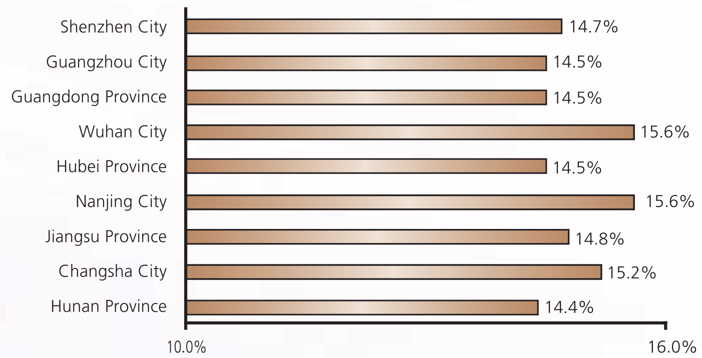
Related Economic Indicators for 2007

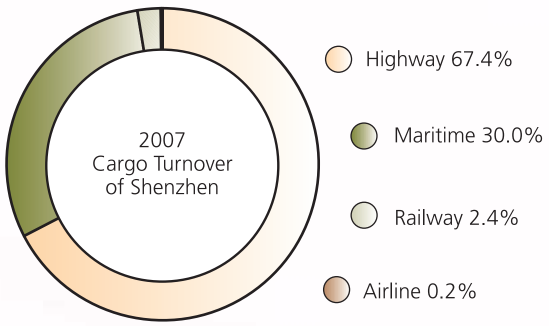
In 2007, China's GDP increased by 11.4%[1] over the previous year, maintaining the rapid growth which has been prevalent for years. Based on the preliminary regional economic growth estimates shown in the government work reports or statistic published by regional governments, the estimated GDP growth rates for Guangdong, Hubei, Hunan and Jiangsu in 2007 are all above the national average:

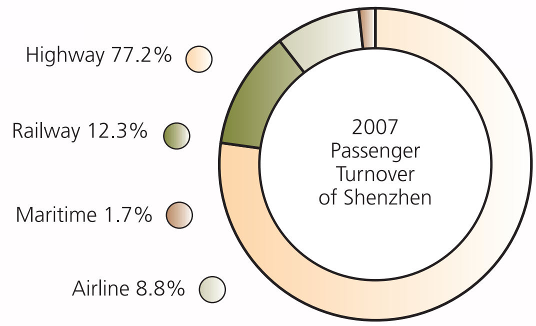


Projected GDP Growth by Province/City - 2007

In 2007, total imports and exports of Guangdong Province and Shenzhen Municipality amounted to US$634.1 billion and US$287.5 billion respectively, representing increases of 20.2% and 21.1%[2] respectively.

The 2007 cargo throughput of Shenzhen Port was 199 million tonnes, representing an increase of 13.2%. Container throughput totalled 21.1 million TEUs, representing an increase of 14.2%, of which the container throughput of Yantian International Container Terminal amounted to 9.31 million TEUs, representing an increase of 12.2%[3].





According to the《2008年度深圳市交通綜合治理工作白皮書》("White Paper on the integrated management work of traffic in Shenzhen in 2008"), as at the end of 2007, the number of the vehicles registered in Shenzhen was 1.145 million. In 2007, total cargo turnover of the entire Shenzhen Municipality amounted to 138 million tonnes, representing an increase of 20.3%, while passenger turnover amounted to 150 million passenger trips, representing an increase of 7.7%, among which the cargo turnover and passenger turnover for highways amounted to 92.74 million tonnes and 116 million passenger trips respectively, representing respective increases of approximately 28% and 7%. Among the 4 main types of transportation modes, highways remained the predominant one.

1 Based on 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 of Shenzhen Municipality

3 Based on statistics provided by the Shenzhen Communications Bureau

Business Review and Analysis

Toll highway operation and investments are the primary source of the Group's earnings. As at the end of the Reporting Period, the Group operated and invested in 17 toll highway projects in the Shenzhen region, other regions in Guangdong Province and other provinces in China, of which 14 were already in operation and 3 were under construction or reconstruction. General information about each highway is set out in the section "Business Structure and Highway Projects" of this annual report.

Toll Highway Operations

Economic growth, increase in vehicle ownership and the road networking effect remained the primary engines for the stable growth in traffic volume and toll revenue on expressways. Currently, given the fact that the growth of the domestic economy remains stable, the transformation of road networks and changes in neighbouring roads have particular bearings upon the operating performance of each highway during the period.

Toll highway	Percentage of 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)
			2007	2006	Change	**2007**	2006	Change	
Shenzhen Region:									
Meiguan Expressway	100%	100%	**98**	90	9.3%	**903**	878	2.8%	47
Jihe West	100%	100%	**66**	54	22.3%	**945**	776	21.8%	44
Yanpai Expressway *1	100%	100%	**26**	16	(*1) N/A	**370**	252	(*1) N/A	24
Yanba A and B *2	100%	100%	**12**	14	(*2) -11.9%	**173**	153	12.9%	9.4
Jihe East	55%	—	**89**	70	26.2%	**1,151**	904	27.2%	48
Shuiguan Expressway	40%	—	**103**	75	37.1%	**965**	683	41.3%	48
Shuiguan Extension	40%	—	**28**	25	10.2%	**182**	163	11.8%	35
Other Regions in Guangdong Province:									
Yangmao Expressway	25%	—	**16**	13	23.7%	**913**	719	27.0%	11
Guangwu Project	30%	—	**9.2**	7.7	19.4%	**266**	224	18.7%	6.7
Jiangzhong Project	25%	—	**39**	26	51.2%	**582**	386	50.6%	15
GZ W2 Expressway *1	25%	—	**6.2**	2.2	(*1) N/A	**181**	69	(*1) N/A	4.3
Qinglian Project *3	76.37%	100%	**19**	20	-9.3%	**255**	322	-20.7%	N/A
Other Provinces in the PRC:									
Wuhuang Expressway	55%	—	**28**	24	18.3%	**1,052**	887	18.5%	15
Changsha Ring Road	51%	—	**5.8**	5.5	4.7%	**62**	54	13.8%	1.8
Nanjing Third Bridge	25%	—	**17**	12	37.8%	**629**	472	33.2%	40

1. Yanpai Expressway and GZ W2 Expressway commenced toll operation in May 2006 and December 2006 respectively.

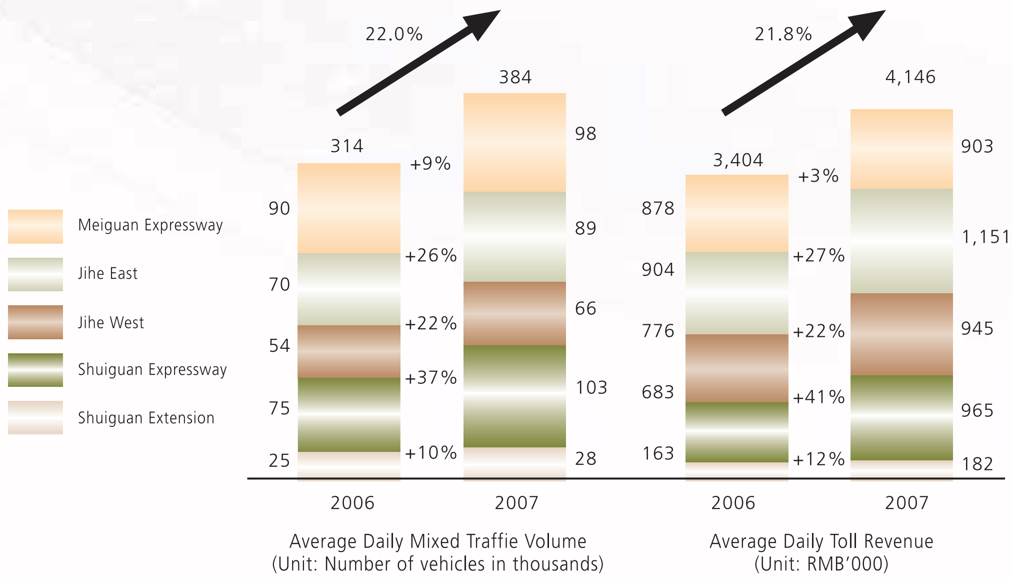
2. To facilitate the travel of Shenzhen residents to and from the east coast for leisure and vacation, the government entered into agreements with the Company pursuant to which the government would, from February 2007, pay the tolls collectively for all vehicles travelling between the Yantian to Dameisha Interchange section on Yanba Expressway by means of the standard and method mutually agreed upon (2007: RMB6 million/year; 2008-2012: RMB9 million/year; the arrangement beyond 2012 shall be negotiated and decided by both parties before the term of the agreements end). The tolls collectively paid are included monthly in Yanba (A and B)'s toll revenue, whereas the traffic volume in this section was no more included in the scope of statistics, leading to a decrease in traffic volume as compared to the year 2006.

3. The revenue of Qinglian Project was included into the scope of consolidation of the Group's financial statements since January 2007, while the information shown for 2006 is for reference only. Qinglian Class 1 Highway is now being reconstructed into an expressway; depending on the reconstruction progress, it is closed by section for construction works.

Shenzhen Region

Compared to 2006, the Group recorded respective growths of 22.0% and 21.8% 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 Yanpai Expressway and Yanba Expressway were not computed, considering the comparability of the figures):

Average Daily Mixed Traffic Volume and Toll Revenue of Toll Highways in Shenzhen Region Maintained a Continued Growth



Besides the strong regional economic growth which lends support to the overall operating performance, other major factors affecting the operations of our highways in Shenzhen region over the past 2 years include:

- **Changes in road networks:** After its opening, Yanpai Expressway has been facilitating the growth in large truck traffic on Jihe Expressway. The opening of Yanpai-Shuiguan Interchange in March 2007 also provided a new source of growth for Shuiguan Expressway. Meanwhile, the full opening of Longda Expressway in 2007 led to certain changes in the traffic distribution in neighbouring road networks, with the resulting increase in traffic volume for the Group's relevant highways exceeding the diversions resulted, thereby boosting the growth in toll revenue. Shenzhen-Hong Kong Western Corridor was opened in mid-2007, incurring a minor impact on Meiguan Expressway. By end-2007, Fulong Road, a municipal road connected to Longda Expressway, was open to traffic and this new road is expected to have a certain diversion impact on Meiguan Expressway and Jihe Expressway.

Projects in Shenzhen and neighbouring regions opened in the past two years

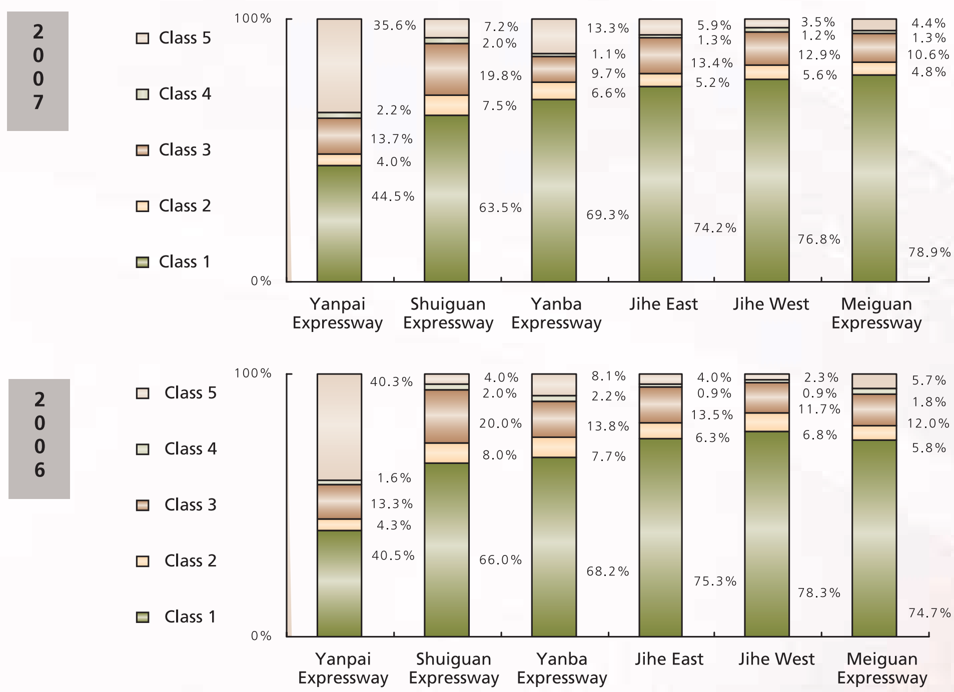
- Yanpai Expressway open to traffic, **May 2006**
- Nanping (Phase I) open to traffic, **June 2006**
- Longda Expressway (Dongguan section), open to traffic, **January 2007**
- Yanpai-Shuiguan Interchange is opened, **March 2007**
- Shenzhen-Hong Kong Western Corridor open to traffic, **July 2007**
- Fulong Road open to traffic, **December 2007**

- **Maintenance and repairs of neighbouring roads:** In the fourth quarter of 2007, Guangshen Expressway (Guangzhou-Shenzhen) and Guanshen Expressway (Dongguan-Shenzhen) underwent road repairs and brought about certain negative impact on the operating performance of Jihe Expressway and Meiguan Expressway. The traffic congestion caused by the construction works on Shenyan Pathway 2 (Shenzhen downtown - Yantian) reduced the east-bound traffic of small vehicles, thereby affecting Yanba Expressway's revenue to a certain extent. Meanwhile, the construction works of Shenzhen Metro Line 3 and the reconstruction of Shenhui Highway and Bulong Highway diverted traffic to Jihe East, Yanpai Expressway and Shuiguan Expressway, thereby facilitating the traffic volume growth on these highways. In addition, the reconstruction of Huiyan (Huizhou-Shenzhen) Expressway was completed by end-2006, thereby eliminating the negative impact on Jihe Expressway.

- **Implementation of the urban traffic arrangement scheme:** To separate urban traffic from port-bound traffic and cross-border traffic so as to mitigate the impact of the travel of container vehicles on the environment and livelihood of residents in the urban areas and to raise highway network utilisation and traffic quality, a cargo traffic arrangement scheme was implemented by phase in Shenzhen in August and September 2006. According to the scheme, large trucks were restricted from travelling on certain main roads in the urban areas, including Luosha Road, Huanggang Road and Nigang Road. Meanwhile, in line with such traffic arrangement scheme implemented by the Shenzhen Municipal Government, the Company has also timely adopted a series of marketing measures by offering a certain discount to trucks running on the relevant highways including Yanpai Expressway, Jihe Expressway, Shuiguan Expressway and Shuiguan Extension. These measures have attracted more trucks, particularly container vehicles commuting to and from the port, to travel on the expressways. However, due to traffic restrictions on large trucks on Huanggang Road (connecting Meiguan Expressway and Huanggang Port), Meiguan Expressway's traffic volume growth slowed down and the proportion of small vehicles in the traffic mix further increased, leading to just a slight growth in its 2007 toll revenue.

