

BUSINESS REVIEW

The Group is principally engaged in the provision of logistic services and expressway-related services. The four main business segments of the Group are set out below:-

- Material logistics services: planning, procurement and logistics management of construction materials mainly for expressway and other infrastructure projects;
- Expressway service zones: operation of expressway service zones and provision of the related auxiliary services in Guangdong Province including petrol stations, convenience stores, restaurants, car maintenance centres and advertisement;
- Transportation intelligence services: provision of transportation intelligence services including development, construction and maintenance of transportation intelligence system, installation and construction of safety and toll collection facilities mainly for the expressways; and
- Cross-border transportation services: provision of cross-border transportation services between Hong Kong and Guangdong Province.

Apart from the main business segments as abovementioned, our Group's business also includes toll income from the Tai Ping Interchange and other businesses.

Material logistics services

As a large material logistics service provider of large-scale projects, the Group is principally responsible for the planning, procurement, storage, and transportation management of construction materials mainly for expressway and other large-scale infrastructure projects.

In 2006, the Group has participated in material logistics business of 24 large-scale infrastructure projects. During the year, other than providing approximately 1,227,000 tonnes of cement, 1,147,800 tonnes of steel bar, 110,600 tonnes of asphalt, the Group also developed logistics business on coal and iron ore powder. The Group provided logistics services for 401,300 tonnes of coal and 301,200 tonnes of iron ore powder.

The Group participated in supply management works of projects in Zhanjiang Gulf Bridge, the Zhuhai Section of the Western Coastal Expressway of Guangdong Province, the South Section of the Zhujiang Delta Western Ring Expressway, the South Section of Jingzhu Expressway, the Western Ring of Meizhou Expressway, Meilong Expressway, Shanjie Expressway, Guanghe Expressway, Taiao Expressway, Fokai Expressway expansion, Route 6 subway of Guangzhou, Inter-city Railway between Guangzhou and Zhuhai and the First Ring Expressway of Foshan. The Group will strengthen the management of the logistics supply chain from the point of purchasing, warehousing, quality control and settlement on completion, in order to ensure that the logistics supply chain for the projects of the Group is efficient and smooth.

Management Discussion and Analysis

Expressway service zones

In 2006, the five major networks including convenience stores, catering, car maintenance, petrol stations and advertisement enjoyed significant progress. Based on changes of market demand, the Group made timely changes to the product structure of our convenience stores and pushed forward with consignment sales of native products as well as sales of commodities during major holidays and festivals, and as a result, the sales of these convenience stores during holidays and festivals accounted for over two-thirds of the annual turnover and we have also introduced the franchise model. The Group adopted a set meal sales model to speed up the pace of development of our catering network. The Group have introduced the set meal model in seven pairs of service zones and focused on the pilot test of the distribution of fast food in the service zones along the Yuegan Expressway, and this has provided the momentum for the development of the catering network. The Group has stressed on the basics for the vehicle repairs and maintenance network and speeded up the pace of network construction, focusing on the recruitment and training of people and standardising the workflow of purchase of components and parts for vehicles and speeding up the formalities for license application. By the end of 2006, the Group had 12 pairs of vehicle repairs depots, which initially formed our vehicle repairs network on the expressway. The Group is also heedful of the development of the network of petrol stations and follows up the implementation of the "Eleventh-Five Development Planning for the Stations of the Service Zones along the Expressways of Guangdong". The Group pushed forward the integration of advertisement network resources to speed up the development of advertisement network. The Group has also pushed forward with the construction of an information platform for the service zones, developing an information network platform for the service zones. In 2006, the Group completed the virtual special network for the self-operated service zones and made possible the long-distance maintenance and monitoring of the operation of each system in the service zones. The Group has made further research and development on the information platform of the service zones, and by now, development of the information platform for the retail chain will be completed soon; development of the information platform for vehicle repairs is heatedly underway, which laid a solid foundation for the development and use of the information platform systems of service zones when they are completed in 2007.

Transportation intelligence services

Guangdong Xinyue Investment Company Limited and Guangdong Oriental Thought Technology Company Limited are the Company's two subsidiaries providing electro-mechanical systems for expressways of transportation intelligence services with research and development, installation and construction services, etc.

