
Mr. He Gang	130	—	130
Mr. Liu Mingli	127	3	130
Mr. Zhang Yongnian	127	3	130
Madam Zhang Yang	130	—	130
	1,014	12	1,026

2005	**Salaries, allowances and benefits in kind** *RMB'000*	**Pension scheme contributions** *RMB'000*	**Total** *RMB'000*
Supervisors:			
Mr. Feng Bing	129	—	129
Mr. Hou Bin	—	—	—
Mr. Li Aimin	—	—	—
Madam He Kun	—	—	—
Mr. Chen Zhiquan	—	—	—
	129	—	129

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 2006.

8. 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 the documents "Cai Shui [2001] No. 202" and "Guo Shui Fa [2002] No. 47" issued by the State Tax Bureau, the 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, "Chuan Guo Shui Han [2006] No. 40" dated 7 February 2006 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%;
- For the three years from 1 January 2003 to 31 December 2005, the Company was required to pay EIT at a preferential rate of 15%; and
- For the five years from 1 January 2006 to 31 December 2010, the Company is required to pay EIT at a preferential rate of 18%.

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 the 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.

The other subsidiaries and associates of the Company are required to pay EIT at the standard rate of 33%.

8. TAX *(continued)*

The major components of income tax expenses for the year are as follows:

	2006 **RMB'000**	2005 RMB'000
Group:		
Current - PRC		
Charge for the year	**47,418**	60,454
Deferred *(note 19)*	**(40,291)**	3,963
Total tax charge for the year	**7,127**	64,417

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:

	2006 **RMB'000**	2005 RMB'000
Profit before tax	**327,068**	290,060
Tax at applicable tax rates of		
33%	**1,544**	5,722
18%	**53,633**	—
15%	**3,664**	42,854
Subtotal	**58,841**	48,576
Expenses not deductible for tax	**865**	3,968
Profit attributable to associates	**(757)**	(961)
Recognition of deferred tax assets on tax losses not recognised in prior years *(note 19)*	**(51,822)**	—
Tax losses of subsidiaries	**—**	12,834
Tax charge at the Group's effective tax rate	**7,127**	64,417

Pursuant to Guo Shui Fa [1997] No.71, which stipulated that for the amalgamation or combination of two entities, the acquirer could utilise the unutilised authorized tax losses of the acquiree within a period of 5 years from the date of acquisition. Consequently, subsequent to the Company dissolved Chengya and registered it as a branch of the Company, the Company is able to utilise the unutilised authorised tax losses of Chengya to offset against its future taxable profits within the next five years. Therefore, deferred tax assets of approximately RMB51,822,000 have been recognised upon the acquisition of remaining minority interests in Chengya based on the unutilised tax losses as at date of acquisition.

9. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated profit attributable to equity holders of the Company for the year ended 31 December 2006 includes RMB246,009,000 (2005: RMB301,195,000) which has been dealt with in the financial statements of the Company (note 28).

10. DIVIDEND

	2006	2005
	RMB'000	*RMB'000*
Proposed final dividend — RMB0.04 (2005: 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.

11. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share amounts is based on the profit for the year attributable to equity holders of the Company for the year of RMB292,900,000 (2005: RMB248,067,000) and 2,558,060,000 (2005: 2,558,060,000) Domestic and H Shares in issue during the year.

No diluting events existed as the Company did not have any potential shares for the year or at each of the balance sheet dates. Accordingly, diluted earnings per share amounts for the two years ended 31 December 2006 and 2005 have not been disclosed.

