

Shouldering the

EXPECTATIONS



of shareholders, staff and the community, we will continue to perform our duties with integrity and diligence and take the Company farther ahead.



Chairman's Statement

2006 RESULTS AND DIVIDENDS

In 2006, the Company realised a revenue of RMB1,189 million, representing an increase of 30.4% over 2005; profit attributable to equity holders of the Company amounted to RMB579 million with earnings per share being RMB0.266, representing an increase of 4.8% over 2005. It has always been the Group's dividend policy to reward shareholders with a cash dividend of stable and high payout ratio. The Board recommended the payment of a final dividend of RMB0.13 per share in cash for 2006, representing

51% of the net profit under the PRC Statutory Financial Statements for the Year, or 49% of profit attributable to equity holders of the Company as adjusted under the HKFRS for the Year.

To all shareholders:

I am pleased to report to the shareholders that the Group's overall results in 2006 were good with steady growth maintained. Driven by the robust economic growth of the neighbouring regions, the major toll highways of the Group maintained favourable growth momentum in terms of traffic flow and revenues. Meanwhile, the Company's operating strategies formulated on the aspects of business development, risk control, management enhancement and customer service were implemented effectively, thus laying a solid foundation for the Company to brace for the massive challenges in the next two years.

building top quality expressways such as Jihe, Yanba and Yanpai with reliance on its own management team, Shenzhen Expressway has also been providing quality management services to government-invested road projects, having expanded itself into other economically developed regions in Guangdong Province and other parts in the PRC by way of acquisitions and equity investments. Shenzhen Expressway has listed its shares in Hong Kong and Shanghai, giving it a sound platform for future development and expansion besides obtaining invaluable funding. Meanwhile, the promotion of unwavering corporate system leadership and the emphasis on internal management are also established visions and development cornerstones of the Shenzhen Expressway people.

TEN-YEAR REVIEW

In 2006, Shenzhen Expressway celebrated its 10th anniversary. Ten years is not exactly a long history, but for Shenzhen Expressway it is the most essential beginning. What we should be grateful is that over the past ten years, in spite of the many storms weathered, Shenzhen Expressway has also garnered a myriad of support. With the unflagging efforts of our people, the Company has gradually identified and confirmed its own development targets and has prepared itself for making bigger strides ahead.

Looking back these ten years, besides

Chairman's Statement

Investing in and building expressways can make positive contributions to the economic development and social progress of the local community. During the past ten years, the Company has been devoting itself to improving the traffic of the community, with the mileage of its invested highways (on an equity basis) increased from about 90 kilometres in the Company's early days to over 400 kilometres at present. Meanwhile, the Company's total assets has also risen from the initial RMB3 billion to RMB10 billion, with an aggregate profit close to RMB4 billion and almost RMB2 billion of cash dividends distributed, thus effectively achieving the Company's development target of simultaneous growth for corporate and community interests.

DEVELOPMENT MISSIONS

The steady development of Shenzhen Expressway so far is owing to the support of shareholders, government and various sectors of the community, the relentless effort of the Shenzhen Expressway people, and the Company's vision that values regulated management, transparency and balanced development. Since the establishment of Shenzhen Expressway, there has always been an emphasis on **regulated management**. In the realm of corporate governance and operation management, this has led to continuous studies in, and enhancement of, rules and procedures that suit the Company's own characteristics, as well as establishing an internal check-and-balance authority structure so as to assure healthy long-term growth for the Company. Shenzhen Expressway not only complies with market rules in its own actions and strives to be a responsible corporate citizen, but also starts to champion for continuous improvements of industry regulations in recent years. This is because we are aware of the fact that a long-lasting enterprise can only emerge from a healthy and regulated market. In addition, Shenzhen Expressway also insists on enhancing the **transparency** of the Company and facilitating both internal and external communication and understanding. We believe transparency is the basis of expanding mutual understanding and trust that can raise the confidence of investors, creditors, cooperation partners and governments, thus allowing the Company to win opportunities for cooperation and success and to elevate corporate competitiveness. In November 2006, the Hong Kong Institute of Directors released a comprehensive report of its 2005 corporate governance survey on Hong Kong listed companies and named Shenzhen Expressway in its Top Ten List which counted some of the world's famous enterprises. This evidences the efforts the Company has been dedicating all these years for being a regulated and transparent enterprise. Just like all enterprises, Shenzhen Expressway looks forward to maintaining rapid growth; yet it would never sacrifice the interests of shareholders, employees and the community for momentary magnificence. Between short-term performance and long-term development, we have opted for the latter. The Company has been increasing its external investments in the past two years. While the increase in financial burden may affect the short-term results to a certain extent, such moves will bring to the Company extra growth potential in the long run. Meanwhile, the Company has been maintaining a policy of high dividend payout ratio that caters for both the immediate and long-term interests of shareholders. It is our belief that the development of an enterprise is a long-term process, and **balanced** development is the basis of achieving the objective.