In 2006, our group completed the monitoring and control and communication works of Guangzhou Guangyuan Highway, the mechanical and electrical works for the ducting of Tianshan Expressway, the mechanical and electrical works for the ducting of Guangzhou West Second Ring Expressway, the mechanical and electrical works for the ducting of Guangzhou North Third Ring Expressway. The total value of these services upon completion will amount to RMB440 million. The Group has also completed the expansion works of the South Section of Beijing — Zhuhai Expressway, Guizhou Sankai Expressway, Guizhou Xingding Expressway, overhaul to the eastern section of Shenzhen — Shantou Expressway, the transport works of Foshan First Ring Expressway, North Third Ring Expressway and West Second Ring Expressway. The value of these works upon completion will amount to approximately RMB168 million.

During the year, the Group undertook and completed the construction of 17 major electro-mechanical system projects and 7 safety facility projects.

Cross-border transportation services

Taking the advantage from the increased flow of cross-border passengers between Hong Kong and Guangdong Province, the Group continues to be one of the major cross-border transportation operators in Hong Kong by fleet size, bus frequency and routes operated. During 2006, we have acquired the right to operate the bus terminal in Austin Road for four years by tender. In order to further enhance our market share along the "golden route", we also put more effort in our market sales and management, strengthen our working relation with other cross-border transport sector, and open up new cross-provincial transport routes. In 2006, our Group's bus fleet carried a total of 3.89 million passengers on its cross-border and domestic routes.

Tai Ping Interchange and others

The Group owns the toll collection right of Tai Ping Interchange in Guangdong Province. As the economy of Guangdong Province continued to grow rapidly, the number of vehicles using the expressway maintained a stable growth. The toll collected from Tai Ping Interchange increased 23% over that of 2005.

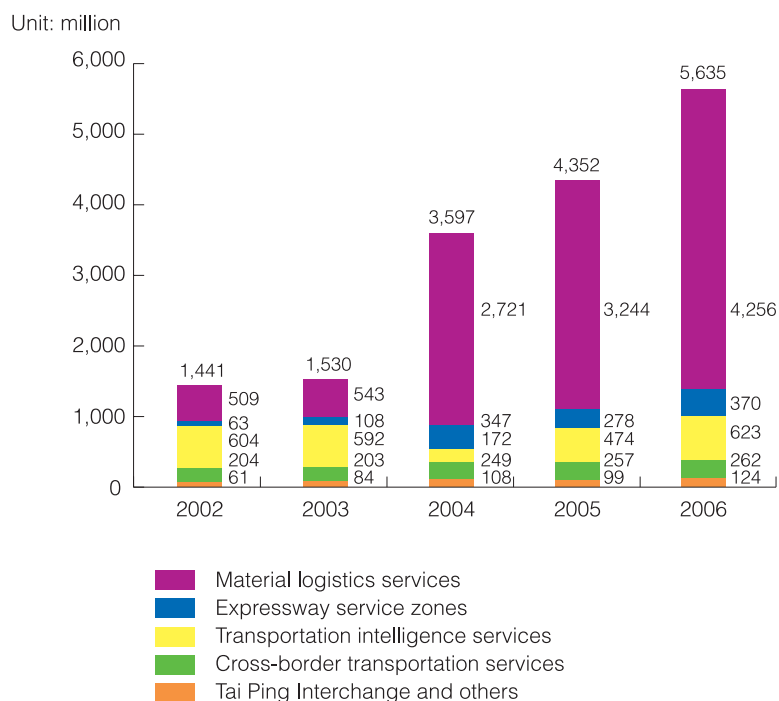
Management Discussion and Analysis

FINANCIAL REVIEW

Turnover

The Group's turnover is mainly derived from four business segments, including the provision of material logistic services, transportation intelligence services, operation of the expressway service zones and revenue from cross-border transportation services between Hong Kong and Guangdong Province. Revenues from Tai Ping Interchange and other businesses are also included in our turnover. Our turnover for the year amounted to RMB5.635 billion (2005: RMB4.352 billion) (unless otherwise specified, the amounts stated herein below shall be in RMB), representing an increase of 29% over last year, which was mainly attributable to the development in material logistics services and the transportation intelligence services, of which their turnover increased by 1.012 billion and by 0.149 billion respectively.

