SHENZHEN EXPRESSWAY COMPANY LIMITED

(A joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 0548)

Annual Report 2007

夯

The original meaning of the Chinese character「夯」(pronunciation: hāng) refers to the rhythmic cries by construction workers in the course of work. Meanwhile, a song led by a worker with others joining in chorus while reinforcing the foundation is known as "a song of hang" (「夯歌」). The first-level significance of using the character「夯」as the theme of this year's annual report is to express the whole Company's Broad attitude and determination to achieve solidarity and dedicated efforts, so as to tackle and embrace the challenges we will face on the road ahead.

The character「夯」comprises two separate characters, namely「大」("big"/"huge") and「力」("effort"), implying that hard efforts are to be made while working. As such, the theme's second-level significance is that with the Company heading into a crucial stage of development, we face immense tests and challenges on various fronts, be it operations and construction management, or investments and financing arrangements. To attain the pre-set strategic objectives, the Company as a whole must adopt a proactive and realistic attitude, dedicating all efforts to push forward and complete all tasks and projects.

「夯」also refers to the tool used to reinforce the foundation. The Company's various efforts in recent years are all aimed at laying a solid foundation for the Company's future development. Such efforts include actively building up quality project resources, introducing an excellent performance management model to enhance the overall management standards, expanding the financing effort through various channels and controlling capital costs. Reinforcing the foundation is not only a required procedure in highway construction before laying the road surface, but also a necessary path for the Company's development and management processes. As we reinforce the foundation, we may find that the surface is lowered, which is similar to witnessing a slowed growth in investor return for a particular period as we invest in or construct certain new projects. However, once a flat road surface is laid on a firm foundation, more vehicles can run on a quality expressway much faster afar; similarly, once Shenzhen Expressway has reinforced its foundation, more investors will join us to develop much further ahead!

Contents

Financial Highlights

(Prepared in accordance with HKFRS)

Results Highlights (For the year ended 31 December)

(RMB'000)	**2007**	2006 (Restated*)	2005 (Restated*)	2004 (Restated*)	2003 (Restated*)
Revenue	**1,103,455**	769,291	689,487	536,192	449,961
Profit before interests, tax, depreciation and amortization	**1,104,535**	839,910	771,652	602,130	1,153,837
Profit before interests, tax and administrative expenses	**965,110**	759,081	719,329	555,546	1,116,509
Profit before interests and tax	**914,878**	713,724	669,133	512,479	1,071,649
Profit before tax	**774,552**	630,672	618,312	499,557	1,058,509
Profit for the Year	**667,922**	590,773	562,209	422,736	909,868
Profit attributable to equity holders of the Company	**674,347**	579,090	552,622	414,888	903,351
Basic earnings per share for profit attributable to equity holders of the Company (RMB)	**0.309**	0.266	0.253	0.190	0.414
Dividends per share to equity holders of the Company (RMB)	**0.16**	0.13	0.12	0.11	0.19

Assets Highlights (As at 31 December)

(RMB'000)	**2007**	2006 (Restated*)	2005 (Restated*)	2004 (Restated*)	2003 (Restated*)
Total Assets	**15,199,598**	9,898,855	9,617,914	7,285,945	6,923,617
Total Liabilities	**7,236,905**	3,294,217	3,245,155	1,208,814	856,937
Equity attributable to equity holders of the Company	**7,250,213**	6,604,638	6,329,621	6,027,065	6,016,713
Total equity	**7,962,693**	6,604,638	6,372,759	6,077,131	6,066,680
Net assets per share to equity holders of the Company (RMB)	**3.32**	3.03	2.90	2.76	2.76

Principal Financial Ratios**

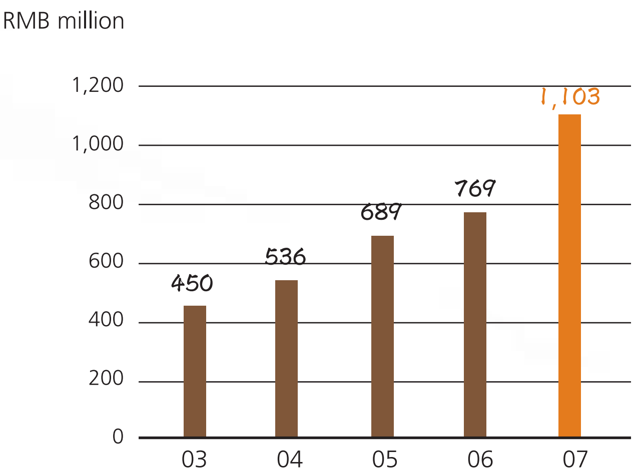
(For the year ended 31 December)	**2007**	2006 (Restated*)	2005 (Restated*)	2004 (Restated*)	2003 (Restated*)
Operating profit ratio	**64.87%**	68.49%	72.53%	73.32%	225.03%
Toll highway operating profit ratio	**64.78%**	72.01%	71.60%	68.12%	63.22%
Return on equity attributable to equity holders of the Company	**9.30%**	8.77%	8.73%	6.88%	15.01%
Interest covered multiple	**3.54**	7.72	7.08	39.54	77.59

(As at 31 December)	**2007**	2006 (Restated*)	2005 (Restated*)	2004 (Restated*)	2003 (Restated*)
Gross liabilities-to-equity ratio	**90.89%**	49.88%	50.92%	19.89%	14.13%
Net borrowings-to-equity ratio	**66.20%**	31.64%	21.08%	N/A	N/A

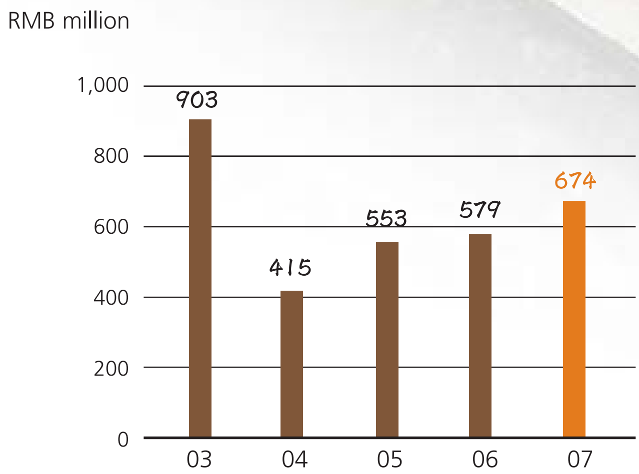
* The Group adopted certain new or revised HKFRS which are relevant to its operations in 2005, and since 2007 the investment in jointly controlled entities have been accounted for using the equity method instead of the formerly used proportionate consolidation method. The comparative figures in previous years have been restated in accordance with the relevant requirements.

** Description of principal financial ratios:
Operating profit ratio = Operating profit / Revenue
Toll highway operating profit ratio = Operating profit from toll highways (excluding government subsidies) / Revenue from toll highways
Return on equity = Profit attributable to equity holders of the Company / Equity attributable to equity holders of the Company
Interest covered multiple = Profit before interests and tax / Interest expenses
Gross liabilities-to-equity ratio = Total liabilities / Total equity
Net borrowings-to-equity ratio = (Total amount of borrowings – Cash and cash equivalents) / Total equity

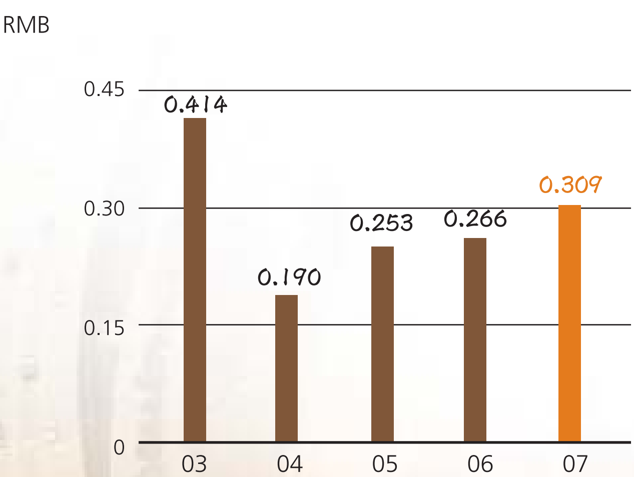
Revenue



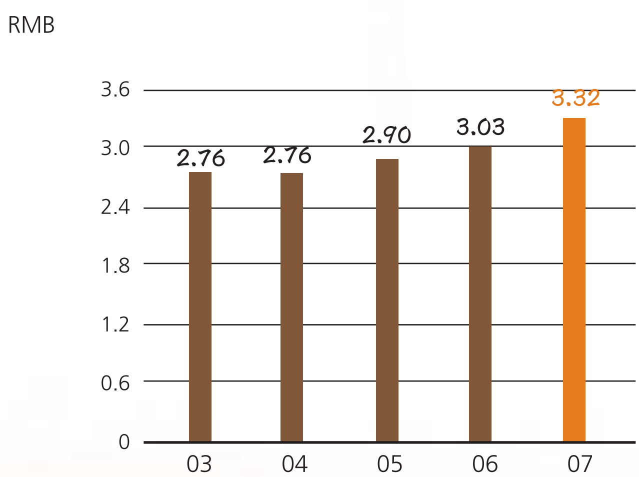
Profit Attributable to Equity Holders of the Company



Basic Earnings Per Share



Net Assets Per Share



Events of the Year

Investment and Construction

January	Formalities relating to the further acquisition of 20.09% interests in Qinglian Project were completed. Qinglian Company was included into the scope of consolidation of the Company's financial statements.
April	Formalities relating to the disposal of interests in Geputan Bridge were completed.
May	The Board approved the Company to commence preliminary work of Guangshen Coastal Expressway (Shenzhen Section).
November	Entered into entrusted construction management agreements for Nanping (Phase II) and Shenyun Project.
December	As at the end of the Reporting Period, approximately 85% of the subgrades and bridge-culvert engineering works on Yanba C was completed, and an aggregate investment amount (with accounting recognition basis) of approximately RMB1.7 billion had been utilised for Qinglian Project.
January 2008	The main route of Nanguang Expressway was completed and opened to traffic.

Financing Activities

August	Successfully issued the fixed-rate corporate bonds of RMB800 million for a term of 15 years.
October	Successfully issued the Bonds with Warrants of RMB1.5 billion, the corporate bonds and the subscription warrants separated are listed on SSE, respectively.
December	As at the end of the Reporting Period, Bank credit facilities of RMB11.7 billion in total were obtained by the Group, in which RMB3.4 billion had been utilized.

Results Announcements and Investor Relations Activities

March	Announced annual results. Earnings per share for the year of 2006 was RMB0.266. Held annual results prsentations and press conferences in Hong Kong and Shenzhen.
April	Announced first quarterly results. Held online reception day for investors and telephone conferences for analysts.
May	Distributed final cash dividend of RMB0.13 per share for the year of 2006, representing a dividend payout ratio of 49%. Participated in the "CLSA China Forum 2007" organised by Credit Lyonnais Securities in Shanghai.
June	Organised corporate governance online conference. Participated in the "Transportation Corporate Day" organised by Credit Lyonnais Securities in Hong Kong.
July	Organised reverse roadshows. Participated in the "Transportation Sector Forum 2007" organised by Ping'an Securities in Shenzhen.
August	Announced interim results. Held interim results presentations and press conferences in Hong Kong and Shenzhen.
September	Organised roadshows in Beijing, Shanghai and Hong Kong, and held online roadshows on Panorama.
October	Announced third quarterly results. Held online reception day for investors.
November	Participated in the "Merrill Lynch Pearl River Delta Investor Forum" organised by Merrill Lynch Securities in Guangzhou. Participated in the "2008 Shenyin & Wanguo Securities Week" organised by Shenyin & Wanguo Securities in Shenzhen.

Market Recognition

April	Ranked 13th in the "2007 Top 100 Corporate Governance Reports of Chinese Listed Companies" jointly published by institutions including the Corporate Governance Centre of the Institute of World Economics and Politics of the Chinese Academy of Social Science.
June	Included as a constituent of the "Hang Seng China AH Index Series" by Hang Seng Indexes Company Limited, with the circulation coefficient of A shares being 20% and that of H shares being 100%.
August	Named among the "2006 Top 100 of Best Investor Relations Management in China" jointly selected by institutions including School of Management and Engineering of Nanjing University and the China Securities Journal.
November	The "07 Shenzhen Expressway Bonds" were included as a constituent of the "SSE Corporate Bond Index". Won the top award - Diamond Award of the "H-share Category" in the "2007 Best Corporate Governance Disclosure Awards" by the Hong Kong Institute of Certified Public Accountants. Named among the "Golden 100" and ranked 30th in the "Golden 100 League of Chinese Listed Companies" Board of Directors Governance* organised by institutions including (Liancheng International Research and Consultancy Group).
January 2008	Included as a constituent of the "Shanghai-Shenzhen 300 Index" by China Securities Index Co., Ltd. Included as a constituent of the "SSE Corporate Governance Index" by SSE and China Securities Index Co., Ltd. Won the second award of the "Best Company for Transport in Asia" and the first award of the "Best Company for Transport in China" by Euromoney in its "Asia's Best Managed Companies".

Laying a Solid Foundation

Chairman's Statement

To all shareholders:

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

2007 Results and Dividends

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

Business Review

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

Chairman's Statement

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

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

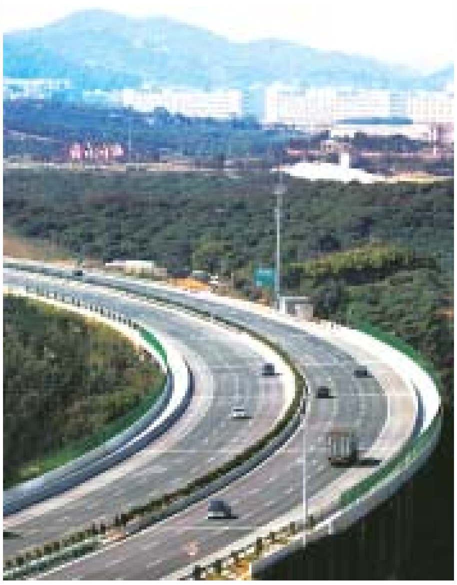
In 2007, the Company successfully issued RMB800 million of long-term corporate bonds and RMB1.5 billion of Bonds with Warrants. Such activities provided fundings of long terms, low costs and fixed interest rates for the Group's key construction projects, thereby lowering the overall financing costs and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

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

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

Opportunities, Challenges and Strategies

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



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

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

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

Acknowledgements

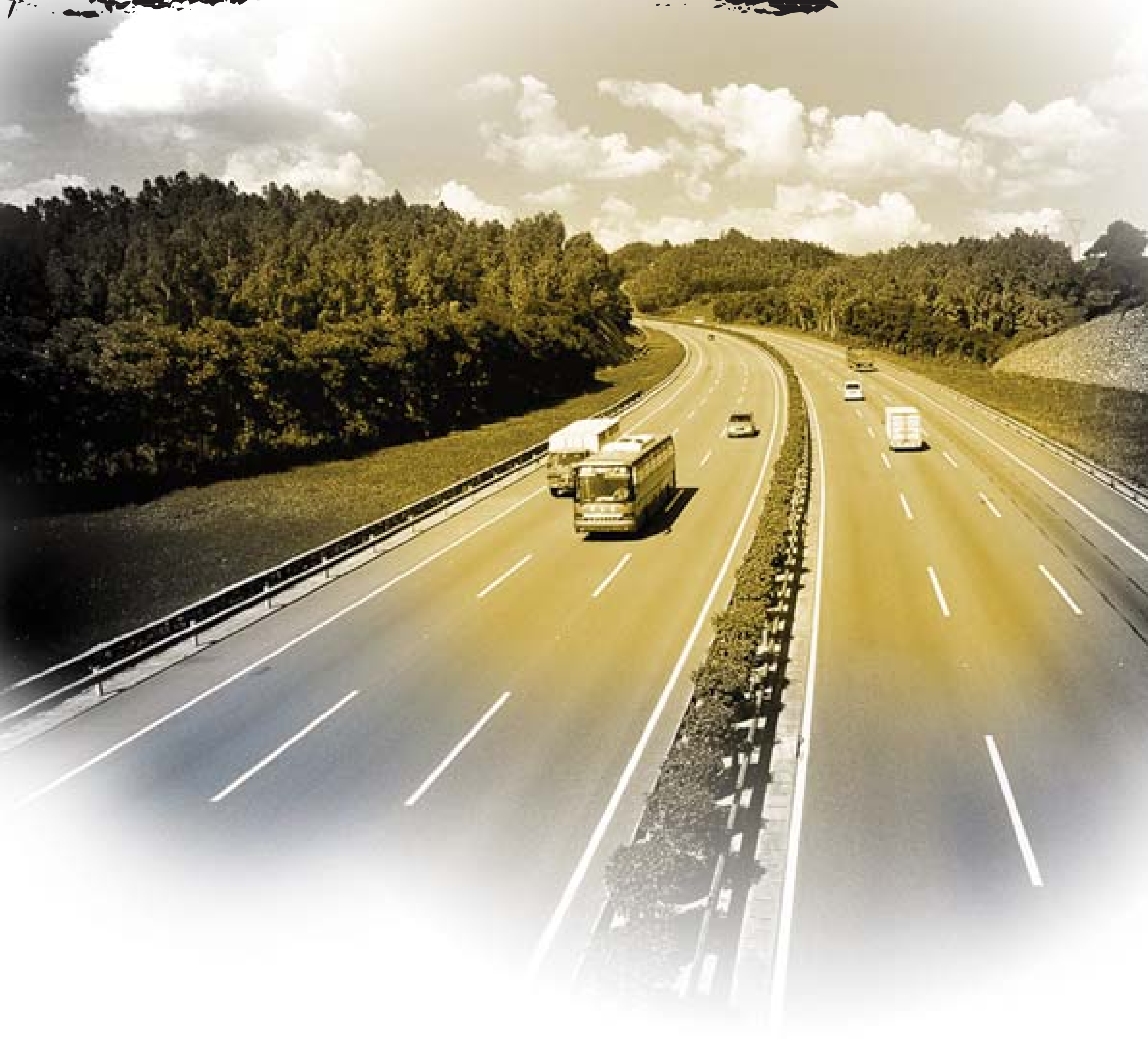
I would like to take this opportunity to express sincere gratitude to our shareholders, customers, business partners and the public for their wholehearted support and contributions, and to our Directors, management and the entire staff for their close cooperation and hard work. Yesterday, we sowed the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

Yang Hai
Chairman

Shenzhen, PRC, 14 March 2008

Management Discussion and Analysis

Progressing with Pragmatism



Management Discussion and Analysis

Director and President's Overview

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

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

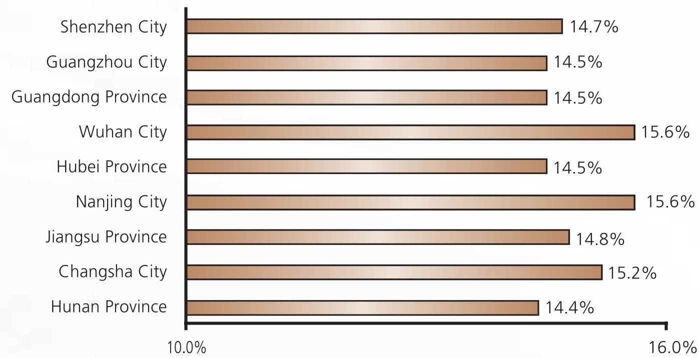
In 2007, the management of the Company has devised concrete operating targets in respect of operations, construction, investment and financial management and enhancement of overall management standards, with associated tasks defined and assigned to the relevant organisations or staff. Accordingly, a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

Major work in 2007	Specific strategies	Results and benefits
Operations management:		
Ensuring the achievement of the toll revenue in total not lower than RMB900 million.	✍ Strengthening themed research and analysis of the factors affecting the traffic and adopting appropriate marketing strategies and coping measures. ✍ Setting management and contingency measures for peak traffic periods and for special vehicles, thereby enhancing service quality and raising traffic efficiency and toll collection rate. ✍ Enhancing the management of the inter-road network toll collection business and accelerating the progress of the province-wide inter-road network toll collection system.	✓ Toll revenue for 2007 amounted to RMB966 million. ✓ Operating revenue increased by 43.4% year-on-year.

