



Laying a Solid Foundation



Chairman's Statement

To all shareholders:

Riding on China's robust economic growth, the Group has achieved good overall operating performance in 2007. All major toll highways maintained favourable growth momentum in traffic volume and revenue, thereby attaining continued growth in operating results. Meanwhile, the management closely followed the Group's development strategy and performed its tasks in accordance with the annual objectives set at the beginning of the Year. Fruitful results were reported in construction works, investment management, financing and management enhancement, thereby laying a solid foundation for the long-term development of the Group.



2007 Results and Dividends

I am pleased to report to the shareholders that in 2007, the Group realised a revenue of RMB1,103 million, representing an increase of 43.44% over 2006. Net profit amounted to RMB674 million with earnings per share being RMB0.309, representing an increase of 16.45% over 2006. It has always been the Group's dividend policy to reward shareholders with a cash dividend of stable and high payout ratio. The Board recommended the payment of a final dividend of RMB0.16 per share in cash for 2007, representing 51.8% of the net profit distributable under the PRC Statutory Financial Statements for the Year, or 51.7% of the profit distributable as adjusted under the HKFRS for the Year.

Business Review

The past year of 2007 was a year of "Building up Fundamentals and Gathering Momentum" for the Group. Since the implementation of the "Development Strategies 2005-2009", the mileage of the Group's toll highways (on an equity basis) has, within a span of two years, increased from under 200 kilometres as at early 2005 to over 400 kilometres by early 2007, among which the mileage of the Group's toll highways under construction (on an equity basis) has increased from approximately 80 kilometres as at early 2005 to over 200 kilometres by early 2007. Whether the Group's financial resources can support its scale expansion and whether the Group's management resources are capable of achieving the said scale expansion have become unprecedented challenges to the entire staff of Shenzhen Expressway. Therefore, in the past year and the next one or two years, Shenzhen Expressway has been focusing its work on allocating all-encompassing and adequate resources in accordance with the operating scale, including building up resources for the highway project reserve in a measured and selective manner, so as to achieve the objective of absorbing the present scale expansion and consolidating the foundation, thereby preparing the Group for further achievement.

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In 2007, toll revenue remained the primary profit source of the Group. The toll highway operations, on the one hand, experienced organic growth resulted from factors such as economic growth. On the other hand, the operations department took initiative to raise the traffic efficiency of the overall road network through a strengthened effort on road network research, close monitoring of changes in traffic flow composition, plans on improving traffic organization, and so forth. Efforts were also made to actively explore new approaches and techniques on the management and maintenance of toll highways to fully exploit the growth potential of the existing toll highways and to enhance the effective control on operating costs, so as to achieve the objective of creating new revenue sources and saving costs.

As regards construction works, the Group faced a series of difficulties and challenges such as rising prices and shortage of materials; increased difficulty in land requisition, demolition and relocation; substantial technical complications in design and construction works; tight works schedules; complicated quality control for construction; massive workload on management and coordination work, and so forth. Facing such difficulties and challenges, the Group fully capitalised on its construction management experience accumulated in over a decade, exercising strong construction management on Qinglian Project, Nanguang Expressway and Yanba C, thereby completing the work of the Year in accordance with plans as well as completing the foundation for achieving the pre-set targets as regards quality, schedule and costs of the entire projects. Among the above-said projects, the main route of Nanguang Expressway was open to traffic on 26 January 2008.



In 2007, the Company successfully issued RMB800 million of long-term corporate bonds and RMB1.5 billion of Bonds with Warrants. Such activities provided fundings of long terms, low costs and fixed interest rates for the Group's key construction projects, thereby lowering the overall financing costs and financial risks for the Group. In addition, the Group has been actively reviewing its existing highway projects and has timely opted to withdraw from certain projects which did not match the Group's development strategy, thereby optimising the allocation of financial and management resources of the Group.