Turnover by operation:

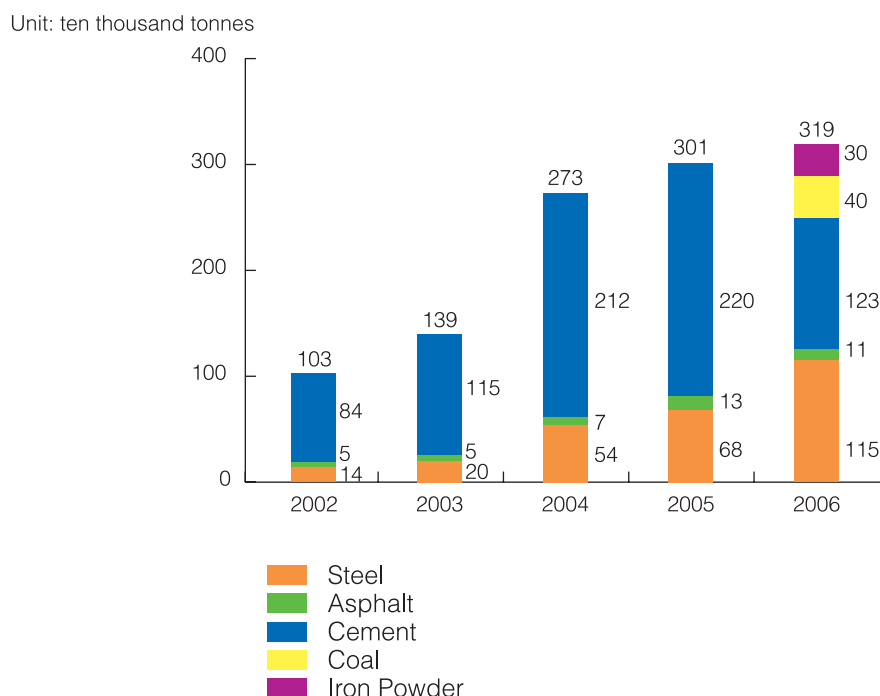


Management Discussion and Analysis

Material logistics services

Revenue generated from material logistics services is our Group's major source of income. The Group has recorded turnover of 4.256 billion this year (2005:3.244 billion), representing an increase of 31%, contributed 76% to the Group's total turnover (2005:75%). The increase of turnover was principally due to the increase in scale of services and types of materials serving, which increased the source of income and profit as well as provided diversification of market risks.

Sales volume of material logistics services by materials:



Management Discussion and Analysis

Expressway service zones

For the year ended 31 December 2006, the number of our service zones increased to 43 pairs (2005: 40 pairs), the turnover of expressway service zones attributed to 7% (2005:6%) of the Group's turnover, which amounted to 370 million (2005: 279 million), representing an increase of 33%, principally because (i) the income contribution from the new service zones at the end of 2005 and (ii) the sales of the service zones have increased due to the enhancement of the service zones network and the marketing promotion effort.

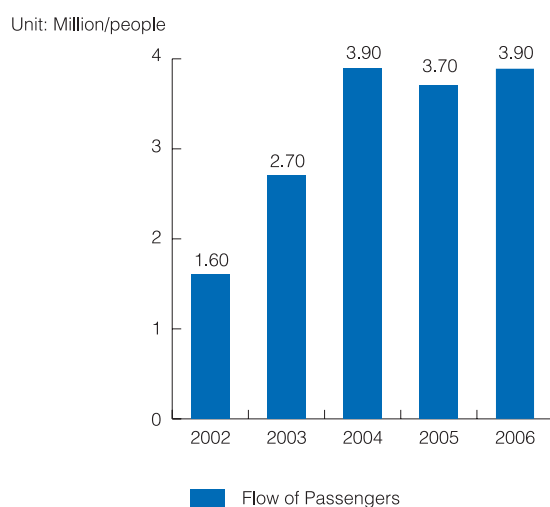
Transportation intelligence services

Transportation intelligence services attributed to approximately 11% (2005:11%) of the Group's total turnover this year. Turnover of 2006 amounted to 623 million (2005:474 million), representing an increase of 31%, because (i) the number of projects completed increased by 14 and the involved amounts increased by 113 million and (ii) the income of software and technical services rendering increased by 20 million as compared with the previous year.