12. PROPERTY, PLANT AND EQUIPMENT

Group

31 December 2006	At 1 January 2006 RMB'000	Additions/ provided during the year RMB'000	Disposals RMB'000	Transfers RMB'000	At 31 December 2006 RMB'000
Cost:					
Expressways, tunnels and bridges	6,472,928	61,077	—	193,269	6,727,274
Safety equipment	436,150	2,959	(91)	—	439,018
Communication and signalling systems	157,064	5,169	(21,758)	8,936	149,411
Toll collection equipment	105,586	2,860	(3,069)	6,735	112,112
Buildings	252,976	1,761	—	3,003	257,740
Machinery and equipment	133,431	12,550	(1,912)	53	144,122
Motor vehicles	58,960	4,222	(5,636)	—	57,546
Construction in progress	14,263	207,472	—	(211,996)	9,739
	7,631,358	298,070	(32,466)	—	7,896,962
Accumulated depreciation:					
Expressways, tunnels and bridges	1,078,045	114,462	—	—	1,192,507
Safety equipment	313,366	28,735	(57)	—	342,044
Communication and signalling systems	75,169	15,570	(20,953)	—	69,786
Toll collection equipment	42,917	14,029	(1,305)	—	55,641
Buildings	56,392	8,177	—	—	64,569
Machinery and equipment	79,819	12,920	(1,553)	—	91,186
Motor vehicles	35,595	5,581	(5,685)	—	35,491
	1,681,303	199,474	(29,553)	—	1,851,224
Net book value:					
Expressways, tunnels and bridges	5,394,883				5,534,767
Safety equipment	122,784				96,974
Communication and signalling systems	81,895				79,625
Toll collection equipment	62,669				56,471
Buildings	196,584				193,171
Machinery and equipment	53,612				52,936
Motor vehicles	23,365				22,055
Construction in progress	14,263				9,739
	5,950,055				6,045,738

12. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Group *(continued)*

31 December 2005	At 1 January 2005 RMB'000	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

12. PROPERTY, PLANT AND EQUIPMENT *(continued)*

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 RMB2,703,000 (2005: RMB2,795,000) as at 31 December 2006. The Group's buildings can be sold, transferred or mortgaged when the relevant property certificates have been obtained.

As at 31 December 2006, the concession rights pertaining to the Chengbei Exit Expressway were pledged to secure bank loans amounting to RMB208,600,000 (2005: RMB243,600,000) (note 25(a)).

Company

31 December 2006	At 1 January 2006 *RMB'000*	Re-registration of Chengya as a branch *RMB'000*	Additions/ provided during the year *RMB'000*	Disposals *RMB'000*	Transfers *RMB'000*	At 31 December 2006 *RMB'000*
Cost:						
Expressways, tunnels and bridges	3,453,071	2,764,194	66,467	(857)	193,269	6,476,144
Safety equipment	214,977	192,108	567	(91)	–	407,561
Communication and signalling systems	92,990	63,426	4,937	(21,758)	8,936	148,531
Toll collection equipment	46,739	48,954	2,812	(3,069)	5,596	101,032
Buildings	155,341	47,500	1,032	–	3,003	206,876
Machinery and equipment	55,295	20,549	9,302	(838)	–	84,308
Motor vehicles	27,316	12,537	2,780	(5,636)	–	36,997
Construction in progress	11,574	2,532	206,327	–	(210,804)	9,629
	4,057,303	3,151,800	294,224	(32,249)	–	7,471,078
Accumulated depreciation:						
Expressways, tunnels and bridges	804,584	231,370	106,780	–	–	1,142,734
Safety equipment	200,658	101,417	25,543	(57)	–	327,561
Communication and signalling systems	53,290	21,447	15,492	(20,953)	–	69,276
Toll collection equipment	16,671	22,688	13,008	(1,305)	–	51,062
Buildings	34,495	13,289	6,550	–	–	54,334
Machinery and equipment	39,910	11,339	6,935	(512)	–	57,672
Motor vehicles	18,742	6,846	3,554	(5,685)	–	23,457
	1,168,350	408,396	177,862	(28,512)	–	1,726,096
Net book value:						
Expressways, tunnels and bridges	2,648,487					5,333,410
Safety equipment	14,319					80,000
Communication and signalling systems	39,700					79,255
Toll collection equipment	30,068					49,970
Buildings	120,846					152,542
Machinery and equipment	15,385					26,636
Motor vehicles	8,574					13,540
Construction in progress	11,574					9,629
	2,888,953					5,744,982

12. PROPERTY, PLANT AND EQUIPMENT (continued)

Company (continued)

31 December 2005	At 1 January 2005 RMB'000	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. PREPAID LAND LEASE PAYMENTS

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Carrying amount at 1 January	**560,913**	587,815	**237,909**	250,682
Re-registration of Chengya as a branch subsequent to full acquisition of minority interests in Chengya	**—**	—	**265,336**	—
Disposal	**—**	(1,973)	**—**	(1,973)
Amortisation during the year	**(25,173)**	(24,929)	**(22,103)**	(10,800)
Carrying amount at 31 December	**535,740**	560,913	**481,142**	237,909

All the Group's land included above is situated in the Sichuan Province, the PRC, and is held under medium lease terms.