To enhance the competitiveness of the Company's projects in operation, the Company strengthened its effort on the research and analysis on elements that may affect toll revenue. Specific studies were carried out on key issues such as the commencement of operation of new roads, renovation or construction of municipal roads, traffic restrictions imposed by government, changes in tolling methods, peak traffic handling, and so forth. Marketing strategies and coping measures were formulated and implemented on the basis of such studies, while a price leverage tactic was adopted to appropriately optimise the traffic distribution among our road networks. Meanwhile, the Company also enhanced road traffic efficiency by raising service quality and improving the toll collection system, as well as attracting traffic by strengthening publicity, so as to raise the overall usage of the Company's expressways in the Shenzhen region.

Vehicle Category Mix of Principal Toll Highways during the Period



Major factors affecting the operating performance of the highways in Shenzhen region are as follows:

Major road network factors that have affected the operating performance during the Period	Current factors affecting later development
Meiguan Expressway	
↘ The implementation of the traffic arrangement scheme (large trucks are barred from Huangang Road from September 2006) led to a slowdown in traffic growth, with the impact period for the Year longer than that of 2006. ↘ Guanshen Expressway, connecting Meiguan Expressway, has been semi-closed since October 2007 for major road repairs. ↘ Opening of Shenzhen-Hong Kong Western Corridor had a minor impact on its revenue.	↘ The opening of Fulong Road is expected to divert certain traffic from the expressway, causing a revenue drop of approximately 6% in the initial stage. → Expansion and major surface repairs will commence by end-2008 or early 2009 for a period of approximately 2 years. This is expected to generate certain impact on traffic volume in the short term, but such works are beneficial in the long term. ↗ Major surface repairs on Guanshen Expressway is expected to be completed in the first half of 2008. ↗ The Zengcheng section of expressway connecting Guanshen Expressway and Guanghui Expressway is expected to be completed in 2008. Thereafter drivers may reach Guangzhou from Shenzhen through Meiguan Expressway and Guanshen Expressway, forming a second passage connecting Guangzhou and Shenzhen.
Jihe Expressway	
↗ The implementation of the traffic arrangement scheme and marketing measures increased large truck traffic, with the impact period for the Year longer than that of 2006. ↗ The full opening of Longda Expressway increased the traffic volume on certain sections of Jihe Expressway. ↗ Construction of Shenzhen Metro Line 3 and reconstruction of Shenhui Highway, officially commenced in mid-2007, affected the traffic capacity of roads such as G205 (Shenzhen Section), thereby diverting certain traffic to Jihe East. ↗ The negative impact caused by Huiyan Expressway's reconstruction and the opening of Nanping (Phase I) on Jihe Expressway was gradually disappearing. ↘ Repairs of certain Shenzhen-bound sections of Guangshen Expressway which intersect with Jihe Expressway has been underway since November 2007.	↘ The opening of Fulong Road is expected to divert certain traffic from the expressway, causing revenue drops of approximately 1% and 3% for Jihe East and Jihe West respectively in the initial stage. ↘ The repairs of Guangshen Expressway (Shenzhen direction) was completed in January 2008, while certain sections of its Guangzhou direction have commenced repairs in February 2008. → The construction periods for the Metro and Shenhui Highway's reconstruction will be approximately 2-3 years.
Yanpai Expressway	
↗ The implementation of the traffic arrangement scheme and marketing measures increased truck traffic, with the impact period for the Year longer than that of 2006. ↗ Cargo throughput at Yanpai Port maintained stable growth.	→ No material changes. Shenzhen's imports and exports and port cargo throughput are expected to maintain stable growth. → Boshen Expressway (Boluo-Shenzhen scheduled Yuexiang Expressway) is scheduled to commence construction in 2008, with completion scheduled at 2010.

↗ :Positive Effect ↘ :Negative Effect → :Neutral or no significant effect in the time being

Major road network factors that have affected the operating performance during the Period	Current factors affecting later development
Yanba Expressway	
↘ The construction of Shenyan Pathway 2 reduced east-bound traffic of small vehicles, affecting the expressway's revenue to a certain extent. (From February 2007, the government has been paying the tolls collectively for all vehicles travelling between the Yantian to Dameisha Interchange section on Yanba Expressway and such amount is included as monthly toll revenue. However, the traffic volume in this section was no more included in the scope of statistics from February 2007 and accordingly the traffic volume decreased as compared to 2006.)	→ Yanba C is expected to be completed in 2008. → To the Company management's knowledge as at present, approximately 30%-40% constution works of Huizhou Renbai Expressway (Renshan in Huizhou – Baisha in Shenzhen), which is connected to Yanba Expressway, is completed as per the progress of the physical completion. ↗ Shenyan Pathway 2 is expected to be completed in mid-2008.
Shuiguan Expressway	
↗ The opening of Nanping (Phase I) in mid-2006 generated good synergy with Shuiguan Expressway. ↗ The implementation of the traffic arrangement scheme and the opening of the Yanpai-Shuiguan Interchange facilitated the growth in truck traffic. ↗ The reconstructions of Shenhui Highway and Bulong Highway affected the traffic capacity of local roads, diverting certain traffic to Shuiguan Expressway.	→ The reconstruction periods of Shenhui Highway and Bulong Highway are expected to be approximately 3 years. → An expansion is planned to commence by end-2008 or early 2009, with a construction period of approximately 2 years. A certain impact on traffic volume in expected in the short term, but it will be beneficial in the long term.
Shuiguan Extension	
↗ The implementation of the traffic arrangement scheme facilitated the growth in truck traffic. ↘ The opening of Nanping (Phase I) diverted small vehicle traffic from Shuiguan Extension.	→ No material changes is expected.
Nanguang Expressway	
Not applicable	→ As new roads usually have a maturity period of 6 months to a year, and the construction of its connecting section between its southern end and the municipal roads will be completed in mid-2008, it is expected that the early performance of the expressway will demonstrate a growing trend.

↗ :Positive Effect ↘ :Negative Effect → :Neutral or no significant effect in the time being

With the aging of highways, the Company will strengthen the inspection and maintenance work for road surface and bridges in 2008, lengthening the use life of roads and prolonging the cycle of major repairs through the effect of enhanced regular maintenance, whilst assuring traffic safety at the same time. The relevant maintenance costs in 2008 are expected to increase significantly, but the measure will also lead to benefits in terms of overall cost savings during the operation terms and in terms of reducing the impact on vehicle traffic brought by large-scale maintenance and repairs.

Other Regions in Guangdong Province

The 4 projects invested in by the Company as a minority shareholder in other regions of Guangdong Province have all been in operation. Riding on the public's rising awareness about such highways and a positive economic environment, all the highways recorded continued increases in traffic volume and toll revenue during the Reporting Period. Among these, **Jiangzhong Project** witnessed increases in traffic volume and toll revenue by over 50% as compared to 2006. On the other hand, **Yangmao Expressway**, as a crucial part of southwestern Guangdong's outbound passage to other provinces, has been performing well since its commencement of operation. In 2007, driven by the economic development in western Guangdong, Yamgmao Expressway's average daily toll revenue has exceeded RMB900,000, with both traffic volume and toll revenue growing by over 20% during the Reporting Period. The traffic volume and toll revenue of **Guangwu Project** recorded increases nearly 20%, which were in expectation. In 2008, it is expected that the aforementioned highways will not have any factors leading to substantial traffic increase or diversions, and are therefore expected to maintain growth rates of 10%-15%. As for **GZ W2 Expressway**, it is still in the initial operation stage and its connections with neighbouring roads are not yet fully in place. Accordingly, its overall operating performance in 2007 was less than satisfactory. However, with the overline interchanges connecting Guangsan (Guangzhou - Sanshui) Expressway and GZ W2 (Southern Section) opened to traffic in the second half of 2007, GZ W2 Expressway is expected to report more substantial increases in traffic volume and toll revenue. As for the profits of the associates during the Reporting Period, please refer to the section "Financial Review and Analysis" below.

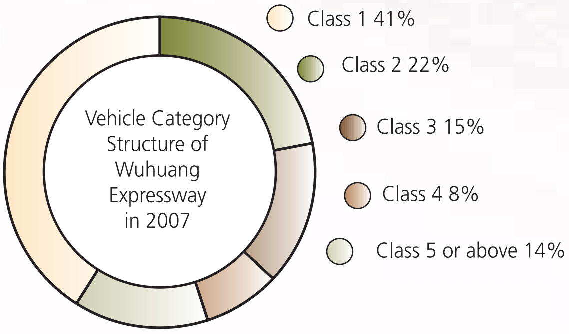
Qinglian Class 1 Highway has been under reconstruction into an expressway since 2006. Subject to reconstruction progress, it is closed by section for construction works, while the sections which remain open still allow traffic and generate toll revenues at the standards of a class 1 highway. In 2007, following the progress of the reconstruction, Qinglian Project saw a slight decrease in overall traffic volume. In addition, with most vehicles required to travel on Qinglian Class 2 Road later on, the average daily mixed traffic volume (including traffic volume charged by annual tickets) and toll revenue on the project decreased by 9% and 21% respectively during the Reporting Period as compared to 2006. The road surface reconstruction of Qinglian Class 1 Highway will be gradually completed in 2008, which will facilitate the highway's revenue growth. However, substantial growth in the project's overall performance will take place only upon the completion of the reconstruction and the commencement of toll charging at expressway standards. For the progress on the reconstruction of Qinglian Project, please refer to the relevant contents in "Project Construction and Management" below.

Q: What are the Company's views on the government's toll highway policies in the future?

A (Li Jian – Vice President of the Company):

Accelerated urbanisation and continued growth in vehicle ownership will further drive the society's demand for highway infrastructure. Meanwhile, the substantial capital required for highway construction and maintenance also means that the toll highway policies will maintain for the next 20-30 years. However, as the transportation industry is crucial to the national economy and the public's livelihood, the government has to strike a balance between the interests of various industries, the public and the society while exercising its administrative duties. Accordingly, the relevant authorities are becoming more cautious when considering the operation terms and toll standard adjustments. In Guangdong Province, the government is considering a toll-by-weight policy for regions outside the Pearl River Delta. Other than this, we see little possibility of material changes in toll standards in the near future.

Other Provinces in the PRC



During 2007, both traffic volume and toll revenue on **Wuhuang Expressway** witnessed substantial growth as compared to 2006. Amid such growth, the average daily traffic volume and toll revenue for trucks increased by approximately 23% and 24%, respectively. 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 directly increased the truck traffic volume, leading to a substantial increase in toll revenue for Wuhuang Expressway. In addition, rapid economic development in the vicinity and an increase in vehicle ownership also gave rise to relevant positive impacts on operating performance of Wahuang Expressway. Meanwhile, the opening to traffic of Wuhan Third Ring Road's certain sections offered a more convenient route for vehicles to use Wuhuang Expressway, while the completion of Daihuan Class 1 Highway's reconstruction into an expressway has enhanced the region's road network. These factors have driven up the growth of Wuhuang Expressway's overall traffic volume and revenue. By the end of 2007, Suiyue Expressway (Suizhou-Yueyang), Shiman Expressway (Shiyan-Manchuanguan), Hurong West Expressway (Yichang-Lichuan) and Yangluo Bridge were be opened to traffic and included into Hubei Province's road networks. This will provide a boost to Wuhuang Expressway's operating performance. However, Hanying Expressway (Wuhan-Yingshan), Han'e Expressway and Guange Class 1 Highway (Guanshan-Gedian) will be opened to traffic in 2008 and are expected to divert certain traffic from Wuhuang Expressway. Barring other material affecting factors, Wuhuang Expressway is expected to maintain a 5%-10% growth rate in 2008.

With Changsha Second Ring Road fully opened in September 2006, **Changsha Ring Road** witnessed a certain degree of traffic diversions away from it. However, during the Reporting Period, the project company took the initiative to adopt measures to attract large special vehicles, as well as organising targeted publicity and putting up road signages, thereby increasing the traffic volume and toll revenue on Changsha Ring Road.

Nanjing Third Bridge reported significant growth in 2007, with both traffic volume and toll revenue increasing by over 30% on average. The Nanjing Municipality has been pressing ahead with the "Cross-Yangtze Development" strategy that has stimulated the development of the Jiangpu Economic Development Area, thereby leading to a continued growth in Nanjing Third Bridge's traffic volume. Meanwhile, Ninghuai Expressway (Nanjing-Huai'an), Ningchang Expressway (Nanjing-Changzhou) and other expressways were successively opened to traffic. The ever-improving road network nearby has also generated a positive impact on the bridge's traffic volume growth.

Project Construction and Management

During the Reporting Period, the Group's toll highway projects under construction or reconstruction included Nanguang Expressway, Yanba C and the reconstruction of Qinglian Class 1 Highway into an expressway.

As at the end of the Reporting Period, an aggregate investment amount (with accounting recognition basis) of approximately RMB2,030 million (2006: RMB750 million) had been utilised for **Nanguang Expressway**, equivalent to approximately 77% of the project budget. The main route of Nanguang Expressway was opened to traffic on 26 January 2008. Affected by the government's adjustment of the Nanping Freeway planning proposal, the construction of the section connecting the southern end of Nanguang Expressway and the municipal roads are yet to be completed and completion is scheduled in 2008. During the construction process, the construction management staff successfully tackled various difficulties such as staff shortage and tight schedules. The staff proactively took their own initiatives and strengthened the external coordination efforts, as well as compiling the overall progress schedule in a scientific manner. Construction schedule arrangements were rationalised, while precautionary quality control, targeted supervision and safety management were all enhanced. Accordingly, the quality, schedule and cost targets of Nanguang Expressway were guaranteed.

Construction of **Yanba C** officially commened in October 2006. As at the end of the Reporting Period, approximately 85% of the subgrades and bridge-culvert construction works were completed. An aggregate investment amount (with accounting recognition basis) of approximately RMB340 million (2006: RMB95 million) had been utilised, equivalent to approximately 52% of the project budget. Yanba C is scheduled to be completed by end-2008.