Major work in 2007	Specific strategies	Results and benefits
Construction management		
Expediting the progress of projects under construction to lay the foundation for completion thereof as planned in 2008; exercising effective control over construction costs.	✍ Dedicating utmost effort to key aspects such as coordination and management; land requisition, demolition and relocation; material supply; quantity pricing and variations assessment; supervision of site safety and quality; and tendering and contracting management. ✍ Actively carrying out external coordination work to create a good external environment for construction work. ✍ Enhancing environmental protection and water/soil preservation measures and starting scenery improvement work.	✓ The main route of Nanguang Expressway was open to traffic in January 2008. Construction of Yanba C and Qinglian Project progressed smoothly. ✓ Construction costs were effectively controlled within budget. ✓ Capitalising on its fine reputation in the industry, the Company won further entrusted construction businesses from the government.
Investment management:		
Appropriate integration of existing resources to rationalise the Group's asset structure; building up project resources for the Company's long-term development.	✍ Strengthening the themed analysis and preliminary technical management of new and reconstruction projects. ✍ Studying and assessing investment projects in a proactive yet prudent manner. ✍ Enhancing communication with government authorities to facilitate a good external operating environment.	✓ Completed the further acquisition of interests in Qinglian Project and the disposal of Geputan Bridge. ✓ Investment income increased by 46.5% year-on-year (after deducting the impact of the deferred income tax liabilities adjustment of the jointly controlled entities and asset impairment provision for Changsha Ring Road). ✓ Preliminary research for several projects progressed smoothly, thereby laying the foundation for appropriate decision-making.
Financial management:		
Reducing finance costs and preventing financial risks.	✍ Studying domestic and overseas financing products and selecting reasonable financing channels; actively preparing for the issue of the long-term corporate bonds and the Bonds with Warrants. ✍ Strengthening capital budgeting and settlement management to effectively reduce finance costs.	✓ The Group's overall borrowing cost for the Year was 5.3%, while debts with a term of 5 years or more accounted for approximately 60% of total borrowings. ✓ Maintained an AAA credit rating in the market.
Enhancing management standards:		
Emphasising on the enhancement of human resources management standards; improving internal control regimes; enhancing corporate governance standards.	✍ Clarifying and adjusting the management structure and responsibilities; enhancing the performance management and incentive systems; increasing the effort on public recruitment; and strengthening staff training and resource build-up. ✍ Establishing a standardised quality control regime. ✍ Further encouraging the idea of regulated governance, enhancing communication with investors and continuously increasing the transparency of information disclosure.	✓ Corporate governance standards recognised by the market and regulatory authorities. ✓ Created a market-oriented and progressive professional management team, as well as effectively mobilising staff motivation.

Related Economic Indicators for 2007

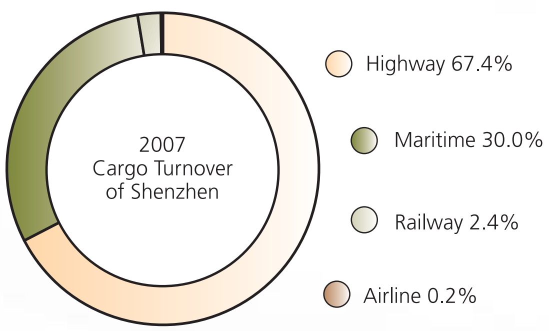
In 2007, China's GDP increased by 11.4%[1] over the previous year, maintaining the rapid growth which has been prevalent for years. Based on the preliminary regional economic growth estimates shown in the government work reports or statistic published by regional governments, the estimated GDP growth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

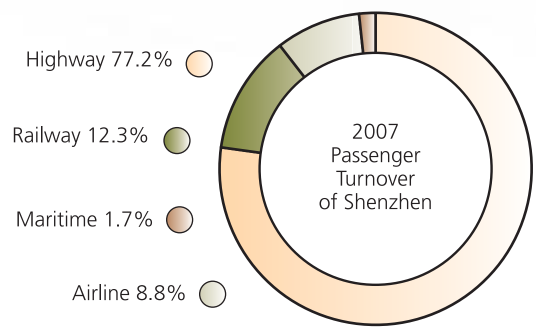


Projected GDP Growth by Province/City - 2007

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.

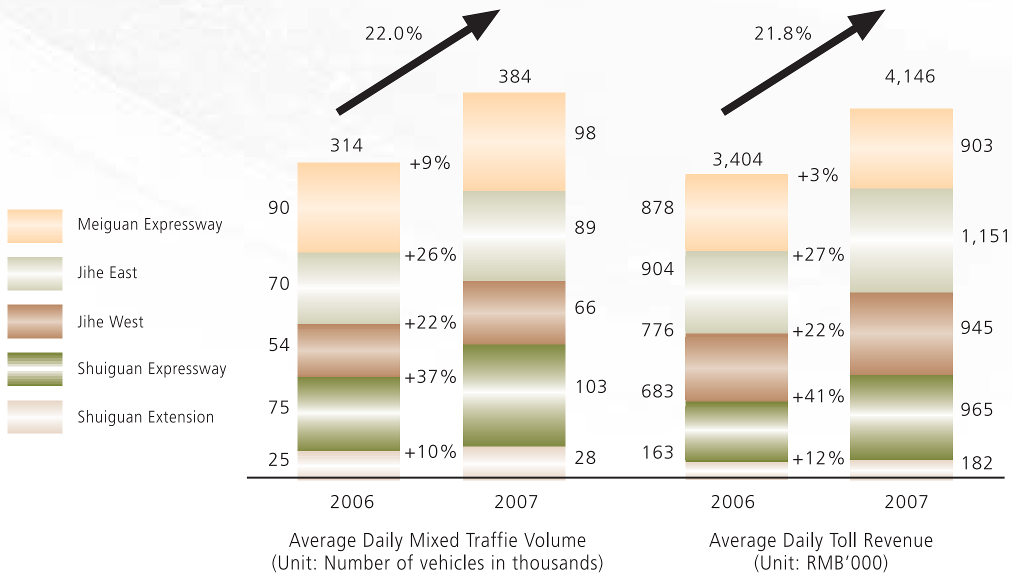
2. To facilitate the travel of Shenzhen residents to and from the east coast for leisure and vacation, the government entered into agreements with the Company pursuant to which the government would, from February 2007, pay the tolls collectively for all vehicles travelling between the Yantian to Dameisha 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

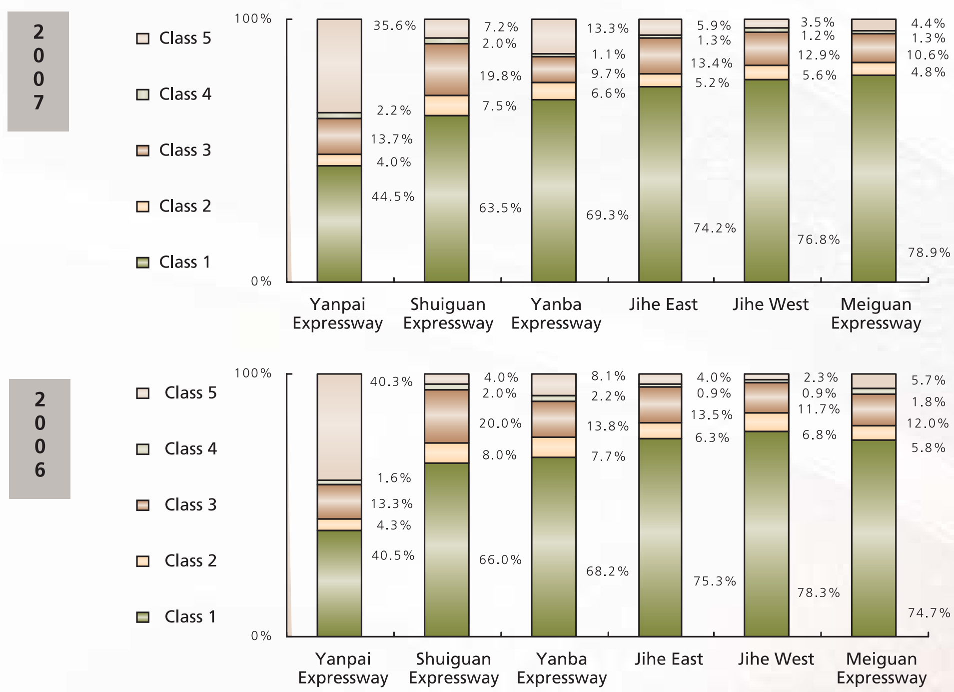
- Yanpai Expressway open to traffic, **May 2006**
- Nanping (Phase I) open to traffic, **June 2006**
- Longda Expressway (Dongguan section), open to traffic, **January 2007**
- Yanpai-Shuiguan Interchange is opened, **March 2007**
- Shenzhen-Hong Kong Western Corridor open to traffic, **July 2007**
-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

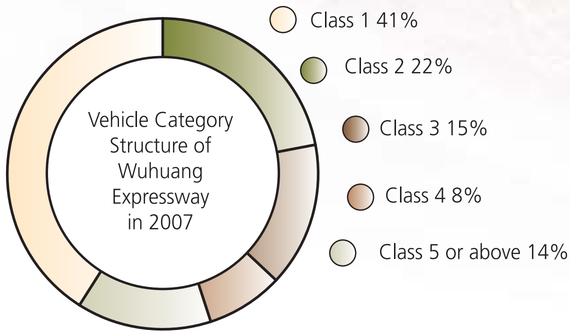
Qinglian Class 1 Highway has been under reconstruction into an expressway since 2006. Subject to reconstruction progress, it is closed by section for construction works, while the sections which remain open still allow traffic and generate toll revenues at the standards of a class 1 highway. In 2007, 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

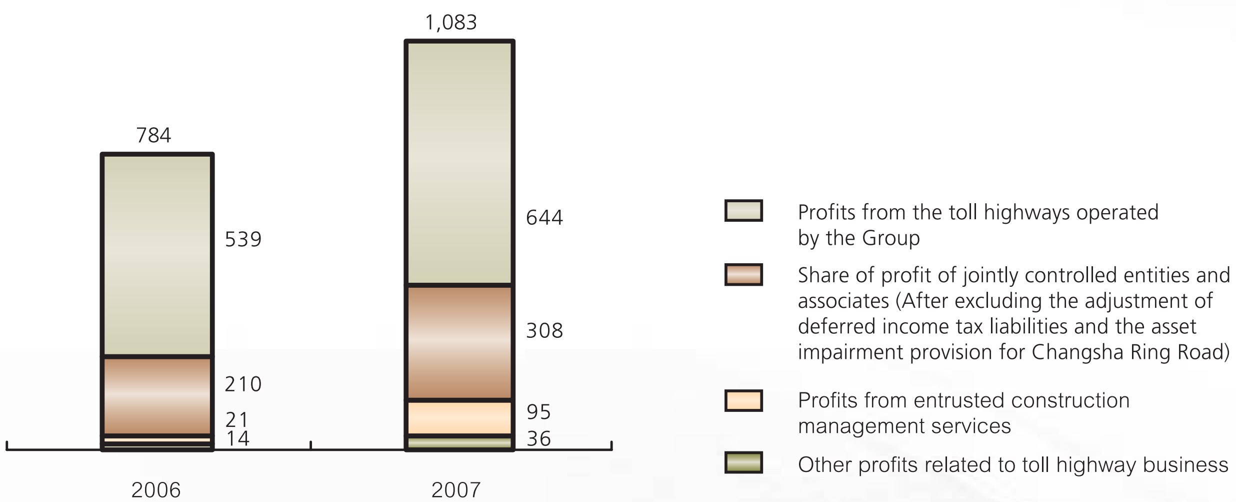
The operating results of the Group's various businesses in 2007 were in line with expectation, recording a revenue of RMB1,103,455,000, representing an increase of 43.44% over 2006. Of this amount, toll revenue amounted to RMB965,850,000, representing an increase of 34.32% over 2006.

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.

Principal toll highway	Percentage of interests held	Toll income 2007 (RMB'000)	Toll income Change	Operating costs of toll highways 2007 (RMB'000)	Operating costs Change	Gross margin of toll highways 2007	Gross margin Change	Profit/loss attributable to the Group 2007 (RMB'000)	Profit/loss 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

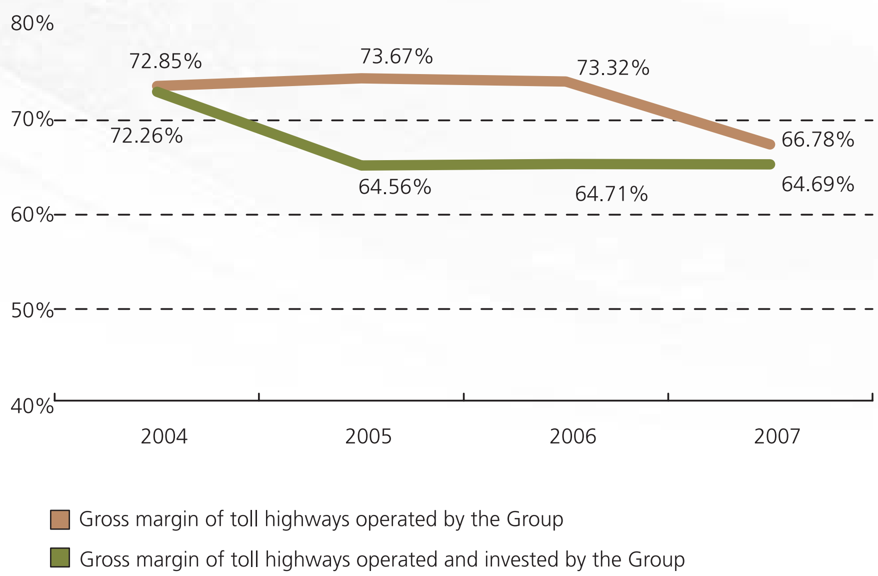
* GZ W2 Expressway commenced toll operation from December 2006.