14. OPERATING RIGHTS

Group

	2006	2005
	RMB'000	*RMB'000*
Cost:		
At 1 January	**222,938**	222,938
Disposal	**(91,362)**	—
At 31 December	**131,576**	222,938
Accumulated amortisation:		
At 1 January	**15,179**	3,795
Provided during the year	**11,384**	11,384
Disposal	**(10,886)**	—
At 31 December	**15,677**	15,179
Net book value:		
At 31 December	**115,899**	207,759

The concession period of the operating rights in respect of a toll road, Chengbei Exit Dajian Road ("Dajian Road"), which runs in parallel with the Chengbei Exit Expressway and a toll bridge, Qinglongchang Bridge, which is connected to the Chengbei Exit Expressway, is approximately 19.5 years from 30 August 2004. The operating rights of Dajian Road was disposed of during the year.

14. OPERATING RIGHTS *(continued)*

Notes on disposal of operating rights of Dajian Road:

(a) Pursuant to a compensation agreement ("Compensation Agreement") dated 29 December 2006 entered into among Xindu District Finance Bureau and Communications Bureau (collectively Xindu District Government, "XDG"), Chengdu Municipal Department of Communications ("CMDC") and Chengbei Company, a subsidiary of the Company, on 30 December 2006, Chengbei Company disposed of the operating rights of Dajian Road to XDG for a compensation of RMB211,802,000 and Chengbei Company ceased its toll collection on Dajian Road on the same day. XDG were assigned to make compensation to Chengbei Company for its disposal of the operating rights of Dajian Road.

(b) The compensation is satisfied by cash and would be settled over 17 annual instalments on the following terms:

(i) An annual instalment of RMB13 million will be paid by XDG to Chengbei Company by 30 June of every year for 16 years from 2007 till 2022; and

(ii) The final instalment of RMB3,802,100 will be paid by XDG to Chengbei Company by 30 June 2023.

(iii) CMDC, an authorised representative of the Chengdu Municipal Government responsible for the financing of XDG, guaranteed the payment of annual instalments. In the event of default in payment, CMDC agrees that it will deduct the default amount from the annual finance funds allocated to XDG and pay it to Chengbei Company directly.

(iv) Additional compound interest at a rate of 0.021% per day should be levied on the delay in payment.

(c) The effect on disposal of operating rights of Dajian Road is calculated as follows:

	RMB'000
Gross compensation by installments	211,802
Imputed interest of compensation receivable *(note (i))*	(131,326)
	80,476
Book value of operating rights of Dajian Road disposed of	(80,476)
Gain or loss on disposal of operating rights of Dajian Road	–

(i) As the compensation will be paid by instalment over 17 years, the Group calculated the discounted value of the compensation receivable in future using an imputed rate of interest of 14.33% per annum. The imputed rate of interest adopted reflects risk premium accounted for after considering the credit risk incurred by the fact that the compensation will be paid over 17 years.

15. GOODWILL

Group

	RMB'000
At 1 January 2005	
As previous reported	12,215
Effect of changing accounting policy *(note 2.1)*	(12,215)
As restated	–
At 31 December 2005	–

16. INVESTMENTS IN SUBSIDIARIES

Company

	2006 **RMB'000**	2005 RMB'000
Unlisted investments, at cost	412,367	905,384

The amounts due from/to subsidiaries included in the Company's current assets and current liabilities of RMB50,153,000 and RMB32,690,000, respectively, are unsecured, interest-free and are repayable on demand or within one year except for an aggregate amount due from subsidiaries of RMB50,000,000 (2005: RMB720,000,000) which bear interest at rates ranging from 4.94% to 5.18% (2005: from 4.94% to 5.18%) per annum. The carrying amounts of all the amounts due from/to subsidiaries approximate to their fair values.