As at the end of the Reporting Period, an aggregate investment amount (with accounting recognition basis) of approximately RMB1,680 million (2006: RMB350 million) had been utilised for **Qinglian Project**, equivalent to approximately 35% of the project budget. According to the project design budget amended in the first half of 2007, the total capital expenditure (including capitalised interests) for the reconstruction of Qinglian Project is expected to be approximately RMB4,765 million. As at the end of 2007, the aggregate completed portions of major works of the main trunk on subgrade earthwork, culverts and pathways, and bridge pile foundation accounted for about 78%, 75% and 90%, respectively, of the aggregate budgeted volumes. The aggregate portions of completed works on new tunnel body excavation, tunnel lining, repairs and strengthening of existing tunnels, and repairs and strengthening of existing bridges accounted for 92%, 70%, 72% and 51%, respectively, of the aggregate budgeted volumes. 85% of the old road's road base reconstruction and 50% of the road surface reconstruction were completed, with completed road surface reconstruction for one side approximately 200 km. Road surface reconstruction for both sides is expected to be completed in mid-2008, whereas the whole reconstruction will be completed by end-2008 as planned. Qinglian Project is currently the largest upgrading and reconstruction of old road in the country, with substantial difficulties in reconstruction and demanding technical requirements. To successfully complete the construction and to ensure that all management targets are achieved, the project management staff proactively initiated various technical solutions, timely resolving various technical, construction and project management difficulties. Through innovation on designs, technical issues and management, satisfactory results were achieved as construction costs were reduced and construction quality was assured.

Q: In the Company's opinion, what are the biggest risks for the construction and operation of Qinglian Project at this stage?

A (Wu Ya De – President of the Company and Chairman of Qinglian Company):

During construction, at the early stage we encountered problems such as land requisition, demolition and relocation and immense technical difficulties. These have been gradually resolved. Currently, there is a relatively substantial cost pressure exerted by rising material prices. Since 2007, there was a continued rise in the prices of raw materials such as steel products, concrete, diesel and gravel and an increase in materials transportation charges. Affected by such factors, there is a risk of substantial increase in construction costs. However, as a result of adequate preliminary preparation, presently the project costs of Qinglian Project are still effectively controlled within budget.

After the completion of reconstruction into an expressway, the operating performance of Qinglian Expressway will still be affected by the construction progress of the neighbouring Yilian Expressway (Yizhang, Hunan Province-Lianzhou, Guangdong Province). The Company will closely monitor the progress of this project and adopt necessary coping measures according to the actual situation.

Entrusted Construction Management Business

The entrusted construction management business developed by the Company in recent years has become a new source of profit growth. In view of the deepening development of a market economy and changes in the government's functions, the entrusted construction management model which embodies professional division of labour has been gradually recognised by the government at various levels, and is applied and promoted in the sphere of public investments. This will offer more market opportunities for the Group to "export" its expertise and experience in road construction management.

Nanping (Phase I) and **Wutong Mountain Project** were completed in mid-2006 and mid-2007 respectively. Currently, such projects are undergoing tasks such as completion settlement and construction defect liability stage management. The relevant settlement work is subject to the auditing and affirmation by the Shenzhen Municipality's Specialised Audit Bureau.

In line with the government's proposal to include part of Hengping Class 1 Highway into the planning for Outer Ring Expressway, the Shenzhen Longgang District Highway Bureau, as the project owner and the entrusting party of the management contract, has issued a notice suspending the construction of **Hengping Project**. Currently, according to the government's requirements, the Company is primarily taking care of finishing works and settlement of accounts upon work suspension, as well as making preparation for a resumption of construction for the two contracted sections. The sections planned to resume construction will commence works in the first quarter of 2008, with completion expected by the year's end.

The Company's recent construction management projects entrusted by the government

- Nanping (Phase I), February 2004
- Hengping Project, March 2004
- Wutong Mountain Projecct, January 2006
- Nanping (Phase II), Shenyun Project, November 2007

The successful completion of Nanping (Phase I) was widely acclaimed by the government, the public and the community at large, thereby building a good brand image for the Company in the entrusted construction market. In November 2007, the Company and the Shenzhen Communications Bureau, which represented the Shenzhen Municipal Government, signed contracts under which the Company was again entrusted by the government as the administrator of two projects, **Nanping (Phase II)** and **Shenyun Project**. The Company will be responsible for the management of the construction drawing design stage of the projects, as well as the construction management (excluding land requisition, demolition and relocation) of the projects during the construction preparation stage, the construction stage and the defect liability stage. The construction periods for Nanping (Phase II) and Shenyun Project are 36 months and 30 months respectively. The Company will charge entrusted construction management fees equivalent to 1.5% of the budgets under the respective construction drawings. In addition, the actual project expenditure savings or excesses over the budgeted amounts under the respective construction drawings, as well as part of the risks about construction changes and material price fluctuations, will be shared or shouldered by the Company according to agreed ratios. The assumption of the aforementioned entrusted construction management businesses will help the Company to further "export" its expertise and experience in road construction management and consolidate its position in Shenzhen's entrusted construction market. Currently, the Company is actively proceeding with the relevant preliminary tasks. We are conducting studies on the preliminary design documents with reference to the site situation, as well as reviewing the adopted design proposals and construction cost targets, so as to ensure that the construction proposal and project cost budgets are rational.

Project Investment and Development

To ensure its sustainable development and results growth, the Company has been actively working on the Shenzhen toll highway sector over the past few years and has been aggressively seeking opportunities for development and acquisition of local projects, while carrying out investment in and acquisition of a number of quality toll highway projects in other regions. The Company's business has been expanded from Shenzhen to Guangdong Province and other economically-developed regions in China. By the end of 2008, total equity-based mileage of the Group's toll highways will be around 400 km.

In January 2007, the Company completed the industry and commerce registration for the further acquisition of 20.09% interests in Qinglian Project. The Group's interests in Qinglian Company have been increased from 56.28% at the end of 2006 to 76.37%, entitling the Group to appoint over two-third of the members to the board of directors of Qinglian Company and to exercise majority control over Qinglian Company as stipulated by its articles of association. This acquisition has reduced the Group's average cost of investment in Qinglian Project and has strengthened its control over the project's construction and operations management. In addition, since Qinglian Company, formerly an associate of the Company, has become a subsidiary of the Group following the completion of the acquisition, this will further expand the Group's asset scale and earnings base.

During the Reporting Period, the Company also disposed of its entire 42% interests in Geputan Bridge by means of an open auction on an assets and equity exchange. The equity transfer and the formalities related thereto were completed in April 2007. The Company believes that the timely disposal of the 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.

To meet the needs caused by rapidly increase in traffic flows on the roads of Shenzhen region, the Company is now studying expansion plans for Meiguan Expressway and Shuiguan Expressway. Under these plans, approximately 9 km of Meiguan Expressway's northern section will be expanded from (two-way) four-lane to six-lane, while the (two-way) six-lane Shuiguan Expressway will be expanded to eight lanes. Assuming that the preliminary studies and approval procedures progress smoothly, the aforementioned projects may commence construction by end-2008 or early 2009. The construction periods are expected to be 2 years. Pursuant to the requirements of the relevant regulations and having undergoing a public tender and obtaining the approval from various departments of the Shenzhen Municipal Government, the Company has been awarded the development rights for Shenzhen Outer Ring Expressway. Currently, the surveying and design work and other preliminary work are underway, and the project's investment mode and development plan will be decided according to the relevant work's results. In addition, the Board has also approved the commencement of the preliminary work on Coastal Expressway (Shenzhen Section) and Coastal Expressway Airport Feeder. The invesment decisions of the relevant projects will be submitted to the Board for consideration, according to the preliminary work's results. The aforementioned works 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.

The Group's investment scale is rapidly expanding and that projects under construction still comprise a substantial proportion in the existing investment portfolio. Accordingly, in the past two years, the Company's management has been gradually shifting the focus of its work from project investment to building up project resources and optimising and integrating existing resources. As to opportunities for investing in new projects, the Board will adequately assess such projects' impact on the Company's development, the compatibility with the Company's strategic objectives and the security level of the Company's financial resources, so as to make investment decisions in a prudent and practical manner.

Q: How is the progress of the preliminary study on Coastal Expressway (Shenzhen Section)?

A (Ge Fei – Vice President of the Company):

Coastal Expressway (Shenzhen Section) involves a large investment scale and high technical difficulty. Accordingly, the preliminary technical management work is quite complicated. The Company has entrusted institutions to conduct specific experimentation tasks such as forestry use investigation, sea area use surveying, ocean environmental impact assessment and sea area use experimentation, navigation safety technical experimentation, flood control impact assessment, and so forth, so as to assure the successful completion of various administrative approval procedures. In addition, the Company also entrusted institutions to conduct various specialised research studies on areas such as meteorology and designated wind speed limit, bridge collision protection and bridge seismic resistance. Moreover, expert panels were organised and convened for the specialised research on the bridge proposals. The to-be-completed specialised research reports will become the guiding documents for preliminary design compilation and construction drawing designs. The Company is actively and steadily proceeding with the various preliminary technical tasks and will enhance communication with the relevant authorities and various units located along the highway, as well as negotiating with the government to decide on an appropriate project funding proposal, with a view to determining the project's investment value as soon as possible.

Other Businesses

The Company invests in Advertising Company which is engaged in the businesses of billboard leasing, advertising agency, design production and related services, primarily utilising land-use rights alongside the Group's toll highways and toll stations. During 2007, the Advertising Company attained the qualification of class 1 Chinese comprehensive advertising enterprise, and recorded an operating revenue of RMB28,815,000 and a net profit of RMB12,528,000, representing increases of 83.6% and 159.6% respectively over 2006.

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 2007. Consulting Company recorded a revenue of RMB45,572,000 and a net profit of RMB3,236,000, representing increases of 93.9% and 73.2% respectively over 2006.

Financial Review and Analysis

During 2007, the Group maintained steady growth in its operating results and profitability. Profit attributable to equity holders of the Company ("Profit") amounted to RMB674,347,000 with earnings per share being RMB0.309, representing an increase of 16.45% over 2006.

During the Reporting Period, as stipulated by the New Tax Law and the requirements of the relevant notices, the deferred income tax liabilities for temporary differences of the Group were adjusted based on the stipulated income tax rates, leading to an increase the Group's income tax expense and a decrease of share of profit of jointly controlled entities. Accordingly, Profit for the Reporting Period decreased by RMB67,596,000. In addition, affected by factors such as rising interest rates and inflation, the Group made an impairment provision for the highway assets of the Group's 51% interests in Changsha Ring Road, leading to a decrease in share of profit of jointly controlled entities, thereby reducing Profit for the Reporting Period by RMB66,750,000.

After deducting the impact of the above deferred income tax liabilities adjustment and the asset impairment provision for Changsha Ring Road, the Group's Profit for the Reporting Period amounted to RMB808,693,000, representing a 39.5% increase over 2006 (2006: after deducting RMB42,134,000 of deferred income tax liabilities reversal and RMB42,750,000 of asset impairment provision for Changsha Ring Road, the Profit was RMB579,706,000).

During the Reporting Period, the Company completed the acquisition of 20.09% interests in Qinglian Company and held aggregate interests of 76.37% in Qinglian Company. Accordingly, Qinglian Company has changed from an associate to a subsidiary of the Company. Effective from January 2007, the financial statements of Qinglian Company were included in the scope of consolidation of the Group's financial statements. Accordingly, the Group's total assets, total liabilities, total equity and gearing ratio recorded a certain degree of increases. As Qinglian Project is currently being reconstructed into an expressway, the impact on the Group's profits during the Reporting Period was relatively minor.

Analysis of Operating Results

Revenue

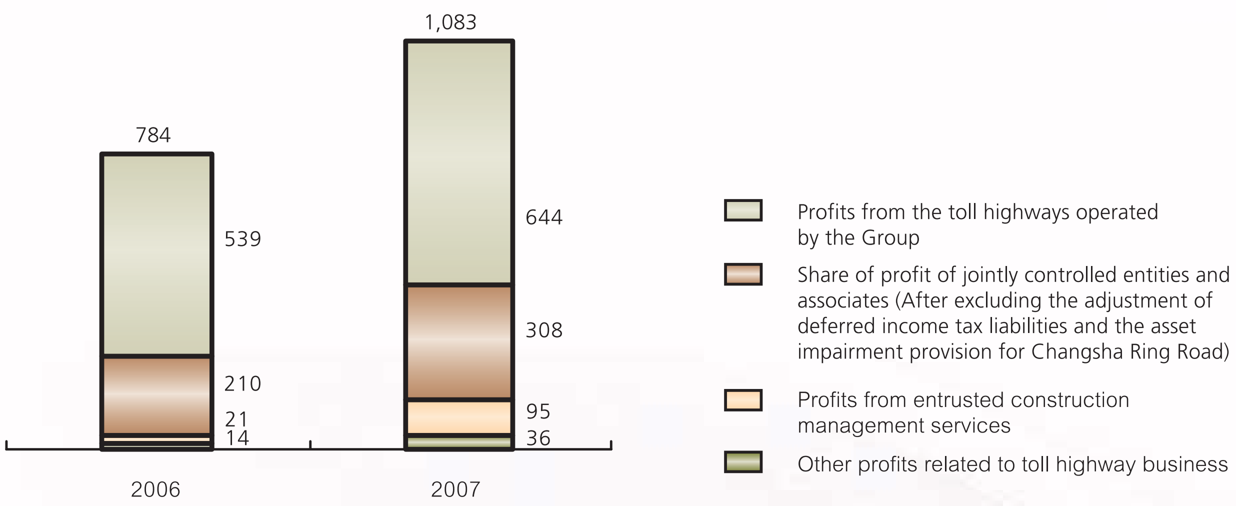
The operating results of the Group's various businesses in 2007 were in line with expectation, recording a revenue of RMB1,103,455,000, representing an increase of 43.44% over 2006. Of this amount, toll revenue amounted to RMB965,850,000, representing an increase of 34.32% over 2006.

