Sichuan Expressway Company Limited

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

(Stock Code: 00107)

2008

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.

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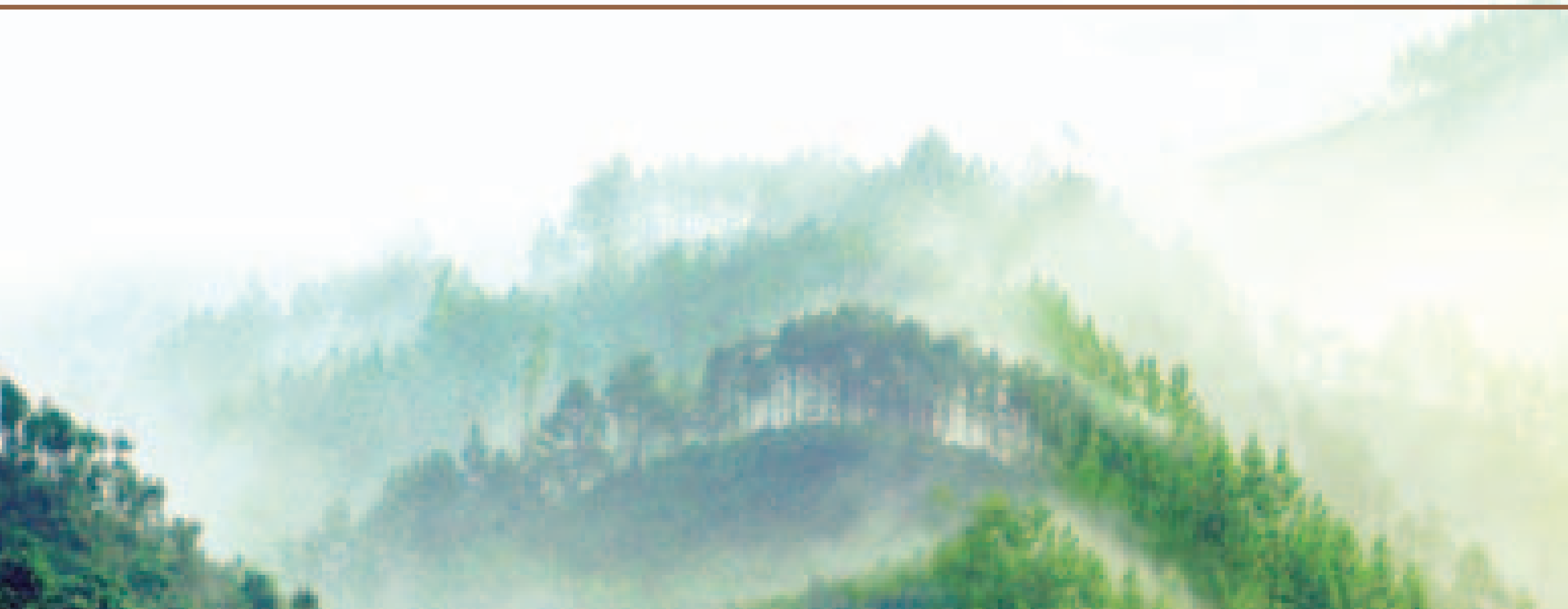

CORPORATE INFORMATION

Statutory Names in Chinese and English
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Sichuan Expressway Company Limited

Legal Representative
Tang Yong

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Zhang Yongnian

Representative of Securities Affairs
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Principal Place of Business in Hong Kong
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Central, Hong Kong

Initial Registration Date and Place
19 August 1997/Chengdu, Sichuan Province,
the PRC

Latest Date of Registration Update
3 July 2008

Registration Number of Business Licence
510000400003856

Tax Registration Number
Chuan Guo Shui Zi No. 51010720189926X

Place of Listing Shares
H Shares: The Stock Exchange of Hong Kong Limited

Stock Code
00107

Designated Publication Websites
http://www.hkex.com.hk
http://cygs.wsfg.hk
http://www.cygs.com

Principal Banker
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International Auditor
Ernst & Young Certified Public Accountants
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Domestic Auditor
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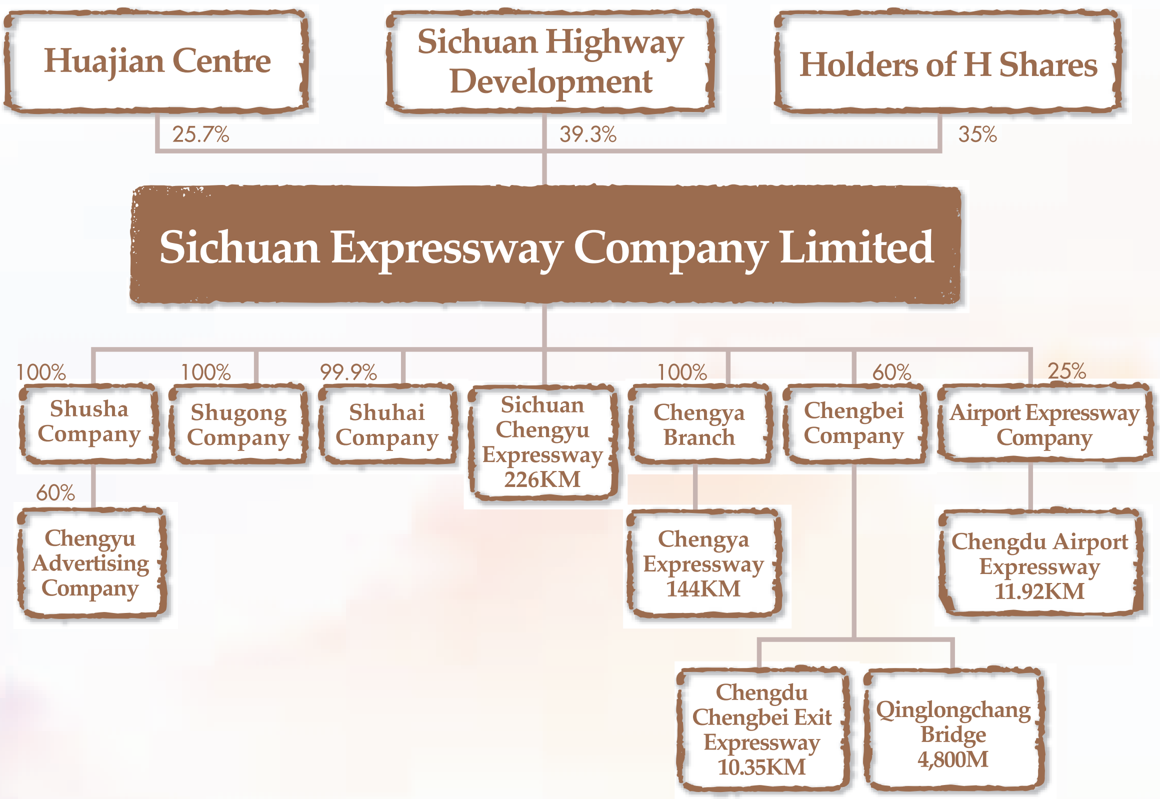
COMPANY PROFILE

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 of the Company as at 31 December 2008 are as follows:

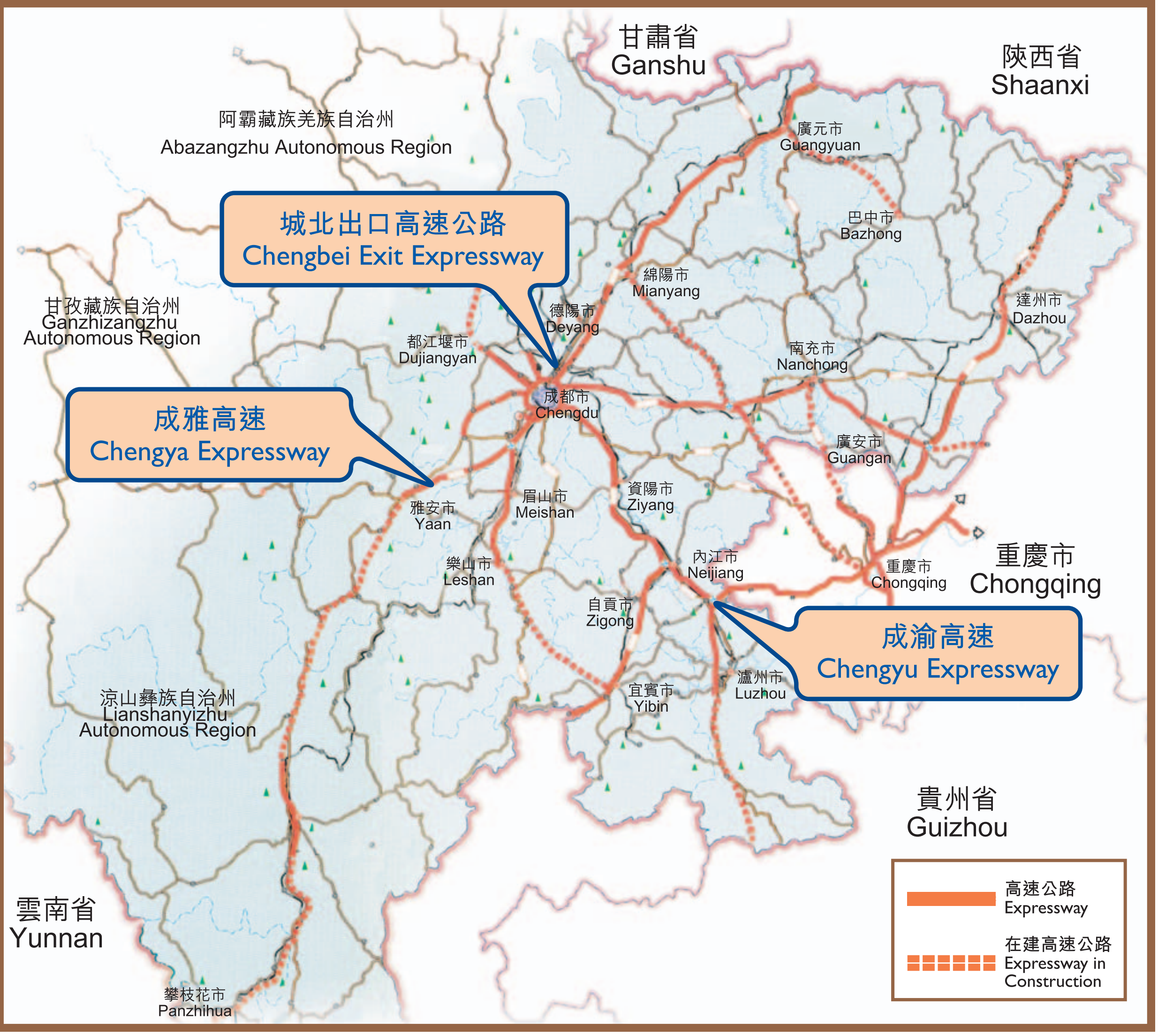


Notes:

"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

COMPANY PROFILE *(Continued)*

Expressway Network in Sichuan Province



CHAIRMAN'S STATEMENT

Tang Yong
Chairman

Dear Shareholders,

On behalf of the board of directors, I am pleased to report to the shareholders that in 2008, despite numerous difficulties and challenges, the Group recorded good overall performance and steady growth in results with the supports from all walks of life and the unrelenting efforts of our staff. Meanwhile, the Group's development strategy and operational tactics had been effectively implemented. The Group had made remarkable progress in business expansion, management, capital operation and corporate governance, all laying solid foundation for further investment and the establishment of new development pattern.

CHAIRMAN'S STATEMENT *(Continued)*

Results and Dividends

In 2008, the Group achieved revenue of RMB1,347,146,000, representing an increase of 2.25% as compared with last year; profit attributable to shareholders of the Company was RMB544,493,000, up 9.90% from last year (if not taking into account of the retrospective adjustment resulting from changes in the accounting policies, the profit attributable to shareholders of the Company increased by 11.62% as compared with last year). Earnings per share was RMB0.213 (2007: RMB0.194. If not taking into account of the retrospective adjustment resulting from changes in the accounting policies, earnings per share in 2007 was RMB0.191).

The Company is committed to achieving a win-win situation between the Company's profit and the shareholders' benefit. While accelerating its business expansion and improving its profitability, the Company is also pursuing the best investment return for the shareholders as its duty. Since the H shares of the Company were listed, the Company kept reciprocating investors with cash dividends for ten consecutive years, aggregating RMB1,015,550,000 in cash dividend.

In consideration of the pending A Share Issue and the acquisition of equity interest in Sichuan Chengle Expressway Company Limited ("SC Expressway") by the proceeds raised, and from the perspective of balancing the long-term interest and present income of investors, the board of directors discussed and decided at a meeting on 23 January 2009 that no final dividend will be paid to shareholders for the year ended 31 December 2008. But at the meeting it had also finalized the dividend policy for future i.e. within three years after the A Share Issue, no less than 40% of profit distributable for the underlying year realized by the parent company will be paid to shareholders as cash dividend.

Review

The year 2008 was, to every soul in Sichuan, unforgettable, bringing both pain and motivation for those who have experienced the tragedies in the year. At the beginning of 2008, we have been hit by the unprecedented snowstorm in southern China; in the middle of the year, the magnitude 8 earthquake has shocked the whole world. The disasters revealed the love within our fellow countrymen. Sharing the pain and the kinship with the people of Sichuan, the whole country gave assistance to the area to a full extent. Their generosity has warmed up the heart of the people of Sichuan whose lives were saved from a terrible act of nature. As an expressway company based in Sichuan, we indisputably dispatched construction team, at the earliest possible time, to attend the emergency repair of No. 213 National Highway between Dujiangyan and Wenchuan after the earthquake, and re-opened the life line to the epicentre. The team leader, Mr. Jiang Yi, was honoured as the "Anti-quake Hero" by the CPC Central Committee, the State Council and the Central Military Commission for his valiant and outstanding performance in the emergency rescue mission. Meanwhile, the Company endeavored to ensure that all of our expressways were available through which relief personnel and supplies were transported to the afflicted area. As arranged by the provincial government and Department of Transportation, we gave gratis pass-through to all earthquake relief vehicles. At the very moment of coordinated struggle of all Chinese people against the disaster, and when people in Sichuan rose from the traumas to start post-disaster reconstruction, the US financial crisis escalated into a global financial storm and its impact gradually spread to China. In the second half of 2008, the slowdown of China's economy had demonstrated its adverse influence to our operating environment, both the traffic volume and toll income of our expressways were affected. Despite all sorts of difficulties and challenges, all our staff put in coordinated and active efforts to minimize the damage. On one hand, we further strengthened and improved assets operation and management, stringently control operation cost and put much efforts in ensuring and enhancing operating performance. As a result, the Group's operating results gathered momentum during the year. On the other hand, guided by our existing development strategy, we continued to push investment and financing forward to facilitate an early accomplishment of A share issue. For the Group to reach higher and go further, we are to accelerate expansion of the Company by attentively implementing target project acquisition preparations and consolidating high-quality resources.

CHAIRMAN'S STATEMENT *(Continued)*

In 2008, toll income remained the major source of our profit. Facing the complicated and ever changing operating environment during the year, the Group tightened operation management on its expressways. By strengthening research on road network, improving traffic organization plans, ensuring road operation order, enhancing follow up analysis on toll income related factors and research surveys, we improved the overall traffic efficiency of road network and explored growth potentials of our existing toll roads. We maximized profitability of the Group by effectively controlling operating cost, exploring new sources of income and cutting expenditure. In 2008, the Group realized toll income of RMB1,389,149,000, representing an increase of 2.25% over last year.

Investment and financing, another focuses of the Group in 2008, were crucial for the Group to further expand its assets scale, enhance sustainable operation capacity and speed up its growth pace. In February 2008, the Company issued short-term commercial papers with an amount of RMB1.5 billion to supplement operating capital, optimize financing structure and lower financing cost. In June 2008, the issue of the Company's A share and listing application was approved by Securities Issue Approval Committee（股票發行審核委員會）of CSRC. However, the Company has not obtained the formal approval on the issue of A shares from CSRC due to the tumbled international and domestic financial and securities markets in the second half year. Therefore, the A share issue and the acquisition of 100% equity interest in SC Expressway with the proceeds raised are still pending. At the same time, the Company actively staged acquisitions of other high-quality expressways in Sichuan Province. Asset acquisitions of Chengnan Expressway and Suiyu Expressway (Sichuan Section) have been initiated and such acquisitions are planned to be completed by the end of 2009.

Challenges, Opportunities and Strategic Goals

We are of the view that challenges for the Group at present are mainly derived from the following five aspects: **Ongoing Effect of the Global Recession on the Macro Economy of China**. The continual and rapid growth of the national economy is fundamental to the demand for transportation. At present stage where the global economy is undergoing full scale recession, the slowing down and fluctuating economy of China may continue to impede the Group's operation; **Fiercer Market Competition**. It involves competitions in the transportation market arising from various transportation modes including railways, airlines 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 emergence of regional parallel expressways. In addition, with further open-up of the transportation industry, the increasing number of market participants will lead to fiercer and accelerated competitions; **Adjustment in Industry Policy**. Since the 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 but is also obliged to balance the interests among industries, the public and the society. Therefore, the adjustments in policies are unavoidable at the current stage; **Internal Resources**. Financial and human resources will face challenges during the rapid development of the Company. Although currently the Company has an ideal asset-to-liability ratio and abundant capital and financial resources, the kick-start of investment activities will challenge the Company's ability to bear liabilities. The Company has to strike balances between development opportunities and financial structure, short-term gains and long-term developments. Meanwhile, with the development in business and expansion in scale of the Company, there will be more demanding and up-to-date requirements for the quantity and quality of its human resources; **Management Ability**. Growing in size, 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 optimize the management mode of the Company as soon as possible.

CHAIRMAN'S STATEMENT *(Continued)*

However, opportunities and challenges coexist. Fighting against the global financial crisis, the PRC government will invest RMB4,000 billion to expand domestic demand and step up economy by expediting civil engineering projects, infrastructure, ecological environment developments and reconstructions in disaster areas. According to the Eleventh Five-year Plan (2006-2010) of the state, transportation industry is definitely positioned as an industry of preferential development. Also, Sichuan Provincial Government and Sichuan Provincial Department of Communications have made overall and prospective planning for provincial transportation networks, which implies vast investment demand in Sichuan expressway market. 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 the 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 activities. Under the fuel tax policy of China commencing from 1 January 2009, it is expected that expressways, being convenient, fast, comfortable and fuel-efficient, will be increasingly appealing to car owners. All of these suggest that the Group is set to enjoy exceptional development opportunities brought by continuous prosperity of the expressway industry of Sichuan province which is in expansion cycle in a long term perspective.

