Sichuan Expressway Company Limited

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 0107)

2007
Annual Report

IMPORTANT NOTICE

It is hereby confirmed by the Board of Directors of the Company that this annual report contains no false representation, misleading information or material omission. The Board of Directors of the Company jointly and severally accepts full responsibility for the truthfulness, accuracy and completeness of the contents of this annual report.

Mr. Tang Yong, Chairman of the Company, Mr. Zhang Zhiying, Vice-Chairman and General Manager, Mr. Li Guogang, Chief Financial Controller have declared that they confirm the truthfulness and completeness of the Financial Statements in the annual report.

【CONTENTS】

Statutory Names in Chinese and English

四川成渝高速公路股份有限公司
Sichuan Expressway Company Limited

Legal Representative

Tang Yong

Registered Address/Office Address

252 Wuhouci Da Jie, Chengdu, Sichuan Province, the People's Republic of China

Postal Code

610041

Company Secretary

Zhang Yongnian

Representative of Securities Affairs

Zhang Hua

Investors' Hotline

8628-85527510/85527526

Fax

8628-85530753

Company Website

http://www.cygs.com

Principal Operation Address in Hong Kong

28/F, Tower 3, Pacific Place,
1 Queen's Road East, Wanchai, Hong Kong

Initial Registration Date and Place

19 August 1997
Chengdu City, Sichuan Province, the People's Republic of China

Latest Date of Registration Update

15 January 2008

Registration Number of Business Licence

Qi Gu Chuan Zong Zi No. 001085

Tax Registration Number

Chuan Guo Shui Zi No. 51010720189926X

Place of Listing Shares

H Shares: The Stock Exchange of Hong Kong Limited

Stock Code

0107

Designated Newspapers for Information Disclosure

Hong Kong Economic Times

The Standard

Designated Publication Website

http://www.hkex.com.hk
http://cygs.wsfg.hk
http://www.cygs.com

Principal Banker

Construction Bank of China

International Auditors

Ernst & Young Certified Public Accountants
18/F, Two International Finance Centre,
8 Finance Street, Central, Hong Kong

Domestic Auditors

Sichuan Jun He Accountants
10th Floor Jin Cheng Building,
68 Zou Ma Street, Chengdu City,
Sichuan Province, the People's Republic of China

【CORPORATE INFORMATION】*(Continued)*

Hong Kong Legal Adviser

Li & Partners
22nd Floor, Worldwide House
19 Des Voeux Road Central,
Central, Hong Kong

PRC Legal Adviser

Tang Law Group
16th Floor, Anlian Plaza,
Building 3, Beijing International Center,
No.38 North Road Dongsanhuan,
Chaoyang District,
Beijing, the People's Republic of China

Share Registrar and Transfer Office

Hong Kong Registrars Limited
46th Floor Hopewell Centre,
183 Queen's Road East,
Wanchai, Hong Kong

Place for Inspection of Corporate Information

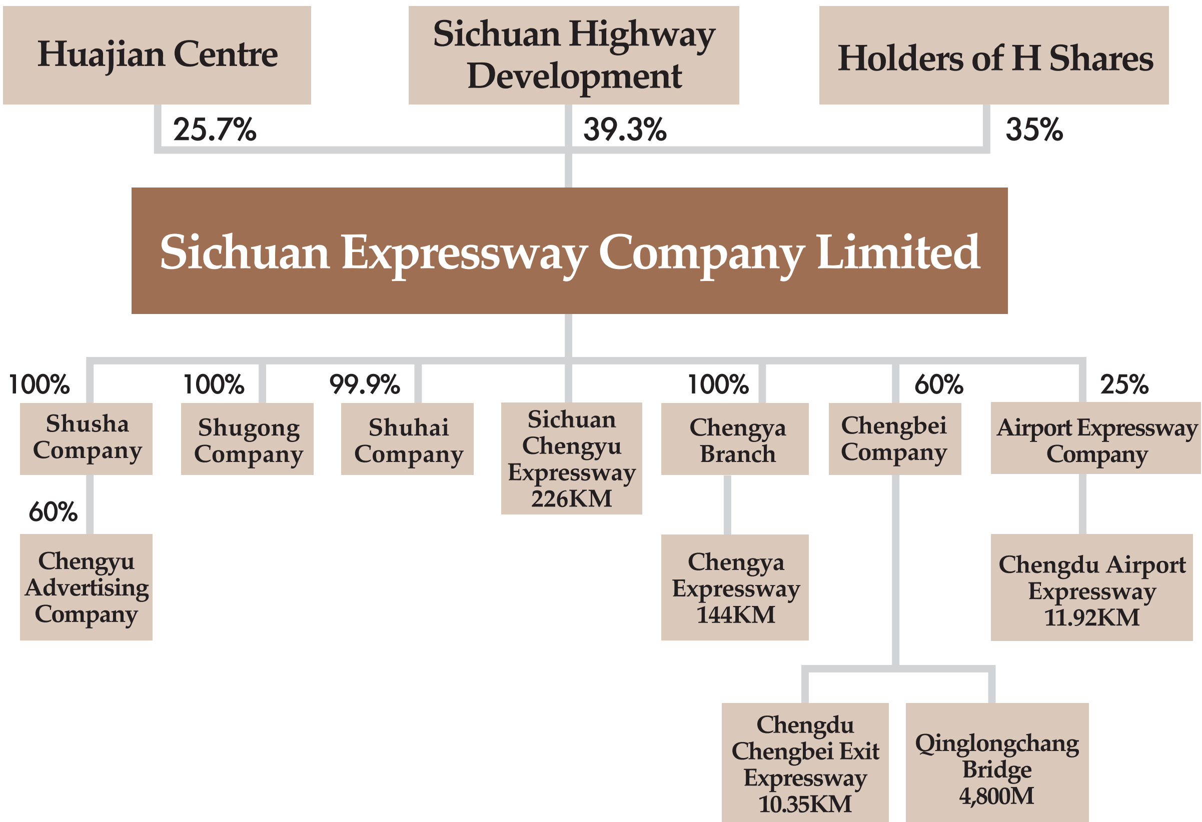
Sichuan Expressway Company Limited
252 Wuhouci Da Jie, Chengdu,
Sichuan Province, the People's Republic of China

Tengis Limited
28/F, Tower 3, Pacific Place,
1 Queen's Road East, Wanchai, Hong Kong

Sichuan Expressway Company Limited (the "Company" or "Chengyu Company") was incorporated in Sichuan Province of the People's Republic of China on 19 August 1997 and was listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 7 October 1997. The Company is principally engaged in the investment, construction, operation and management of road infrastructure projects in Sichuan Province, the PRC as well as the operation of other ancillary businesses related to toll roads.

The Company and its subsidiaries are collectively referred to as the Group.

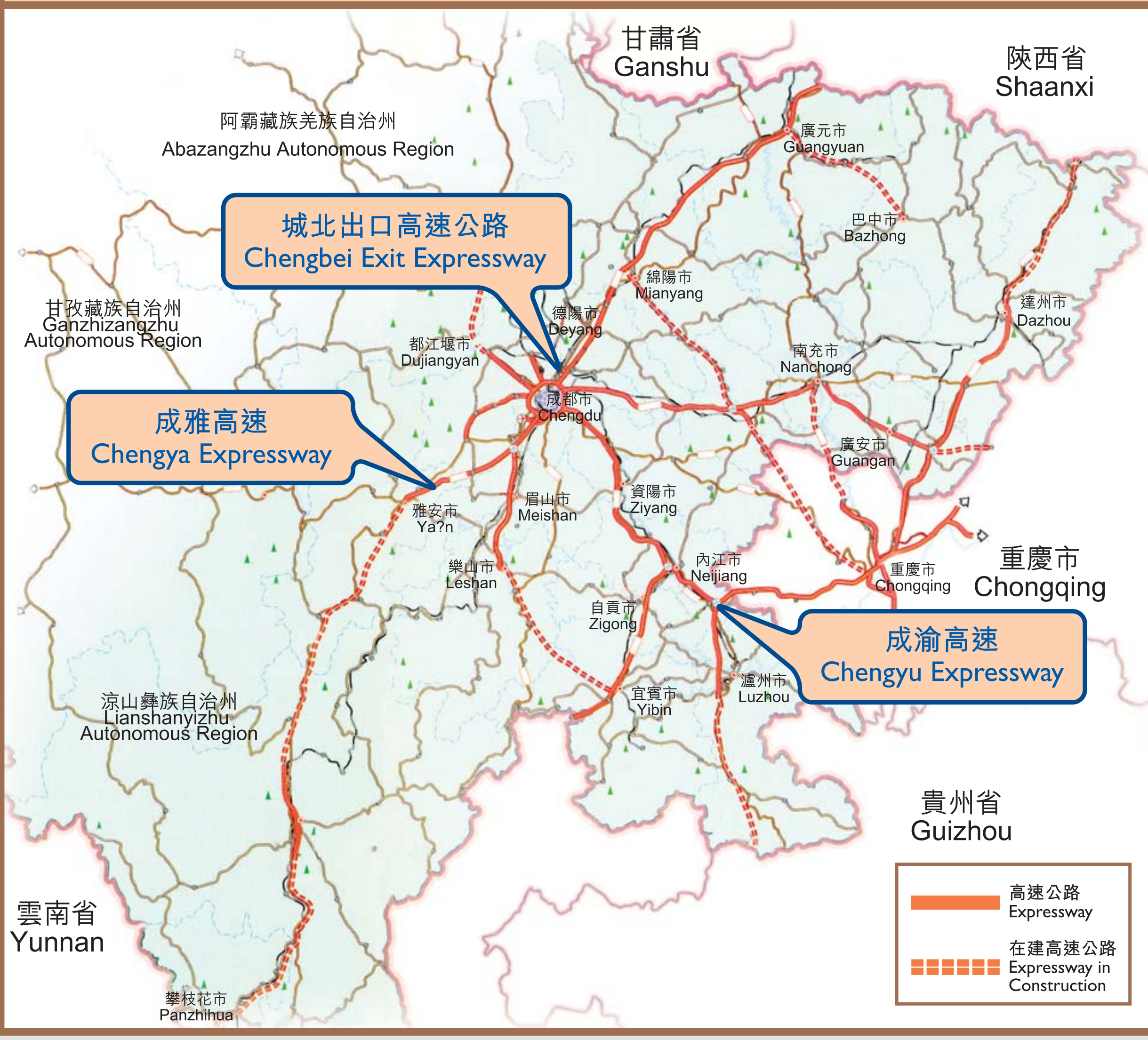
The total share capital of the Company is 2,558 million shares. The shareholdings and asset structure as at 31 December 2007 are as follows:



Notes:

"Sichuan Highway Development"	Sichuan Highway Development Holding Company
"Huajian Centre"	Huajian Transportation Economic Development Centre
"Shusha Company"	Sichuan Shusha Enterprise Company Limited
"Shugong Company"	Sichuan Shugong Expressway Engineering Company Limited
"Shuhai Company"	Chengdu Shuhai Investment Management Company Limited
"Chengyu Advertising Company"	Sichuan Chengyu Expressway Advertising Company Limited
"Chengya Branch"	Sichuan Expressway Company Limited Chengya Branch
"Chengbei Company"	Chengdu Chengbei Exit Expressway Company Limited
"Airport Expressway Company"	Chengdu Airport Expressway Company Limited

Expressway Network in Sichuan Province



【CHAIRMAN'S STATEMENT】

Tang Yong
Chairman

Dear Shareholders,

On behalf of the Board, I am pleased to report to the shareholders that the Group has achieved an admirable progress on operation as well as investment in 2007. The major expressways under the Group recorded a significant growth in terms of traffic flow and toll income. From the perspective of the Group, the overall operation achieved a satisfactory performance. Meanwhile, based on a reasonable level of debt and stable growth in operating results, the Group, according to the given development strategy, consolidated resources in a moderate basis and enlarged the investment scale, with a view to making the Group strong and large.

Results and Dividends

In 2007, the Group's revenue amounted to RMB1,317,442,000, representing an increase of 29.63% over the corresponding period last year. Profit attributable to the shareholders of the Company amounted to RMB487,824,000, a 66.55% increase over the corresponding period last year. Earning per share was RMB0.191 (2006: RMB0.115).

On 19 December 2007, the Company distributed a special dividend from the accumulated undistributed profits of the Company as at 31 December 2006 to all shareholders. The special dividend was RMB0.04 per share, which amounted to approximately RMB102 million in aggregate. Pursuant to the resolutions passed at the third extraordinary general meeting of 2007, class meeting of the holders of H shares and class meeting of the holders of domestic shares, the Company's accumulated undistributed profits after the distribution of the special dividend and distributable profit from 1 January 2007 onwards up to the day prior to completion of the A share issue shall be shared by all new and existing shareholders of the Company in proportion to shareholding after completion of the A share issue. Therefore, the Company will not distribute 2007 final dividend to shareholders.

The Company is confident of its healthy operation and steady dividend in the future.

A Ten-year Review

In the golden fall of 2007, the Company congratulated the 10th anniversary of its establishment and listing of its H shares. Time flies, but hard work pays off. Looking back the past 10 years, we felt gratified that the Company managed to inaugurate a good situation and gradually pinpoint and corroborate its own growth target and make full preparation and make a firm stride for achieving this target under the vigorous support of personages in all walks and with the unremitting efforts of employees of Chengyu Company despite of innumerable difficulties and challenges.

In the past years, Chengyu Company established the first expressway of Sichuan — Sichuan Chengyu Expressway through its own management team; upon obtaining growth capital through successful listing in Hong Kong, the Company built a good platform for further development and expansion. With numerous spans and breakthroughs, the Company has taken a leap from a construction and management company to an investment, construction, operation and management company. The Company has developed from Chengyu Expressway single asset company into a wholly-owned, holding, and jointly controlling multi-toll-road large scale corporation with six branches and subsidiaries under it. The assets scale and revenue rank first among the provincial expressways.

Aiming to meet the higher requirements to Sichuan transportation construction arising from the leap-forward development of Sichuan economy and overall progress in the social causes, the Company has been dedicated to play a dominant role in the provincial transportation construction, operation and management. Over the past ten years, the mileage constructed and invested by the Company increased from 226km from its inception to almost 400km at present. Total assets and net assets of the Company increased from RMB5.38 billion and RMB4.01 billion to RMB7.60 billion and RMB5.35 billion respectively with accumulated profit of RMB2.28 billion and distributed cash dividend of RMB0.91 billion. Meanwhile, the Company paid approximately RMB0.78 billion taxes in total, thus effectively achieving the harmonious tri-win of company benefit, shareholder benefit and social benefit.

Opportunities and Challenges

Ten years old means just a beginning for an expressway company under the macro background of rapid national economic development during which transportation construction shall go ahead. The continuous and rapid growth in national and regional economy provides steady momentum for the growth of traffic flow of expressways of the Group; transportation industry is definitely orientated as an industry of preferential development in the outline of China's Eleventh Five-year Plan (2006 to 2010). Sichuan Provincial Government and Sichuan Provincial Department of Communications have made overall and prospective planning for provincial transportation networks. Great investment demand will emerge in Sichuan expressway market in future. With further penetration of China's Western Development strategy, the state continues to enhance its support to Western China and optimize the regional distribution of transportation input from government. The establishment of Chengyu Experimental Zone of Comprehensive Coordinated Reforms for Urban and Rural Area will further boost the economy of the new Chengyu special zone and bring buoyant transportation activity; as a city with private vehicles ranking third in the country, the vehicle sales volume has been significantly increased by 15%-17% in recent years. All of these imply the favourable growth opportunities to the Group since the expressway industry of Sichuan province will keep expanding for a longer period in future, which will bring ongoing prosperity.

However, opportunities and challenges coexist. To seize the opportunities tightly and promote the growth and expansion of the Group, we have to deeply analyze, be fully aware of, timely amend and calmly deal with our shortcomings and challenges. We are of view that challenges for the Group at present are mainly derived from the following four aspects: **Fiercer Market Competition.** It involves the competition in transportation market from various transportation modes including railway, airline, and water transportation etc. The road network will change with maturing expressway network in Sichuan Province. Meanwhile, competition may be intensified to some extent during a certain period due to the emerging of regional parallel expressways. With further open-up of transportation industry, the increasing market participants will lead to fiercer and accelerated competition. **Adjustment in Industry Policy.** Since transportation industry is closely correlated with the national economy and the people's livelihood, the government, when exercising its management functions, fosters the transportation industry by providing policy supports, on the other hand, have to balance the interests among industries, the public and society in a comprehensive way. Therefore, the adjustments in policies are unavoidable at current stage. **Internal Resources.** Financial and human resources will face challenges during the rapid development of the Company. Although the Company has an ideal asset-liability ratio and abundant capital and financial resources at current, the increasing investment activities will bring challenges to the liability ability of the Company. Meanwhile, with the development in business and expansion in scale of the Company, there will be higher and newer requirements for the quantity and quality of its human resources. **Management Ability.** With developing and expanding of the Company, adjustments in original management mode should be made accordingly in due course. The management is putting more efforts to enhance execution and innovation ability of the Company, to stimulate and utilize enthusiasm and creativity of staff, and to adjust and optimise the management mode of the Company as soon as possible.

Development Strategy and Target

Through analysis and research to industry characteristics and operating environment as well as the careful review to our advantages and shortcomings, combining with the mid and long-term development planning, we fixed the following development strategy: To make full use of policy supports from authorities and departments of all levels, enhance capital operation by seizing favourable opportunity of China's Western Development strategy and transportation development in Sichuan Province, the Company seeks to achieve a greater breakthrough in exploring new investment areas of expressways, striving to achieve a 50% growth in the Group's assets scale and total profit at the end of "Eleventh Five-year Plan". Our long-term strategy target is still forging the Company into an extra-large infrastructure corporation with clear and prominent principal businesses, sound operation, complete governance structure and good management level.

From the perspective of history, 2008 will be a key year for the Company to plan elaborately and grow rapidly starting from a new starting point. We have made full preparation and layout in capital operation and asset expansion in 2007, including implementation and completion of acquisition arrangement for another important transportation routes in Sichuan, Sichuan Chengle Expressway, and a series of preparation for issue of A shares and another issue of short term commercial papers. The successful achievement of such projects will be centrepiece among the tasks of the Company in 2008, which is crucial to further asset scale expansion, enhancement of continuing operation ability and rapid development of the Company. With advancement of the Company's development strategy, we are well positioned to attach more importance to risk management of the Group. We will keep close eyes to different risks involved by the Group in different developing periods, and formulate corresponding countermeasures, aiming to control and decrease its possible adverse affects and promoting effective execution and realization of the Group's strategy and targets.