Revenue item	**2007 (RMB'000)**	Percentage	2006 (RMB'000)	Percentage	Change
Toll revenue	**965,850**	87.53%	719,067	93.47%	34.32%
Income from entrusted construction management services	**102,250**	9.27%	31,468	4.09%	224.93%
Other income (including income from advertising)	**35,355**	3.20%	18,756	2.44%	88.50%
Total	**1,103,455**	100.00%	769,291	100.00%	43.44%

Earnings before Interests, Tax and Administrative Expenses

During the Reporting Period, after deducting the impact of the deferred income tax liabilities adjustment of jointly controlled entities and asset impairment provision for Changsha Ring Road, the Group's earnings before interests, tax and administrative expenses amounted to RMB1,082,582,000, representing an increase of 38.1% over 2006 (2006: After deducting RMB17,891,000 of the impact of deferred income tax liabilities reversal of jointly controlled entities and the impairment provision for Changsha Ring Road, the Group's earnings before interests, tax and administrative expenses amounted to RMB783,940,000). Profit contributions from principal operations are as follows:

Profits of the Group's Principal Business Maintained Growth



Earnings before Interests, Tax and Administrative Expenses (Unit: RMB Million)

(1) Profits from Toll Highways Operated by the Group

Toll highway	Percentage of interests held	Toll revenue 2007 (RMB'000)	Change	Operating costs 2007 (RMB'000)	Change	Gross margin 2007	Change	Profit before interests and tax 2007 (RMB'000)	Change
Meiguan Expressway	100%	**329,606**	2.81%	**69,842**	-1.67%	**78.81%**	0.97%	**256,251**	3.85%
Jihe West	100%	**344,966**	21.82%	**60,125**	17.88%	**82.57%**	0.58%	**279,821**	22.13%
Yanba Expressway	100%	**63,041**	12.89%	**52,953**	13.97%	**16.00%**	-0.80%	***24,323**	-14.94%
Yanpai Expressway	100%	**135,093**	N/A	**48,814**	N/A	**63.87%**	N/A	***83,155**	N/A
Qinglian Project	76.37%	**93,144**	N/A	**89,074**	N/A	**4.37%**	N/A	**232**	N/A
Total		**965,850**	34.32%	**320,808**	67.24%	**66.78%**	-6.54%	**643,782**	19.52%

* The profits before interests and tax for Yanba Expressway and Yanpai Expressway included government subsidies of RMB17,453,000 and RMB745,000, respectively (2006: RMB20,624,000 and RMB323,000, respectively).

Toll Revenue

During the Reporting Period, the Group recorded a toll revenue of RMB965,850,000, representing an increase of 34.32% over 2006. Of such revenue, Qinglian Project was included into the scope of consolidation during the Year, while Yanpai Expressway opened to traffic in May 2006. Revenue on the above two highways accounted for 23.63% of the Group's toll revenue. Revenue on other toll highways increased by 11.83% as compared to 2006.

The growth of the Group's toll revenue mainly came from an increase in traffic volume. During the Reporting Period, the operating performance of the Group's principal toll highways is set out in the section "Business Review and Analysis" above. Since June 2006, the Group has offered a certain discount to trucks running on highways such as Yanpai Expressway and Jihe Expressway, and the Shenzhen Municipal Government has restricted large trucks from travelling on selected roads in the urban area. As such, average toll revenues per vehicle for Yanpai Expressway, Jihe Expressway and Meiguan expressway decreased. However, Yanba Expressway benefited from the growth in container throughput at Yantian Port, which led to a significant rise in the proportion of container vehicle traffic. Accordingly, the average toll revenue per vehicle on Yanba Expressway recorded an increase over that of 2006.

	Average toll revenue per vehicle *(RMB)		
Principal toll highway	**2007**	2006	Change
Meiguan Expressway	**9.19**	9.80	-6.22%
Jihe West	**14.38**	14.43	-0.34%
Yanba Expressway **	**12.62**	9.66	30.64%
Yanpai Expressway ***	**14.07**	16.24	N/A
Qinglian Class 1 Highway	**21.74**	21.12	2.94%

* Average toll revenue per vehicle =Average daily toll revenue/Average daily mixed traffic volume.

** The average toll revenue per vehicle of Yanba Expressway does not include the tolls collectively paid by the government under an agreement for all vehicles travelling between Yantian and Dameisha Interchange. Please refer to relevant contents in the section "Business Review and Analysis" above for details.

*** Yanpai Expressway commenced toll operation in May 2006.

Operating Costs

During the Reporting Period, operating costs for the Group's toll highways amounted to RMB320,808,000, representing an increase of 67.24% as compared to 2006, which is mainly attributable to Qinglian Project's inclusion into the scope of consolidation and an additional four months of operating period of Yanpai Expressway. During the Reporting Period, operating costs of the two highways amounted to RMB137,887,000 in aggregate, representing 42.98% of the Group's operating costs. Operating costs for other toll highways increased by 8.56% as compared to 2006, mainly a result of increased highway maintenance costs. During the Reporting Period, according to the Company's overall maintenance plan, the Group made a focused effort to conduct medium/large-scale repairs on Qinglian Class 2 Road and comprehensive inspection and minor specific repairs on other operating toll highways, besides the daily maintenance of all highways.

Operating costs item	**2007 (RMB'000)**	Percentage	2006 (RMB'000)	Percentage	Change
Employee expenses	**48,862**	15.23%	31,291	16.31%	56.15%
Road maintenance expenses	**49,611**	15.46%	11,501	6.00%	331.36%
Depreciation and amortisation	**184,102**	57.39%	120,655	62.90%	52.59%
Other operating costs	**38,233**	11.92%	28,376	14.79%	34.73%
Total	**320,808**	100.00%	191,823	100.00%	67.24%

(2) *Share of Profit/Loss of Jointly Controlled Entities and Associates*

During the Reporting Period, the Group's share of profit of jointly controlled entities and associates amounted to RMB190,464,000, representing an increase of 2.78% as compared to 2006. As stipulated by the New Tax Law and the requirement of the relevant notices, the deferred income tax liabilities for Magerk Company, Jihe East Company and Qinglong Company as at the end of the Reporting Period has been increased by RMB50,721,000. In addition, according to asset valuation results, the Group made an impairment provision for the highway assets of the Group's 51% interests in Changsha Ring Road, thereby reducing the Group's Profit for the Reporting Period by RMB66,750,000. For details of adjustment to deferred income tax liabilities and asset impairment provision for Changsha Ring Road, please refer to the contents in "Implementation of New Tax Law and Adjustment to Deferred Income Tax Liabilities" and "Asset Impairment Provision for Changsha Ring Road" of this section. Excluding the above factors, the Group's share of profit of jointly controlled entities and associates would be RMB307,935,000, representing an increase of 46.51% as compared to 2006 (2006: excluding deferred income tax liabilities reversal of jointly controlled entities and the asset impairment provision for Changsha Ring Road, the Group's share of profit of jointly controlled entities and associates was RMB210,177,000). During the Reporting Period, the finance costs of the Group's invested enterprises increased as a result of the rise in RMB borrowing interest rates; however, due to the strong growth in traffic volume and revenues from the aforementioned toll highways operated by the above-mentioned companies as well as solid controls on operating costs, the Company's investment income during the Reporting Period met expectations in general.

		Toll income		Operating costs of toll highways		Gross margin of toll highways		Profit/loss attributable to the Group	
Principal toll highway	Percentage of interests held	2007 (RMB'000)	Change	2007 (RMB'000)	Change	2007	Change	2007 (RMB'000)	Change (RMB'000)
Jointly controlled entities:									
Jihe East	55%	**419,956**	27.21%	**87,527**	17.28%	**79.16%**	1.68%	**153,362**	35,120
Shuiguan Expressway	40%	**352,161**	41.31%	**75,829**	35.04%	**78.46%**	-0.14%	**82,021**	30,050
Wuhuang Expressway	55%	**383,971**	18.54%	**126,522**	13.24%	**67.05%**	4.18%	**84,396**	22,507
Changsha Ring Road	51%	**22,488**	13.84%	**20,324**	-2.99%	**9.62%**	N/A	**1,641**	7,704
Associates:									
Yangmao Expressway	25%	**333,267**	26.99%	**142,724**	25.25%	**57.17%**	3.64%	**18,050**	6,870
Jiangzhong Project	25%	**212,367**	49.55%	**128,003**	37.45%	**39.73%**	8.37%	**(6,627)**	6,301
Nanjing Third Bridge	25%	**229,681**	33.18%	**107,794**	23.68%	**53.07%**	3.61%	**(4,040)**	4,114
Guangwu Project	30%	**97,108**	18.70%	**48,583**	33.13%	**49.97%**	-4.50%	**(2,122)**	-515
GZ W2 Expressway*	25%	**65,957**	N/A	**49,169**	N/A	**25.45%**	N/A	**(22,979)**	-20,284
Shuiguan Extension	40%	**66,391**	11.82%	**27,681**	18.00%	**58.31%**	-2.18%	**(3,262)**	-589
Total		**2,183,347**	33.04%	**816,846**	18.07%	**62.59%**	4.75%	**306,964****	91,278

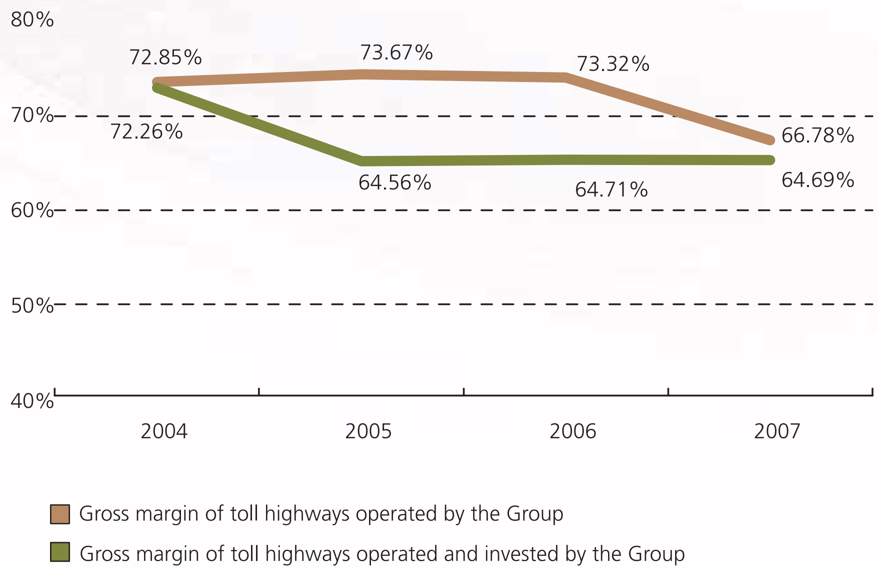
* GZ W2 Expressway commenced toll operation from December 2006.

** The Group's share of profit/loss for 2007 does not include RMB50,721,000 of adjustment to deferred income tax liabilities, RMB66,750,000 of impairment provision for Changsha Ring Road and RMB971,000 of profit from Consulting Company.

(3) Gross Margins of Toll Highways

During the Reporting Period, the gross margins of the major toll highways operated and invested in by the Group rose in line with traffic volumes. However, since the gross margins of the newly opened or acquired toll highways are lower, the gross margins of the existing toll highways were diluted to a certain extent, thereby slightly lowering the overall gross margin of the Group's toll highways during the Reporting Period.

Gross Margin of Toll Highways (Percentage)



(4) *Profits from Entrusted Construction Management Services*

During the Reporting Period, the Company recognised an income of RMB89,017,000 from entrusted construction management services from the entrusted construction project Nanping (Phase I), Nanping (Phase I) was completed and opened to traffic in June 2006. As at the end of the Reporting Period, approximately 95% of the project was completed and the project's construction settlement work was close to completion. The remaining tasks mainly include settlement, final settlement and defect liability stage management, etc. The relevant authorities of Shenzhen Municipal Government confirmed the budgeted project cost of Nanping (Phase I) at approximately RMB2.99 billion and the government's auditing of the project's total construction costs is underway. Based on the updated status of settlement and claims, the Company further confirmed the estimates on total construction costs. Pursuant to the aforesaid confirmed budgeted project cost, the Company's reasonable estimates on the total construction costs, the cost-savings sharing conditions promulgated by the entrusted construction agreement and the Company's preliminary communications with the government, the Company estimates that it can enjoy an approximately RMB200 million share of construction cost savings in the project. According to the project's completion progress, the Company should recognise RMB191,876,000 in entrusted construction management income in aggregate. After deducting recognised aggregate income for the past periods, an entrusted construction management income of RM89,017,000 should be recognised for the Reporting Period. During the Reporting Period, the Company also recognised an income of RMB13,233,000 from entrusted construction management services for the entrusted construction project Wutong Mountain Project, primarily based on the Company's current reasonable estimates on budgeted project costs and total construction costs and the percentage of completion . After deducting the Company's administrative expenses and business tax, a profit of RMB94,494,000 was recognised during the Reporting Period from entrusted construction management services for the two aforementioned entrusted construction projects. Meanwhile, as for Hengping Project, according to the actual status of accounts settlement at present, no profit or loss was recognised or provided for the Reporting Period. Details of the principles on recognition of income and accounting estimates on profits from entrusted construction management services are set out in Note 2.21(b) and 4(b) respectively of the Financial Statements.

	2007(RMB'000)		Cumulative (RMB'000)		Percentage of service completed	
Entrusted construction project	**Revenue**	**Profit before tax**	Revenue	Profit before tax	The Period	Cumulative
Nanping (Phase I)	**89,017**	**82,517**	191,876	163,744	10%	95%
Wutong Mountain Project	**13,233**	**11,977**	15,498	11,977	30%	95%
Total	**102,250**	**94,494**	207,374	175,721		

Administrative Expenses and Finance Costs

The Group's administrative expenses during the Reporting Period increased by 10.75% to RMB50,232,000 as compared to 2006, mainly due to rise in remunerations for employees at the headquarters and an increase in employees.

The Group's finance costs for the Reporting Period increased by 61.57% to RMB131,777,000 as compared to 2006. The main reasons included the following: (i) the expansion of the Group's total borrowings due to capital expenditures incurred during the Reporting Period and due to Qinglian Company's inclusion into the scope of consolidation during the Reporting Period; (ii) the cessation of capitalisation of borrowing interests for Yanpai Expressway upon its commencement of operation in May 2006; and (iii) the rise in the Group's average borrowing costs caused by a rise in interest rates in the market.

Item	**2007 (RMB'000)**	2006 (RMB'000)	Change
Interest expenses*	**258,503**	92,491	179.49%
Excluded: Interest capitalised	**118,176**	9,439	1152.00%
Exchange gains and others	**(8,550)**	(1,494)	472.29%
Finance costs	**131,777**	81,558	61.57%

* Interest expenses include loan interest, bond interest and bill interest payable.