Though confronting difficulties and challenges, we will ensure smooth business development of the Group and enhance its operating results steadily in a confident, diligent and wise manner. Besides, we will seize every opportunity with a practical and aggressive approach, endeavoring to turn a new leaf in our development. In 2009, top priority will still be fully leveraging the financing platform of capital market to broaden financing channels and completing the acquisition of target projects as scheduled in the new coming year. Major measures in lifting the Group's growth also include improvement in operational management for increasing revenue and reducing expenses, appropriate integration of resources for better resources allocation, and improvement in management ability for fulfilling the present needs of the Group. By adopting such moves and continuous reviews on their effect, we believe that we will achieve the strategic target of turning the Company into a super-large infrastructure conglomerate with distinguished principal businesses, prudent operations, sound corporate governance and excellent management.

To conclude, on behalf of all members of the Company, I would like to take this opportunity to express my heartfelt gratitude to the public for their earnest care and selfless aid to the people in the stricken area in Sichuan, and also my sincere respect and appreciation to the shareholders, clients, business partners and the public who concern for and support the Company. We will continue to assimilate our corporate values of honesty and diligence in performing the duties and obligations as a listed company. More so, we will capture the favourable opportunities arising from the post-disaster reconstruction and the massive transportation development in Sichuan. We will adapt to the new economic and transportation landscape against all odds with courage and perseverance that we exhibited in the earthquake disaster. The Company is positioned to take a great leap forward and contribute to the well being of the society and public investors with remarkable operating results and business prospects in the future.

Tang Yong
Chairman

Chengdu, Sichuan, the PRC
23 January 2009

MANAGEMENT DISCUSSION AND ANALYSIS

Zhang Zhiying

Vice-Chairman and General Manager

I. Conditions of the 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 the PRC. Being the traffic arteries and the major routes in Sichuan Province, such expressways play a key role in the provincial transportation networks.

MANAGEMENT DISCUSSION AND ANALYSIS
(Continued)

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 2008, the Group's total assets reached approximately RMB8,032,443,000 with net assets amounting to approximately RMB5,903,071,000.

II. Analysis of Business Environment

- During the first half of 2008, Sichuan Province had been pounded by both the snow storm and the violent earthquake, which, to a different extent, impacted the production, operation and transportation activities of numerous enterprises, residents' daily life and regular trips and the tourism industry in the province and thus adversely affected the Group's business environment;

- In the second half of 2008, struck by the global financial storm, China witnessed an economic slowdown with the annual gross domestic product amounting to RMB30,067.0 billion, representing an increase of 9.0% as compared with that of last year. Such increase marked a record low since 2001. The total regional production value of Sichuan Province amounted to RMB1,250.6 billion, representing an increase of 9.5% as compared with that of last year, while the growth rate dropped by 4.7 percentage points. The adverse impact of the dampened economic sentiment on the operation the Group's expressway business has started to emerge;

- Highways are the most important transportation means in Sichuan Province.The full launch of reconstruction in the aftermath of the earthquake led to massive demand for highways. In possession of the main transportation route in Sichuan, all highways of the Group will be keys to the reconstruction of Sichuan Province, which will also facilitate the road operation of the Group;

MANAGEMENT DISCUSSION AND ANALYSIS
(Continued)

- In 2008, Chengdu City, which has been listed by the National Development and Reform Commission as one of the nationwide first tier logistics hubs, is rising a metropolis with regional and international logistic functions;

- With the establishment and development of the Chengyu Experimental Zone of Comprehensive Coordinated Reforms for Urban and Rural Area nationwide, the two cities are promoting cooperation with a common view to development and economic integration, where synergy of regional economies is taking shape. This is expected to further activate economic development and transportation activities in both cities and the areas along the Chengyu Expressway, which has a positive and far reaching effect on the traffic flow and toll income of the Chengyu Expressway.

During the year, despite the adverse impacts from the snow storm followed by the violent earthquake and the slowdown in the macro-economy, the Group, on one hand, spared no effort in rescue relief and reconstruction to fulfill the social obligation and duties that Sichuan enterprises should perform. On the other hand, it strived to strengthen and improve the operation and management of its existing assets to secure and enhance operating efficiency. As such, the Group realized continuing growth in operation results for the reporting period.

III. Business Review And Analysis

The earnings of the Group were mainly derived from the operation and investment of toll roads.

For the year ended 31 December 2008, the Group's revenue from toll fees amounted to RMB1,389,149,000, a growth of 2.25% as compared with last year. The Group's revenue was RMB1,347,146,000, a growth of 2.25% as compared with last year. Profit attributable to shareholders of the Company rocketed to RMB544,493,000, a growth of 9.90% as compared with last year (if not taking into account of the retrospective adjustment resulting from changes in the accounting policy, the profit attributable to shareholders of the Company increased by 11.62% as compared with last year). Earnings per share was RMB0.213 (2007: RMB0.194. If not taking into account of the retrospective adjustment resulting from changes in the accounting policy, earnings per share in 2007 was RMB0.191).

MANAGEMENT DISCUSSION AND ANALYSIS
(Continued)

1. Revenue from the Group's principal operations

Toll income	For the year ended 31 December 2008 *(RMB'000)*	Percentage to total income	Increase/ (decrease) as compared with 2007
Chengyu Company (excluding Chengya Branch)	843,929	60.75%	(5.21%)
Chengya Branch	469,318	33.79%	19.08%
Chengbei Company	75,902	5.46%	2.43%
Total	1,389,149	100%	2.25%

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

2. Operating results of the Company and its major branches and holding subsidiaries

Unit: RMB'000

	Toll Income	Operating Profit	Net Profit/(Loss)
Chengyu Company (excluding Chengya Branch)	843,929	462,963	376,837
Chengya Branch	469,318	272,170	163,312
Chengbei Company	75,902	33,492	14,468

MANAGEMENT DISCUSSION AND ANALYSIS
(Continued)

3. Operation of major expressways of the Group

Toll roads	Average daily traffic flow (Number of vehicles) 2008	2007	Increase/(decrease) year-on-year	Average daily toll income (RMB'000) 2008	2007	Increase/(decrease) year-on-year
Chengyu Expressway	15,289	16,220	(5.74%)	2,306	2,439	(5.45%)
Chengya Expressway	13,151	12,752	3.13%	1,282	1,080	18.70%
Chengbei Exit Expressway (including Qinglongchang Bridge)	24,244	22,250	8.96%	207	203	1.97%

Chengyu Expressway

During the year, the traffic volume of Chengyu Expressway decreased while its toll income increased significantly as compared with last year during the first half of the year but decreased remarkably during the second half. This was mainly due to:

— Suiyu (Suining-Chongqing) Expressway commenced operation on 29 December 2007. The expressway which connects to Chengnan (Chengdu-Nanchong) Expressway at Suining forms the Chengsuiyu Expressway（成遂渝高速公路）linking up Chengdu and Chongqing and is 45 kilometres shorter than Chengyu Expressway, which has caused a diversion of direct traffic between Chengdu and Chongqing (representing approximately 10% of the toll income of Chengyu Expressway, which has become stable);

MANAGEMENT DISCUSSION AND ANALYSIS
(Continued)

- The snow storm in South China during January and February this year had a greater impact on Guizhou, Guangxi, Guangdong as well as Luzhou and Yibin in the south of Sichuan, and part of the sections had been blocked. As Chengyu Expressway is the beginning section of the southwest sea route, the only access from Chengdu to Guizhou, Guangxi and Guangdong and to cities of strategic importance in the south of Sichuan such as Luzhou and Yibin, long-distance vehicles passing through Chengyu Expressway decreased during this period;

- The devastating Wenchuan Earthquake on 12 May 2008 caused a remarkable decrease in the traffic volume of Chengyu Expressway in the same month. Meanwhile, the toll income of Chengyu Expressway was also affected by the temporary toll free for rescue vehicles after the earthquake;

- Due to the implementation of "toll-by-weight" policy since 1 June 2007 in Sichuan Province on cargo vehicles which accounted for approximately 40% of the traffic volume of Chengyu Expressway, toll income of Chengyu Expressway had shown a strong year-on-year increase during the first half of 2008. In the second half of the year, with toll policy unchanged from last year, the rapidly spreading global financial crisis led to the slowdown of China's economy. That was the main reason why Chengyu Expressway suffered a sharp year-on-year decrease in traffic volume and income.

On the other hand, the pressure from the slowdown in the macro economy was effectively relieved by factors such as the establishment and development of Chengyu Experimental Zone of Comprehensive Coordinated Reforms for Urban and Rural Area, the emerging back feeding effect from Chengyu expressway economic zone, the important role of Chengyu Expressway as a main traffic route for reconstruction after the Sichuan disaster, continuous implementation of "toll-by-weight" policy and the planned termination of 20% toll cut policy on normally loaded vehicles in 2009. Therefore, the Company is confident of the sustainable profitability of Chengyu Expressway which is the core asset of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS
(Continued)

Chengya Expressway

In 2008, despite the ordeal to Chengya Expressway from the successive snow storm and earthquake catastrophe, its toll income continued strong growth momentum and increased by nearly 20% over last year. Its traffic volume also continued to increase. This is mainly attributable to the flourishing local tourism, economic zones formed along the expressway during the growth period giving new impetus to traffic volume of Chengya expressway, and the continuous implementation of "toll-by-weight" policy on cargo vehicles. Such factors largely offset the impact from the slowdown in the macro economy. It is anticipated that with the completion and commencement of operation of Chengya Expressway's extensions Yapan Expressway (Yaan-Panzhihua), Yale Expressway (Yaan-Leshan) and Leyi Expressway (Leshan-Yibin), which are under construction, Chengya Expressway will increasingly ride on the competitive advantage as a major transportation hub and a golden travel route in Sichuan province, thus further expanding its profitability.

MANAGEMENT DISCUSSION AND ANALYSIS
(Continued)

Chengbei Exit Expressway

In 2008, traffic volume of Chengbei Exit Expressway recorded significant growth while toll income merely recorded a small growth as compared with last year, which was far less than that of the traffic volume. The main reasons are:

— Since 15 December 2007, Chengdu 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. Accordingly, cargo vehicles subject to higher toll were diverted significantly. As a result, despite the significant growth in traffic volume of Chengbei Exit Expressway, its toll income only recorded moderate increase as the growth was mainly contributed by small vehicles;

— The cargo vehicles accounted for a smaller proportion (approximately 20% only) in the traffic volume of Chengbei Exit Expressway. Consequently, the increase in toll income attributed by the implementation of "toll-by-weight" policy was not as remarkable as that of the two expressways mentioned above.

MANAGEMENT DISCUSSION AND ANALYSIS
(Continued)

4. Other Businesses

In 2008, the Company achieved RMB243,367,000 of other income and gains (excluding operation of toll roads) in total, representing a decrease of 2.30% over last year. The Company's other businesses are mainly operated and managed by the following subsidiaries:

Shusha Company, a wholly owned subsidiary of the Company, is principally engaged in gas station operation, advertisement billboard leasing, vehicle maintenance and mobile emergency repair services along Chengyu Expressway and multiple operations beyond the road. The registered capital of Shusha Company is RMB30,000,000.

During the year, Shusha Company's revenue from operations was approximately RMB11,881,000, with net profit amounting to approximately RMB2,470,000, representing an increase of 7.01% and 16.67% respectively as compared to last year.

Shugong Company, another wholly owned subsidiary of the Company, is mainly engaged in the construction and maintenance of infrastructures such as road, bridge and tunnel, and the sale of engineering machine equipment and materials. The original registered capital of Shugong Company was RMB30,000,000, and its net assets was RMB40,000,000. On 25 November 2008, the Board of the Company resolved to increase the registered capital of Shugong Company by RMB40,000,000, with an aim to accelerate the company's marketization, address the need of its business and scale expansion and meet relevant requirements for its application for Grade-A qualifications of the main contractor for road construction. After the capital injection, Shugong Company's registered capital amounted to RMB70,000,000. Shugong Company had completed the relevant change of business registration on 25 December 2008.

In 2008, Shugong Company's revenue from operations was approximately RMB141,256,000, with net profits amounting to approximately RMB1,168,000, representing a decrease of 34.70% and 69.12% over last year respectively.

Shuhai Company, invested and established by the Company and Sichuan Jingchuan Highway Engineering Group Limited（四川京川公路工程集團有限公司）, is principally engaged in investment in road infrastructure projects and other industrial projects, investment consulting services (excluding financial and securities business), hi-tech products and technological development. The Company holds 99.9% equity interest in Shuhai Company. The registered capital of Shuhai Company is RMB200,000,000.

As an investment management company specializing in infrastructure projects, Shuhai Company is focusing on building up a project reserve of expressways and other transportation infrastructure in Sichuan Province through investigation and study. The company did not make any material investments during the year.

MANAGEMENT DISCUSSION AND ANALYSIS
(Continued)

5. Project Investment and Financing

The reconstruction of the earthquake-stricken areas, the need for fast recovery and comprehensive, coordinated development of the economic, social life and all kinds of businesses in Sichuan province, and the expansion of investment in infrastructure by all levels of government as a major measure to maintain economic growth during the macroeconomic downturn have created higher and more pressing demands for Sichuan's road construction. During this special historical period, the Group will contribute its best efforts to Sichuan's traffic development and strive for its organic growth at the same time by planning with a new historical perspective and accelerating growth.

In view of the foregoing, we have implemented and intend to implement the following financing and investment plans so as to accelerate the Group's asset growth and its pace of becoming larger and stronger:

- **Implementation of A Share Issue proposal**

On 12 December 2007, the matters in relation to A Share Issue were considered and approved at the third extraordinary general meeting of 2007 and the class meetings for the holders of H shares and holders of domestic shares respectively. The Company proposed to issue not more than 500,000,000 A shares to the public, raising proceeds of not more than RMB2 billion. On 19 December 2007, the Company formally filed the application documents regarding the issuance and listing of A shares with the CSRC. On 27 June 2008, the issue of the Company's A shares and listing application was approved by Securities Issue Approval Committee（股票發行審核委員會）of CSRC. However, the Company currently has not obtained the approval documents from the CSRC regarding the A Share Issue due to the tumbled international and domestic financial and securities markets in the second half of the year. As the Company failed to proceed with the A Share Issue before the expiry date (i.e. 11 December 2008) of the validity period for the A Share Issue, the Board of the Company presented the resolutions in relation to refreshment of specific mandate for issuance of A shares, refreshment of specific mandate for the amendments to the articles of the Company and refreshment of specific mandate for the adoption of the rules of procedures and internal rules to the shareholders on 23 January 2009 at the extraordinary general meeting and class meetings held on the same date, which were approved by the shareholders. The Company will continue to update relevant application materials on the issue of A shares in due course so as to ensure compliance with rules and legality of all application procedures. Upon obtaining the approval from CSRC, the Company will issue and list A shares on Shanghai Stock Exchange as soon as possible.

For details, please refer to the circulars of the Company dated 26 October 2007 and 8 December 2008 and the announcements of the Company dated 5 October 2007, 23 June 2008 and 25 November 2008.

MANAGEMENT DISCUSSION AND ANALYSIS
(Continued)

- ## Proposal for acquisition of 100% equity interests in SC Expressway

On 26 September 2007, the Company, Sichuan Highway Development and Leshan City Xing Yuan Traffic Development Holding Company (樂山市星源交通投資開發總公司) (the holding companies of SC Expressway) jointly entered into an agreement to acquire 100% equity interests in SC Expressway. Pursuant to the agreement, the acquisition agreement shall become effective upon the successful issue and listing of the Company's A shares. On 12 December 2007, the acquisition was considered and approved at the third extraordinary general meeting of 2007 and the class meetings for the holders of H shares and holders of domestic shares respectively. Meanwhile, it was approved that the acquisition of SC Expressway's equity interests will be financed by proceeds raised from the issue of A shares (Details of SC Expressway are disclosed in the circular dated 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 the asset scale and expand its basis of earnings which are in line with the sustainable development strategy of the Group.

- ## Other proposals for acquisition of quality expressways assets

On 20 March 2008 and 9 May 2008, the Company entered into the "Intentional agreement regarding an asset acquisition of Sichuan section of Suiyu Expressway (遂渝高速公路) and relevant matters" and the "Intentional agreement regarding an asset acquisition of Chengnan Expressway", both of which are non-legally binding, with the owners of Sichuan section of Suiyu Expressway and Chengnan Expressway, Sichuan Chengnan Expressway Company Limited (四川成南高速公路有限責任公司) ("Chengnan Company") and the controlling shareholder of Chengnan Company, Sichuan Highway Development respectively. During the year, the Company also initiated the asset acquisitions of Sichuan section of Suiyu Expressway and Chengnan Expressway. Such acquisitions are planned to be completed before 31 December 2009.

Suiyu Expressway, a dual four-lane close expressway with the total length of approximately 148 kilometres has been put into full operation since 29 December 2007. Sichuan section is measuring approximately 36.6 kilometres and Chongqing section is measuring approximately 111.8 kilometres. The expressway connected with Chengnan (Chengdu-Nanchong) Expressway at Suining with 147 kilometres long from Chengdu to Suining, which links Chengdu and Chongqing and is 45 kilometres shorter than Chengyu Expressway, leading to a diversion of direct traffic between Chengdu and Chongqing.

MANAGEMENT DISCUSSION AND ANALYSIS
(Continued)

Chengnan Expressway, which commenced operation in 2002, is a dual four-lane close expressway (six lanes in part) with the total length of 214 kilometres. This expressway is an integral part of Hurong (Shanghai-Chengdu) National Trunk Highway under construction. Hurong Expressway is expected to be put into full operation in 2009. By then Chengnan Expressway will become another great corridor beyond the province, and its advantageous location in Sichuan road network will become prominent.

By investing in and acquiring quality expressway assets in the province, the Company plans to actively integrate and optimize the resource allocation of the Group's expressway assets, improve the layout of the Group's expressway assets, and fundamentally resolve the issue of competition between the abovementioned two expressway assets and Chengyu Expressway, being the core assets of the Company, so as to ensure the stable enhancement of the Group's sustainable profitability and risk resistance ability.

