Management Discussion and Analysis

Continued

GROWTH

of the economy and an increasingly regulated market will bring bright development opportunities to the Group.

Management Discussion and Analysis

DIRECTOR AND GENERAL MANAGER'S OVERVIEW

As we have mentioned in our annual report of the previous year, the Company's "Development Strategies 2005 – 2009" have been devised by the Board, under which the general strategies and objectives will be:

- Focus on the principal operations of toll highway investment, construction, operation and management, and expand from Shenzhen as the base to the Pearl River Delta and other economically-developed regions to increase market share on an on-going basis;
- Make a head start in establishing a presence in the road construction and management sector by outputting technology and experience in engineering and management;
- Raise management standards and quality of human resources in all aspects in line with business development and risk control;
- Eventually achieve sustained profit growth for yielding above-average returns for our shareholders.

To achieve the Company's overall plans, the management set specific operating objectives in 2006 in the five aspects of financial results, business development, risk control, management enhancement and customer service, which were divided into different tasks for execution by relevant offices and staff. In 2006, the Company's entire staff, under the leadership of the Board, accomplished a number of tasks conscientiously, laying a key foundation for the Group to achieve its long-term development objectives.

During the Reporting Period, our major work covered the following:

— strengthening the analysis of the highway network and the marketing activities in relation thereto to maintain sound operating performance;

— improving the internal control over toll operations and strengthening the monitoring management of toll collection to prevent toll revenue loss;

— adjusting the management structure of the operating system to enhance efficiency and reduce costs;

— reviewing and adjusting the management structure and processes of invested enterprises, as well as specifying different management focuses, with a view to safeguarding the benefits of the invested projects and enhancing the overall management standards;

— strengthening the progress and on-site management of projects under construction, and stimulating the enthusiasm and initiatives of project management offices and construction companies through various means such as project competitions, with a veiw to ensuring the fulfillment of project schedule objectives;

— strengthening the management of project tender invitations and contracts for effective control of costs and enhancement of efficiency in project execution;

— improving the safety regulatory regime by starting with the implementation of precautionary measures, with a view to strengthening our control over processes to ensure works safety;

— raising the awareness of environmental protection and soil and water conservation;

— adopting the strategies of deviation management in line with the characteristics of the entrusted construction management projects for effective control of risks and utilisation of resources;

— actively pursuing new entrusted construction management projects and lobbying the government to establish a market-based and standardised mode for the entrusted construction business;

— acquiring additional interests in Qinglian Project and Meiguan Expressway and actively carrying out resources integration;

— conducting post-investment assessments of completed investment projects;

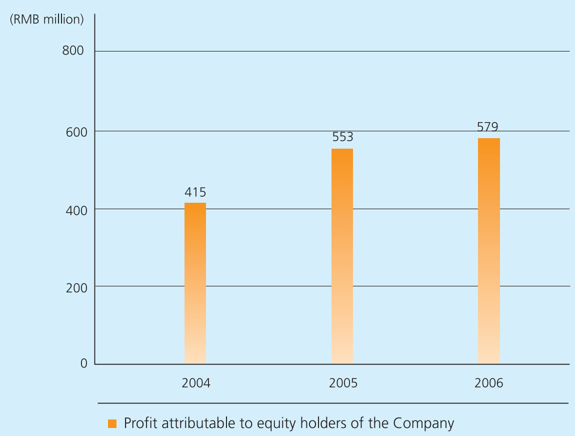
— conducting research on, and adoption of, different types of financing; adjusting debt maturity and interest structure; and segmenting capital management, with a view to reducing finance costs and safeguarding against risks associated with interest rates and liquidity;

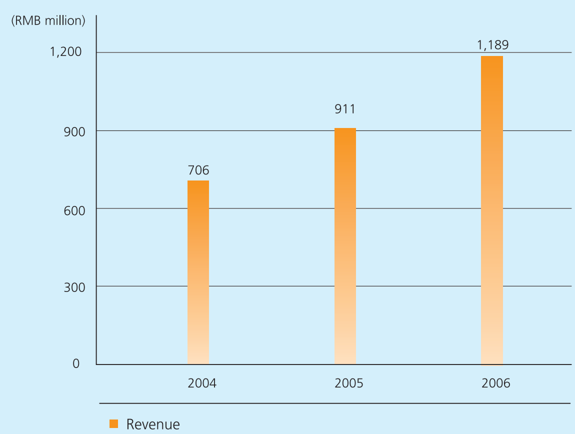
— completing the work on performance management; intensifying the adoption of the open competition system for recruitment; and strengthening staff training and retention of talent;

— strengthening the communication with investors and government departments to nurture a sound external operating environment;

— implementing the vision on good corporate governance by increasing transparency in information disclosure.

The Group registered continued growth in its operations in 2006. The Group recorded a revenue of RMB1,188,556,000 (2005: RMB911,482,000) prepared in accordance with the HKFRS, representing an increase of 30.40% over the same period of the previous year. Profit attributable to equity holders of the Company amounted to RMB579,090,000 (2005: RMB552,622,000) and earnings per share (basic) was RMB0.266 (2005: RMB0.253), representing an increase of 4.79% over the same period of the previous year.



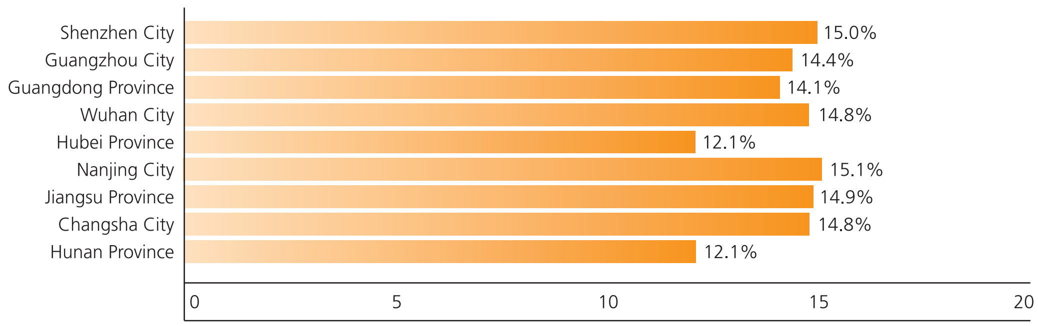


THE ECONOMIC ENVIRONMENT IN 2006

Economic development is a key factor in determining the growth in traffic demand. The Company's existing operational toll highway projects are largely located in Shenzhen and the Pearl River Delta region in Guangdong Province, while it has three projects outside Guangdong Province which are also located in relatively economically-developed areas in China – Hubei Province, Hunan Province and Jiangsu Province, either located in or linking up with the capital cities of these provinces (Wuhan, Changsha and Nanjing). The economic development in these areas is, therefore, very closely associated with the operating performance of the highway projects operated and invested in by the Company. Nevertheless, other factors such as the specific location and function of each highway, changes in the neighbouring highway networks and industry development will have an impact of varying degrees on the operating performance of each highway.

With an increase of 10.5%[1] in GDP in 2006 over the previous year, China has been maintaining its rapid and stable growth momentum for many years. Based on the government work reports published by the local governments of various regions on the preliminary assessments of the local economic development in their regions, the projected GDP growths in these regions in 2006 were all higher than the national average:

Projected GDP Growth by Province/City - 2006



Economic prosperity is set to lead to frequent passenger and cargo flows, which will in turn result in rising traffic demand. Increasing economic cooperation and exchange between different regions are products of the realisation of comparative advantages of such regions, and it is an irreversible trend in economic development. In particular, the gradual implementation of CEPA and the Pan-Pearl River Delta Economic Circle has laid down a base for a new round of economic cooperation and division of labour and led to rising demand for trade and commercial flows as well as cargo transportation in the Pearl River Delta region. Besides, economic growth will also further advance the progress of urbanisation, improve the living standard of residents and drive the increase in vehicle ownership and demand for highway infrastructures, while improved highway networks and facilities will, in turn, further boost residents' demand and choice for certain modes of highway transportation.

In 2006, imports and exports of Guangdong Province and Shenzhen City totalled US$527.2 billion and US$237.4 billion respectively, representing increases of 23.2% and 29.9%[2] respectively. The port cargo throughput handled by Shenzhen City amounted to 176 million tons in 2006, representing an increase of 14.6%. Container throughput reached 18.47 million TEUs, representing an increase of 14.0%, enabling Shenzhen to secure its position as the world's fourth largest container port[3].

Based on the figures released by the Shenzhen Traffic Police Bureau in January 2007, the local vehicle ownership of Shenzhen has reached 963,000 vehicles, representing an increase of 174,000 vehicles over early 2006 or an aggregate increase of nearly 450,000 vehicles over the past three years. In 2006, passenger and cargo turnovers handled by means of highway transportation in Shenzhen grew by approximately 18% and 20% respectively, with highway passenger volume topping the critical point of 100 million passenger trips[3] for the first time. The growth of medium- and short-distance passenger transportation, largely by means of vehicle transportation, is attributed to both the rapid development of the local tourism industry and increasingly frequent travels and the conducive role of an improving expressway network in Guangdong Province.

1 Based on the preliminary audit findings published by the National Bureau of Statistics of China

2 Based on the information released by the Statistics Bureaus of Guangdong Province and Shenzhen

3 Based on the statistics provided by the Shenzhen Communications Bureau

BUSINESS REVIEW AND ANALYSIS

Toll highway operation and investment are the primary source of the Group's earnings. As at the end of the Reporting Period, the Group operated and invested in 18 toll highway projects, of which 15 were already in operation and 3 were under construction. General information about each highway is set out in "Information of Highways" attached to this annual report.

During the Reporting Period, the Group benefited from continued economic prosperity and the formation and improvement of highway networks, and continued to maintain a steady growth in traffic flow and toll revenue generated on its various major toll highways. Construction projects and entrusted construction management operations also progressed within the overall expectations of the Company. To increase the overall return on assets, the management has been actively considering an integration of existing resources. During 2006, the Company entered into agreements for the acquisitions of additional 20.09% interests in Qinglian Project and of 5% interests in Meiguan Expressway. The Group also disposed of 42% interests in Geputan Bridge by means of auction.

Toll Highway Operations

Toll Expressway	Percentage of equity interests held by the Group	Percentage of revenue consolidated	Average daily mixed traffic volume (number of vehicles in thousands)			Average daily toll revenue (RMB'000)			Average daily toll revenue per km (RMB'000)
			2006	2005	Change (%)	2006	2005	Change (%)	
Shenzhen Region:									
Meiguan Expressway*3	100%	100%	90	76	17.8	878	795	10.4	46
Jihe West	100%	100%	54	46	15.7	776	740	4.9	37
Jihe East	55%	55%	70	56	24.5	904	787	15.0	39
Yanpai Expressway*1	100%	100%	16	N/A	N/A	252	N/A	N/A	17
Yanba A and B	100%	100%	14	12	22.5	153	115	32.9	8.1
Shuiguan Expressway	40%	40%	75	55	37.5	683	504	35.5	34
Shuiguan Extension*1	40%	–	25	32	N/A	163	229	N/A	31
Other Regions in Guangdong Province:									
Yangmao Expressway	25%	–	13	10	26.4	719	547	31.5	9.0
Guangwu Expressway	30%	–	7.7	6.1	25.7	224	165	36.0	6.1
Jiangzhong Expressway*1	25%	–	26	15	N/A	386	201	N/A	10
GZ W2 Expressway*1	25%	–	2.2	N/A	N/A	69	N/A	N/A	1.6
Other Provinces in the PRC:									
Wuhuang Expressway*2	55%	55%	24	23	2.8	887	728	21.9	13
Changsha Ring Road	51%	51%	5.5	5.4	2.5	54	58	-7.2	1.6
Geputan Bridge*4	42%	42%	2.9	2.7	4.7	22	20	10.7	38
Nanjing Third Bridge*1	25%	–	12	8.3	N/A	472	325	N/A	30

*1 Shuiguan Extension, Yanpai Expressway, Jiangzhong Expressway, GZ W2 Expressway and Nanjing Third Bridge commenced toll operation from October 2005, May 2006, November 2005, December 2006 and October 2005 respectively. There were only partial or no operating figures for the year 2005 available for these projects.

*2 The revenue of Wuhuang Expressway was proportionately consolidated into the Group's financial statements since August 2005, while the information shown represents figures for the whole year of 2005 and are for reference only.

*3 The Company completed the acquisition of 5% interests in Meiguan Company in December 2006. Pursuant to the acquisition agreement, the corresponding earnings generated from October to December 2006 from the 5% interests in Meiguan Company would be due to the Company. Details of the relevant transaction are set out in "Connected Transactions" in the "Report of the Directors".

*4 Mei Wah Company, a subsidy of the Company, entered into an agreement with an independent third party in January 2007 for the disposal of 42% interests in Geputan Bridge. Details of the relevant transaction are set out in "Project Investment and Development" below.