Income Tax

During the Reporting Period, the Group's income tax expenses amounted to RMB106,630,000, representing an increase of RMB66,731,000 as compared to 2006. As stipulated by the New Tax Law and the requirements of the relevant notices, the Group has increased the deferred income tax liabilities as at the end of the Reporting Period by RMB16,875,000, thereby increasing the Group's income tax expenses. For details of the adjustment to deferred income tax liabilities, please refer to the explaination in "Implementation of New Tax Law and Adjustment to Deferred Income Tax Liabilities" below. Excluding the above factor, income tax expenses amounted to RMB89,755,000, representing an increase of 39.93% as compared to 2006 (2006: after deducting RMB24,243,000 of deferred income tax liabilities reversal, the income tax was RMB64,142,000).

Implementation of New Tax Law and Adjustment to Deferred Income Tax Liabilities

The Company and the enterprises in which the Company invests in the Shenzhen region, as well as certain foreign-invested enterprises in which it invests in other regions of the country, were qualified for the 15% concessionary enterprise income tax rate during the Reporting Period. As stipulated by the New Tax Law and required by State Council Document 國發 [2007]39 號 (Guo Fa [2007] No.39), the enterprise income tax rate will be a unified 25% effective from 1 January 2008. For the enterprises established before the New Tax Law's implementation and having been enjoying the concessionary tax rate of 15% under the then tax law, there will be a gradual transition to the tax rate stipulated by the New Tax Law within 5 years as from 1 January 2008, and the income tax rates for 2008, 2009, 2010, 2011 and 2012 will be 18%, 20%, 22%, 24% and 25%, respectively.

Pursuant to the aforementioned regulations, the Group and its jointly controlled entities increased the deferred income tax liabilities as at 31 December 2007 by an aggregate amount of RMB67,596,000, thereby reducing their profits during the Reporting Period accordingly.

Toll highway	Adjustment to deferred income tax liabilities in 2007 (RMB'000)
Meiguan Expressway	**1,420**
Jihe West	**4,447**
Yanba Expressway	**11,008**
Subtotal—Impact on the item "income tax"	***16,875***
Jihe East	**7,606**
Shuiguan Expressway	**(3,335)**
Wuhuang Expressway	**46,450**
Subtotal—Impact on the item "share of profit of jointly controlled entities"	***50,721***
Total	**67,596**

In addition, the implementation of the New Tax Law will raise the Company's overall tax burden in future by about 10 percentage points. Using the profit before tax for 2007 as the basis, the Company's income tax expenses will increase by an average of approximately RMB15,000,000 in each of the next 5 years, thereby reducing the Company's profits accordingly. However, the operating profits of the Company in future will maintain considerable growth and it is estimated that such growth can compensate for the additional income tax expenses mentioned above.

Fair Value Recognition and Operating Profit/Loss for Qinglian Company

According to the relevant requirements of accounting standards, the Company had recognised the fair value of net assets of Qinglian Company on the acquisition date at RMB3.042 billion, with reference to the valuation report prepared by a professional valuer. The corresponding fair value for the Group's 76.37% interests was RMB2.323 billion, basically in line with the Group's aggregate acquisition costs. For details of the valuation method, relevant assumption, model and parameters adopted for the fair value of Qinglian Company, please refer to Note 4(d) of the Financial Statements.

Under HKFRS, the excess of fair value of net assets acquired over the cost of the current acquisition in relation to 20.09% interests, that is in the amount of RMB127,206,000, was recognised as other gain, while the decrease in fair value of RMB127,206,000 for the 56.28% interests previously held during the period from the first purchase date to acquisition date was recognised as assets revaluation loss. The above two items offset each other and had no significant impact in general on the profit for the Reporting Period. As at the end of the Reporting Period, there was no material change in the fair value of the acquired net assets of Qinglian Company.

Starting from the Year, the operating results of Qinglian Company have been included in the scope of consolidation of the financial statements of the Group. During the Reporting Period, the toll revenue of Qinglian Company was RMB93,144,000 and operating costs were approximately RMB89,074,000, mainly comprising depreciation expenses for the highway, maintenance expenses for Qinglian Class 2 Road and costs for toll collection staff. During the Reporting Period, a loss of RMB27,190,000 was recorded by Qinglian Company, and the share of loss attributable to equity holders of the Company was approximately RMB20,765,000, which had little impact on the Group's profits.

Asset Impairment Provision for Changsha Ring Road

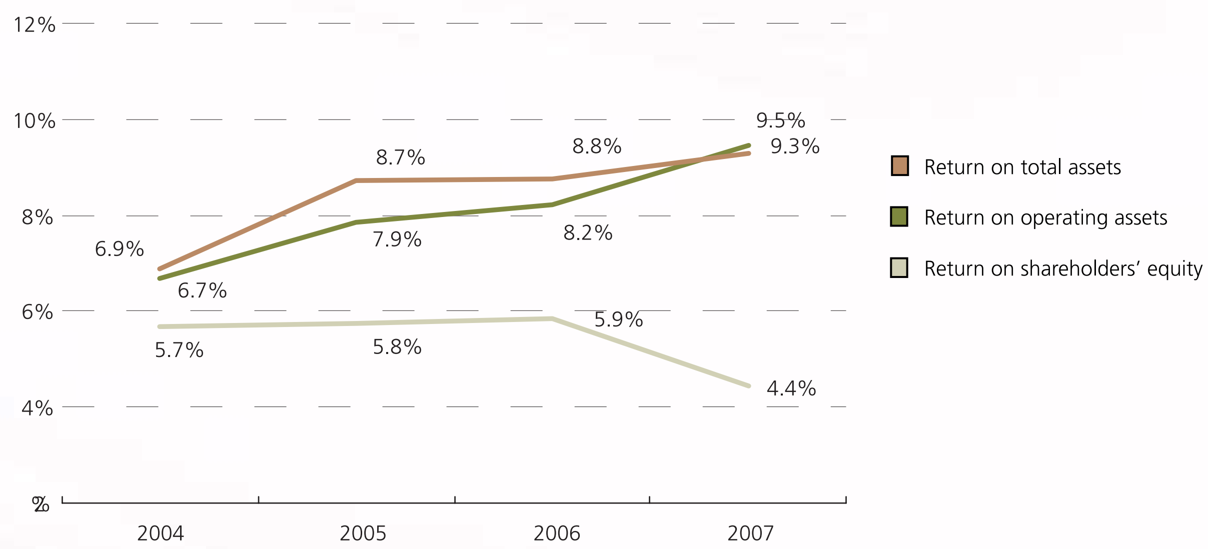
During the Reporting Period, the rise in market interest rates led to a corresponding rise in discount rates based on which the Company calculated the projected present values of cash flows from assets. In addition, projected cash outflows from assets increased as a result of rising inflation. Accordingly, the Company conducted impairment tests on the Changsha Ring Road assets for which impairment provisions had already been made in the past years, as well as appointing an independent valuer to assess the value in use of Changsha Ring Road over its remaining operating period. Pursuant to the valuation for Changsha Ring Road, the Group made an impairment provision of RMB89,000,000 during the Reporting Period for the Group's 51% interests in Changsha Ring Road. After deducting the corresponding deferred income tax, Profit for the Reporting Period decreased by RMB66,750,000. As at 31 December 2007, aggregate impairment provisions for the highway assets of Changsha Ring Road amounted to RMB223,000,000, representing 58% of the highway asset's book value, while the corresponding balance of deferred income tax assets amounted to RMB54,611,000. Such deferred income tax assets are expected to be set off in future operating periods. As at the end of the Reporting Period, the net book value of the Company's investment in Shenchang Company amounted to RMB200,460,000. The Board of the Company has passed a specific resolution determining the view that based on existing data, the Board thinks it reasonable for the Company to value the above-said assets based on the valuation parameters such as traffic volumes, toll rates and discount rates, and that the making of rational asset impairment provisions on the basis of the valuation results will be beneficial for the Company in maintaining a solid financial position and enhancing the future profitability of the Company's assets. As toll highways have the characteristics of long operation terms and that the parameters for traffic volume estimates and assessments are generally determined by the then-economic situation, the Company will conduct re-assessments regularly as stipulated by the relevant accounting standards. The Directors are of the view that by regularly assessing the traffic volumes and use values of highway assets over its remaining operating period in the forthcoming years and making rational impairment provisions as needed, we can prevent operating risks and enhance the quality of the Group's assets.

Profit

While the Group has adjusted upwards the deferred income tax liabilities and made asset impairment provision during the Reporting Period, the revenues and profits of all major toll highways further increased. Moreover, profits from the entrusted construction management business exceeded expectations. In 2007, the Group realised a Profit of RMB674,347,000, representing a 16.45% increase over 2006.

The Company is always committed to enhancing its return on assets and shareholders' return. In recent years, since a higher proportion of highway assets among the Group's total assets were under construction or newly opened for operation, the Group's overall return on assets has been diluted. However, the continued profit growth for the Group's major toll highways and the appropriate increase in the Company's financial leverage ratios have allowed the Group's return on shareholders' equity to maintain certain growth. In the future, with the Group's highway projects under construction gradually entering operation and with traffic volume on the Group's toll highways increasing, the Company's overall profit level will rise further.

Profitability of the Group (Percentage)



* Return on total assets = Profit/Year-end total assets

** Return on operating assets = Profit/Year-end operating assets

Operating assets = total assets - Book value of highway assets under construction or reconstuction

*** Return on shareholders' equity = Profit/Year-end equity attributable to equity holders of the Company

Analysis of Financial Position

Asset Size and Structure

The Group is principally engaged in the operation of toll highways, with its assets comprising mainly fixed asset investments, as well as jointly controlled entities and associates investments, in high-grade toll highways. In recent years, in line with the progress of the Company's business development plans, the Group's asset size has been increasing steadily. As at 31 December 2007, the Group's total assets amounted to RMB15,199,598,000, representing an increase of 53.55% as compared to the end of 2006. The increase was primarily owing to Qinglian Company's inclusion into the scope of consolidation, as well as increased investments in the reconstruction of Qinglian Class 1 Highway into an expressway and in the construction of Nanguang Expressway and Yanba C. At present, the progress and costs of the above projects under construction met the Company's expectations. Upon the completion and opening of such projects to traffic, it is estimated that the size of newly added operating assets will account for approximately 50% of the Company's total assets, and will become the Group's important new sources of profit growth in the future.

Principal Item of Asset

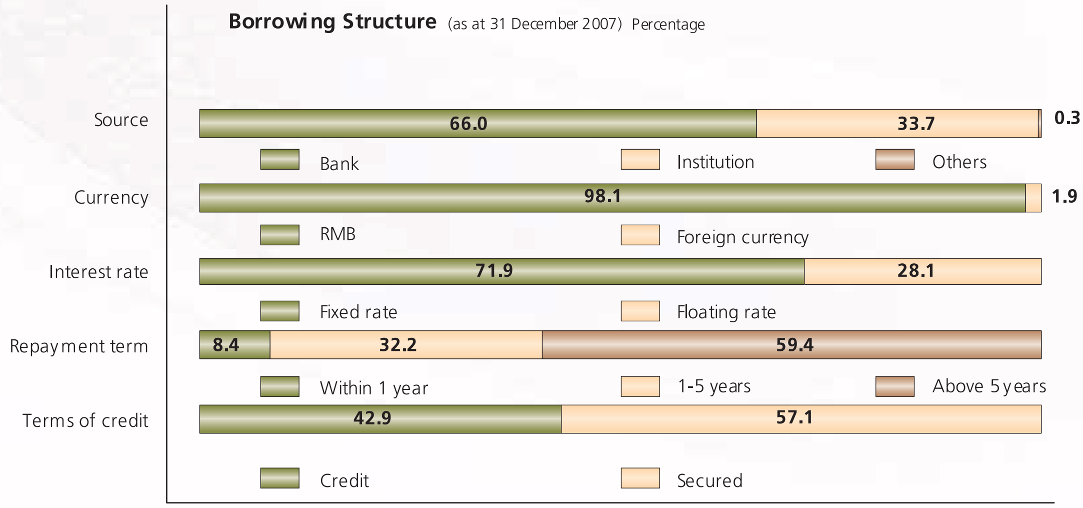
Item	As at 31 December 2007 (RMB million) The Group (consolidated)	Including: Qinglian Company	As at 31 December 2006 (RMB million)	Change
Total assets	**15,200**	**5,674**	9,899	53.55%
Including: Property, plant and equipment	**7,410**	**3,844**	3,635	103.85%
Construction in progress	**4,208**	**1,681**	858	390.44%
Investments in jointly controlled entities and associates	**2,656**	**—**	4,692	-43.39%

Equity and Liabilities

As at the end of the Reporting Period, total equity of the Group increased 20.56% to RMB7,962,693,000. Such increase was mainly due to a net increase of RMB390,856,000 in the Profit for the Reporting Period net of dividends, a RMB254,719,000 of reserves due to the fair value recognised for the equity attached to the Bonds with Warrants after deferred income tax. For details of the valuation method, relevant assumption, model and parameters adopted for the relevant fair values, please refer to note 19(c) to the Financial Statements. and a RMB712,480,000 of additional minority interests after the inclusion of Qinglian Company into the scope of consolidation.

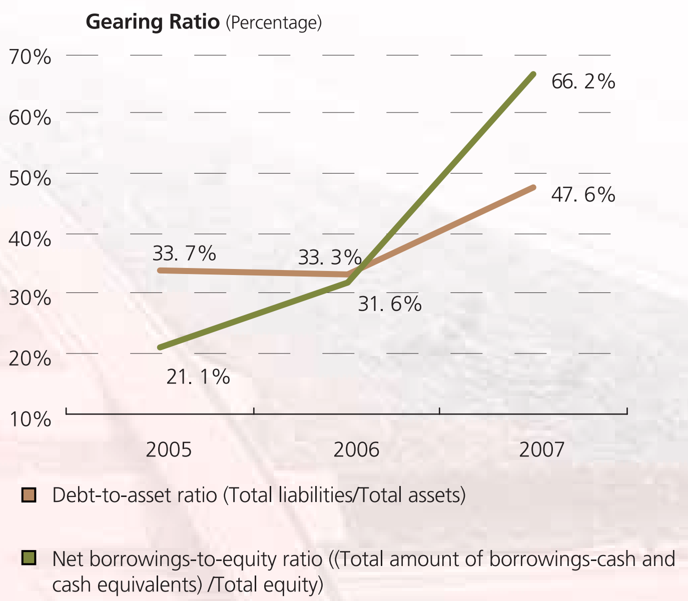
During the Reporting Period, as the Group's investment and construction expenditures were paid and that Qinglian Company was included into the scope of consolidation, the Group's borrowing scale and gearing ratio is rising. As at 31 December 2007, the Group's outstanding borrowings (including loans, bonds payable and bills payable, the same as thereinafter) amounted to RMB5,737,270,000, representing an increase of RMB3,319,097,000 over the Year's beginning.