Looking ahead, from a new starting point for the next decade, we aim to, bearing the expectation from society and investors, lead the Company march toward a higher and farther goal by upholding the corporate philosophy of honesty and diligence, performing duties and obligations of a listed company in earnest way.

Tang Yong
Chairman

Chengdu, Sichuan, the PRC
18 February 2008

Sound corporate governance is a guarantee for healthy development of an enterprise and investors' confidence. In 2007, in light of the corporate philosophy of honesty and diligence, the Company adhered to the principle of good corporate governance and continued to improve the corporate governance towards a higher level, thus achieving its stable operation and healthy development.

Code on Corporate Governance Practices

During the reporting period, based on the principle of good corporate governance as stipulated in the Code of Corporate Governance Practice ("the Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") promulgated by the Stock Exchange, the Company further regulated and improved the corporate governance of the Company towards a higher level. Saved for the establishment of Remuneration Committee as required by the Code, the Company has observed the stipulations of the Code, Practical compliance with the Code is detailed in the report of Corporate Governance.

I. Board of Directors

Responsibilities and Division of Work

The Board of Directors of the Company (the "Board") acts on behalf of the interests of shareholders as a whole and reports to the general meeting. Its main duties are to exercise rights of decision-making and management in accordance with laws and regulations and the authorisation of general meetings in terms of the Company's development strategies, management framework, financing and investment plans, financial control and human resources, and to exercise supervision on the development and operating activities of the Company. Positions of Chairman and the General Manager of the Company are taken up by different persons. The Chairman takes charge of affairs of the Board, reviews the execution of the Board's resolutions, formulates the Company's development strategies and capital operation whereas the General Manager, with the support and assistance from the Board and other senior management of the Company, is responsible for the implementation of the Board's resolutions and the Company's day-to-day operations and related decision-making. The reasonable division of work under the laws ensures a definite division between power and obligations with clear-cut and efficient decisions and implementations by the Board and the management.

Composition of the Board

In 2007, the Board is composed of 12 members. It is the fourth term since the establishment of the Company. The term of the directors (the "Director(s)") commenced from 29 March 2007 or from the date on which the Directors were elected. On 12 December 2007, the Company convened an extraordinary general meeting, at which the appointment of Mr. Nie Xinquan as Executive Director and Mr. Xie Bangzhu as Independent Non-executive Director, and the resignation of Mr. Zhang Wensheng as Executive Director were approved. As at the date of this report, the composition of the Board of the Company is set out in the section headed "Profile of Directors, Supervisors, Senior Management and Employees" in the Annual Report.

The fourth Board has 4 Independent Non-executive Directors, representing one third of the total directorship. Independent Non-executive Directors also serve a term of 3 years and are eligible for re-election upon the expiry of the term. Independent Non-executive Directors are experienced professionals in various industries including transportation, accounting and finance. With a responsible attitude and extensive professional knowledge and experience, the Independent Non-executive Directors have in good faith performed their independent duties of honesty and diligence in participating in discussion and decision-making on material events of the Company, reviewing the fairness and justness of connected transactions and capital transaction as well as giving their independent opinions and suggestions, whereby the overall interests of the Company and the lawful interests of the shareholders as a whole have been effectively safeguarded. Independent Non-executive Directors are playing an important role in the Board.

Board Meetings

During the year, the Board convened a total of 10 Board meetings based on the need of the operation and business development of the Company. Details of attendance are as follows:

Name	Board meetings (Times of attendance in person/ Times of meeting)
Executive Directors	
Tang Yong *(Chairman)*	8/8
Zhang Zhiying *(Vice Chairman and General Manger)*	10/10
Zhang Yang *(Vice Chairman)*	10/10
Zhang Wensheng	8/9
Gao Chun	10/10
Zhou Liming	10/10
Wang Shuanming	8/8
Liu Mingli	10/10
Nie Xinquan	1/1
Independent Non-executive Directors	
Luo Xia	9/10
Feng Jian	9/10
Zhao Zesong	8/8
Xie Bangzhu	1/1

Note: Directors who did not attend the meeting in person have entrusted other Directors to attend and vote at the meeting.

Detailed requirements concerning the decision power and procedure of connected transactions are laid down in the Company's articles of association and relevant internal control system. During the year, the Company has strictly observed the connected shareholder and connected director abstention system. In the Board meetings and general meetings considering such proposals as the public A Share issue and listing, acquisition of the equity interest in Sichuan Chengle Expressway Company Limited, whether the connected transaction is fair and reasonable and beneficial to the Company and the Shareholders, three Directors representing Sichuan Highway Development and the substantial shareholder Sichuan Highway Development have abstained from voting.

II. Directors

Appointment of Directors

Directors of the Company are elected, replaced or dismissed at general meetings. Shareholders of the Company, the Board and the Supervisory Committee are eligible to nominate candidates for directorship in writing. Directors serve for a term of three years and, upon expiry of the term, their appointment is subject to further consideration at a general meeting and they may offer themselves for re-election.

Independence of Directors

The Company has appointed a sufficient number of Independent Non-executive Directors. The Board has obtained written confirmations from all Independent Non-executive Directors concerning their independence in accordance with rule 3.13 of the Listing Rules of the Stock Exchange. The Company believes that the incumbent Independent Non-executive Directors have all complied with the relevant guidelines as stipulated in such rule and are still regarded as independent.

Remuneration of Directors and Supervisors

During the year, the Board has not set up a Remuneration Committee with specific statutory authority and obligations in accordance with the requirements of relevant provisions of the Code. Until now, remunerations of Directors, supervisors and members of senior management are determined on the basis of related PRC policies or regulations, the Company's operation and applicable percentage of per capita income of the working population of Chengdu, a place where the Company is situated, and is subject to approval of the general meeting. Information of the remuneration of Directors and supervisors of the Company for 2007 are set out in note 7 to the financial statements of this annual report.

Securities Transactions by Directors

During the year, the Company has adopted a code of behavior not less favourable than the standards as stipulated in Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules for securities transactions carried out by directors. Upon specific enquiries made to all Directors, it was confirmed that the Directors of the Company have complied with the Model Code in relation to securities transactions of the Directors and the standards of code of behavior as set out in Model Code and there was no violation to the Model Code.

Through the Board office of the Company, all Directors of the Company are able to keep abreast of relevant information and the latest movements in laws, regulations, regulatory ordinances and other continuing obligations that directors of listed companies shall comply with, on a timely basis, for a comprehensive understanding of their duties and to rightly follow relevant statutory procedures and strictly comply with applicable laws and regulations.

III. Audit Committee

To effect the best corporate governance, the Company set up an Audit Committee ("Audit Committee") in November 2004. Terms of reference of the committee was formulated on the basis of suggestions set out in The Guide for Effective Operation of Audit Committee issued by Hong Kong Institute of Certified Public Accountants, which mainly include: reviewing and supervising the quality and procedure of the Group's financial reporting and financial control, reviewing and supervising the completeness and effectiveness of the Group's internal control and risk management system, considering the appointment of independent auditors, coordinating their related work and reviewing the efficiency and quality of their work, reviewing and supervising the effectiveness of internal auditing function.

The Audit Committee comprises 3 Independent Non-executive Directors, namely Madam Luo Xia, Mr. Feng Jian and Mr. Zhao Zesong. The term of office for members of Audit Committee is the same as those of Independent Non-executive Directors.

During the year, the Audit Committee convened 2 meetings. Madam Luo Xia served as the chairman of the Audit Committee and all the members of the committee attended the meetings in person. All resolutions passed at the meetings were duly recorded, retained and a written report was issued to the Board in accordance with relevant regulations.

Major work completed by the Audit Committee during the year includes:

- Reviewing the Group's annual report, interim report and financial report;
- Reviewing accounting policies adopted by the Group and issues related to accounting practice;
- Supervising internal auditing of the Company;
- Assisting the Board to evaluate on the effectiveness of financial reporting procedure and internal control system;
- Advice on material events or draw the attention of the management on related risks.

IV. Shareholders and General Meetings

Shareholders of the Company rank pari passu in all aspects. All shareholders, especially minority shareholders, are entitled to access to and make decisions on material events of the Company. No action in violation of the interests of the Company and its shareholders is allowed.

Substantial Shareholders

The substantial shareholders of the Company include Sichuan Highway Development (39.3%-owned equity) and Huajian Centre (25.7%-owned equity). The Company has separate personnel, assets, finance, organization and business from the substantial shareholders, and therefore owns entire business and independent operation capability. The substantial shareholders have acted properly and never exploited their special position to intervene, in ultra vires over the general meeting, in the decisions or the operation of the Company or advance an extra interest.

Shareholding details of the substantial shareholders as at the end of the Reporting Period are set out on page 37 of the Annual Report.

General Meetings

As the highest authority of the Company, the general meeting exercises its power in determining material events of the Company pursuant to the laws. The annual general meeting or other shareholder's meetings provides a channel of direct communication between the Board and the shareholders of the Company. The Company puts high regard to general meetings. All Directors and senior management attended the meetings as far as possible to answer shareholders' enquiries and discuss directly with shareholders about the Company's business and prospect. The Company has published the notices of the meetings on Hong Kong Economic Times and The Standard 45 days prior to the convening of the general meetings, and entrusted Hong Kong Registrars Limited with dispatch of proxy forms and reply slip to shareholders on the registers. Relevant procedures for shareholders' attendance and voting at annual general meeting are included in the notice of annual general meeting in the annual report, and will be included in any notice of such annual general meeting held in the future.

During the year, the Company convened one annual general meeting, three extraordinary general meetings, one class meeting of the holders of H Shares and one class meeting of the holders of Domestic Shares.

V. Supervisory System

Supervisory Committee

The Supervisory Committee of the Company comprises 6 members, and is the fourth Supervisory Committee since the establishment of the Company.

The Supervisory Committee exercises the independent power to supervise the Company under the laws to protect shareholders, the Company and employees from the violation of their lawful interests.

The size and composition of the Company's Supervisory Committee are in compliance with the requirements of the laws and regulations. During the year, the Supervisory Committee convened 2 meetings. The Supervisory Committee has honestly performed its duties in supervising the Company's financial affairs and the legal compliance and rationality of Directors and senior management in their discharge of duties. All the members attended the committee meeting in person and also attended the Board meetings as observers. The working details of the Supervisory Committee are set out on page 49 of the "Report of the Supervisory Committee".

Auditors and Remuneration of Auditors

The 2006 Annual General Meeting of the Company has approved the re-appointment of Sichuan Jun He Accountants ("Jun He") and Ernst & Young Certified Public Accountants ("Ernst & Young") as the domestic and international auditors of the Company respectively for 2007. Remunerations that the Group paid to the auditors for 2007 are as follows:

Unit: RMB'000

	2007 Auditing fees	2006 Auditing fees
Jun He	**320**	320
Ernst & Young	**1,314**	1,344

Apart from the said fees, no other expenses were paid by the Company.

The Audit Committee has discussed and assessed the professional qualities of Jun He and Ernst & Young and the execution of audit work for 2007, and has offered opinions and suggestions accordingly. The Audit Committee proposed renewing the appointments of Jun He and Ernst & Young as the Company's domestic auditors and international auditors respectively. The proposal was approved by the Board and will be submitted to the 2007 annual general meeting for consideration and approval.

Internal Control and Internal Auditing

The Board is responsible to establish and maintain internal control system of the Company for the purpose of reviewing the relevant control systems of finance, operation and regulatory so as to protect shareholders' interest and the Group's assets, and reviewing the effectiveness of the implementation. The Company's internal control framework mainly includes:

1. Audit Committee and internal auditing

The Audit Committee collects reports submitted by domestic and international auditors and studies any control matters that may arise from the reports.

To more effectively review the effectiveness of internal control system, the Company set up an audit department in April 2004. Its duties include:

- To review all activities and internal control work of the Company without any restrictions;
- To examine in detail all practical work, procedures, expenditures and internal control of all business entities and subsidiaries on regular basis; and
- To conduct special reviews on areas or issues that draw the management or Audit Committee's attention.

The manager of the audit department reports directly to the Supervisory Committee and Audit Committee on the results and his views on the work concerned, who will advise the management of the Company and report to the Board upon the Supervisory Committee and Audit Committee's review.

2. Transfer of power

The Board makes decisions for specific issues whereas the management is authorized to implement and manage the existing contract arrangements as well as manage day-to-day affairs of the Company. The Board reviews from time to time the extent of authority in order to ensure that related staff has sufficient power to carry out related duties and achieve good effectiveness.

3. Undertaking of responsibilities

The Board bears ultimate legal responsibility for the Company's performance. Management personnel are responsible to manage daily operation of the Company and report the performance to the Board. To enhance the awareness of accountability of management personnel in various ranks, each department of the Company has its own terms of reference and specific obligations, and is responsible for the department's own performance and its performance towards the Company's overall integrated business.

4. Financial control

The Company's operation budget will be verified annually by the Board and proposed at the general meeting for consideration and approval. The Company sets clear procedure for estimation, review and approval of major capital expenditure and recurrent expenditure. Material expenditure proposal beyond the scope of current approved budget or estimation will be decided by the Board. The Company also reports the operating performance to the Board on a regular basis with reference to the operation budget. To further enhance the overall capital regulation and audit supervision of the Group, the Company has also strengthened the management of subsidiaries by appointing chief financial controllers to subsidiaries to guide and supervise their financial activities.

The Company has set up an internal management system and procedures for corporate governance, operation, finance, administration and personnel, and exercised comprehensive regulations over the objective, content, methods and duties of internal control. The Board has reviewed and assessed the compliance with the existing systems and effectiveness of internal control, and is of the opinion that there were no material defaults on control during the year.

VI. Financial Reporting

The Board was in strict compliance with the stipulations as set out in the Listing Rules in relation to financial reporting and disclosure to carry out comprehensive evaluation and disclose the Company's performance, position and prospect for the year based on the detailed and accurate financial information and other data submitted by the management for the Board's approval. It also undertook the responsibility of preparing the Company's financial statements of the interim and annual reports of the year on a true and accurate basis.

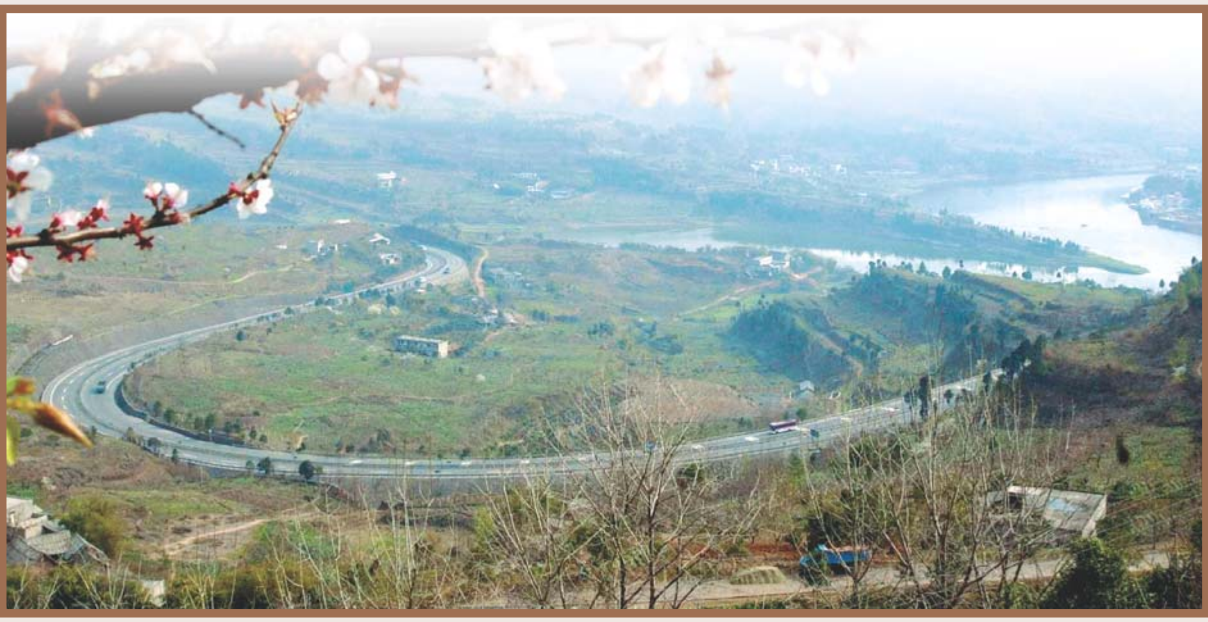
VII. Relationship with Investors

In the light of the good faith principle, the Company strictly complies with and implements the Listing Rules to disclose discloseable information on a true, accurate, complete and timely basis and all other information that might have a significant impact on the decisions of shareholders and other concerned parties in an active and timely manner. Also, the Company takes effort in ensuring all shareholders with equal access to information. As such, the Company has honestly performed its statutory obligation in respect of information disclosure.

In 2007, the Rules Governing Information Disclosure of the Company have been amended to ensure that information disclosure is open, fair and impartial. During the year, interim and annual results announcements were made promptly pursuant to relevant regulations, and 40 announcements and 6 circulars were released to shareholders. The standards for making information disclosures are being continuously raised as well. In addition, the Company has updated its information website, providing shareholders and the general public with even more information related to information disclosure, traffic flow and toll revenue data and corporate governance and so forth. Through results presentation, press conference, teleconference and investors' call-in enquiries and visits, the Company takes initiatives for agreeable communications with investors to enable them to have a clear and in-depth understanding of the Company's business environment, operating strategies and prospects, whereby their sense of identity was strengthened. In delivering information to investors, the Company also listens to their advice and collects the feedback from them, aiming to form an interactive and mutual beneficial relation between the Company and investors.

Conclusion

The Company is committed to enhancing corporate governance. By conclusion of the accumulated experience and lesson learnt by the Company, and with reference to the changes in regulatory mechanism, development trend of market and feedback from investors, the Company will continue to review and improve the practical corporate governance on a timely basis to ensure sound development of the Company and continuous value increase for the shareholders.



I. Conditions of Group's Assets

The major assets of the Group include 3 toll roads, namely Sichuan Chengyu Expressway ("Chengyu Expressway"), Sichuan Chengya Expressway ("Chengya Expressway") and Chengdu Chengbei Exit Expressway ("Chengbei Exit Expressway"), which are located in Sichuan Province, a large province in the western region of PRC. Such roads are important routes of transportation in Sichuan Province and play a key role in the transportation networks within the Sichuan province.