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

The Company's plan for issue of short-term commercial papers with a total amount not exceeding RMB2 billion per annum for a term of three years was approved at the extraordinary general meeting held on 28 August 2007. The Company completed the issue of short-term commercial papers with a total amount of RMB1.5 billion on 19 February 2008. On 23 January 2009, the Company held a Board meeting and approved the application for bank loans of RMB2.5 billion to supplement the working capital, and planned to further apply for the issue of short-term commercial papers with a total amount not exceeding RMB2 billion as when appropriate during 2009 when the short-term commercial papers expire in February 2009.

6. Continuing Connected Transactions

On 6 March 2008, the Company entered into a service agreement in relation to the provision of a computer system on expressways network toll fee collection and technological services to Chengyu Expressway and Chengya Expressway, which are wholly owned by the Company, with Sichuan Zhineng Transportation System Management Company (四川智能交通系統管理有限責任公司) ("Sichuan Zhineng"), a subsidiary of Sichuan Highway Development (the "Service Agreement"). On the same date, Chengbei Company, a subsidiary of the Company holding 60% of its equity interests, and Sichuan Zhineng entered into a service agreement in relation to the provision of a computer system on expressways network toll fee collection and technological services to Chengbei Exit Expressway, which is wholly owned by Chengbei Company, ("Chengbei Service Agreement"). The annual caps for the service fees payable under the Service Agreement and the Chengbei Service Agreement for the three years ended 31 December 2008, 31 December 2009 and 31 December 2010 will be approximately RMB9,270,000, RMB10,540,000 and RMB12,000,000 respectively. Sichuan Zhineng is a subsidiary of Sichuan Highway Development which is a controlling shareholder of the Company. Sichuan Zhineng is therefore a connected person of the Company and the entering into both Service Agreement and Chengbei Service Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

For details, please refer to the announcement of the Company dated 7 March 2008.

MANAGEMENT DISCUSSION AND ANALYSIS
(Continued)

IV. Financial Review

Summary of the Group's Results

	2008 *RMB'000*	2007 *RMB'000* (Restated)
Revenue	**1,347,146**	1,317,442
Including: toll income	**1,347,146**	1,317,442
Profit before tax	**645,900**	622,687
Profit attributable to equity holders of the Company	**544,493**	495,427
Earnings per share attributable to ordinary equity holders of the Company *(RMB)*	**0.213**	0.194

Summary of the Group's Assets

	2008 *RMB'000*	2007 *RMB'000*
Total assets	**8,032,443**	7,614,866
Total liabilities	**2,129,372**	2,254,087
Minority interests	**99,409**	101,610
Equity attributable to shareholders of the Company	**5,803,662**	5,259,169
Equity per share attributable to ordinary equity holders of the Company *(RMB)*	**2.269**	2.056

Analysis of Operating Results

Revenue

The Group's revenue for the year amounted to RMB1,347,146,000, representing an increase of 2.25% over last year, which mainly included toll incomes from Chengyu Expressway, Chengya Expressway and Chengbei Exit Expressway. Please refer to the section of "Business Review and Analysis" of this report for details of the main factors influencing the revenue of the Group for the year.

MANAGEMENT DISCUSSION AND ANALYSIS
(Continued)

Other Income and Gains

The Group's other income and gains for the year amounted to RMB243,367,000, a year-on-year decrease of 2.30%, mainly included the income from road repairs and maintenance, construction income from infrastructure upgrade services and deposit interest income. Please refer to Note 4 to the financial statements for details.

Operating Expenses

The Group's operating expenses for the year amounted to RMB825,546,000 (2007: RMB861,218,000), representing a decrease of RMB35,672,000, or approximately 4.14% as compared with last year, of which:

(1) Depreciation and amortization expenses increased by 4.77% from last year to RMB278,919,000, mainly attributable to a year-on-year increase of 10.16% or approximately RMB17,252,000 in amortization expenses for service concession arrangements of Chengyu Expressway and Chengbei Exit Expressway due to the growth of traffic flow and adjustment in amortization rate of their service concession rights as a result of the reassessment of their traffic flow; and a year-on-year decrease of approximately RMB4,000,000 in depreciation expenses of Chengya Company in 2008 over 2007 as provisions for its fees and other equipment and facilities constructed or acquired with a depreciation period of 8 years during the commencement of operation had been fully made in late 2007 or early 2008 since the Chengya Expressway commenced operation 9 years ago.

(2) Staff cost increased by 12.23% from last year to RMB129,756,000. This was principally due to: firstly, increase in total salary, various social insurances, accommodation fund paid in 2008 along with the increase in average salary for the working population of Chengdu; secondly, joining of a supplementary pension scheme of Shugong Company, Shuhai Company, Shusha Company since 1 January 2008. Meanwhile, as more staff members are qualified for supplementary pension scheme, the supplementary pension contribution increased by RMB3,679,000 as compared with last year.

(3) Costs of road repairs and maintenance decreased by 17.74% as compared with last year to RMB145,569,000. This was principally costs of road repairs and maintenance of Chengyu Expressway, Chengya Expressway and Chengbei Exit Expressway, of which the costs of Chengyu Expressway decreased by 17.31% to RMB116,188,000 during the year after mid and long-term maintenance and renovation and that of Chengya Expressway decreased by 43.09% to RMB14,815,000.

MANAGEMENT DISCUSSION AND ANALYSIS
(Continued)

(4) Other operating expenditures decreased by 15.86% as compared with last year to RMB271,302,000. The was mainly owing to: firstly, losses from disposal of non-current assets decreased by RMB1,265,000 as compared to last year; secondly, a decrease of RMB5,160,000 in provision for impairment of other receivables and an increase of RMB4,094,000 in reversal of provision for impairment as compared with the previous year; thirdly, a decrease of RMB8,600,000 in service fee for toll fee collection for the Group this year as compared with last year (fees were estimated based on 0.88% of total toll fees for last year and 0.6% for this year, and fees for last year were settled at the discounted rate of 0.6% and the over-estimated amount of approximately RMB4,983,000 was used to offset the expenses this year); fourthly, a decrease of RMB4,230,000 in construction cost for infrastructure upgrade service as compared with last year due to the decrease in construction work; and fifthly, a decrease of RMB7,669,000 in expenditures for daily operation and management for this year as compared with last year.

Financing Cost

The Group's financing cost for the year amounted to RMB124,824,000, representing an increase of 42.94% as compared with last year, which was principally attributable to the remarkable increase in financing cost for short-term commercial papers and considerably higher interest rate on loans provided by financial institutions in 2008, and the underwriting and registration service fee of RMB6,105,000 for issue of short-term commercial papers included in the expenses for the year.

Taxation

The corporate income tax of the Group amounted to RMB95,877,000 for the year, representing a decrease of 19.29% as compared with last year. The reasons are as follows: As new corporate income tax law being implemented, applicable tax rate of the Company for the year was adjusted to 15% from 18% last year, which means less income tax expenditure for the year. However, the increase in corporate income tax as a result of the increase in the Group's profit before tax for the year has offset the impact from lower income tax rate.

Profit

The Group's profit for the year amounted to RMB550,023,000, representing an increase of 9.16% as compared with last year, of which, profit attributable to equity holders of the Company was RMB544,493,000, a 9.90% increase compared with last year. This was mainly due to:

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

(2) decrease in maintenance cost, tax and other operating expenses;

(3) such growth being partly offset by the increase in depreciation and amortization, labour cost and financing cost.

MANAGEMENT DISCUSSION AND ANALYSIS
(Continued)

Analysis of Financial Position

Non-current Assets

As at 31 December 2008, the Group's non-current assets amounted to RMB6,824,515,000, decreased by 1.26% as compared with the end of 2007, which was mainly due to:

Additional fixed assets and construction in progress for the year was RMB38,880,000 (principally includes expenditures of RMB5,425,000 for renovation of Yujian collection point and overloading inspection station of Chengyu Expressway, RMB7,334,000 for monitoring system renovation project of Chengya Expressway, RMB7,046,000 for Puxing service section project and RMB19,075,000 of purchasing expenses for other office or toll collection equipments and facilities including vehicles, computers, air conditioners and toll booths); provision for depreciation was RMB78,725,000; amortization for land use rights and service concession arrangements for the year was RMB200,194,000.

Current Assets and Current Liabilities

As at 31 December 2008, the Group's current assets amounted to RMB1,207,928,000, representing an increase of 71.78% as compared with last year, which was mainly attributable to the increase in cash and bank balance as a result of increased revenue for the year.

As at 31 December 2008, the Group's current liabilities amounted to RMB1,888,408,000, representing an increase of 1.67% as compared with last year, which include bank loans and other interest bearing loans and short-term commercial papers due within one year.

Non-current Liabilities

As at 31 December 2008, non-current liabilities of the Group amounted to RMB240,964,000, representing a decrease of 39.26% compared with last year. The decrease was mainly due to the advanced repayment of long-term loan of RMB110,000,000 to Industrial and Commercial Bank of China and re-classification of bank loans and other interest bearing loans which due within one year into current liabilities.

Equity

As at 31 December 2008, equity of the Group amounted to RMB5,903,071,000, representing an increase of 10.12% compared with that in late 2007, mainly attributable to the increase of RMB550,023,000 in equity from profit for the year.

MANAGEMENT DISCUSSION AND ANALYSIS
(Continued)

Capital Structure

As at 31 December 2008, the Group had total assets of RMB8,032,443,000 and total liabilities of RMB2,129,372,000. Its gearing ratio was 26.51% (2007: 29.60%), which was based on the Group's total liabilities over its total assets.

Cash Flow

As at 31 December 2008, the Group's cash and bank balances amounted to RMB1,148,821,000, including HK$26,000 (equivalent to RMB25,000) deposits in Hong Kong dollars, and RMB1,148,796,000 cash and deposits in Renminbi, representing an increase of RMB508,652,000 (31 December 2007: RMB640,169,000). During the year, the Group's net cash inflow from operating activities amounted to RMB873,373,000 (2007: RMB966,920,000).

During the year, the cash outflow of the Group mainly consists of: Expenditures of RMB158,053,000 for technical renovation project of Chengyu Expressway and Chengya Expressway, RMB143,845,000 for daily road repairs and maintenance, net decrease of RMB153,774,000 in interest bearing bank and other loans, interest payment of RMB33,150,000, and cash expenditure of RMB514,254,000 for other daily operation and management.

Capital Commitments

Details of the Group's capital commitment as at 31 December 2008 are set out in Note 29 to the financial statements.

Risk of Exchange Fluctuation

Save that the Company needs 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 does not have material impact on the Group's results.

In addition, the Group had not used any financial instrument for hedging purposes during the year.

MANAGEMENT DISCUSSION AND ANALYSIS
(Continued)

Borrowings and Solvency

As at 31 December 2008, the Group's interest-bearing bank and other loans amounted to RMB1,848,691,000, all of which were loans with fixed interest. In particular, the balance of bank loans was RMB214,600,000, with annual interests rate from 5.02% to 7.83%; balance of other loans was RMB134,091,000, with annual interests rate from 2.28% to 5.00%; short-term commercial papers amounted to RMB1,500,000,000, with annual interests rate 6.28%. The relevant balances are as follows:

	Maturity profile of interest-bearing borrowings			
	Total amount *RMB'000*	**Within 1 year** *RMB'000*	**1-5 years** *RMB'000*	**Over 5 years** *RMB'000*
Loans from domestic commercial banks	214,000	85,000	129,600	
Short-term commercial papers	1,500,000	1,500,000		
Other loans	134,091	22,727	90,909	20,455
Total (31 December 2008)	1,848,091	1,607,727	220,509	20,455
Total (31 December 2007)	2,002,465	1,605,774	353,509	43,182

With its steady cash flow, sound capital structure and excellent credit records, the Group has established and maintained favourable relations with financial institutions, enjoying the most preferential interest rates for its loans. As at 31 December 2008, the Group had bank facilities totalling RMB3 billion and unused bank facilities amounting to RMB3 billion.

MANAGEMENT DISCUSSION AND ANALYSIS
(Continued)

Contingent Liabilities and Pledge of Assets

As at 31 December 2008, the concession rights pertaining to the Chengbei Exit Expressway were pledged by the Group at a net value of RMB102,654,000 (31 December 2007: RMB109,276,000) to secure bank loans amounting to RMB214,600,000 (31 December 2007: RMB227,600,000).

Save as disclosed above, the Group did not have any other contingent liabilities, pledge of assets or guarantees as at 31 December 2008.

Material Change to Accounting Policies and Accounting Estimates

According to HK(IFRIC)-Int 12 effective from 1 January 2008, during the year, the Group reclassified the expressways under concession arrangements into intangible assets from fixed assets, and stated them in the consolidated balance sheet as "Service Concession Arrangements" and made retrospective adjustments. In addition, the right to operate a high-grade toll bridge that was previously recorded as operating rights has also been reclassified in the consolidated balance sheet as part of the "Service Concession Arrangements". Such change in accounting policy led to an increase of RMB12,466,000 in retained profits for previous years. Details of which are set out in Note 2.2(b) to the financial statements.

In the meantime, the Group appointed an independent traffic flow advisor to revaluate the traffic flow of Chengyu Expressway and Chengbei Exit Expressway during the Year. According to the valuation report, the Group adjusted the amortization rates under concession arrangements from 1 January 2008 and made provision for amortization accordingly. Such change in accounting estimates led to a decrease of RMB18,062,000 in net profits for the year. Details are set out in Note 2.5 to the financial statements.

Comparative Amounts

As explained in Note 2.2(b) to the financial statements, certain comparative amounts in prior years set out in this section have been reclassified and restated.

MANAGEMENT DISCUSSION AND ANALYSIS
(Continued)

V. Business Development Plan

Against the background that the impact of the global economic crisis on the economy is yet to be ascertained, the economic development of the PRC will face serious challenges. Under such circumstances, the Company needs to carefully consider, analyze, study and be prepared for the future operating environment of the Group, possible difficulties and challenges, characteristics of the industry, as well as its strengths and opportunities of development. The Group will maintain stable growth in its operating results through refined management. To ensure that the Group will leap forward to achieve the planned strategic target, the Group will increase the use of capital and capture opportunities to expand its investment in expressways. In view of such, the Company has formulated major business plans in 2009 in the following areas after careful assessment:

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 and demand elasticity, 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 maintain good communications 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 as well as participation in construction, etc. to ensure steady growth of its operating results.

2. The Company will closely monitor changes of the local and foreign financial and securities markets, capture favourable opportunities, strive to complete the A Share Issue and the acquisition of equity interests in SC Expressway as soon as possible, and complete the issue of second tranche of short-term commercial papers as scheduled. Meanwhile, the Company will fully take advantages of its acquisitions of expressways in Sichuan and the concession and pre-emptive rights of constructions of the Company, the non-competition undertakings made by the Company's substantial shareholders, and procure the asset acquisition of Suiyu Expressway (Sichuan section) and Chengnan Expressway in order to achieve safe and effective expansion of the Group's assets.

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 adjusting term structure and interest rate structure for debts, lowering financial costs, and maintaining a reasonable gearing ratio for effective protection from financial risks.

MANAGEMENT DISCUSSION AND ANALYSIS
(Continued)

4. Having completed major maintenance works at the end of 2007, the repairs and maintenance costs of the Chengyu Expressway, being the Company's core asset, in the next three years will be lower than that of the previous three years. Keeping effective control over costs of road repairs and maintenance will be favourable to the internal growth of the Group's results. The Group will pay extra attention to strengthen the preventive maintenance of its expressways through leveraging modern information management resources and innovations to improve management and maintenance of expressways, laying a solid foundation for long-term stable conditions of the Group's 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 stimulate 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 need to accelerate growth.

6. Efforts will also be 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 two-way interaction with investors, and cultivate corporate culture which respects and is accountable to investors, thus establishing a sound and harmonious external environment for corporate development.

7. Through careful investigation and taking into account of the Company's operating and developing situation, the Company will timely adjust its existing management framework and modes, and fully implement a system of internal control in order to achieve higher level of standardized and refined management, to strengthen its efficiency in execution and innovative ability, and to improve the overall management of the corporation.

Looking ahead, the Company's management will proactively tackle challenges by upholding a standardized and market-oriented operation model, and endeavor to achieve continual growth in the Company's profits and higher returns for shareholders.

Zhang Zhiying
Vice Chairman and General Manager

Chengdu, Sichuan, the PRC
23 January 2009

CORPORATE GOVERNANCE REPORT

Sound corporate governance is the basis of the healthy development of an enterprise and a guarantee of investors' confidence. In 2008, in light of the corporate philosophy of honesty and diligence, the Company adhered to the principle of good corporate governance by constantly reviewing its operation and management, as well as enhancing transparency and independence of the Company. The Company continued to improve the corporate governance, thus facilitating its stable operation and healthy development.

Code of Corporate Governance Practices

During the reporting period, based on the principle of good corporate governance as stipulated in the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange, the Company further regulated and improved the structure of corporate governance of the Company. Save for the establishment of Remuneration Committee as required by the Code, the Company has observed the stipulations of the Code. The Company's actual 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 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 of directors, reviews the execution of the resolutions of the board of directors, formulates the Company's development strategies and capital operation whereas the General Manager, with the support and assistance from the board of directors and other senior management of the Company, is responsible for the implementation of the resolutions of the board of directors 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 of directors and the management.

CORPORATE GOVERNANCE REPORT *(Continued)*

Composition of the Board of Directors

In 2008, the board of directors 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 23 January 2009, the Company convened an extraordinary general meeting, at which the appointment of Mr. Liu Xianfu as Executive Director, and the resignation of Mr. Nie Xinquan as Executive Director were approved. As at the date of this report, the composition of the board of directors of the Company is set out in the section headed "Profile of Directors, Supervisors, Senior Management and Employees" in this annual report.

The fourth session of the board of directors has 4 Independent Directors, representing one third of the total directorship. Independent Directors also serve a term of 3 years and are eligible for re-election upon the expiry of the term. Independent Directors are experienced professionals in various industries including transportation, civil engineering, accounting and finance. With a responsible attitude and extensive professional knowledge and experience, the Independent 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 of directors.