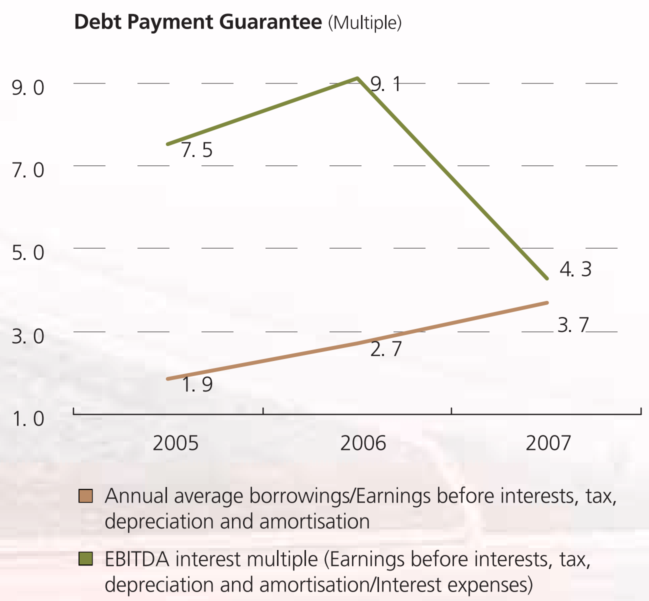
During the Reporting Period, the Group adjusted and optimised its borrowing structure through the Company's various financing activities. The proportions of direct financing, medium/long-term financing and fixed-rate financing were increased, helping the Company to realise its financial strategies and objectives. Details of financing activities are set out in "Capital/Financing" of this section.



Capital Structure and Debt Repayment Capability

The Company is always committed to maintaining a rational capital structure to maintain the Company's good credit ratings and solid financial position, so as to enhance shareholders' value. In recent years, the Group's various financial leverage ratios have increased, mainly due to additional borrowings for investments in new projects. Given the Group's steady growths in operating results and cash flows, expected profit growth after the operation of new projects and the existing borrowing structure arrangement, the Directors are of the view that the leverage ratios remained at safe levels as at the end of the Reporting Period.





Liquidity and Cash Management

During the Reporting Period, amid a tightening monetary policy, the Company adopted financial strategies such as reducing the size and proportion of current liabilities, expanding the banking facilities with several banks and increasing cash reserves to strengthen the Company's liquidity. As at the end of the Reporting Period, the Group's cash was deposited in commercial banks as current or short-term fixed deposits, with no deposit in non-bank institutions or any amount applied to securities investments.

	As at 31 December 2007 (RMB million)	As at 31 December 2006 (RMB million)	Change
Net current liabilities	**464**	1,575	-70.53%
Cash and cash equivalents	**467**	328	42.38%
Banking facilities available	**8,300**	4,852	71.06%

Given the facts that the Group possesses a steady and abundant operating cash flow and enjoys adequate banking facilities from banks, and that appropriate financing arrangements have been made to satisfy the needs of debt repayment and capital expenditures, the Board is of the view that there are no concerns over the Group's ongoing operation.

Foreign-Currency Based Assets and Liabilities

All major operations of the Group are located in China. Save for Mei Wah Company which finances and settles in HK$, the majority of the Group's operating payments and capital expenditures are settled in RMB. As at the end of the Reporting Period, the Group had primarily RMB16,864,000 and RMB95,511,000 worth of foreign currency-based liabilities denominated in US$ and HK$, respectively, while RMB12,210,000 worth of foreign currency-based assets were denominated in HK$. All foreign currency-based items netted off in the form of net liabilities. With RMB on an appreciating trend under the current market conditions, it is projected that the trend of exchange rate fluctuations will benefit the Group but there will be no substantial impact on the Group's results.

Contingencies

For details of the Group's contingencies during the Reporting Period, please refer to note 35 to the Financial Statements.

Capital/Financing

Financial Strategies and Objectives

According to the Company's development strategies and plans, its capital expenditures have been peaking in recent years and both the borrowing scale and gearing ratio have risen to higher levels. During 2007, the Chinese government continued to implement macro-economic control measures such as a contractionary monetary policy, raising the RMB lending rates by 0.99-1.35 percentage points in aggregate, whereas the impact of the US economy's slowdown on the global economy and financial market is gradually emerging. Meanwhile, the development and enhancement of China's capital market has been rationalising the Company's valuation and capital costs.

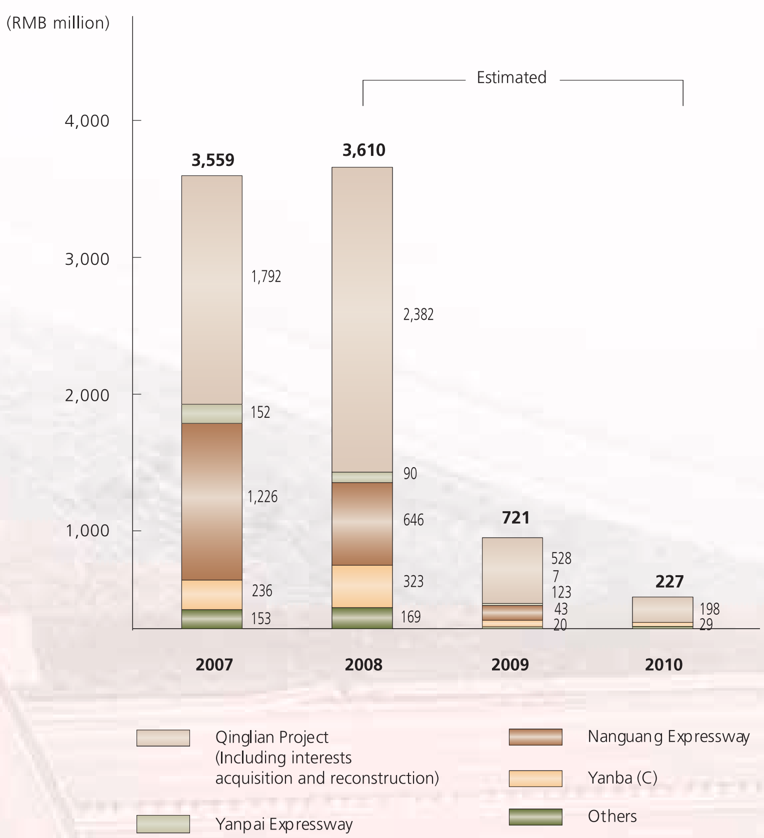
Currently, the focus of the Company's financial strategies is to maintain a solid financial position. The principal objective of the Company's financial strategies is to maintain "a rational and solid capital structure, safe and abundant liquidity and lower financing costs". The Company believes that by implementing the aforementioned financial strategies and objectives, it will possess adequate financial capability to capitalise on acquisition and investment opportunities in the market, on the premise of effectively preventing financial risks.

Capital Expenditure Arrangement and Planning

During the Reporting Period, the Group's capital expenditures comprised mainly construction investments in Nanguang Expressway, Yanba C and the reconstruction of Qinglian Class 1 Highway into an expressway, as well as the equity investment in Qinglian Project and expenses on purchasing the Company's office building. Such amounts totalled RMB3.559 billion approximately.

As at 31 December 2007, the Group's planned capital expenditures comprised mainly construction investments in Nanguang Expressway, Yanba C and the reconstruction of Qinglian Class 1 Highway into an expressway. It is expected that by the end of 2010, the Group's capital expenditures will total RMB4.558 billion approximately. The Company plans to satisfy its capital needs with its own capital reserve and through bank borrowings. According to the Directors' estimate, the Group's financial resources and financing capability can meet the various capital expenditure needs.

Capital Expenditure Plan



Q: Whether the company has any other financing plan as at present?

A (Gong TaoTao - Financial Controller of the Company):

Besides the aforementioned capital expenditures of the Group, in case the authorities of the Company finally approve the investment proposals on Coastal Expressway (Shenzhen Section), expansion of Meiguan Expressway and other projects, the Group's planned total capital expenditures will increase considerably. The Company intends to resolve the capital needs by a mix of equity financing and borrowings.

Operating Cash Flow

The toll revenue of the Group's principal toll highway operation is collected in cash, thereby giving a steady and highly predictable operating cash flow. During the Reporting Period, riding on a booming economy and a gradual improvement of road networks, revenues from the toll highways operated and invested in by the Group continued to grow. The Group's net cash inflow from operating activities (excluding RMB204,748,000 of interests paid) and cash return on investments totalled RMB1,211,275,000 (2006: RMB1,028,796,000), representing an increase of17.74%. In the future, following the completion of Nanguang Expressway, Yanba C and the reconstruction of Qinglian Class 1 Highway into an expressway and the opening of these projects to traffic, the Company's operating cash inflow is expected to increase substantially. A steady increase in the Company's net operating cash flow has safeguarded the implementation of the Company's capital expenditure and external financing plans, as well as the maintenance of sound financial liquidity.

Financing Activities and Financing Costs

Backed by a solid financial position, a steady growth in cash flows, a sound credit record and an excellent industry reputation, the Company continued to attain the highest ratings for various credit rating categories in 2007. This has allowed the Company to maintain good access to financing channels and to maintain lower financing costs amid a contractionary monetary policy.

In addition, the Company has actively capitalised on the aforementioned advantages and the opportunity that the capital market and banks have been continuously launching new financing products, thereby broadening the financing channels and increasing the proportions of direct financing, medium/long-term financing and fixed-rate financing. This has helped the Company to realise its financial strategies and objectives.

Credit Rating Status

Time of rating	Rating category	Rating firm	Rating result
March 2007	Specific rating for the Bonds with Wartrants	中誠信國際信用評級有限公司 (China Chengxin International Credit Rating Co., Ltd.)	AAA
April 2007	Specific rating for corporate bonds	中誠信國際信用評級有限公司 (China Chengxin International Credit Rating Co., Ltd.)	AAA
July 2007	Credit rating for borrowing enterprises	鵬元資信評估有限公司 (Pengyuan Credit Rating Co., Ltd.)	AAA

Major financing activities in 2007 included:

- In August 2007, the Company issued fixed-rate corporate bonds of RMB800 million, with a term of 15 years and an interest rate of 5.5%. Proceeds are to be used for the reconstruction of Qinglian Class 1 Highway into an expressway.

- In October 2007, the Company issued the Bonds with Warrants of RMB1.5 billion, with a term of 6 years and an interest rate of 1%. Proceeds are to be used for the construction of Nanguang Expressway.

- As at 31 December 2007, the Group has obtained RMB11.7 billion of banking facilities from banks, of which RMB3.4 billion has been utilised and total unutilised banking facilities available amounted to RMB8.3 billion. Of these amounts, facilities with terms over 10 years accounted for 47.8% and fixed-rate facilities accounted for 26.6%.

- In August 2007, the Company has applied to the Shanghai Branch of ABN-AMRO for a loan of RMB300 million with a term of 2 years. The Company has also, based on such loan, arranged with the bank a RMB interest rate swap deal involving a swap for fixed rates from floating rates, with a view to reducing and locking up financing costs.

- During the Reporting Period, the Company used RMB970 million of commercial bills in aggregate to settle construction payments, thereby reducing financing costs.

During the Reporting Period, by arranging the aforementioned financing activities, the Company's overall borrowing costs were 5.307%, below the market average. However, affected by the RMB interest rate increase in the market, the overall borrowing costs increased by 0.46 percentage point over that of the previous year.

Use of Proceeds

(1) Use of A Share Issue Proceeds

The Company raised RMB604 million from the issue 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. An amount of RMB77,548,000 was applied during the Reporting Period and the cumulative amount of proceeds applied was RMB562,590,000. As at 31 December 2007, proceeds in the amount of RMB41,538,000 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.

The construction of Yanba B started in June 2001 and the major works were completed in June 2003, thereby forming a local traffic network with Yanba A and enhancing the traffic volume and toll revenue of Yanba Expressway steadily. As the construction of Yanba C was delayed and the relevant road network is not yet formed, the overall road network efficiency is not fully realised for the time being. Accordingly, there are certain discrepancies between Yanba Expressway's operating gains at this stage and the estimates disclosed in the prospectus. According to the government's planning, Yanba Expressway would connect with Renbai Expressway in Huizhou City and Shenshan Expressway through Yanba C, thereby achieving full inter-connection with Guangdong Province's expressway networks. As construction of Renbai Expressway was delayed to 2006 and after considering the operation characteristics of road network effect of expressways, the Company had postponed the construction of Yanba C (including the remaining 2-km section of Yanba B) to align with the construction schedule of Renbai Expressway so as to ensure economic and social benefits of the investment. The construction of Yanba C commenced in October 2006 and is scheduled to be completed in 2008, with an aggregate investment amount (with accounting recognition basis) of approximately RMB340 million already utilised for the project. It is estimated that following the full operation of Yanba Expressway and the gradual enhancement of the road network in Huizhou, the investment return of Yanba Expressway will grow further.

(2) *Use of Corporate Bond Issue Proceeds*

Pursuant to the approvals by the general meeting and the National Development and Reform Commission, the Company issued corporate bonds of RMB800 million with a term of 15 years in August 2007, with net proceeds of RMB787,498,000. During the Reporting Period, the Company applied such proceeds in the reconstruction of Qinglian Class 1 Highway into an expressway in strict compliance with the representations made in the offering prospectus. As at 31 December 2007, the proceeds have been used up.

The reconstruction of Qinglian Class 1 Highway into an expressway is scheduled to be completed in 2008, with an aggregate investment amount (with accounting recognition basis) of approximately RMB1.68 billion already utilised for the project. The Company has entered into an agreement entitled 《公司債券資金使用及償還協議書》 (Agreement on the Use and Repayment of the Proceeds of the Corporate Bonds) with Qinglian Company, pursuant to which matters including the application, utilisation and interests of the proceeds, as well as the obligations on the relevant costs and principal repayment, were determined. Qinglian Company will, while utilising the bond proceeds, shoulder the interests of the bonds with reference to the actual issue price of the bonds and issue costs.