Shenzhen Region

The economic growth momentum, a steadily expanding transportation network and an increasing vehicle ownership in Shenzhen and its neighbouring areas in recent years have driven a persistent growth in traffic volume and toll revenue on expressways.

Compared to 2005, the Group recorded respective growths of 24% and 15% in average daily mixed traffic volume and average daily toll revenue generated on its toll highways located in Shenzhen during the Reporting Period (the figures of Shuiguan Extension and Yanpai Expressway were not computed, considering the comparability of figures). Given the different functions and the impact of varying degrees of other factors such as changes in the neighbouring traffic environment and highway network, each highway performed differently to a certain extent.

Upon the completion and operation of a number of highway projects such as Longda (Longhua-Dalingshan in Dongguan) Expressway, Changhu (Changping-Humen, both in Dongguan) Expressway, Shuiguan Extension, Yanpai Expressway and Nanping Freeway (Phase I) in the recent two years, an expressway network in Shenzhen and nearby areas has been basically formed, and constant improvement is being made to it. Given the improvement of the highway network and the implementation of an urban traffic arrangement scheme[Note], thereby re-distributing traffic flows on the highways in these areas on an ongoing basis, there was certain impact on the revenue status of each highway for the current period:

	General impact on average daily toll revenue in 2006				
Event	**Meiguan Expressway**	**Jihe East**	**Jihe West**	**Shuiguan Expressway**	**Shuiguan Extension**
1. Operation of Yanpai Expressway and implementation of traffic control on Luosha Road from August 2006[Note]	+1.3%	+14.8%	+7.6%	Positive	—
2. Operation of Changhu Expressway and Longda Expressway	-1.2%	-2.1%	-6.9%	—	—
3. Operation of Nanping (Phase I)	-4.7%	-4.5%	—	Positive	Negative
4. Implementation of traffic control on Huanggang Road and Nigang Road from September 2006[Note]	-6.3%	—	—	—	Positive

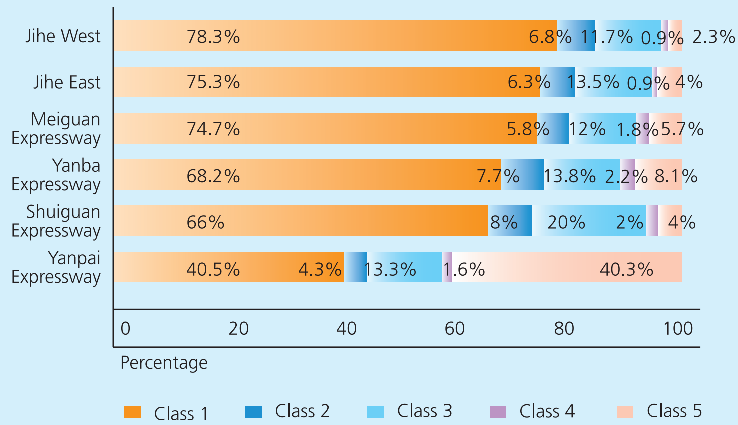
Note: To separate urban traffic from port-bound traffic and cross-border traffic so as to mitigate the impact of the travel of container vehicles in urban areas on the environment and livelihood of residents and raise highway network utilisation and traffic quality, a cargo traffic arrangement scheme was implemented by phase in Shenzhen in August and September 2006 by restricting large trucks from travelling on some main roads in the urban areas, including Luosha Road, Huanggang Road and Nigang Road, etc.

With the completion and operation of Shenzhen Western Corridor (Hong Kong-Shenzhen), Nanguang Expressway, Yanba C, Shenhui Coastal Expressway (Shenzhen-Huizhou) and some municipal roads in the near future, it is anticipated that traffic flows on highways will be further re-distributed. In general, improvements in highway network deployment and traffic arrangements are for meeting traffic demand arising from economic growth, and this will improve traffic condition and enhance travel efficiency, thereby stimulating the overall utilisation of the expressways in Shenzhen.

Meiguan Expressway has been in operation for more than ten years, with an average daily traffic volume of nearly 90,000 vehicles. The expressway maintained a steady growth in traffic volume, but the growth began to slow down in recent years because it has entered a mature phase of its operation. In 2005, the reconstruction works of a municipal road connecting with Meiguan Expressway had affected the travel efficiency on the connected section, forcing some large trucks to switch to other roads. However, after such an impact was removed in April 2006, the travel condition has been improving substantially for vehicles travelling to and from Meiguan Expressway, resulting in an increase in the number of vehicles above Class 3 travelling on the expressway.

Jihe Expressway's operating performance in 2006 was largely impacted by the above changes in the highway network. In addition, the nearly six-month renovation works carried out during the Year on Huiyan Expressway (Huizhou-Yantian in Shenzhen), which connects with Jihe East, had an adverse impact on the growth of traffic volume and toll revenue on Jihe Expressway. Such an impact was removed upon completion of the renovation works at the end of 2006. Since compared to Jihe West, Jihe East had a larger proportion of non-cross-border city-bound vehicles, the growth of traffic volume on Jihe East was relatively higher.

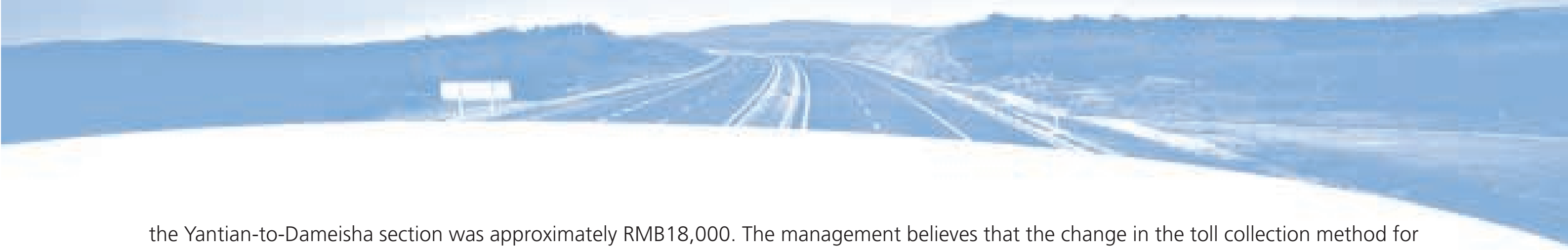
Vehicle category mix of principal toll highways during the Reporting Period



Yanpai Expressway acts as an exclusive passage for Yantian Port to divert the port's traffic. The growth in traffic volume on the expressway is dependent upon the increase in container vehicles in Yantian Port. In 2006, the container throughput handled by Yantian international container terminal reached 8,296,000 TEUs, representing an increase of 13%[1]. To attract vehicles to Yanpai Expressway and in line with the Shenzhen Municipal Government's traffic arrangements for improving cross-border cargo transport and port cargo transport diversion, the Group has launched a series of marketing activities since the end of June 2006 by offering a price discount to cargo vehicles running on Yanpai Expressway, the connected Jihe Expressway and Shuiguan Expressway. The average daily number of container vehicles running on Yanpai Expressway currently accounts for more than 60% of container vehicles travelling to and from Yantian Port. The steady growth in port throughput will provide an assurance for the operating performance of Yanpai Expressway.

Along **Yanba Expressway** a number of new factories have been built, with increasing industrial production activities in nearby areas coupled with the growing tourism industry in the eastern area and increasing number of tourists, which all fuelled the rapid growth of traffic volume on Yanba Expressway. To facilitate the travel of Shenzhen residents to and from the eastern coast for leisure and vacationing, the government entered into an agreement with the Company, pursuant to which the government will, from February 2007, pay the tolls, by means of a method mutually agreed upon, collectively for all vehicles travelling between the Yantian-to-Dameisha section on Yanba Expressway. In 2006, the average daily toll revenue generated on

[1] Based on the statistics provided by the Shenzhen Communications Bureau



the Yantian-to-Dameisha section was approximately RMB18,000. The management believes that the change in the toll collection method for the 3 km section will not have a major impact on the operation of Yanba Expressway.

Operation of new roads and the implementation of a traffic arrangement scheme during the Reporting Period had a positive impact on **Shuiguan Expressway**, so much so that its growth rate during the Year was far above the average growth rate in the Shenzhen area. However, following the operation of Nanping (Phase I), some traffic on **Shuiguan Extension** was diverted to Nanping (Phase I), and the commencement of works on the Longjing Interchange in the first half of the Year also reduced traffic on the expressway. Interchanges connecting with Shuiguan Expressway and Yanpai Expressway will be completed successively for operation in 2007, which will act as a direct stimulus to the growth of traffic volume on Shuiguan Expressway. Continuously benefitting from the traffic arrangement scheme implemented in September 2006, Shuiguan Extension is expected to regain its increase in traffic volume.

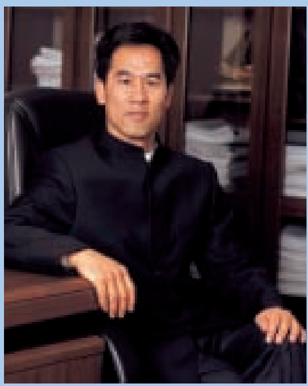
Other Regions in Guangdong Province

As at the end of the Reporting Period, the four projects invested in by the Company as a minority shareholder in other regions in Guangdong Province have all been in operation. However, they will not make any substantial contribution to the Company's revenue and profit in the short term, given that they are still at the initial stage of operation and that the Company holds only 25%-30% of the interests in them. Among these expressways, **Yangmao Expressway** and **Guangwu Expressway,** which have been operating for two years, came up beyond the Company's annual expectations in terms of their operating performance and results, as a result of increased market awareness and an improved economic environment. Opened to traffic in November 2005, **Jiangzhong Expressway** registered increases of 69% and 92% in average daily traffic volume and average daily toll revenue respectively for the Year compared to the initial stage of its operation. During the Reporting Period, **GZ W2 Expressway** was opened to traffic on 19 December 2006 ahead of schedule following the approval of its toll rates by the Guangdong Provincial Government. The current average daily toll revenue from this expressway is approximately RMB68,600. The two main overline interchanges connecting GZ W2 Expressway with Guangsan (Guangzhou-Sanshui) Expressway are scheduled for operation by the second quarter of 2007 and are anticipated to achieve operating performance in line with expectations then.

Qinglian Class 1 Highway, located in the northern part of Guangdong, is being reconstructed into an expressway. During the reconstruction, the highway will be closed by section for construction works, subject to project progress, while the sections which remain open will still allow traffic and generate toll revenue at the standard of a Class 1 highway. In 2006, the average daily mixed traffic volume (inclusive of traffic volume charged by annual tickets) on **Qinglian Project** amounted to 20,000 vehicle trips, while the average daily toll revenue was approximately RMB322,000 (2005: RMB364,000). The revenue level is expected to fall substantially in 2007 with the proceeding of the reconstruction works. Please refer to the relevant contents in "Project Construction and Management" and "Project Investment and Development" below for details of the acquisition and reconstruction progress on Qinglian Project.

Q: Qinglian Project currently generates an annual revenue of only approximately RMB130 million. Why did the Company spend nearly RMB2.3 billion on acquiring a 76.37% interests in it?

A: The Group invested in Qinglian Project because upon completion of the reconstruction into an expressway, Qinglian Class 1 Highway will serve as a safer and more comfortable road for vehicles travelling between Guangdong Province and Hunan Province and the inland region so that the advantage of its existing location will be fully exploited, thereby generating satisfactory investment return for the Group. Based on the traffic forecast report submitted by independent traffic consultant Parsons Brinckerhoff (Asia) Limited, a consultant engaged by the Company for the acquisition of this project, the revenue for the first year following the operation of Qinglian Expressway is estimated at more than RMB800 milllion under conservative assumptions. In March 2006, Qinglian Company was granted by the Guangdong Provincial Government with a 25 years' toll collection right to Qinglian Expressway, giving even better prospects to the expected return of the project. The traffic forecast report was published in the circular to the shareholders dispatched on 25 April 2006 and is accessible on the websites of the stock exchange and the Company. The forecasts by the traffic consultant were, of course, made on the basis of a number of assumptions and the consultant's judgement over traffic volume, tolls and their growth rates as well as distances, etc, and contain some uncertainties. The Company's management will carry out assessment on a regular basis and make a reasonable judgement in line with the changes in relevant factors to safeguard the Company's investment benefits.