CORPORATE GOVERNANCE REPORT *(Continued)*

Meetings of the Board of Directors

During the year, the board of directors convened a total of 8 meetings of the board of directors based on the need of the operation and business development of the Company. Details of attendance are as follows:

Name	Meetings of the board of directors *(Times of attendance in person/ Times of meeting)*
Executive Directors	
Tang Yong *(Chairman)*	8/8
Zhang Zhiying *(Vice Chairman, General Manager)*	8/8
Zhang Yang *(Vice Chairman)*	7/8
Gao Chun	7/8
Zhou Liming	7/8
Wang Shuanming	7/8
Liu Mingli	8/8
Nie Xinquan	2/8
Independent Non-executive Directors	
Luo Xia	8/8
Feng Jian	7/8
Zhao Zesong	8/8
Xie Bangzhu	8/8

Note: Save that Director Nie Xinquan was not able to attend in person and had not entrusted other Directors on his behalf to attend and vote on the fifteenth meeting and the seventeenth meeting of the fourth board of directors of the Company, Directors who did not attend any of the other meetings of the board of directors in person have entrusted other Directors on his/her behalf 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 meeting of the board of directors for the purpose to consider the approval of the proposal for the signing of the "Intentional agreement regarding an asset acquisition of Chengnan Expressway" by the Company, three Directors representing Sichuan Highway Development have abstained from voting.

CORPORATE GOVERNANCE REPORT *(Continued)*

II. Directors

Appointment of Directors

Directors of the Company are elected, replaced or dismissed at general meetings. Shareholders of the Company, the board of directors 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 of directors 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 of directors 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 senior management of the Company 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 of the Company. Information of the remuneration of Directors and supervisors of the Company for 2008 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 conduct regarding securities transactions by the directors on terms not less exacting than the required standards set out in Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") contained in Appendix 10 of the Listing Rules. Having made specific enquiries of all Directors, it was confirmed that the Directors of the Company have complied with the Model Code in relation to securities transactions by the Directors and its standards of code of conduct and there had not been any non-compliance with the Model Code.

Through the office of the board of directors 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 in relation to the board of directors and strictly comply with applicable laws and regulations.

CORPORATE GOVERNANCE REPORT *(Continued)*

III. Audit Committee

To effect the best corporate governance, the Company set up an 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 of directors in accordance with relevant regulations.

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

- Reviewing the Group's interim report, annual report and financial report as well as the dividend distribution scheme;

- Reviewing accounting policies adopted by the Group and issues related to accounting practice; in terms of the functions of account and financial reporting, reviewing the adequacy of the Group's human resources, qualifications and experiences of staffs, training they received and the relevant budget;

- Supervising internal auditing of the Company;

- Assisting the board of directors with the evaluation on the effectiveness of financial reporting procedure and internal control system of the Group;

- Advice on material events of the Company or draw the attention of the management on related risks.

CORPORATE GOVERNANCE REPORT *(Continued)*

IV. Shareholders and General Meetings

The Company treats all the shareholders of the Company on an equal footing by ensuring that all shareholders, especially minority and medium shareholders, are entitled to the right to access to and to make decisions on material events of the Company and strictly prohibiting any act detrimental to the interests of the Company and the shareholders.

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 46 of this 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 of directors 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 the designated website for information disclosure 45 days prior to the convening of the general meetings, and entrusted Hong Kong Registrars Limited with dispatch of proxy forms and reply slips for attendance in the meetings to shareholders on the registers. Relevant procedures for shareholders' attendance and voting at the 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, one extraordinary general meeting, one class meeting of the holders of H Shares and one class meeting of the holders of Domestic Shares.

CORPORATE GOVERNANCE REPORT *(Continued)*

V. Supervisory System

Supervisory Committee

The supervisory committee of the Company comprises 6 members, and is the fourth session of the supervisory committee since the establishment of the Company. The term of Supervisors commenced from 29 March 2007 or the date of election. The Company convened an extraordinary general meeting on 23 January 2009 for the purpose of approving the appointment of Madam Luo Yi as the Supervisor of the Company and the resignation of Mr. Liu Xianfu as the Supervisor 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, attended the meetings of the board of directors and general meetings as observers. The working details of the supervisory committee are set out on pages 58 to 59 of the "Report of the Supervisory Committee" in this annual report.

Auditors and Remuneration of Auditors

The 2007 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 2008. Remunerations that the Company paid to the auditors for 2008 are as follows:

Unit: RMB'000

	2008 Auditing fees	2007 Auditing fees
Jun He	**373**	320
Ernst & Young	**1,353**	1,314

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

CORPORATE GOVERNANCE REPORT *(Continued)*

The Audit Committee has discussed and assessed the professional qualities of Jun He and Ernst & Young and the execution of audit work for 2008, 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 and international auditors respectively. The proposal was approved by the board of directors and will be submitted to the 2008 annual general meeting for consideration and approval.

Internal Control and Internal Auditing

The board of directors is responsible for the establishment and maintenance of internal control system of the Company for the purpose of reviewing the relevant control systems of finance, operation and regulation 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 reviews 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 a 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 of directors upon the supervisory committee and Audit Committee's review.

2. **Transfer of power**

   The board of directors makes decisions for specific issues whereas the management is authorized to implement and manage the existing contract arrangements as well as managing day-to-day affairs of the Company. The board of directors 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.

CORPORATE GOVERNANCE REPORT *(Continued)*

3. **Undertaking of responsibilities**

The board of directors bears ultimate legal responsibility for the Company's performance. Management personnel are responsible for managing daily operation of the Company and reporting the performance to the board of directors 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 annual operation budget will be verified by the board of directors 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 of directors. The Company also reports the operating performance to the board of directors 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 of directors 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 of directors 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 disclosure of the Company's performance, condition and prospect for the year based on the detailed and accurate financial information and other data submitted by the management for the approval of the board of directors. It also undertook the responsibility of preparing the Company's financial statements of the interim and annual reports of the year on a truthful and accurate basis.

CORPORATE GOVERNANCE REPORT *(Continued)*

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 truthful, 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 2008, Sichuan was stricken by an unexpected snowstorm and the Wenchuan Earthquake. The Company has timely announced the relevant information and the effect of the incidents on the Company. The Company has strictly fulfilled its obligation of continual disclosure, maintaining an open channel of information for investors.

During the year, annual and interim results announcements were made by the Company promptly pursuant to relevant regulations, and over 30 announcements and 1 circular were released to shareholders. The standards of information disclosure are being continuously raised as well. In addition, the Company has timely updated the information on its website, providing shareholders and the public with even more information related to information disclosure, traffic flow and toll revenue data, corporate governance and so forth. Through road shows, teleconference, investors' call-in and internet enquiries as well as investors' visits, on-site investigations and mails, the Company takes initiatives to engage in agreeable communications with investors so as 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.

VIII. Conclusion

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

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2008.

Principal activities

The principal activities of the Company are investment, construction, management and operation of 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 2008 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 2008 and the financial situation of the Company and the Group at that date are set out in the financial statements on pages 62 to 132 of this annual report.

The Company will not pay a final dividend for the year 2008 to shareholders.

Summary of financial information

A summary of the published results, assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out below. The amounts of each year in the five year financial summary have been adjusted for the effects of the retrospective changes in the accounting policies mainly affecting the reclassification of non-current assets and certain income statement items, profit for the year and reserves, as detailed in Note 2.2(b) to the financial statements. This summary does not form part of the audited financial statements.

REPORT OF THE DIRECTORS *(Continued)*

	Year ended 31 December				
	2008	2007	2006	2005	2004
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
RESULTS					
REVENUE	**1,347,146**	1,317,442	1,016,321	953,165	884,768
Other income and gains	**243,367**	249,090	324,025	124,283	130,524
Total revenue, other income and gains	**1,590,513**	1,566,532	1,340,346	1,077,448	1,015,292
Depreciation and amortisation expenses	**(278,919)**	(266,220)	(236,151)	(242,752)	(227,690)
Employee costs	**(129,756)**	(115,620)	(104,936)	(99,056)	(83,041)
Other operating expenses	**(416,871)**	(479,378)	(560,258)	(323,614)	(350,204)
Finance costs	**(124,824)**	(87,326)	(114,900)	(125,752)	(117,087)
Share of profits and losses of associates	**5,757**	4,699	5,048	5,449	3,951
PROFIT BEFORE TAX	**645,900**	622,687	329,149	291,723	241,221
Tax	**(95,877)**	(118,799)	(7,127)	(64,417)	(47,326)
PROFIT FOR THE YEAR	**550,023**	503,888	322,022	227,306	193,895
Attributable to:					
Equity holders of the Company	**544,493**	495,427	294,981	249,730	216,717
Minority interests	**5,530**	8,461	27,041	(22,424)	(22,822)
	550,023	503,888	322,022	227,306	193,895
ASSETS, LIABILITIES AND MINORITY INTERESTS					
TOTAL ASSETS	**8,032,443**	7,614,866	7,480,996	7,712,635	7,871,576
TOTAL LIABILITIES	**(2,129,372)**	(2,254,087)	(2,412,255)	(2,500,660)	(2,779,924)
MINORITY INTERESTS	**(99,409)**	(101,610)	(100,354)	(204,750)	(231,835)
INTERESTS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	**5,803,662**	5,259,169	4,968,387	5,007,225	4,859,817

REPORT OF THE DIRECTORS *(Continued)*

Property, plant and equipment

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

Share capital

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

Pre-emptive rights

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the People's Republic of China (the "PRC") which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Purchase, redemption or sale of listed securities of the Company

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

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in Note 26 to the financial statements and in the consolidated 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 joint stock limited companies established in the PRC ("PRC GAAP"); and

- Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance ("HK GAAP").

REPORT OF THE DIRECTORS *(Continued)*

At 31 December 2008, the Company's reserves available for distribution, calculated in accordance with HK GAAP amounted to RMB924,021,000. The Company's distributable reserves as at 31 December 2008 determined under HK GAAP were lower than those determined under PRC GAAP. In addition, in accordance with the Company Law of the PRC, RMB1,413,597,000 in the Company's share premium account may be distributed in the form of fully paid bonus shares.

Major customers and suppliers

The five largest customers and suppliers of the Group 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
Mr. Zhang Zhiying
Madam Zhang Yang
Mr. Gao Chun
Mr. Zhou Liming
Mr. Wang Shuanming
Mr. Liu Mingli
Mr. Nie Xinquan

Independent Non-executive Directors:

Madam Luo Xia
Mr. Feng Jian
Mr. Zhao Zesong
Mr. Xie Bangzhu

Supervisors:

Mr. Feng Bing
Mr. Hou Bin
Mr. Ouyang Huajie
Mr. Jian Shixi
Madam Yang Jingfan
Mr. Liu Xianfu

REPORT OF THE DIRECTORS *(Continued)*

According to article 100 of the Company's articles of association, the directors are appointed for a period of three years. On the extraordinary general meeting held on 23 January 2009, the shareholders of the Company duly approved the resignations of Mr. Nie Xinquan as an executive director of the Company and Mr. Liu Xianfu as a supervisor of the Company. It was further reported that the resolution of appointments of Mr. Liu Xianfu as an executive director of the Company and Madam Luo Yi as a supervisor of the Company were passed on the same day. As Mr. Nie Xinquan, Mr. Xie Bangzhu and Mr. Liu Xianfu were appointed as Directors of the Company during the operation of this Board, each of their term of appointment came into effect from the date on which approval was granted at the general meeting (i.e. 12 December 2007 and 23 January 2009 respectively) to the expiry date of the term of this Board. Directors are subject to re-election upon expiry of their term of office. The details of the above appointed executive director and supervisor of the Company on 23 January 2009 are set out under the section of "Profile of Directors, Supervisors, Senior Management and Employees" 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, being independent directors, as required by Rule 3.13 of the Listing Rules. As at the date of this report, the above independent non-executive directors are still considered to be independent.

Directors', supervisors' and senior management's biographies

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

Directors' service contracts

Each of the directors of the Company has entered into a service contract with the Company. Save as the service contracts of Mr. Nie Xinquan and Mr. Xie Bangzhu which came into effect from 12 December 2007 to the expiry date of the term of this Board and that of Mr. Liu Xianfu which came into effect from 23 January 2009 to the expiry date of the term of this Board, each agreement came into effect from the respective date of appointment for a term of three years.

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

Directors' and supervisors' 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.

REPORT OF THE DIRECTORS *(Continued)*

Directors' and supervisors' material interests in major 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', supervisors' and chief executives' interests in shares, underlying shares and debentures of the Company

As at 31 December 2008, none of the directors, supervisors and chief executives of the Company had any 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 interests and short positions which were taken or deemed to have under such provisions of the SFO); 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 any directors or supervisors or their respective spouses or minor children granted any rights to acquire benefits by means of the acquisition of shares in or debentures of the Company nor were such rights exercised by them, nor was the Company, or any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors or supervisors of the Company to acquire such rights in any other body corporate.

REPORT OF THE DIRECTORS *(Continued)*

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

As at 31 December 2008, interests and short positions of substantial shareholders and other persons in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange are set out below:

Name	Type of shares	Long Position/ Short Position	Number of the Company's shares held	Percentage of the total issued share capital of the Company	Percentage of Domestic shares/ H shares	Capacity
Substantial shareholders						
Sichuan Highway Development Holding Company	Domestic state-owned shares	Long Position	1,005,290,000	39.30%	60.46%	Beneficial Owner
Huajian Transportation Economic Development Centre	Domestic legal person shares	Long Position	657,450,000	25.70%	39.54%	Beneficial Owner
Other persons						
He Ruqiang	H shares	Long Position	62,310,000	2.44%	6.69%	Beneficial Owner
Barclays Global Investors UK Holdings Limited	H shares	Long Position	53,692,278	2.10%	6.00%	Interests of controlled corporations
	H shares	Short Position	5,522,000	0.22%	0.62%	Interests of controlled corporations
Barclays PLC	H shares	Long Position	53,692,278	2.10%	6.00%	Interests of controlled corporations
	H shares	Short Position	5,522,000	0.22%	0.62%	Interests of controlled corporations
Martin Currie (Holdings) Limited	H shares	Long Position	44,915,751	1.75%	5.02%	Interests of controlled corporations

REPORT OF THE DIRECTORS *(Continued)*

Save as disclosed above, as at 31 December 2008, no person, other than the directors, supervisors and chief executives of the Company, had any interest or short position in the shares and underlying shares of the Company which was required to be notified to the Company and the Stock Exchange in accordance with Section 336 of the SFO.

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 last year, up to an amount equivalent to three times the employees' average basic salaries 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 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 RMB15,480,000 (2007: RMB13,262,000).

In addition, effective from 1 January 2007, a supplementary defined contribution pension scheme managed by an independent financial institution was established by the Group. Under the plan, the Group 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 Group amounted to RMB6,379,000 (2007: RMB2,700,000). Other than the above, the Group has no obligation for the payment of pension benefit beyond those annual contributions.

REPORT OF THE DIRECTORS *(Continued)*

Accommodation benefits for employees

According to the relevant rules and regulations of the Sichuan Province, the Group and its employees are each required to make contributions, which are in proportion to the employees' salaries or wages of the last year, 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 RMB12,680,000 (2007: RMB10,908,000).

Continuing connected transactions

On 6 March 2008, the Company and Chengdu Chengbei Exit Expressway Company Limited, a subsidiary of the Company, entered into two separate service agreements (the "Service Agreements") with Sichuan Zhineng Transportation System Management Company Limited ("Sichuan Zhineng"), a subsidiary of Sichuan Highway Development Holding Company in relation to the provision of a computer system on expressways network toll fee collection and technological services to the Group. The Service Agreements cover the service fees payable by the Group for the three years from 1 January 2008 ended 31 December 2010 which is calculated based on a rate of 0.6% of the total audited toll income to be received by the Group during the three years ending 31 December 2010 less certain discount to be agreed by both parties with reference to the operating condition of the respective expressways. The contracting parties consider that it will be administratively more efficient if the Service Agreements are for a term of three years rather than renew annually. For year 2008, the service fees paid by the Group to Sichuan Zhineng amounted to approximately RMB6,802,100 (2007: RMB6,400,500).

Further details of the Group's connected transactions during the year are set out in Note 31 to the financial statements. In the opinion of the directors, including the independent non-executive directors of the Company, these connected transactions were:

(i) conducted in the ordinary and usual 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 and in the interests of the Company and the shareholders of the Company as a whole.

Post balance sheet event

Details of a significant post balance sheet event of the Group are set out in Note 33 to the financial statements.

REPORT OF THE DIRECTORS *(Continued)*

Sufficiency of public float

Based on information that is publicly available to the Company and within the knowledge of the directors, 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 Certified Public Accountants Co., Ltd. and Ernst & Young Certified Public Accountants 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, the PRC
23 January 2009

PROFILE OF DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

I. Directors, 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	46	Vice Chairman, General Manager	From February 2003 till now
Zhang Yang	Female	45	Director	From May 2001 till now
Gao Chun	Male	52	Director	From June 2005 till now
Zhou Liming	Male	45	Director	From September 2002 till now
Wang Shuanming	Male	49	Director	From March 2007 till now
Liu Mingli	Male	45	Director, Deputy General Manager	From October 2000 till now
Liu Xianfu	Male	44	Director	From January 2009 till now
Luo Xia	Female	46	Independent Non-executive Director	From November 2004 till now
Feng Jian	Male	46	Independent Non-executive Director	From November 2004 till now
Zhao Zesong	Male	54	Independent Non-executive Director	From March 2007 till now
Xie Bangzhu	Male	69	Independent Non-executive Director	From December 2007 till now
Nie Xinquan	Male	42	Director	From December 2007 to January 2009

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 the Provincial Department of Communications ("PDC"), head of Comprehensive Planning Division of the PDC. Currently he is the Chairman of the Company.

Mr. Zhang Zhiying: aged 46, 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 the PDC, deputy head of the Finance Division of Sichuan Major Highway Construction Directorate, head of the Finance Division of the Expressway Administration Bureau of the PDC, deputy head and head of Finance Division of the PDC and the Financial Controller of the Company. Currently he is the Vice Chairman and General Manager of the Company.

PROFILE OF DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES *(Continued)*

Madam Zhang Yang: aged 45, 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 Hong Kong 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 Hong Kong Stock Exchange) and Jiangsu Expressway Co., Ltd. (a company listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange).