The basic information of the Group's major toll roads is as follows:

Toll roads	Mileage (km)	Date of commencement of operation	End of operation	Number of toll stations	Interests held by the Company
Chengyu Expressway	226	July 1995	October 2027	15/closed	100%
Chengya Expressway	144	December 2000	December 2029	15/closed	100%
Chengbei Exit Expressway	10.35	December 1998	June 2024	1/closed	60%

As at 31 December 2007, the Group's total assets reached approximately RMB7,602,400,000 with net assets amounted to approximately RMB5,348,313,000.

II. Business Review And Analysis

The earnings of the Group mainly came from the operation and investment of toll roads. In 2007 benefited from continual economic prosperity, the implementation of the new toll rates for roads in Sichuan Province (details have been disclosed in the 2006 Annual Report and 2007 Interim Report) as well as the full exploration of growth in earnings, principal toll roads of the Group obtained remarkable operating results. The Group's toll income was RMB1,358,516,000, a year-on-year increase of 29.48%. The Group's revenue amounted to RMB1,317,442,000, representing an increase of 29.63% as compared with last year. Profit attributable to equity holders of the Company increased substantially to RMB487,824,000, representing a 66.55% increase over last year. Earnings per share was RMB0.191 (2006: RMB0.115).

Operating Conditions of the Group's principal operations

	Toll income for the year ended 31 December 2007 *(RMB'000)*	Percentage to total toll income	Increase/ (decrease) as compared with last year	Net profit for the year ended 31 December 2007 *(RMB'000)*	Increase as compared with last year
Chengyu Company	890,289	65.53%	33.77%	363,543	44.08%
Chengya Branch	394,124	29.01%	29.96%	118,609	139.15%
*Chengbei Company	74,103	5.46%	(7.82%)	22,619	39.35%
Total	1,358,516	100.00%	29.48%		

* The toll income of Chengbei Company was the total of the toll incomes of Qinglongchang Bridge and Chengbei Exit Expressway.

As the Chengbei Exit Dajian Road Section I ceased to collect toll as of 30 December 2006, the toll income of Chengbei Company did not include the toll income of the said road for this year. If the toll income of the said road is excluded for comparison, the toll income of Chengbei Company recorded an increase of 8.41% as compared with last year.

The Operations of major expressways

Toll roads	Average daily traffic flow (No. of vehicles)	Year-on-year growth	Average daily toll income (RMB)	Year-on-year growth
Chengyu Expressway	16,220	12.97%	2,439,148	33.77%
Chengya Expressway	12,752	0.57%	1,079,792	29.96%
Chengbei Exit Expressway (including Qinglongchang Bridge)	22,250	7.28%	203,022	8.41%

- **Chengyu Expressway**

In 2007, the traffic flow and toll income of Chengyu Expressway increased significantly by 12.97% and 33.77% respectively. This was mainly due to: (1) the local economy has maintained years of rapid and steady growth, ensuring the steady increase in traffic flow and income; (2) better road condition for Chengyu Expressway which greatly improved capacity of traffic flow as a result of two major repair and maintenance projects for Chengyu Expressway, i.e. the repair and maintenance project for entrance and exit section of Longquanshan Tunnel as well as maintenance for cement road surface of Chenglong section (Chengdu-Longquan) being completed respectively at the end of November 2006 and early February 2007 and reopened traffic; (3) the implementation of weight-based tolling mechanism for cargo vehicles starting from 1 June 2007. Such change in tolling mechanism resulted in a remarkable increase in toll income for Chengyu Expressway, while at the same time reducing overload effectively and protecting road facilities and ensuring traffic safety.

Embarking on 2008, the operating environment of Chengyu Expressway is expected to change to a certain extent, mainly to be exemplified in the increasingly intense competitions between other modes of transportation and transportation routes. Subsequent to the debut of Chengyu intercity express train in May 2006 by the railway department, the more speedy Xianfeng Electric Motor Train Unit (「先鋒號」動車組列車) also commenced operation in July 2007, resulting in certain impact on traffic flow of Chengyu Expressway. However, the most direct impact was from Suiyu (Suining-Chongqing) Expressway which commenced operation on 29 December 2007. It connected with Chengnan (Chengdu-NanChong) Expressway at Suining, forming the Chengsuiyu Expressway (成遂渝高速公路) which links Chengdu and Chongqing and is 45km shorter than Chengyu Expressway, leading to a diversion of direct traffic between Chengdu and Chongqing. For the former, the Company considers that different modes of transportation provide different types of transportation service and they are not complete substitutes. Chengyu Expressways provides door-to-door services with such characteristics as convenient, comfortable and effective, which can not be substituted by other modes of transportation; for the latter, the Company considers that the existence of parallel expressways is an inevitable outcome of the economic growth and ever-increasing transportation needs in Sichuan Province. Amidst the consistent speeding up of the urbanization and industrialization in the regions along Chengyu Expressway, the transportation need for the cities along Chengyu Expressway and between those cities and Chengdu and Chongqing will continue to increase. Moreover, in the long run, when the enhancement of transportation network reaches a certain standard, the scale efficiency brought by the overall network will strengthen its attraction to traffic flow, hence leading to an interactive

situation between different expressways. On top of that, considering the continued implementation of the weight-based tolling mechanism and the fact that Chengdu and Chongqing are set as the pilot area for reform on integrated and united overall urban and rural consideration and coordination by the State Council in early June 2007 etc., there will be a positive and far-reaching effect on the operation prospect for Chengyu Expressway. The Company is still confident on the consistent profitability of its core asset Chengyu Expressway.

- **Chengya Expressway**

With the ongoing economic development of western region of Sichuan and the continual escalation of tourism for natural ecology, nationality and custom, toll income of Chengya Expressway has been increasing from year to year, especially since the implementation of new toll rates mechanism effective from 10 April 2006, toll income of Chengya Expressway has surged nearly 30%, which resulted in a great increase in toll income from January to April 2007 as compared with the same period of last year. In addition, the implementation of the weight-based tolling mechanism for cargos from 1 June 2007 led to a remarkable increase in the average daily toll income. Therefore, during the year, toll income of Chengya Expressway remained a strong momentum to the Group with nearly 30% increase. It is anticipated that with the completion and commencement of operation of Chengya Expressway's extensions Yapan (Yaan-Panzhihua) Expressway, Yale (Yaan-Leshan) Expressway and Leyi (Leshan-Yibin) Expressway, which are under construction, Chengya Expressway will increasingly ride on the competitive advantage as a major transportation junction and a golden tourist route in Sichuan province.

- **Chengbei Exit Expressway**

During the year 2007, traffic flow and toll income of Chengbei Exit Expressway also emerged a rising trend. This was mainly attributable to a steady growth in traffic flow driven by the economic development and the implementation of the new toll rate mechanism from 10 April 2006, pursuant to which, the basic charges of Type I and Type II vehicles were increased and basic charges of Type III, IV and V vehicles were reduced. As Type I and Type II vehicles accounted for approximately 80% of the total traffic flow of Chengbei Exit Expressway, Chengbei Exit Expressway is thus benefited from the vehicle type classification and toll adjustment, achieving an approximately 6% increase in toll income from January to April 2007 compared with the corresponding period of last year. Besides, the implementation of the weight-based tolling mechanism for cargos effective from 1 June 2007 led to an increase in the average daily toll income, resulting in an increase of 8.41% in toll income when compared to that of last year.

It is expected that the operation of Chengbei Exit Expressway will face pressure in 2008. In recent years, out of the consideration of economic growth and overall urban planning, local governments have been seeking to improve the planning of regional network. The network of highways in Chengbei region is currently under formation and enhancement. Besides Dajian Road and the three highways linking Chengdu and Xindu, Chengjin (Chengdu-Jintang) Highway has been completed on 31 December 2007 and will soon commence operation. In addition, since 15 December 2007, Cheungdu Municipal Government has implemented a transportation organization plan on the Third Ring Road of Chengdu which links Chengbei Exit Expressway to restrict cargo vehicles to use the Third Ring Road in several phases. The enhancement of transportation network and the implementation of urban transportation organization plan will lead to an adjustment of traffic flow among various expressways with the operation of Chengbei Exit Expressway being affected in a certain period. However, overall speaking, the enhancement in transportation network and organization will help improve the transportation and efficiency of traffic flow, which in turn will better fulfill the need of the regional economic growth. The overall utilization rate of the expressways in the region will be driven by the rapid economic growth, in which Chengbei Exit Expressway will undoubtedly be benefited.

Project Investment and Financing

Throughout a decade of development, the Company has been a veteran and becomes professional in such aspects as road investment, construction and operating administration, which brought the Company frequent success in capturing investment opportunities amidst higher and higher level of market economy in the road industry and increasingly fierce market competition. It also exemplified a relatively stronger consolidated competitiveness of a professional road company.

In order to maintain its sustainable development and capability of growth, the Company continued to seek investment opportunities in line with its development strategy in 2007 and proactively expanded its financing channel, optimizing its financing structure, thereby gaining a practical progress.

- **Intention to issue A shares and use the proceeds raised to acquire the 100% equity interest of Sichuan Chengle Expressway Company Limited ("SC Expressway")**

  The Company had applied for the listing of A shares and acquisition of SC Expressway by using the proceeds raised in 2004, however, as there were disputes in the ownership of the shareholdings of SC Expressway, the Company decided to suspend the acquisition and listing application of A shares. Moreover, the Company had issued an announcement in accordance with the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong (the "Listing Rules"). In October 2006, the ownership disputes of SC Expressway's shareholding were resolved pursuant to the rulings of China International Economic and Trade Arbitration Commission. Hence, the Company recommenced the A share listing and the acquisition of SC Expressway's shareholding by using proceeds to be raised in 2007. On 26 September 2007, the Company, Sichuan Highway Development Holding Company and Leshan City Xing Yuan Traffic Development Holding Company jointly entered into an agreement to acquire the 100% equity interest of SC Expressway. On 12 December 2007, the above A share listing and project acquisition were considered and approved at the third extraordinary general meeting of 2007, Class Meetings for the holders of H shares and holders of domestic shares respectively. On 19 December 2007, the Company officially filed the application documents regarding the issuance and listing of A shares with China Securities Regulatory Commission.

  Details of the proposed issuance of A shares as well as SC Expressway and Chengle Expressway had already been disclosed in the circular to shareholders issued on 26 October 2007. The Company is optimistic about the business prospect of Chengle Expressway and believes that the acquisition will help the Group further increase asset scale, expand its basis of earnings which are in line with the sustainable development strategy of the Company.

- **Issue of Short-Term Commercial Papers**

  The Company had successfully issued the first phase of short-term commercial papers amounting to RMB1.5 billion in November 2006 and paid the principal in full in November 2007. The short-term commercial papers issued was used to swap with the long-term bank borrowings of Chengya Branch so as to save the Group from spending approximately RMB35 million interests a year.

  In 2007, the Company decided to apply for issuance of short-term commercial papers again and intended to issue short-term commercial papers with an amount not exceeding RMB2 billion each year, for a period of three years, from the date of passing of the special resolution of issuing short-term commercial papers. The proceeds to be issued will be used to supplement the working capital of the Company so as to reduce the financial cost and optimize financing structure. The financing plan was considered and approved at the Company's second extraordinary general meeting of 2007 on 28 August 2007 and has been approved by the People's Bank of China on 28 January 2008. The Company proposes to issue the short-term commercial papers on 19 February 2008.

Other Businesses

This year, the Group's businesses other than toll roads recorded other income and gains of RMB77,733,000, representing an increase of 20.91% as compared with last year.

Shusha Company (蜀厦公司), a subsidiary of the Company, is mainly engaged in gas operation, advertisement billboard leasing, vehicle equipment maintenance and mobile emergency repair services along Chengyu Expressway and multiple operations beyond the expressway. In September 2007, the Company acquired the remaining 0.5% equity interest from a natural person and owned the 100% equity interest in Shusha Company.

During the year, Shusha Company's revenue from principal operations was approximately RMB8,948,000, with net profits amounting to approximately RMB2,109,000, representing an increase of 18.02% and 62.98% respectively as compared with last year.

Shugong Company (蜀工公司), another wholly-owned subsidiary of the Company, is mainly engaged in the construction and maintenance of infrastructures such as roads, bridges and tunnels and the sale of engineering equipment and materials.

In 2007, the principal operating income of Shugong Company totaled approximately RMB216,303,000 and its net profit amounted to approximately RMB3,782,000, representing an increase of 19.75% and 129.21% respectively as compared with last year.

Shuhai Company (蜀海公司), another subsidiary of the Company is principally engaged in investment in road infrastructure and other projects, investment consulting services (excluding financial and securities business), hi-tech products and technological development. The Company holds 99.9% equity interests in Shuhai Company.

As an investment management company specializing in infrastructure projects, Shuhai Company focused on building up a project reserve of expressways and other transportation infrastructure in Sichuan Province through investigation and study. In 2006, by further investigation and study on the proposed investment of capital contribution and equity increase in Sichuan Jiuzhai Huanglong Airport Company Limited ("Jiuzhai Huanglong Company"), Shuhai Company concluded that the application procedures for land use rights of Jiuzhai Huanglong Company were incomplete and the investment plan may face some difficulties and legal obstacles under the national strengthened management on land. In order to guard against risks and ensure that Shuhai Company can develop in a sustainable and stable manner, Shuhai Company finally decided to withdraw the proposed investment. On 16 March 2007, pursuant to the Letters of Intent on Capital Contribution and Equity Increase in Jiuzhai Huanglong Company entered into between Shuhai Company and the related parties, Jiuzhai Huanglong Company refunded the prepayment of RMB100 million to Shuhai Company in full.

III. Financial Review

Summary of the Group's Results

	2007 ***RMB'000***	2006 *RMB'000*
Revenue	**1,317,442**	1,016,321
Profit before tax	**615,084**	327,068
Profit attributable to equity holders of the Company	**487,824**	292,900
Earnings per share attributable to equity holders of the Company *(RMB)*	**0.191**	0.115

Summary of the Group's Assets

	2007 ***RMB'000***	2006 *RMB'000*
Total assets	**7,602,400**	7,476,133
Total liabilities	**2,254,087**	2,412,255
Minority interests	**101,610**	100,354
Equity attributable to shareholders of the Company	**5,246,703**	4,963,524
Equity per share attributable to equity holders of the Company *(RMB)*	**2.051**	1.940

Analysis of Operating Results

Revenue

The Group's revenue for the year amounted to RMB1,317,442,000, representing an increase of 29.63% over the last year, which mainly included toll incomes of Chengyu Expressway, Chengya Expressway and Chengbei Exit Expressway. Please refer to the part of "Business Review and Analysis" of this annual report for details of the main factors influencing the revenue of the Group for the year.

Other Income and Gains

The Group's other income and gains for the year amounted to RMB77,733,000, a year-on-year increase of 20.91%. This was mainly due to that during the year, Chengbei Company, a subsidiary of the Company, received the first instalment of RMB13,000,000 paid by Xindu District Government for the compensation of disposal of operating right in Chengbei Exit Dajian Road Section I, of which RMB11,442,000 was recognised as interest income by using the effective interest method (further details are disclosed in Note 19 to Financial Statements).

Operating Expenses

The Group's operating expenses for the year amounted to RMB697,464,000, representing an increase of 8.35% as compared with last year, of which:

(1) depreciation and amortization expenses increased by 5.89% as compared with last year to RMB249,945,000. This was mainly attributable to: firstly, the increase in fixed assets and traffic flow led to an increase in depreciation for the year; secondly, Chengbei Exit Dajian Road Section I formerly owned by the Company's subsidiary, Chengbei Company, ceased to collect toll fee on 30 December 2006, and thus, amortization of operating rights for the year decreased by RMB4,761,000 as compared with last year;

(2) cost of road repairs and maintenance decreased by 2.23% as compared with last year to RMB176,969,000. This was principally cost of road repairs and maintenance of Chengyu Expressway and Chengya Expressway, of which the cost of Chengyu Expressway decreased to RMB140,502,000 and that of Chengya Expressway increased to RMB26,033,000;

(3) staff cost increased by 8.93% as compared with last year to RMB114,310,000. This was principally due to: firstly, increase in total salary, various social insurances, accommodation fund paid in 2007 along with the increase in average salary for the working population of Chengdu; secondly, joining of a supplementary pension scheme since 1 January 2007 and payment of the supplementary pension contribution of RMB2,694,000 by the Company for the year;

(4) other operating expenditures increased by 28.36% as compared with last year to RMB156,240,000. The increase was mainly owing to: firstly, slight increase in expenditures for daily operation and management for the year over last year; secondly, losses from disposal of fixed assets increased by 696.12% to RMB20,715,000 (mainly including disposal due to upgrade and renovation on Chengyu Expressway of RMB16,057,000).

Financing Cost

The Group's financing cost for the year amounted to RMB87,326,000, representing a decrease of 24% as compared with last year, which was principally attributable to the issue of short-term commercial papers of RMB1,500,000,000 by for the Company for replacement of bank loans in November 2006, with the actual annual interest rate of the issue of 3.71%, reducing interest expense of approximately RMB35,000,000.

Taxation

The corporate income tax of the Group amounted to RMB118,799,000 for the year, representing an increase of RMB111,672,000 as compared with last year. The reasons are as follows:

(1) The corporate income tax increased due to the growth of profit before tax;

(2) Due to the recognition of deferred tax assets of RMB51,822,000 resulting from the tax losses of former Chengya Company in previous years, the corporate income tax for last year was decreased accordingly.

Profit

The Group's profit for the year amounted to RMB496,285,000, representing an increase of 55.12% as compared with last year, of which, profit attributable to equity holders of the Company was RMB487,824,000, a 66.55% increase compared with last year. This was mainly due to:

(1) significant increase in the Group's toll income as compared with last year;

(2) financing cost for the year decreased by 24% as compared with last year.

Analysis of Financial Position

Non-current assets

As of 31 December 2007, the Group's non-current assets amounted to RMB6,899,233,000, approximately the same level as compared with the end of 2006. which was mainly due to:

The additions of fixed assets amounting to RMB207,020,000 (mainly technology renovation for K3-K18 cement concrete road of Chengyu Expressway, contract A of technology renovation for the road and contract B of technology renovation for the road, aggregating to RMB165,567,000); disposal of fixed assets with original cost of RMB39,545,000 and accumulated depreciation of RMB18,791,000; the provision for depreciation for the year amounting to RMB218,768,000; the amortization of land use right amounting to RMB24,554,000 for the year; the decrease of deferred tax assets amounting to RMB37,255,000 (the deferred tax assets recognised in 2006 resulting from tax losses of former Chengya Company in previous years, was fully utilised during the year); and the increase in payment in advance of RMB100,000,000 (prepayment for acquisition of equity interests in SC Expressway).