Wu Ya De, Director and General Manager

Other Provinces in the PRC

A toll-by-weight system has been implemented in Hubei Province since April 2006. The change in toll charges for trucks and the punitive toll policy towards overloaded trucks have virtually increased the toll rates of some trucks, resulting in a slowdown in the growth of traffic volume on **Wuhuang Expressway** which, however, still registered approximately 22% increase in toll revenue, a relatively high level. Regulations of the Hubei Provincial Government have been enforced on expressways within the inter-road network from 20 October 2006 by revising the toll standards upwards by 10% on the basis of the existing standards (details of which are set out in "Information of Highways" attached to this annual report). However, the increased portion of toll revenue must be turned in to the provincial transport bureau in accordance with the regulations and will not be accounted for as toll revenue from highways. Such regulations will be tried out for a year and is expected to have an adverse impact on the traffic volume growth. However, since the commencement of operations of Jingdong (Jingzhou-Dongyuemiao) Expressway and Hanxiao (Wuhan-Xiaogan) Expressway in September and December 2006 respectively, the traffic networks in these places have been improving which is anticipated to drive an increase in the overall traffic volume on Wuhuang Expressway.

Changsha Ring Road was impacted by traffic diversions due to the changes in its neighbouring highway network. Tariff standards have been revised for expressways in Hunan Province since October 2005 by reclassifying vehicles types and reducing toll rates accordingly. As a result, Changsha Ring Road saw a fall in its average daily toll revenue during the Reporting Period.

Nanjing Third Bridge performed satisfactorily in general, registering increases of 47% and 45% in average daily traffic volume and average daily toll revenue respectively for the Year, compared to the initial stage of its operation in the fourth quarter of 2005. Upon the operation of Ninglian (Nanjing-Lianyungang) Expressway connecting with Nanjing Third Bridge in the north in December 2006, it is anticipated that the improved highway network will act as a direct positive stimulus to the operating performance of Nanjing Third Bridge.

Q: The Company currently has 15 toll highway projects in operation. How can it carry out effective management?

A: For projects in Shenzhen City in which it has a controlling stake, the Company manages directly the toll stations through the operations management department; for projects in which it does not have a controlling stake, the Company assigns management staff to participate in the operation of the project companies and to execute supervisory functions as a shareholder.

The Company has been striving to explore and seek a model of operations management in line with the actual condition of the Company. This year, we have revised the operations management structure by removing the operations centre; establishing two business departments - operations management department and road asset management department; further specifying the functions, duties and limits of authority of the Operations Controller, various departments and toll stations; and enhancing the supervision and appraisal of toll stations to raise management standards.

Li Jian, Operations Controller

During the recent two years, the Group has prioritised its tasks in a timely manner in the operation of toll highways, to cope with the impact brought about by various changes such as an improvement of the highway network, the implementation of the inter-road network toll collection scheme and an expansion of the scale of the Company's external investments. On the one hand, the Company makes sure that the toll revenue objective is fulfilled by reinforcing the analysis of highway networks and by carrying out targeted marketing activities. On the other hand, it reviews and revises the management structure and processes for the invested enterprises, and improves the Group's management of the invested enterprises by strengthening training, management and supervision of dispatched management staff, thereby ensuring greater investment profits. This year, the Company received satisfactory feedback from the marketing activities launched for Yanpai Expressway. Moreover, with respect to the implementation of the inter-road network toll collection scheme, the Company has adopted corresponding measures to make sure that operating objectives are fulfilled, such as continuously reviewing and improving the internal control and operational rules of the toll business, strengthening the monitoring and management of toll collection, organising training for toll collection staff, and closely coordinating with relevant management offices to make sure that toll revenues are distributed promptly and accounted for securely.

Project Construction and Management

Yanpai Expressway was completed and opened to traffic on schedule during the Reporting Period. The Group and its associates are currently undertaking the construction of various toll highway projects which include Nanguang Expressway, Yanba C and the reconstruction of Qinglian Class 1 Highway into an expressway. It is anticipated that these projects will be completed and opened to traffic by the end of 2008, and the total mileage of the Group's expressways in operation will more than double the current total mileage.

As at the end of the Reporting Period, an aggregate investment amount of approximately RMB750 million had been utilised for **Nanguang Expressway**. The project management office proceeded aggressively with land requisition, demolition and relocation which created a favourable condition for full commencement of works. As a result, the construction works carried out on the commenced sections progressed ahead of schedule. Currently, some difficulties remain unresolved in connection with a small amount of land requisition, demolition and relocation works, and the Company will have to strengthen communication and coordination to make sure that Nanguang Expressway will be completed and operational on schedule by the first half of 2008.

Construction of **Yanba C** officially commenced in October 2006 and is scheduled for completion concurrently with Shenhui Coastal Expressway which is currently under construction in Huizhou. Approximately 10% of the subgrades and bridge-culvert engineering works on Yanba C was completed as at the end of the Reporting Period, and an aggregate investment amount of approximately RMB95 million was utilised.

During the Reporting Period, the initiation of the reconstruction of **Qinglian Project** was approved by the relevant departments of the Guangdong Provincial Government, and Qinglian Company has been granted a 25-year-toll collection and operating right upon completion of the reconstruction of Qinglian Class 1 Highway into an expressway. As at the end of the Reporting Period, survey, design and invitations of tenders for the major civil engineering works of Qinglian Project were completed. Qinglian Company is proceeding aggressively with the progress of the works as well as related land acquisition, demolition and relocation works. An aggregate investment amount of RMB330 million has been utilised for Qinglian Project. The whole reconstruction project is scheduled for completion by 2008.

Q: How can the Company make sure that Qinglian Expressway and Nanguang Expressway are operational on schedule in 2008?

A: The reconstruction of Qinglian Class 1 Highway into an expressway and the construction of Nanguang Expressway are the key construction and management projects of the Company in the next two years. Provided that quality and safety are assured and environmental protection objectives are fulfilled, the completion of the projects on schedule is crucial to the reduction of financial expenses and management costs of the projects and the assurance of investment gains, which will lay a sound foundation for the Group to achieve growth in leaps and bounds in line with established objectives. This is why the Company's management takes the construction and management of these two projects very seriously, and delegates its duties to specific positions while reinforcing control over phase-by-phase objectives and on-site management order.

Ge Fei, Engineering Controller

In addition to the full support offered to the projects in terms of construction funds, human resources, and so forth, the Company has organised a competition for the two projects and formulated incentive schemes exclusively for the two projects, laying down specified reward and punitive measures to motivate initiatives and sense of responsibility from project management staff so as to ensure that the overall objectives will be fulfilled.

Besides, by taking advantage of the prime seasons for work commencement in autumn and winter, the project management office has stimulated the initiatives of all units through various means, so that they will devote more involvement and rationalise their works arrangements. The project management department has also reinforced the supervision, inspection, progress, on-site management of the projects as well as the management over invitation of tenders and contracts for projects, thereby exercising effective cost control and enhancing execution efficiency.

Entrusted Construction Management – Business of "Entrusted Construction System"

The "Entrusted Construction System" for government-invested projects refers to the government's appointment, through specified procedures, of project management companies with relevant qualities or other enterprises with relevant project management capabilities to organise and manage the construction of government-invested projects. The "Entrusted Construction System" defines the rights, duties and obligations of each party in a contract and helps the government exercise control and constraint over anticipatory objectives of the projects so as to control the quality, construction schedules and construction costs more effectively and to ensure efficient utilisation of financial funds. At present, a number of local governments are gradually applying the model of the "Entrusted Construction System", which will offer a right opportunity to the Group to "export" its technology and experience built in road project management.

Appointed by the Shenzhen Municipal Government or its subordinate district governments, the Company is now the administrator for Nanping (Phase I), Hengping Project and Wutong Mountain Project.

The main-line works of Nanping (Phase I) was completed and opened to traffic in June 2006, and was widely acclaimed by the government, the public and the community at large. The Company's management achievement is not only demonstrated in the provision of a safe, efficient and comfortable traffic environment for the community, the project has also been named the "Model Project for Development and Construction Projects on Water and Soil Conservation" by the Ministry of Water Resources of China, reflecting the Company's tireless efforts devoted to environmental protection. The Shenzhen Municipal Government has agreed in principle that the Company will continue to act as the administrator for Phase II of the project.The terms of the relevant contract are under negotiation, subject to examination and approval by both parties in accordance with their respective internal management procedures.

In line with the government's proposal to include part of the sections of the Hengping Class 1 Highway into the planning for Shenzhen Outer Ring Expressway, the Shenzhen Longgang District Highway Bureau, as the project owner and entrusting party to the management contract, has issued a notice suspending the construction of Hengping Project during the Reporting Period. The Company, as the project administrator, is fully cooperating with the government departments in taking care of the works completed as well as the review of relevant checking and settlement of accounts.

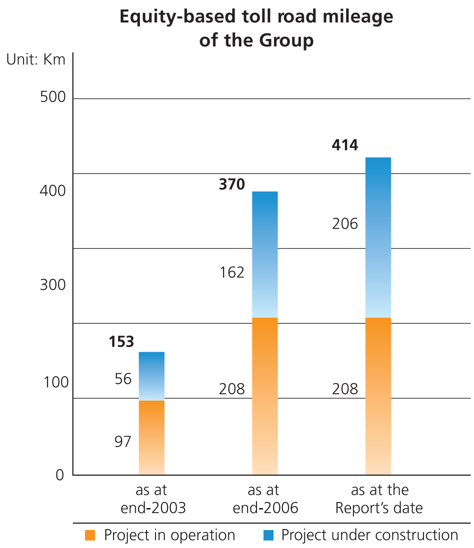
Wutong Mountain Project is an auxiliary project of Yanpai Expressway. As at the end of the Reporting Period, the ancillary road of Wutong Avenue was completed and ready for operation. The investment (as per progress of physical completion) made in the auxiliary construction of the customs checkpoint station accounted for approximately 10% of the estimated total investment. The checkpoints are scheduled for completion by the middle of 2007.

Please refer to the relevant contents in "Analysis of Operating Results" below for details of recognition of income during the Reporting Period.

Project Investment and Development

During the Reporting Period, the Company entered into agreements on proposed acquisitions of additional 20.09% interests in Qinglian Project and 5% interests in Meiguan Expressway. The operating details of these projects during the Reporting Period have been described above. Details of the relevant transactions are set out in "Connected Transactions" of the "Report of the Directors" on page 76 of this annual report.

The disposal by the Company to the Shenzhen Municipal Government of two Class 1 highway assets in 2003 had a substantial impact on the Company's asset size and operating profit. To ensure its sustainable development and results growth, the Company has been actively working on the Shenzhen toll highway sector over the past three years and aggressively seeking opportunities for local project developments and acquisitions, while carrying out a number of quality toll highway project investments and acquisitions in other regions. At present, the total equity-based mileage of the Group's toll highways has increased from 153 km at the end of 2003 to the current over 400 km, while business has been expanded from Shenzhen to Guangdong Province and other economically-developed regions in China.



Formalities relating to the acquisition of interests in Qianlian Project were completed in January 2007. The Group's interests in Qinglian Company has been increased from 56.28% at the end of 2006 to 76.37%, entitling the Group to appoint 12 directors out of 15 to the board of directors of Qinglian Company and to exercise majority control over Qinglian Company. From an accounting viewpoint, following the completion of the acquisition, Qinglian Company, formerly an associate of the Company, will become a subsidiary of the Group, and its operating results will be consolidated into the Group's financial statements. This acquisition will both reduce the Group's average cost of investment in Qinglian Project and help the Group to further expand its asset scale and earnings base.

In view of the Group's rapidly expanding investment size and the substantial proportion of projects under construction within the existing investment portfolio, the Company's management, during the recent two years, has been gradually switching its focus of project investment to retention of project resources and optimisation and integration of existing resources. The Company will conduct thorough assessments of the impact of new investment opportunities in various respects such as the overall development of the Company, the compatibility of these projects with the Company's strategic objectives, and the security of the Company's financial resources. The Company will be prudent in making decisions on project investment.

In April 2006, the Company was granted the development right of the Shenzhen Outer Ring Expressway in an open tender according to relevant rules and regulations and upon approval by the Shenzhen Municipal Government. The outer ring expressway, the last one out of the six expressways under the planning of the Shenzhen Municipal Government, situated in the northern part of Shenzhen, with the main line running east-to-west spanning across Shenzhen's Bao'an and Longgang Districts and Dongguan City. The Company is proceeding with the survey, design on the Hengping section and other preparatory work and will, based on the findings of relevant work, determine the mode of investment and development plan. The acquisition of the proprietary ownership of the project will help to reinforce and expand the Group's share of the toll highway sector in Shenzhen whilst building up project resources for the Group's long-term, steady development.