Mr. Gao Chun: aged 52, 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 the PDC, Deputy Party Secretary of the central district of Deyang City, Deputy Party Secretary of the Direct Body under the PDC, 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 45, 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 49, 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 45, 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 the PDC. He is currently the deputy general manager of Chengyu Company.

PROFILE OF DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES *(Continued)*

Mr. Liu Xianfu: aged 44, senior accountant, 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 (原交通部審計局科員), manager of the Planning and Finance Department of Huajian Centre and supervisor of the Finance Department of China Merchants Group Limited. He had been director of Guangxi Wu Zhou Communications Co., Ltd. (listed on the Shanghai Stock Exchange) and supervisor of Hubei Chutian Expressway Co., Ltd. (a company listed on the Shanghai Stock Exchange) and North East Expressway Co., Ltd. (a company listed on the Shanghai Stock Exchange). He is currently the financial controller of Huajian Centre and the vice chairman of the fifth board of directors of Guangxi Wu Zhou Communications Co., Ltd., director of Hubei Chutian Expressway Co., Ltd., Anhui Expressway Company Limited (a company listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange) and chairman of supervisory committee of North East Expressway Co., Ltd.

Madam Luo Xia: aged 46, 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 46, 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 and an independent director of Chengdu Westone Information Industry Co., Ltd, of which the shares are listed on the Shenzhen Stock Exchange.

Mr. Zhao Zesong: aged 54, graduated from Beijing 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 and an independent director of Sichuan Road & Bridge Co., Ltd, of which the shares are listed on the Shanghai Stock Exchange.

Mr. Xie Bangzhu, aged 69, 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 project consultant of Sichuan Institute of Road Design and chief engineer consultant of Sichuan Chuanjiao Highway Consultancy Company.

PROFILE OF DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES *(Continued)*

Mr. Nie Xinquan: aged 42, 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, the manager of the State Capital Custodian Department and the Equity Management Department I of Huajian Centre. He had also been a director of Henan Zhongyuan Expressway Company Limited (a company listed on the Shanghai Stock Exchange), Hua Bei Expressway Company Limited (a company listed on the Shenzhen Stock Exchange), 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).

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	46	Chairman of supervisory committee	From June 2005 till now
Hou Bin	Male	51	Supervisor	From October 2000 till now
Ouyang Huajie	Male	40	Supervisor	From March 2007 till now
Jian Shixi	Male	52	Supervisor, Chairman of Labour Union	From March 2007 till now
Yang Jingfan	Female	47	Supervisor	From March 2007 till now
Luo Yi	Female	36	Supervisor	From January 2009 till now
Liu Xianfu	Male	44	Supervisor	From December 2007 to January 2009

Biographies of Supervisors:

Mr. Feng Bing: aged 46, 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 the PDC, deputy chief officer and chief officer of the Planning Division of the PDC, and deputy head, investigator and head of the Overall Planning Division of the PDC. He is currently the Chairman of the Supervisory Committee of Chengyu Company.

PROFILE OF DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES *(Continued)*

Mr. Hou Bin: aged 51, graduated from Chengdu Telecommunications Engineering College, and is a 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 the PDC, deputy theory tutor of the party committee of the direct body under the PDC, the leader of the liaison team for designated help for Muchuan County of the PDC, 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 Gonggashan 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 40, graduated from Southwest Finance University with a bachelor's degree in accounting, and Sichuan University with a master's degree in economics, and is a 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 is a 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 the PDC. He is currently the Chairman of Labour Union of the Company.

Madam Yang Jingfan: aged 47, graduated from Business School of Sichuan University with a MBA degree. She is in immediate rank for political work. From 1991, she had been the deputy office chief of the Management Division of Sichuan Dajian Road, deputy officer of Sichuan Major Highway Construction Directorate, head of the Human Resources Division of the Expressway Administration Bureau of the PDC, 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.

Madam Luo Yi: aged 36, registered accountant, graduated from Changsha Jiaotong College with a bachelor degree in financial accounting. She had worked as deputy supervisor of Finance Department of the China Merchants Group Limited, financial controller of the China Merchants Insurance Co., Ltd., deputy manager of the Finance Department of Houlder China Insurance Brokers Limited, manager of the Finance Department of China Merchants Group (Beijing) Co., Ltd. and supervisor of Shandong Expressway Co., Ltd. (a company listed on the Shanghai Stock Exchange). She is currently manager of the Planning and Finance of Huajian Centre, director of Shandong Expressway Co., Ltd., director and chief financial officer of Hua Bei Expressway Co., Ltd. (a company listed on the Shenzhen Stock Exchange) and supervisor of Jiangsu Expressway Co., Ltd. (a company listed on the Shanghai Stock Exchange and the Hong Kong Stock Exchange) and Guangxi Wu Zhou Communications Co., Ltd. (a company listed on the Shanghai Stock Exchange).

PROFILE OF DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES *(Continued)*

Mr. Liu Xianfu, aged 44, resigned as the Supervisor of the Company with effect from 23 January 2009 and was appointed as the Director of the Company with effect from the same date. His biography was set out in the section headed "Biographies of Directors" on page 52 in this report.

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	46	Vice Chairman, General Manager	From February 2003 till now
Liu Mingli	Male	45	Director, Deputy General Manager	From October 2000 till now
Gan Yongyi	Male	45	Deputy General Manager	From February 2001 till now
Luo Maoquan	Male	43	Deputy General Manager	From December 2006 till now
Lin Binhai	Male	49	Deputy Party Secretary, Secretary to Discipline Committee	From November 2002 till now
Zhang Yongnian	Male	46	Company Secretary	From October 2000 till now
Li Guogang	Male	59	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 45. He graduated from Chongqing Jiaotong College and is a 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 43, graduated from the Faculty of Law of Sichuan University. He was an officer of the Policy Research Office of the PDC, 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 49, 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.

PROFILE OF DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES *(Continued)*

Mr. Zhang Yongnian: aged 46, 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 the PDC, the office chief of the board of directors of the Company, and a director of the Company. He is currently the Secretary to the Board of the Company.

Mr. Li Guogang: aged 59, passed the self-study examination of higher education in 1989 with a major in accounting and is a senior accountant and senior consultant. 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 the PDC 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 2009 held on 23 January 2009 considered and passed the resolutions to approve the new appointment of Mr. Liu Xianfu as the Company's Executive Director; the new appointment of Madam Luo Yi as the Company's Supervisor; the resignation of Mr. Nie Xinquan as the Company's Director; and the resignation of Mr. Liu Xianfu as the Company's Supervisor.

The resignation of Mr. Nie Xinquan as the Company's Director and the resignation of Mr. Liu Xianfu as the Company's Supervisor were due to normal transfer of positions.

PROFILE OF DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES *(Continued)*

III. An Overview of Employees

As of 31 December 2008, the Company had 1,646 employees, of which 389 were management and professional technical staff, and 1,257 were toll collection staff.

1. Employee's Remuneration

Employee's wages compose 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), performance as well as the operational efficiency of the Company with reference to the appraisal of employee's overall performance.

The employee's wages and salary of the Company totalled RMB76,512,000 for the year ended 31 December 2008.

2. Training to employees

The Company pays much attention to staff training and endeavors to improve the comprehensive quality and professional ability of employees at all levels through multi-level training. During the year, the Company organized various centralized training in respect of transportation and production safety, financial software, "Implementation Methods of Highway Law of the People's Republic of China in Sichuan Province", skills for the position, continuous training for professional technical staff and corporate culture, as well as training on specialized topic. A total of 706 employees attended.

REPORT OF THE SUPERVISORY COMMITTEE

To all Shareholders:

The fourth session of the supervisory committee of the Company comprised of six members. In 2008, 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"), the Articles of Association of the Company and other relevant laws and regulations to protect the shareholders' interests and legalized equity of the Company and to perform its duties loyally.

I. Meetings of the Supervisory Committee Convened During the Reporting Period

During the period, the supervisory committee held two meetings with the details as follows:

Meetings of the Supervisory Committee	Meeting Date	Topics
The 5th Meeting of the Fourth Session of the Supervisory Committee	18 September 2008	Considering matters including the Company's 2008 Interim Results Report
The 6th Meeting of the Fourth Session of the Supervisory Committee	23 January 2009	Considering matters including the Company's 2008 Annual Results Report

II. Independent Opinions of the Supervisory Committee

1. Independent Opinions of the Supervisory Committee on Compliance of the Company's operations with Legal Requirements

During the Reporting Period, the supervisors of the Company attended all general meetings and meetings of the board of directors as non-voting participants and honestly supervised and checked the convening procedures of the meetings, resolutions and execution of the written resolutions of aforesaid meetings, and effectively supervised the whole process of the directors and senior management members' management and the implementation of the Company's decisions.

REPORT OF THE SUPERVISORY COMMITTEE
(Continued)

The supervisory committee is of the opinion that formulation procedures of Company's systems are normal, and the board of directors and senior management of the Company are able to carry out standard operations in strict compliance with relevant laws and regulations, perform their own duties and execute the resolutions and authorizations of the general meeting with the attitude of fidelity and due diligence and from the perspective of protecting the shareholders and the Company's interest, with no breach of laws and regulations, or conducts of misusing authority or damaging the interests of the Company, its shareholders and employees.

2. Independent Opinions of the Supervisory Committee on the Company's Financial Position

Having cautiously reviewed the Company's 2008 Interim Results Report, Annual Results Report and other accounting information, the supervisory committee is of opinion that the Company's financial income/expenditure is clear, accounting and financial management are all in line with relevant regulations without discovering questions. The Company's domestic and overseas accountants, Ernst & Young Certified Public Accountants and Sichuan Jun He Accountants have respectively audited the 2008 Financial Reports under Hong Kong Accounting Standards and PRC GAAP, and have issued auditors' reports with standard unqualified opinions. The supervisory committee is of the view that the audit reports have reflected actual situations of the Company's financial income/expenditure, operation results and cash flow.

3. Independent Opinions of the Supervisory Committee on the Company's Connected Transactions

Saved as the connected transactions disclosed in Note 31 to the financial statements, the Company had no other connected transactions during the year.

In the opinion of the supervisory committee, the Company's connected transactions during 2008 were conducted on a just, fair and open basis and at reasonable considerations, and no any act harmful to the interests of shareholders was found.

In 2009, the supervisory committee will continue to perform supervision duties with due diligence as specified by relevant laws and regulations so as to safeguard the interest of the shareholders and the Company from any damage.

Feng Bing
Chairman of Supervisory Committee

23 January 2009

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 62 to 132, which comprise the consolidated and company balance sheets as at 31 December 2008, 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.

INDEPENDENT INTERNATIONAL AUDITORS' REPORT *(Continued)*

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 2008 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

23 January 2009

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000 (Restated)
REVENUE	4	**1,347,146**	1,317,442
Other income and gains	4	**243,367**	249,090
Depreciation and amortisation expenses	5	**(278,919)**	(266,220)
Employee costs	5	**(129,756)**	(115,620)
Other operating expenses		**(416,871)**	(479,378)
Finance costs	6	**(124,824)**	(87,326)
Share of profits and losses of associates		**5,757**	4,699
PROFIT BEFORE TAX	5	**645,900**	622,687
Tax	8	**(95,877)**	(118,799)
PROFIT FOR THE YEAR		**550,023**	503,888
Attributable to:			
Equity holders of the Company	9	**544,493**	495,427
Minority interests		**5,530**	8,461
		550,023	503,888
DIVIDENDS			
Special	10(a)	**–**	102,323
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
– Basic	11	**RMB0.213**	RMB0.194

CONSOLIDATED BALANCE SHEET

31 December 2008

	Notes	2008 RMB'000	2007 RMB'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	12	**419,712**	463,289
Service concession arrangements	13	**5,651,525**	5,668,805
Prepaid land lease payments	14	**485,573**	510,434
Interests in associates	16	**58,064**	57,508
Available-for-sale investments	17	**32,795**	32,795
Long term compensation receivables	18	**76,846**	78,868
Payment in advance	19	**100,000**	100,000
Total non-current assets		**6,824,515**	6,911,699
CURRENT ASSETS			
Inventories	20	**21,617**	12,519
Prepayments, deposits and other receivables	21	**37,490**	50,479
Cash and cash equivalents	22	**1,148,821**	640,169
Total current assets		**1,207,928**	703,167
CURRENT LIABILITIES			
Tax payable		**42,187**	49,918
Other payables and accruals	23	**238,494**	201,704
Interest-bearing bank and other loans	24	**1,607,727**	1,605,774
Total current liabilities		**1,888,408**	1,857,396
NET CURRENT LIABILITIES	2.4	**(680,480)**	(1,154,229)
TOTAL ASSETS LESS CURRENT LIABILITIES		**6,144,035**	5,757,470
NON-CURRENT LIABILITIES			
Interest-bearing bank and other loans	24	**240,964**	396,691
Net assets		**5,903,071**	5,360,779
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	25	**2,558,060**	2,558,060
Reserves	26	**3,245,602**	2,701,109
		5,803,662	5,259,169
Minority interests		**99,409**	101,610
Total equity		**5,903,071**	5,360,779

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2008

		Attributable to equity holders of the Company									
	Notes	Issued capital RMB'000	Share premium account RMB'000	Statutory surplus reserve RMB'000 (Note 26(a))	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 2007											
As previously reported		2,558,060	1,413,597	373,438	335,107	(243,712)	424,712	102,322	4,963,524	100,354	5,063,878
Effect of adopting HK(IFRIC) 12	2.2(b)	–	–	–	–	–	4,863	–	4,863	–	4,863
As restated		2,558,060	1,413,597	373,438	335,107	(243,712)	429,575	102,322	4,968,387	100,354	5,068,741
Profit for the year (as restated)		–	–	–	–	–	495,427	–	495,427	8,461	503,888
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	10(a)	–	–	–	–	–	(102,323)	–	(102,323)	–	(102,323)
Final dividend declared		–	–	–	–	–	–	(102,322)	(102,322)	–	(102,322)
At 31 December 2007		2,558,060	1,413,597	478,827	447,115	(243,712)	605,282	–	5,259,169	101,610	5,360,779

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(Continued)*

Year ended 31 December 2008

		Attributable to equity holders of the Company									
	Note	Issued capital RMB'000	Share premium account RMB'000	Statutory surplus reserve RMB'000 (Note 26(a))	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 2008											
As previously reported		2,558,060	1,413,597	478,827	447,115	(243,712)	592,816	–	5,246,703	101,610	5,348,313
Effect of adopting HK(IFRIC) 12	2.2(b)	–	–	–	–	–	12,466	–	12,466	–	12,466
As restated		2,558,060	1,413,597	478,827	447,115	(243,712)	605,282	–	5,259,169	101,610	5,360,779
Profit for the year		–	–	–	–	–	544,493	–	544,493	5,530	550,023
Transfer from/(to) reserves		–	–	163,896	–	–	(163,896)	–	–	–	–
Dividends paid to minority shareholders		–	–	–	–	–	–	–	–	(7,731)	(7,731)
At 31 December 2008		2,558,060	1,413,597*	642,723*	447,115*	(243,712)*	985,879*	–	5,803,662	99,409	5,903,071

* These reserve accounts comprise the consolidated reserves of RMB3,245,602,000 (2007: RMB2,701,109,000) in the consolidated balance sheet.

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000 (Restated)
NET CASH INFLOW FROM OPERATING ACTIVITIES	27(a)	873,373	966,920
CASH FLOWS FROM INVESTING ACTIVITIES			
Increase in time deposits with maturity of over three months		(145,587)	(17,388)
Purchases of items of property, plant and equipment	12	(38,880)	(43,484)
Additions to service concession arrangements	13	(158,053)	(171,357)
(Cost incurred on)/proceeds from disposal of items of property, plant and equipment		(242)	39
Purchases of minority interests:			
— Chengya	27(b)	(5,658)	(105,173)
— Other subsidiaries		—	(154)
Interest received		27,566	19,826
Payment in advance	19	—	(100,000)
Dividend received from an associate		5,201	5,726
Net cash outflow from investing activities		(315,653)	(411,965)
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		(33,150)	(32,922)
Dividends paid	10(a)	—	(204,645)
Dividends paid to minority shareholders		(7,731)	(6,767)
New bank loans		45,000	1,045,000
New trust loan		—	499,047
Proceeds from short term commercial papers		1,500,000	—
Repayment of short term commercial papers		—	(1,500,000)
Repayment of bank loans		(1,177,000)	(126,000)
Repayment of a trust loan		(499,047)	—
Repayment of other loans		(22,727)	(22,727)
Net cash outflow from financing activities		(194,655)	(349,014)
NET INCREASE IN CASH AND CASH EQUIVALENTS		363,065	205,941
Cash and cash equivalents at beginning of year		622,766	416,825
CASH AND CASH EQUIVALENTS AT END OF YEAR		985,831	622,766
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS	22		
Cash and bank balances		923,591	512,766
Time deposits with original maturity of less than three months		62,240	110,000
		985,831	622,766

BALANCE SHEET

31 December 2008

	Notes	2008 RMB'000	2007 RMB'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	12	344,433	384,795
Service concession arrangements	13	5,358,422	5,360,916
Prepaid land lease payments	14	437,776	459,657
Investments in subsidiaries	15	433,496	393,496
Investments in associates	16	39,428	39,428
Available-for-sale investments	17	21,500	21,500
Payment in advance	19	100,000	100,000
Total non-current assets		6,735,055	6,759,792
CURRENT ASSETS			
Inventories	20	197	4,766
Prepayments, deposits and other receivables	21	21,828	32,816
Due from subsidiaries	15	41,197	31,249
Cash and cash equivalents	22	810,863	338,236
Total current assets		874,085	407,067
CURRENT LIABILITIES			
Tax payable		41,470	43,393
Other payables and accruals	23	174,184	144,037
Interest-bearing bank and other loans	24	1,522,727	1,530,774
Due to subsidiaries	15	41,739	27,058
Total current liabilities		1,780,120	1,745,262
NET CURRENT LIABILITIES	2.4	(906,035)	(1,338,195)
TOTAL ASSETS LESS CURRENT LIABILITIES		5,829,020	5,421,597
NON-CURRENT LIABILITIES			
Interest-bearing bank and other loans	24	111,364	244,091
Net assets		5,717,656	5,177,506
EQUITY			
Issued capital	25	2,558,060	2,558,060
Reserves	26	3,159,596	2,619,446
Total equity		5,717,656	5,177,506

NOTES TO FINANCIAL STATEMENTS

31 December 2008

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 Company is pursuing its A shares listing on the Shanghai Stock Exchange (the "Proposed A Share Issue") pursuant to the authority granted to the Board of Directors (the "Board") at the extraordinary general meeting (the "EGM") of shareholders and class meetings of holders of H Shares and Domestic Shares on 12 December 2007. On 19 December 2007, the Company filed the application documents regarding the Proposed A Share Issue with the China Securities Regulatory Commission (the "CSRC"). On 27 June 2008, the Proposed A Share Issue was conditionally approved by the Securities Issue Approval Committee of the CSRC.