Current assets and current liabilities

As of 31 December 2007, the Group's current assets amounted to RMB703,167,000, representing an increase of 23.09% compared with that of 31 December 2006, which was mainly attributable to the increase in cash and cash equivalents as a result of increase in revenue for the year.

As of 31 December 2007, the Group's current liabilities amounted to RMB1,857,396,000, representing a decrease of RMB4.60% as compared with that of 31 December 2006, which included: (1) the tax payable increased by 191.56% to RMB49,918,000, which was mainly attributable to the increase in profit before taxation and corporate income tax payable at the end of the period; (2) other payables and accruals decreased by 39.76% to RMB201,704,000, which was mainly due to the payment of RMB105,173,000 for acquisition of equity interest in Chengya Company and the quality assurance money of RMB22,973,000 to construction companies for the technology renovation for K3-K18 upgoing cement road.

Non-current liabilities

As of 31 December 2007, non-current liabilities of the Group amounted to RMB396,691,000, representing a decrease of 14.75% compared with that of 31 December 2006. The decrease was mainly due to the repayment of bank loans and state loans for the year.

Equity

As of 31 December 2007, equity of the Group amounted to RMB5,348,313,000, representing an increase of 5.62% compared with that of 31 December 2006. The increase was mainly attributable to the increase of RMB496,285,000 from profit for the year; and the distributed final dividend of RMB102,322,000 for 2006 and the special dividend of RMB102,323,000 for 2007.

Gearing Ratio

The Group's gearing ratio as at 31 December 2007 was 29.7% (2006: 32.3%). The gearing ratio was based on the Group's total liabilities over its total assets.

Cash flow of the Group

As of 31 December 2007, the Group's cash and cash equivalents amounted to RMB640,169,000, a year-on-year increase of RMB223,329,000 (31 December 2006: RMB416,840,000). During the year, the Group's net cash inflow from operating activities amounted to RMB959,099,000 (2006: RMB687,733,000).

For the year, cash outflow of the Group mainly consisted of: RMB436,076,000 in cash for daily operation and management; RMB165,567,000 for the overhaul and renovation project of expressways; net decrease of RMB104,680,000 in interest-bearing bank and other loans; payment of RMB32,922,000 for interest expenses; payment of RMB204,645,000 as dividends; payment of RMB105,173,000 for acquisition of equity interests in former Chengya Company; and payment in advance of RMB100,000,000 for acquisition of equity interests in SC Expressway.

Capital commitment of the Group

Details of capital commitment of the Group and the Company as of 31 December 2007 are set out on Note 30 to the financial statements.

Risk of exchange fluctuation

Save that the Company needed to purchase Hong Kong dollars to distribute dividends to holders of H shares, all operating income and expenses and capital expenditures of the Group were denominated in Renminbi and thus the fluctuation in exchange rate did not have any material impact on the Group's results.

Financing ability and plan

With its steady cash flow, sound capital structure and excellent credit records, the Group received AAA credit rating for bank facilities and maintained favorable relations with financial institutions, enjoying most preferential interest rates for its loans. As at 31 December 2007, the Group had bank facilities totalling RMB2,919,000,000 and unused bank facilities amounting to RMB2,000,000,000.

As of November 2007, the Company has paid RMB1,500,000,000 for short term commercial papers for 2006 as scheduled; the issue scheme of short term commercial papers with an amount not exceeding RMB2,000,000,000 in 2008 has been approved on the second extraordinary general meeting of the Company in 2007, and has been authorised by the People's Bank of China on 28 January 2008 and will later be issued on 19 February 2008.

On 12 December 2007, the Company has been approved at the extraordinary general meeting and class meeting of the holders of H shares and the class meeting of the holders of domestic shares to issue not more than 500,000,000 A shares, the proceeds from which will be used for payment of a consideration of RMB1,098,320,800 for acquisition of 100% equity interests in SC Expressway and repayment of partial bank loans of SC Expressway. The project is now in progress.

Contingent liabilities

Nil

Zhang Zhiying
Vice-Chairman and General Manager

IV. Business Development Plan

To ensure that the annual target is in line with the long term strategic objective, the Company sets out the following operating strategy and plan for the year, according to its growth cycle and development situation in 2008:

1. Addressing the change in operating environment to various extents for its existing expressway assets, the Group will reinforce the analysis and research in factors including the changing local expressway network and its impacts, vehicle traffic constituents and price elasticity and demand, while timely updating management concepts and framework and launching practicable marketing programmes to optimize service quality for better competitiveness of existing expressways. The Group will leverage the sound communications maintained with governmental bodies, regulators and peers corporations to rationalise the distribution and linkage within local expressway network, or aggressively integrate and improve the distribution of the Group's expressway assets through investment and acquisition, participation in construction, etc., to ensure steady growth of its operating results.

2. The Company will spare efforts in application for A share listing, acquisition of SC Expressway and post work for issuance of short-term commercial papers, aiming at their earlier completion to speed up the Group's asset expansion in a safe and efficient manner.

3. The accelerating pace of the Group's development also calls for better study in financing products, broadening funding channel and optimizing capital structure as well as aligned term structure and interest rate structure for debts, cut down financial costs and maintain a reasonable gearing ratio for effective protection from financial risks.

4. The Group will invest more in preventive maintenance of its expressways through tapping on modern information management resources and introducing innovative measures to improve its expertise for management and maintenance of expressways, thus laying a solid foundation for long-term stable conditions of its expressways.

5. The Group will strengthen building-up, nurturing, reserve and management of human resources. Through implementing and improving incentive mechanism, constraint mechanism, talent fostering and selection mechanism to motivate the staff's enthusiasm and creativity, the Group expects an overall improvement in the staff's professional skills and comprehensive capability to cater for its fast growth.

6. Efforts will be also put in the management of investor relations. Accordingly, the Group will further enhance the transparency of information disclosure, adopt various means to improve communications and interaction with investors, and cultivate a corporate culture respecting and be responsible to the investors, thus establishing a sound and harmonious external environment for corporate development.

7. Through careful investigation and taking into account the development condition of the Company, the Company will timely adjust its existing management framework and modes to enhance its efficiency in execution and innovative ability, paving the way for faster and healthier growth of the Company.

Looking forward, the Company is confident of elaborating its core strength by focusing on fast building-up of new profit sources for sustainable development under its strategy of engaging in investment, operation and management of expressways. The Company is committed to expand business in line with its development strategy for an overall, healthy and sound growth with desirable results to return all shareholders.

Zhang Zhiying
Vice-Chairman and General Manager

Chengdu, Sichuan, the PRC
18 February 2008

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2007.

Principal activities

The principal activities of the Company are investment, construction, management and operation of the Chengyu Expressway and Chengya Expressway. Details of the principal activities of the subsidiaries are set out in note 15 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 2007 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	10.35km	21 December 1998

Results and dividends

The Group's profit for the year ended 31 December 2007 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 52 to 116.

During the year, a special dividend of RMB0.04 per ordinary share was declared and paid on 19 December 2007. The Company will not pay a final dividend for the year ended 31 December 2007 to shareholders.

Summary financial information

A summary of the results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out below. This summary does not form part of the audited financial statements.

	Year ended 31 December				
	2007	2006	2005	2004	2003
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
RESULTS					
REVENUE	**1,317,442**	1,016,321	953,165	884,768	937,398
Other income and gains	**77,733**	64,289	49,628	53,519	101,492
Total revenue, other income and gains	**1,395,175**	1,080,610	1,002,793	938,287	1,038,890
Depreciation and amortisation expenses	**(249,945)**	(236,031)	(242,706)	(227,690)	(229,488)
Employee costs	**(114,310)**	(104,936)	(99,056)	(83,041)	(74,029)
Other operating expenses	**(333,209)**	(302,723)	(250,668)	(274,318)	(391,066)
Finance costs	**(87,326)**	(114,900)	(125,752)	(117,087)	(102,405)
Share of profits and losses of associates	**4,699**	5,048	5,449	3,951	2,346
PROFIT BEFORE TAX	**615,084**	327,068	290,060	240,102	244,248
Tax	**(118,799)**	(7,127)	(64,417)	(47,326)	(61,327)
PROFIT FOR THE YEAR	**496,285**	319,941	225,643	192,776	182,921
Attributable to:					
Equity holders of the Company	**487,824**	292,900	248,067	215,598	207,664
Minority interests	**8,461**	27,041	(22,424)	(22,822)	(24,743)
	496,285	319,941	225,643	192,776	182,921
ASSETS, LIABILITIES AND MINORITY INTERESTS					
TOTAL ASSETS	**7,602,400**	7,476,133	7,709,853	7,870,457	7,873,680
TOTAL LIABILITIES	**(2,254,087)**	(2,412,255)	(2,500,660)	(2,779,924)	(2,889,599)
MINORITY INTERESTS	**(101,610)**	(100,354)	(204,750)	(231,835)	(259,123)
ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	**5,246,703**	4,963,524	5,004,443	4,858,698	4,724,958

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 27 to the financial statements and in the consolidate statement of changes in equity, respectively.

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").

At 31 December 2007, the Company's reserves available for distribution, calculated in accordance with HK GAAP, amounted to RMB546,342,000. The Company's distributable reserves as at 31 December 2007 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.

Major customers and suppliers

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

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

Directors and supervisors

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

Executive directors:

Mr. Tang Yong	appointed on 29 March 2007
Mr. Zhang Zhiying	
Madam Zhang Yang	
Mr. Gao Chun	
Mr. Zhou Liming	
Mr. Wang Shuanming	appointed on 29 March 2007
Mr. Liu Mingli	
Mr. Nie Xinquan	appointed on 12 December 2007
Mr. He Gang	resigned on 29 March 2007
Mr. Zhang Yongnian	resigned on 29 March 2007
Mr. Zhang Wensheng	resigned on 12 December 2007

Independent non-executive directors:

Madam Luo Xia	
Mr. Feng Jian	
Mr. Zhao Zesong	appointed on 29 March 2007
Mr. Xie Bangzhu	appointed on 12 December 2007
Madam Zang Dihua	resigned on 29 March 2007
Mr. Yim Chung Wu	resigned on 29 March 2007

Supervisors:

Mr. Feng Bing	
Mr. Hou Bin	
Mr. Ouyang Huajie	appointed on 29 March 2007
Mr. Jian Shixi	appointed on 29 March 2007
Madam Yang Jingfan	appointed on 29 March 2007
Mr. Liu Xianfu	appointed on 12 December 2007
Mr. Li Aimin	resigned on 29 March 2007
Madam He Kun	resigned on 12 December 2007

According to article 100 of the Company's articles of association, the directors are appointed for a period of three years. Changes of directors and supervisors during the year are set out under the section of the "Profile of Directors, Supervisors and Senior Management" of the annual report.

The Company has received annual confirmations of independence from Madam Luo Xia, Mr. Feng Jian, Mr. Zhao Zesong and Mr. Xie Bangzhu that as at the date of this report, they are still considered to be independent.

Directors', supervisors' and senior management's biographies

Biographical details of the directors and the supervisors of the Company and the senior management of the Group are set out under the section of the "Profile of Directors, Supervisors and Senior Management" 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 directors' and supervisors' remuneration is determined by the Company's board of directors with reference to the pay scale applicable to directors of listed state-owned companies in Mainland China. Details of directors' and supervisors' remuneration of the Company are set out 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 2007, 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 a requirement of the SFO for directors, supervisors, chief executive officers or senior management who have interests or short positions); and (ii) required to be registered pursuant to Section 352 of the SFO or otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

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 spouses 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.

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

At 31 December 2007, 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	Percentage of the Company's issued H shares	Short positions	Pledged or frozen
Sichuan Highway Development Holding Company	State-owned shares	1,005,290,000	39.30%	–	–	Nil
Huajian Communication and Economic Development Centre	Legal person shares	657,450,000	25.70%	–	–	Nil
HKSCC Nominees Limited	H shares	888,863,999	34.74%	–	Note (1)	Note (1)
BOC International (China) Limited	H shares	89,166,266	–	9.95%	Note (2)	Note (2)
Morgan Stanley Dean Witter Hong Kong Limited	H shares	72,646,634	–	8.11%	Note (2)	Note (2)
Citibank	H shares	83,256,175	–	9.29%	Note (2)	Note (2)
The Hong Kong and Shanghai Banking Corporation Limited	H shares	258,792,139	–	28.90%	Note (2)	Note (2)
Standard Chartered Bank (Hong Kong) Limited	H shares	148,017,512	–	16.53%	Note (2)	Note (2)

Save as disclosed above, as at 31 December 2007, no person, other than the directors and supervisors of the Company, whose interests are set out in the section "Directors' and supervisors' interests in shares and underlying shares and debentures" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

Notes: (1) 888,863,999 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 held by any individual shareholders.

(2) The Company is not aware of any short positions, pledges or freezing of any portion of these shares.

Directors' and supervisors' interests in competing businesses

During the year and up to the date of this report, none of the directors or supervisors of the Company were considered to have any interests in a business which competed or was 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 RMB13,262,000 (2006: RMB11,900,000).

In addition, effective from 1 January 2007, a supplementary defined contribution pension scheme managed by an independent financial institution was established. Under the plan, the Company makes a monthly defined contribution to certain qualified employees at a rate of 8.3% of the qualified employees' salaries or wages of the last year. There were no vested benefits attributable to past service upon the adoption of the plan. During the year, contributions to the supplementary defined contribution pension scheme made by the Company amounted to approximately RMB2,700,000 (2006: Nil). Other than the above, the Company has no obligation for the payment of pension benefit beyond those annual contributions.

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 RMB10,908,000 (2006: RMB9,309,000).

Connected transactions

On 26 September 2007, the Company entered into a conditional acquisition agreement with Sichuan Highway Development (the parent and ultimate holding company of the Company), and Leshan City Xing Yuan Traffic Development Holding Company (jointly referred to as the "Vendor") in relation to the acquisition of the entire interest in SC Expressway at a consideration of RMB1,098,320,800. The Company has made a payment to the Vendor in advance amounted to RMB100 million up to 31 December 2007. Particulars of the acquisition are set out in Company's circular dated 26 October 2007.

Continuing connected transactions

On 28 November 2007, the Company and Chengbei Company, a subsidiary of the Company, entered into a service agreement with Sichuan Zhineng Transportation System Management Company Limited ("Sichuan Zhineng"), a subsidiary of Sichuan Highway Development in relation to the provision of a computer system on highway network toll fee collection and supportive allocation and technological services to the Group. The service agreement covers the service fee payable by the Group for the period from 1 January 2007 to 31 December 2007 which is calculated based on a rate of 0.88% of the total audited toll fees to be received by the Group during the year less certain discount with reference to the operating conditions of the respective expressways. As the rate under the respective service agreement to be charged by Sichuan Zhineng may vary each year, the Group will renew the respective service agreement on an annual basis. For the year ended 31 December 2007, the service fees paid by the Group to Sichuan Zhineng amounted to approximately RMB6,400,500.

Further details of the Group's connected transactions during the year are presented in note 32 to the financial statements. In the opinion of the directors, including the independent non-executive directors of the Company, these transactions were:

(i) conducted in the ordinary course of business of the Group and on normal commercial terms;

(ii) entered into in accordance with the terms of the agreements governing such transactions; and

(iii) fair and reasonable so far as the shareholders of the Company are concerned.

Post balance sheet event

Details of a significant post balance sheet event of the Group are set out in note 34 to the financial statements.

Significant event during the year

On 26 September 2007, the board of directors passed a resolution that the Company would apply (i) to the China Securities Regulatory Commission for the issue to the PRC public and institutional investors of a maximum of 500,000,000 A Shares of RMB1.00 each; and (ii) to the Shanghai Stock Exchange for the listing of the A Shares on the Shanghai Stock Exchange (hereinafter referred to as the "Proposed A Share Issue"). The net proceeds of the Proposed A Share Issue will be applied for (i) the payment for the aggregate consideration of RMB1,098,320,800 for the acquisition of equity interest in SC Expressway (the "Acquisition"), and (ii) the partial repayment of the bank loans of SC Expressway. The Acquisition will be terminated if the A shares Issue is unsuccessful.

On 12 December 2007, the resolution to proceed with the Proposed A Share Issue was approved by the Shareholders at the extraordinary general meeting of shareholders and class meetings of the holders of H Shares and Domestic Shares. On 19 December 2007, the Company officially filed the application documents regarding the issuance and listing of A Shares with China Securities Regulatory Commission.

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

Tang Yong
Chairman

Chengdu, Sichuan Province, the PRC
18 February 2008

I. Director, Supervisors and Senior Management

1. Directors

As at the date of this report, basic information about the Directors of the Company is as follows:

Name	Sex	Age	Position	Term of office
Tang Yong	Male	44	Chairman	From March 2007 till now
Zhang Zhiying	Male	45	Vice-Chairman, General Manager	From February 2003 till now
Zhang Yang	Female	43	Director	From May 2001 till now
Gao Chun	Male	51	Director	From June 2005 till now
Zhou Liming	Male	44	Director	From September 2002 till now
Wang Shuanming	Male	48	Director	From March 2007 till now
Liu Mingli	Male	44	Director, Deputy General Manager	From October 2000 till now
Nie Xinquan	Male	41	Director	From December 2007 till now
Luo Xia	Female	45	Independent Non-executive Director	From November 2004 till now
Feng Jian	Male	44	Independent Non-executive Director	From November 2004 till now
Zhao Zesong	Male	53	Independent Non-executive Director	From March 2007 till now
Xie Bangzhu	Male	69	Independent Non-executive Director	From December 2007 till now

Biographies of Directors:

Mr. Tang Yong: aged 44, graduated from Sichuan Transportation School and Highway College of Chang'an University with a master's degree in engineering. He was a technician, assistant engineer, deputy section head, and section head of Road Maintenance Section of Dazhu County, Sichuan, deputy director of the Communications Department of Dazhu County, deputy director of the Communications Department of Dachuan District, Sichuan, director and general manager of Sichuan Road & Bridge Co., Ltd., general manager and Party Secretary of Sichuan Dayu Expressway Construction Development Co., Ltd., head of the Construction Management Division of Sichuan Provincial Department of Communications ("SPDC"), head of Comprehensive Planning Division of SDPC. Currently he is the Chairman of the Company.

Mr. Zhang Zhiying: aged 45, graduated from the Faculty of Accounting of Shanxi Financial and Economic Institute with a bachelor degree, and holds the title of senior accountant. He was an accountant of the Finance Section of the Road Administration Bureau of SPDC, deputy head of the Finance Division of Sichuan Major Highway Construction Directorate, head of the Finance Division of the Expressway Administration Bureau of SPDC, deputy head and head of Finance Division of SPDC and the Financial Controller of the Company. Currently he is the Vice Chairman and General Manager of the Company.