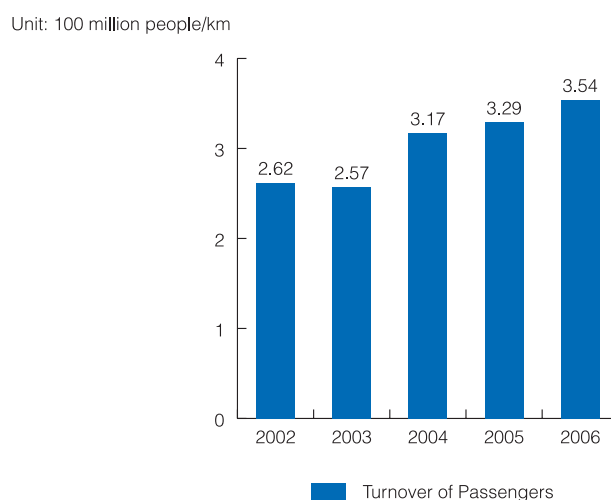
Cross-border transportation services

Revenue from cross-border transportation services this year was 262 million (2005:257 million), representing an increase of 2% as compared to last year, and attributed to 5% (2005:6%) of the Group's total turnover, primarily due to the co-operation with other coach operators to rearrange bus schedules, enhance resource utilization rate and obtain competitive strength, which attributed the passenger kilometres turnover (total distance of all passengers travelled) by 8% to 354 million passenger km (2005:329 million passenger km) approximately.

Annual traffic flow of cross-border passengers:



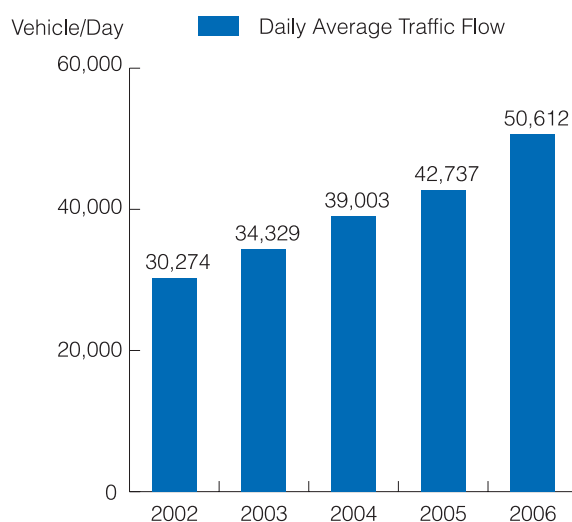
Annual turnover of cross-border passengers:



Tai Ping Interchange and others

Toll fee collected from Tai Ping Interchange attributed to 2% (2005:2%) of the total turnover this year, which increased by 23% to 104 million (2005:85 million), mainly because the opening of Jiangzhong Expressway, resulting in increasing vehicles via Tai Ping Interchange from West Guangdong and Pearl Delta to Dongguan, Shenzhen and Huizhou. The average traffic volume for 2006 was 50,612 vehicle per day (2005: 42,737 vehicle per day), representing an increase of 18%.