(3) *Use of Bonds with Warrants Issue Proceeds*

Pursuant to the approvals by the general meeting and the CSRC, the Company issued Bonds with Warrants of RMB1.5 billion with a term of 6 years in October 2007, with net proceeds of RMB1,458,697,000. During the Reporting Period, the Company applied such proceeds in the construction of and investment in Nanguang Expressway in strict compliance with the representations made in the offering prospectus. As at 31 December 2007, the proceeds have been used up.

Nanguang Expressway commenced construction in June 2006 and the main route was completed and opened to traffic as planned in January 2008, (with the remaining sections to be completed within 2008). It is estimated that upon its full opening to traffic, Nanguang Expressway will further enhance the traffic efficiency of the western Shenzhen road network, as well as achieving the expected investment income.

(4) *Drafting and Implementing《募集資金管理辦法》(Rules for the Management of Proceeds)*

"Rules for the Management of Proceeds" has been drafted and implemented upon consideration and approval at a Board meeting in September 2006. The management and utilisation of the proceeds will strictly follow the principles of regulated operation, openness and transparency, with reference to the relevant regulations stipulated by the "Rules for the Management of Proceeds".

Major Changes in Accounting Policies and Critical Accounting Estimates

According to HKFRS, 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. With effect from 1 January 2007, the CAS has been adopted for statutory financial statements of the Group, affecting the scope of consolidation of financial statements. The Company's interests in jointly controlled entities, namely Jihe East Company, Magerk Company, Qinglong Company and Shenchang Company, are now accounted for using the equity method and ceased to be proportionately included into the scope of consolidation. As a result, the scope of the consolidation of the financial statements changed. In order to be consistent with the accounting policy of the statutory financial statements and enhance the comparability of the financial information presented, the Group changed 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, which has been approved by the Board. The change had no material impact on the financial position and operating results of the Group.

In addition, as approved by the Board, with effect from 1 January 2007, the Group's consolidated income statement prepared in accordance with HKFRS would be presented under the function of expense method instead of the nature of expense method, in order to maintain consistency for the preparation of financial statements and financial information disclosures in the domestic and foreign markets.

Pursuant to the aforementioned changes, the Group has made retroactive adjustments to the financial information of 2006 and the previous years in this report, in order to maintain consistency of the comparison basis of financial information.

Save as the contents discussed in this section, for details of the Group's major accounting estimates such as the recognition of depreciation and deferred revenue of toll highways, the recognition of income of construction management services, the recognition of fair values of asset and liabilities in acquisition, the recognition of the use value and asset impairment provision for Changsha Ring Road, and the selection of important parameters such as discount rates and interest rates, please refer to note 4 to the Financial Statements.

Risk Analysis and Management

The risks faced by an enterprise refer to the impact of future uncertainties on an enterprise in achieving its operating objectives. The purpose of risk management is to continuously identify various risks and adopt practicable preventive measures to achieve a healthy, steady development for the enterprise. The Group is principally engaged in the investment, construction, operation and management of toll highways and roads, and has been in a stage of rapid development in recent years with a continuous expansion in business scale. Accordingly, at this stage the Group should pay particular attention to and actively handle/prevent the following risks:

Policy and Market Risks	Financial Risks	Operation Risks
■ Intensifying competition	■ Financing risks	■ Human resources
■ Road network changes	■ Interest rate risks	■ Project construction management
■ Approval of toll rates		■ Project evaluation
■ Fuel price volatility		■ Highway maintenance and repairs
■ Macroeconomic changes		■ Project cooperation
		■ Others

Policy and Market Risks

Intensifying market competition

Following the announcement and implementation of《收費公路管理條例》(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. Market participants are increasing and non-professional firms and private capital are increasingly active in investing in the toll highway sector, thus intensifying market competition in the sector.

The increasing marketisation of the highway sector has brought about market competition to the sector on the one hand; on the other hand, it also implies a loosening of market barriers and offers new opportunities to the Group's development in light of the increasingly regulated market operation. Facing competition and opportunities, we have prepared ourselves as follows:

- Fully capitalising on the market opportunities and relentlessly pursuing investment opportunities which match the development strategy. The Group has made substantial progress in investment development over the past few years and has accumulated considerable project resources for future development.
- After over ten years of development, the Group has accumulated considerable experience and expertise in the investment, construction, operational management of highways, possessing a solid competitive advantage.
- Through regulated operation and good reputation, public image and government connections, the Company may enhance its "non-price" competitive advantages, thereby maintaining and showcasing its overall competitive advantages.

Impact of road network

Concerns of economic growth and overall urban planning are pushing local governments to keep on improving the planning of regional road networks, such as building free high-speed trunk roads or implementing traffic control in some areas. This may create diversion effects from existing road.

The network effect of road can bring about a rapid growth in traffic volume. On the contrary, if smooth connection with surrounding roads is not achieved or that surrounding roads are undergoing maintenance works, the operating performance of the toll highways may be affected and unable to meet expectations.

The commencement of neighbouring roads may create the competitive pressure of diversion from the operating expressways, but may also let such expressways share the synergies arising from the connection of road networks. In overall terms, road network changes arise from the traffic demand caused by economic growth. Moreover, the enhancement of road network will in turn increase the attraction to traffic, thereby raising overall road usage. For particular projects, we are working on the following:

- Strengthening the analysis and study on factors such as road network changes and their impact, traffic flow composition and price elasticity of demand, and on this basis introducing targeted sales and marketing strategies or traffic coordination measures, so as to enhance the overall operating performance.
- Providing quality traffic services and road facilities and strengthening the promotion, marketing and sales effort for newly commenced projects, so as to guarantee service quality and competitiveness.
- Maintaining good communication and cooperative relations with various government authorities and industry peers to seek a rationalised layout and connections of highway networks in the region, so as to achieve harmony and a win-win situation among all parties.

Currently, the Company's two projects under construction are facing the risk of unable to achieve simultaneous commencement with the connecting roads. In case Renbai Expressway connecting with Yanba C and Yilian Expressway connecting with Qinglian Expressway fail to commence simultaneously in 2008, it is estimated that there will be certain negative impact on the operating performance of the Company's two above-mentioned projects in the early stage after their commencement. The Company has always been closely monitoring the construction progress of those projects and will adopt appropriate coping measures when necessary according to the actual affecting factors.

Approval of toll rate

The major income source of the Group is toll income from vehicles. Toll rate standards are subject to consideration and approval by the provincial 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.

Fuel price changes

If international oil prices rise further in future or a fuel tax is imposed domestically, there may be fuel price volatility and a change in the cost structure of vehicle usage, thereby restraining the public's motivation to travel and weakening the competitiveness of the highway mode of transportation. This will affect the consumer demand for vehicles and the demand for traffic, which will ultimately affect the traffic volume and traffic composition of expressways and may affect the operating performance of expressways as well.

- A fuel tax replaces administrative charges such as road maintenance charge, rather than expressway toll fees. Accordingly, the imposition of a fuel tax will have no impact on the toll revenue in the short to medium term.
- In the short term, a higher fuel price may reduce the frequency of travel among residents; however, once people have accepted the new fuel costs it is estimated that the original travel mode and frequency will resume. In addition, with fuiel costs rising, people may discover that using expressways may lead to a lower unit fuel consumption than using ordinary roads, thereby possibly diverting certain traffic flow from ordinary roads to expressways. Accordingly, the long-term growth trend of traffic flows on expressways will not be altered by fuel price changes. Nevertheless, the Company will continue to closely monitor, analyse and study the impact of the relevant factors on the Company's existing projects in operation and will adopt appropriate coping measures when necessary. The Company will also make sufficient estimates on the pressure that may be brought about by such factors on project valuation when conducting investment feasibility studies on new projects.

Macroeconomic changes

In 2007, while the Chinese economy maintained the trend of rapid growth, the consumer price index also rose to record highs. If the Chinese and even the global economies continue to face inflationary pressure, there may be increases in the Company's investment costs, construction costs and operating costs. The macroeconomic control measures implemented by the Chinese government will result in a tightening in credit scale and a rising interest rate, thereby affecting the Company's profitability and financing channels.

It is estimated that the Chinese government will adopt a credit policy with both tightening and safeguarding elements to induce a gradual slowdown in the growth of bank loans and to optimise the overall credit structure. The transportation industry, which is a prioritised industry under the State's "Eleventh Five-year" Plan, is expected to retain the support from the government and banks. Regarding our coping measures for financing risks, please refer to the contents of "Financial Risks" below.

In addition, given its management experience in operations, construction and investment accumulated over the years, the Company will have even greater advantages in reducing operating and financing costs and controlling construction and investment costs. Accordingly, the Company is poised to strive to provide to shareholders a better-than-the-market return rate on the basis of the same toll rates.

The toll highway industry exhibits a certain degree of sensitivity towards changes in the economic cycle. Changes in the economic cycle will directly change the demand for transportation capacity arising from economic activities, thereby affecting the aggregated amount of traffic flow and toll revenue of expressways. If the global economy heads into a recession and foreign trade slows down, there will be certain impact on the Company's operating results.

Financial Risks

Financing risks

The toll highway industry is characterised by a capital-intensive nature and the Group is currently at the stage of high capital expenditure. There is a higher demand for financing arrangements necessitated by the Company's increasing capital needs. The rising gearing ratio not only increases the pressure and risk of results volatility and liquidity for the Company, but also makes the Company's future development restrained by debt-bearing ability. Since 2007, the central bank has raised the deposit reserve ratio and the interest rate several times. While the Company did not encounter substantial difficulty in applying for bank loans, banks have raised the benchmarks on the time and accuracy requirements regarding such applications. With the government adopting an appropriately tightening monetary policy and controlling the credit scale, the Group will face certain risks regarding financing and financial management.

To prevent financial risks, to reduce capital costs and to enhance future financing ability, the Group proactively capitalises on the beneficial opportunities of new financing products launched in the capital market and the banking industry. As such, the Company broadens its financing channels and optimises the financing structure, increasing the proportion of direct financing, medium/long-term financing and fixed-rate financing. Major tasks completed in 2007 include:

- Signing new banking facility agreements with bank, as at the end of the Reporting Period, the Group's total unutilised banking facifities available amounted to RMB8.3 billion.
- Issuing corporate bonds and the Bonds with Warrants for a total amount of RMB2.3 billion, as well as issuing 108 million units of warrants.
- Actively studying various trust products and negotiating with banks on the arrangement of foreign currency loans, during the Year, arrangements with foreign banks for RMB loans and the corresponding swap option transactions were completed.

The Group will continue to maintain good cooperative relationships with banks and will enhance the planning on capital expenditure and loan utilisation. We will also actively study new financing products and will escalate our effort on financing in the capital market, so as to assure the capital requirements for the Group's development, thereby striking a good balance between capitalising on development opportunities and maintaining a solid financial structure.

Interest rate risks

As a result of the increase in acquisitions and construction projects, the Group's gearing ratio has been increasing in recent years. This results in an increasing impact of interest rate volatility, in particular that of medium/long-term interest rates, upon the Group. In 2007, the central bank implemented six interest rate hikes aggregating 99-135 basis points, which would bring considerable pressure to the Group's financing cost control and operating results.

Through methods such as fixed-rate loans, commercial bill discount, issue of fixed-rate bonds and interest rate swap transactions, the Group effectively controlled its overall borrowing costs in 2007, with the actual paid cost being 5.0% and the booked cost being approximately 5.3%:

- During the Reporting Period, the proportion of fixed-rate loans was approximately 71.9%; among the Group's unutilised banking facilities available as at the end of the Reporting Period, approximately 27% was fixed-rate loans (with interest rates between 5.94% and 6.12%).
- Issuing RMB800 million of 15-year corporate bonds with a coupon rate of 5.5% per annum; issuing RMB1.5 billion of 6-year Bonds with Warrants with a coupon rate of 1.0% per annum.
- In August 2007, the Company applied to the Shanghai Branch of ABN-AMRO for a 2-year loan with an amount of RMB300 million. In addition, based on the said loan the Company and the bank arranged a RMB interest rate swap of swapping for fixed rates with floating rates.
- Settling certain construction works payments with commercial bills, with an average interest rate of approximately 3.5%.

The Group will continue to adopt various effective measures to contain capital costs and to reduce the average interest rate (please refer to relevant contents in the section "Financial Review and Analysis").

Operation Risks

Human resource risks

With its rapid development and continuously expanding business scale, the Group's demand for quality staff is rising. This does not only lead to a continuous increase in the Group's staff costs, but also poses a higher demand on human resources management and planning.

The Company adopts the following concrete measures to manage the possible risk of lacking quality human resource:

- Expanding the effort on recruiting talent and recruiting management staff and professional staff.
- Improving the talent selection and cultivation regimes and implementing a rational plan to build up a talent pool.
- Establishing and enhancing the multi-layer training regime to enhance the management skills, business skills and execution ability of the staff.
- Raising the market competitiveness of the remuneration and benefit systems and implementing the incentive scheme and control scheme linked with performance targets.

The Company's objective is to ensure the human resources to provide all-encompassiing support to the business development needs and to achieve a win-win situation between the interests of the staff and the Company.

Construction risks

As for highway construction, whether crucial targets such as work schedules, quality and costs can meet expectations will 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 constructions. As a result of factors such as price fluctuations and shortage in construction materials, a higher compensation standard and increasing difficulties in land requisition, demolition and relocation, changes in construction plans and promulgation of new policies and technical regulations by the government, the newly construction projects are exposed to the risks of increasing costs, delay and impaired work quality.

The Company maintains a solid record on construction costs, quality, work scheduling, and so forth. The professional expertise and experience of years in highway construction management have formed the Group's integral basis for managing the above risks. The Company is equipped with adequate expertise and management staff for the highway projects currently under construction, and will strengthen the management on aspects such as operating procedures, management mode, incentive regimes and insurance arrangement:

- Formulating the 《項目管理工作手冊》 (Project Management Manual) and related regimes which offer detailed regulations on the procedures and overall aspects regarding the progress, quality, costs, supervision and so forth, of construction projects, with continuous reviews and improvement.
- Strengthening the management of tendering and contracting and enhancing the management of sites and progress through a tight grip on important matters such as survey, design and engineering changes to achieve integrated management of objectives and process and an equal emphasis on contractual and on-spot management.
- Reasonably and effectively transferring the relevant risks by entering appropriate insurance contracts, construction contracting agreements and centralised procurement contracts for major materials.
- Elevating the effort to motivate the construction management staff and the professional staff; boosting the morale and exploiting staff's potential through work competition between projects; and setting up exchange and learning platforms between projects and different staff to enhance the work ability of the staff.