** 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

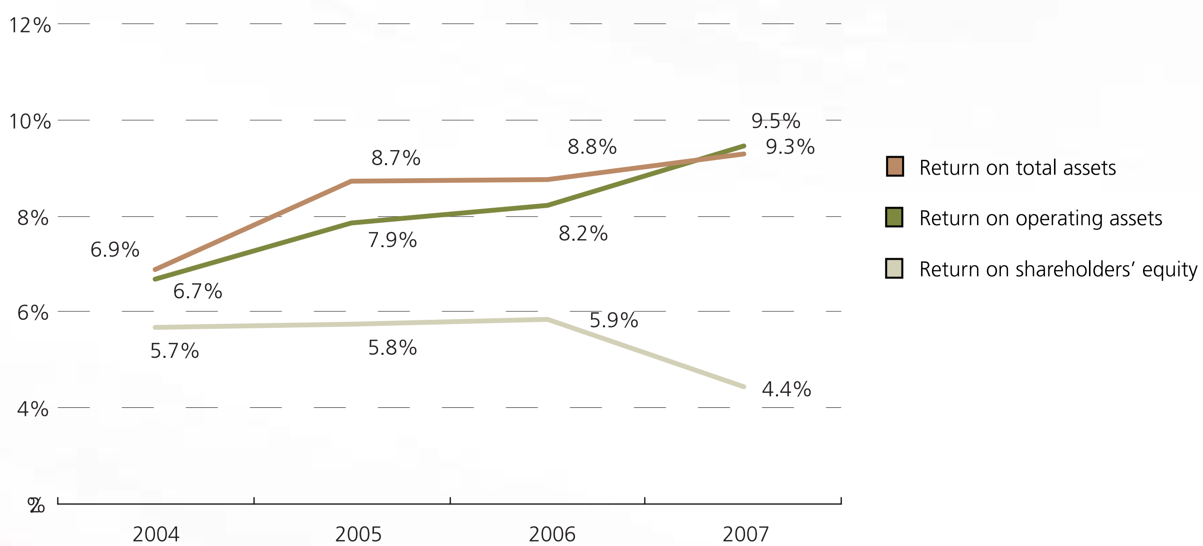
During the Reporting Period, the rise in market interest rates led to a corresponding rise in discount rates based on which the Company calculated the projected present values of cash flows from assets. In addition, projected cash outflows from assets increased as a result of rising inflation. Accordingly, 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

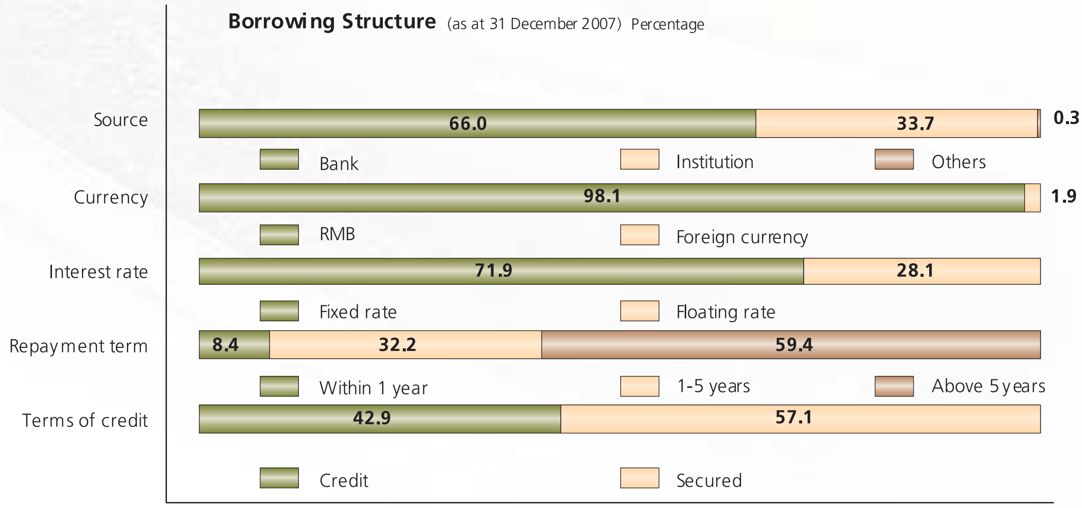
Item	As at 31 December 2007 (RMB million) The Group (consolidated)	Including: Qinglian Company	As at 31 December 2006 (RMB million)	Change
Total assets	**15,200**	**5,674**	9,899	53.55%
Including: Property, plant and equipment	**7,410**	**3,844**	3,635	103.85%
Construction in progress	**4,208**	**1,681**	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.

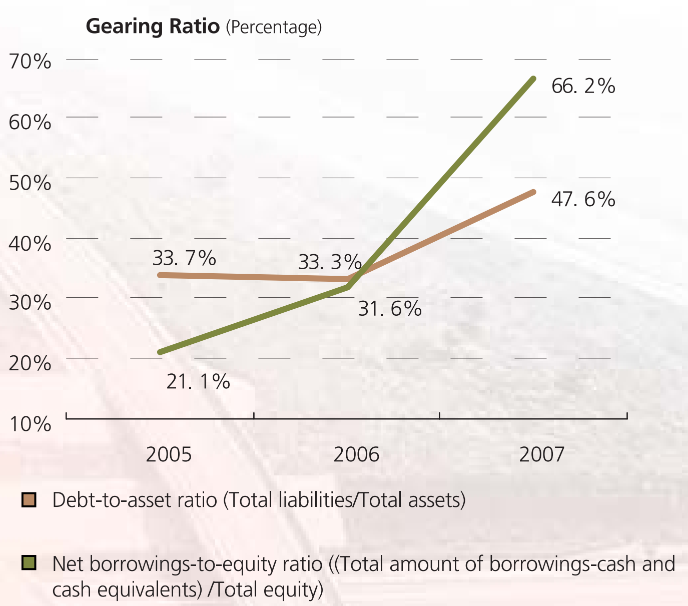
During the Reporting Period, as the Group's investment and construction expenditures were paid and that Qinglian Company was included into the scope of consolidation, the Group's borrowing scale and gearing ratio is rising. As at 31 December 2007, the Group's outstanding borrowings (including loans, 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.

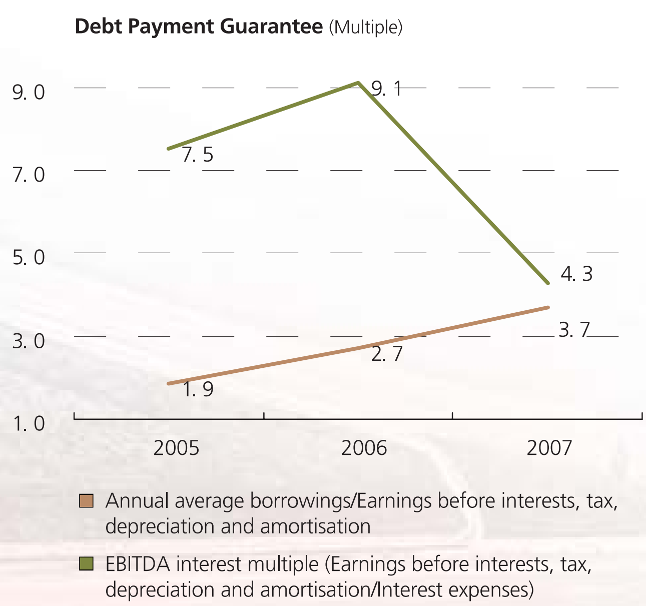
During the Reporting Period, the Group adjusted and optimised its borrowing structure through the Company's various financing activities. The proportions of direct financing, medium/long-term financing and fixed-rate financing were increased, helping the Company to realise its financial strategies and 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.

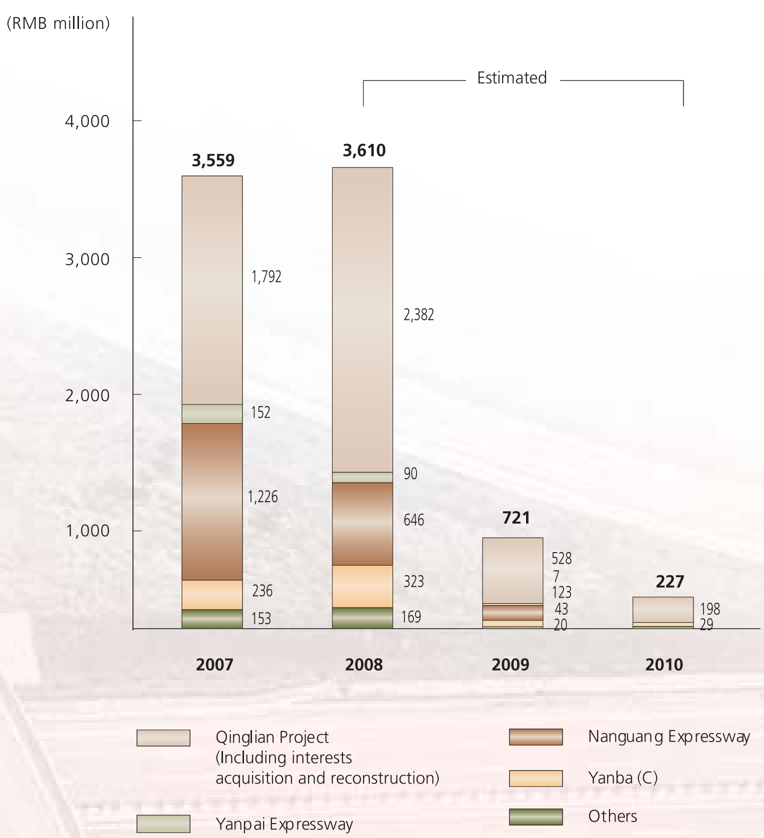
Currently, the focus of the Company's financial strategies is to maintain a solid financial position. The principal objective of the Company's financial strategies is to maintain "a rational and solid capital structure, safe and abundant liquidity and lower financing costs". The Company believes that 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.

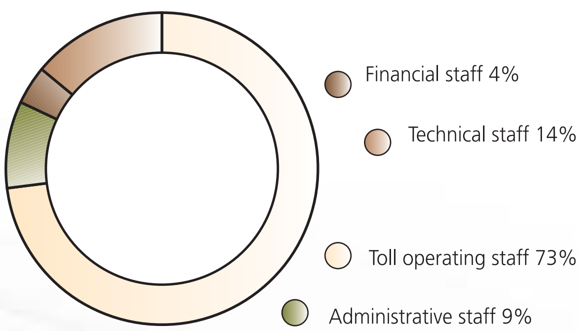
Highlights of the human resource management work carried out in 2007:

- 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.

Corporate Governance

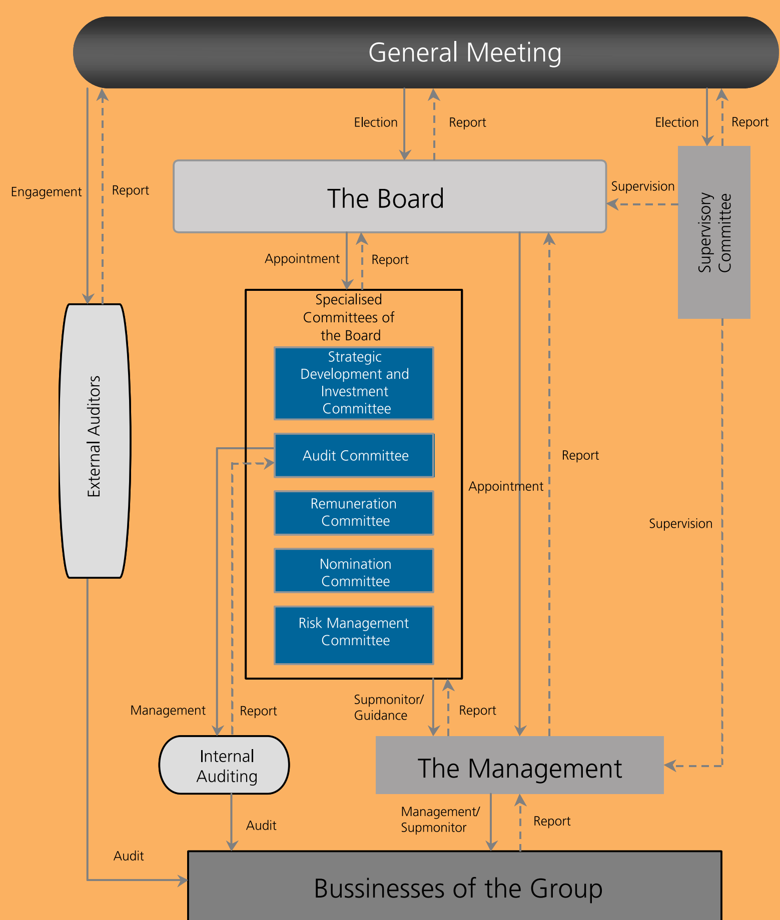
Strengthening Our Prowess

Corporate Governance Report

The Company is listed on both HKEx and SSE. Besides complying with the relevant laws and regulations, we have to comply with the requirements of Code on Corporate Governance Practices of HKEx and Code of Corporate Governance for Listed Companies of CSRC.

The Company fully understands that it can ensure its stable development and increase shareholders' value by adhering to a corporate principle of truthfulness and diligence, maintaining good corporate governance principles, increasing the transparency and independence of the Company's operations and establishing an effective accountability system. Therefore, the Company has been striving to enhance its governance standards.

Corporate Governance Structure of Shenzhen Expressway



Compliance with the Code on Corporate Governance Practices

During the Reporting Period, the Company has fully adopted the code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Listing Rules of the HKEx.

The current corporate governance practices of the Company have gone beyond the requirements of the aforesaid Code in certain aspects, including:

√ the adoption of the cumulative voting system for election of directors;

√ the appointment of 4 Independent Directors, accounting for 1/3 of the Board membership. The total of 10 non-executive directors (including Independent Directors) exceeds 2/3 of the Board membership;

√ the stipulation on the terms of office for Independent Directors of no more than 6 years;

√ the establishment of the Nomination Committee, the Risk Management Committee (RMC) and the Strategic Development and Investment Committee (SDIC) under the Board, in addition to the Audit Committee and the Remuneration Committee;

√ the provision of independent channel for the Audit Committee to obtain information about fraudulence risks, whereby informants may report alleged fraudulence directly to the chairman of Audit Committee;

√ disclosure of senior management remunerations on a named basis in the annual report;

√ preparing and publishing quarterly results announcements in accordance with CAS, and voluntarily notify major differences between the accounting statements under CAS and HKFRS;

√ increasing disclosure of shareholder information;

√ further enhancing communication with shareholders.

Details regarding the above are contained in this report, whereas the contents marked with the symbol💻 can be found on the website of the Company.

A. Board of Directors

Responsibilities and Division of Work

The Board is responsible for leading the Group's development, establishing the Group's strategic goals, and ensuring the availability of necessary financial and other resources for the Group to achieve pre-set strategic goals. The principal duties of the Board are to exercise management and decision-making authorities as conferred by the shareholders' general meeting in respect of corporate development strategies, management structures, investment and financing, planning, financial control, human resources, and so forth. The Articles and the attachments to the Articles💻 have already spelt out the Board's duties and authorities in respect of corporate development strategies and management as well as its duties and authorities to supervise and inspect the Company's development and operation.

The different duties and roles of the Chairman of the Board (the "Chairman") and the Chief Executive (the "President") have been clearly defined which have also been spelt out in the Articles and the attachments to the Article💻. The Chairman of the Company is Mr. Yang Hai, while the President is Mr. Wu Ya De. The Chairman is responsible for providing leadership in the Board to set strategies and achieve the Group's goals and his duties include: overseeing and coordinating the operation of the Board, confirming the agenda of each Board meeting and ensuring the Board functions effectively and discusses all major and appropriate matters in a timely and constructive manner; ensuring the availability of accurate, timely and clear information to induce effective contribution from the Board; monitoring the execution of the Board's resolutions; and maintaining effective communication with shareholders. The President, with the support and assistance of the Board and other senior management of the Company, is responsible for coordinating and managing the Group's business and operations, implementing the strategies laid down by the Board and making day-to-day operating decisions.

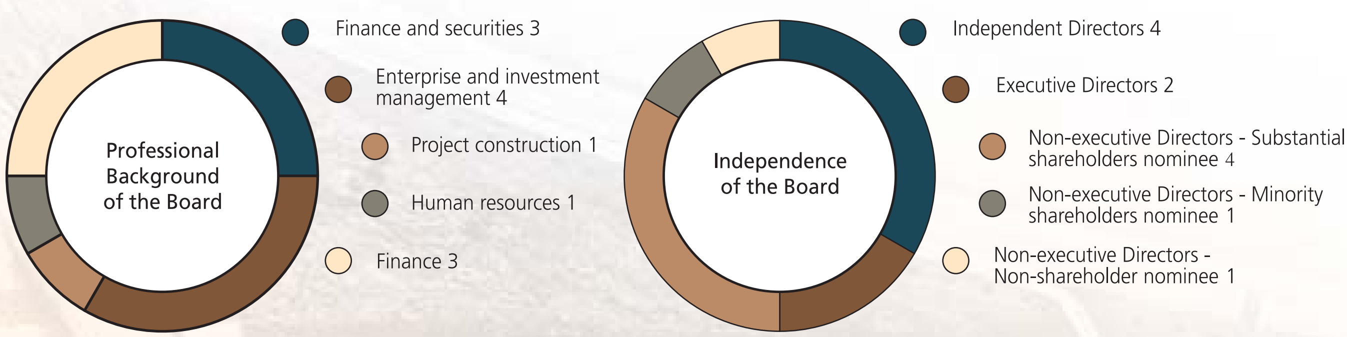
Composition of the Board

The current Board is in its fourth session since the establishment of the Company and it comprises 12 directors. Details of the members of the Board are as follows:

Name	Date first become Director	Period	Experience/skill
Executive Directors:			
Yang Hai	April 2005	3 years	industry experience, road and bridge construction
Wu Ya De	January 1997	11 years	industry experience, corporate management
Non-Executive Directors			
Li Jing Qi	April 2005	3 years	international banking experience, risk management
Wang Ji Zhong	April 2005	3 years	industry experience, financial management
Liu Jun	January 2006	2 years	financial and foreign investment management
Lin Xiang Ke	June 1998	10 years	industry experience, financial management
Zhang Yang	March 2001	7 years	industry experience, investment project management
Chiu Chi Cheong, Clifton	December 1996	11 years	financial, securities and accounting
Independent Directors			
Li Zhi Zheng	January 2003	5 years	technical, operations and administrative management
Zhang Zhi Xue	January 2003	5 years	human resources management
Poon Kai Leung, James	May 2003	5 years	investment banking experience, financial and risk management
Wong Kam Ling	June 2005	3 years	financial management

The afore-mentioned directors possess different professional background or professional expertise, with more than one Independent Director possessing professional accounting qualifications or appropriate expertise in accounting or related financial management as required by the regulatory organisations. Brief biographies, terms and positions held in shareholding institutions of the directors are set out in the section "Directors, Supervisors and Senior Management" of this annual report.

Composition of the Board



The Board currently has four Independent Directors, representing one third of the total membership of the Board. There are only two executive directors, representing one sixth of the total membership of the Board. Such a structure helps the Board to analyse and discuss issues from various perspectives. It also helps the Board to maintain its independence and to review and monitor the Company's management procedures in a strict manner, thereby providing sound supervision and balance to safeguard the overall interests of the Company and the shareholders.