On 25 November 2008, the Company announced that, due to the recent unfavourable conditions in the PRC stock market and the pending issue of the formal approval documents from the CSRC regarding the Proposed A Share Issue, the Company is not likely to be able to proceed with the Proposed A Share Issue on favourable terms within the validity period for the Proposed A Share Issue, which ended on 11 December 2008 pursuant to the special resolutions passed on 12 December 2007. As a result, the Board has resolved to obtain new approval from the shareholders at the EGM and class meetings of holders of H Shares and Domestic Shares in relation to the Proposed A Share Issue on 23 January 2009 for a refreshment of specific mandate for its Proposed A Share Issue in 2009.

NOTES TO FINANCIAL STATEMENTS *(Continued)*

31 December 2008

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (the "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 ("HKICPA"), 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.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2008. 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 interpretations and amendments to HKFRSs for the first time for the current year's financial statements, which are relevant to its operations.

HKAS 39 &HKFRS 7 Amendments	Amendments to HKAS 39 Financial Instruments: Recognition and Measurement and HKFRS 7 Financial Instruments: Disclosures – Reclassification of Financial Assets
HK(IFRIC)-Int 12	Service Concession Arrangements
HKFRS 8	Operating Segments

NOTES TO FINANCIAL STATEMENTS *(Continued)*

31 December 2008

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

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

(a) Amendments to HKAS 39 Financial instruments: Recognition and Measurement and HKFRS 7 Financial Instruments: Disclosures — Reclassification of Financial Assets

The amendments to HKAS 39 permit an entity to reclassify a non-derivative financial asset classified as held for trading, other than a financial asset designated by an entity as at fair value through profit or loss upon initial recognition, out of the fair value through profit or loss category if the financial asset is no longer held for the purpose of selling or repurchasing the near term, if specified criteria are met.

A debt instrument that would have met the definition of loans and receivables (if it had not been required to be classified as held for trading at initial recognition) may be classified out of the fair value through profit or loss category or (if it had not been designated as available for sale) may be classified out of the available-for-sale category to the loans and receivables category if the entity has the intention and ability to hold it for the foreseeable future or until maturity.

Financial assets that are not eligible for classification as loans and receivables may be transferred from the held-for-trading category to the available-for-sale category or to the held to maturity category (in the case of debt instrument), if the financial asset is no longer held for the purpose of selling or repurchasing in the near term but only in rare circumstances.

The financial asset shall be reclassified at its fair value on the date of reclassification and the fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable. The amendments to HKFRS 7 require extensive disclosures of any financial asset reclassified in the situation described above. The amendments are effective from 1 July 2008.

As the Group has not reclassified any of its financial instruments, the amendments have had no impact on the financial position or results of operations of the Group.

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

(b) HK(IFRIC)-Int 12 Service Concession Arrangements

HK(IFRIC)-Int 12 ("HK(IFRIC) 12") requires an operator under public-to-private service concession arrangements to recognise the consideration received or receivable in exchange for the construction services as a financial asset and/or an intangible asset, based on the terms of the contractual arrangements. HK(IFRIC) 12 also addresses how an operator shall apply existing HKFRSs to account for the obligations and the rights arising from service concession arrangements by which a government or a public sector entity grants a contract for the construction or upgrade of infrastructure used to provide public services and/or for the supply of public services. The application of this interpretation results in changes in accounting policies of the Group, which have been applied retrospectively and comparative amounts have been restated accordingly.

Impact to property, plant and equipment

Pursuant to the respective service concession arrangements applicable to Chengyu Expressway, Chengya Expressway and Chengbei Exit Expressway (the "Expressways") that are constructed by the Group, the Group operates the Expressways for concession periods of between 25.5 and 30 years and will transfer the Expressways to the grantor at the end of the respective concession periods ("Service Concession Arrangements"). Such service concession arrangements fall within the scope of HK(IFRIC) 12.

In prior years, the Expressways were recorded as property, plant and equipment and were stated at cost less accumulated depreciation and impairment losses. Depreciation of the Expressways was calculated on a unit-of-usage basis whereby the depreciation was 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 the Expressways.

Impact to operating rights

Pursuant to the approval documents issued by the government, Chengdu Chengbei Exit Expressway Co., Ltd. ("Chengbei Company"), a subsidiary of the Company, acquired a right to operate a high-grade toll bridge, which is connected to the Chengbei Exit Expressway for a concession period of 19.5 years. Such operating rights fall within the scope of HK(IFRIC)12.

In prior years, the right to operate the high-grade toll bridge was recorded as operating rights and was stated at cost less accumulated amortisation and impairment losses.

NOTES TO FINANCIAL STATEMENTS *(Continued)*

31 December 2008

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

(b) HK(IFRIC)-Int 12 Service Concession Arrangements *(Continued)*

Service concession arrangements

Upon the adoption of HK(IFRIC) 12, the Expressways under the service concession arrangements are no longer recognised as property, plant and equipment of the Group and have been reclassified as intangible assets and are recorded in the consolidated balance sheet as "Service concession arrangements". In addition, the right to operate the high-grade toll bridge that was previously recorded as operating rights has been reclassified in the consolidated balance sheet as part of the "Service concession arrangements".

Intangible asset model

The Group applies the intangible asset model to account for the service concession arrangements where the Group is granted the rights to charge users of the Expressways at toll rates jointly approved by the Sichuan Provincial People's Government, the Sichuan Provincial Price Bureau and the Sichuan Provincial Communications Department. Once the underlying infrastructure of the service concession arrangements is completed, they are amortised, on the "unit-of-usage method", as allowed under HK Interpretation 1 (revised June 2006) The Appropriate Accounting Policies for Infrastructure Facilities ("HK-Int 1") issued by the HKICPA, over the respective concession periods granted.

NOTES TO FINANCIAL STATEMENTS *(Continued)*

31 December 2008

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

(b) HK(IFRIC)-Int 12 Service Concession Arrangements *(Continued)*

Construction contracts

Upon the adoption of HK(IFRIC) 12, the Group recognises income and expenses associated with construction and upgrade services provided under the service concession arrangements in accordance with HKAS 11 Construction Contracts.

HK(IFRIC) 12 has been applied by the Group retrospectively and comparative amounts have been restated. The effect of the above changes is summarised below:

	2008 *RMB'000*	2007 *RMB'000*
Consolidated income statement for the year ended 31 December		
Increase in other income and gains	158,053	171,357
Increase in other operating costs	(159,306)	(147,479)
Increase in amortisation of service concession arrangements	(175,333)	(158,081)
Decrease in amortisation of operating rights	6,623	6,623
Decrease in depreciation of property, plant and equipment	168,058	135,183
Total increase/(decrease) in net profit	(1,905)	7,603
Increase/(decrease) in basic earnings per share *(RMB cents)*	(0.07)	0.30
Consolidated balance sheet and equity at 1 January		
Increase in service concession arrangements	5,668,805	5,655,529
Decrease in operating rights	(109,276)	(115,899)
Decrease in property, plant and equipment	(5,547,063)	(5,534,767)
	12,466	4,863
Increase in reserves (retained earnings)	12,466	4,863

NOTES TO FINANCIAL STATEMENTS *(Continued)*

31 December 2008

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

(b) HK(IFRIC)-Int 12 Service Concession Arrangements *(Continued)*

HK(IFRIC) 12 has been applied by the Group retrospectively and comparative amounts have been restated. The effect of the above changes is summarised below: *(Continued)*

	2008 *RMB'000*	2007 *RMB'000*
Consolidated balance sheet and equity at 31 December		
Increase in service concession arrangements	5,651,525	5,668,805
Decrease in operating rights	(102,653)	(109,276)
Decrease in property, plant and equipment	(5,538,310)	(5,547,063)
	10,562	12,466
Increase in reserves (retained earnings)	10,562	12,466

	2008 *RMB'000*	2007 *RMB'000*
Company balance sheet at 1 January		
Increase in service concession arrangements	5,360,916	5,333,410
Decrease in property, plant and equipment	(5,360,916)	(5,333,410)
	–	–
Company balance sheet at 31 December		
Increase in service concession arrangements	5,358,422	5,360,916
Decrease in property, plant and equipment	(5,358,422)	(5,360,916)
	–	–

NOTES TO FINANCIAL STATEMENTS *(Continued)*

31 December 2008

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

(c) HKFRS 8 Operating Segments

HKFRS 8 will be effective for financial years beginning on or after 1 January 2009. HKFRS 8, which will replace HKAS 14 Segment Reporting, specifies how an entity should report information about its operating segments, 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 the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers.

The Group early adopted HKFRS 8 as of 1 January 2008. HKFRS 8 requires a "management reporting approach" under which segment information is presented on the same basis as that used for internal reporting purpose. The Group concluded that there is no separate reporting segment apart from the toll operation segment. The board of directors reviews and assesses the performance on the toll operation segment based on the information available for purpose of allocating resources to the segment and assessing their performance. As a result of early adopting HKFRS 8, the Group has evaluated and determined that there is no separate segment apart from the toll operating segment.

NOTES TO FINANCIAL STATEMENTS *(Continued)*

31 December 2008

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 not yet effective, in these financial statements:

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 First-time Adoption of HKFRSs and HKAS 27 Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[1]
HKFRS 3 (Revised)	Business Combinations[2]
HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]

Apart from the above, the HKICPA has also issued Improvements to HKFRSs* which sets out amendments to a number of HKFRSs. Except for the amendment to HKFRS 5 which is effective for annual periods beginning on or after 1 July 2009, other amendments are effective for annual periods beginning on or after 1 January 2009 although there are separate transitional provisions for each standard.

1 Effective for accounting periods beginning on or after 1 January 2009

2 Effective for accounting periods beginning on or after 1 July 2009

* Improvements to HKFRSs contain amendments to HKFRS 5, HKFRS 7, HKAS 1, HKAS 8, HKAS 10, HKAS 16, HKAS 18, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 34, HKAS 36, HKAS 38, HKAS 39, HKAS 40 and HKAS 41.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs and anticipated that the adoption of the above revised and amended standards will not have a material impact on the results of operations and the financial position of the Group in the period of initial application.

NOTES TO FINANCIAL STATEMENTS *(Continued)*

31 December 2008

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fundamental accounting concept

As at 31 December 2008, the current liabilities of the Group exceeded its current assets by approximately RMB680.5 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 RMB0.2 billion, RMB1.3 billion and RMB1.5 billion granted by the China Merchandise Bank, China Construction Bank and China Citic Bank, respectively, are available to the Group for the next year. As at 31 December 2008, all the above available banking facilities remained unutilised.

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's 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 interests 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.

NOTES TO FINANCIAL STATEMENTS *(Continued)*

31 December 2008

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill

Goodwill arising on the acquisition of subsidiaries and associates represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses. In the case of associates, goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

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.

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.

Excess over the cost of business combinations

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries and associates (previously referred to as negative goodwill), after reassessment, is recognised immediately in the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, road maintenance contracts, deferred tax assets, financial assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is 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 asset, 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.

NOTES TO FINANCIAL STATEMENTS *(Continued)*

31 December 2008

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 equipment 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. In 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 an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation 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 the depreciation method 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 safety equipment, communication and signalling systems under construction, which are stated at costs less any impairment losses, and are not depreciated. Cost comprises the purchase price of equipment and costs of construction, installation and testing incurred during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

NOTES TO FINANCIAL STATEMENTS *(Continued)*

31 December 2008

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Service concession arrangements

Service concession arrangements represent the rights to charge users of the public service, that the Group obtained under the service concession arrangements. Service concession arrangements are stated at cost, i.e., the fair value of the consideration received or receivable in exchange for the construction services provided under the service concession arrangements, less accumulated amortisation and any impairment losses.

Subsequent expenditures such as repairs and maintenance are charged to the income statement in the period in which they are incurred. In 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, and where the cost of the item can be measured reliably, the expenditures are capitalised as an additional cost of service concession arrangement.

Amortisation of service concession arrangements is calculated to write off their costs on a unit-of-usage basis whereby the amortisation 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 service concession arrangements.

It is the Group's policy to review regularly the projected total traffic volume throughout the concession periods of the respective service concession arrangements. 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)*

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.

NOTES TO FINANCIAL STATEMENTS *(Continued)*

31 December 2008

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Available-for-sale financial assets

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

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.

NOTES TO FINANCIAL STATEMENTS *(Continued)*

31 December 2008

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

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 an 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.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, 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.

NOTES TO FINANCIAL STATEMENTS *(Continued)*

31 December 2008

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial assets and liabilities *(Continued)*

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.

Inventories

Inventories are comprised 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.

NOTES TO FINANCIAL STATEMENTS *(Continued)*

31 December 2008

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Construction and upgrade services

The Group recognises income and expenses associated with construction and upgrade services provided under the service concession arrangements in accordance with HKAS 11 Construction Contracts.

Revenue generated by construction and upgrade services rendered by the Group is measured at fair value of the consideration received or receivable. The consideration represents the rights to attain an intangible asset.

The Group uses the percentage of completion method to determine the appropriate amount of income and expenses to be recognised in a given period, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The stage of completion is measured by reference to the construction costs of the related infrastructure incurred up to the balance sheet date as a percentage of the total estimated costs for each contract. Provision is made for foreseeable losses as soon as they are anticipated by management.

Road maintenance contracts

Contract revenue from road maintenance 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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.

NOTES TO FINANCIAL STATEMENTS *(Continued)*

31 December 2008

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 established in the PRC on the income for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes based on existing PRC income tax legislation, practices and interpretations thereof.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

NOTES TO FINANCIAL STATEMENTS *(Continued)*

31 December 2008

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) revenue associated with construction and upgrade services provided under the service concession arrangements are recognised using the percentage of completion method, as further explained in the accounting policy for "Construction and upgrade services";

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

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

(e) 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

(f) 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 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 ESTIMATES

The preparation of the Group's financial statements require management to make judgements, estimates and assumptions that affect the reported amounts of revenues, 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 on 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) Amortisation of costs of service concession arrangements

As explained in detail in the accounting policy for "service concession arrangements", amortisation of costs of service concession arrangements is calculated under the unit-of-usage method, whereby the amortisation 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 service concession arrangements. 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 service concession arrangements. 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.

During the year, the Group appointed professional traffic consultants to perform independent professional traffic studies on the projected total traffic volume of Chengyu Expressway and Chengbei Exit Expressway. The Group provided amortisation of Chengyu Expressway and Chengbei Exit Expressway for the year based on the adjusted projected total traffic volume according to the results of the traffic studies. This change in estimate has been accounted for prospectively from 1 January 2008 and has resulted in an increase in amortisation of service concession arrangements and a decrease in profit for the year by approximately RMB21,249,000 and RMB18,062,000, respectively, during the year.

NOTES TO FINANCIAL STATEMENTS *(Continued)*

31 December 2008

2.5 SIGNIFICANT ACCOUNTING ESTIMATES *(Continued)*

Estimation uncertainty *(Continued)*

(c) Useful lives of property, plant and equipment

The Group determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations, or competitor actions in response to severe industry cycles. The Group will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(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 2008 was RMB78,868,000 (2007: RMB80,643,000). Further details are included in Note 18 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 have an impact on the income tax expenses and tax provisions in the period in which the differences are realised.

3. SEGMENT INFORMATION

The Group's revenue and contribution to profit from operating activities for the two years ended 31 December 2008 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 operating or geographical segments is required.

NOTES TO FINANCIAL STATEMENTS *(Continued)*

31 December 2008

4. REVENUE, OTHER INCOME AND GAINS

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

	2008 *RMB'000*	2007 *RMB'000* (Restated)
Toll income		
Chengyu Expressway	**843,929**	890,289
Chengya Expressway	**469,318**	394,124
Chengbei Exit Expressway and Qinglongchang Bridge	**75,902**	74,103
	1,389,149	1,358,516
Less: Revenue taxes	**(42,003)**	(41,074)
	1,347,146	1,317,442
Other income and gains		
Road maintenance income	**31,997**	32,845
Rental income	**21,604**	19,186
Construction revenue for upgrade services	**158,053**	171,357
Interest income from bank deposits	**16,341**	8,384
Interest income from discounting of long term compensation receivables *(Note 18)*	**11,225**	11,442
Miscellaneous	**4,147**	5,876
	243,367	249,090
Total revenue, other income and gains	**1,590,513**	1,566,532

NOTES TO FINANCIAL STATEMENTS *(Continued)*

31 December 2008

5. PROFIT BEFORE TAX

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

	Notes	**2008** **RMB'000**	2007 RMB'000 (Restated)
Employee costs (including directors' remuneration *(Note 7)*):			
Wages and salaries		**95,217**	88,750
Pension scheme contributions — Defined contribution fund		**15,480**	13,262
Accommodation benefits — Defined contribution fund		**12,680**	10,908
Supplementary pension scheme — Defined contribution fund		**6,379**	2,700
		129,756	115,620
Depreciation	12	**78,725**	83,585
Amortisation of service concession arrangements	13	**175,333**	158,081
Amortisation of prepaid land lease payments	14	**24,861**	24,554
Depreciation and amortisation expenses		**278,919**	266,220
Repairs and maintenance		**145,569**	176,969
Construction costs for upgrade services		**159,306**	163,536
Minimum lease payments under operating leases:			
Land and buildings		**3,871**	4,235
Auditors' remuneration		**1,726**	1,634
Loss on disposal of items of property, plant and equipment		**3,974**	4,658
Loss on disposal of a subsidiary		**—**	581
Provision for impairment of other receivables	21(a)	**63**	5,223
Reversal of provision for impairment of other receivables	21(a)	**(7,659)**	(3,565)

NOTES TO FINANCIAL STATEMENTS *(Continued)*

31 December 2008

6. FINANCE COSTS

	2008 *RMB'000*	2007 *RMB'000*
Interest on bank and other loans wholly repayable within five years	**36,032**	36,954
Interest on short term commercial papers	**82,687**	–
Amortisation of discount on short term commercial papers	**–**	50,240
Bank charges on the issuance of commercial papers	**6,105**	–
Exchange losses	**–**	132
	124,824	87,326

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

	2008 *RMB'000*	2007 *RMB'000*
Fees	**235**	230
Other emoluments:		
Salaries, allowances and benefits in kind	**1,073**	1,060
Pension scheme contributions	**15**	14
Supplementary pension scheme contributions	**7**	6
	1,095	1,080
	1,330	1,310

NOTES TO FINANCIAL STATEMENTS *(Continued)*

31 December 2008

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

Directors *(Continued)*

(1) Independent non-executive directors

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

	2008 **RMB'000**	2007 RMB'000
Madam Luo Xia	**60**	60
Mr. Feng Jian	**60**	60
Mr. Zhao Zesong	**60**	45
Mr. Xie Bangzhu	**55**	—
Madam Zang Dihua	**—**	33
Mr. Yim Chung Wu	**—**	32
	235	230

There were no other emoluments payable to the independent non-executive directors during the year (2007: Nil).