THE DEVELOPMENT ENVIRONMENT AND CHALLENGES

An individual of ten years old is still at an age of formation. An enterprise of ten years old has just entered the beginning of the future. The Chinese toll highway industry to which Shenzhen Expressway belongs is currently at the high growth stage, offering room for the Company's growth.

To meet the needs of economic development, the Guidelines of the Eleventh Five-Year Plan issued by the State in 2006 outlines that preference should be given to developing the transportation industry. The State and local governments have also made comprehensive, forward-looking plans for the transportation network, resulting in enormous investment demand in the Chinese highway market. Moreover, statistics from the Ministry of Communications suggest that the number of private-owned vehicles in China will rise from 31.6 million in 2005 to 140 million by 2020, equivalent to an average annual growth rate of 10%. All these also imply strong development potential for the toll highway industry over a relatively long time in the future, bringing good opportunities for the Group's development.

Nevertheless, challenges always come hand in hand with opportunities. If one is not acutely aware of his own deficiencies and impending risks, one can only watch opportunities slip away. For Shenzhen Expressway, challenges at the current stage come from both the external market and internal resources and management. **Market challenges** come primarily from intensifying competition and industry policy adjustments. With the toll highway market and the entrusted construction market of government-invested projects becoming increasingly regulated and investment and financing structures becoming more diverse, the number of market participants is on the rise, resulting in intensified competition and an accelerated pace. In addition, as the transportation industry is highly relevant to the interests of the State and the public, the government has to consider maintaining a balance among the interests of different sectors, the public and the community as a whole while exercising its management authority, and policy adjustments in stages are thus inevitable. **Resource challenges** come primarily from shortages in financial and human resources faced by the Company during a stage of rapid development. While the existing capital and financial resources of the Company are sufficient to finance the capital expenditures already approved by the Board, certain limitations are already seen in the Company's ability in taking up liabilities for new investment projects. Moreover, the rise in gearing will also increase the pressure and risks regarding the Company's results growth over the next two years. Also, with the Company expanding its scale and developing its business, there is a higher demand for human resources – no matter in terms of quantity or quality. While the Company is enhancing the professional qualities and management abilities of existing staff, it also has to recruit appropriate staff in a timely manner and helps them integrate into the corporate culture as soon as practicable. **Management challenges** are shown in the execution and innovation abilities of an enterprise. With the Company growing, the original modes of management should be timely adjusted to match the development. In this process, the questions of how to strengthen the execution effort and efficiency and how to elevate the enthusiasm and innovation of the staff are urgent issues to be resolved by the management.

STRATEGY

After detailed analyses on the industry and the operating environment, together with an assessment on our own strengths and weaknesses, the Board formulated a five-year development strategy at the end of 2004, with stage-based objectives set for the aspects of development direction, investment and financing strategies, management output, organisational structure and human resources.

2006 is the second year of the Company's implementation of the five-year development strategy, and we are now undergoing a crucial period of continuous adjustments for further development. In terms of the scale of development, the Company has basically achieved the targets set forth in the development strategy. However, what Shenzhen Expressway pursues is not simply growth in scale, but growth in quality. To boost the overall return of the Company's assets, the Company will, on the one hand, press ahead with the progress of projects under construction and takes opportunities to expand the Company's market share in Shenzhen and the Pearl River Delta. On the other hand, the Company will capitalise on the opportunities presented by a robust market and the industry's growth to increase its interests in quality projects, while reducing or exiting from its shareholding in non-controlling or under-performing projects. Appropriate consolidation of existing project resources will optimise the Company's asset structure, thus allowing the Company to concentrate its financial and management resources on quality projects.

2007 will be a highly crucial and challenging year of transition in the implementation of the Company's strategy. In this year, completing the reconstruction of Qinglian Project into an expressway and the construction targets of Nanguang Expressway will top the list of the Company's priorities, as such items are essential for assuring the completion of the projects in 2008 as scheduled and reaching the Company's results growth targets. In line with the progress of construction works, the Company heads into the peak of investment with the gearing ratio reaching a relatively high level. Without contributions from new projects, the Company has to fully exploit the growth potential of existing projects and to strengthen its management on financing and operating costs, so as to maintain a steady growth for the Company's results.

For Shenzhen Expressway, ten years is not just a mark in time, but a new starting point for its venture to new heights. Shouldering the expectations of shareholders, staff and the community, we will continue to perform our duties with integrity and diligence and take the Company farther ahead.

Yang Hai

Chairman

Shenzhen, the PRC, 2 March 2007