Board Meetings

8 Board meetings were held in 2007 to discuss the Group's operational and financial performance, investment and financing proposals, management structure, human resource management and so forth. Major items discussed include:

- consideration of the annual final accounts and budgets, work reports of the Board and internal control assessment reports;
- consideration of the annual, interim and quarterly reports;
- consideration of the annual profit distribution proposal;
- formulating or amending certain administrative rules of the Company, including the 《信息披露事務管理制度》 (Rules Governing Information Disclosure Matters),《投資者關係管理制度》(Rules Governing Investor Relations) and《董事會秘書工作細則》(Work Guidelines for Secretary to the Board);
- processing specific work on the enhancement of corporate governance and approving the self-inspection report and the reform report on corporate governance matters;
- determining the Company's annual performance targets and approving the implementation of the proposals on enhancing staff performance management and incentive system;
- re-appointing senior management of the Company and adjusting and optimising the Company's organisational structure;
- studying and determining matters on changes in accounting policy, significant accounting matters and re-appointment of auditors;
- consideration of the corporate bond issue proposal and relevant matters and approval of the Company's annual financing arrangements and mandates;
- consideration of the commencement of preliminary works of Coastal Expressway (Shenzhen Section) and the entrusted construction of Nanping Expressway (Phase II), and so forth; approving on the entrusted operations management business and the purchase of office properties, and so forth.

The Board holds one regular meeting each quarter and holds ad hoc meetings when necessary. Notices of all regular meetings shall be dispatched to all directors at least 14 days before the meeting is held, while notices of ad hoc meetings shall be dispatched at least 5 days before the meeting is held. The Company's Chairman, President and Supervisory Committee have the right to call for an ad hoc meeting. Meanwhile, over 1/3 of the directors, over 1/2 of the independent directors and shareholders representing 10% of the voting rights may also propose to hold an ad hoc Board meeting when necessary, so as to ensure that all significant matters of the Company can be considered and discussed appropriately.

The Company's management is responsible for supplying the Board with the relevant information and data necessary for the consideration of various resolutions, as well as arranging managers to report on various businesses especially the progress of the Group's substantial matters, so that the Board can make rational and scientific decisions on the basis of adequate understanding in the required information. When necessary, directors may individually and independently contact the Company Secretary and other senior management members directly to obtain more detailed information and opinions. Directors and the specialised committees of the Board may engage independent professional institutions for services with reference to the needs of duty and business, and reasonable fees incurred shall be borne by the Company.

Whenever a transaction is considered at a Board meeting, the Directors are required to report their respective interests involved, and abstain when appropriate. According to the Company's Rules of Procedures for the Board of Directors, a Director should abstain from a meeting and be given no voting rights in case an item considered by the Board is relevant to his/her personal economic interests. In addition, according to the Listing Rules of the SSE, a Director who also holds office in a connected company is not allowed to vote in case the Board is considering a transaction between the connected company and the listed company. During the Year, when the Company was considering a resolution on accepting an entrusted operations management business, 4 Directors holding offices in connected companies reported their respective interests in accordance with the relevant rules and abstained from voting.

The minutes of the Board meeting contains detailed information of matters discussed at the meeting, including the factors considered by each Director, any doubts raised or opposing opinion expressed, and the final decisions. The draft of the meeting minutes shall be dispatched to each Director for further opinion within a reasonable period of time after each meeting. The finalised version shall be kept properly according to the Company's file management rules and dispatched to each Director for inspection. Directors may also inspect the minutes any time through the Company Secretary.

B. Directors

Appointment

Directors are elected or replaced at shareholders' general meetings. Shareholders of the Company, the Board and the Supervisory Committee are eligible to nominate candidates for directorship in writing. Directors serve for a term of 3 years and, upon expiry of the term, their appointment is subject to further consideration at a general meeting and they may offer themselves for re-election. Independent Directors are eligible for re-election, subject to a maximum term of 6 years.

The Company's Rules of Procedures for the Board of Directors have listed the Company's requirements on the qualifications and basic qualities of Directors, the nomination format and the proposing procedures: that is, the Nomination Committee is responsible for qualification inspection and quality assessment on the candidates for directorship, as well as making proposals to the Board and providing explanations to the general meetings.

The Company's election of Directors adopts the cumulative voting system whereby, on election of Directors, the number of votes that each shareholder is entitled to cast is equal to the number of shares that he/she holds multiplied by the number of Directors whom he/she has the right to elect. Each shareholder may elect a Director by using all the votes held or may allocate the votes to all the candidates whom he/she has the right to elect at discretion. The candidate with more votes will be elected. The voting on the election of Independent Directors shall be conducted separately from that of non-independent Directors.

Information Support

The Company strives to enhance its internal information support systems and communication regimes to adequately guarantee the effective operation of the Board. During their respective terms of office, all Directors are able to duly obtain from the Company Secretary the relevant information and updates on the required statutory, regulatory and other continuing obligations that a director of a listed company should comply with, as well as other information such as relevant industry policies, market opinions and the Company's operations. In 2007, the Company compiled 7 editions of reference document summaries and 5 editions of market news briefings for the Directors, so as to provide them with the most updated regulatory policy documents and relevant reports and analyses on the securities market and the news media. During the Year, the Company also arranged for the Board the annual work report meeting and group learning on relevant regulatory rules, as well as organizing site visits to Wuhuang Expressway and Qinglian Project for the Directors.

Through the various approaches mentioned above, all Directors, particularly the Non-executive Directors, may obtain timely and diversified updates on the Company's business development, competition and regulatory environment and other information which may affect the Group and the industry. Each Director is provided with channels to communicate and contact the senior management member of the Company and specific committee secretaries independently when necessary. The provision of timely, adequate and continuing information to all the Directors ensures a good understanding of their duties, facilitating them to exercise correct decision-making and effective monitoring, and also guarantees a thorough implementation of the procedures of the Board and due compliance with applicable laws and regulations.

Performance of Duties in the Year

Attendance of Directors at the Board meetings in 2007 was 100% (including attendance by appointing other Directors as proxies). Details of attendance of each Director at the Board meetings and the specialised committees are as follows:

	Attendance in person/Total number of meetings					
Directors	**The Board**	**SDIC**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**	**RMC**
Executive Directors:						
Yang Hai	8/8	1/1	3*	—	2/2	2*
Wu Ya De	8/8	1/1	4*	3*	2*	2*
Non-executive Directors:						
Li Jing Qi	6/8#	1*	—	—	—	2/2
Wang Ji Zhong	8/8	1*	—	—	—	—
Liu Jun	7/8#	—	—	—	—	—
Lin Xiang Ke	8/8	1*	—	—	—	—
Zhang Yang	7/8#	1*	—	3/3	—	2/2
Chiu Chi Cheong, Clifton	6/8#	1/1	4/5#	—	—	—
Independent Directors:						
Li Zhi Zheng	7/8#	1/1	—	3/3	2/2	—
Zhang Zhi Xue	6/8#	1*	—	3/3	2/2	—
Poon Kai Leung, James	7/8#	1*	5/5	—	—	2/2
Wong Kam Ling	8/8	1*	5/5	—	—	—

#: Directors who were unable to attend meetings in person had appointed other Directors as their proxies to attend and vote at the meetings on their behalf.

* Had attended the meetings as observer

During the Reporting Period, the Company's Directors attended Board meetings in a prudent, responsible, proactive and serious manner, adequately capitalising on their respective professional experience and expertise. They provided independent judgment, knowledge and experience towards the matters discussed, thereby helping to ensure that the Board dutifully fulfills its financial and other required reporting duties, as well as enhancing corporate governance, preventing operation risks and pushing forward the Company's business development.

The Company's Independent Directors were able to perform their duties independently and were not subject to the influence of the Company's substantial shareholders, de facto controllers or other units or individuals having interests in the Company. Besides attending Board meetings in a serious manner and performing their duties loyally, the Independent Directors held meetings with the external auditors according to the requirements and directions of the relevant regulations to discuss the annual auditing work. They also provided independent opinions and proposals to the Board regarding the Group's significant matters and connected transactions, thereby giving sound supervision and balance of safeguarding the overall interests of the Company and shareholders. In 2007, the Independent Directors gave no dissent to matters discussed by the Board and did not propose to hold any Board meeting. The Company's Independent Directors assumed crucial duties and tasks in the 5 specialised committees of the Board, based on their respective professional experience and expertise, making substantial contributions to enhance the decision-making efficiency and quality of the Board through the specialised committees' effective operation. Since 2005, the Independent Directors have been submitting annual work reports at the general meeting each year for shareholders' review.

Remunerations of Directors

The Company has been disclosing the remunerations of Directors and Supervisors on a named basis since 2004 and the same policy has been adopted for senior management since 2005. According to the Company's regulations, Directors or the senior management are not allowed to set their own remunerations. Details of the Company's remuneration policies, Directors' and senior management's remunerations, and the appraisals and incentive regimes for senior management are set out in "Emoluments of the Directors, the Supervisors and Senior Management" in the section"Report of Directors" and "Human Resource Management" in the section"Management Discussion and Analysis" of this annual report.

Independence of Directors

The Company has appointed a sufficient number of Independent Directors. The Board has obtained written confirmations from all Independent Directors concerning their independence in accordance with rule 3.13 of the Listing Rules of HKEx. The Company believes that the incumbent Independent Directors have all complied with the relevant guidelines as stipulated in such rule and are regarded as independent.

Securities Transactions by Directors

The Securities Transaction Code of the Company has been adopted by the Board in accordance with Appendix 10 to the Listing Rules of HKEx entitled "Model Code for Securities Transactions by Directors of Listed Issuers" as a written guide to regulate dealings in the Company's securities by the Directors, Supervisors and relevant staff. The standards set under Appendix 10 to the Listing Rules have been incorporated into the Securities Transaction Code of the Company. After making specific enquiry of all the Directors, Supervisors and senior management, the Company confirms that all of the Directors, Supervisors or senior management have complied with the standards on securities transactions by directors as stipulated by the aforementioned code during the Reporting Period.

Insurance on Directors' Liabilities

The Company is considering to arrange appropriate insurance against legal actions possibly faced by the Directors and is planning to submit the proposal for consideration at the 2007 annual general meeting. The Company believes that an appropriate insurance arrangement can enhance the Company's ability to resist risks, as well as diversifying and reducing professional risks for the Directors. This will in turn encourage the Directors' innovative spirit and will create the condition for the Company to attract more excellent management staff. In addition, this will also help to protect the legal interests of small/medium shareholders and is a good practice to enhance corporate governance.

C. Specialised Committees of the Board

Five specialised committees have been set up under the Board, each of which has formulated its terms of reference for monitoring the specific areas of the Company's business. Such terms of reference have been approved by the Board.

Strategic Development and Investment Committee

Established in November 2001, its current members include Mr. Yang Hai (Chairman), Mr. Wu Ya De, Mr. Chiu Chi Cheong, Clifton and Mr. Li Zhi Zheng.

Responsibilities

Responsible for examining and reviewing the directions of the Company's strategic plans, formulating strategic plans, monitoring the implementation of strategies and facilitating adjustments to the Company's strategies and governance structure on a timely basis.

Major Tasks in the Year

One meeting of the SDIC was held in 2007, during which the "Five-year Development Strategies 2005-2009" and their implementation in the past 3 years were reviewed and evaluated. The Company's strategic development directions, investment and financing strategies, development strategies for existing businesses such as toll highway investment, entrusted construction and advertising, share option incentives, the Board's authorisation system, and so forth were discussed with reference to the internal and external environment.

Audit Committee

Established in August 1999, it comprises mainly Independent Directors. The current members include Mr. Wong Kam Ling (Chairman), Mr. Poon Kai Leung, James and Mr. Chiu Chi Cheong, Clifton.

Responsibilities

Principally responsible for reviewing and monitoring the quality and procedures of the Group's financial reporting; evaluating whether the Company's internal control regimes are sound and effective; appointing the independent auditors, coordinating their work and reviewing the efficiency and quality of their work; and reviewing all written reports furnished by internal audit officers as well as the management's feedback to such reports.

Major Tasks in the Year

Annual Work Report of the Audit Committee

Five meetings of the Audit Committee were held in 2007, with two more meetings held in early 2008 (as at the date of signature of this report) to fulfill the duties. Among the aforementioned meetings, external auditors were invited to five meetings to discuss the relevant issues. The Audit Committee has the regime of holding independent meetings at the request of external auditors, the Company's management or the Audit Department, so as to guarantee the independence and objectivity of reporting. The Audit Committee will, after each meeting, submit a report to the Board on major items discussed and brief the Board at least every six months on its work and progress. The Audit Committee hereby reports the major tasks in the said period as follows:

1. Review of Periodic Financial Statements

The Audit Committee is responsible for reviewing and monitoring the quality and procedures of the Group's financial reporting. Pursuant to the relevant procedures, the management is responsible for the preparation of the Group's financial statements, including the selection of the appropriate accounting policies therefor; the external auditors are responsible for auditing and verifying the Group's financial statements and evaluating the Group's internal control regimes about the compilation of financial statements of the Group; while the Audit Committee supervises the work of the management and the external auditors and approves the procedures and protective measures adopted by the management and the external auditors.

The unaudited financial statements for the first and third quarters of 2007 (prepared under CAS) and the unaudited financial statements for the first six months of 2007 have been reviewed by the Audit Committee and submitted to the Board for approval prior to their publication.

The Audit Committee's reviewing on the 2007 financial statements include:

- Before the annual audit began, the committee had obtained the working plan on the annual financial report and annual audit from the Company's Financial Controller. The committee had also considered the external auditors' report on the annual audit plan, and discussed and confirmed with them the method, scope, time of auditing work, as well as the evaluation and counter-measures for significant misrepresentation risks regarding the Group's financial statements.

- Before the external auditors began the audit, the committee preliminarily reviewed the Group's 2007 financial statements with special attention paid to the handling of the Year's significant financial and accounting matters. The Audit Committee gave preliminary approval to the management's proposal and suggested giving further attention to the impairment assessment of Changsha Ring Road and enhancing the annual financial statements and the notes' contents, so as to ensure the compliance, completeness and accuracy of disclosure and the consistency between the overall data in the financial statements and the notes.

- On 10 March 2008, after the external auditors issued the preliminary auditing opinion, the Company held a joint meeting attended by the Audit Committee, the Independent Directors and the external auditors, with the Chairman at Supervisory Committee invited to participate as well. The committee again reviewed the 2007 financial statements of the Group and had in-depth discussion and communication with the management and the external auditors over the appropriateness of the accounting policies adopted by the Group and the rationality of the accounting estimates. The Audit Committee believes that the accounting policies and accounting estimates adopted by the Group for 2007 satisfied the requirements of the domestic and overseas accounting standards, while the significant accounting estimates adopted and the handling of significant financial and accounting matters were reasonable.

- Through adequate communication in advance and timely supervision during the process, the external auditors had submitted as scheduled the annual auditing report and their management letter on the internal control relevant to the preparation of financial statements on 14 March 2008.

Based on the aforementioned work and the external auditors' auditing report, the Audit Committee believes that the Group's 2007 financial statements truthfully and reasonably reflect the Group's 2007 operating results and the financial position as at 31 December 2007, and hereby suggests the Board to approve as such.

2. Internal Control and Risk Management

To gradually enhance the Group's internal control and risk management regimes, the Audit Committee furnished the management promptly with professional advice on the Group's significant matters or reminded the management of any risks associated with such matters, as well as furnishing the management with professional advice on the enhancement of internal control and corporate governance standards on an ongoing basis.

In early 2007, the Audit Committee set up a separate reporting mail box to obtain fraud-related information in a timely manner and a cooperation memorandum was reached with the Company's disciplinary supervision committee on this basis to strengthen the communication and cooperation between both sides. Meanwhile, the Audit Committee regularly exchanged opinion with the external auditors on the control of fraudulent risks.

The Audit Committee is also responsible for monitoring and appraising the Company's internal audit. It reviewed all auditing reports and annual internal control inspection reports submitted by the Audit Department and issued independent evaluation on the effectiveness of the Group's internal control regime, so as to ensure that the Group sets up and executes the appropriate internal control regime and procedures.

3. Work Evaluation and Re-appointment of Auditors

After discussion and evaluation with the management, the Audit Committee summarised the external auditors' auditing work in 2007. The committee believes that PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian CPAs Co., Ltd. performed well in terms of independence and objectivity, professional skills, quality and efficiency of financial information disclosure auditing, and communicating with the management and the Audit Committee. We hereby proposes to the Board to re-appoint the aforementioned institutions as the Company's international auditors and statutory auditors for 2008, respectively.

Members of the Audit Committee: Wong Kam Ling, Poon Kai Leung, James, Chiu Chi Cheong, Clifton

14 March 2008

Remuneration Committee

Established in November 2001, it comprises mainly Independent Directors. The current members include Mr. Li Zhi Zheng (Chairman), Mr. Zhang Zhi Xue and Ms. Zhang Yang, all being Non-Executive Directors.

Responsibilities

Responsible for studying and examining the Company's remuneration policies and incentive regimes, devising the appraisal standards for the Company's Directors and members of the senior management, and conducting appraisals thereof.

Major Tasks in the Year

Annual Work Report of the Remuneration Committee

Three meetings of the Remuneration Committee were held in 2007 and one meeting was held in early 2008 (as at the date of signiature of this report), with studies conducted and proposals made for the enhancement of the Company management's operating performance management and incentive regime. Major tasks include:

- Inspecting the management operating performance evaluation method for 2007 and making proposals to the Board. Based on a scientific and rational principle, the committee conducted adequate studies and discussions on the evaluation method and provided concrete amendment proposals to achieve effective motivation and control on the management and to ensure the execution of the Company's strategic objectives.

- Appraising and evaluating the execution of the 2006 and 2007 management operating results targets. Based on the annual performance evaluation method approved by the Board, the committee inspected and evaluated each of the indicators and key tasks, with the annual performance scores of the management calculated and submitted to the Board for consideration.

- Providing guidance to the enhancement of the management incentive regime and considering the resolutions on enhancing the staff performance management and incentive regimes, with proposals made to the Board; inspecting the distribution proposal of the special incentive fund under the share appreciation rights scheme for the year 2005. As mandated by the Board, the committee supervised and guided the execution of the Company's remuneration and benefit regimes and the establishment and enhancement of the incentive regime, based on a prudent principle and adequate consideration of the market practice and the Company's actual situation.