During the Reporting Period, the Company carried out reviews and assessments for seven major projects invested in recent years by analysing whether their operating performance meets the expectations set at the time of investment, the changes and impact of the occurrence of risk factors as well as problems existing in or arising from the jointly run operations. The Company will, on the basis of the findings of the assessments, formulate operating improvement measures or a resource integration scheme accordingly, with a view to increasing the overall returns on the Group's assets. In October 2006, a resolution was passed by the Board to approve Mei Wah Company of the disposal of the entire 42% interests in Geputan Bridge by means of an open auction on an assets and equity exchange, and for a consideration within a range set on the basis of the valuation findings by a valuer. The auction was completed in January 2007. Mei Wah Company entered into a transfer agreement with an independent third party and the consideration was RMB10,800,000.The relevant transaction has not been completed as at the date of this annual report. The Company believes that the timely disposal of the Geputan Bridge project, which was a small asset and had little profit contribution but some operating risks, will help the Company to make use of the existing management resources more effectively.

Other Businesses

The Company invests in Advertising Company which is engaged in the businesses of billboard leasing, advertising agency, design production and related services, utilising land-use rights alongside the Group's toll highways and toll stations. During the Reporting Period, the Advertising Company recorded a revenue of RMB15,694,000 and a net profit of RMB4,825,000, representing increases of 44% and 78% respectively over 2005.

The Company has established Consulting Company, with certain engineering and technical personnel as primary shareholders, to develop businesses such as project management consultancy, survey, design, engineering supervision, construction costs consultancy, tendering agency and test and inspection. Progress on market development and business expansion was made in 2006. Consulting Company recorded a revenue of RMB23,508,000 and a net profit of RMB1,868,000, representing increases of 96% and 185% respectively over 2005.

FINANCIAL REVIEW AND ANALYSIS

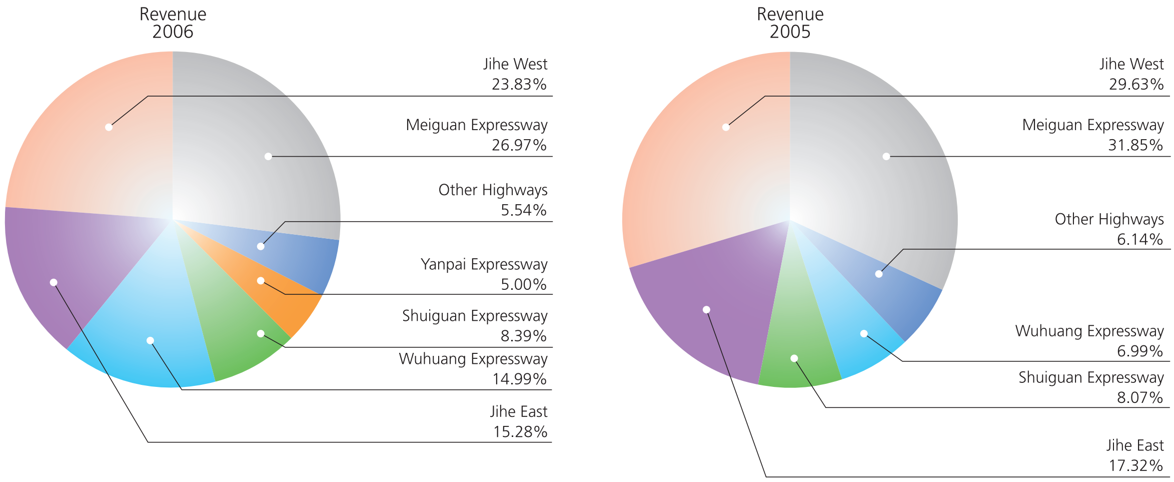
Analysis of Operating Results

Principal financial indicator			(RMB'000)
	2006	2005	Increase/ decrease (%)
Revenue	**1,188,556**	911,482	30.40%
Operating expenses	**488,376**	298,135	63.81%
Other income	**97,858**	191,930	-49.01%
Operating profit	**759,074**	766,916	-1.02%
Share of profit (loss) of associates	**(16,948)**	(24,015)	-29.43%
Finance costs	**98,397**	100,621	-2.21%
Income tax expenses	**49,900**	80,071	-37.68%
Profit attributable to equity holders of the Company	**579,090**	552,622	4.79%

Revenue

During 2006, the Group recorded a revenue of RMB1,188,556,000, representing an increase of 30.40% as compared to 2005. Wuhuang Expressway has been proportionately consolidated into the Group's financial statements since August 2005, and during the Year, an additional seven months contribution made toll revenue increased by RMB114,426,000 as compared to 2005. Yanpai Expressway commenced operation in May 2006 and recorded a toll revenue of RMB59,465,000 during the Reporting Period. The overall revenue from other toll highways increased by 12.17% as compared to 2005.

Toll Revenue Mix



During the Reporting Period, the source of growth in the Group's toll revenue was mainly the increase in traffic volume on the Group's major toll highways. Excluding the effect from Yanpai Expressway, the average daily mixed traffic volume of the Group's toll highways in 2006 recorded an overall increase of 21.60% as compared to 2005, riding on the continuous growth of the PRC economy and the increase in the number of vehicles. For the analysis on the operating performance of the Group's major toll highways, please refer to "Business Review and Analysis" on pages 18 to 22 of this annual report.

The growth rate of toll revenue was slightly lower than that of traffic volume for the Reporting Period, mainly due to the slight drop in average toll revenue per vehicle for the Group's toll highways during 2006 as compared to 2005. Due to the slight increase in the proportion of small vehicles in the Group's toll vehicle mix as compared to 2005, the downward adjustment of toll co-efficient for class 5 vehicles for toll highways in Guangdong Province since 1 June 2005 and the toll concessions for trucks using Yanpai Expressway and the connecting Jihe Expressway and Shuiguan Expressway implemented by the Group since June 2006, the average toll revenue per vehicle for the Group's toll highways in the Shenzhen area dropped by 4.81% as compared to 2005. Nevertheless, the adoption of the toll-by-weight system by Wuhuang Expressway since April 2006 resulted in an 18.62% increase in its average toll revenue per vehicle as compared to 2005. As a result, the overall average toll revenue per vehicle for the Group's toll highways dropped slightly by 3.40% as compared to 2005.

	Average toll revenue per vehicle (RMB)			Change in average daily mixed traffic volume	Change in average daily toll revenue
Toll highway	2006	2005	Change		
Meiguan Expressway	**9.80**	10.42	-5.95%	17.77%	10.39%
Jihe West	**14.42**	15.92	-9.42%	15.72%	5.20%
Jihe East	**12.90**	13.93	-7.39%	24.46%	15.28%
Yanba Expressway	**9.66**	9.95	-2.91%	22.53%	28.61%
Shuiguan Expressway	**9.07**	9.21	-1.52%	37.51%	35.46%
Yanpai Expressway	**16.24**	N/A	N/A	N/A	N/A
Changsha Ring Road	**9.79**	10.81	-9.44%	2.52%	-7.16%
Wuhuang Expressway**	**37.72**	31.80	18.62%	2.77%	21.90%
Total	**13.15**	13.61	-3.40%	27.54%*	23.21%

* (Total average daily mixed traffic volume of all toll highways in 2006) / (Total average daily mixed traffic volume of all toll highways in 2005)

** 2005 figures for Wuhuang Expressway are presented in full-year terms

Taxes on Revenue

In accordance with the "Notice Concerning Policies Regarding Business Tax on Toll Income of Highway Operation Enterprises by the Ministry of Finance and the State Administration of Taxation", starting from 1 June 2005, the business tax on the Group's toll revenue derived from expressways has been reduced to 3% (before adjustment: 5%), and hence during the Reporting Period, business tax and surcharges increased by only 1.57% as compared to 2005, less than the rate of increase in turnover.

Operating Expenses

Operating expenses of the Group during the Reporting Period amounted to RMB488,376,000, representing an increase of 63.81% as compared to 2005. This is mainly due to the fact that operating expenses in 2006 included an impairment provision of RMB57,000,000 for Changsha Ring Road, while a reversal of impairment provision of RMB40,000,000 relating to the Ropeway Project was included in 2005 that offset the same amount in operating expenses. Excluding such incomparable factors, the actual increase in operating expenses was RMB93,241,000 or 27.57% during the Reporting Period. Factors contributing to the increase include the following:

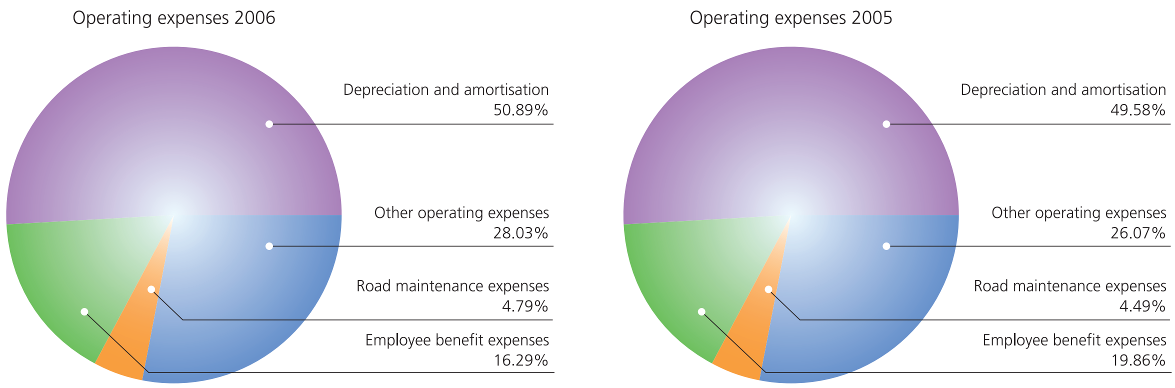
- As a result of traffic growth on the toll highways, the additional seven months results contribution from Wuhuang Expressway and the addition of Yanpai Expressway etc., depreciation and amortisation increased by 30.96% to RMB219,533,000. During the Year, the Group appointed independent professional institutions to perform updated forecasts on the future traffic flows for the remaining operation periods of Meiguan Expressway, Jihe East, Jihe West, Yanba Expressway, Yanpai Expressway, Shuiguan Expressway and Changsha Ring Road in accordance with the Group's policy of regularly reviewing forecasts on the future traffic flows for the remaining operation periods of the toll highways, and corresponding adjustments were made. The adjustments have reduced the depreciation expenses for the Reporting Period by RMB8,979,000.

- Employee benefit expenses increased by 4.60% to RMB70,255,000, mainly due to the commencement of Yanpai Expressway and increase in staff at the headquarters and toll stations.

- Road maintenance expenses increased by 35.99% to RMB20,644,000. With the growth of traffic volume and aging of roads, the Group has put more resources on maintenance to ensure good road conditions and traffic environment. However, on the whole, the percentage of maintenance expenses over toll revenue remained reasonable.

- Other operating expenses amounted to RMB177,944,000. Excluding aforesaid incomparable factors such as the 2006 impairment provision for highway assets and the 2005 reversal of the impairment provision for Ropeway Project, other operating expenses increased by 37.19%, representing an increase of RMB32,787,000, primarily due to an increase of RMB28,893,000 in entrusted management fee of Wuhuang Expressway during the Reporting Period as compared to 2005. The entrusted management fee of Wuhuang Expressway was charged at a fixed rate of 25.25% of its toll revenue.

Structure of Operating Expenses



Note: The chart of structure of operating expenses excluded such incomparable factors as impairment provision of toll highway assets in 2006 and reversal of impairment provision for Ropeway Project in 2005.

Impairment Provision for Highway Assets

During the Year, the Company appointed independent professional institutions to perform updated forecasts on the future traffic flows for the remaining operation periods of the Company's toll highways, and appointed a valuer to assess the value in use of Changsha Ring Road over its remaining operating period in accordance with the aforementioned forecasts. According to the valuation for Changsha Ring Road, the Group made an impairment provision of RMB57,000,000 during the Reporting Period for the the Group's 51% interests in Changsha Ring Road. After deducting the impact of the corresponding deferred income tax assets, the net effect to profit for the Reporting Period decreased by RMB42,750,000. As at 31 December 2006, the aggregate impairment provisions for the highway assets of Changsha Ring Road amounted to RMB134,000,000, representing 32.68% of the highway asset's book value, while the corresponding balance of deferred income tax assets amounted to RMB32,656,000. The Directors believe that regular review of traffic forecasts and recoverable amounts of the Company's highway assets for their future operating period and making reasonable impairment assessment for the toll highways with lackluster results will help to avert operating risks and to enhance the quality of the Group's assets.