(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
2008				
Mr. Tang Yong	190	5	2	197
Mr. Zhang Zhiying	190	5	3	198
Madam Zhang Yang	130	—	—	130
Mr. Gao Chun	130	—	—	130
Mr. Zhou Liming	130	—	—	130
Mr. Wang Shuanming	130	—	—	130
Mr. Liu Mingli	173	5	2	180
Mr. Nie Xinquan	—	—	—	—
	1,073	15	7	1,095

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

Directors *(Continued)*

(2) Executive directors *(Continued)*

	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

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

(4) The five highest paid individuals were also the Company's directors during the two years ended 31 December 2008.

NOTES TO FINANCIAL STATEMENTS *(Continued)*

31 December 2008

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

Supervisors

	Salaries allowances and benefits in kind *RMB'000*	Pension scheme contributions *RMB'000*	Supplementary pension scheme contributions *RMB'000*	Total *RMB'000*
2008				
Mr. Feng Bing	192	5	3	200
Mr. Hou Bin	—	—	—	—
Mr. Ouyang Huajie	—	—	—	—
Mr. Jian Shixi	163	5	2	170
Madam Yang Jingfan	108	5	2	115
Mr. Liu Xianfu	—	—	—	—
	463	15	7	485

	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

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

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

In addition to the amounts disclosed above, three supervisors did not receive any remuneration from the Company in 2008, of which two supervisors are also senior executives of Sichuan Highway Development, the ultimate holding company of the Company, one supervisor is a senior executive of Huajian Communication and Economic Development Centre, which holds a 25.7% interest in the Company. 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 companies, 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 (2007: Nil).

On 16 March 2007, the National People's Congress approved the Corporate Income Tax law of the PRC (the "new CIT law"), which became effective from 1 January 2008. Under the new CIT law, the standard CIT rate starting from 1 January 2008 became 25%, replacing the previous applicable rate of 33%, and the entities that were entitled to a preferential tax rate will continue to enjoy the tax benefits. As such, except for the companies discussed below that are entitled to a preferential tax rate, the other subsidiaries and associates of the Company are required to pay CIT at the standard rate of 25% from 1 January 2008.

Pursuant to the approval document, "Chuan Guo Shui Zhi Jian Mian [2008] No. 26" dated 2 June 2008, issued by the Sichuan Provincial Branch of the State Tax Bureau, the Company is granted a tax concession to pay CIT at a preferential rate of 15% for the three years from 1 January 2008 to 31 December 2010.

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, 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.

NOTES TO FINANCIAL STATEMENTS *(Continued)*

31 December 2008

8. TAX *(Continued)*

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

	2008 RMB'000	2007 RMB'000
Group:		
Current – Mainland China		
Charge for the year	95,877	82,471
Deferred	–	36,328
Total tax charge for the year	95,877	118,799

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

	2008 RMB'000	2007 RMB'000
Profit before tax	645,900	622,687
Tax at applicable tax rates of:		
33%	–	3,165
25%	2,051	–
18%	–	103,934
15%	95,654	5,353
Subtotal	97,705	112,452
Income not subject to tax	(1,140)	(143)
Expenses not deductible for tax	175	6,837
Profit attributable to associates	(863)	(705)
Tax rate difference on dividend from a subsidiary	–	358
Tax charge at the Group's effective tax rate	95,877	118,799

The share of tax attributable to associates amounting to RMB1,209,000 (2007: RMB1,028,000) is included in "share of profits and losses of associates" on the face of the consolidated income statement.

NOTES TO FINANCIAL STATEMENTS *(Continued)*

31 December 2008

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 2008 includes a profit of RMB540,150,000 (2007: RMB482,152,000) which has been dealt with in the financial statements of the Company (Note 26).

10. DIVIDENDS

(a) Dividends declared and paid in 2007

	RMB'000
Final dividend in respect of the financial year ended 31 December 2006 of RMB0.04 per share	102,322
Special dividends of RMB0.04 per share	102,323
	204,645

During the year ended 31 December 2007, a special dividend of RMB0.04 per share of approximately RMB102,323,000 was declared and paid on 19 December 2007.

(b) Dividend for the year

The Company will not pay a final dividend for the year ended 31 December 2008 to the shareholders.

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 RMB544,493,000 (2007: RMB495,427,000) and 2,558,060,000 (2007: 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 years ended 31 December 2008 and 2007 have not been disclosed.

NOTES TO FINANCIAL STATEMENTS *(Continued)*

31 December 2008

12. PROPERTY, PLANT AND EQUIPMENT

Group

	Expressways, tunnels and bridges *RMB'000*	Safety equipment *RMB'000*	Communication and signalling systems *RMB'000*	Toll collection equipment *RMB'000*	Machinery and Buildings *RMB'000*	Motor equipment *RMB'000*	Construction vehicles *RMB'000*	in progress *RMB'000*	Total *RMB'000*
31 December 2008									
Cost:									
At 1 January 2008									
As previously stated	6,868,292	444,537	144,173	136,242	258,498	151,875	56,742	954	8,061,313
Effect of adopting HK(IFRIC) 12 *(Note 2.2(b))*	(6,868,292)	–	–	–	–	–	–	–	(6,868,292)
As restated	–	444,537	144,173	136,242	258,498	151,875	56,742	954	1,193,021
Additions during the year	–	618	98	3,053	70	4,680	8,161	22,200	38,880
Disposals	–	–	(33)	(4,641)	(1,919)	(2,441)	(4,216)	–	(13,250)
Transfers	–	–	–	623	267	344	–	(1,234)	–
At 31 December 2008	–	445,155	144,238	135,277	256,916	154,458	60,687	21,920	1,218,651
Accumulated depreciation:									
At 1 January 2008									
As previously stated	1,321,229	367,025	80,881	69,373	74,617	102,329	35,507	–	2,050,961
Effect of adopting HK(IFRIC) 12 *(Note 2.2(b))*	(1,321,229)	–	–	–	–	–	–	–	(1,321,229)
As restated	–	367,025	80,881	69,373	74,617	102,329	35,507	–	729,732
Provided during the year	–	26,794	14,608	12,863	8,608	10,658	5,194	–	78,725
Disposals	–	–	(20)	(3,115)	(504)	(1,833)	(4,046)	–	(9,518)
At 31 December 2008	–	393,819	95,469	79,121	82,721	111,154	36,655	–	798,939
Net book value:									
At 1 January 2008 (Restated)	–	77,512	63,292	66,869	183,881	49,546	21,235	954	463,289
At 31 December 2008	–	51,336	48,769	56,156	174,195	43,304	24,032	21,920	419,712

NOTES TO FINANCIAL STATEMENTS *(Continued)*

31 December 2008

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

Group *(Continued)*

	Expressways, tunnels and bridges *RMB'000*	Safety equipment *RMB'000*	Communication and signalling systems *RMB'000*	Toll collection equipment *RMB'000*	Machinery and Buildings *RMB'000*	Motor equipment *RMB'000*	Construction vehicles *RMB'000*	in progress *RMB'000*	Total *RMB'000*
31 December 2007									
Cost:									
At 1 January 2007									
As previously stated	6,727,274	439,018	149,411	112,112	257,740	144,122	57,546	9,739	7,896,962
Effect of adopting HK(IFRIC) 12 *(Note 2.2(b))*	(6,727,274)	–	–	–	–	–	–	–	(6,727,274)
As restated	–	439,018	149,411	112,112	257,740	144,122	57,546	9,739	1,169,688
Additions during the year	–	3	2,014	1,716	1,781	7,401	5,594	24,975	43,484
Disposals	–	(176)	(8,842)	(627)	(984)	–	(6,398)	–	(17,027)
Transfers	–	5,692	1,590	23,041	3,085	352	–	(33,760)	–
Disposal of a subsidiary	–	–	–	–	(3,124)	–	–	–	(3,124)
At 31 December 2007	–	444,537	144,173	136,242	258,498	151,875	56,742	954	1,193,021
Accumulated depreciation:									
At 1 January 2007									
As previously stated	1,192,507	342,044	69,786	55,641	64,569	91,186	35,491	–	1,851,224
Effect of adopting HK(IFRIC) 12 *(Note 2.2(b))*	(1,192,507)	–	–	–	–	–	–	–	(1,192,507)
As restated	–	342,044	69,786	55,641	64,569	91,186	35,491	–	658,717
Provided during the year (as restated)	–	25,125	15,441	14,124	10,689	12,488	5,718	–	83,585
Disposals	–	(144)	(4,346)	(392)	(401)	(1,345)	(5,702)	–	(12,330)
Disposal of a subsidiary	–	–	–	–	(240)	–	–	–	(240)
At 31 December 2007	–	367,025	80,881	69,373	74,617	102,329	35,507	–	729,732
Net book value:									
At 1 January 2007 (Restated)	–	96,974	79,625	56,471	193,171	52,936	22,055	9,739	510,971
At 31 December 2007 (Restated)	–	77,512	63,292	66,869	183,881	49,546	21,235	954	463,289

NOTES TO FINANCIAL STATEMENTS *(Continued)*

31 December 2008

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

Company

	Expressways, tunnels and bridges *RMB'000*	Safety equipment *RMB'000*	Communication and signalling systems *RMB'000*	Toll collection equipment *RMB'000*	Machinery and Buildings *RMB'000*	Motor equipment *RMB'000*	Construction vehicles *RMB'000*	in progress *RMB'000*	Total *RMB'000*
31 December 2008									
Cost:									
At 1 January 2008									
As previously stated	6,625,136	413,080	143,485	125,089	216,840	97,587	39,949	904	7,662,070
Effect of adopting HK(IFRIC) 12 *(Note 2.2(b))*	(6,625,136)	–	–	–	–	–	–	–	(6,625,136)
As restated	–	413,080	143,485	125,089	216,840	97,587	39,949	904	1,036,934
Additions during the year	–	599	98	2,424	70	4,298	7,530	22,200	37,219
Disposals	–	–	(24)	(4,641)	(1,919)	(2,441)	(3,785)	–	(12,810)
Transfer to a subsidiary *(Note 15)*	–	–	–	–	(6,421)	(6,814)	(3,501)	–	(16,736)
Transfers	–	–	–	623	267	344	–	(1,234)	–
At 31 December 2008	–	413,679	143,559	123,495	208,837	92,974	40,193	21,870	1,044,607
Accumulated depreciation:									
At 1 January 2008									
As previously stated	1,264,220	349,348	80,360	64,071	64,251	67,535	26,574	–	1,916,359
Effect of adopting HK(IFRIC) 12 *(Note 2.2(b))*	(1,264,220)	–	–	–	–	–	–	–	(1,264,220)
As restated	–	349,348	80,360	64,071	64,251	67,535	26,574	–	652,139
Provided during the year	–	22,887	14,547	12,234	7,156	5,860	3,526	–	66,210
Transfer to a subsidiary *(Note 15)*	–	–	–	–	(1,573)	(4,011)	(3,486)	–	(9,070)
Disposals	–	–	(20)	(3,115)	(504)	(1,833)	(3,633)	–	(9,105)
At 31 December 2008	–	372,235	94,887	73,190	69,330	67,551	22,981	–	700,174
Net book value:									
At 1 January 2008 (Restated)	–	63,732	63,125	61,018	152,589	30,052	13,375	904	384,795
At 31 December 2008	–	41,444	48,672	50,305	139,507	25,423	17,212	21,870	344,433

NOTES TO FINANCIAL STATEMENTS *(Continued)*

31 December 2008

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

Company *(Continued)*

	Expressways, tunnels and bridges *RMB'000*	Safety equipment *RMB'000*	Communication and signalling systems *RMB'000*	Toll collection equipment *RMB'000*	Machinery and Buildings *RMB'000*	Motor equipment *RMB'000*	Construction vehicles *RMB'000*	in progress *RMB'000*	Total *RMB'000*
31 December 2007									
Cost:									
At 1 January 2007									
As previously stated	6,476,144	407,561	148,531	101,032	206,876	84,308	36,997	9,629	7,471,078
Effect of adopting HK(IFRIC) 12 *(Note 2.2(b))*	(6,476,144)	–	–	–	–	–	–	–	(6,476,144)
As restated	–	407,561	148,531	101,032	206,876	84,308	36,997	9,629	994,934
Additions during the year	–	3	2,173	1,506	8,284	13,495	8,660	24,606	58,727
Disposals	–	(176)	(8,809)	(490)	(976)	(568)	(5,708)	–	(16,727)
Transfers	–	5,692	1,590	23,041	2,656	352	–	(33,331)	–
At 31 December 2007	–	413,080	143,485	125,089	216,840	97,587	39,949	904	1,036,934
Accumulated depreciation:									
At 1 January 2007									
As previously stated	1,142,734	327,561	69,276	51,062	54,334	57,672	23,457	–	1,726,096
Effect of adopting HK(IFRIC) 12 *(Note 2.2(b))*	(1,142,734)	–	–	–	–	–	–	–	(1,142,734)
As restated	–	327,561	69,276	51,062	54,334	57,672	23,457	–	583,362
Provided during the year	–	21,931	15,397	13,385	10,283	10,414	8,377	–	79,787
Disposals	–	(144)	(4,313)	(376)	(366)	(551)	(5,260)	–	(11,010)
At 31 December 2007	–	349,348	80,360	64,071	64,251	67,535	26,574	–	652,139
Net book value:									
At 1 January 2007 (Restated)	–	80,000	79,255	49,970	152,542	26,636	13,540	9,629	411,572
At 31 December 2007 (Restated)	–	63,732	63,125	61,018	152,589	30,052	13,375	904	384,795

NOTES TO FINANCIAL STATEMENTS *(Continued)*

31 December 2008

13. SERVICE CONCESSION ARRANGEMENTS

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cost:				
At 1 January				
As previously stated	**–**	–	**–**	–
Effect of adopting HK(IFRIC) 12 *(Note 2.2(b))*	**7,012,718**	6,863,879	**6,624,983**	6,476,144
As restated	**7,012,718**	6,863,879	**6,624,983**	6,476,144
Additions	**158,053**	171,357	**158,053**	171,357
At 31 December	**7,170,771**	7,035,236	**6,783,036**	6,647,501
Accumulated amortisation:				
At 1 January				
As previously stated	**–**	–	**–**	–
Effect of adopting HK(IFRIC) 12 *(Note 2.2(b))*	**1,343,913**	1,208,350	**1,264,067**	1,142,734
As restated	**1,343,913**	1,208,350	**1,264,067**	1,142,734
Charged for the year	**175,333**	158,081	**160,547**	143,851
At 31 December	**1,519,246**	1,366,431	**1,424,614**	1,286,585
Net book value:				
At 1 January (Restated)	**5,668,805**	5,655,529	**5,360,916**	5,333,410
At 31 December	**5,651,525**	5,668,805	**5,358,422**	5,360,916

As at 31 December 2008, the concession rights pertaining to Chengbei Exit Expressway with the book value of RMB197,638,000 (2007: RMB206,203,000) were pledged to secure bank loans amounting to RMB214,600,000 (2007: RMB227,600,000) (Note 24(a)).

NOTES TO FINANCIAL STATEMENTS *(Continued)*

31 December 2008

14. PREPAID LAND LEASE PAYMENTS

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Carrying amount at 1 January	**510,434**	535,740	**459,657**	481,142
Disposal of a subsidiary	**—**	(752)	**—**	—
Amortisation during the year	**(24,861)**	(24,554)	**(21,881)**	(21,485)
Carrying amount at 31 December	**485,573**	510,434	**437,776**	459,657

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

15. INVESTMENTS IN SUBSIDIARIES

	2008	2007
	RMB'000	*RMB'000*
Unlisted investments, at cost	**433,496**	393,496

The amounts due from/to subsidiaries as at 31 December 2008 and 2007 included in the Company's current assets and current liabilities are unsecured, interest-free and are repayable on demand or within one year. The carrying amounts of all the amounts due from/to subsidiaries approximate to their fair values.

NOTES TO FINANCIAL STATEMENTS *(Continued)*

31 December 2008

15. INVESTMENTS IN SUBSIDIARIES *(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 and Qinglongchang Bridge
Chengdu Shuhai Investment Management Company Limited	Limited company	200,000	99.9	–	Investment holding
Sichuan Shugong Expressway Engineering Company Limited ("Shugong")*	Limited company	70,000	100	–	Repairs and maintenance of expressways
Sichuan Shusha Enterprise Company Limited services and property development	Limited company	30,000	100	–	Provision of ancillary
Sichuan Chengyu Expressway Advertising Company Limited	Limited company	1,000	–	60	Design and production of advertisements

* During the year, the Company increased its investment in Shugong by way of additional capital injection amounted to RMB40,000,000. The additional capital injection was satisfied by cash, property, plant and equipment and inventories injected to Shugong amounting to approximately RMB28,216,000, RMB7,666,000 and RMB4,118,000, respectively. Upon completion of the additional capital injection, registered capital of Shugong increased from RMB30,000,000 as at 31 December 2007 to RMB70,000,000 on 25 December 2008.