On 3 April 2006, the Company entered into an acquisition agreement with the minority shareholders of Chengya, a subsidiary of the Company, pursuant to which the Company agreed to purchase the remaining 37.405% interest in Chengya from its minority shareholders for a consideration of RMB364.9 million. The consideration was determined by reference to a valuation report issued by an independent qualified professional valuer, and approved by the relevant State-owned Assets Supervisory and Administration Commission. The acquisition was completed on 8 August 2006 and the Company dissolved Chengya and re-registered it as Chengya branch of the Company on 9 August 2006.

Particulars of the Company's subsidiaries, which are established in the PRC and operate in mainland China, are as follows:

Name	Legal person status	Nominal value of issued/ registered capital RMB'000	Percentage of equity attributable to the Group Direct	Indirect	Principal activities
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	100	–	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	61.04	–	Sale and production of beverages

17. INTERESTS/INVESTMENTS IN ASSOCIATES

	Group 2006 RMB'000	Group 2005 RMB'000	Company 2006 RMB'000	Company 2005 RMB'000
Unlisted shares, at cost	**–**	–	**39,428**	38,438
Share of net assets	**67,698**	67,281	**–**	–
Provision for impairment	**(9,163)**	(9,163)	**–**	–
	58,535	58,118	**39,428**	38,438

Particulars of the associates of the Group, which are established in the PRC and operate in mainland China, are as follows:

Name	Legal person status	Percentage of equity attributable to the Group 2006	2005	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

None of the above associates is audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

The following table illustrates the summarised financial information of the Group's associates extracted from their financial statements:

	2006 RMB'000	2005 RMB'000
Assets	**602,319**	605,360
Liabilities	**396,607**	404,305
Revenues	**94,675**	86,111
Profit	**21,348**	20,595

18. AVAILABLE-FOR-SALE INVESTMENTS

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Unlisted equity investments, at cost	**32,795**	34,445	**21,500**	21,000

Unlisted equity investments represent the Group's investments in enterprises domiciled in mainland China, and have no fixed maturity date or coupon rate. There is no market price for such equity investments. In addition, the range of reasonable fair value is significant and the probabilities of the various estimates cannot be reasonably assessed. Accordingly, a reasonable estimate of the fair value has not been made.

19. DEFERRED TAX

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

Group

Deferred tax assets

	Losses available for offset against future taxable profit	
	2006	2005
	RMB'000	*RMB'000*
At 1 January	**–**	–
Recognition of deferred tax assets on tax losses not recognised in prior year *(note 8)*	**51,822**	–
Utilised during the year	**(14,567)**	–
Deferred tax credited to the income statement during the year *(note 8)*	**37,255**	–
At 31 December	**37,255**	–

Deferred tax liabilities

	Depreciation allowance in excess of related deprecation	
	2006	2005
	RMB'000	*RMB'000*
At 1 January	**3,963**	–
Deferred tax charged/(credited) to the income statement during the year *(note 8)*	**(3,036)**	3,963
At 31 December	**927**	3,963

20. LONG-TERM COMPENSATION RECEIVABLES

The amount represents the compensation to be received during the periods from 2007 to 2023 in respect of the disposal of operating rights of Dajian Road pursuant to the Compensation Agreement entered into among Chengbei Company, XDG and CMDC. More details are given in note 14 to the consolidated financial statements.

	Compensation *RMB'000*	**Imputed interests** *RMB'000*	**Net present value** *RMB'000*
Compensation for disposal of operating rights of Dajian Road *(note 14)*	211,802	(131,326)	80,476
Current portion of long-term compensation receivables	(13,000)	(1,629)	(11,371)
Long-term compensation receivables	198,802	(129,697)	69,105

21. INVENTORIES

	Group		**Company**	
	2006 *RMB'000*	2005 *RMB'000*	**2006** *RMB'000*	2005 *RMB'000*
Spare parts and consumable supplies	**12,258**	9,372	**471**	471

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		**Company**	
	2006 *RMB'000*	2005 *RMB'000*	**2006** *RMB'000*	2005 *RMB'000*
Prepayments	**113,887**	107,708	**13,250**	7,141
Deposits and other receivables	**38,081**	37,520	**14,704**	22,164
	151,968	145,228	**27,954**	29,305

Included in prepayments is a down payment of RMB100,000,000 (2005: RMB100,000,000) made in respect of a proposed acquisition of a 21.16% equity interest in Jiuzhai Huanglong Airport Co., Ltd.("Jiuzhai Huanglong Airport").