Other Income

During the Reporting Period, the Group's other income decreased by 49.01% to RMB97,858,000 as compared to 2005, mainly attributable to the following:

			(RMB'000)
	2006	**2005**	**Change in amount**
Interest income in respect of long-term receivables discounted in connection with the disposal of two Class 1 highways	—	13,054	-13,054
Income recognised in respect of recognition of the excess of fair value of share of the acquired net assets of the jointly controlled entity, JEL Company, over the cost of acquisition	—	34,955	-34,955
Income from entrusted construction management services	**31,468**	72,830	-41,362
Deferred government subsidies	**20,947**	27,356	-6,409
Bank deposit interest income	**6,313**	9,798	-3,485
Subsidies granted by the Shenzhen Municipal Government in respect of the cancellation of certain preferential policies on the income tax of the Group	**12,789**	10,309	2,480
Income from advertising operations	**15,694**	10,914	4,780

During 2006, an income of RMB31,468,000 from entrusted construction management services was recognised, representing a decrease of RMB41,362,000 as compared to 2005. The main-line works of Nanping (Phase I) was open to traffic by the end of June 2006, but part of the major works had yet to be computed and recognised as at the end of the Reporting Period. Based on the completion progress determined with reference to the actually incurred costs as a percentage of the total budgeted construction costs, an income of RMB29,203,000 was recognised in respect of the entrusted construction management services while the profit from entrusted construction management services amounted to RMB21,259,000, representing a decrease of RMB38,709,000 as compared to 2005. As no reliable estimate could be made in respect of the management results for the Wutong Mountain Project, and the Directors believe that future reimbursements of management expenses incurred relating to this project were probable, the Company recognised income and expenses for the project on the basis of actual management expenses of RMB2,265,000 incurred during the Reporting Period. In addition, as certain sections of Hengping Class I Highway will be included in the planning of the Shenzhen Outer Ring Expressway, the construction of Hengping Project has been suspended as requested by the entrusting party and thus no income or expenses were recognised during the Reporting Period. As agreed in the management contract, if the responsibility for the suspension of works does not fall on the part of the project administrator, the management expenses incurred by the project administrator and the verified claims actually paid to construction companies may be reimbursed accordingly by the entrusting party. After taking into account the legal consultants' opinion, the Directors consider that it is not likely for the Company to assume entrusted construction management liabilities for the project or incur a substantial loss, and therefore it is not necessary to accrue loss for entrusted construction management services.

Q: *How is the income from "entrusted construction management" projects calculated?*

Gong Tao Tao,
Financial Controller

A: *"Entrusted construction management" is a newly developed business on the market, whereby the management income entitled to a project management company pursuant to the existing terms of the contract entered into is dependent upon the savings on project expenditure, i.e. the difference between the budgeted construction costs and actually incurred project expenditure, of which:*

Budgeted construction costs: *Computed on the basis of the agreed construction costs calculation method in an entrusted construction management contract; calculated and determined on the basis of construction design drawings, policies, legislation as well as relevant fixed unit prices and unit prices agreed upon in the contract regarding road construction;*

Project expenditure: *Comprising the construction costs of each single project, whereby the construction costs of a single project are determined by unit prices and quantity of works: the unit prices are specified in the contract terms reached pursuant to tendering procedures, and quantity of works is computed by quantity of works under the construction drawings or the quantity of works actually generated.*

Taking Nanping (Phase I) and Wutong Mountain Project as examples, if an actual project expenditure saving or excess falls within 2.5% of the budgeted construction costs, the saving or excess will all be shared or borne by the Company; if the saving or excess falls beyond 2.5% of the budgeted construction costs, the portion of saving or excess beyond will all be equally shared or borne by the Company and the Shenzhen Communications Bureau.

When reasonable and reliable estimates of the budgeted construction costs and relevant project expenditures can be made for the completed portions of a project, the Company will recognise the revenue, expenses and profits for the current period on the basis of the percentage of the completed portions. If reliable estimates of the relevant completions cannot be made yet and when management expenses incurred are anticipated to be reimbursed in future, the Company will recognise an equal amount of revenue on the basis of the management expenses incurred, and will not realise profit contribution for the current period.

To make sure that a reasonable and reliable computation of the achievement of the entrusted construction management business can be made, the Company has engaged an independent highway construction cost consulting firm to be in charge of preparing the relevant budgets, and an independent supervisory firm and supervisory engineers to be in charge of reviewing project expenditures. However, the budgeted construction costs and project expenditures are ultimately subject to verification or review by the government's audit department.

Operating Profit

The Group recorded an operating profit of RMB759,074,000 during the Reporting Period, representing a decrease of RMB7,842,000 or 1.02% as compared to 2005. Excluding the aforementioned incomparable factors regarding impairment provision, the operating profit for the Reporting Period actually increased by RMB89,158,000 or 12.26% as compared to 2005. The operating profit margin (excluding income from government subsidies) from toll highway operations was 67.57% during the Reporting Period, maintaining at the same level as that of 2005.

Share of Results of Associates

During the Reporting Period, the Group's share of the results of associates amounted to RMB-16,948,000, including the shares of profits or losses after tax of Yangmao Company, Guangyun Company, Jiangzhong Company, Huayu Company, Nanjing Company, GZ W2 Company, Consulting Company and Qinglian Company. The share of the results of associates saw a decrease of RMB7,067,000 in losses when compared to 2005, mainly due to increase in revenue of the Company's invested toll highways which led to increased shares of profits or reduced shares of losses for the Group. The information on associates is set out in note 11 to the Financial Statements.

Earnings before Interest and Taxation ("EBIT")

During the Reporting Period, contributions by the Group's principal operations to EBIT were as follows:

				(RMB'000)
Principal operation	**2006**	2005	Change in amount	Change (%)
Meiguan Expressway	**246,706**	213,360	33,346	15.63%
Jihe East	**138,658**	117,535	21,123	17.97%
Jihe West	**228,898**	211,339	17,559	8.31%
Yanba Expressway	**28,500**	25,193	3,307	13.13%
Shuiguan Expressway	**70,597**	42,913	27,684	64.51%
Yanpai Expressway	**34,609**	N/A	34,609	N/A
Wuhuang Expressway	**75,582**	24,840	50,742	204.28%
Other highways *(Note 1)*	**(73,760)**	(21,052)	(52,708)	(Note 1)
Entrusted construction management business	**21,259**	59,968	(38,709)	-64.55%
Highway-related businesses *(Note 2)*	**16,758**	79,037	(62,279)	(Note 2)
Subtotal	**787,807**	753,133	34,674	4.60%
Unallocated expenses of the Group *(Note 3)*	**(45,681)**	(10,232)	(35,449)	(Note 3)
Total	**742,126**	742,901	(775)	-0.10%

Note 1: Other highways include Changsha Ring Road and the highways operated by associates. The 2006 figure includes a RMB57,000,000 impairment provision made for the Changsha Ring Road assets during the Reporting Period.

Note 2: Income from highway-related businesses includes earnings from Advertising Company and bank deposit interest income, etc. The 2005 figure also includes a total income of RMB48,009,000 attributable to both income from acquisition of a jointly controlled entity and discounted interest income from installment receivables.

Note 3: The relevant expenses for 2005 include the RMB40,000,000 reversal of impairment provision for the Ropeway Project.

Finance Costs

The Group's finance costs for 2006 amounted to RMB98,397,000, representing a decrease of 2.21% as compared to 2005. Such decrease was mainly attributable to an RMB9,155,000 exchange gain arising from the Company's foreign currency borrowings and a decrease in the Company's average borrowing costs as compared to the previous year.

Income Tax Expenses

The Group recorded RMB49,900,000 in income tax expenses during the Reporting Period (2005: RMB80,071,000), representing a decrease of 37.68% as compared to 2005. According to Guo Shui Han [2006] No.452 "Reply on Issues Regarding the Fixed Asset Depreciation Approach" (國稅函[2006] 452 號《關於固定資產折舊方法有關問題的批覆》) issued by the State Administration of Taxation on 14 May 2006, the units-of-usage basis is deemed straight-line depreciation approach, and enterprises adopting the units-of-usage basis for the depreciation of fixed assets may report tax in accordance with Article 27 of "Rules on Pre-tax Deductions for Corporate Income Tax" (《企業所得税税前扣除辦法》). Domestic enterprises of the Group, including the Company, Meiguan Company and Shenchang Company, have already received approval from the relevant local taxation authorities for their applications to adopt the units-of-usage basis to calculate depreciation for the purpose of pre-income tax deductions. After a review by the Group on the deferred income tax liabilities for such enterprises as at 31 December 2005, an amount of RMB42,134,000 of deferred income tax liabilities was reversed and a corresponding amount was deducted from the income tax expenses for the Reporting Period. The adoption of the units-of-usage basis to calculate depreciations for pre-income tax deductions by the Group's foreign enterprises including Jihe East Company and Qinglong Company is still pending approval by the relevant local taxation authorities.

Loss from Discontinued Operation for the Year

During the Reporting Period, the Directors have approved Mei Wah Company's disposal of its 42% interests in Yungang Company and the transaction is expected to be completed by mid-2007. Accordingly, the assets and liabilities related to such interests are separately presented in the consolidated balance sheet as disposal group classified as held for sale, and the operating results related to this interests are also separately presented as a discontinued operation in the consolidated income statement. Yungang Company originally reported a book profit of RMB1,086,000 during the Reporting Period. After recognising a loss computed based on the lower of carrying amount and fair value less costs to sell of the assets in disposal group amounting to RMB4,142,000, a net loss of RMB3,056,000 as discontinued operation was reported for the Year. Please refer to note 15(a) to the Financial Statements for details of discontinued operation.

Profit Attributable to Equity Holders of the Company

Despite a decrease in entrusted construction management services income and an impairment provision for the Group's highway assets during the Reporting Period, there was continued growth in revenues and operating profits from major toll highways and new profit contributions from Yanpai Expressway and Wuhuang Expressway. In the Year 2006, the Group recorded a profit attributable to equity holders of the Company of RMB579,090,000, representing an increase of 4.79% as compared to 2005.

Analysis of Financial Position

Non-current Assets

The Group is principally engaged in the operation of toll highways and its non-current assets comprise mainly fixed asset investments, equity investments and debt investments in high-grade toll highways. As at 31 December 2006, the net amount of the Group's non-current assets is RMB9,768,011,000 (2005: RMB8,993,846,000), representing an increase of 8.61% as compared to the end of 2005. Such increase was mainly attributable to the increase in investment in the construction projects of Nanguang Expressway, Yanpai Expressway and Yanba C as well as the capital expenditure for investing in the associates of Jiangzhong Company and GZ W2 Company during the Reporting Period. Such increase includes an increase of RMB690,637,000 in property, plant and equipment, an increase of RMB167,802,000 in construction in progress and an increase of RMB39,762,000 in interests in associates. During the Reporting Period, the RMB42,544,000 investment in the Ropeway Project originally presented as construction in progress and the RMB12,431,000 net value of Yungang Company's assets originally presented as property, plant and equipment were all classified as non-current assets and disposal group classified as held for sale. New investments made during the Reporting Period will become new sources of profit growth for the Group in future. Details of the new investments made during the Reporting Period are set out in "Business Review and Analysis" on page 18 to page 26 of this annual report.

Current Assets and Liabilities

As at 31 December 2006, the Group's current assets amounted to RMB549,230,000 (2005: RMB1,085,469,000), including cash and cash equivalents of RMB379,641,000, restricted cash of RMB6,872,000, accounts receivable of RMB101,396,000 and non-current assets and disposal group classified as held for sale of RMB58,360,000. The decrease in current assets as at the end of the Reporting Period as compared to the beginning of the Year was mainly attributable to a RMB512,844,000 decrease in cash at the end of the period as a result of applying the cash held at the beginning of the Year for investments such as construction projects during the Reporting Period, as well as a RMB56,433,000 decrease in accounts receivable by the end of the Reporting Period owing to the recovery of the construction costs advanced for the Wutong Mountain Project in 2005.

The cash of the Group is generally deposited in commercial banks as current or short-term fixed deposits. No deposit has been placed with institutions other than banks, nor has any cash been used for securities investment.

As at 31 December 2006, the Group's current liabilities amounted to RMB2,121,927,000 (2005: RMB956,536,000), including RMB1,218,100,000 as short-term borrowings, RMB8,541,000 as long-term loans due within one year, RMB176,603,000 as construction projects costs payable, RMB359,242,000 as bills payable, RMB179,568,000 as performance guarantees and deposits and RMB24,594,000 as balances outstanding for the acquisitions of interests in JEL Company and Qinglian Company under the agreements. The increase in current liabilities during the Reporting Period was mainly attributable to the increase in short-term borrowings.

As at 31 December 2006, the net current liabilities of the Group amounted to approximately RMB1,572,697,000. The Directors have assessed and determined that the Group can generate a positive and increasing cash flow from its operations and maintains solid relationships with banks. Moreover, the Group's bank credit facilities of approximately RMB4.9 billion available as at 31 December 2006 and the Company's plan to seek other financing channels should fulifill the capital need to meet the Group's borrowing and funds commitments. Based on such facts, the Directors believe that there is no going-concern issue of the Group.

Non-current Liabilities

As at 31 December 2006, non-current liabilities of the Group amounted to RMB1,590,676,000, which included the following:

- Long-term borrowings amounted to RMB1,114,989,000 (excluding the portion due within one year), including bank borrowings of RMB1,096,961,000 and the Spanish government loans of RMB18,028,000.