Daily average traffic flow of Tai Ping Interchange

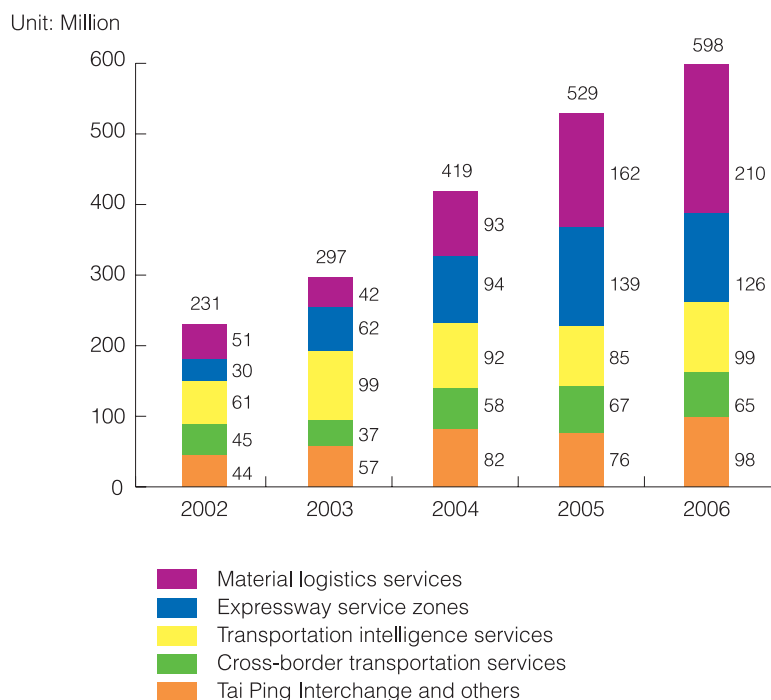


Gross profit

The gross profit of the Group in 2006 increased by 69 million or 13% to 598 million (2005:529 million) as compared to that of 2005 as a result of growth in turnover. The gross profit margin slightly decreased to 10.61% as compared to 12.15% of 2005.

Management Discussion and Analysis

Gross profit by business segment:



Material logistics services

Gross profit of material logistics services this year attributed to 35% (2005:31%) of the Group's total gross profit, representing an increase of 30% to 210 million (2005:162 million), which was in line with the increase in turnover. The gross profit margin remains stable at 4.94% (2005:4.99%) as compared to last year.

Expressway service zones

Gross profit of expressway service zones attributed to 21% (2005:26%) of the Group's total gross profit this year, which amounted to 126 million (2005:139 million) and representing a decrease of 9%. Gross profit margin reduced to 34.05% (2005:49.75%). The decrease was mainly because revenue from some of the newly operating service zones was not enough to cover the operating costs of these zones.

Transportation intelligence services

Gross profit of transportation intelligence services attributed to 17% of the Group's total gross profit (2005:16%) this year, which amounted to 99 million (2005: 85 million) and representing an increase of 17%. Compared to that of 2005, gross profit margin decreased to 15.87% (2005:17.84%), which was principally due to the fierce market competition and the Group's low price strategy in entering the markets outside Guangdong Province.

Management Discussion and Analysis

Cross-border transportation services

Gross profit of cross-border transportation services attributed to 11% (2005:13%) of the Group's total gross profit this year, decreasing from 67 million of last year by 3% to 65 million. Gross profit margin decreased to 24.86% (2005:26.25%) as compared to 2005, primarily because of an increase in the price of gasoline during the year.

Tai Ping Interchange and others

Gross profit of Tai Ping Interchange and others attributed to 16% (2005:14%) of the Group's total gross profit this year. Gross profit earned by Tai Ping Interchange increased from 72 million in the previous year to 88 million, representing an increase of 22%. The completed upgrading of integrated toll collection raised the depreciation and offset part of benefits resulted from increase of traffic flows. Therefore, gross profit margin remained unchanged as 84.15% (2005: 84.33%) as compared to 2005.

Other income

Other income of the Group increased to 28.57 million this year (2005:17.89 million), representing an increase of 60%. The increase was mainly due to interest income increased by 122% or 8.06 million to 14.64 million (2005: 6.58 million).

Selling expenses

The selling expenses of the Group increased to 131 million (2005:99 million) this year, representing 2% (2005:2%) of the Group's turnover, which have remained stable.

Administrative expenses

Administrative expenses increased to 220 million (2005:203 million) this year, representing an increase of 8%. The increase was primarily due to (i) growth of business tax and surcharges as a result of the increase of turnover and (ii) increase of expenses as the first year being a listed company, including legal advisers fee, auditor's remuneration, printing fee and other consultation fees.

Finance costs

Under the circumstances of growing interest rate and expansion of the Group's business, finance costs decreased by 2% to 16.01 million (2005:16.26 million) this year. The decrease was mainly due to the advantage of expansion of scales of operation which increased amount of bank facilities to 2.8 billion (2005:1.2 billion) and the reduction in the discount rate for bills receivable from 0.3% per month last year to between 0.27% and 0.285% per month.

