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Progressing with Pragmatism



Management Discussion and Analysis

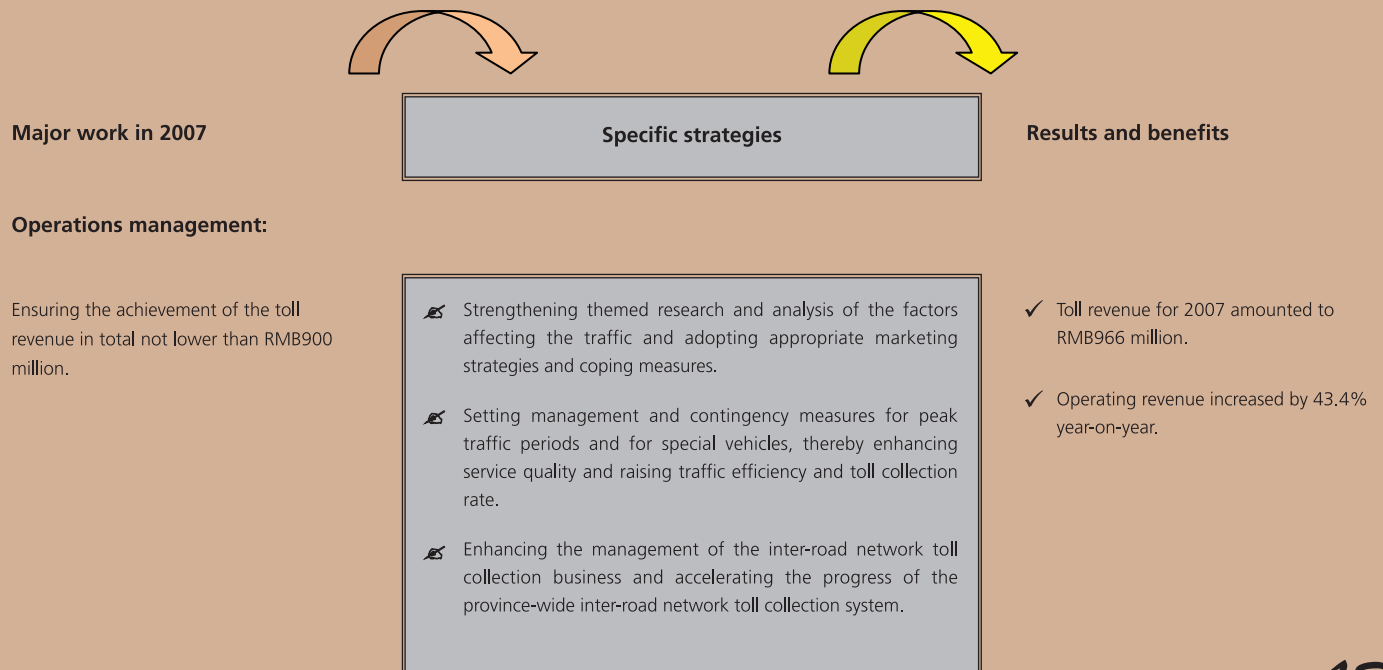
Director and President's Overview

In the past few years, the stable growth of China's economy, together with continued urbanisation and rapid growth of car ownership, has brought about a robust demand for highway transportation and highway infrastructure investments. The networking effect caused by ever-improving road networks has further stimulated the steady growth in traffic volume.



In view of the promising environment for operations and development, the Company management has not only to manage well the operations of its existing projects, but also to seize easy-to-miss market opportunities to prepare for the Company's long-term development. In late 2004, the Board formulated the Five-year Development Strategies after conducting detailed analyses and studies, thereby setting stage-wise objectives for the Company in terms of development directions, investment and financing strategies, "export" of management expertise, organisational structure and human resources. To achieve such objectives, the Company has persistently worked hard in market and business development, risk control and management enhancement, actively resolving various challenges and difficulties it faced. As a result, a significant amount of tasks were accomplished.

In 2007, the management of the Company has devised concrete operating targets in respect of operations, construction, investment and financial management and enhancement of overall management standards, with associated tasks defined and assigned to the relevant organisations or staff. Accordingly, a series of concrete and effective strategies were implemented and satisfactory outcomes were achieved. As a result, the Group maintained continued and steady growth in operating revenue and results, with the progress of construction projects and entrusted construction management businesses generally meeting the Company's expectations. In 2007, our concrete strategies and results in respect of the various key tasks include:



Management Discussion and Analysis

Major work in 2007

Specific strategies

Results and benefits

Construction management

Expediting the progress of projects under construction to lay the foundation for completion thereof as planned in 2008; exercising effective control over construction costs.

- ✍ Dedicating utmost effort to key aspects such as coordination and management; land requisition, demolition and relocation; material supply; quantity pricing and variations assessment; supervision of site safety and quality; and tendering and contracting management.
- ✍ Actively carrying out external coordination work to create a good external environment for construction work.
- ✍ Enhancing environmental protection and water/soil preservation measures and starting scenery improvement work.

- ✓ The main route of Nanguang Expressway was open to traffic in January 2008. Construction of Yanba C and Qinglian Project progressed smoothly.
- ✓ Construction costs were effectively controlled within budget.
- ✓ Capitalising on its fine reputation in the industry, the Company won further entrusted construction businesses from the government.

Investment management:

Appropriate integration of existing resources to rationalise the Group's asset structure; building up project resources for the Company's long-term development.

- ✍ Strengthening the themed analysis and preliminary technical management of new and reconstruction projects.
- ✍ Studying and assessing investment projects in a proactive yet prudent manner.
- ✍ Enhancing communication with government authorities to facilitate a good external operating environment.

- ✓ Completed the further acquisition of interests in Qinglian Project and the disposal of Geputan Bridge.
- ✓ Investment income increased by 46.5% year-on-year (after deducting the impact of the deferred income tax liabilities adjustment of the jointly controlled entities and asset impairment provision for Changsha Ring Road).
- ✓ Preliminary research for several projects progressed smoothly, thereby laying the foundation for appropriate decision-making.

Financial management:

Reducing finance costs and preventing financial risks.

- ✍ Studying domestic and overseas financing products and selecting reasonable financing channels; actively preparing for the issue of the long-term corporate bonds and the Bonds with Warrants.
- ✍ Strengthening capital budgeting and settlement management to effectively reduce finance costs.

- ✓ The Group's overall borrowing cost for the Year was 5.3%, while debts with a term of 5 years or more accounted for approximately 60% of total borrowings.
- ✓ Maintained an AAA credit rating in the market.

Enhancing management standards:

Emphasising on the enhancement of human resources management standards; improving internal control regimes; enhancing corporate governance standards.

- ✍ Clarifying and adjusting the management structure and responsibilities; enhancing the performance management and incentive systems; increasing the effort on public recruitment; and strengthening staff training and resource build-up.
- ✍ Establishing a standardised quality control regime.
- ✍ Further encouraging the idea of regulated governance, enhancing communication with investors and continuously increasing the transparency of information disclosure.

- ✓ Corporate governance standards recognised by the market and regulatory authorities.
- ✓ Created a market-oriented and progressive professional management team, as well as effectively mobilising staff motivation.