Project evaluation risks

The Company compiles investment project proposals on the basis of professional reports such as feasibilities 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.

In accordance with the actual business development, the Company is amending its existing management rules on highway project investments. This will further improve the organisation and decision-making regime, approval procedures, decision-making authorities and mechanisms of all levels, regarding project investments. As proposed and driven by the Risk Management Committee, the Company has developed standardised models for investment proposals and financial analyses. The persons-in-charge, frequency of reporting and basic contents of post-investment tracking reports and post-investment-evaluation reports are clarified, thereby raising the comparability between various investment projects and minimising the decision-making risks that might be brought by discrepancies or insufficiencies of information. Furthermore, through a continuous reporting and post-evaluation mechanism, the Company will timely grasp the actual operation status of investment projects, thereby providing a crucial decision-making basis for the timely disposal of projects which do not meet the Company's requirement, as well as a consolidation and optimisation of the Company's resources.

Repairs and maintenance of highways

As the aging of the highways and increase in traffic flows and wear-and-tear increase, the scale of repair work and the related costs may also increase. Moreover, toll revenue will decline as normal traffic may be hindered if the area of repair work is relatively large and the time involved is relatively long.

The Company adopts a prevention-oriented highway maintenance policy with a pre-emption element. We emphasise the regularity, comprehensiveness and planning of maintenance work:

- Improving the maintenance results by enhancing the maintenance management model, thereby striving to reach the aim of "Assuring safety, Extending the life of roads".

- While implementing the repair and maintenance plan, the Company will strive to maintain a balance between the work schedule and smooth traffic on the highway by rationalising work arrangements, such as arranging works in the dry season and during night time, or arranging works on a section-by-section or lane-by-lane basis.

The general designated life of toll highways' surface is 8 to 15 years. In the next few years, the Group plans to proceed with the expansion and surface renovation project for Meiguan Expressway. The Group's operations will be affected to a certain degree by then. The Group will closely monitor the changes in the surrounding road networks and will make reference to the implementation plan of the Company's development strategy in devising its rational renovation and repair work plans, in order to minimise the short-term impact and enhance the long-term benefits for the Company and the community.

Cooperation risks

In managing external investment projects, there may be differences in the operations and development strategies between different parties, as cooperation partners and the Group may have varying business principles. This may affect the operations and investment returns of the relevant projects.

- The Company always values cooperation and joint development with peer companies. In particular, while making investments in regions outside Shenzhen, the "geographical advantage" of the cooperation partner and the Company's "system advantage" can complement each other to enhance the competitiveness of the investment partnership. Accordingly, an investment return meeting the Company's benchmark and presenting a good cooperation partner are two essential considerations as the Company makes an investment decision.

- When operating and managing a project, the Group respects the different cultures and principles that exist among different enterprises, and strives to strengthen the relation with a cooperation partner with a realistic attitude. We exercise the rights of an investor to safeguard the Group's interests in a reasonable and legal manner, in strict compliance with legal documents such as the articles of the project company and the cooperation agreement.

Others

Serious natural disasters or bad weather may affect the traffic capacity of expressways and closures may be necessary at times, thereby reducing toll revenue and affecting the Company's operating results.

Due to the snowstorm in southern China in early 2008, the Company's investment projects Wuhuang Expressway, Changsha Ring Road and Nanjing Third Bridge were affected to a certain extent and had been closed for a short period. Among these, pursuant to the relevant instructions issued by the government, the tolls for all vehicles using Changsha Ring Road had been waived for about 10 days. However, the Company's major highways and most investment projects are situated in Shenzhen and other regions in Guangdong Province and were therefore unaffected by the snowstorm. Accordingly, there will be no significant impact on the Group's overall operations.

Human Resources Management

Management Principles

The Company has always been committed to the people-focused management principle, viewing its staff and talent as the pillar of corporate development and pushing forward the transformation from an "emphasis on human costs" to an "emphasis on human capital" in terms of human resource management.

Human resource management should not only meet the needs of the Company's development, but should also build a sound development platform for the staff. Through initiatives such as strengthening staff training, cultivating a teamwork culture, creating a pleasant working environment, and implementing and continuously enhancing the incentive, control and talent selection regimes, the Company strives to reach the objective of adding value to human resources and achieving a win-win situation between the interests of the staff and the Company.

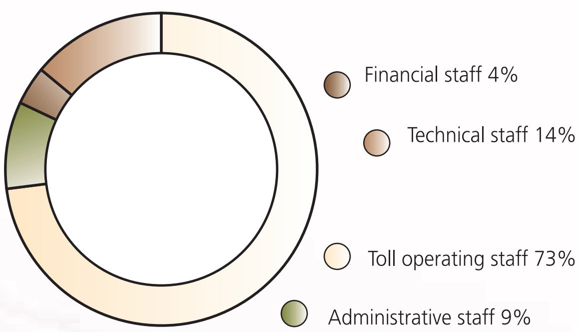
Highlights of the human resource management work carried out in 2007:

- Organised 22 themed training sessions and 12 operational training sessions, with a total of 2,165 participants.
- Organised 4 internal recruitment drives and promoted over 20 management staff.
- Launched 《管理人員選拔任用辦法》(Rules on Selection and Appointment of Management Staff) and 《員工獎懲辦法》(修訂) (Rules on Staff Rewards and Punishments (Amended)).
- Implemented the proposal on overall staff remuneration adjustments.
- The Board approved the implementation of the proposal on enhancing the staff performance management and incentive systems.

Employee Status

As at 31 December 2007, the Company and its wholly-owned subsidiaries had 1,272 employees, of whom 339 were management and professional staff while 933 were toll collection staff. 24.9% of the Company's staff held tertiary or above qualifications, and 86% of the management and professional staff held tertiary or above qualifications, among whom 16% held master degrees and 44% held bachelor degrees.

During the Reporting Period, the Company recruited 54 management and professional staff, among whom 7 were operation management staff, 23 were engineering or technical staff, 4 were financial staff and 20 were administrative management staff.



Employee Remuneration and Incentive System

Pursuant to《員工薪酬福利管理辦法》(Management Rules for Employee's Remunerations and Benefits), an employee's remuneration comprises three parts, namely monthly salary, annual performance bonus and statutory and company fringe benefits. The remuneration is determined in accordance with the results of an overall assessment, of which the salary and the performance bonus are respectively determined according to the individual staff's position and performance and with a view to maintaining market competitiveness. In 2006, the Company reviewed the remuneration system and improvement proposals were made on the basis of re-assessed values of various positions. In 2007, taking into account factors such as the Company's profitability and the rise in the domestic price indices, the Company further implemented an overall staff remuneration adjustments plan, making the Company's remuneration regime fairer and more competitive. For details of employee's insurance and retirement schemes, please refer to the "Social Responsibility"of the section "Corporate Governance Report".

In view of the Company's new situations as a result of rapid business development in the past 3 years, the Board also approved the proposal on enhancing the staff performance management and incentive systems during the Reporting Period. Guided by the Company's strategic objectives, conscientious performance assessments were conducted to appropriately reward any staff who completed work performance targets. There were also punitive measures for those who failed to achieve key performance indicators. Accordingly, the Company's performance management and incentive systems were further enhanced. This was aimed to adequately mobilise the staff's work motivation and to stimulate their creativity, thereby ensuring the achievement of various strategic objectives of the Company.

Appraisals and Incentives for Senior Management Members

Monthly salaries of senior management account for approximately 60% of their total remunerations. In order to attract and motivate quality staff, performance bonuses for senior management are mainly based on performance appraisals and the Remuneration Committee of the Board is responsible for proposing and reviewing the remunerations and bonuses for senior management.

The Board determines the annual operating performance targets at the beginning of each year and sets out clear and concrete rating criteria as the basis for year-end appraisals on the overall performance of the President and the Company. In 2007, the key performance targets determined by the Company included return on net assets, annual revenue, expenses and profit indicators, completion rate of acquisitions and construction of investment projects, important tasks for operations, construction and financing, internal management, and so forth.

Based on the operating performance targets approved by the Board, the Company is required to determine the yearly tasks and targets for staff of various grades, and dissect and delegate the Company objectives to the relevant departments and staff. Meanwhile, senior management members are also required to sign accountability statements on their performance targets with the President. By the end of the year, the Board and the President 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 performance bonuses for the President and other senior management members accordingly. The remunerations of all senior management members are subject to review by the Remuneration Committee and are required to be reported to the Board.

Since 2001, the share appreciation right scheme (the "Scheme") had been approved by the shareholders. According to the amended Scheme, the share appreciation rights involved 5.5 million shares collectively held by senior management, with the proceeds generated from exercising the rights applied to a special incentive fund and to be distributed by the Company in accordance with the proposal put forward by the President 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 Board and Remuneration Committee according to authorities thereof respectively, RMB1,264,000 from the special incentive fund has been distributed to reward management members and key staff with contribution to important tasks or projects in 2005. Among those rewarded, Directors Yang Hai, Wu Ya De, Supervisor Yi Ai Guo, and senior management members Li Jian, Ge Fei, Zhou Qing Ming, Gong Tao Tao, Wu Xian, and Wu Qian were rewarded RMB200,000, RMB200,000, RMB30,000, RMB60,000, RMB40,000, RMB50,000, RMB60,000, RMB40,000 and RMB50,000 respectively (before tax。). As at the end of the Reporting Period, the balance of the special incentive fund amounted to approximately RMB2,696,000, which will be used for reward schemes in the coming years.

The Company has not adopted any share option incentive scheme for the time being. The Company will proactively communicate with the regulatory authorities after having conducted detailed studies on the relevant regulations already promulgated, so as to discuss the feasibility for the Company to adopt a share option incentive scheme and a concrete implementation plan.

Staff Training and Development

The Company values staff training and cultivates a corporate culture of continued learning, encouraging employees to keep upgrading their work capabilities and market competitiveness. During the Reporting Period, the Company completed 22 special training sessions as well as 12 operational training sessions, including theme training for new management staff, entry training for toll collection staff, management skills enhancement training for first-level managers, comprehensive corporate risk management system training, themed training on an excellent performance management regime and "change management" for middle/senior management members. A total of 2,165 participants were involved.

In 2007, under the principles of openness, fairness and impartiality, the Company organised 4 internal recruitment drives for management staff selection, involving positions such as senior business managers at the headquarters, toll station management staff for different grades and road management staff. Some 20 management staff were selected consequently. The activities have not only timely filled up management positions of various grades, but have also broadened the promotion path for the staff.

Outlook and Plans

The continued growth in transportation demand and the State's overall road network planning provide much room for development for the expressway industry. In addition, the State has been continuously initiating relevant policies to regulate the management of the toll highway industry, thereby giving more competitive advantages to professional, market-oriented and regulated companies. Meanwhile, with the investment and construction scales ever-increasing, the Company cannot ignore the risks it faces in recent years. The first and foremost are financial and financing risks. Because of the vast scale of capital expenditure and that the domestic market is in a stage of rising interest rates, the increase in finance costs will exert considerable pressure upon the Company's results. Secondly, development brings a demand for quality human resources. The Company has to escalate its effort on performance management and motivation to attract and retain talents. Thirdly, the construction side witnesses rising material costs and costs in land requisition, demolition and relocation, as well as the increasing scales and difficulties in new projects, thereby posing greater demand on management and cost control upon the Company. The management will adhere to the regulated and market-oriented operation model and will tackle challenges in a proactive manner, striving for continued growth in the Company's profits and creating higher returns to shareholders.

The Group's focus of work in 2008 includes:

- **To complete construction projects and to effectively control construction costs.** In 2008, the tasks for the Group in construction remain challenging. During the year, the Group has to ensure that the section to the south of Nanguang Expressway's tunnel, Yanba C and the reconstruction of Qinglian Project into an expressway will be completed and opened to traffic as scheduled, as well as keeping construction costs within the respective budgets. In addition, the Group has to effectively push forward the management works of the entrusted construction projects of Nanping (Phase II), Shenyun Project and Hengping Project.

- **To achieve toll revenue targets and to actively control operating costs.** Based on the reasonable expectation that no substantial changes will take place in the operating environment, the Group has set the total toll revenue target for 2008 at not lower than RMB1,100 million (2007 actual amount: RMB966 million). As the aging of the highways and wear-and-tear increases, the scale of maintenance and repair works for our major toll highways may also increase as compared to the previous years. The Group will adopt measures such as an enhanced management of contracting and quantity surveying work, introduction and development of new maintenance techniques and management systems, the initiation of preventive maintenance works and so forth, with an aim to continuously improve the efficiency and quality of maintenance management and to control relevant costs.

- **To strengthen fundraising efforts and to reduce financing cost.** In 2008, the Group will actively study new financial instruments and products and will strengthen its fundraising efforts in the capital market, so as to expand the financing sources, optimise the capital structure and improve the Company's development resilience in the long term. In addition, the Group will also control its overall financing costs and reduce financial risks through various financial management initiatives, such as appropriately increasing the proportion of medium/long-term debts and fixed-rate debts in the debt structure, exercising more meticulous capital management, and enhancing its planning on capital expenditure and borrowing appropriation.

- **To complete the preliminary work of investment projects and to appropriately consolidate resources.** Regarding project development, the Group will actively push forward various preparatory work with a focus on the preliminary studies and review and approval of the planned projects, such as the expansion/reconstruction of Meiguan Expressway and Shuiguan Expressway, Outer Ring Expressway, Coastal Expressway (Shenzhen Section) and Coastal Expressway Airport Feeder. The Group will appropriately monitor the development of other quality highway projects as well as projects connecting with our road networks, with a view to building up project reserve for the Company's long-term development. In addition, the Group will also consolidate its existing highway assets in an appropriate manner and optimise its resource allocation, so as to raise the overall return rate of assets, reduce the Company's financing pressure and lower operating risks.

- **To enhance the Group's integral management capabilities.** In 2007, the Company brought in an excellent performance management system. Based on the training and accreditation work under the ISO9000 system, we re-organised and adjusted the Company's management structure and management positions. In addition, we have also systematised and regulated various management tasks in a comprehensive manner, thereby laying a solid foundation for a continuous enhancement of our management capabilities and organisational performance for the years to come. In 2008, the Group will further strengthen its efforts on human resource development and will enhance the internal control system, implementing management reforms and innovations and further improving the management model, so as to match the practical needs of the Group's development.