Madam Zhang Yang: aged 43, graduated from Lanzhou University with a bachelor degree in economics and is a postgraduate of economic management of Central Communist Party School. She worked with the Ministry of Space Industry as an officer, deputy section chief and section chief. She has been serving as project manager, deputy department manager, department manager and assistant to the general manager of Huajian Centre since 1994. She is currently the general manager of Huajian Centre, Director of Shenzhen Expressway Company Limited (a company listed on the Stock Exchange and the Shanghai Stock Exchange), Xia Men Port Development Co., Ltd. (a company listed on the Shenzhen Stock Exchange), Zhejiang Expressway Co., Ltd. (a company listed on the Stock Exchange) and Jiangsu Expressway Co., Ltd. (a company listed on the Stock Exchange and the Shanghai Stock Exchange).

Mr. Gao Chun: aged 51, and holds the title of senior economist with an MBA degree of Macao University of Science and Technology. He was the deputy head of the Teaching Department of Sichuan Transportation School, deputy head of the Human Resources Division of SPDC, Deputy Party Secretary of the central district of Deyang City, Deputy Party Secretary of the Direct Body under SPDC, Party Secretary of Sichuan Road Design Institute and Party Secretary of Sichuan Vocational and Technical College of Communications. Mr. Gao is currently the Chairman of Sichuan Highway Development.

Mr. Zhou Liming: aged 44. He graduated from Southwest Jiaotong University and obtained a bachelor degree in engineering from Southwest Jiaotong University and a master degree in economics from Sichuan University. He was a tutor at Southwest Jiaotong University, head of Research Department of the Sichuan Provincial People's Government, secretary of the Department of General Office of Sichuan Provincial People's Government, deputy director of Road Administration Bureau of SPDC, assistant to the Mayor of the Neijiang Municipal People's Government in Sichuan Province, and Chairman of the Company. He is currently the General Manager of Sichuan Highway Development.

Mr. Wang Shuanming: aged 48, graduated from Dongbei University of Finance and Economics and Military Economics Academy with a master's degree, holds the title of senior accountant. He was an assistant in the Finance Division of the Logistics Department of Chengdu Military Area, assistant accountant in the Second Military Warehouse of Chengdu Military Area, assistant accountant and accountant in the 38th Division of the Logistics Department of Chengdu Military Area, assistant researcher and deputy head of the Finance Division of SDPC, and chief of the Management on Vehicle Purchase Surcharges Collection in Sichuan. He is currently the director and deputy general manager of Sichuan Highway Development.

Mr. Liu Mingli: aged 44, graduated from the Research School of Sichuan University majoring in economics. He was formerly the Secretary of the Department of General Office of Sichuan Provincial People's Government, the assistant to director and deputy director of Expressway Administration Bureau of SPDC. He is now the deputy general manager of Chengyu Company.

Mr. Nie Xinquan: aged 41, graduated from the Faculty of Mathematics at Henan University with bachelor degree and from Renmin University of China with master degree. He had worked at the Personnel and Labour Department of the Ministry of Communication of China, Huajian Centre and Hualian Highway Engineering and Materials Company. He had been appointed as the deputy general manager, director and general manager of Hualian Company, the director of Pan Jin Northern Asphalt Company Limited and the manager of the State Capital Custodian Department of Huajian Centre. He is currently the manager of the Equity Management Department I of Huajian Centre, the director of Henan Zhongyuan Expressway Company Limited (a company listed on the Shanghai Stock Exchange) and Hua Bei Expressway Company Limited (a company listed on the Shenzhen Stock Exchange). Mr. Nie had also been the director of Hubei Chutian Expressway Company Limited (a company listed on the Shanghai Stock Exchange) and Shandong Expressway Company Limited (a company listed on the Shanghai Stock Exchange).

Madam Luo Xia: aged 44, graduated from Chongqing Construction and Engineering College with a bachelor degree majoring in road engineering. She also graduated from Southwest Jiaotong University with a master degree in traffic and transportation engineering and a doctorate in transportation means. Currently, she is a council member of the Sichuan Provincial Road Association, the deputy chairperson of the Chengdu Municipal Road Association and a member of the expert panel of "Straightway Project" under the Ministry of Public Security and the Ministry of Construction. She is a professor of Southwest Jiaotong University, a tutor to doctorate candidates, vice president of College of Traffic & Transportation and the chief of Research Institute of Traffic Engineering.

Mr. Feng Jian: aged 43, graduated from Southwest Finance University with a bachelor degree in accounting and a doctorate in finance. Mr. Feng holds the qualification of the PRC Certified Public Accountant and is the Chief Secretary of China Finance Association, a member of the China Accounting Association and a council member of the China Education and Audit Association. He is currently a professor and tutor to doctorate candidates in Southwest Finance University.

Mr. Zhao Zesong: aged 53, graduated from Bejing Institute of Business and Southwest Finance University with a master's degree in accounting. He is the standing director and deputy head of Sichuan Accounting Association, the expert for supervising certified accountants of Sichuan. He was a member and deputy director of the Review Committee for Senior Accountants and Senior Economists, an independent director of ChengDu Hi-Tech Development Co., Ltd. (formerly known as Chengdu Brilliant Development Group, Inc.) (a company listed on the Shenzhen Stock Exchange). Currently he is a director, professor and a master tutor of the Accounting Department of Chengdu University of Technology.

Mr. Xie Bangzhu, aged 68, graduated from Chongqing Jiaotong College majoring in roads and bridge construction and Huadong Institute of Hydraulic majoring in hydraulic and port engineering, who obtained a college diploma and college diploma (correspondence) respectively. He had worked at Sichuan Institute of Road Design as a technician, engineer, deputy chief engineer to the head office, senior engineer and chief engineer of the design institute. Being a national standard engineer, he is currently a senior technical consultant of Sichuan Institute of Road Design and chief engineer consultant of Sichuan Chuanjiao Highway Consultancy Company.

2. Supervisors

As at the date of this report, basic information about the Supervisors of the Company is as follows:

Name	Sex	Age	Position	Term of office
Feng Bing	Male	45	Chairman of Supervisory Committee	From June 2005 till now
Hou Bin	Male	50	Supervisor	From October 2000 till now
Ouyang Huajie	Male	39	Supervisor	From March 2007 till now
Jian Shixi	Male	52	Supervisor, Chairman of Labour Union	From March 2007 till now
Yang Jingfan	Female	46	Supervisor	From March 2007 till now
Liu Xianfu	Male	44	Supervisor	From December 2007 till now

Biographies of Supervisors:

Mr. Feng Bing: aged 45. He graduated from Xian Road College and obtained a bachelor degree majoring in automatic control in traffic engineering and from Changan University majoring in traffic and transportation planning and management with a master degree. He had been the Party Secretary of the direct body under SPDC, deputy chief officer and chief officer of the Planning Division of SPDC, and deputy head, investigator and head of the Overall Planning Division of SPDC. He is currently the Chairman of the Supervisory Committee of Chengyu Company.

Mr. Hou Bin: aged 50, graduated from Chengdu Telecommunications Engineering College, and holds the title of senior economist. He was the deputy chief officer of the Publicity and Education Division of Sichuan Automobile Transportation Company Chengdu Branch, the officer of the Publicity Division of the Political Department of SDPC, deputy theory tutor of the party committee of the direct body under SDPC, the leader of the liaison team for designated help for Muchuan County of SDPC, the deputy head of Muchuan County People's Government, the office chief of Sichuan Shuhai Communications Investment Company Limited and the office chief, chairman of labour union, deputy general manager, chief of the preparation team of the party committee of Sichuan Highway Development, as well as the chairman of Sichuan Leshan Shanwan Hotel Co., Ltd., Sichuan Gaolu Communications Information Engineering Co., Ltd. and Sichuan Gongga Modern Glacier (Group) Co., Ltd., and the general manager of Chuanxi High-level Highway Development Co., Ltd. He is currently the deputy party secretary of Sichuan Highway Development.

Mr. Ouyang Huajie: aged 39, graduated from Southwest Finance University with a bachelor's degree in accounting, and Sichuan University with a master's degree in economics, and holds the title of senior accountant. He was the assistant accountant of the stated-owned Hongguang Electronic Tube Factory, chief accountant of Sichuan Tongya Industries Development Company, deputy manager of the Fund and Finance Division of Sichuan Highway Development. He is currently the manager of Finance Division of Sichuan Highway Development.

Mr. Jian Shixi: aged 52, graduated from Sichuan Provincial Party School majoring in economics and administration and holds the title of senior economist. From 1986, he had been an officer of the Policy Research Office of SPDC, deputy chief of Sichuan Major Highway Construction Directorate, office chief of the Expressway Administration Bureau of SPDC. He is currently the Chairman of Labour Union of the Company.

Madam Yang Jingfan: aged 46, graduated from Business School of Sichuan University with an MBA degree. She is in immediate rank for political work. From 1991, she has been the deputy office chief of the Management Division of Sichuan Dajia Road, deputy officer of Sichuan Major Highway Construction Directorate, head of the Human Resources Division of the Expressway Administration Bureau of SPDC, and manager of the human resource department of the Company. She is currently the manager of the Supervision Department and Auditing Department of the Company.

Mr. Liu Xianfu, aged 44, graduated from Changsha Jiaotong College with a bachelor degree. He had worked as an officer, deputy supervisor, supervisor, deputy director and director at the Audit Department of the Ministry of Communication of China, a manager of the Finance Department of Huajian Centre and supervisor of the Finance Department of China Merchants Group. He is currently the financial controller of Huajian Centre. Mr. Liu is currently the vice Chairman of Guangxi Wu Zhou Communications Company Limited (a company listed on the Shanghai Stock Exchange) and the director of Hubei Chutian Expressway Company Limited (a company listed on the Shanghai Stock Exchange), and also had been the supervisor of Northeast Expressway Company Limited (a company listed on the Shanghai Stock Exchange) and Hubei Chutian Expressway Company Limited.

3. Senior Management

As at the date of this report, basic information about the senior management of the Company is as follows:

Name	Sex	Age	Position	Term of office
Zhang Zhiying	Male	45	Vice Chairman, General Manager	From February 2003 till now
Liu Mingli	Male	44	Director, Deputy General Manager	From October 2000 till now
Gan Yongyi	Male	44	Deputy General Manager	From February 2001 till now
Luo Maoquan	Male	42	Deputy General Manager	From December 2006 till now
Lin Binhai	Male	48	Deputy Party Secretary, Secretary to Descipline Committee	From November 2002 till now
Zhang Yongnian	Male	45	Company Secretary	From October 2000 till now
Li Guogang	Male	58	Chief Financial Controller	From August 2004 till now

Biographies of Senior Management:

Mr. Zhang Zhiying, please refer to Biographies of Directors.

Mr. Liu Mingli, please refer to Biographies of Directors.

Mr. Gan Yongyi: aged 44. He graduated from Chongqing Jiaotong Institute and holds the title of senior engineer. He was the deputy general manager of Sichuan Road and Bridge Company Limited. He is currently the Deputy General Manager of the Company.

Mr. Luo Maoquan: aged 42, graduated from the Faculty of Law of Sichuan University. He was an officer of the Policy Research Office of SDPC, deputy office chief, chief, head of the human resources division, member of the sub-group of party committee, deputy director, secretary of the sub-group of party committee, commander of the Chengmian (le) Expressway Construction Directorate, He is currently the deputy general manager of the Company and the general manager and party secretary of Chengya Branch of the Company.

Mr. Lin Binhai: aged 48. He graduated from the Research Centre of Renmin University of China with a master degree in business administration (MBA) and obtained a MBA from Burlington Commerce College by distance education. He was a political commissar and party secretary of an arsenal factory of the People's Liberation Army. He is currently the deputy party secretary of the Company and the secretary to the Discipline Committee.

Mr. Zhang Yongnian: aged 45. He graduated from the Faculty of Law of Sichuan University. He served as judicial officer of the People's Court of Emeishan City, Sichuan Province, deputy chief of the Criminal Judicial Tribunal, deputy chief of the former Chengyu Expressway's Long Quan Management Office, deputy head of Road Section of Chengyu Expressway Management Office, deputy head of the Policy and Regulation Division of the Expressway Administration Bureau of SPDC, the office chief of the Board of the Company, and a director of the Company. He is currently is the Board Secretary of the Company.

Mr. Li Guogang: aged 58. He holds the title of senior accountant and senior consultant. He passed the self-study examination of higher education in 1989 with a major in accounting. He had been the chief officer of Accounting Division of Traffic Bureau of Ganzi Autonomous Prefecture, Sichuan Province, deputy chief and chief of Financial Division of the Expressway Administration Bureau of SPDC and the manager of Financial Department of the Company. He is currently the Chief Financial Controller of the Company.

II. Changes of Directors, Supervisors and Senior Management during the Reporting Period

The first extraordinary general meeting for 2007 held on 29 March 2007 considered and passed the resolutions to approve the new appointment of Mr. Tang Yong and Mr. Wang Shuanming as the Company's Executive Directors; the new appointment of Mr. Zhao Zesong as the Company's Independent Non-executive Director; the new appointment of Mr. Ouyang Huajie, Mr. Jian Shixi and Madam Yang Jingfan as the Company's Supervisors; the resignation of Mr. He Gang, Mr. Zhang Yongnian, Madam Zang Dihua and Mr. Yim Chung Wu as the Company's Directors; and the resignation of Mr. Li Aimin as the Company's Supervisor.

On 12 December 2007, the Company convened the Third extraordinary general meeting for 2007, at which the appointment of Mr. Nie Xinquan as Executive Director, Mr. Xie Bangzhu as Independent Non-executive Director and Mr. Liu Xianfu as Supervisor; and the resignation of Mr. Zhang Wensheng as Director of the Company and Madam He Kun as Supervisor of the Company were considered and approved.

The resignations of Madam Zang Dihua, Mr. Yim Chung Wu and Mr. Zhang Wensheng as Directors of the Company were due to old age or approaching of their retirement age. The resignations of the other Directors and Supervisors were due to normal transfer of positions.

III. An Overview of Employees

As at 31 December 2007, the Company (including Chengya Branch) had 1,614 employees, including 381 administrative and professional technical staff and 916 toll collection staff.

1. Remuneration of employee

Employee's wages are composed of fixed wage (which consist of basic salary, and salaries determined by the position and period of service) and performance incentive. Employee's salary is determined based on his position (i.e. the salary changes in accordance with the position of service) and performance as well as the operation efficiency of the Company with reference to the appraisal of employee's overall performance.

The employee's wages and salary totaled RMB72,008,000 (including the total amount of remuneration of Chengya Branch) for the year ended 31 December 2007.

2. Training

The Company pays much attention to staff on training and endeavors to improve the comprehensive quality and professional ability for employees at all levels through multi-level training. During the year, the Company organized various centralized training in respect of skills for the position, continuous training for professional technical staff, corporate culture and international accounting standards, as well as training on specialized topic. A total of 508 employees attended.

【REPORT OF THE SUPERVISORY COMMITTEE】

To all Shareholders:

In 2007, the Supervisory Committee aimed at the principle of honesty and trust in a proactive, practical and prudent manner in accordance with the Company Law of the People's Republic of China (the "PRC") and the Articles of Association of the Company to protect the shareholders' interests and legalized equity of the Company and to perform its duties loyally. The principal report of work was as follows:

(1) In attendance of board meeting and shareholders' meeting and in supervision of development plans, investments proposals, decisions on operating strategies, no circumstances of non-compliance with national law and no detriment to the Company's benefits and interests of shareholders were notified;

(2) In reviewing the Company's financial statement, it was considered that the accounting audit and financial management of the Company complied with the relevant regulations of PRC. The cost of management was further under control with a well-established internal control system. No doubt was cast on the clear account of expenditure and revenue. The audit financial statements and auditing reports issued by Sichuan Jun He Accountants and Ernst & Young Certified Public Accountants were consented as it was considered that the actual financial status and operating results of the Company were reflected;

(3) In supervising the operating and management activities of the Company, none of the senior management acted in breach of the laws and regulations and the Articles of Association of the Company in the course of business;

(4) Saved as the connected transactions disclosed in Note 32 to the financial statements, the Company had no other connected transactions during the year;

(5) No material litigation of the Company occurred during the year.