- Deferred tax liabilities amounted to RMB125,226,000. The Group's net deferred tax liabilities amounted to RMB92,570,000, comprising deferred tax liabilities of RMB43,651,000 and RMB83,453,000 respectively arising from the temporary differences between the carrying amounts of toll roads and toll road operating right and their different tax bases; and deferred tax assets of RMB34,534,000 in respect of the impairment provision for assets in the Ropeway Project and Shenchang Company.

- The balance of government subsidies amounted to RMB350,461,000, which included the subsidies of RMB270,784,000 paid by the relevant government authorities to subsidise the insufficient traffic flow on Yanba Expressway due to its early completion in accordance with the overall planning requirements of the Shenzhen Municipal Government; special financial subsidies of RMB25,677,000 granted by the Ministry of Finance for the construction of Yanpai Expressway (the subsidies are recognised annually in the income statement pursuant to the accounting policy of the Group within the duration of the expressway's operation period); and an amount of RMB54,000,000 that has no clear repayment obligations provided to Yanba Expressway by the Ministry of Communications.

Equity

As at 31 December 2006, total equity of the Group amounted to RMB6,604,638,000 (2005: RMB6,372,759,000), representing an increase of RMB231,879,000 as compared to the end of 2005. Such increase was mainly due to an increase of RMB579,090,000 as profit attributable to the Company during the Reporting Period and a deduction of RMB261,684,000 as dividends for the year 2005 distributed.

Contingencies

For details of contingencies, please refer to note 33 to the Financial Statements.

Capital Structure

	31 December 2006	31 December 2005
Debt-to-asset ratio (total liabilities/total assets)	**35.98%**	36.77%
Net borrowings-to-equity ratio ((total amount of borrowings-cash and cash equivalents)/total equity)	**29.57%**	25.24%
Gross debt-to-equity ratio (total debts/total equity)	**56.21%**	58.16%
	2006	2005
Interest coverage multiple (profit before interests and tax/interest expenses)	**6.63**	7.74

At the end of the Reporting Period, the debt ratio of the Group was basically the same as that at the Year's beginning and remained at a secure level.

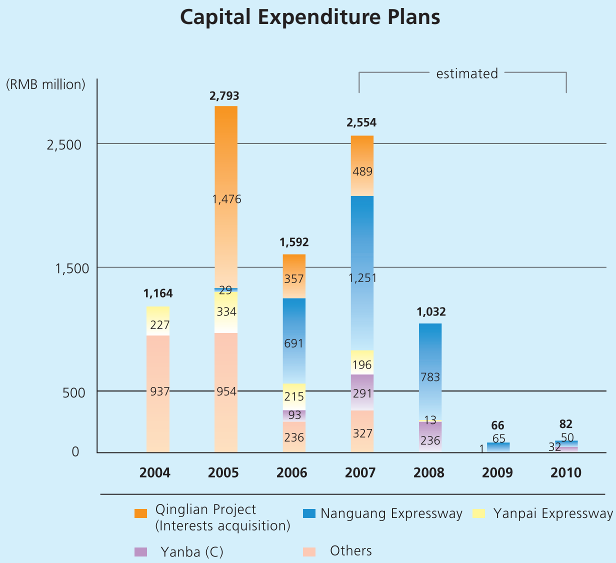
Capital Expenditure Plans

As at 31 December 2006, the Group's capital expenditure plans comprised mainly construction investments in Yanpai Expressway, Nanguang Expressway and Yanba C; and equity investments in Qinglian Project, GZ W2 Expressway and Wuhuang Expressway etc.. Total capital expenditures to be incurred until the end of 2010 are estimated at approximately RMB3.73 billion. The Company plans to fund such capital requirements by internal resources, bank borrowings, issuance of bonds and so forth. According to the assessment of the Directors, the Group is able to meet various expected capital expenditures at present given the Group's financial resources and financing capabilities.

Q: Is the Company confident about further increasing its financial gearing to acquire more assets?

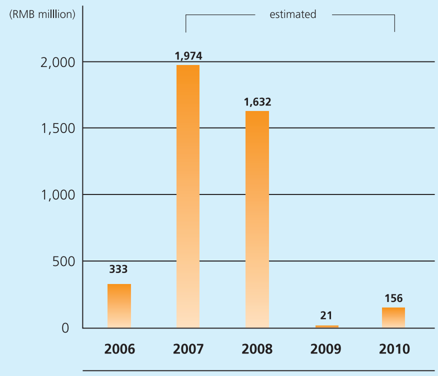
A: The Company believes that the maintenance of a sound capital structure helps increase shareholder value and reduce financial risks. The Company's existing capital and financial resources are capable of supporting capital expenditures approved by the Board. However, investment in future new projects has been subject to the ability in taking up liabilities to a certain extent. The Company has been aggressively seeking suitable investment opportunities. In the short-term, payment of investment consideration by means of debts remains to be the most convenient and fastest financing method. In the long-term, the Company will expand its capital size in a timely manner to enhance its capacity for future development.

Gong Tao Tao,
Financial Controller



Apart from the aforesaid capital expenditures, funds for the reconstruction of Qinglian Class 1 Highway into an expressway amounting to RMB4.2 billion (including interests) is expected to be satisfied by methods such as external borrowings by Qinglian Company.

Capital expenditure plans for the reconstruction of the Qinglian Project into an expressway are as follows:



Capital/Financing

Cash Flows of the Group

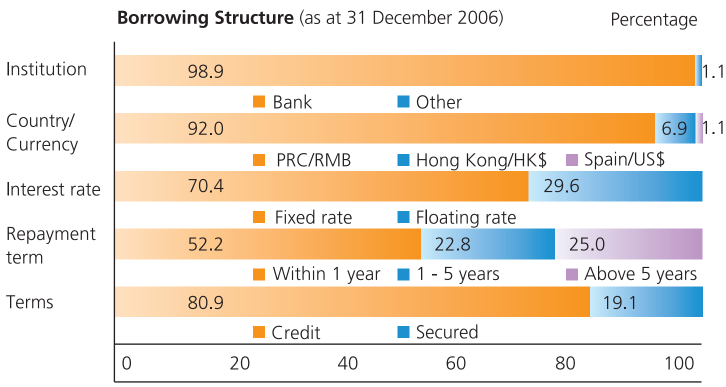
As at 31 December 2006, the Group's cash and cash equivalents amounted to RMB381,839,000 (2005: RMB892,485,000), representing a decrease of RMB510,646,000 as compared to the end of 2005.

During 2006, the Group's net operating cash inflows and returns on investment amounted to a total of RMB985,577,000 (2005: RMB604,844,000), representing an increase of 62.95% as compared to 2005. Such increase was mainly attributable to the continued growth in toll revenues from the toll highways operated and invested in by the Group during the Reporting Period, as well as the extra net operating cashflows to the Group from Wuhuang Expressway and Yanpai Expressway, and the recovery of the construction costs advanced for the Wutong Mountain project in 2005.

During the Reporting Period, the Group's main cash outflows comprised capital expenditures totalling RMB1,232,309,000 (excluding interests capitalised) on Yanpai Expressway, Nanguang Expressway, Yanba C, Qinglian Project, Jiangzhong Expressway, GZ W2 Expressway, Meiguan Expressway and so forth,as well as a total of RMB376,777,000 for payments of dividends and interest expenses.

Financing Activities

With the backing of steady growth in cash flows, a sound credit record and an excellent industry reputation, the Group retained the AAA credit rating for another year in 2006 by a recognised institution of the People's Bank of China. A good credit rating is beneficial for the Company's financing activities and allows the Company to continue to enjoy prime rates under the interest rate policy of the People's Bank of China. As at 31 December 2006, the Group's total outstanding amount of bills payable and borrowings was RMB2,700,872,000, representing an increase of RMB200,162,000 as compared to the end of 2005. The average borrowing rate during the Year was 4.847% which is lower than the 5.42% for the previous year.



In light of increases in capital expenditures and borrowing scale, the Company is actively seeking new financing channels and gradually raising the proportions of fixed-rate and medium-/long-term borrowings in the debt structure, so as to optimise the Company's capital structure and reduce its financial risks. In January 2006, the Company issued short-term commercial papers in the total amount of RMB1 billion at an interest rate of 3.07% per annum, and the amount has been repaid during the Year. The issuance of short-term commercial papers has effectively lowered the Group's funding costs. In May 2006, Qinglian Company obtained a loan in a total amount of RMB4.66 billion from a consortium including China Development Bank, using the toll collection rights of the Qinglian Project as collateral. A combination of fixed rates and floating rates was applied for the loan, thus controlling the risks of interest rate increase within a certain range.

During the Reporting Period, the Group capitalised on both the favourable internal conditions and external apparturnities to negotiate new financing facilities and agreements with banks. As at 31 December 2006, total unutilised banking facilities available to the Group amounted to RMB4.9 billion.

In November 2006, the shareholders of the Company considered and approved the resolutions for the proposed issuance of Bonds With Warrants, approving the Company to issue 6-year bonds in the amount of not more than RMB1.5 billion with warrants involving not more than 330 million shares. Proceeds will be applied to the construction and investment of Nanguang Expressway. The Directors believe the issuance of the Bonds With Warrants will help the Company broaden financing channels, lower capital costs and financial risks, and will facilitate the optimisation of the Company's capital structure and boost its long-term development potential. The issuance is subject to approval by the CSRC, and as at the date of this report, documents for the application are being prepared. The Company plans to submit the application for the issuance to the regulatory authorities in due course.

Use of Proceeds

The Company raised RMB604 million from the issuance of A Shares in 2001. During the Reporting Period, the Company applied such proceeds in the construction of Yanba B in strict compliance with the representations made in the prospectus. The construction of Yanba B started in June 2001 and a section of approximately 7.75km in length was opened to traffic for toll collection in June 2003. After the commissioning of Yanba B, traffic flow and toll revenue of Yanba Expressway have been significantly enhanced with the formation of a local traffic network with Yanba A.

An amount of RMB45,055,000 was applied during the Reporting Period and the cumulative amount of proceeds applied was RMB485,042,000. As at 31 December 2006, proceeds in the amount of RMB118,958,000 remained unutilised and were mainly held as deposits with domestic commercial banks in the PRC to be used for Yanba B, involving payment for 2-km uncompleted works as well as settlement of payment for a small quantity of completed works.

Adoption of the New PRC "Accounting Standards for Enterprises" – Accounted for Interests in Jointly Controlled Entities Using the Equity Method

With effect from 1 January 2007, the new PRC "Accounting Standards for Enterprises" (the "new PRC ASE") have been adopted for statutory financial statements of the Group. The new PRC ASE are in essence similar to HKFRS. The adoption of the new PRC ASE affects primarily the scope of consolidation of financial statements, and there will be no significant impact on accounting estimates or the Group's financial position and operating results.

Pursuant to "ASE No.33 – Consolidated Financial Statements" and "ASE No.2 – Long-term Equity Investments", interests in jointly controlled entities are to be accounted for using the equity method and will no longer fall within the scope of consolidation of the Group with effect from 1 January 2007.

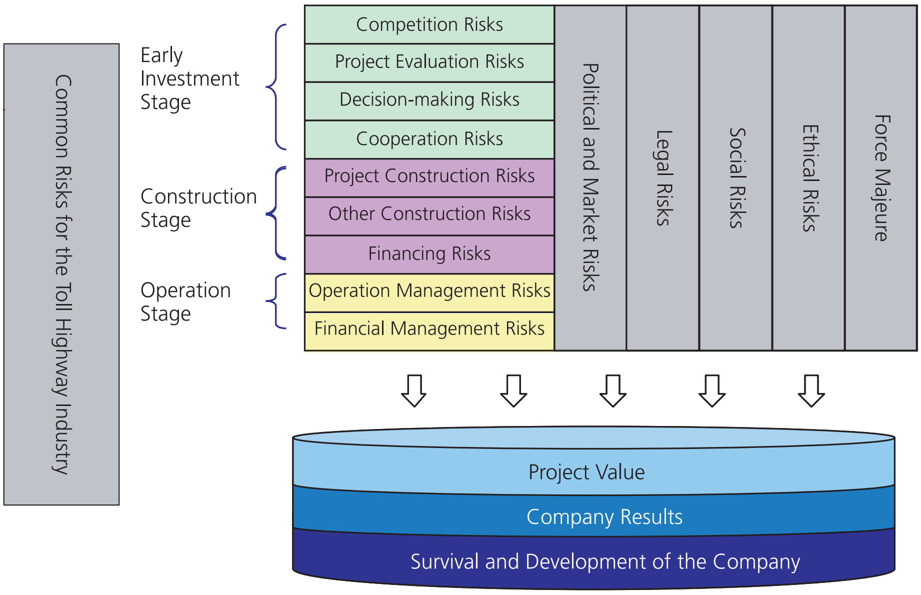
According to HKAS 31 "Interests in Joint Ventures", interests in jointly controlled entities may be accounted for using either the equity method or the proportionate consolidation method. For 2006 and the preceding years, the Group adopted the proportionate consolidation method to account for its interests in jointly controlled entities in the financial statements prepared in accordance with HKFRS. In order to be consistent with the accounting policy of the statutory financial statements, the Group plans to adopt, with effect from 1 January 2007, the equity method to account for interests in jointly controlled entities in the financial statements prepared in accordance with HKFRS.