Taxation

The effective tax rate was 30% for the year (2005: 29.0%) which was comparable to that of last year.

Management Discussion and Analysis

Liquidity and capital structure

The Group continues to maintain a robust financial position. On 31 December 2006, cash and cash equivalent amounted to 671 million (2005:840 million). As at 31 December 2006, balance of bill payables was 1.156 billion, which required approximately 243 million as reserves upon the maturity of the bills; net current assets was 742 million (2005:665 million); current ratio was 1.3 times (2005:1.3 times); liabilities equity ratio (the ratio of unpaid bank borrowings balance to the equity attributable to equity holders of the Company) was 12% (2005:14%); interest covering ratio was 17 times (2005:15 times).

Management of trade receivables

In 2006, the Group enhanced the management of trade receivables. As at the end of 2006, trade receivables aged above one year (including amounts due from third parties and related parties) amounted to 63.94 million (2005: 151.11 million), representing a significant decrease of 58%. It accounted for 6% of the total trade receivables (2005:20%).

Cash flows

The Group principally satisfies cash need for indemnity for contracts, expansion, development of core business and general operations capital by using cash from operating activities, bank borrowings and net proceeds from the offer of the Company's shares.

Cash and cash equivalents (after deducting the effect of exchange) during 2006 are as follows:

	Year ended 31 December		
	2006	2005	change
	'000	'000	
Cash from/ (used in)			
Operating activities	72,441	374,233	-81%
Investing activities	(177,416)	(118,634)	-50%
Financing activities	(61,395)	202,602	-130%
(Decrease)/Increase of cash and cash equivalents	(166,370)	458,201	-136%

Operating activities

The net cash flows from operating activities this year amounted to 72 million (2005: 374 million), representing a decrease of 302 million as compared to the previous year, mainly because (i) advance received from new petrol stations of service zones was less than that of last year; (ii) increased in inventories to meet delivery at the beginning of 2007; (iii) settled long aged trade and other payables and (iv) the Group's sales in the fourth quarter of the year increased by approximately 310 million over the same period of last year, most of the sales were within credit period at the end of the year, so its cash contribution to operating activities has not been reflected as at 31 December 2006. Most of the receivables were received after the balance sheet date.

Management Discussion and Analysis

Investing activities

The principal investing activities this year included (i) 93.35 million for constructing Dongguan asphalt warehouse; (ii) 19.04 million for upgrading Tai Ping Interchange; (iii) 25.42 million for expansion of the fleet of cross-border transportation services between Guangdong and Hong Kong and (iv) cash consideration of 31.2 million for incorporation of Southern United Assets and Equity Exchange Company Limited and acquisition of Guangdong Feida Traffic Engineering Company Limited and (v) renovation of expressway service zones of 21.6 million.

Financing activities

The principal financing activities this year included (i) dividends of 33,41 million paid to the Company's shareholders; (ii) dividends of 14.41 million paid to the minority shareholders. The Group obtained proceeds arising from listing in 2005, as a result, the net cash flows generating from financing activities dropped as compared to last year.

Borrowings

As at 31 December 2006, all outstanding bank borrowings of the Group were unsecured short-term bank loans, which amounted to 140 million in total (2005: 140 million), which shown to have remained stable compared with 2005.

Acquisitions

The Group acquired 30% equity interest of Guangdong Feida Traffic Engineering Company Limited and invested 25% equity interest of Southern United Assets and Equity Exchange Company Limited this year. As at 31 December 2006, the Group had no incompleated acquisitions in progress.

Foreign exchange risk and hedging

Most of the revenue and expenditure of the Group are settled or denominated in RMB, except for the revenue and expenditure related to the cross-border transportation business. In 2006, the Group's operation or liquidity was not materially affected by the fluctuations in currency exchange rate. The directors believe that the Group will have sufficient foreign currency to meet its demand. Meanwhile, the Group will continue to pay close attention to the currency fluctuations of RMB, and will take appropriate arrangement, based on its operating needs to mitigate the Group's currency exposures.

Contingent liabilities

As at 31 December 2006, the Group did not have any material contingent liabilities.