- Reviewing the remuneration disclosure proposal for the Company's Directors, Supervisors and senior management. The committee reviewed the drafts of the disclosure proposal submitted and conducted serious discussions on the exact items and format of disclosure, arriving on the view that the overall disclosure proposal complies with the requirements of the relevant regulatory rules.

Members of the Remuneration Committee: Li Zhi Zheng, Zhang Zhi Xue, Zhang Yang

14 March 2008

Nomination Committee

Established in November 2001, it comprises mainly Independent Directors. The current members include Mr. Li Zhi Zheng (Chairman), Mr. Zhang Zhi Xue and Mr. Yang Hai.

Responsibilities

Responsible for examining and devising the Company's human resources development strategies and planning; and conducting studies and making proposals in respect of nominees, nomination criteria and nomination procedures for the Directors and members of the senior management.

Major Tasks in the Year

Two meetings of the Nomination Committee were held in 2007. Tasks completed during the Year include:

- Conducting studies and providing guidance on enhancing the Company's organisational structure in accordance with the Company's development needs; and considering the resolution regarding organisational structure adjustment made by the management, and submitted the relevant proposal to the Board.
- Studying the positions of senior management and making adjustment proposals to the Board; giving guidance to the Company on enhancing other positions.
- Providing guidance and conducting supervision on assessing the service of the terms of office and re-appointment of the Company's senior management, as well as making adjustment proposals on the terms of office of senior management.
- Conducting continuous documentation management on the work of representatives assigned by the management to invested enterprises.

Risk Management Committee

Established in August 2004, its current members include Mr. Poon Kai Leung, James (Chairman), Ms. Zhang Yang and Mr. Li Jing Qi.

Responsibilities

Responsible for improving and enhancing the Company's procedures and systems for managing its investment activities, and providing support to the Company's business decision-making and operations by performing risk analysis and controls in relation to individual investment projects.

Major Tasks in the Year

Two meetings of the RMB were held in 2007. Major tasks in the Year include:

- Determining the investment report templates for various projects, including investment proposals, thereby creating standardised templates for investment proposals and financial analysis in the decision-making of investment projects; and determining the persons-in-charge, frequencies, basic content and formats of reporting tasks such as post-investment tracking reports and post-investment-evaluation reports.
- Reviewing the progress tracking report on Qinglian Project.
- Discussing with the management the risk management work for the Company's entrusted construction projects and advising the Company to establish separate management procedures for this business, as well as summarising experience in a timely manner, so as to facilitate better identification and evaluation of entrusted construction risks in future.

D. Accountability and Audit Supervision

Statement of Responsibility by the Board for the Financial Statements

This statement intends to clarify for our shareholders the responsibilities to be assumed respectively by the Directors and the auditors of the Company for the financial statements. It should be read together with the statement of responsibility by the auditors set out in the Independent Auditor's Report on page 97.

It is the Board's opinion that the financial statements were prepared on the basis of ongoing operations given that the resources available to the Company are sufficient enough for carrying out ongoing business operations in the foreseeable future. Appropriate accounting policies have been adopted in preparing the financial statements on pages 99 to 173. These policies have been applied throughout the preparation of the financial statements and supported by reasonable and prudent judgments and estimates, and in accordance with all accounting standards which the Board deems appropriate.

It is the responsibility of the Board to ensure that the account records prepared by the Company can reflect a reasonable and accurate view of the Company's financial position and that the financial statements are in compliance with the requirements of relevant accounting standards of Hong Kong.

Auditors

The financial statements contained in the Company's 2007 annual report were prepared in accordance with CAS and HKFRS respectively, and have been audited by PricewaterhouseCoopers Zhong Tian CPAs Co., Ltd. ("PwC Zhong Tian") and PricewaterhouseCoopers (Certified Public Accountants, Hong Kong) ("PwC"), respectively.

PwC Zhong Tian was appointed as statutory auditors since 2004, and it has been providing audit services to the Company for 4 consecutive years. PwC as the Company's international auditors has been providing audit services to the Company for 12 consecutive years since 1996. Its partners in charge of the Company's audit were changed in 2003.

From the perspective of improving governance quality, the Audit Committee has clarified its principles on the issue of appointing the Company's auditors to provide non-audit services such as specific audits and evaluations for investment projects. Since 2006, the Company has ceased appointing the Company's auditors to conduct other non-audit services.

The remuneration of the auditors in the year 2007 is set out as follows:

	2007		2006	
(RMB '000)	**Audit fees**Note 1	**Other fees**Note1	Audit feesNote 1	Other feesNote1
PwC	**1,950**	**—**	1,650	—
PwC Zhong Tian	**990**	**—**	1,800Note 2	—

Note 1 Pursuant to the requirements of CSRC's "Q&A No.6 on Information Disclosure Regulations for Companies with Publicly Issued Securities", audit fees are fees paid by a listed company for appointing auditors to conduct audit, verification and review services for financial reports or other matters in accordance with the requirements of laws, administrative rules and regulatory documents; other fees represent fees, other than those mentioned above, paid by a listed company for asset evaluation or appointing auditors for consultation services, and so forth.

Note 2 The auditors have submitted a written confirmation in respect of the aforementioned remuneration issues.

Note 3 Apart from the fees for the annual audit, the 2006 audit fees for PwC Zhong Tian include RMB1 million of fees for the statutory engagement of PwC Zhong Tian for specific services in relation to the Company's proposed issuance of Bonds With Warrants.

Note 4 Pan-China Schinda Certified Public Accountants of Shenzhen were the original auditors of The Company's subsidiaries Qinglian Company and Advertising Company engaged Carea Schinda Certified Public Accountants (originally Pan-China Schinda Certified Public Accountants of Shenzhen; after merging with other accounting firms to form Carea Schinda Certified Public Accountants in 2007, it remained as the auditors for the 2 subsidiaries mentioned above) to perform audit services. The audit fees paid during the Reporting Period amounted to RMB43,000.

The Audit Committee is responsible for reviewing the appointment, resignation or replacement of independent auditors, as well as assessing the quality of the auditors' services and whether their audit fees are reasonable and making recommendations to the Board in this regard. The appointment and replacement of auditors as well as the audit fees are proposed by the Board to the general meetings for approval or authorisation. The Audit Committee has conducted a summarising evaluation on the 2007 auditing work of PwC Zhong Tian and PwC and has made proposals to the Board on the appointment of the Company's auditors for 2008. For details, please refer to the content of "Annual Work Report of the Audit Committee" above.

E. Internal Control Mechanisms

Supervisory Committee

The Supervisory Committee exercises independently the power of supervision upon the Company in accordance with the law to ensure that legal rights of the shareholders, the Company and its staff are not infringed.

The Supervisory Committee of the Company is composed of three supervisors, including Mr. Jiang Lu Ming (Chairman of the Supervisory Committee), Mr. Zhang Yi Ping and Mr. Yi Ai Guo. During the Reporting Period, Supervisor Mr. Zhong Shan Qun resigned on 3 September 2007 because of internal work re-assignment by the nominating shareholder. On the same date, Mr. Jiang Lu Ming was elected as a Supervisor and was elected by the Supervisory Committee as the Chairman of the Supervisory Committee. Changes in Supervisors, as well as the biographies, terms, principal positions held in shareholders of the Supervisors are set out in the section "Directors, Supervisors and Senior Management" of this annual report.

The size and composition of the Company's Supervisory Committee are in compliance with the requirements of the relevant laws and regulations. Eight meetings of the Supervisory Committee were held during 2007 to supervise, on behalf of the shareholders, on the Company's financial matters and on whether the discharge of duties by the Directors and senior management was lawful and regulated. The Supervisory Committee's members attended all Board meetings and general meetings, and diligently performed their supervisory duties. Details relating to the work of the Supervisory Committee are set out in the section "Report of the Supervisory Committee" of this annual report.

Internal Control

A comprehensive and practicable internal control system is the foundation of good corporate governance. The Board is responsible for developing and maintaining an internal control system of the Company to protect shareholders' interest and to safeguard the Group's assets by reviewing the effectiveness of major control procedures for financial, operational, compliance and risk management matters.

The Company always emphasises regulated internal management and enhances its market competitiveness by strengthening regulated scientific management and continuously improving operations management quality. On aspects such as project construction, toll highway operation and maintenance, financial management, human resources management, investment management, capital operations, accounting and auditing, information disclosure and investor relations management, the Company has devised comprehensive management systems and application guidelines to ensure stable development for the Company.

The major management rules for various arpects of the Company's operation include the following:

Corporate Governance

- Articles of Association and rules of procedures
- Work Rules for the General Manager
- Terms of Reference for Specialised Committees
- Securities Transactions Code
- Rules Governing Information Disclosure Matters
- Rules Governing Investor Relations
- ....

Financial Management

- Basic rules on Financial Management
- Rules Governing Financial Budgeting
- Rules Governing Capital
- Rules Governing Financing
- Rules Governing Fixed Assets
- Management Rules for Financial and Accounting Reports
- ....

Highway Construction Management

Construction Project Management Manual: Detailed management procedures are set out for various aspects of the project construction business, such as establishing project institution, tendering, project analysis and design, construction work, work inspection and receipt upon completion, settlement upon work completion, project supervision and assessment.

Human Resources Management

- Management Rules for Staff Recruitment
- Performance Management Rules
- Rules Governing Remuneration and Benefits
- Management Rules for Competition and Promotion
- Rules Governing Training
- Management Rules for Delegated Representatives
- ....

Toll Highway Management

Toll Highway Management Manual: Detailed management procedures are set out for the highway operation's management structure, division of labour among different positions and business procedures, encompassing aspects such as toll collection operation , sales and marketing, maintenance of highway maintenance of mechanical and electrical maintenance of highway facilities, toll station logistics and procurement and services.

In December 2004, the Company's "Internal Control System Manual", which was based on the COSO (the Committee of Sponsoring Organisations of the Treadway Commission) framework, was considered and approved by the Board. Scientific and controllable internal control is achieved through effective operational procedures such as personnel management, segregation of duties, authorisation and limitation of authorities, cross-checking, asset protection, file safe-keeping, budget management, electronic information control, accounting system control and so forth. The internal control system is implemented by the management upon the authorisation of the Board and the effectiveness of the system is reviewed by the Board through the Audit Committee.

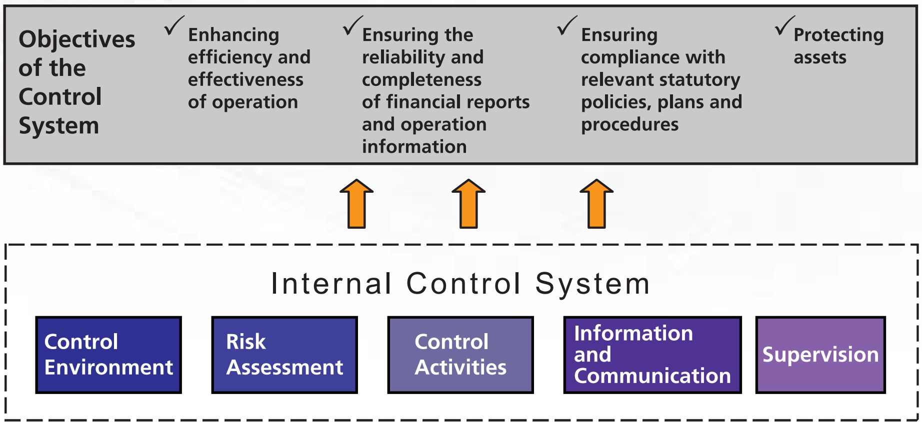
The Board makes every effort to conduct continuous inspection and assessment on the effectiveness of internal control. In 2007, the Company began to try a complete series of internal control assessment procedures which include:

- Early in the Year, based on its own operational characteristics, the Company devised the annual internal control inspection and supervision plan as the basis of assessing the functioning of internal control.

- Through comprehensive assessments and combining specific audits and continuous audits, the audit department conducts regular and irregular inspections on the internal control system's functioning and completeness. The annual inspection and assessment for the Company's internal control system is conducted according to the assessment checklist designed on the basis of the COSO internal control framework.

- After the annual and interim periods, with reference to the auditing work results, the audit department submits the report on internal control inspection to the Audit Committee and the Board.

Through the aforementioned tasks, the Board has thoroughly reviewed the effectiveness of the Company's internal control system for the year ended 31 December 2007. In view of the past review work and the internal assessment this year, the Board believes that during the Reporting Period, the Company's internal control on the five major aspects, namely the control environment, risk assessment, control activities, information and communication, and supervision, were basically sound and effective. It was able to meet the Company's requirements on corporate governance, operation, construction, investment, finance and personnel management, thereby providing reasonable assurance on compiling accurate and fair financial statements and thorough compliance with the relevant laws and regulations.



Given the limitations inherent to any internal control system, the Company's internal control system has been established for the purpose of managing potential risks. It is impossible for the system to eliminate all risks. Thus the system can only offer a reasonable, rather than absolute, assurance for the achievement of the Company's operating objectives. Accordingly, it is impossible for the system to eliminate all significant false representations or losses.

Basic Evaluation of the Internal Control System, 2007

Control Environment

- The functioning for the general meeting, the Board and the Supervisory Committee and the internal control system are normative and internal management system are generally sound.
- The Board is composed of Directors with appropriate knowledge, skills and qualities, with a generally sound overall structure and division of duties.
- The management has set forth the value on integrity and stable development, whilst at the same time setting the integrity and ethical standards to the staff through their own deeds. A corresponding reward and punishment system is established. In 2007, themed training sessions on the comprehensive corporate risk management system were held to strengthen the risk awareness of the management.
- A rational setting and dissection of medium/long-term strategic objectives is in place, with a strategic objective-based performance incentive regime established.
- A rational organisational structure with corresponding authorisation documents is in place. Allocation of authorities and responsibilities is basically rational.
- Established relevant human resources management regimes and timely adjusted the positions and staff roll according to business development needs, thus allowing the Company to recruit and retain adequate capable staff.
- A long-term incentive regime is yet to be established and the implementation of human resources policies and performance management system are to be strengthened. The Company should also timely supplement and improve the relevant management systems and procedures according to regulatory environment changes and the Company's own development needs.

Risk Assessment

- At SDIC meetings, the management gave detailed analyses on the risks and concerned areas in the process for achieving the strategic objectives.
- The audit department has compiled the Company's Basic Procedures for Risk Management and the relevant procedure according to the risk management work plan proposed by the President. Such items will be implemented upon consideration and approval by the Company.
- The RMC has compiled the "Risk Management Manual for Highway Project Investments" to establish standardised models of investment proposals and financial analysis for project investment decision-making.
- Conducting internal operation analysis and external information collection regularly to timely discover changes.

Control Activities

- Control activities cover all levels and departments of the Company. The audit department undertook selective checks on the operational effectiveness of certain control activities of the Company through specific audits. No substantial weaknesses were discovered in the checked control activities.
- In 2007, the Company introduced the excellent performance management model, implemented a strategy of fully enhancing the Group's performance and began to establish a standardised quality management regime to further make various management tasks completely procedural and regulated.
- Establishing the "Crisis Management System" and certain contingency handling methods, in order to effectively prevent and handle contingencies.

Information and Communication

- Devised the relevant systems and work guidelines regulating the Company's tasks on information disclosure, information flow and confidentiality. During the Reporting Period, the "Rules Governing Information Disclosure Matters" was effectively executed to ensure the openness, fairness and impartiality of information disclosure.
- The management managed to report timely to the Board on important or sensitive information or extraordinary matters regarding the Company.
- Regular weekly and monthly meetings are held by management members and the President Working Meetings are convened when necessary.
- All regular reports and specific analyses regarding operations and project construction management are submitted timely to the management and the functional departments.
- The intra-net provides a platform for internal sharing of public information.
- Specific staff are assigned to collect, process and analyse external information in order to compile reports for internal circulation.
- Investors hotline and customer query and complaint hotlines are established to conscientiously handle opinions and proposals offered by investors and customers, as well as discovering possible shortcomings in management.

Supervision

- Emphasis on day-to-day supervision work and regular checks on the follow-up/implementation of matters decided upon at meetings and on completion of annual plans.
- Established the Standards Management Department in 2007 as the Company's internal quality control department, which is responsible for establishing the Company's quality management regime and exercising real supervision on the operation process.
- Compiled the Supervision System for the General Office to allow the Administrative Office to conduct supervision and inspection on working plans, matters decided at meeting, authorisation, and so forth.
- The audit department conducts specific audits each year at the request of the Audit Committee or the Company's management to compile auditing reports and submit them to the Audit Committee, as well as helping the Company to discover shortcomings in internal control and monitoring the implementation of the relevant enhancement measures.

Internal Audit

The Company's internal audit department has been established since August 2000 for the purpose of reviewing the effectiveness of the Company's operating management activities and the internal control system in a more effective manner, and for the purpose of assuring the Company's transparency as well as its compliance with the regulations when disclosing information to the public. Depending on the materiality and the potential risks existing in the internal control systems of various businesses and processes of the Company, the internal audit department carries out inspection, monitoring and evaluation of the Company's financial information disclosures and internal control activities on a regular or as-needed basis. It furnishes independent and objective evaluations and recommendations in the form of an audit report. The internal audits conducted by the audit department covered key business aspects including the Company's operation, construction, investment, corporate governance and financial management, providing continuous monitoring and evaluation of the Company's internal control system and management efficiency. Internal audit staff are authorised to gain access to any information relating to the Company and to make enquiries to staff concerned, and the audit manager will directly report to the Audit Committee on the findings and views, on the basis of which the Audit Committee will make recommendations to the management and submit regular reports to the Board.

In 2007, the audit department has reviewed all the periodic reports compiled by the Company; examined the preliminary drafts of such reports in terms of compliance with statutory disclosure rules, thoroughness and accuracy of disclosed items; and submitted internal audit reports and improvement proposals to the Audit Committee. In addition, the audit department conducted specific audits for the construction management of Qinglian project, road assets maintenance management, construction change management of Yanpai Project and regular audits on toll revenue and tolling station management as well as conducting selective checks on the Company's implementation of the Rules Governing Information Disclosure Matters. The respective audit reports and management recommendations were submitted to the Audit Committee for consideration and the major contents of such reports were furnished to the Board in the form of committee meeting memoranda.