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(continued)*

Pursuant to an agreement dated 8 December 2005 and a supplementary agreement dated 15 March 2006 entered into by Chengdu Shuhai Investment Management Co., Ltd. ("Shuhai Company"), a 99.9% owned 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 intended to invest RMB200,000,000 to acquire an equity interest of 21.16% in Jiuzhai Huanglong Airport (the "Proposed Investment"). According to those agreements, the Proposed Investment is subject to approval by the board of directors and shareholders of the Company pursuant to the Hong Kong Listing Rules. In 2006, Shuhai Company concluded that the application procedures for land use rights of Jiuzhai Huanglong Airport were incomplete and the investment plan may face some difficulties and law barriers under the national strengthened management on land. Accordingly, Huajian Communications and Economic Development Centre ("Huajian Centre"), which holds 25.7% interest in the Company, issued a statement and objected to the Proposed Investment, and the Proposed Investment would not be approved by the board of directors and shareholders of the Company accordingly. On 7 March 2007, the board of directors of Shuhai passed a resolution to withdraw the Proposed Investment, and on 16 March 2007, Shuhai Company received consideration for the Proposed Investment of RMB100 million from Jinzhai Huanglong Airport.

23. CASH AND CASH EQUIVALENTS

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash and bank balances	**416,825**	743,948	**225,302**	581,110
Time deposits with original maturities of over three months	**15**	15	**15**	15
	416,840	743,963	**225,317**	581,125

The carrying amounts of the cash and cash equivalents approximate to their fair values.

24. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Accruals	**2,125**	1,513	**672**	1,510
Other payables	**332,688**	138,442	**244,903**	51,038
	334,813	139,955	**245,575**	52,548

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

25. INTEREST-BEARING BANK AND OTHER LOANS

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Bank loans:				
Secured	**208,600**	823,600	**219,000**	–
Unsecured	**219,435**	1,295,874	**–**	26,439
Short-term commercial papers	**1,449,760**	–	**1,449,760**	–
Other loans, unsecured	**179,545**	202,273	**179,545**	–
	2,057,340	2,321,747	**1,848,305**	26,439
Analysed into:				
Bank loans repayable:				
Within one year	**120,435**	506,874	**–**	26,439
In the second year	**129,000**	570,000	**109,000**	–
In the third to fifth years, inclusive	**178,600**	1,042,600	**110,000**	–
	428,035	2,119,474	**219,000**	26,439
Short-term commercial papers				
Within one year	**1,449,760**	–	**1,449,760**	–
Other loans repayable:				
Within one year	**22,727**	22,728	**22,727**	–
In the second year	**22,727**	22,727	**22,727**	–
In the third to fifth years, inclusive	**68,182**	68,182	**68,182**	–
Beyond five years	**65,909**	88,636	**65,909**	–
	179,545	202,273	**179,545**	–
Total bank and other loans	**2,057,340**	2,321,747	**1,848,305**	26,439
Portion classified as current liabilities	**(1,592,922)**	(529,601)	**(1,472,487)**	(26,439)
Long-term portion	**464,418**	1,792,146	**375,818**	–

(a) The bank loans bear interest at rates ranging from 5.27% to 6.48% (2005: from 5.11% to 6.12%) per annum.

Bank loans amounting to RMB208,600,000 (2005: RMB243,600,000) are secured by the pledge of the concession rights of the Chengbei Exit Expressway (note 12).

As at 31 December 2006, there were no bank loans which are guaranteed by Sichuan Highway Development, the ultimate holding company (2005: RMB279,000,000).

(b) On 27 November 2006, the Company issued short-term commercial papers aggregating RMB1.5 billion to members registered in the PRC interbank debt market. The short-term commercial papers were issued at a discounted value of RMB96.29 for a par value of RMB100, with an effective yield of 3.71% per annum, and will expire on 27 November 2007.

(c) Other loans are unsecured and bear interest at rates ranging from 2.28% to 5% (2005: from 2.28% to 5%) per annum.

26. DUE TO THE ULTIMATE HOLDING COMPANY

The amount due to the ultimate holding company is unsecured, interest-free and is repayable on demand.

27. ISSUED CAPITAL

	2006 Number of shares	2005 Number of shares	**2006 RMB'000**	2005 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

Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 45 of the annual report.