Feng Bing
Chairman of Supervisory Committee

18 February 2008

【INDEPENDENT INTERNATIONAL AUDITORS' REPORT】

To the shareholders of
SICHUAN EXPRESSWAY COMPANY LIMITED
(Established in the People's Republic of China with limited liability)

We have audited the financial statements of Sichuan Expressway Company Limited set out on pages 52 to 116, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

18/F, Two International Finance Centre
8 Finance Street, Central
Hong Kong

18 February 2008

【CONSOLIDATED INCOME STATEMENT】

Year ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
REVENUE	4	**1,317,442**	1,016,321
Other income and gains	4	**77,733**	64,289
Depreciation and amortisation expenses	5	**(249,945)**	(236,031)
Employee costs	5	**(114,310)**	(104,936)
Other operating expenses		**(333,209)**	(302,723)
Finance costs	6	**(87,326)**	(114,900)
Share of profits and losses of associates		**4,699**	5,048
PROFIT BEFORE TAX	5	**615,084**	327,068
Tax	8	**(118,799)**	(7,127)
PROFIT FOR THE YEAR		**496,285**	319,941
Attributable to:			
Equity holders of the Company		**487,824**	292,900
Minority interests		**8,461**	27,041
		496,285	319,941
DIVIDEND	10		
Special		**102,323**	—
Proposed Final		**—**	102,322
		102,323	102,322
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
— Basic	11	**RMB0.191**	RMB0.115

【CONSOLIDATED BALANCE SHEET】

31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	6,010,352	6,045,738
Prepaid land lease payments	13	510,434	535,740
Operating rights	14	109,276	115,899
Interests in associates	16	57,508	58,535
Available-for-sale investments	17	32,795	32,795
Deferred tax assets	18	—	37,255
Long-term compensation receivables	19	78,868	78,918
Payment in advance	20	100,000	—
Total non-current assets		6,899,233	6,904,880
CURRENT ASSETS			
Inventories	21	12,519	12,258
Prepayments, deposits and other receivables	22	50,479	142,155
Cash and cash equivalents	23	640,169	416,840
Total current assets		703,167	571,253
CURRENT LIABILITIES			
Tax payable		49,918	17,121
Other payables and accruals	24	201,704	334,813
Interest-bearing bank and other loans	25	1,605,774	1,592,922
Due to the ultimate holding company	1	—	2,054
Total current liabilities		1,857,396	1,946,910
NET CURRENT LIABILITIES	2.4	(1,154,229)	(1,375,657)
TOTAL ASSETS LESS CURRENT LIABILITIES		5,745,004	5,529,223
NON-CURRENT LIABILITIES			
Interest-bearing bank and other loans	25	396,691	464,418
Deferred tax liabilities	18	—	927
Total non-current liabilities		396,691	465,345
Net assets		5,348,313	5,063,878
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	26	2,558,060	2,558,060
Reserves	27	2,688,643	2,303,142
Proposed final dividend	10	—	102,322
		5,246,703	4,963,524
Minority interests		101,610	100,354
Total equity		5,348,313	5,063,878

【CONSOLIDATED STATEMENT OF CHANGES IN EQUITY】 *Year ended 31 December 2007*

	Attributable to equity holders of the Company										
	Issued capital *RMB'000*	Share premium account *RMB'000*	Statutory surplus reserve *RMB'000* *(note 27(a))*	Statutory public welfare fund *RMB'000* *(note 27(b))*	General surplus reserve *RMB'000*	Difference arising from acquisition of minority interests *RMB'000*	Retained profits *RMB'000*	Proposed final dividend *RMB'000*	Total *RMB'000*	Minority interests *RMB'000*	Total equity *RMB'000*
At 1 January 2006	2,558,060	1,413,597	177,356	168,815	283,022	–	313,486	102,322	5,016,658	204,750	5,221,408
Profit for the year	–	–	–	–	–	–	292,900	–	292,900	27,041	319,941
Transfer from/(to) reserves	–	–	196,082	(168,815)	52,085	–	(79,352)	–	–	–	–
Acquisition of minority interests											
– Chengya *(note 28(b))*	–	–	–	–	–	(231,714)	–	–	(231,714)	(129,630)	(361,344)
– Other subsidiary company	–	–	–	–	–	217	–	–	217	(1,807)	(1,590)
Goodwill offset against reserve upon dissolution and subsequent re-registration of Chengya as a branch of the Company	–	–	–	–	–	(12,215)	–	–	(12,215)	–	(12,215)
Final Dividend declared	–	–	–	–	–	–	–	(102,322)	(102,322)	–	(102,322)
Proposed final 2006 dividend *(note 10)*	–	–	–	–	–	–	(102,322)	102,322	–	–	–
At 31 December 2006 and 1 January 2007	2,558,060	1,413,597	373,438	–	335,107	(243,712)	424,712	102,322	4,963,524	100,354	5,063,878
Profit for the year	–	–	–	–	–	–	487,824	–	487,824	8,461	496,285
Transfer from/(to) reserves	–	–	105,389	–	112,008	–	(217,397)	–	–	–	–
Acquisition of minority interests of a subsidiary	–	–	–	–	–	–	–	–	–	(154)	(154)
Disposal of a subsidiary	–	–	–	–	–	–	–	–	–	(284)	(284)
Dividends paid to minority shareholders	–	–	–	–	–	–	–	–	–	(6,767)	(6,767)
Special dividend declared *(note 10)*	–	–	–	–	–	–	(102,323)	–	(102,323)	–	(102,323)
Final dividend declared *(note 10)*	–	–	–	–	–	–	–	(102,322)	(102,322)	–	(102,322)
At 31 December 2007	2,558,060	1,413,597*	478,827*	–*	447,115*	(243,712)*	592,816*	–	5,246,703	101,610	5,348,313

* These reserve accounts comprise the consolidated reserves of RMB2,688,643,000 (2006: RMB2,303,142,000) in the consolidated balance sheet.

【CONSOLIDATED CASH FLOW STATEMENT】

Year ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	28(a)	959,099	687,733
CASH FLOWS FROM INVESTING ACTIVITIES			
Increase in time deposits with maturity of over three months		(17,388)	–
Purchases of items of property, plant and equipment	12	(207,020)	(298,070)
Proceeds from disposal of items of property, plant and equipment		39	311
Proceeds from sale of available-for-sale investments		–	1,650
Purchases of minority interests:			
– Chengya	28(b)	(105,173)	(250,513)
– Other subsidiaries		(154)	(1,590)
Interest received		19,826	10,359
Payment in advance	20	(100,000)	–
Dividend received from an associate		5,726	4,631
Net cash outflow from investing activities		(404,144)	(533,222)
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		(32,922)	(109,495)
Dividend paid	10(c)	(204,645)	(102,322)
Dividends paid to minority shareholders		(6,767)	–
New bank loans		1,045,000	280,000
New trust loan		499,047	–
Proceeds from short term commercial papers		–	1,444,350
Repayment of short term commercial papers		(1,500,000)	–
Repayment of bank loans		(126,000)	(1,971,439)
Repayment of other loans		(22,727)	(22,728)
Net cash outflow from financing activities		(349,014)	(481,634)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		205,941	(327,123)
Cash and cash equivalents at beginning of year		416,825	743,948
CASH AND CASH EQUIVALENTS AT END OF YEAR		622,766	416,825
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS	23		
Cash and bank balances		512,766	416,825
Time deposits with original maturity of less than three months		110,000	–
		622,766	416,825

BALANCE SHEET

31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	5,745,711	5,744,982
Prepaid land lease payments	13	459,657	481,142
Investments in subsidiaries	15	393,496	412,367
Investments in associates	16	39,428	39,428
Available-for-sale investments	17	21,500	21,500
Deferred tax assets	18	—	37,255
Payment in advance	20	100,000	—
Total non-current assets		6,759,792	6,736,674
CURRENT ASSETS			
Inventories	21	4,766	471
Prepayments, deposits and other receivables	22	32,816	27,954
Due from subsidiaries	15	31,249	50,153
Cash and cash equivalents	23	338,236	225,317
Total current assets		407,067	303,895
CURRENT LIABILITIES			
Tax payable		43,393	11,019
Other payables and accruals	24	144,037	245,575
Interest-bearing bank and other loans	25	1,530,774	1,472,487
Due to subsidiaries	15	27,058	32,690
Due to the ultimate holding company		—	2,054
Total current liabilities		1,745,262	1,763,825
NET CURRENT LIABILITIES	2.4	(1,338,195)	(1,459,930)
TOTAL ASSETS LESS CURRENT LIABILITIES		5,421,597	5,276,744
NON-CURRENT LIABILITIES			
Interest-bearing bank and other loans	25	244,091	375,818
Deferred tax liabilities	18	—	927
Total non-current liabilities		244,091	376,745
Net assets		5,177,506	4,899,999
EQUITY			
Issued capital	26	2,558,060	2,558,060
Reserves	27	2,619,446	2,239,617
Proposed final dividend	10	—	102,322
Total equity		5,177,506	4,899,999

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 investment, construction, management and operation of expressways and a high-grade toll bridge.

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. The amount due to ultimate holding company as at 31 December 2006 was unsecured, interest free with no fixed term of repayment.

On 26 September 2007, the board of directors (the "Board") passed a resolution that the Company would apply (i) to the China Securities Regulatory Commission for the issue to the PRC public and institutional investors of a maximum of 500,000,000 A Shares of RMB1.00 each; and (ii) to the Shanghai Stock Exchange for the listing of the A Shares on the Shanghai Stock Exchange (hereinafter referred as the "Proposed A Share Issue"). The net proceeds of the Proposed A Share Issue will be applied for (i) the payment for the aggregate consideration of RMB1,098,320,800 for the acquisition of equity interest in Sichuan Chengle Expressway Company Limited ("SC Expressway"), and (ii) the partial repayment of the bank loans of SC Expressway.

On 12 December 2007, the resolution to proceed with the Proposed A Share Issue and the acquisition of equity interest in SC Expressway were approved by the shareholders at an extraordinary general meeting of shareholders and class meetings of the holders of H Shares and Domestic Shares. And on 19 December 2007, the Company officially filed the application documents regarding the issuance and listing of A Shares with China Securities Regulatory Commission.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include all Hong Kong Financial Reporting Standards, 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.

The Ministry of Finance of the PRC issued a series of new and revised Accounting Standards for Business Enterprises (the "New Chinese Accounting Standards, CAS") on 15 February 2006. The New CAS has become effective from 1 January 2007 for listed companies in Mainland China. The Company and all its subsidiaries are located in Mainland China, which prepare their PRC statutory financial statements in accordance with the New CAS for accounting periods beginning on or after 1 January 2007.

2.1 BASIS OF PREPARATION *(Continued)*

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2007. 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. An acquisition of minority interests is accounted for using the entity concept method whereby the difference between the consideration and the book value of the share of the net assets acquired is dealt with in equity directly.

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.

HKAS 1 (Amendment)	Capital Disclosure
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) — Int 10	Interim Financial Reporting and Impairment

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. The principal effects of adopting these new and revised HKFRSs are as follows:

(a) Amendment to HKAS 1 Presentation of Financial Statements — Capital disclosures

This amendment requires the Group to make disclosures that enables users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in note 33 to the financial statements.

(b) HKFRS 7 Financial Instruments: Disclosures

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial statements and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or the results of operations of the Group, comparative information has been included/revised where appropriate.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

(c) HK(IFRIC) — Int 10 Interim Financial Reporting and Impairment

The Group has adopted this interpretation as of 1 January 2007, which requires that an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument classified as available-for-sale or a financial asset carried at cost is not subsequently reversed. As the Group had no impairment losses previously reversed in respect of such assets, the interpretation has had no impact on the financial position or results of operations of the Group.

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.

HKAS 23 (revised)	Borrowing Costs[1]
HKFRS 8	Operating Segments[1]
HK(IFRIC) — Int 12	Service Concession Arrangements[2]

[1] Effective for accounting periods beginning on or after 1 January 2009
[2] Effective for accounting periods beginning on or after 1 January 2008

Other than HK(IFRIC) — Int 12 which has impact on the Group's concession rights currently recognised as part of the Group's property, plant and equipment, the Group anticipate the application of these standards and interpretation will have no material impact on the results and the financial position of the Group in the period of initial application.

HKAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying assets. As the Group's current policy for borrowing costs aligns with the requirements of the revised standard, the revised standard is unlikely to have any financial impact on the Group.

HKFRS 8, which will replace HKAS 14 Segment Reporting, specifies how an entity should report information about its operating results, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group expects to adopt HKFRS 8 from 1 January 2009.

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

HK(IFRIC) — Int 12 requires where the Group constructs or upgrades the infrastructure, the Group recognises revenue and costs in the same way as construction contracts during the construction phase. Construction revenue should be recognised as a financial asset if the Group has an unconditional contractual right to receive cash or another financial asset from or at the direction of the government or as an intangible asset if the Group receives a right to charge users of the public services. When money is actually received, further revenue is recognised under intangible asset model. For the financial asset model, such monies received are treated as partial repayment of the financial assets.

In addition, where the Group has contractual obligations to maintain the infrastructure to a specified level of serviceability or to restore the infrastructure to specified conditions before it is handed over to the government at end of the service arrangement, the best estimate of the present value of expenditure that would be required to settle this obligation at the balance sheet date will be recognised on the consolidated balance sheet as liability.

Unless the Group has recognised an intangible asset, all borrowing costs, other than attributable to the intangible assets recognised under the arrangement will be recognised as an expense in the period in which they are incurred. The Group is still in the progress of quantifying the financial impact of this Interpretation on the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fundamental accounting concept

As at 31 December 2007, the current liabilities of the Group exceeded its current assets by approximately RMB1,154.2 million. The directors prepared these consolidated financial statements on a going concern basis notwithstanding the net current liabilities position because based on the correspondence received by the directors, banking facilities amounting to RMB619 million, RMB1.3 billion, RMB1.0 billion granted by the Industry and Commercial Bank of China, China Construction Bank and Citic Bank, respectively, are available to the Group for the next one to three years. As at 31 December 2007, banking facilities amounting to RMB919 million 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 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. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains or losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates, except where unrealised losses provide evidence of an impairment of the assets transferred. 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.

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.

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. An impairment loss recognised for goodwill is not reversed in a subsequent period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill *(Continued)*

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.

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, road maintenance contracts, deferred tax assets, financial assets and goodwill), 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, but 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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);

(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 item of property, plant and equipment, the expenditure is capitalised as an additional cost of that asset.

Depreciation of expressways, tunnels and bridges, other than the cost of replacing concrete road surface and the expenditure for upgrading the asphalt road surface, 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. For the cost of replacing concrete road surface and the expenditure for upgrading the asphalt road surface, the depreciation 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 over 15 years commencing from the date incurred, this being the anticipated economic life of such works.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Depreciation of items of property, plant and equipment, other than expressways, tunnels and bridges and costs of replacing concrete and road surface and expenditure for upgrading the road surface, 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.

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 a high-grade 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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. The net fair value gain or loss recognised in the income statement does not include any dividends on these financial assets, which are recognised in accordance with the policy set out for "Revenue recognition" below.

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 less any allowance for impairment. 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.

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. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in income statement as "Other income" in accordance with the policies set out for "Revenue recognition" below. Losses arising from the impairment of such investments are recognised in the income statement as "Impairment losses on available-for-sale financial assets" and are transferred from the available-for-sale investment revaluation reserve.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Available-for-sale financial assets *(Continued)*

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. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

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 by adjusting the allowance account. 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.

In relation to other receivables, a provision for impairment is made when there is objective evidence (such as probability of insolvency or significant difficulties of the debtor and significant changes in the technological, market economic or legal environment that have been adverse effect on the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(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. A provision for impairment is made for available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

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. The related interest expense is recognised within "Finance costs" in the income statement.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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)*

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 that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally less than 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 amounts 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

The retirement benefits in the form of contributions under defined contribution retirement schemes are charged to the income statement as incurred.

Contributions to an accommodation fund administered by the Public Accumulation Funds Administration Centre are 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 Company's and its subsidiaries' functional and presentation currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the dates 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.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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.

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.

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 acquisition, construction or production of qualifying assets i.e. 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.

Special dividends distribution to the Company's shareholders is recognised as a liability when the special dividends are approved by the Company's shareholders in an extraordinary general meeting and class meeting.

2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements require management to make judgements, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets and liabilities affected in the future.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

(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.

(c) Useful lives of concrete and asphalt road surface

For the cost of replacing concrete road surface and the expenditure for upgrading the asphalt road surface, the depreciation 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 over 15 years commencing from the date incurred, this being the anticipated economic life of such works. The estimated useful lives could change significantly as a result of innovations, competitor actions in response to severe industry cycle or unforeseen change in legal enforcement rights in future. The Group will increase the depreciation charge where the useful lives are less than previous previously estimated lives.

2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

Estimation uncertainty *(Continued)*

(d) Discounted value of long term compensation receivables

The discounted value of long term compensation receivables in the future have been discounted using an imputed rate of interest of 13.92% after taking into account the risk premium associated with the credit risk incurred. The use of discounted rate requires the Group to make estimates about the imputed rate of interest, and hence it is subject to uncertainty. The net present value of long-term receivable at 31 December 2007 was RMB80,643,000 (2006: RMB80,476,000). Further details are included in note 19 to the financial statements.

(e) PRC corporate income tax ("CIT")

The Group is subject to CIT in the PRC. As a result of the fact that certain matters relating to CIT have not been confirmed by the relevant local tax authorities, objective estimates based on currently enacted tax laws, regulations and other related policies are required in determining the provision of CIT to be made. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact on the income tax expenses and tax provisions in the period in which the differences realise.

(f) 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 2007 was Nil (2006: RMB37,255,000). Further details are contained in note 18 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 2007 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:

	2007 *RMB'000*	2006 *RMB'000*
Revenue		
Toll income		
— Chengyu Expressway	890,289	665,548
— Chengya Expressway	394,124	303,275
— Chengbei Exit Expressway, Qinglongchang Bridge and Chengbei Exit Dajian Road	74,103	80,388
	1,358,516	1,049,211
Less: Revenue taxes	(41,074)	(32,890)
	1,317,442	1,016,321
Other income and gains		
Road maintenance income	32,845	33,944
Rental income	19,186	15,616
Interest income from bank deposits	8,384	10,359
Interest income from discounting of long term compensation receivables *(note 19)*	11,442	—
Miscellaneous	5,876	4,370
	77,733	64,289
Total revenue, other income and gains	1,395,175	1,080,610

5. PROFIT BEFORE TAX

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

	Notes	**2007** **RMB'000**	2006 RMB'000
Employee costs (excluding directors' remuneration *(note 7)*):			
Wages and salaries		**87,460**	83,743
Pension scheme contributions			
— Defined contribution fund		**13,248**	11,884
Accommodation benefits			
— Defined contribution fund		**10,908**	9,309
Supplementary pension scheme			
— Defined contribution fund		**2,694**	—
		114,310	104,936
Repairs and maintenance		**176,969**	181,005
Depreciation	12	**218,768**	199,474
Amortisation of prepaid land lease payments	13	**24,554**	25,173
Amortisation of operating rights	14	**6,623**	11,384
Minimum lease payments under operating leases:			
Land and buildings		**4,235**	1,692
Auditors' remuneration		**1,634**	1,664
Loss on disposal of items of property, plant and equipment		**20,715**	2,602
Loss on disposal of a subsidiary	28(c)	**581**	—
Provision for impairment of other receivables	22(b)	**5,223**	8,064
Reversal of provision for impairment of other receivables	22(b)	**(3,565)**	(797)

6. FINANCE COSTS

	2007 **RMB'000**	2006 RMB'000
Interest on bank and other loans wholly repayable within five years	**36,954**	109,495
Amortisation of discount on short term commercial papers	**50,240**	5,410
Exchange losses/(gains)	**132**	(5)
	87,326	114,900

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:

Directors

	2007 **RMB'000**	2006 RMB'000
Fees	**230**	380
Other emoluments:		
Salaries, allowances and benefits in kind	**1,060**	1,064
Pension scheme contributions	**14**	16
Supplementary pension scheme contributions	**6**	—
	1,080	1,080
	1,310	1,460

(1) Independent non-executive directors

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

	2007 **RMB'000**	2006 RMB'000
Madam Luo Xia	**60**	60
Mr. Feng Jian	**60**	60
Mr. Zhao Zesong	**45**	—
Madam Zang Dihua	**33**	130
Mr. Yim Chung Wu	**32**	130
	230	380

There were no other emoluments payable to the independent non-executive directors during the year (2006: Nil).