F. Shareholders and Investor Relations

The Company strives to ensure that all shareholders, especially minority shareholders, are able to fully exercise their rights on an equal basis. According to the regulations of the Articles and the attachments to the Articles, subject to the stipulated procedures and requirements, shareholders individually or collectively holding 10% or more of the voting shares are entitled to request the Board to convert an extraordinary general meeting or a class shareholder meeting, while shareholders individually or collectively holding 5% or more of the voting shares are entitled to propose new motions at the annual general meeting.

General Meetings

The general meeting is vested with the supreme authority of the Company, where duties and powers are exercised in accordance with the law to make decisions on significant matters of the Company. The annual or extraordinary general meeting provides a channel of direct communication between the Board and the shareholders of the Company. The Company puts high regard to the general meeting. The notice on the convening of a general meeting is issued 45 days prior to the date of the meeting. All shareholders are encouraged to attend the general meeting, and all the Directors and members of the senior management are requested to make their best effort to attend. At the annual general meeting ("AGM"), all shareholders have an opportunity to raise questions to the Directors regarding issues about the Group's operation and results. The Chairman of the Company attended the AGM held in April 2007, and arranged the chairmen or the representing committee members of the Audit Committee, the Remuneration Committee and the Nomination Committee to attend the AGM to answer shareholders' questions. Details of the general meetings held during the Reporting Period are set out in the section "Profiles of Securities and Shareholders" of this annual report.

Substantial Shareholders

XTC Company and SGH Company are substantial shareholders of the Company. The Company is independent from the substantial shareholders in terms of business, staffing, assets, institution and finance, possessing independent and wholesome businesses and the capability of independent operation. As substantial shareholders of the Company, they have never been involved in any acts of by-passing the general meetings in ultra vires interference, whether direct or indirect, with the Company's decision-making or operations.

Information about other shareholders as at the end of the Reporting Period, including shareholder categories, public float, shareholding details of the top ten holders of circulating shares, controlling shareholder and changes are set out in the section "Profiles of Securities and Shareholders" of this annual report.

Information Disclosure

Continuous and credible information disclosure can effectively build a bridge of communication and understanding between the Company, the public, investors and regulatory authorities. This can facilitate a broader and more thorough understanding of the Company's values. For years, according to the principles of openness, impartiality and fairness, the Company has been striving to comply with the requirements of the relevant laws and listing rules, and fulfilling the statutory information disclosure obligations in a timely and accurate manner. On this basis, the Company takes initiative to disclose other relevant information on issues concerned by investors and continuously enhancing the quality of information disclosure.

In 2007, interim and annual results announcements were made promptly and some 40 announcements were released, providing, in an objective and detailed manner, the Company's information on results and operations, bond issue, corporate governance, shareholding changes in de facto controlling entities, Board and Supervisory Committee operations, holding of general meetings, and so forth. Meanwhile, to further regulate the Group's information disclosure activities, the "Rules Governing Information Disclosure Matters" was further amended and improved, while the corresponding "Guidelines on Statutory Information Disclosure Standards" was promulgated. The aforementioned rules and guidelines provide clear regulations on the accountability regime, disclosure scope and content, and the reporting, reviewing and disclosure procedures for periodic report and discloseable information. Such rules and guidelines were effectively implemented during the Reporting Period.

Investor Relations Management

The Company believes that efforts on investor relations can help investors to enhance their understanding of the Company's business and development trends, thereby increasing investors' recognition on the Company's development prospects and in turn facilitating the enhancement of the Company's market value. The focus of investor relations work is effective communication. On the one hand, the Company insists on relaying investors concerned information with different methods to increase the transparency of the Company's operations. On the other hand, in such investor relations activities, the Company should also take the initiative to understand and listen to investors' opinions and suggestions, so as to help the Company to continuously elevate its corporate governance and operations management standards.

The Company established the Investor Relations Department in 2004 and amended and enhanced the "Rules Governing Investor Relations" and "Work Guidelines for Investor Relations" in 2007, thereby strengthening the management of investor relations work in its management structure and internal system. In organising investor relations activities, the Company mainly adopts the following approaches:

- Announcing the investor hotline and investor relations email box to respond to investors' phone or email queries promptly.

Investor hotline	:	(86) 755-8295 1041
Investor relations email box	:	ir@sz-expressway.com

- Regular meetings with investors and analysts. In 2007, the Company received 61 investor visits involving about 155 visitors.
- Regular dispatches of press releases and investor newsletters in connection with the Company's operations and development.
- Participation in presentation activites such as investor forums, results presentations, press conference, telephone conferences, local and overseas roadshows and Online Investors Reception Days. In 2007, the Company organised annual and interim results presentations and press conferences in Shenzhen and Hong Kong, as well as three online exchange meetings. The Company also participated in six different investor forums, as well as organising roadshows in Hong Kong, Beijing, Shanghai and Shenzhen. Details of the various presentation activities during the Year are set out in the section " Events of the Year" of this annual report.
- Organising reverse roadshows. In 2007, 39 analysts or fund managers from 35 institutions participated in the Company's reverse roadshow held in July, having discussions with the Company's major management members and having field observations on the operating projects of Meiguan Expressway, Jihe Expressway, Yanpai Expressway and the projects Nanguang and Qinglian which were under construction.
- Investors and the public may also check out information and data about the Group's assets, traffic volume data, information disclosure and corporate governance at the Company's website.

Company's website	:	http://www.sz-expressway.com

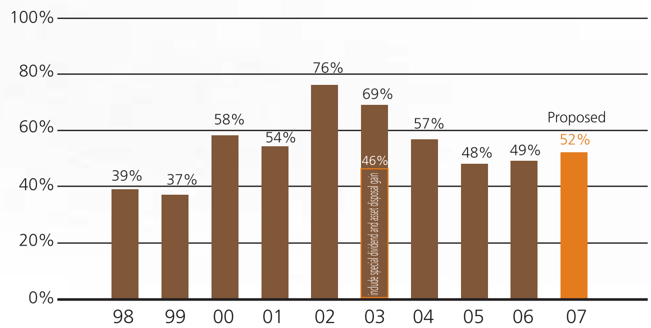
Shareholder Return

The Company insists in rewarding its shareholders with high return ever since its flotation, underpinned by the payment of cash dividends for 10 consecutive years with an aggregate dividend payment of approximately RMB 2.2 billion.

The Board will maintain a consistent dividend payout policy in the years ahead in consideration of both the long-term interest of the Company's investors and for their benefit of current gains. The Board recommended the payment of a cash dividend of RMB0.16 per share for the year 2007, representing 51.8% of the profit distributable for the Year under the PRC statutory financial statements or 51.7% of adjusted profit distributable for the Year under HKFRS.

Historical Dividend Payout Ratio

Dividend payout ratio = Dividend/Profit (under HKFRS)



G. Social Responsibilities

The Company clearly understands that an enterprise's long-term development requires a solid relationship with all stakeholders, which include not only shareholders and investors, but also the staff, the relevant government authorities, customers, suppliers and the whole society. The sustainable and healthy development of an enterprise cannot be achieved in isolation from harmonious internal and external environments. Meanwhile, noble corporate conduct is also instrumental for enhancing a company's competitiveness. Accordingly, the Company strives to become a responsible corporate citizen, besides providing satisfactory rewards to shareholders. We act with integrity and in good faith, paying taxes as required by the law and contributing to the society; we care about customers' needs, providing them with good service and striving to ensure smooth traffic on our roads; we care about staff performance, providing them with a pleasant working environment and room for development and alleviating their worries; we care about social development, managing and developing our businesses in compliance with the law and participating in social charities and environmental protection. It is now exactly 11 years since the Company's incorporation, and there are still a lot of aspects which can be further improved or enhanced. However, the Company believes that our step-by-step and persistent efforts will gradually improve the society and environment on which we depend, so as to benefit the corporate and social development as well as the ultimate interests of shareholders.

Responsibility and Care to the Staff

The announcement and implementation of《勞動合同法》(Labour Contract Law) pose new challenges to the human resource management of enterprises. Accordingly, the Company released the "Opinions on the Implementation of the Labour Contract Law", strictly complied with the statutory requirements and further improved the management of staff labour contracts. For the staff who are eligible for signing labour contracts with an indefinite term, the Company will handle their applications according to the law to safeguard their rights to work and job stability. For toll collection staff who have been working for over 5 years, the Company has launched the re-employment incentive payment scheme to finance staff to return to the workforce on the basis of acknowledging such staff's contribution to the Company. This provides more opportunities and choices to them in career development and planning. Currently, there are 27 staff who have applied for the re-employment incentive payment and RMB188,700 of incentive payment has been paid.

Pursuant to statutory requirements, the Group has participated in an employee's retirement schemes which is organised by the local government authorities (social endowment insurance), and has provided basic medical insurance package, industrial injury insurance, unemployment insurance and other insurance scheme to its employees. According to the relevant regulations, the Group should pay contributions equivalent to a certain percentage on the employee's aggregate salary (subject to a maximum cap) to the labour and social security authorities as social insurance contributions for items such as pension and medical insurance. As at 31 December 2007, the Company has two retired staff. The registration procedures in relation to their retirement have been completed through Shenzhen social security authorities. For other details of employee benefits, please refer to note 2.18 to the Financial Statements.

In addition, the Company has voluntarily procured commercial insurance on personal accidents for all staff, thereby providing our staff with additional safeguard. In 2002, the Company's labour union initiated the "Employee Mutual Aid Fund for Severe Illnesses and Personal Accidents", with funds raised through voluntary staff contributions, donations from invested enterprises and the Company's donations and sponsorships. This further enhances our staff's ability to weather the risks of illnesses and injuries and eliminates worries among the staff.

To retain key staff to facilitate stable corporate development, the Company has implemented the new enterprise pension scheme (also known as the supplementary pension insurance scheme) in April 2006, with reference to the spirit of the relevant enterprise pension regulations stipulated by the State Ministry of Labour and Social Security and Shenzhen city. Under this scheme, the Company makes regular enterprise pension contributions on behalf of the management staff and key technical staff besides making the statutory social security contribution. The scheme bases on the particular position salary of the staff and the contribution ratio is 8.3%, with the Company being responsible for the entire contribution. The contributed pension is kept in an individual account of the particular staff, and the Company entrusts qualified banks and investment fund management firms to manage such amounts. The pension will be withdrawn by a staff in a lump sum or in instalments upon his/her retirement. In 2007, the Company contributed a total of RMB1.66 million in enterprise pension on behalf of its staff. The implementation of the scheme allows the staff to further share the fruits of the Company's development, as well as safeguarding the livelihood of the staff upon their retirement and building a long-term trust between the Company and the staff.

During the Reporting Period, the Company added entertainment facilities for its frontline staff to facilitate a glamourous private cultural life. Catering and residential environment was improved, and high-temperature subsidies and cooling measures were provided for the staff during the hot seasons. Accordingly, the satisfaction of the toll collection staff was enhanced. Meanwhile, the Company has been adopting the policy of preferential toll collection staff recruitment for the less developed inland region, as the Company believes that working and living in Shenzhen can improve the economic condition of the staff's families, as well as providing a platform for such regions to absorb new ideas and new concepts, thereby facilitating the development of these regions. In 2007, the Company was also honoured the "3rd session of Excellent Home for Non-domestic Workers in Shenzhen" by Shenzhen Municipal Government.

Cultivated by a sound corporate culture, the Company's staff also made their best effort to care about others and repay the society. When natural disasters occurred in other regions of the country, the Company's staff took initiative to donate money and materials. In normal times, the staff actively, participated in various voluntary works. During 2007, an employee of one of our tolling stations received the honour of "Five-star Volunteer" from the Shenzhen Municipality, exemplifying the outstanding morals of the Company's staff.

During the Year, the Company also provided learning and development platforms to the staff through measures such as enhancing the multi-layer training system, organising internal recruitment drives and improving the remuneration and incentive system. For details, please refer to "Human Resources Management" in the section "Management Discussion & Analysis" of this annual report.

Road Safety and Traffic Coordination

The Company is engaged in the construction and management of expressways, providing customers with safe, fast and comfortable traffic. In all circumstances, safety is the top priority of the operation. Meanwhile, the Company also bears the social responsibility of coordinating and channelling traffic to ensure smooth traffic as much as practicable so as to raise the degree of satisfaction among customers.

To ensure safety, the Company strengthened its road patrol effort to facilitate timely handling of potential risks to traffic safety such as road damage or diseases. In addition, we actively study and adopt new materials, techniques and handling approaches to raise the road safety coefficient. Moreover, we strive to enhance the efficiency, effectiveness and responsiveness in handling contingencies such as traffic accidents to alleviate or reduce traffic congestion and casualties caused by accidents, by way of measures such as strengthening traffic monitoring, enhancing road patrol and rescue efforts, conducting surveys and investigations with accident-prone road sections, and carrying out analysis with reference to the technical state of road surface.

In traffic coordination, the Company timely grasps the change characteristics and mode of traffic, on the basis of recording and analysing traffic volume data. In addition, we set contingency proposals and measures in a targeted manner to strive for higher lane and staff utilisation rates. In view of major festivals and other traffic peak periods, the Company enhances the toll collection efficiency by introducing efficient portable toll collection equipment, adopting single-lane multi-vehicle toll collection, dynamic working shifts and assigning contingency staff. Moreover, we take the initiative to enhance the interaction with news media such as TV/radio stations and newspaper to remind vehicles to travel at off periods. Moreover, we print and distribute leaflets about shortcuts to help drivers to timely grasp driving routes and traffic information, as well as organising inter-regional road network cooperation to jointly divert traffic. The Company thinks in the logic of drivers and share the government's concerns, continuously improving service standard and quality and striving to fulfill the corporate responsibility of raising social transportation efficiency and providing the public with convenient traffic.

With the growth of the Company, the concept of serving vehicle-owners and the society has been strengthening and updating as well. For example, Jihe East Company not only insists on providing rapid and courteous toll service, but also included the five aspects of emergency vehicle repair, vehicle traffic accident emergency handling, first aid for traveller acute sickness, traveller problem aid and community service into its voluntary service system. In 2007, Jihe East Company also employed several social supervisors from vehicle-owners and institutions such as government departments, large transportation vehicle fleets and transportation media. Through media opinion, social supervision and mutual interaction with vehicle-owners, communication with the society was facilitated, thereby further elevating the Company's social image and operation and service standards.

Environmental Protection

The Company always believes that environmental protection is not only a statutory obligation, but also an unshirkable social responsibility for enterprises. In planning and constructing highway projects, the Company reduces the impact of noises through methods such as expanding the roadside greening efforts, improving the quality of road surface materials, adopting rational route arrangement, and so forth. We also relocate inhabitants along the roads who are more severely affected or strengthen other noise-prevention measures; during construction, rational arrangements are made with earth cutting sites, quarries and waste disposal sites to reduce dust pollutants, as well as strengthening environmental monitoring to ensure the construction units thoroughly enforce the water/land conservation measures and to ensure all pollutants are emitted under the set standards, so as to reduce the negative impact on the surrounding ecology caused by construction works.

For the reconstruction of Qinglian Project, the biggest problem is the disposal of over 1 million cu-metres of old concrete road surface dug out. In piles of 10 metre-high each, such construction wastes would occupy almost 150 hectares and cause massive destruction to the surrounding environment. Our construction staff tackled the problem head on with innovation, and after repeated experimentation and testing, adopted a programme that crushed and recycled old road surface. This saved tens of million RMB of material costs, as well as successfully solving the dilemma facing construction and environmental protection.

As for Nanguang Expressway, certain sections pass through the two major reservoirs in western Shenzhen. In order to avoid polluting the reservoirs' water quality, the Company has set up monitoring devices along all sections. Double-layer railings and strengthened wavy railings were installed along the sections close to the source water protection areas, with warning signs erected at the entry spots of the source water protection areas. Moreover, reference was made to advanced foreign experience to install road surface rainwater treatment system at the sections along the source water protection areas, so as to ensure that rainwater and possible pollutants caused by accidents will not enter the source water protection areas. In January 2007, Nanguang Expressway was honoured "2006 Leading Collectivity on Soil and Water Conservation" by the Shenzhen Municipal Water Affairs Bureau.

During the construction of Nanguang Expressway, the area of bare earth resulted from excavation and fillings, interchange construction, earth cutting sites and earth disposal sites totalled over 900,000 square metres. While conducting the greening design, the Company emphasised the resumption of ecological protection. We selected a variety of trees, shrubs and grasses to generate a rational layout, thereby successfully creating a multi-layer highway ecological system resembling a natural forest. On the bare earth, hill and rock dug out during the construction process, we planted shrubs and grasses that adapt with the original vegetation. At interchanges, we primarily use trees which work well on water/soil conservation. For rocky slopes which impose huge difficulty for plantation, we adopted specialised plantation techniques which significantly increased the vegetation survival rate. As for the design of slope protection, we increased the variety and density of shrubs. This enhanced both the protective capability and aesthetics of the plantation.

In future construction work and management, the Company will continue to pay attention to the government's environmental protection policies. Meanwhile, on the basis of ensuring that the actual implemented standards will not fall below those required by the government, the Company will also proactively shoulder the enterprises' share of environmental protection responsibility.

H. Conclusion

From April 2007 onwards, according to the CSRC'S arrangements and plans, the Company commenced the special activities on corporate governance enhancement. The Company timely completed the tasks for the three stages of self-inspection, public assessment and reform and enhancement, making dedicated efforts to discover shortcomings in corporate governance and timely adopted relevant improvement measures. The Company disclosed the "Corporate Governance Self-Inspection Report" and the "Corrective and Remedial Report of Special Activities for Corporate Governance" in June and October 2007 respectively, giving detailed disclosure on the aspects such as self-inspection, reform plans, public assessment, on-site inspection by the Shenzhen Regulatory Bureau of CSRC and the evaluation by the SSE.