Further headway was made in 2007 on "exporting" the Group's management expertise. In November 2007, the Company entered into an agreement with the Shenzhen Communications Bureau, which represented the Shenzhen Municipal Government. Under the agreement, the Company was appointed as the administrator for Nanping (Phase II). The total investment in Nanping (Phase II) is approximately RMB4 billion. The assumption of the project further increased the Company's market share in the entrusted construction management sector and symbolised the ascension to a new platform for the Company's entrusted construction management business, as well as exemplifying the government's recognition and appreciation of the Company's strength and ability in construction management.

Heading into 2008, the Company timely seized the opportunity to develop the business of entrusted operation management of toll highways in accepting Shenzhen International's entrustment to manage its Longda Expressway. In developing this business realm, the Company has further capitalised on its professional experience and competitive advantages accumulated in the field of toll highway operations management.

Opportunities, Challenges and Strategies

It is clear that the rapid development of the national economy has stimulated traffic demand, which has in turn provided a fertile ground for the development of the toll highway industry. The Guidelines of the "Eleventh Five-Year Plan" and the government's planning on road networks for transportation have outlined the blueprint for the development of the toll highway industry. With an annual construction scale of approximately 1,000 to 2,000 kilometres over the next five years, the toll highway industry will be enjoying good development prospects. Meanwhile, the announcement and implementation of a series of regulations and rules such as 《收費公路管理條例》(Toll Highways Management Regulations) have also safeguarded the development of the toll highway industry. The toll highway industry is in a stage of rapid development with ample development potential over a considerable period of time in the future, thereby providing attractive opportunities for the Group's development.

Shenzhen Expressway has not missed out this opportunity for strategic development. Over the past few years, Shenzhen Expressway has achieved unprecedented development in expanding its business scale. Meanwhile, we do not indulge ourselves in blind optimism despite the thriving development prospects. We have a clear understanding of the equally unprecedented challenges brought by the scale expansion.

Presently, Shenzhen Expressway faces not just competition in the external market but also financial and management resources necessary for a series of scalable expansion. In terms of financial resources, as at the end of 2007, capital expenditure authorised by the Board amounted to RMB4,560 million and the Group's debt-to-asset ratio had reached 47.5%. While the Group's existing financial resources are sufficient to support the above-mentioned capital expenditure, new investments are to a certain extent limited by the Group's borrowing capacity. Meanwhile, with the debt level rising, the Group would be exposed to further pressure on financing costs and risks on interest rate volatility. The Group has to strike sound balances between development opportunities and financial structure and between short-term benefits and long-term development. As for resource management, the Group has to equip itself with ample and rationally structured high-quality human resources, through various ways such as external recruitment and internal cultivation. In the meantime, the Group has to conduct continuous review and assessment on its management model and structure, as well as studying and trying various reforms, so as to match the management model and structure with the Group's current stage of development. In addition, the Group has to conduct further studies on its execution and innovation capabilities, with an aim to maintain its youth and vigor.

Shenzhen Expressway is well aware that in view of opportunities, we cannot become over-ambitious and should lay a solid foundation; and in view of challenges, we cannot drag our feet and should progress with pragmatism. Year 2008 has arrived, which is the fourth year into the Group's Five-year Development Strategies. In the new year, the construction of Qinglian Project remains our top priority. Meanwhile, the Group will carry out the following major initiatives to enhance the quality of its growth: effectively capitalising on the capital market's financing platform to expand our financing channels; dedicating efforts on the operating management to create new revenue sources and to save costs; appropriately consolidating resources to optimise resource allocation; and enhancing management capability to meet the Group's current needs. We believe that our current objective of "Building a Solid Foundation, Progressing with Pragmatism" can be achieved through the above-mentioned initiatives and continuously reviewing the results of their implementation. Ultimately, we will go a long way towards achieving the Group's Five-year Development Strategies and long-term development objectives.



Chairman's Statement

Acknowledgements

I would like to take this opportunity to express sincere gratitude to our shareholders, customers, business partners and the public for their wholehearted support and contributions, and to our Directors, management and the entire staff for their close cooperation and hard work. Yesterday, we sowed the seeds of hope; today, we are ploughing and working hard in the field; and tomorrow, we will share a rich harvest together.

Yang Hai

Chairman

Shenzhen, PRC, 14 March 2008