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

(2) Executive directors

	Salaries allowances and benefits in kind *RMB'000*	Pension scheme contributions *RMB'000*	Supplementary pension scheme contributions *RMB'000*	Total *RMB'000*
2007				
Mr. Tang Yong	107	4	2	113
Mr. Zhang Zhiying	144	4	2	150
Madam Zhang Yang	130	—	—	130
Mr. Gao Chun	130	—	—	130
Mr. Zhou Liming	134	1	—	135
Mr. Wang Shuanming	98	—	—	98
Mr. Liu Mingli	124	4	2	130
Mr. He Gang	32	—	—	32
Mr. Zhang Yongnian	31	1	—	32
Mr. Zhang Wensheng	130	—	—	130
	1,060	14	6	1,080

	Salaries, allowances and benefits in kind *RMB'000*	Pension scheme contributions *RMB'000*	Total *RMB'000*
2006			
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

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

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

The five highest paid individuals were also the Company's directors during the two years ended 31 December 2007.

Supervisors

	Salaries allowances and benefits in kind *RMB'000*	Pension scheme contributions *RMB'000*	Supplementary pension scheme contributions *RMB'000*	Total *RMB'000*
2007				
Mr. Feng Bing	99	4	2	105
Mr. Hou Bin	—	—	—	—
Mr. Ouyang Huajie	—	—	—	—
Mr. Jian Shixi	61	3	2	66
Madam Yang Jingfan	46	3	1	50
Mr. Li Aimin	—	—	—	—
Madam He Kun	—	—	—	—
	206	10	5	221

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

There was no arrangement under which a supervisor waived or agreed to waive any remuneration during the year.

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

Supervisors *(Continued)*

In addition to the amounts disclosed above, 4 supervisors did not receive any remuneration from the Company in 2007, of which 2 supervisors are also senior executives of Sichuan Highway Development, the ultimate holding company of the Company, 1 supervisor is a senior executive of Huajian Communication and Economic Development Centre, which holds 25.7% interest in the Company and 1 supervisor is a senior executive of Sichuan Expressway Property Development Company Limited. In the opinion of the Directors, it is not practicable to apportion these amounts between their services as supervisors of the Company and their services as senior executives of the above company, respectively.

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 (2006: Nil).

Pursuant to documents "Cai Shui [2001] No. 202" and "Guo Shui Fa [2002] No. 47" issued by the State Tax Bureau and 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 five years from 1 January 2006 to 31 December 2010, the Company is required to pay CIT 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 CIT 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 the approval of the local tax authorities, Chengdu Airport Expressway Company Limited, an associate of the Company, was granted a tax concession to pay CIT 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 CIT at the standard rate of 33%.

On 16 March 2007, the National People's Congress approved the PRC Corporate Income Tax Law (the "New CIT Law"), which became effective from 1 January 2008. The New CIT 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%. In accordance with the "Guo Fa [2007] No. 39" promulgated on 26 December 2007, the preferential tax policies for the development of Western China that issued by the State Council shall continue to apply until the end of the tax preferential period. In this connection, the Group and its associate can continue to enjoy the preferential tax rates as described above until the end of their tax preferential periods as the Group and its associate are established and located in Western China.

8. TAX *(Continued)*

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

	2007 **RMB'000**	2006 RMB'000
Group:		
Current — Mainland China		
Charge for the year	**82,471**	47,418
Deferred *(note 18)*	**36,328**	(40,291)
Total tax charge for the year	**118,799**	7,127

A reconciliation of the tax expense applicable to profit before tax using the applicable tax rates for the Group to the tax expense at the effective tax rate, is as follows:

	2007 **RMB'000**	2006 RMB'000
Profit before tax	**615,084**	327,068
Tax at applicable tax rates of		
33%	**656**	1,544
18%	**103,934**	53,633
15%	**5,353**	3,664
Subtotal	**109,943**	58,841
Expenses not deductible for tax	**9,203**	865
Profit attributable to associates	**(705)**	(757)
Recognition of deferred tax assets on tax losses not recognised in prior years *(note 18)*	**—**	(51,822)
Tax rate difference on dividend from a subsidiary	**358**	—
Tax charge at the Group's effective tax rate	**118,799**	7,127

The share of tax attributable to associates amounting to RMB4,110,000 (2006: RMB4,579,000) is included in "Share of profits and losses of associates" on the face of the consolidated income statement.

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 2007 includes a profit of RMB482,152,000 (2006: RMB246,009,000) which has been dealt with in the financial statements of the Company (note 27).

10. DIVIDENDS

(a) Special dividend declared during the year

During the year, a special dividend of RMB0.04 per share of approximately RMB102,323,000 was declared and paid on 19 December 2007.

(b) Final dividend for the year

The Company will not pay a final dividend for the year ended 31 December 2007 to the shareholders.

(c) Dividends attributable to the previous and current financial years, declared and paid during the year

	2007 *RMB'000*	2006 *RMB'000*
Final dividend in respect of the financial year ended 31 December 2006 of RMB0.04 per share (2005: RMB0.04 per share)	**102,322**	102,322
Special dividend of RMB0.04 per share	**102,323**	–
	204,645	102,322

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 RMB487,824,000 (2006: RMB292,900,000) and 2,558,060,000 (2006: 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 two years or at each of the balance sheet dates. Accordingly, diluted earnings per share amounts for the two years ended 31 December 2006 and 2007 have not been disclosed.

12. PROPERTY, PLANT AND EQUIPMENT

Group

	At 1 January 2007 RMB'000	Additions/ provided during the year RMB'000	Disposals RMB'000	Transfers RMB'000	Disposal of a subsidiary RMB'000 (note 28(c))	At 31 December 2007 RMB'000
31 December 2007						
Cost:						
Expressways, tunnels and bridges	6,727,274	–	(22,518)	163,536	–	6,868,292
Safety equipment	439,018	3	(176)	5,692	–	444,537
Communication and signalling systems	149,411	2,014	(8,842)	1,590	–	144,173
Toll collection equipment	112,112	1,716	(627)	23,041	–	136,242
Buildings	257,740	1,781	(984)	3,085	(3,124)	258,498
Machinery and equipment	144,122	7,401	–	352	–	151,875
Motor vehicles	57,546	5,594	(6,398)	–	–	56,742
Construction in progress	9,739	188,511	–	(197,296)	–	954
	7,896,962	207,020	(39,545)	–	(3,124)	8,061,313
Accumulated depreciation:						
Expressways, tunnels and bridges	1,192,507	135,183	(6,461)	–	–	1,321,229
Safety equipment	342,044	25,125	(144)	–	–	367,025
Communication and signalling systems	69,786	15,441	(4,346)	–	–	80,881
Toll collection equipment	55,641	14,124	(392)	–	–	69,373
Buildings	64,569	10,689	(401)	–	(240)	74,617
Machinery and equipment	91,186	12,488	(1,345)	–	–	102,329
Motor vehicles	35,491	5,718	(5,702)	–	–	35,507
	1,851,224	218,768	(18,791)	–	(240)	2,050,961

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

Group *(Continued)*

	At 1 January 2007 *RMB'000*	Additions/ provided during the year *RMB'000*	Disposals *RMB'000*	Transfers *RMB'000*	Disposal of a subsidiary *RMB'000* *(note 28(c))*	At 31 December 2007 *RMB'000*
31 December 2007 *(Continued)*						
Net book value:						
Expressways, tunnels and bridges	5,534,767					5,547,063
Safety equipment	96,974					77,512
Communication and signalling systems	79,625					63,292
Toll collection equipment	56,471					66,869
Buildings	193,171					183,881
Machinery and equipment	52,936					49,546
Motor vehicles	22,055					21,235
Construction in progress	9,739					954
	6,045,738					6,010,352

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

Group *(Continued)*

	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
31 December 2006					
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

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

Group *(Continued)*

	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*
31 December 2006 *(Continued)*					
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

As at 31 December 2007, the concession rights pertaining to the Chengbei Exit Expressway were pledged to secure bank loans amounting to RMB227,600,000 (2006: RMB208,600,000) (note 25(a)).

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

Company

	At 1 January 2007 *RMB'000*	Additions/ provided during the year *RMB'000*	Disposals *RMB'000*	Transfers *RMB'000*	At 31 December 2007 *RMB'000*
31 December 2007					
Cost:					
Expressways, tunnels and bridges	6,476,144	–	(22,365)	171,357	6,625,136
Safety equipment	407,561	3	(176)	5,692	413,080
Communication and signalling systems	148,531	2,173	(8,809)	1,590	143,485
Toll collection equipment	101,032	1,506	(490)	23,041	125,089
Buildings	206,876	8,284	(976)	2,656	216,840
Machinery and equipment	84,308	13,495	(568)	352	97,587
Motor vehicles	36,997	8,660	(5,708)	–	39,949
Construction in progress	9,629	195,963	–	(204,688)	904
	7,471,078	230,084	(39,092)	–	7,662,070
Accumulated depreciation:					
Expressways, tunnels and bridges	1,142,734	127,794	(6,308)	–	1,264,220
Safety equipment	327,561	21,931	(144)	–	349,348
Communication and signalling systems	69,276	15,397	(4,313)	–	80,360
Toll collection equipment	51,062	13,385	(376)	–	64,071
Buildings	54,334	10,283	(366)	–	64,251
Machinery and equipment	57,672	10,414	(551)	–	67,535
Motor vehicles	23,457	8,377	(5,260)	–	26,574
	1,726,096	207,581	(17,318)	–	1,916,359

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

Company *(Continued)*

	At 1 January 2007 *RMB'000*	Additions/ provided during the year *RMB'000*	Disposals *RMB'000*	Transfers *RMB'000*	At 31 December 2007 *RMB'000*
31 December 2007 *(Continued)*					
Net book value:					
Expressways, tunnels and bridges	5,333,410				5,360,916
Safety equipment	80,000				63,732
Communication and signalling systems	79,255				63,125
Toll collection equipment	49,970				61,018
Buildings	152,542				152,589
Machinery and equipment	26,636				30,052
Motor vehicles	13,540				13,375
Construction in progress	9,629				904
	5,744,982				5,745,711

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

Company *(Continued)*

	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*
31 December 2006						
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

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

Company *(Continued)*

	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
31 December 2006 *(Continued)*						
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

13. PREPAID LAND LEASE PAYMENTS

	Group		Company	
	2007 RMB'000	2006 RMB'000	**2007 RMB'000**	2006 RMB'000
Carrying amount at 1 January	**535,740**	560,913	**481,142**	237,909
Re-registration of Chengya as a branch subsequent to full acquisition of minority interests in Chengya	**–**	–	**–**	265,336
Disposal of a subsidiary *(note28(c))*	**(752)**	–	**–**	–
Amortisation during the year	**(24,554)**	(25,173)	**(21,485)**	(22,103)
Carrying amount at 31 December	**510,434**	535,740	**459,657**	481,142

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

	2007 RMB'000	2006 RMB'000
Cost:		
At 1 January	131,576	222,938
Disposal	—	(91,362)
At 31 December	131,576	131,576
Accumulated amortisation:		
At 1 January	15,677	15,179
Provided during the year	6,623	11,384
Disposal	—	(10,886)
At 31 December	22,300	15,677
Net book value:		
At 31 December	109,276	115,899

The concession period of the operating rights in respect of a toll bridge, Qinglongchang Bridge, which is connected to the Chengbei Exit Expressway, is approximately 19.5 years from 30 August 2004.

15. INVESTMENTS IN SUBSIDIARIES

Company

	2007 RMB'000	2006 RMB'000
Unlisted investments, at cost	393,496	412,367

The amounts due from/to subsidiaries as at 31 December 2007 and 2006 included in the Company's current assets and current liabilities are unsecured, interest-free and are repayable on demand or within one year except for an aggregate amount due from a subsidiary of RMB50,000,000 as at 31 December 2006, which bore interest at rates ranging form 4.94% to 5.18%. The carrying amounts of all the amounts due from/to subsidiaries approximate to their fair values.

15. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Company *(Continued)*

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 Chengbei Exit Expressway
Chengdu Shuhai Investment Management Company Limited ("Shuhai")	Limited company	200,000	99.9	–	Investment holding
Sichuan Shugong Expressway Engineering Company Limited	Limited company	30,000	100	–	Repairs and maintenance of expressways
Sichuan Shusha Enterprise Company Limited	Limited company	30,000	100	–	Provision of ancillary services and property development
Sichuan Chengyu Expressway Advertising Company Limited	Limited company	1,000	–	60	Design and production of advertisements

During the year, Mingshan Mingyuan Tea Company Limited ("Mingshan Mingyuan"), a then subsidiary of the Company, has completed a scheme of arrangement with its creditors sanctioned by the Ya'an District Court on 1 November 2007. Pursuant to a shareholders' resolution of Mainshan Mingyuan dated on 6 November 2007, Minshan Mingyuan was dissolved on the same day by its shareholders. Further details of this disposal are included in note 28(c) to the financial statements.

16. INTERESTS/INVESTMENTS IN ASSOCIATES

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Unlisted shares, at cost	**–**	–	**39,428**	39,428
Share of net assets	**66,671**	67,698	**–**	–
Provision for impairment	**(9,163)**	(9,163)	**–**	–
	57,508	58,535	**39,428**	39,428

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 2007	Percentage of equity attributable to the Group 2006	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

16. INTERESTS/INVESTMENTS IN ASSOCIATES *(Continued)*

None of the above associates is audited by Ernst & Young Hong Kong or other member firm of the Ernst & Young global network.

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

	2007 *RMB'000*	2006 *RMB'000*
Assets	606,637	602,319
Liabilities	401,188	396,607
Revenues	192,009	94,675
Profit	26,097	21,348

17. AVAILABLE-FOR-SALE INVESTMENTS

	Group		Company	
	2007 *RMB'000*	2006 *RMB'000*	2007 *RMB'000*	2006 *RMB'000*
Unlisted equity investments, at cost	32,795	32,795	21,500	21,500

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.

18. DEFERRED TAX

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

Deferred tax assets	Losses available for offset against future taxable profits	
	2007	2006
	RMB'000	*RMB'000*
At 1 January	**37,255**	–
Recognition of deferred tax assets on tax losses not recognised in prior years	**–**	51,822
Utilised during the year	**(37,255)**	(14,567)
Deferred tax credited/(charged) to the income statement during the year *(note 8)*	**(37,255)**	37,255
At 31 December	**–**	37,255

Deferred tax liabilities	Depreciation allowance in excess of related deprecation	
	2007	2006
	RMB'000	*RMB'000*
At 1 January	**927**	3,963
Deferred tax credited to the income statement during the year *(note 8)*	**(927)**	(3,036)
At 31 December	**–**	927

19. LONG TERM COMPENSATION RECEIVABLES

Pursuant to a 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.

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;

(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; and

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

The compensation can be analysed as follows:

	2007			2006		
	Compensation *RMB'000*	**Imputed interest** *RMB'000*	**Net present value** *RMB'000*	Compensation *RMB'000*	Imputed interest *RMB'000*	Net present value *RMB'000*
Receivable:						
Within one year	**13,000**	**11,225**	**1,775**	13,000	11,442	1,558
In the second to fifth years, inclusive	**52,000**	**42,061**	**9,939**	52,000	43,276	8,724
Over five years	**133,802**	**64,873**	**68,929**	146,802	76,608	70,194
	198,802	**118,159**	**80,643**	211,802	131,326	80,476
Portion classified as current assets			**(1,775)**			(1,558)
Non-current portion			**78,868**			78,918

19. LONG TERM COMPENSATION RECEIVABLES *(Continued)*

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 13.92% per annum. The imputed rate of interest adopted reflects risk premium accounted for after considering the credit risk incurred due to the fact that the compensation will be paid over 17 years.

20. PAYMENT IN ADVANCE

Payment in advance represents RMB100 million paid by the Company to Sichuan Highway Development (the parent and the ultimate holding company of the Company) and Leshan City Xing Yuan Traffic Development Holding Company (an independent third party) (collectively "Vendors") in relation to the acquisition of entire interest in SC Expressway as further disclosed in note 32(c) to the financial statements.

21. INVENTORIES

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Spare parts and consumable supplies	**12,519**	12,258	**4,766**	471

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

		Group		Company	
		2007	2006	**2007**	2006
	Notes	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Prepayments	(a)	**15,812**	113,887	**13,232**	13,250
Deposits and other receivables	(b)	**100,992**	92,935	**65,753**	59,326
		116,804	206,822	**78,985**	72,576
Impairment for other receivables	(b)	**(66,325)**	(64,667)	**(46,169)**	(44,622)
		50,479	142,155	**32,816**	27,954

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

(a) The Group's prepayments as at 31 December 2006 mainly included a down payment of RMB100 million made in respect of a proposed acquisition of a 21.16% equity interest in Jiuzhai Huanglong Airport Co., Ltd ("Proposed Investment") by Shuhai, a subsidiary of the Company, according to a series of conditional proposed investment agreements. According to those agreements, the proposed investment should be subject to approval by the Board and shareholders of the Company pursuant to the Hong Kong Listing Rules. However, the proposed investment had not been approved by the Board and shareholders of the Company finally. On 7 March 2007, the Board of Shuhai passed a resolution to withdraw the Proposed Investment. The down payment of RMB100 million was collected by Shuhai on 16 March 2007.

(b) The movements in provision for individually impaired other receivables are as follows:

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
At 1 January	**64,667**	57,400	**44,622**	36,714
Impairment losses recognised *(note 5)*	**5,223**	8,064	**5,112**	7,908
Impairment losses reversed *(note 5)*	**(3,565)**	(797)	**(3,565)**	–
	66,325	64,667	**46,169**	44,622

The individually impaired other receivables relate to debtors that were in financial difficulties and only a portion of the receivables is expected to be recovered. The Company holds a collateral for land use rights of a plot of land located at Zigong, Sichuan Province with the area of 50,000 square meters and gas tanks, to secure the balance of approximately RMB 14 million. The market value of the land use rights pledged to the Company is approximately RMB13.6 million.

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

(b) The movements in provision for individually impaired other receivables are as follows: *(Continued)*

The aged analysis of the other receivables that are not considered to be impaired is as follows:

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Neither past due nor impaired	**27,667**	25,468	**12,584**	11,904
Less than 1 month past due	**7,000**	2,800	**7,000**	2,800
	34,667	28,268	**19,584**	14,704

Receivables that were neither past due nor impaired related to a large number of diversified debtors for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a balance due from a former subsidiary of the Company after taking into account the market value of the collateral hold by the Company over this balance.

23. CASH AND CASH EQUIVALENTS

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash and bank balances	**512,766**	416,825	**338,236**	225,302
Time deposits with original maturity of less than three months	**110,000**	—	**—**	—
	622,766	416,825	**338,236**	225,302
Time deposits with original maturity of over three months	**17,403**	15	**—**	15
	640,169	416,840	**338,236**	225,317

At the balance sheet date, all the cash and bank balances of the Group are denominated in RMB. The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

24. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Accruals	**6,998**	2,125	**6,998**	672
Other payables	**194,706**	332,688	**137,039**	244,903
	201,704	334,813	**144,037**	245,575

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 two years.