Sound corporate governance goes beyond meeting the regulatory authorities' basic requirements for listed companies' operations. More importantly, it calls for meeting the company's internal development needs. A scientific and regulated decision-making system, a supervisory system with check and balance and effective execution capabilities constitute the foundation for the Company's healthy and sustained development. The Company will continue to review and appropriately improve its corporate governance practice and will continuously enhance its management efficiency and standards.

Report of the Supervisory Committee

Complying with the Company Law of the PRC, the Listing Rules, the Articles and requirements of other relevant laws and regulations, the Supervisory Committee of the Company faithfully discharged their duties during the year of 2007 for the purpose of safeguarding the interests of the Company, its shareholders and its employees. Specific work undertaken by the Supervisory Committee during the Reporting Period is detailed as follows:

The Supervisory Committee convened eight meetings. These meetings, with proper service of notice and quorum, were held and resolved in accordance with the relevant laws, regulations and the Articles. The matters considered and reviewed by the Supervisory Committee include:

- The report of the Supervisory Committee for 2006 and the work plan for 2007
- The resolutions relating to the resignation of a Supervisor, the nomination of the candidate for a Supervisor , the remuneration of a Supervisor, and the election of the chairman of the Supervisory Committee
- Review of the final accounts and audited financial report for 2006, the profit distribution scheme for 2006, and the budget plan for 2007
- Review of the 2006 annual report, the first quarterly report, interim report and third quarterly report of 2007
- Review of the resolution relating to the implementation of "Accounting Standard for Business Enterprise" and the change in accounting policy and the resolution relating to recognizing the fair value of Qinglian Company and the related accounting treatment
- Review of the resolution relating to the issue of the corporate bonds with an amount of RMB800 million
- Review of the resolution relating to the acceptance of entrusted operation management

During the year 2007, the members of the Supervisory Committee attended and observed at all the shareholders' general meetings and Board meetings in accordance with the laws; reviewed the signing of the written resolutions of the Board; and monitored the Company's decision making procedures, as well as the legality and the implementation of such decisions. The Supervisory Committee promptly informed the Board and the Company's management regarding any potential risks in relation thereto. During the Reporting Period, the Supervisors of the Company inspected Wuhuang Expressway, Changsha Ring Road, and Qinglian Project, etc. with the purpose of obtaining an in-depth understanding of the operation management of some major subsidiaries and the development of the under-construction projects, and put forward their specific suggestions on improving the internal control system and the risk prevention system. During the Reporting Period, there was no incident about which the Supervisors disputed with the Directors or sued the Directors on behalf of the Company.

Pursuant to the relevant requirements, the Supervisory Committee made the following independent opinions in relation to the relevant matters of the Company in the year 2007:

1. In 2007, the Company made its operation decisions strictly in accordance with the Company Law of the PRC, the Securities Law of the PRC, the Listing Rules, the Articles and other relevant rules and regulations; operated its business lawfully; continuously improved its internal control system; and raised its standards of corporate governance. All the Directors and senior management of the Company, with a view to protecting the interests of the Company and its shareholders, diligently performed their duties. The Supervisory Committee was not aware of any incident that violated the rules and regulations or the Articles of the Company or damaged the Company's interests.

2. Upon reviewing the unqualified auditors' reports which are issued by PrciewaterhouseCoopers Zhong Tian CPAs Co. Ltd. and PricewaterhouseCoopers on the financial statements of the Company for the year 2007 prepared in accordance with the PRCGAAP and the HKFRS respectively, the Supervisory Committee considered that the financial statements for the year 2007 have objectively, truthfully and fairly reflected the financial status, operating results and cash flows of the Company and the Group.

3. The Company issued 165 million A Shares in December 2001 and the net proceeds amounted to RMB604 million. Such proceeds were used to the investment and construction of Yanba B. As at the end of the Reporting Period, a total of RMB563 million out of the raised proceeds was utilised. The Company issued corporate bonds of RMB800 million with a term of 15 years in August 2007 and the net proceeds amounted to RMB787 million. Such proceeds were used to the investment and reconstruction of Qinglian Class 1 Highway into an expressway. As at the end of the Reporting Period, all the raised proceeds were utilised. The Company issued Bonds with Warrants of RMB1,500 million in October 2007 and the net amount of funds raised is RMB1,459 million. Such proceeds were used to the investment and construction of Nanguang Expressway. As at the end of the Reporting Period, all the raised proceeds were utilised. The actual projects in which the proceeds were applied are consistent with the projects represented in the prospectus.

4. In December 2007, the Board considered the resolution relating to the acceptance of entrusted operation management and agreed to accept the entrustment of Shenzhen International to manage the 100% equity interests in Baotong Company and the 89.93% equity interests in 深圳龍大高速公路有限公司 (Shenzhen Longda Expressway Company Limited) owned by Baotong Company. According to the Listing Rules, the transaction constituted a connected transaction. The Supervisory Committee considered the Board's procedures for consideration and voting were lawful and no infringement of the interests of the Company and its shareholders was noticed after inspection.

5. During the Reporting Period, the Company finished the amendment of 《信息披露事務管理制度》 (Rules Governing Information Disclosure Matters) and carried out the obligation of the statuary information disclosure timely, fairly, truthfully, accurately and completely in accordance with the relevant laws, regulations and《信息披露事務管理制度》(Rules Governing Information Disclosure Matters). Moreover, the Company also voluntarily disclosed other information that the investors concerned. It helped the investors to increase their knowledge and agreement on the operating status and development prospects of the Company.

By Order of the Supervisory Committee
Jiang Lu Ming
Chairman of the Supervisory Committee

Shenzhen, PRC, 14 March 2008

Directors, Supervisors and Senior Management

Directors

Mr. YANG Hai, aged 47, senior engineer, the Chairman of the Board of the Company, the Chairman of the Strategic Development & Investment Committee and a member of the Nominations Committee of the Company. Mr. Yang graduated from the Department of Roads and Bridges of Chongqing Architecture University in 1982. He had been the assistant to the head of the Second Road Engineering Bureau of Ministry of Communications. He had been the deputy general manager of the Company from 1997 to 2000. Mr. Yang joined Shenzhen International (a Hong Kong listed company) in March 2000. He had been a vice president of Shenzhen International from June 2004 to July 2006 and has been an executive director of Shenzhen International since August 2007. Since April 2005, Mr. Yang has been the Chairman of the Company, and is also currently the chairman of Mei Wah Company, a company invested in by the Company. Mr. Yang is also a director of XTC Company, Shen Ke Industry and Development (Shenzhen) Co., Ltd., which are subsidiaries of Shenzhen International, and the chairman of the supervisory committee of CSG Holding Co., Ltd. (a PRC listed company).

Mr. WU Ya De, aged 44, the Executive Director and President of the Company, a member of the Strategic Development & Investment Committee of the Company. Mr. Wu graduated from the Administration Institute of Guangdong Province in 1987 and obtained a postgraduate degree from Guangdong Province Social Science Institute in 2002. He had been served as the chief of the administration department of Shenzhen Roads Bureau, manager of a toll road company, etc. Since November 1996, he had been successively the general manager and the chairman of SGH Company and the vice chairman of the Labour Union of Shenzhen Roads Bureau. From January 2002 to October 2002, Mr. Wu had been the acting general manager of the Company and he has been the general manager of the Company since November 2002. Mr. Wu has been a Director of the Company since January 1997 and is currently also the chairman of Qinglian Company, a company invested in by the Company.

Mr. LI Jing Qi, aged 52, Non-Executive Director of the Company, a member of the Risk Management Committee of the Company. Mr. Li graduated from Shanghai Foreign Language University. He had been the assistant to the president of Shenzhen Investment Holding Corporation, the controlling shareholder of Shenzhen International, and has over twenty years of experience in international banking, foreign exchange business and risks management. Mr. Li had been an executive director and vice president of Shenzhen International from March 2000 to August 2006, and has been an executive director and the president of Shenzhen International since August 2006, responsible for the overall management and supervision of the operations and the determination and implementation of development strategy of Shenzhen International. Since April 2005, Mr. Li has been a Director of the Company. He is currently also a director of CSG Holding Co., Ltd. (a PRC listed company), Ultrarich International Limited (a wholly-owned subsidiary of Shenzhen Investment Holding Corporation), XTC Company and various subsidiaries of Shenzhen International.

Mr. WANG Ji Zhong, aged 61, senior accountant, Non-Executive Director of the Company. After the graduation from the institute, Mr. Wang had worked in different sizable enterprises in the fields of architecture, construction materials, instruments and tobacco, responsible for accounting and corporate management for more than thirty years, and has accumulated extensive experience. He had been the division head of the finance department of Shenzhen Investment Holding Corporation and joined XTC Company as deputy general manager in October 1997. Mr. Wang had been the Chairman of the Supervisory Committee of the Company from June 1998 to April 2005. Since April 2005, he has been a Director of the Company. He is also currently a director of XTC Company, the vice chairman of Total Logistics (Shenzhen) Co., Ltd., and a director of Shenzhen South-China International Logistics Co., Ltd., Shenzhen Dasheng Advanced Science & Technique Engineering Co., Ltd., and Man Tai Cheng Utilities Construction Co., Ltd.

Mr. LIU Jun, aged 45, Non-Executive Director of the Company. Mr. Liu graduated from Nanjing Polytechnic University, obtained a bachelor's degree in computer software and a master's degree in management system engineering. Mr. Liu has over fifteen years experience in corporate development, financial management and foreign enterprise investment management. Mr. Liu joined Shenzhen International as vice president in April 2000, and was appointed an executive director of Shenzhen International in May 2004. He is responsible for the operation and development of the logistics business of Shenzhen International. Since January 2006, Mr. Liu has been a Director of the Company. He is also currently the chairman of Total Logistics (Shenzhen) Co., Ltd., a director of XTC Company, Shenzhen Airlines, Ultrarich International Limited (a wholly-owned subsidiary of Shenzhen Investment Holding Corporation) and various subsidiaries of Shenzhen International.

Mr. LIN Xiang Ke, aged 52, senior political officer, senior accountant, Non-Executive Director of the Company. Mr. Lin had worked in various enterprises in the PRC for more than thirty years and has extensive experience in finance and management. Mr. Lin had been the deputy director of the finance department and deputy director of the audit department of Shenzhen Roads Bureau. He has been the chairman of SGH Company since 1999 and concurrently the general manager of SGH Company since April 2004. Since June 1998, Mr. Lin has been a Director of the Company.

Ms. ZHANG Yang, aged 44, political officer, Non-Executive Director of the Company and a member of the Risk Management Committee and the Remuneration Committee of the Company. Ms. Zhang graduated from Lanzhou University and obtained a bachelor's degree in economics in 1987. She obtained a postgraduate degree in economics from the Economic Management Department of the Central Party School in 2001. Ms. Zhang had worked in the Ministry of Aviation and joined Huajian Centre in 1994. She is currently the deputy general manager of the Huajian Centre. Since March 2001, Ms. Zhang has been a Director of the Company. She is currently also the vice chairman of Sichuan Expressway Co., Ltd. (a Hong Kong listed company), a director of Xiamen Port Development Co., Ltd. (a PRC listed company), Zhejiang Expressway Co., Ltd. (a Hong Kong listed company) and Jiangsu Expressway Co., Ltd. (a company listed both in PRC and in Hong Kong).

Mr. CHIU Chi Cheong, Clifton, aged 53, a certified accountant in the USA, Non-Executive Director of the Company, a member of the Strategic Development & Investment Committee and the Audit Committee of the Company. Mr. Chiu graduated from the University of Southern California with a MBA degree in 1977. Mr. Chiu is currently a director and the general manager of Harvester (Hong Kong) Holdings Co., Ltd. He has accumulated extensive experience in international finance, securities and accounting. He had been an Independent Director of the Company from December 1996 to December 2002. Since 2003, he has been a Director of the Company. Mr. Chiu has been the vice chairman of the Takeovers and Mergers Panel of the SFC since January 1996, and had been a member of Shenzhen Political Consultative Committee, the vice chairman of the Listing Committee of the Main Board and the Growth Enterprises Market of HKEx, an independent director of Chongqing Iron & Steel Co., Ltd. (a Hong Kong listed company) and Aluminum Corporation of China Limited (a Hong Kong listed company).

Mr. LI Zhi Zheng, aged 66, senior research engineer, Independent Director of the Company, the Chairman of the Remuneration Committee and the Nomination Committee, a member of the Strategic Development & Investment Committee of the Company. Mr. Li has more than thirty-five years experience in technology, administration and operations management. He held senior administrative posts in the former Ministry of Aero-Space Industry. Since 1988, he had been the the president of CATIC Shenzhen Group, the chairman of several PRC listed companies and the chairman of Shenzhen Catic Investment Management Co., Ltd. He is currently a director and the executive president of Laimengpengyuan Company. Since January 2003, Mr. Li has been an Independent Director of the Company.

Mr. ZHANG Zhi Xue, aged 39, Independent Director of the Company, a member of the Remuneration Committee and the Nomination Committee of the Company. Mr. Zhang graduated from the Institute of Labour and Personnel of Renmin University of China and obtained a master's degree in economics from Jinan University. He has more than ten years professional experience in human resources management and consultation. He had worked in the human resources department of Nanshan District Government of Shenzhen City and Shenzhen Huawei Technologies Co., Ltd. He has been the general manager of Zuo You Management Consultants Co., Ltd. since March 1999 and the chairman of Zuo You Management Consultants Co., Ltd. since February 2006. Since January 2003, Mr. Zhang has been an Independent Director of the Company.

Mr. POON Kai Leung, James, aged 43, Independent Director of the Company, the Chairman of the Risk Management Committee and a member of the Audit Committee of the Company. Mr. Poon obtained a master's degree in business administration and a Ph.D. degree in finance from the Chinese University of Hong Kong and is also a fellow member of The Society of Registered Financial Planner (FRFP) in Hong Kong. He joined ING Bank Hong Kong in 1993, serving in sequence as the head of corporate financial services of Shanghai branch and the general manager of Shenzhen branch. Mr. Poon has extensive experience in managing international and Chinese client relationships and has successfully concluded numerous capital market transactions. He is currently the managing director, China & Hong Kong ING Bank. Since May 2003, he has been an Independent Director of the Company.

Mr. WONG Kam Ling, aged 59, Independent Director of the Company, the Chairman of the Audit Committee of the Company. Mr. Wong graduated from The Hong Kong Polytechnic University (formerly known as The Hong Kong Polytechnic). He is a fellow member of the Chartered Association of Certified Accountants (FCCA), a fellow member of the CPA Australia (FCPA (Aust.)), a certified public accountant of the Hong Kong Institute of Certified Public Accountants (CPA) and an associate member of the Institute of Chartered Secretaries & Administrators (ACIS). He had been the chief accountant of the group of China Dyeing Holdings Ltd. (a formerly Hong Kong listed company), the chief accountant of the group of Captronic Group Ltd. (a formerly Hong Kong listed company) and the financial controller and consultant of Bel Fuse Ltd. (a subsidiary of Bel Fuse Inc., a company listed on NASDAQ). He has extensive experience in financial management, accounting and corporate governance. Mr. Wong retired in December 2004 and has been an Independent Director of the Company since June 2005.

Supervisors

Mr. Jiang Lu Ming, aged 52, Senior Economist, the Chairman of the Supervisory Committee of the Company. Mr. Jiang graduated from Liaoning University and obtained a bachelor's degree in economics in 1982. He had worked in various enterprises and government departments in Liaoning Province and Shenzhen City, accumulating substantial working experience in finance and economics. He had been the general manager of Shenzhen Yecun Investment and Consulting Co., Ltd. from May 2002 to March 2004, and the chairman of Shenzhen Guozi Investment and Consulting Co., Ltd. from April 2004 to October 2005. He joined XTC Company as deputy general manager in October 2005. Since September 2007, Mr. Jiang has been the Chairman of the Supervisory Committee of the Company.

Mr. ZHANG Yi Ping, aged 43, auditor, registered property valuer, Supervisor of the Company. Mr. Zhang graduated from the Institute of Accounting of Hunan University. Mr. Zhang has over ten years of experience in auditing, and had worked in the Audit Bureau of Hengyang City, Hunan Province, Shenzhen Special Economy Zone Auditor Firm, the audit department and the office of enterprises' reform and development of Shenzhen Roads Bureau. He has been the deputy general manager of SGH Company since May 2004, and a director of SGH Company since September 2004. Since January 2006, Mr. Zhang has been a Supervisor of the Company.

Mr. YI Ai Guo, aged 45, Supervisor of the Company. Mr. Yi obtained a bachelor's degree and a master's degree in Transportation Engineering and Administration from Xinan University of Communications. He had served as a section chief of Guangzhou Railway Group and the company secretary of Guangshen Railway Co., Ltd. Mr. Yi joined the Company in October 1998, as the manager of the Operations Department and is currently the general manager of the Operations Department. Since January 2003, Mr. Yi has been the Supervisor representing the staff. He is also currently a director of Meiguan Company, Advertising Company and Yangmao Company, which are invested in by the Company.

Senior Management

Mr. LI Jian, aged 50, lecturer, Vice President of the Company. Mr. Li graduated from Changsha Institute of Communications. Mr. Li joined XTC Company in 1994 as the administrative officer. Upon establishment of the Company, He served successively as the manager of the Operations Department and the manager of the Investment and Development Department. He had also been the Supervisor representing the staff of the second session of the Supervisory Committee of the Company. He had been the Operations Controller of the Company from August 2005 to August 2007. Since August 2007, Mr. Li has been a Vice President of the Company. He is mainly responsible for the operations management of toll highways and the related matters. He is also the chairman of Meiguan Company and Jihe East Company, the vice chairman of Jiangzhong Company and Nanjing Company, a director of GZ W2 Expressway, which are invested in by the Company.