Upon the adoption of the equity method to account for interests in jointly controlled entities, the consolidated balance sheet and the consolidated income statement will no longer include the assets, liabilities, income and expenses of jointly controlled entities, but will instead presented the interests and share of profits of jointly controlled entities respectively in the consolidated balance sheet and the consolidated income statement. If the Group changed the aforementioned accounting policies and correspondingly made retrospective adjustments to the 2006 consolidated financial statements, the total assets as at 31 December 2006 presented on the consolidated balance sheet and the income and expenses as stated in the 2006 consolidated income statement would decrease accordingly, while the yearly profit and the profit attributable to equity holders of the Company would not be changed.

The Directors believe that the change in accounting policies will facilitate consistency between financial information disclosures in the domestic and foreign markets. The Directors will make decisions thereabout in a timely manner in accordance with the progress of the Company's work in this regard.

RISK MANAGEMENT

Faced with opportunities for continued rapid growth, the management places high regard to various risks currently confronting the Group. Active reviews and appropriate preventive measures are continuously undertaken to achieve the strategic development goals of the Group.



After ten years of development, the Company has accumulated considerable experience and expertise in the investment, construction, and operational management of toll highway projects. Corresponding systems and management approaches are established for various management aspects that are timely amended and enhanced with reference to the Company's actual situations, thus basically forming a relatively solid internal control environment and regime.

However, as the Company faces different major risks in different development stages, there is a need for the Board and the management to continuously pay attention to, identify and evaluate such risks, setting preventive measures accordingly to minimise the negative impact of various risks on the Company and facilitating the effective execution and realisation of the Group's strategies and objectives.

Major Risks Faced by the Group at Present	Our Major Measures and Preparations Against Risks
Political and Market Risks	
Approval of Toll Rate Standards	
The major income source of the Group is toll income from vehicle. Toll rate standards are subject to consideration and approval by the provincial People's Governments, with hearings conducted according to relevant regulations. Accordingly, the trend of toll rate adjustments and whether future toll rates can be adjusted in line with rising price levels and overall costs hinge on the relevant State policies and approval by government authorities.	In view of the uncertainty arising from toll rate adjustments, the Company has adopted prudent assumptions for price adjustments and sensitivity analysis when analysing project investments, so as to equip new projects with stronger risk resilience. In addition, the Company will apply its management experience in operation and construction to reduce operating costs and to control project construction costs, so as to achieve a higher return for shareholders even when toll rates remain at the same level. Furthermore, the Company will maintain active communication and close cooperative relations with various government authorities and industry peers, in a bid to promote proper understanding and knowledge of the sector by the government and the public, so as to facilitate our pursuit for more reasonable toll rates.
Tax Policies	
The preferential corporate income tax rate for enterprises established in the Shenzhen Special Economic Zone is applicable for the Company and its invested enterprises in the Shenzhen region. As for invested enterprises in other regions of the country, some are also enjoying preferential tax rates and relevant preferential policies for foreign enterprises. The State has been conducting studies on tax regime reform in recent years, with plans to unify the income tax rate for all domestic and foreign enterprises at around 25%, which is above the 15% tax rate currently enjoyed by Shenzhen and foreign enterprises.	A cancellation of the preferential corporate income tax rate for the Shenzhen Special Economic Zone, if happens, will result in a considerable impact on the Company's profits. As the study of tax regime reform has been undergoing for quite some time, the Company has been fully aware of the possibility of tax rate changes when investing in new projects over the past few years and has taken this factor as a basic assumption while making projections on the projects' rates of return. In case the corporate income tax rates are unified, there will be no substantial impact on the values of investment projects.

Major Risks Faced by the Group at Present	Our Major Measures and Preparations Against Risks
Environmental Protection Policies	
Construction of expressways causes certain impact on the environment in various aspects, such as vegetation, soil and water, of the adjacent areas. In addition, certain environmental problems such as harmful gases, dusts and noises are caused by vehicle traffic to various degrees. With the State strengthening its efforts on environmental protection, there may be new requirements on expressway projects including route planning, technical standards, greening efforts, noise insulation, and so forth.	The Company always believes that environmental protection is not just an obligation to be fulfilled as ordered, but also an undeniable social responsibility for enterprises. In the construction and planning of road projects, the Company reduces the impact of noise through expanded greening effort along the route and improved quality of road surface materials, as well as relocation of the relatively severely affected residents along the route and the strengthening of other noise-prevention measures. During the construction process, appropriate arrangements are made for spoil grounds, quarries, waste disposal sites, and so forth, so as to reduce the pollution by dusts during the construction stage. The Company will continue to closely follow the State policies on environmental protection, and will more actively shoulder responsibilities on environmental protection on the basis that standards actually adopted by the Company are not below the basic requirements set out by the government. This will increase the Group's relevant construction and operating costs to a certain extent.
Multiplication of Investing Bodies	
Following the announcement and introduction of "Toll Highway Management Regulations" in 2004 and the launching of other relevant policies, the degree of marketisation of China's road sector has been rising, while investment and financing structures are becoming more and more varied. Non-professional firms and private capital are increasingly active in investing in the toll highway sector, thus intensifying market competition in the sector.	After ten years of development, the Company has accumulated considerable experience and expertise in the investment, construction, operational management of road projects. Besides, in order to further foster its ability of sustainable development and growth, the Company has been relentlessly pursuing investment opportunities in the sector that matched its development strategies in the past few years and remarkable headway has been made. On the one hand, the Company was able to enhance its competitive edge in management through cost control in construction and operations. On the other hand, the Company also enjoyed "non-price" competitive advantages from its good reputation, public image and government connections, thereby maintaining and showcasing its overall competitive advantages.

Major Risks Faced by the Group at Present

Changes in Highway Network Deployment

The continuous growth in demand for quality transport in the community offers a guarantee of growth in traffic volume on highways. However, concerns of economic growth and overall urban planning are also pushing local governments to keep on improving the planning of regional highway networks, such as building free high-speed trunk roads or implementing traffic control measures in some areas. Changes in highway network deployment may create diversion effects on existing highways.

Our Major Measures and Preparations Against Risks

The Company has strengthened the analysis and study on factors such as highway network changes and their impact, traffic flow composition, price elasticity of demand, in order to introduce targeted sales and marketing measures. Meanwhile, the Company improves service quality through the provision of quality services and facilities, and strengthens its promotion effort to attract traffic flow, thus enhancing the competitiveness of the existing highways. In addition, the Company will continue to maintain good communication and cooperative relations with various government authorities and industry peers to seek a rationalised layout of highway networks and connections in the region.

While the commencement of surrounding roads may create certain diversion effects on existing highways in the short run, it will also facilitate economies of scale of the overall highway network at the same time, thus boosting the pull for traffic flow. Accordingly, the diversion effects brought by surrounding roads often disappear some time after the commencement of new roads and ultimately result in mutual improvements.

Financial Risks

Interest Rate Risks

In recent years, as a result of increase in acquisitions and construction projects the Group's capital expenditures have gone up quite substantially, and borrowings as a percentage of capital expenditure has also shown a rising trend. Consequently, the Group is becoming more vulnerable to fluctuations in interest rates, especially medium to long term interest rates.

The Group is gradually raising the proportion of fixed-rate and medium-/long-term borrowings in the borrowing structure. Presently, for the project borrowings signed up with banks regarding Qinglian Project and Nanguang Expressway, the borrowing terms are fixed at 10 to 18 years with over 50% of the amount under a fixed-rate arrangement for the first five to eight years of the borrowing term. In addition, the Company has used methods such as short-term commercial paper issuance, commercial bill discount, to lower the average interest rate. The Company also plans to issue a considerable size of long-term corporate bonds and Bonds With Warrants to broaden its financing channels, optimise the capital structure and reduce capital costs. During the Reporting Period, the Company did not use any interest rate swap option contracts.

Major Risks Faced by the Group at Present

Our Major Measures and Preparations Against Risks

Cash Flow Risks

The toll highway business is characterised by its capital-intensive nature and a long period for investment return. At the present stage, the Company is at the peak of capital expenditure. Therefore, it is particularly important for the Company to contain cash flow risks.

The Company has established a rigorous model of financial forecasts and estimates for evaluating its investment in new projects and its financial resources. All new projects are evaluated and prioritised strictly against criteria such as preset levels of return, cash flow of the Company and cost of capital. Necessary sensitivity analyses were conducted in respect of all important assumptions and parameters. The Company prepares a capital budget each year to coordinate and arrange the Group's capital sources and expenses planning for the next year, so as to ensure the Group's cash management efforts are systematic and forward-looking. It also reviews the implementation of the previous year's budget to guarantee its effectiveness. In addition, the Company maintains a balanced mix of debt portfolio and bank facilities to ensure its cash liquidity by taking into account repayment terms, and factors such as interest rates and exchange rates.

Exchange Rate Risks

All major operations of the Group are located in the PRC. Save for Mei Wah Company which finances and settles in HK$, the majority of the Group's operating payments and capital expenditures are settled in RMB. As at the end of the Reporting Period, the Group had primarily RMB26,169,000 and RMB162,761,000 worth of foreign currency-based liabilities denominated in US$ and HK$, respectively, while RMB55,407,000 worth of foreign currency-based assets were denominated in HK$. Foreign currency-based items resulted in the form of net liabilities.

With RMB on an appreciating trend under current market conditions, it is projected that the trend of exchange rate changes will benefit the Group but there will be no substantial impact on the Group's results.

Operation Risks

Construction Management

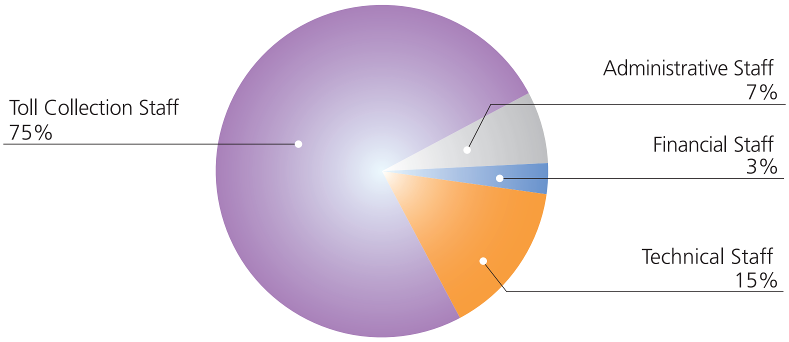
Long cycles and huge capital injections are features of highway construction, and whether effective controls are implemented on crucial targets such as construction period, quality and costs have direct or indirect impact on the construction costs in the particular stage and on the future operating costs. In recent years, the Group has been engaged in large highway construction projects. As a result of factors such as price fluctuations in construction materials, increase in difficulties in land requisition, demolition and relocation and resettlement of residents, changes in construction plans and promulgation of new policies and technical regulations by the government, the construction projects are exposed to the risks of increasing costs, delay and impaired work quality.

The Company's professional expertise and years of experience in highway construction management have formed the integral basis for managing the above risks. The Company has formulated a "Project Management Manual" and related regimes which offer detailed regulations on the progress, quality, costs, contract management, safety management, supervision, and so forth, of construction projects, and strengthen the management effort on tendering and contracting and enhance the management of sites and progress through a tight grip on important matters such as survey, design and change in construction work in actual work. The financial departments also exercise financial control duties over the payment of construction costs and construction management fees through measures such as enhancing authorisation procedures and strengthening budget controls. Moreover, the Company has also effectively transferred such risks as appropriate by entering into relevant insurance contracts, construction contracting agreements and centralised procurement contracts for major materials.