NOTES TO FINANCIAL STATEMENTS *(Continued)*

31 December 2008

16. INTERESTS/INVESTMENTS IN ASSOCIATES

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Unlisted shares, at cost	**—**	—	**39,428**	39,428
Share of net assets	**67,227**	66,671	**—**	—
Provision for impairment	**(9,163)**	(9,163)	**—**	—
	58,064	57,508	**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 2008	2007	Principal activities
Chengdu Airport Expressway Company Limited	Limited company	**25**	25	Construction and operation of the Chengdu Airport Expressway
Sichuan Chuanda Scientific Technology Result Transfer Centre Company Limited	Limited company	**20**	20	Development and sale of high-tech products
Sichuan Chengya Oil Supply Company Limited	Limited company	**27**	27	Operation of oil stations
Chengdu Stone Elephant Lake Communication Restaurant Company Limited	Limited company	**32.4**	32.4	Provision of accommodation, meeting reception and entertainment services
Sichuan Chengyu Asphalt High-tech Company Limited	Limited company	**45**	45	Sale and production of asphalt, additive, chemical products and architecture materials

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

NOTES TO FINANCIAL STATEMENTS *(Continued)*

31 December 2008

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

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

	2008 **RMB'000**	2007 RMB'000
Assets	**620,376**	606,637
Liabilities	**410,495**	401,188
Revenues	**220,932**	192,009
Profit	**28,610**	26,097

17. AVAILABLE-FOR-SALE INVESTMENTS

	Group		**Company**	
	2008 **RMB'000**	2007 RMB'000	**2008** **RMB'000**	2007 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.

NOTES TO FINANCIAL STATEMENTS *(Continued)*

31 December 2008

18. 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:

	2008			2007		
	Compensation	**Imputed interest**	**Net present value**	Compensation	Imputed interest	Net present value
	RMB'000	***RMB'000***	***RMB'000***	*RMB'000*	*RMB'000*	*RMB'000*
Receivable:						
Within one year	**13,000**	**10,978**	**2,022**	13,000	11,225	1,775
In the second to fifth years, inclusive	**52,000**	**40,678**	**11,322**	52,000	42,061	9,939
Over five years	**120,802**	**55,278**	**65,524**	133,802	64,873	68,929
	185,802	**106,934**	**78,868**	198,802	118,159	80,643
Portion classified as current assets			**(2,022)**			(1,775)
Non-current portion			**76,846**			78,868

18. 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.

19. 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 Sichuan Chengle Expressway Company Limited ("SC Expressway"). The acquisition is subject to the successful Proposed A Share Issue, which is a condition precedent to closing. If the Company is unsuccessful with its Proposed A Share Issue, the acquisition will be terminated. In such case, the Vendors shall refund the advance payment paid by the Company with no accrual of interest to the Company within 10 working days after the receipt of written notice from the Company. Upon completion, SC Expressway will become a wholly-owned subsidiary of the Company.

20. INVENTORIES

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Spare parts and consumable supplies	**21,617**	12,519	**197**	4,766

NOTES TO FINANCIAL STATEMENTS *(Continued)*

31 December 2008

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

		Group		Company	
		2008	2007	**2008**	2007
	Note	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Prepayments		**7,873**	15,812	**6,743**	13,232
Deposits and other receivables	(a)	**88,346**	100,992	**53,647**	65,753
		96,219	116,804	**60,390**	78,985
Impairment for other receivables	(a)	**(58,729)**	(66,325)	**(38,562)**	(46,169)
		37,490	50,479	**21,828**	32,816

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

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
At 1 January	**66,325**	64,667	**46,169**	44,622
Impairment losses recognised *(Note 5)*	**63**	5,223	**–**	5,112
Impairment losses reversed *(Note 5)*	**(7,659)**	(3,565)	**(7,607)**	(3,565)
	58,729	66,325	**38,562**	46,169

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 Group does not hold any collateral or other credit enhancements over the balances.

NOTES TO FINANCIAL STATEMENTS *(Continued)*

31 December 2008

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

(a) 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	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Neither past due nor impaired	**29,617**	27,667	**15,085**	12,584
Less than 1 month past due	**–**	7,000	**–**	7,000
	29,617	34,667	**15,085**	19,584

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.

NOTES TO FINANCIAL STATEMENTS *(Continued)*

31 December 2008

22. CASH AND CASH EQUIVALENTS

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash and bank balances	**923,591**	512,766	**810,863**	338,236
Time deposits with original maturity of less than three months	**62,240**	110,000	**–**	–
	985,831	622,766	**810,863**	338,236
Time deposits with original maturity of over three months	**162,990**	17,403	**–**	–
	1,148,821	640,169	**810,863**	338,236

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.

23. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Accruals	**83,767**	6,998	**83,767**	6,998
Other payables	**154,727**	194,706	**90,417**	137,039
	238,494	201,704	**174,184**	144,037

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.

NOTES TO FINANCIAL STATEMENTS *(Continued)*

31 December 2008

24. INTEREST-BEARING BANK AND OTHER LOANS

		Group		Company	
	Notes	**2008 RMB'000**	2007 RMB'000	**2008 RMB'000**	2007 RMB'000
Bank loans:	(a)				
Secured		**214,600**	227,600	**–**	–
Guaranteed		**–**	119,000	**–**	119,000
Unsecured		**–**	1,000,000	**–**	1,000,000
Short term commercial papers	(b)	**1,500,000**	–	**1,500,000**	–
Short term trust loan, guaranteed	(c)	**–**	499,047	**–**	499,047
Other loans, unsecured	(d)	**134,091**	156,818	**134,091**	156,818
		1,848,691	2,002,465	**1,634,091**	1,774,865
Analysed into:					
Bank loans repayable:					
Within one year		**85,000**	1,084,000	**–**	1,009,000
In the second year		**129,600**	150,000	**–**	110,000
In the third to fifth years, inclusive		**–**	112,600	**–**	–
		214,600	1,346,600	**–**	1,119,000
Short term commercial papers:					
Within one year		**1,500,000**	–	**1,500,000**	–
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		**20,455**	43,182	**20,455**	43,182
		134,091	156,818	**134,091**	156,818
Total bank and other loans		**1,848,691**	2,002,465	**1,634,091**	1,774,865
Portion classified as current liabilities		**(1,607,727)**	(1,605,774)	**(1,522,727)**	(1,530,774)
Non-current portion		**240,964**	396,691	**111,364**	244,091

NOTES TO FINANCIAL STATEMENTS *(Continued)*

31 December 2008

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

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 the respective fixed rates ranging from 5.02% to 7.83% (2007: from 5.27% to 7.83%) per annum. Bank loans amounting to RMB214,600,000 (2007: RMB227,600,000) are secured by the pledge of the concession rights of Chengbei Exit Expressway (Note 13).

(b) On 20 February 2008, the Company issued short term commercial papers totalling RMB1.5 billion to members registered in the PRC interbank debt market. The short term commercial papers were issued at the face value of RMB100 per unit, with an interest rate of 6.28% per annum, and will expire on 19 February 2009.

(c) On 23 November 2007, the Company borrowed a trust loan for a period of three months from a licensed non-banking financial institution and repaid it on 22 February 2008. The trust loan was guaranteed by China Construction Bank and bore 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% (2007: from 2.28% to 5%) per annum.

NOTES TO FINANCIAL STATEMENTS *(Continued)*

31 December 2008

24. 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	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Group				
Bank loans	**129,600**	262,600	**116,422**	223,102
Other loans	**111,364**	134,091	**90,146**	99,779
	240,964	396,691	**206,568**	322,881

	Carrying amounts		Fair values	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Company				
Bank loans	**–**	110,000	**–**	96,139
Other loans	**111,364**	134,091	**90,146**	99,779
	111,364	244,091	**90,146**	195,918

NOTES TO FINANCIAL STATEMENTS *(Continued)*

31 December 2008

25. ISSUED CAPITAL

	2008 Number of shares'000	2007 Number of shares'000	**2008 RMB'000**	2007 RMB'000
Authorised, issued and fully paid:				
Domestic shares of RMB1.00 each	**1,662,740**	1,662,740	**1,662,740**	1,662,740
H shares of RMB1.00 each	**895,320**	895,320	**895,320**	895,320
	2,558,060	2,558,060	**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 domestic and H shares rank pari passu with each other in terms of dividend and voting rights.

26. 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 pages 64 and 65 of the financial statements.

NOTES TO FINANCIAL STATEMENTS *(Continued)*

31 December 2008

26. RESERVES *(Continued)*

Company

	Share premium account RMB'000	Statutory surplus reserve RMB'000	General surplus reserve RMB'000	Retained profits RMB'000	Difference arising from the acquisition of minority interest RMB'000	Total RMB'000
At 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	–	–	–	(102,323)	–	(102,323)
At 31 December 2007 and 1 January 2008	1,413,597	458,594	445,442	546,342	(244,529)	2,619,446
Profit for the year	–	–	–	540,150	–	540,150
Transfer from/(to) reserves	–	162,471	–	(162,471)	–	–
At 31 December 2008	1,413,597	621,065	445,442	924,021	(244,529)	3,159,596

(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) 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. As at 31 December 2008, the Company's reserves available for distribution amounted to RMB924,021,000, as calculated in accordance with HK GAAP. The Company's distributable reserves as at 31 December 2008 determined under HK GAAP were lower than those determined under PRC GAAP.

NOTES TO FINANCIAL STATEMENTS *(Continued)*

31 December 2008

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	Notes	**2008** *RMB'000*	2007 *RMB'000* (Restated)
Profit before tax:		**645,900**	622,687
Adjustments for:			
Share of profits and losses of associates		**(5,757)**	(4,699)
Depreciation	5	**78,725**	83,585
Amortisation of prepaid land lease payments	5	**24,861**	24,554
Amortisation of service concession arrangements	5	**175,333**	158,081
Impairment of other receivables, net	5	**(7,596)**	1,658
Loss on disposal of a subsidiary	5	**–**	581
Loss on disposal of items of property, plant and equipment	5	**3,974**	4,658
Interest income	4	**(27,566)**	(19,826)
Interest expenses	6	**118,719**	87,194
		1,006,593	958,473
Decrease in prepayments, deposits and other receivables		**23,719**	90,124
Increase in inventories		**(9,098)**	(261)
Decrease in other payables and accruals		**(43,121)**	(29,688)
Decrease in an amount due to the ultimate holding company		**–**	(2,054)
Cash generated from operations		**978,093**	1,016,594
Income tax paid		**(104,720)**	(49,674)
Net cash inflow from operating activities		**873,373**	966,920

(b) Acquisition of minority interests in Chengya

The payment during the year represents the repayment of the outstanding balance for the purchase of remaining 37.628% interest in Sichuan Chengya Expressway Company Limited ("Chengya"), a then subsidiary of the Company, from the minority shareholders of Chengya in 2006. As at 31 December 2008, the purchase consideration has been fully repaid by the Company.

NOTES TO FINANCIAL STATEMENTS *(Continued)*

31 December 2008

28. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases certain parcel of its land along Chengyu Expressway under operating lease arrangements for the operation of petrol kiosk, with a 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 2008, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenant falling due as follows:

Group

	2008 RMB'000	2007 RMB'000
Within one year	4,897	4,801
In the second to fifth years, inclusive	16,570	20,019
Over five years	59,311	64,385
	80,778	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 2008, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Within one year	15,269	15,269	12,687	12,687
In the second to fifth years, inclusive	61,075	61,075	50,746	50,746
Over five years	176,899	192,167	149,786	162,472
	253,243	268,511	213,219	225,905

NOTES TO FINANCIAL STATEMENTS *(Continued)*

31 December 2008

29. COMMITMENTS

In addition to the operating lease commitments detailed in Note 28 above, the Group and the Company had the following capital commitments at the balance sheet date:

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Contracted, but not provided for	**1,018,147**	1,056,012	**1,018,147**	1,056,012
Authorised, but not contracted for	**85,100**	174,029	**85,100**	174,029
	1,103,247	1,230,041	**1,103,247**	1,230,041

Further details of the capital commitments of the Company and the Group as at 31 December 2008 are analysed as follows:

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
In respect of:				
Construction works to upgrade the expressways	**85,100**	231,720	**85,100**	231,720
Construction of property, plant and equipment	**19,826**	—	**19,826**	—
Acquisition of 100% equity interest in SC Expressway	**998,321**	998,321	**998,321**	998,321
	1,103,247	1,230,041	**1,103,247**	1,230,041

30. 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 last 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 RMB15,480,000 (2007: RMB13,262,000).

NOTES TO FINANCIAL STATEMENTS *(Continued)*

31 December 2008

30. 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 Group 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 Group amounted to approximately RMB6,379,000 (2007: RMB2,700,000). Other than the above, the Group 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, 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 RMB12,680,000 (2007: RMB10,908,000).

31. RELATED PARTY TRANSACTIONS

(a) In previous years, the Group obtained state loans in an original amount of RMB250,000,000 (2007: 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 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 (2007: RMB22,727,000). The state loans have been included in other loans as set out in Note 24 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 RMB3,344,000 (2007: RMB11,944,000).

NOTES TO FINANCIAL STATEMENTS *(Continued)*

31 December 2008

31. RELATED PARTY TRANSACTIONS *(Continued)*

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

	2008 *RMB'000*	2007 *RMB'000*
Fees	**235**	230
Other emoluments:		
Salaries, allowances and benefits in kind	**1,536**	1,266
Pension scheme contributions	**30**	24
Supplementary pension scheme contributions	**14**	11
	1,580	1,301
Total compensation paid to key management personnel	**1,815**	1,531

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.

32. 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 the Group's policy that no trading in financial instruments shall be undertaken.

Risk management is carried out by the finance department which is led by the Group's executive directors. 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 24. 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 which are subject to floating interest rate.

NOTES TO FINANCIAL STATEMENTS *(Continued)*

31 December 2008

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

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 RMB680.5 million as at 31 December 2008.

With regard to 2008 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. As at 31 December 2008, banking facilities amounting to RMB0.2 billion, RMB1.3 billion and RMB1.5 billion granted by the China Merchandise Bank, China Construction Bank and China Citic Bank, respectively, are available to the Group. As at 31 December 2008, all the above available banking facilities remained unutilised.

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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

Group

	2008					
	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	103,182	220,509	20,455	348,691
Short term commercial papers	–	1,500,000	–	–	–	1,500,000
Tax payable	–	42,187	–	–	–	42,187
Other payables	–	27,310	83,479	43,938	–	154,727
	–	1,574,042	186,661	264,447	20,455	2,045,605

	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
Tax payable	–	49,918	–	–	–	49,918
Other payables	–	34,078	134,176	26,452	–	194,706
	–	587,588	1,236,358	379,961	43,182	2,247,089

NOTES TO FINANCIAL STATEMENTS *(Continued)*

31 December 2008

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

Company

	2008					
	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*
Short term commercial papers	–	1,500,000	–	–	–	1,500,000
Other payables	–	19,674	45,855	24,888	–	90,417
Tax payable	–	41,470	–	–	–	41,470
Due to subsidiaries	41,739	–	–	–	–	41,739
	41,739	1,561,144	45,855	24,888	–	1,673,626

	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
Tax payable	–	43,393	–	–	–	43,393
Other payables	–	22,689	91,286	23,064	–	137,039
Due to subsidiaries	27,058	–	–	–	–	27,058
	27,058	569,674	1,118,468	223,973	43,182	1,982,355

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

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.

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, policies or processes during the years ended 31 December 2008 and 31 December 2007.

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 2008 was 26.5% (2007: 29.6%)

NOTES TO FINANCIAL STATEMENTS *(Continued)*

31 December 2008

33. POST BALANCE SHEET EVENT

On 23 January 2009, the refreshment of specific mandate for the Proposed A Share Issue was approved by the shareholders at the EGM and class meetings of the holders of H Shares and Domestic Shares.

34. COMPARATIVE AMOUNTS

As explained in Note 2.2(b) to the financial statements, due to the adoption of HK(IFRIC) 12 during the year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with HK(IFRIC) 12. Accordingly, certain prior year and opening adjustments have been made and certain comparative amounts have been reclassified and restated to conform to the current year's presentation and accounting treatment.

35. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board on 23 January 2009.

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 Wednesday, 15 April 2009 (or at any adjournment thereof) for the following purposes:

Ordinary Resolutions

1. To consider and approve the financial budget implementation report for the year of 2008;

2. To consider and approve the proposal of profit distribution for the year of 2008;

3. To consider and approve the proposal of cash dividends distribution for the three years upon A Share Issue;

4. To consider and approve the audited financial report for the year of 2008;

5. To consider and approve the report of the board of directors for the year of 2008;

6. To consider and approve the report of the supervisory committee for the year of 2008;

7. To consider and approve the financial budget proposal for the year of 2009; and

8. To consider and approve the re-appointment of Sichuan Jun He Accountants and Ernst & Young Certified Public Accountants, as the Company's domestic and international auditors respectively for the year of 2009, and to authorize the board of directors to fix their remunerations.

By Order of the Board
Zhang Yongnian
Company Secretary

Chengdu, Sichuan, the PRC
25 February 2009

NOTICE OF ANNUAL GENERAL MEETING *(Continued)*

Notes:

(i) Any holder of H Shares who has registered on the register of holders of H shares of the Company at Hong Kong Registrars Limited before 4:30 p.m. on Friday, 13 March 2009 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 needs not to be a shareholder of the Company.

(ii) In order to be valid, the proxy form for 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 Rooms 1806-1807, 18th Floor, 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, 16 March 2009 to Wednesday, 15 April 2009 (both days inclusive), during which period no transfer of shares will be registered.

(v) Meetings of shareholders of the Company shall be voted by way of poll pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

(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 Wednesday, 25 March 2009. The reply slip may be delivered to the Company by hand, by post or by fax (fax no.: (8628) 8553 0753).

(vii) The board of directors of the Company did not recommend a final dividend for the year ended 31 December 2008.

(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.

As at the date of this notice, the board of directors of the Company comprises: Mr. Tang Yong, Mr. Zhang Zhiying, Madam Zhang Yang, Mr. Gao Chun, Mr. Zhou Liming, Mr. Wang Shuanming, Mr. Liu Mingli, Mr. Liu Xianfu, Madam Luo Xia#, Mr. Feng Jian#, Mr. Zhao Zesong# and Mr. Xie Bangzhu#.

Independent non-executive director