25. INTEREST-BEARING BANK AND OTHER LOANS

		Group		Company	
		2007	2006	**2007**	2006
	Notes	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Bank loans:	(a)				
Secured		**227,600**	208,600	**–**	–
Guaranteed		**119,000**	219,000	**119,000**	219,000
Unsecured		**1,000,000**	435	**1,000,000**	–
Short term commercial papers	(b)	**–**	1,449,760	**–**	1,449,760
Short term trust loan, guaranteed	(c)	**499,047**	–	**499,047**	–
Other loans, unsecured	(d)	**156,818**	179,545	**156,818**	179,545
		2,002,465	2,057,340	**1,774,865**	1,848,305
Analysed into:					
Bank loans repayable:					
Within one year		**1,084,000**	120,435	**1,009,000**	–
In the second year		**150,000**	129,000	**110,000**	109,000
In the third to fifth years, inclusive		**112,600**	178,600	**–**	110,000
		1,346,600	428,035	**1,119,000**	219,000
Short term commercial papers: Within one year		**–**	1,449,760	**–**	1,449,760

25. INTEREST-BEARING BANK AND OTHER LOANS *(Continued)*

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Short term trust loan:				
Within one year	**499,047**	—	**499,047**	—
Other loans repayable:				
Within one year	**22,727**	22,727	**22,727**	22,727
In the second year	**22,727**	22,727	**22,727**	22,727
In the third to fifth years, inclusive	**68,182**	68,182	**68,182**	68,182
Beyond five years	**43,182**	65,909	**43,182**	65,909
	156,818	179,545	**156,818**	179,545
Total bank and other loans	**2,002,465**	2,057,340	**1,774,865**	1,848,305
Portion classified as current liabilities	**(1,605,774)**	(1,592,922)	**(1,530,774)**	(1,472,487)
Non-current portion	**396,691**	464,418	**244,091**	375,818

At the balance sheet date, all interest-bearing bank and other loans of the Group are denominated in RMB.

(a) The bank loans bear interest at rates ranging from 5.27% to 7.83% (2006: from 5.27% to 6.48%) per annum. Bank loans amounting to RMB227,600,000 (2006: RMB208,600,000) are secured by the pledge of the concession rights of the Chengbei Exit Expressway (note 12).

(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. The short term commercial papers were expired and repaid by the Company on 27 November 2007.

(c) On 23 November 2007, the Company borrowed a trust loan for a period of three months from a licensed non-banking financial institution. The trust loan is guaranteed by China Construction Bank and bears interest at a rate of 4.834% per annum.

(d) Other loans are unsecured and bear interest at rates ranging from 2.28% to 5% (2006: from 2.28% to 5%) per annum.

25. INTEREST-BEARING BANK AND OTHER LOANS *(Continued)*

The carrying amounts of the Group's and the Company's current bank and other loans approximate to their fair values. The fair value of the Group's and the Company's bank and other loans (non-current portion) are as follows:

	Carrying amounts		Fair values	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Group				
Bank loans	**262,200**	307,600	**223,102**	278,500
Other loans	**134,091**	156,818	**99,779**	118,996
	396,291	464,418	**322,881**	397,496

	Carrying amounts		Fair values	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Company				
Bank loans	**110,000**	219,000	**96,139**	190,117
Other loans	**134,091**	156,818	**99,779**	118,996
	244,091	375,818	**195,918**	309,113

26. ISSUED CAPITAL

	2007	**2006**	**2007**	**2006**
	Number of shares	*Number of shares*	***RMB'000***	*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.

27. 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 54 of the financial statements.

Company

	Share premium account RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	General surplus reserve RMB'000	Retained profits RMB'000	Difference arising form the acquisition of minority interest RMB'000	Total RMB'000
At 1 January 2006	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 2006 dividend *(note 10)*	–	–	–	–	(102,322)	–	(102,322)
At 31 December 2006 and 1 January 2007	1,413,597	355,257	–	333,434	381,858	(244,529)	2,239,617
Profit for the year	–	–	–	–	482,152	–	482,152
Transfer from/(to) reserves	–	103,337	–	112,008	(215,345)	–	–
Special dividend *(note 10)*	–	–	–	–	(102,323)	–	(102,323)
At 31 December 2007	1,413,597	458,594	–	445,442	546,342	(244,529)	2,619,446

27. RESERVES *(Continued)*

Company *(Continued)*

(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.

(b) 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 statutory public welfare fund. In 2006, 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.

28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	Notes	2007 RMB'000	2006 RMB'000
Profit before tax:		615,084	327,068
Adjustments for:			
Share of profits and losses of associates		(4,699)	(5,048)
Depreciation	5	218,768	199,474
Amortisation of prepaid land lease payments	5	24,554	25,173
Amortisation of operating rights	5	6,623	11,384
Impairment of other receivables, net	5	1,658	7,267
Loss on disposal of a subsidiary	5	581	—
Loss on disposal of items of property, plant and equipment	5	20,715	2,602
Interest income	4	(19,826)	(10,359)
Interest expenses	6	87,194	114,905
		950,652	672,466
Decrease/(increase) in prepayments, deposits and other receivables		90,124	(2,636)
Increase in inventories		(261)	(2,886)
Increase/(decrease) in other payables and accruals		(29,688)	84,027
Decrease in an amount due to the ultimate holding company		(2,054)	—
Cash generated from operations		1,008,773	750,971
Income tax paid		(49,674)	(63,238)
Net cash inflow from operating activities		959,099	687,733

28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(b) Acquisition of minority interests in Chengya

In 2006, the Company purchased the remaining 37.628% interest in Sichuan Chengya Expressway Company Limited ("Chengya"), a then subsidiary of the Company, from the minority shareholders of Chengya. Details are as follows:

	2006 *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

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.

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

	RMB'000
Satisfied by:	
Cash paid in:	
2006	250,513
2007	105,173
Total cash paid as at 31 December 2007	355,686
Other payables	5,658
	361,344

28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(c) Disposal of a subsidiary

	Notes	2007 *RMB'000*
Net assets disposed of:		
Property, plant and equipment	12	2,884
Prepaid land lease payments	13	752
Prepayment, deposits and other receivables		56
Interest-bearing bank loans		(435)
Other payables and accruals		(2,280)
Minority interests		(284)
		693
Less: Loss on disposal of a subsidiary		(581)
		112
Satisfied by:		
Other receivables		112

29. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases certain parcel of its land along the Chengyu Expressway under operating lease arrangements for the operation of petrol kiosk, with lease term of 20 years. The terms of the lease also require the tenant to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2007, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenant falling due as follows:

Group

	2007 RMB'000
Within one year	4,801
In the second to fifth years, inclusive	20,019
Over five years	64,385
	89,205

(b) As lessee

The Group entered into commercial leases on certain land and office buildings based on the reason that it is not in the best interest of the Group to purchase these assets. These leases have an average life of 1 to 22.5 years.

At 31 December 2007, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Within one year	15,269	1,000	8,887	1,000
In the second to fifth years, inclusive	61,075	–	35,548	–
Over five years	192,167	–	151,071	–
	268,511	1,000	195,506	1,000

30. COMMITMENTS

In addition to the operating lease commitments detailed in note 29 above, the Group and the Company had the following capital commitments at the balance sheet date:

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Contracted, but not provided for	**1,056,012**	63,759	**1,056,012**	63,759
Authorised, but not contracted for	**174,029**	193,741	**174,029**	193,741
	1,230,041	257,500	**1,230,041**	257,500

Further details of the capital commitments of the Company and the Group as at 31 December 2007 are analysed as follows:

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
In respect of:				
Construction works to upgrade the Chengyu Expressway	**231,720**	237,788	**231,720**	237,788
Acquisition of 100% equity interest in SC Expressway	**998,321**	—	**998,321**	—
Others	**—**	19,712	**—**	19,712
	1,230,041	257,500	**1,230,041**	257,500

31. RETIREMENT SCHEMES 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 RMB13,262,000 (2006: RMB11,900,000).

31. RETIREMENT SCHEMES AND EMPLOYEE ACCOMMODATION BENEFITS *(Continued)*

In addition, effective from 1 January 2007, a supplementary defined contribution pension scheme managed by an independent financial institution was established. Under the plan, the Company makes a monthly defined contribution to certain qualified employees at a rate of 8.3% of the qualified employees' salaries or wages of the last year. There were no vested benefits attributable to part service upon the adoption of the plan. During the year, contributions to the supplementary defined contribution pension scheme made by the Company amounted to approximately RMB 2,700,000 (2006: Nil). Other than the above, the Company has no obligation for the payment of pension benefit beyond those annual contributions.

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 RMB10,908,000 (2006: RMB9,309,000).

32. RELATED PARTY TRANSACTIONS

(a) In previous years, the Group obtained state loans in an original amount of RMB250,000,000 (2006: 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 RMB22,727,000 (2006: RMB22,728,000). The state loans have been included in other loans as set out in note 25 to the financial statements.

(b) During the year, the aggregate service fee payable to Sichuan Zhineng Transportation System Management Company Limited, a subsidiary of Sichuan Highway Development, in relation to the provision of a computer system on highway networks toll fee collection and supportive technological services to the Group amounted to approximately RMB11,944,000 (2006: RMB3,750,000).

32. RELATED PARTY TRANSACTIONS *(Continued)*

(c) On 26 September 2007, the Company entered into a conditional acquisition agreement ("Agreement") with the Vendors (note 20), to agree to purchase, subject to fulfilment of conditions precedent, the 100% equity interest in SC Expressway at a consideration of RMB1,098,320,800 (the "Consideration"). The Agreement will be terminated if the A Share Issue is unsuccessful. In such case, the Vendors shall refund the advance payment paid by the Company with no accrual interest charged to the Company within 10 working days after the receipt of written notice from the Company.

The Consideration is determined after an arm's length negotiation with reference to the fair market valuation on SC Expressway in its existing state as at 31 August 2007 provided by Savills Valuation and Professional Services Limited, an independent valuer. The Consideration will be settled in cash on the following terms:

(i) RMB100 million shall be paid by the Company within 10 working days from the approval of the Proposed A Share Issue by the shareholders of the Company;

(ii) the remaining balance shall be satisfied by the Company to the Vendors within 10 working days from the date of completion of the A Share Issue.

The Agreement was approved by the Board on 26 September 2007 and by the shareholders on 12 December 2007. Up to 31 December 2007, the Company made payment in advance to the Vendors amounting to RMB100 million (note 20).

Upon completion, SC Expressway will become a wholly-owned subsidiary of the Company.

The Proposed A Share Issue has not yet completed at the date of approval of this financial statements.

(d) Compensation of key management personnel of the Group:

	2007 **RMB'000**	2006 RMB'000
Fees	**230**	380
Other emoluments:		
Salaries, allowances and benefits in kind	**1,266**	1,206
Pension scheme contributions	**24**	16
Supplementary pension scheme contributions	**11**	—
	1,301	1,222
Total compensation paid to key management personnel	**1,531**	1,602

Further details of directors' emoluments are included in note 7 to the financial statements.

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

33. 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.

Risk management is carried out by the finance department which is lead by the Group's executive directors. Group's finance department identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The main risks arising from the Group's financial instruments are 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.

Interest rate risk

The interest rates 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 any debt obligations which are subject to floating interest rate.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets and projected cash flows from operations.

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 RMB1,154.2 million as at 31 December 2007.

With regard to 2007 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 among its bankers. Based on acknowledgements issued by the relevant banks, banking facilities amounting to RMB619 million, RMB1.3 billion and RMB1.0 billion granted by the Industry and Commercial Bank of China, China Construction Bank and Citic Bank, respectively, are available to the Group. As at 31 December 2007, banking facilities amounting to RMB919 million in aggregate were utilised.

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Liquidity risk *(Continued)*

The maturity profile of the Group's financial liabilities as at the balance sheet date, based on the contracted undiscounted payments, was as follows:

Group

	2007					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Interest-bearing bank and other loans	–	**503,592**	1,102,182	353,509	43,182	2,002,465
Other payables	–	–	168,254	26,452	–	194,706
	–	503,592	1,270,436	379,961	43,182	2,197,171

	2006					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Interest-bearing bank and other loans	–	4,545	1,588,377	398,509	65,909	2,057,340
Other payables	–	–	311,242	21,446	–	332,688
Due to the ultimate holding company	2,054	–	–	–	–	2,054
	2,054	4,545	1,899,619	419,955	65,909	2,392,082

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Liquidity risk *(Continued)*

Company

	2007					
	On demand *RMB'000*	Less than 3 months *RMB'000*	3 to less than 12 months *RMB'000*	1 to 5 years *RMB'000*	Over 5 years *RMB'000*	Total *RMB'000*
Interest-bearing bank and other loans	–	503,592	1,027,182	200,909	43,182	1,774,865
Other payables	–	–	113,975	23,064	–	137,039
Due to subsidiaries	27,058	–	–	–	–	27,058
	27,058	503,592	1,141,157	223,973	43,182	1,938,962

	2006					
	On demand *RMB'000*	Less than 3 months *RMB'000*	3 to less than 12 months *RMB'000*	1 to 5 years *RMB'000*	Over 5 years *RMB'000*	Total *RMB'000*
Interest-bearing bank and other loans	–	4,545	1,467,942	309,909	65,909	1,848,305
Other payables	–	–	224,243	20,660	–	244,903
Due to subsidiaries	32,690	–	–	–	–	32,690
Due to the ultimate holding company	2,054	–	–	–	–	2,054
	34,744	4,545	1,692,185	330,569	65,909	2,127,952

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. The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, available-for-sale financial assets and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

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.

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, polices or processes during the years end 31 December 2007 and 31 December 2006.

The Group monitors capital using a gearing ratio, which is the Group's total liabilities over its total assets. The Group's policy is to keep the gearing ratio between 20% and 35%. The Group's gearing ratio as at 31 December 2007 was 29.7% (2006: 32.3%).

34. POST BALANCE SHEET EVENT

The Company was approved by the People's Bank of China on 28 January 2008, to issue short-term commercial papers in one or separate time(s) within an amount not exceeding RMB2.0 billion before the end of January 2009. The Company decided to issue the short-term commercial papers aggregating RMB1.5 billion to members registered in the PRC interbank debt market on 19 February 2008.

35. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with the current year's presentation.

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board on 18 February 2008.

【NOTICE OF ANNUAL GENERAL MEETING】

NOTICE IS HEREBY GIVEN THAT the Annual General Meeting (the "AGM") of Sichuan Expressway Company Limited (the "Company") will be held at the premises of the Company at 252 Wuhouci Da Jie, Chengdu, Sichuan Province, the People's Republic of China (the "PRC"), at 11:00 a.m. on Thursday, 17 April 2008 (or at any adjournment thereof) for the following purposes:

1. To consider and approve the financial budget implementation report for the year of 2007.

2. To consider and approve the report of the board of directors for the year of 2007.

3. To consider and approve the report of the Supervisory Committee for the year of 2007.

4. To consider and approve the audited financial report for the year of 2007.

5. To consider and approve the proposal of profit distribution for the year of 2007.

6. To consider and approve the financial budget proposal for the year of 2008.

7. To consider and approve the re-appointment of Sichuan Jun He Accountants, the PRC, and Ernst & Young, Certified Public Accountants, Hong Kong, as the Company's domestic and international auditors respectively for the year of 2008, and to authorize the Board to fix their remuneration.

By order of the Board
Zhang Yongnian
Company Secretary

Chengdu, Sichuan, the PRC
28 February 2008

Notes:

(i) Any holder of H Shares who has registered on the H Shares register of shareholders of the Company at Hong Kong Registrars Limited before 4:30 p.m. on Friday, 14 March 2008 is entitled to attend the AGM after registration for the meeting. He/she is also entitled to appoint one or more proxies to attend and vote at the AGM on his/her behalf in accordance with the Articles of Association of the Company. A proxy need not to be a shareholder of the Company.

(ii) In order to be valid, the proxy form of holders of H Shares and, if such proxy form is signed by a person under a power of attorney or other authority on behalf of the principal, a notarially certified copy of that power of attorney or authority shall be deposited at the Company's H Share Registrar, Hong Kong Registrars Limited, at 46/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 24 hours before the time for holding the AGM or 24 hours before the time appointed for the passing of the resolutions.

(iii) Shareholders or their proxies shall produce their identity documents when attending the AGM.

(iv) The register of shareholders of the Company will be closed from Monday, 17 March 2008 to Thursday, 17 April 2008 (both days inclusive), during which period no transfer of shares will be registered.

(v) Pursuant to Article 78 of the existing Articles of Association of the Company, at any meeting of shareholders a resolution shall be decided on a show of hands unless a poll is (before or after any vote by show of hands) demanded:

(1) by the chairman of the meeting;

(2) by at least two shareholders entitled to vote present in person or by proxy; or

(3) by one or more shareholders present in person or by proxy and representing 10 per cent or more of all shares carrying the right to vote at the meeting.

Unless a poll be so demanded, a declaration by the chairman that a resolution has on a show of hands been carried unanimously, or carried by a particular majority, or lost, and an entry to that effect in the book containing the minutes of the proceedings of the Company shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour of or against such resolution.

The demand for a poll may be withdrawn by the person who makes such demand.

(vi) Shareholders who intend to attend the AGM shall complete and lodge the reply slip for attending the AGM at the Company's legal address at 252 Wuhouci Da Jie, Chengdu, Sichuan Province, the PRC on or before Thursday, 27 March 2008. The reply slip may be delivered to the Company by hand, by post or by fax (fax no.: (8628) 8553 0753).

(vii) No final dividend will be distributed by the Company for the year ended 31 December 2007 pursuant to the special resolution No.1(8) "Plan of distribution of accumulated undistributed profits before the A Share Issue" passed at the extraordinary general meeting and class meetings of the holders of H Shares and Domestic Shares held on 12 December 2007.

(viii) The AGM is not expected to take more than one day. Shareholders or their proxies attending the AGM shall be responsible for their own travelling and accommodation expenses.

At the date of this notice, the board of directors of the Company comprises: Mr. Tang Yong (Chairman), Mr. Zhang Zhiying (Vice Chairman and General Manager), Madam Zhang Yang (Vice Chairman), Mr. Gao Chun, Mr. Zhou Liming, Mr. Wang Shuanming, Mr. Liu Mingli, Mr. Nie Xinquan, Madam Luo Xia#, Mr. Feng Jian#, Mr. Zhao Zesong# and Mr. Xie Bangzhu#.

 # Independent non-executive director

** For identification purposes only*