28. RESERVES *(continued)*

Company

	Share premium account *RMB'000*	Statutory surplus reserve *RMB'000*	Statutory public welfare fund *RMB'000*	General reserve *RMB'000*	Retained profits *RMB'000*	Difference arising form the acquisition of minority interest *RMB'000*	Total *RMB'000*
At 1 January 2005	1,413,597	143,511	139,526	235,170	559,414	–	2,491,218
Profit for the year	–	–	–	–	301,195	–	301,195
Transfer from /(to) reserves	–	23,089	23,089	46,179	(92,357)	–	–
Proposed final 2005 dividend *(note 10)*	–	–	–	–	(102,322)	–	(102,322)
At 31 December 2005 and beginning of year	1,413,597	166,600	162,615	281,349	665,930	–	2,690,091
Registration of Chengya as a branch subsequent to full acquisition of minority interests in Chengya	–	–	–	–	(349,632)	–	(349,632)
Profit for the year	–	–	–	–	246,009	–	246,009
Transfer from /(to) reserves	–	188,657	(162,615)	52,085	(78,127)	–	–
Acquisition of remaining interest in Chengya and dissolving Chengya and re-registering it as a branch of the Company	–	–	–	–	–	(244,529)	(244,529)
Proposed final 2005 dividend *(note 10)*	–	–	–	–	(102,322)	–	(102,322)
At 31 December 2006	1,413,597	355,257	–	333,434	381,858	(244,529)	2,239,617

(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 GAAP 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.

28. RESERVES *(continued)*

(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 GAAP 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 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.

When the PWF is utilised, an amount equal to the lower of the cost of 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.

In accordance with the revised Company Law of the PRC effective from 1 January 2006, the Company, its subsidiaries and associates are not required to transfer their profits after tax to PWF. During the year, the balance of PWF as at 1 January 2006 was transferred to the SSR according to the revised Company Law of the PRC.

(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 amount of reserves available for distribution for the current year is the amount determined under HK GAAP.

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	Notes	**2006** ***RMB'000***	2005 *RMB'000*
Profit before tax:		**327,068**	290,060
Adjustments for:			
Share of profits and losses of associates		**(5,048)**	(5,449)
Depreciation	5	**199,474**	206,393
Amortisation of prepaid land lease payments	5	**25,173**	24,929
Amortisation of operating rights	5	**11,384**	11,384
Provision for doubtful debts	5	**7,267**	27,773
Provision for slow-moving inventories	5	**–**	856
Impairment of a long-term investment	5	**–**	350
Loss on disposal of items of property, plant and equipment	5	**2,602**	1,837
Interest income	4	**(10,359)**	(12,426)
Interest expenses	6	**114,905**	126,380
		672,466	672,087
Increase in prepayments, deposits and other receivables		**(2,636)**	(122,638)
Increase in inventories		**(2,886)**	(5,414)
Increase/(decrease) in other payables and accruals		**84,027**	(42,468)
Decrease in an amount due to the ultimate holding company		**–**	(11,750)
Cash generated from operations		**750,971**	489,817
Income tax paid		**(63,238)**	(53,935)
Net cash inflow from operating activities		**687,733**	435,882

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

(b) Acquisition of minority interests in Chengya

As disclosed in note 1, the Company purchased the remaining 37.628% interest in Chengya from the minority shareholders of Chengya during the year. Details are as follows:

	RMB'000
Total purchase consideration recorded by the Company	364,944
Less: Consideration payable to Chengbei Company, a subsidiary of the Company	(3,600)
Total purchase consideration recorded by the Group	361,344

An analysis of cash paid during the year in respect of the acquisition of Chengya is as follows:

	RMB'000
Satisfied by:	
Cash	250,513
Other payables	110,831
	361,344

30. CONTINGENT LIABILITIES

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Guarantees given to banks in connection with banking facilities granted to subsidiaries	**–**	–	**–**	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 2006, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within one year	**1,500**	2,187	**1,500**	1,000
In the second to third years, inclusive	**2,500**	262	**2,500**	–
	4,000	2,449	**4,000**	1,000

32. COMMITMENTS

In addition to the operating lease commitments detailed in note 31 above, the Group and the Company had the following capital commitments at the balance sheet date:

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Contracted, but not provided for	**63,759**	49,190	**63,759**	49,091
Authorised, but not contracted for	**193,741**	329,595	**193,741**	328,507
	257,500	378,785	**257,500**	377,598

Further details of the capital commitments of the Company and the Group as at 31 December 2006 are analysed as follows:

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
In respect of:				
Construction works to upgrade the Chengyu Expressway	**237,788**	324,287	**237,788**	324,287
Others	**19,712**	54,498	**19,712**	53,311
	257,500	378,785	**257,500**	377,598

33. RETIREMENT SCHEME AND EMPLOYEE ACCOMMODATION BENEFITS

As stipulated by the 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 or wages of the current year, up to an amount equivalent to three times the employees' average 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 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 RMB11,900,000 (2005: RMB10,007,000).

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. There are no further obligations on the part of the Group beyond the required annual contributions. During the year, the Group's contributions to the accommodation fund amounted to approximately RMB9,309,000 (2005: RMB8,073,000).

34. RELATED PARTY TRANSACTIONS

(a) In previous years, the Group obtained state loans in an original amount of RMB250,000,000 (2005: RMB250,000,000) in aggregate pursuant to certain 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 RMB22,728,000 (2005: RMB22,727,000). The state loans have been included in other loans as set out in note 25 to the financial statements.

(b) During the year, an amount of RMB3,750,000 (2005: RMB3,756,000) is payable 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 collection and technological service to the Group. The directors consider that the service fee paid to Sichuan Zhineng was determined based on prices available to third party customers of the Sichuan Zhineng.

These transactions were carried out in accordance with the terms of agreements governing such transactions.

35. DIFFERENCES BETWEEN PRC GAAP STATUTORY FINANCIAL STATEMENTS AND FINANCIAL STATEMENTS PREPARED UNDER HK GAAP

	Profit for the year ended 31 December		Equity as at 31 December	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
As reported in PRC GAAP statutory financial statements of the Group	**281,211**	234,248	**5,279,717**	5,215,076
HK GAAP adjustments:				
(a) Depreciation of property, plant and equipment	**(6,450)**	(7,643)	**5,559**	12,009
(b) Deferred taxation	**40,291**	(3,963)	**36,328**	(3,963)
(c) Goodwill	**4,641**	1,282	**(257,420)**	(10,151)
(d) Others	**248**	1,719	**(306)**	(3,778)
As restated in these financial statements	**319,941**	225,643	**5,063,878**	5,209,193

Under the Company's articles of association, the amount available to the Company for the purpose of dividend 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 comprise interest-bearing bank and other 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, liquidity risk and credit 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 bank and other 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 subject to floating interest rate.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank and other loans and short-term commercial papers.

The Group's net current liabilities amounted to approximately RMB1,365.8 million as at December 31 2006.

With regard to 2006 and thereafter, the liquidity of the Group is primarily dependent on its ability to maintain adequate cash flow from operations to meet its debt obligations as they fall due. The Group has good standing amount its bankers. Based on acknowledgements issued by the relevant banks, banking facilities amounting to RMB2.0 billion, RMB1.2 billion, RMB0.5 billion and RMB0.98 billion granted by the Industry and Commercial Bank of China, China Construction Bank, Huaxia Bank and Citic Bank, respectively, are available to the Group. As at 31 December 2006, banking facilities amounted to RMB0.29 billion in aggregate were utilised.

Credit risk

The long-term compensation receivables from XDG are not exposed to any additional credit risk as the credit risk associated has been factored in the imputed interest rate used for discounting the value of the compensation receivables in future to its carrying amount.

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

(a) On 16 March 2007, Shuhai Company received consideration for the Proposed Investment of RMB100 million from Jiuzhai Huanglong Airport.

(b) During the 5th session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC corporate Income Tax Law ("the New Corporate Income Tax Law") was approved and will become effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25 %. Since the detailed implementation and administrative rules and regulations have not yet been announced, the financial impact of the New Corporate Income Tax Law to the Group cannot be reasonably estimated at this stage.

38. COMPARATIVE AMOUNTS

As further explained in note 2.1 to the financial statements, due to the adoption of new accounting policy during the current year, certain prior year adjustments have been made and certain comparative amounts have been 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 29 March 2007.