Major Risks Faced by the Group at Present	Our Major Measures and Preparations Against Risks
Repairs and Maintenance of Highways	
Appropriate routine repairs and maintenance of road surface are required once a highway is open to traffic with an aim to assure a good traffic environment. As the useful life of the highways elapses and traffic flows and wear-and-tear increase, the scale of repair work and the related costs may also increase. Moreover, toll income will decline as normal traffic may be hindered in case the area of repair work is relatively larger and the time involved is relatively longer. Besides, road conditions may also be impaired to different degrees by traffic accidents and other factors.	At present, the highways of the Group are kept in good conditions. Maintenance costs as a percentage of operating costs stood at a relatively low level during the Reporting Period. The Company's medium-/long-term repair and maintenance plan, which is currently being drafted, will provide uniform arrangement and preparation for repairs and maintenance of highways so as to elevate management efficiency and work quality, as well as reducing management costs. As for the implementation of the repair and maintenance plan, the Company will also strive to maintain smooth traffic flows on its highways as a whole and minimise the impact upon peak-hours traffic by rationalising works arrangements, such as arranging works on a section-by-section or lane-by-lane basis, as well as arranging night-time works. On the other hand, the Company will dutifully conduct road inspections to effect prompt investigation and evidence collection for road facility damage and road accidents, thereby achieving higher repair efficiency and a higher compensation rate for road asset losses.
Reliability of the Tolling System	
As of now, most provinces in the country are adopting in stages the Inter-road network toll collection scheme for expressways. Inter-road network toll collection can reduce the number of tolling stations along the main roads and lowering the times of toll collections for vehicles on inter-section trips. This will be a positive boost for the improvement of traffic efficiency of the road network as a whole, while at the same time setting a newer and higher benchmark for the stability and safety of the tolling system and the prevention of toll losses.	The Group has completed the renovation of, and has passed the checking and acceptance for, the Inter-road network toll collection system of toll highways in the Shenzhen area in November 2004. The system is running smoothly at present. In order to ensure that the Inter road network toll collection system runs effectively and efficiently, the Company has compiled the "Management Rules for the Inter-road network toll collection system in the Shenzhen Area" and has organised several training sessions for toll collection staff. During the Reporting Period, the Company has also enhanced the capacity of the monitoring centre and formulated the responsibilities, regulation and procedures for tolling inspectors of the monitoring centre. Tolling efficiency and quality were enhanced with toll losses prevented through sound internal control which has improved tolling management.
Project Evaluation Risks	
The Company compiles investment project proposals on the basis of professional reports such as feasibility studies and traffic flow estimates, and conducts investment projections, sensitivity analysis and risk analysis accordingly. During a project evaluation, any misses in factors of consideration, adoption of wrong analytical techniques, wrong execution of actions, or lack of reliability of applicable professional reports may lead to substantial discrepancies in analysis results, thus giving rise to mistakes in an investment decision.	The Company has established the Risk Management Committee to persistently improve the Company's management procedures and regimes regarding investments and strengthen the risk analysis and monitoring over material investment projects. Prior to submission to the Board for consideration, investment projects are to be reviewed by the General Manager Working Meeting of the Company and the Risk Management Committee. Any deals involving connected transactions are subject to acknowledgement and approval by Independent Directors. In order to raise the accuracy of professional reports, the Company has engaged external supervisors to monitor and review the course of evaluation on certain projects. The Company's engineers also take part in improving such proposals. Currently, the Company is amending the rules governing investment management and drafting a standardised model for investment proposals, so as to minimise the decision-making risks that might be brought by discrepancies or insufficiencies of information.

HUMAN RESOURCES

As at 31 December 2006, the Company and its subsidiaries had 1,185 employees, of whom 298 were management and professional staff while 887 were toll collection staff. 33% of the Company's staff held tertiary or above qualifications and 85% of the administrative, financial and technical staff held tertiary or above qualifications, among whom 17% held master degrees and 44% held bachelor degrees.



Employee's Remuneration

Pursuant to the "Management Rules for Employee's Remuneration and Benefits" (《員工薪酬福利管理辦法》) adopted by the Company in 2004, the employee's remuneration comprises three parts, namely monthly salary, annual performance bonus as well as statutory and company fringe benefits. The remuneration is determined in accordance with the results of the overall assessment, of which salary and performance bonus are determined by their position and performance respectively so as to maintain the competitiveness of the Company. In 2006, the Company recruited a human resource consultant to review the existing remuneration system and re-assessed the values of each positions. Improvement proposals are made to give a fairer and more competitive remuneration system.

Employee's Insurance and Retirement Schemes

Pursuant to statutory requirements, the Group has participated in an employee's retirement schemes which is organised by the local government authorities (social endowment insurance), and has provided basic medical insurance package, industrial injury insurance and unemployment insurance to its employees. In addition, the Company has also obtained commercial insurance on personal accidents for its frontline employees.

According to the relevant regulations, the Group should pay contributions equivalent to a certain percentage on the employee's aggregate salary (subject to a maximun cap) to the labour and social security authorities as social insurance contributions for items such as pension and medical insurance. As at 31 December 2006, the Company has two retired staff. The registration procedures in relation to their retirement have been completed through Shenzhen social security authorities. For other details of employee benefits, please refer to note 2.16 to the Financial Statements.

Employee's Training

The Company values staff training. In accordance with the requirements for strategic development, the Company has increased the amount devoted to training and has been actively carrying out various training programmes. During the Reporting Period, the Company organised 37 themed training sessions including workshops on the rules governing appointed representatives; themed training sessions "Pause and Think" for middle/senior management members; entry training for toll collection staff; management skill upgrade for toll station management staff, and so forth, with a total of 1,542 participants. To diversify training approaches, the Company has also started an internal web training academy with approximately 40 training courses offered in its first stage, covering a wide range of aspects from corporate development, management and leadership skills, human resource management, financial management to personal development. In addition, all functional departments and toll stations are actively engaged in activities such as on-the-job training, work competition and experience exchanges, with reference to actual needs.

Appraisals and Incentives for Senior Management Members

Monthly salaries of senior management account for approximately 65% of their total remunerations. In order to attract and motivate quality staff, performance bonus for senior management is mainly based on performance assessment and the Remuneration Committee of the Board is responsible for proposing and reviewing the remuneration and bonus for senior management.

The Board considers the annual operating performance targets at the beginning of each year and sets out clear and concrete rating criteria as the basis of year-end appraisals on the overall performance of the General Manager and the Company. The set key performance targets generally include annual revenue, expenses and profit indicators, completion rate and cost-saving ratio of investment projects, internal management and other substantial matters.

Based on the operating performance targets approved by the Board, the Company is required to confirm the yearly tasks and targets for staff of various grades, and various business controllers are also required to sign accountability statements on performance targets with the General Manager. By the end of the year, the Board and the General Manager will determine the overall performance score of the Company and individual performance scores of the senior management with reference to the state of completion of the Company's and individual performance targets, and calculate the performance bonuses for the General Manager and other senior management members accordingly. The remuneration of all senior management members is subject to review by the Remuneration Committee and required to be reported to the Board.

Since 2001, the share appreciation right scheme (the "Scheme") has been approved by the shareholders and amended at the extraordinary general meeting held on 30 October 2003. According to the amended Scheme, the share appreciation rights involving 5,501,400 shares collectively held by senior management, with the proceeds from the exercise applied as a special incentive fund and distributed by the Company in accordance with the proposal put forward by the General Manager and the Remuneration Committee of the Company. As at the end of 2005, the share appreciation rights were fully exercised. During the Reporting Period, pursuant to the proposal approved by the Remuneration Committee, RMB1,150,000 from the special incentive fund has been distributed to reward management members and crucial staff with contributions to important tasks or projects in 2004. Among those rewarded, Director Wu Ya De, Supervisor Yi Ai Guo, and senior mamangement members Wu Xian, Li Jian, Fan Li Ping, Gong Tao Tao, Zhou Qing Ming and Wu Qian were rewarded RMB200,000, RMB30,000, RMB50,000, RMB80,000, RMB60,000, RMB80,000, RMB70,000 and RMB40,000 respectively. As at the end of the Reporting Period, the balance of the special incentive fund amounted to RMB3,960,000, which will be used for the incentive schemes in coming years.

Human Resource Management

The Company has been committed to the people-focused management principle, viewing its employees and talent as the pillar of corporate development and pushing forward the switch from "emphasis on human costs" to "emphasis on human capital" in terms of human resource management. In accordance with the development needs of the Company, timely amendments were made during the Year on the human resource system and operating approaches regarding performance management, personnel appointment and dismissal, appointment of management representatives, shift arrangement of toll collection staff, and so forth. Guided by the development strategy, the Company will strive to stimulate the passion and creativity of the employees through adoption and continuous improvements of the incentive regime, the control regime and the talent grooming and selection regime. Through such efforts, the Company will foster a sound development platform for staff, so as to achieve harmony and a win-win situation between the interests of employees and the Company.

OUTLOOK AND STRATEGY

Development Environment

To satisfy the needs of economic development, the State and the local governments have devised comprehensive and forward-looking plans for the development of the transportation industry. In the Guidelines of the Eleventh Five-Year Plan (2006-2010) issued by the State in 2006, it is stated that preference should be given to developing the transportation industry and further improving the highway network. It is set out clearly in the guidelines that during the Eleventh Five-Year Plan, the focus of work will be building a nationwide expressway network, further improving the national highways and provincial trunk networks, connecting the passages between provinces, and fully exploiting the potential of the highway network. The total mileage of highways will reach 2,300,000 km, of which 65,000 km will be expressways. On the other hand, according to "Guangdong Province Expressway Network Plan" (2004-2030), investments on expressway construction over the next 25 years will exceed RMB400 billion, with the mileage of expressways reaching 8,800 km (of which investments in the Pearl River Delta will amount to some RMB170 billion with total mileage of 3,500 km). All these will move China's expressways to a level matching, or even surpassing, the currrent level of developed countries.

The promulgation of the "Toll Highway Management Regulations" by the State Council in 2004 and the issuance of "Notice on Further Regulation of Toll Highway Management" by the Ministry of Communications near the end of 2006 have provided strong policy safeguards on the marketisation and regulation of toll highway investment, construction and operation, which helps protect the interests of investors, road users and the general public, thus facilitating the healthy development of the industry in the long run.

Strategy and Plans for 2007

In 2007, the Group will continue to consider the situation and formulate and implement effective yearly operating strategies and plans with prudence in accordance with the Company's strategic development goals, in order to ensure that its yearly targets are on the same path as long-term development objectives.

Annual Targets	Financial results:	Stable shareholder return
	Business expansion:	Maintain leadership in the Shenzhen market and enhance future growth potential of the Company
	Risk control:	Maintain a balannce between results, growth and risks aversion
	Management enhancement:	Support business targets and enhance core competitiveness
	Customer service:	Foster a positive external operating environment and improve internal teamwork

The Company's focus of work in 2007 includes:

– **Full completion of management tasks for construction projects.** In 2007, the construction management of Qinglian Project, Nanguang Expressway and Yanba C will be pursued with utmost effort, pressing ahead with the construction progress so as to ensure completion of such projects in 2008 as scheduled and to effectively control construction costs within budget. In addition, the studies for the "4 lanes-to-6 lanes" plan for the north section of Meiguan Expressway and for the road-surface renovation plan of Meiguan Expressway will commence within the year.

– **Ensuring the achievement of toll income targets.** Based on the reasonable assumption that there will be no significant changes on the crucial aspects of the operating environment, the management expects to maintain a two-digit average growth in traffic volume on its toll highways. The Group has set an aggregate toll income target of no less than RMB900 million for 2007 (2006 (Note): RMB720 million).

  Note: The Group's adoption of the new "Accounting Standard for Enterprises" effective from 2007 will lead to changes in accounting policies and adjustments of scope of consolidation. Joint ventures will be accounted for by the equity method instead of proportionate consolidation. Adjustments in accordance with the new principles were made to arrive at the figures listed above.

– **Active and prudent study and evaluation of investment projects.** The Company will actively pursue acquisitions and development of highway projects within Shenzhen City and maintain its attention to sources of quality projects within Guangdong Province, building up project resources essential for the Company's long-term development. The Company will progress rationally on its project investments and will control its overall investment scale. In addition, existing resources will be integrated in an appropriate manner in accordance with results of investment project evaluations, so as to rationalise the Group's asset structure and to replenish funding for new investment projects.

– **Reducing financial costs and preventing financial risks.** The Company will actively pursue the applications for issuance of financing tools such as Bonds With Warrants and corporate bonds, appropriately increase the proportion of medium-/long-term borrowings and arrange for a certain proportion of fixed-rate borrowings, and will further implement sophisticated capital management.

– **Enhancing management quality.** The Company will make enhancing human resource management a top priority. It will also further enhance the internal control mechanism and implement the risk management regime so as to further elevate the quality of corporate governance.

Development Objectives

Continued growth of the economy and an increasingly regulated market will bring bright development opportunities to the Group. Meanwhile, the management is acutely aware of various risks facing the Group at present, such as the challenges brought by market competition, interest rate volatility, construction management, traffic flow fluctuations, toll policy adjustments and human resources support.

In light of an operating environment where opportunities and challenges go hand in hand and advantages and risks co-exist, the Group will adhere to its established development strategy and will continue to devote itself to the investment, construction and operation of toll highways and roads. It will continue to improve resource allocation, enhance profitability, boost the Company's development resilience whenever appropriate, elevate management quality and gear up its effort to foster an internal and external environment that facilitates the Company's development, with a view to achieving rapid and stable growth.