Mr. GE Fei, aged 40, engineer, Vice President of the Company. Mr. Ge graduated from Northern Transportation University. He had worked in No.5 Engineering Authority of the Railway Department and Guangzhou-Shenzhen-Zhuhai Highway Co., Ltd. He joined XTC Company in January 1994, and had been in charge of the contract matters of Meiguan Expressway and manager of the road surface department and engineering department of Jihe East. He joined the Company in 1998, serving successively as deputy general manager of the Project Management Office of Jihe East, deputy manager of the Engineering Department of the Company, general manager of the Project Management Office of Yanba Expressway. He also had been a director and the deputy general manager of Consulting Company. He had been the Engineering Controller of the Company from August 2005 to August 2007. Since August 2007, Mr. Ge has been a Vice President of the Company. He is mainly responsible for the management of construction of highways projects and entrusted construction business. He is also the vice chairman of Qinglong Company and a director of Huayu Company, which are invested in by the Company.

Mr. ZHOU Qing Ming, aged 51, senior engineer, registered safety officer, Vice President of the Company. Mr. Zhou joined the Company in March 1998, serving in sequence as the administrative officer and the assistant to general manager of the Company. He had been the Administrative Controller of the Company from October 2004 to August 2007. Since August 2007, Mr. Zhou has been a Vice President of the Company. He is mainly responsible for the development of the standardization and information system and the corporate culture, public relations and crisis management as well as the administrative duties of the Company. He is also a director of Consulting Company, a company invested in by the Company.

Ms. GONG Tao Tao, aged 35, certified public accountant and certified public valuer of PRC, Financial Controller and Qualified Accountant of the Company. Ms. Gong obtained a bachelor's degree in accounting from Shanghai University of Finance & Economics in 1994, and obtained a master's degree in business administration from Fudan University in 1999. She had worked in Shenzhen Dahua Certified Public Accountants. Ms. Gong joined the Company in 1999, serving successively as the deputy manager of the Finance Department and the manager of the Internal Audit Department. Since November 2002, Ms. Gong has been the Financial Controller of the Company. She is responsible for the overall financial operation of the Company, including formulating financial strategy and plans, financing and fund management, compiling annual budget and accounts, monitoring the implementation of the financial and operational plans, and relevant decision-making support, etc. She is also the chairman of Advertising Company and a director of Qinglian Company, which are invested in by the Company.

Mr. WU Xian, aged 50, registered supervising engineer, Chief Engineer of the Company. Mr. Wu graduated from the Bridge and Tunnel Department of Xi'an Institute of Highways and obtained a bachelor's degree in civil engineering. Mr. Wu had worked in the Changsha Institute of Communications. He joined XTC Company in 1995 and had been the deputy general manager of XTC Company and the deputy controller of Jihe East. Upon establishment of the Company, Mr. Wu served successively as deputy general manager of the Company, deputy general manager and general manager of the Project Administration Office of Jihe West, and Technical Controller of the Company. He had been the chief engineer of the Consulting Company. Since August 2007, Mr. Wu has been the Chief Engineer of the Company, and is currently also a director and the general manager of Qinglian Company and the general manager of the Project Administration Office of the Reconstruction of Qinglian project. He is mainly responsible for the operation management of Qinglian Company and the construction management of the reconstruction of Qinglian project.

Ms. WU Qian, aged 36, certified public accountant of PRC, economist, the Secretary of the Board of Directors and the Company Secretary of the Company. Ms. Wu graduated from Shenzhen University, had worked in several foreign banks and enterprises and had been the Assistant to the Secretary of the Board of Directors of the Company. From October 2000 to March 2003, she had worked in PricewaterhouseCoopers Zhong Tian CPAs Co., Ltd. She had been the manager of the Internal Audit Department of the Company since March 2003 and had been the Secretary of the Board of Directors and Joint Company Secretary of the Company from September 2004 to September 2007. Since September 2007, Ms. Wu has been the Secretary to the Board of Directors and the Company Secretary of the Company. She is mainly responsible for the information disclosure, the management of investor relations, corporate governance of the Company and coordinating the work of the Board, etc.

Reports of the Directors and Accounts

Developing in Stability

Report of the Directors

The Board is pleased to present herewith the Report of the Directors and the audited financial statements of the Company and the Group for the year ended 31 December 2007.

DETAILS OF THE COMPANY

The Company was established as a joint stock limited company in the PRC on 30 December 1996 and its H Shares and A Shares were listed on HKEx and SSE on 12 March 1997 and 25 December 2001, respectively.

SUMMARY OF THE REPORT OF THE BOARD

During year 2007, eight board meetings were held, of which details are set out in the section "Corporate Governance Report" of this annual report.

PRINCIPAL ACTIVITIES

The principal activities of the Group are the investment, construction and operation management of toll highways and roads in the PRC. During the Reporting Period, there is no substantial change in respect of the Group's businesses.

An analysis of the Group's revenue and contributions to operating profit for the Reporting Period is set out in the section of "Management Discussion and Analysis" of this annual report.

An analysis of the Group's revenue and contributions to operating profit in terms of business segments for the Reporting Period is set out in note 5 to the Financial Statements.

MAJOR CUSTOMERS AND SUPPLIERS

No further disclosures with regard to the Group's major customers and suppliers are made since the Group's major customers are users of its toll highways while there is normally no major purchase in relation to its ordinary course of business. During the Reporting Period, the revenue from the Group's top five customers and the amount of purchases from the Group's top five supplers accounted for no more than 30% of the Group's total revenue and total amount of purchases, respectively.

FINANCIAL RESULTS

The results of the Group for the year ended 31 December 2007 are set out in the consolidated income statement of the Financial Statements attached in this annual report on page 103.

The financial positions of the Group and the Company as at 31 December 2007 are set out in the balance sheets of the Financial Statements attached in this annual report on pages 99 to 102.

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 2 to 3 of this annual report.

DIVIDENDS

1. Proposed final dividend for the year 2007

   The Board recommended the payment of a final dividend of RMB0.16 per share (tax included) to all shareholders, totalling RMB348,912,000, for the year ended 31 December 2007. Such dividend shall be subject to the approval by shareholders at the 2007 Annual General Meeting.

   According to the Articles, the dividend distributed to the shareholders of domestic shares will be paid in RMB. The dividend distributed to the shareholders of H Shares will be paid in HK$ by reference to the average exchange rate for converting RMB into HK$ quoted by the People's Bank of China for the five working days preceding the day on which the final dividend is declared.

2. Dividend scheme of the year 2006 and its implementation

   Pursuant to the approval at the 2006 Annual General Meeting, the Company paid a final dividend of RMB0.13 per share for year 2006 to all shareholders on the basis of the total share capital comprising 2,180,700,000 shares as at the year end of 2006, totalling RMB283,491,000. Such dividend distributions had been completed before 20 June 2007.

DIRECTORS AND SUPERVISORS

1. The details of the Directors and the Supervisors are set out in the section "Directors, Supervisors and Senior Management" of this annual report.

2. Directors' service contracts

   Each of the Directors has entered into a service contract with the Company. Contents of such contracts are the same in all material respects. All such service contracts are effective from 1 January 2006 to 31 December 2008. Save as the aforesaid, no service contracts that can be terminated within one year with compensation payable as a result (other than general statutory compensation) have been or proposed to be entered into between the Company and the Directors or the Supervisors.

3. Directors' and Supervisors' interests in contracts

   As at the end of the Reporting Period or at any time during the Reporting Period, no material contract to which the Company or its subsidiaries was a party and in which the Directors or the Supervisors of the Company had a material interest, whether directly or indirectly, subsisted at the end of the Reporting Period or at any time during the Reporting Period (excluding service contracts).

4. During the Reporting Period, the Group has not directly or indirectly provided loans to or guarantee to the debts of the Directors, the Supervisors and senior management of the Company or its controlling shareholder(s) or their respective connected persons.

ELECTIONS AND CHANGES OF DIRECTORS, SUPERVISORS AND APPOINTMENTS OF SENIOR MANAGEMENT

1. The former Technical Controller, Mr. Fan Li Pin, resigned due to personal reasons. The resignation was affirmed by the Board and was effective from 30 March 2007.

2. On 17 July 2007, the Supervisory Committee considered and approved at the 11th meeting of the fourth session of the Supervisory Committee the resignation of Mr. Zhong Shan Qun, Supervisor, due to the work commitments, and the election of Mr. Jiang Lu Ming as a candidate for Supervisor.

   On 3 September 2007, the First Extraordinary General Meeting 2007 of the Company considered and approved the proposal relating to the election of Supervisor, and Mr. Jiang Lu Ming was appointed as Supervisor of the Company, for a term of office from the appointment date to 31 December 2008. The resignation of Mr. Zhong Shan Qun was effective from the holding of the general meeting. On the same day, Mr. Jiang Lu Ming was elected as Chairman of the Supervisory Committee at the 13th meeting of the fourth session of the Supervisory Committee.

3. On 24 August 2007, the Board considered and approved at the 13th meeting of the fourth session of the Board the proposal on the reappointments of the senior management of the Company, and agreed to the reappointments of Li Jian, Ge Fei, Gong Tao Tao, Wu Xian as the senior management members of the Company for a term of office of two years. For the purposes of enhancing the management structure and unifying the management, as approval by the Board, the positions and terms of office of senior management were adjusted to August 2009. The detailed positions are set out in the section "Directors, Supervisors and Senior Management" of this annual report.

4. On 14 September 2007, the Board agreed to the reappointment of Ms. Wu Qian as Secretary of the Board and Company Secretary by means of written resolution for a term of office until 31 August 2009. The former Joint Company Secretary, Mr. Tse Yat Hong, ceased to be a Joint Company Secretary upon the expiry of his service contract with the Company on 12 September 2007.

EMOLUMENTS OF THE DIRECTORS, THE SUPERVISORS AND SENIOR MANAGEMENT

The emoluments of the Directors and Supervisors of the Company are determined in accordance with relevant PRC policies and regulations with reference to the Company's actual situation and prevailing market conditions, subject to approval at the general meeting after separate deliberations by the Board and the Supervisory Committee. During the Reporting Period, the Remuneration Committee of the Board was responsible for formulating the proposal for the Directors' remunerations to the Board.

In the year 2007, four Independent Directors and Mr. Chiu Chi Cheong, Clifton, a Director not nominated by shareholders, received Directors' emoluments. Mr. Jiang Lu Ming, Chairman of the Supervisory Committee, received Supervisor's emoluments while other Directors and Supervisors did not obtain any Director's emoluments or Supervisor's emoluments. All Directors and Supervisors received meeting subsidies in accordance with the relevant rules. Executive Directors and the Supervisor representing staff received management remuneration in accordance with their specific management positions in the Company. Information relating to the remuneration policy of the Company and the performance appraisal and incentive scheme for senior management is set out in "Human Resources" of "Management Discussion and Analysis" of this annual report.

Details of the remuneration received by the Directors, Supervisors and senior management holding a post as at the end of the Period of the Company in the year 2007 are as follows:

Unit: RMB'000 (before tax)

Name	Director's/ Supervisor's emolument	Meeting subsidies	Management remuneraton Note 1	Total	Whether receive remuneration from shareholder or other connected entities
	Total remuneration received from the Company during the Reporting Period				
Executive Director					
Yang Hai		— Note 2	958	958	No
Wu Ya De		— Note 2	1,049	1,049	No
Non-executive Director					
Li Jing Qi		— Note 2		—	Yes
Wang Ji Zhong		10		10	Yes
Liu Jun		— Note 2		—	Yes
Lin Xiang Ke		10		10	Yes
Zhang Yang		13		13	Yes
Chiu Chi Cheong, Clifton Note 3	(HK$)300	11		293	No
Independent Director					
Li Zhi Zheng	150	13		163	No
Zhang Zhi Xue	150	11		161	No
Poon Kai Leung, James Note 3	(HK$)150	15		156	No
Wong Kam Ling Note 3	(HK$)150	14		155	No
Supervisor					
Jiang Lu Ming Note 4	248 Note 4	3		251	No
Zhang Yi Ping		9		9	Yes
Yi Ai Guo Note 5		9	489	498	No
Senior Management					
Li Jian Note 5			641	641	No
Ge Fei Note 5			675	675	No
Zhou Qing Ming Note 5			641	641	No
Gong Tao Tao Note 5			763	763	No
Wu Xian Note 5			854	854 Note 6	No
Wu Qian			727	727	No
Total				8,027	

Notes:

1. The management remuneration comprises three parts, namely position salary, performance bonus and benefits, including the contributions to social retirement insurance, other kinds of social insurance and the supplemental retirement scheme.

2. Yang Hai, Wu Ya De, Li Jing Qi and Liu Jun, Directors, declined the meeting subsidies receivable of RMB13,000, RMB13,000, RMB8,000 and RMB7,000 respectively for the Year.

3. For the purpose of conversion, amounts in HK$ have been converted into RMB using an exchange rate of HK$1 = RMB0.94.

4. Jiang Lu Ming has been appointed as a Supervisor since 3 September 2007. As approved at the general meeting, he will receive annual emoluments of RMB613,000 (tax inclusive) and corresponding fringe benefits paid in accordance with the unified standards imposed by the government and adopted by the Company, including the contributions to social retirement insurance, other kinds of social insurance and the supplemental retirement scheme. Zhong Shan Qun, a former Supervisor, ceased to be a Supervisor since 3 September 2007. In 2007, he received meeting subsidies of RMB4,000 during his term of office.

5. According to the relevant policy guidelines of the Shenzhen Municipal Government, the Company adopts a business vehicle reform plan. For the management staff who participate in the plan, the Company will pay certain monthly vehicle subsidies in lieu of providing or arranging business vehicles for them. During the Reporting Period, Supervisor Yi Ai Guo and some senior management members namely, Li Jian, Ge Fei, Zhou Qing Ming, Gong Tao Tao and Wu Xian, participated in the above plan. During the Reporting Period, the aforesaid persons received vehicle subsidies of RMB43,000, RMB60,000, RMB49,000, RMB60,000, RMB60,000 and RMB38,000 respectively.

6. The remuneration received by Mr. Wu Xian, a senior management, includes RMB350,000 of performance bonus paid by Qianglian Company.

DISCLOSURE OF INTERESTS

1. As at 31 December 2007, none of the Directors, Supervisors or senior management had interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be entered into the register maintained by the Company under Section 352 of the SFO (including deemed interests and short positions under such provisions of the SFO) or which were required to be notified to the Company and HKEx pursuant to the "Model Code for Securities Transactions by Directors of Listed Issuers".

2. None of the Directors, Supervisors or senior management is materially interested in any contract or arrangement entered into by any member of the Group which contract or arrangement is subsisting at the date of this annual report and which is significant in relation to the business of the Group.

SHARE CAPITAL

The total share capital of the Company was RMB2,180,700,000 with details set out in note 17 to the Financial Statements.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Save for the issue and listing of the securities disclosed in the section of "Profiles of Securities and Shareholders" of this annual report, during the Reporting Period, no listing securities of the Company were purchased, sold or redeemed by the Company, any of its subsidiaries or any of its jointly controlled entities.

PRE-EMPTIVE RIGHTS

According to the Articles and the PRC laws, there are no provisions for pre-emptive rights requiring the Company to offer new shares to the existing shareholders in proportion to their shareholdings if new shares are issued.

RESERVES

The amounts and particulars of material transfers to and from reserves of the Group and the Company during the Reporting Period are set out in note 18 to the Financial Statements.

FIXED ASSETS

The movements in fixed assets of the Group and the Company during the Reporting Period are set out in note 6 to the Financial Statements.

BANK LOANS AND OTHER BORROWINGS

Details of bank loans and other borrowings of the Group and the Company as at the end of the Reporting Period are set out in note 19 to the Financial Statements.

INTEREST CAPITALISED

The amount of interest capitalized by the Group and the Company during the Reporting Period are set out in note 27 to the Financial Statements.

INCOME TAX AND BUSINESS TAX

Details of income tax and business tax of the Group during the Reporting Period are set out in notes 28 and 25(a) to the Financial Statements respectively.

TRUST DEPOSITS AND OVERDUE TIME DEPOSITS

During the Reporting Period, the Group did not have any trust deposit or overdue time deposit.

SUBSIDIARIES AND JOINTLY CONTROLLED ENTITIES

Details of the Company's subsidiaries and jointly controlled entities are set out in notes 9 and 11 to the Financial Statements respectively.

MATERIAL LITIGATION AND ARBITRATION

During the Reporting Period, there is no material litigation or arbitration arising in connection with the Company or its subsidiaries nor is there any material prior litigation or arbitration subsisting in the Reporting Period.

INVESTMENTS AND ACQUISITIONS

Please refer to "Business Review and Analysis" of "Management Discussion and Analysis" of this annual report for details of the investments and acquisitions of the Company in the Reporting Period.

CONNECTED TRANSACTIONS

During the Reporting Period, there was no connected transaction which has to be disclosed occurred by the Company or its subsidiaries in accordance with the Listing Rules.

FUNDS TRANSACTION AND GUARANTEE BETWEEN CONNECTED PARTIES

Advances and liabilities or guarantees related to the connected parties (as defined in the relevant PRC regulatory rules) are as follows:

Unit: RMB'000

Connected party	Fund provided to the connected parties		Fund provided to the Company by the connected parties	
	Amount accrued	Balance	Amount accrued	Balance
Baotong Company	30,041	30,041 (Note 1)	—	—
Magerk Company	—	—	21,300 (Note 2)	21,300
Nanjing Company	—	—	26,250 (Note 3)	46,500
Total	30,041	30,041	47,550	67,800

1. The Company had made an advanced payment in an amount of RMB30,040,710 for Baotong Company as construction costs and relevant interests in respect of the construction part of the connecting roads between Longda Expressway (Longhua in Shenzhen – Dalingshan in Dongguan) and Jihe Expressway. In June 2007, the Company entered into a written agreement with Baotong Company and confirmed such payment, thereby forming other receivables of RMB30,040,710 for the Company. In October 2007, Shenzhen International (indirectly holds 31.153% shares of the Company through its subsidiaies) entered into an agreement for the acquisition of 100% interests in Baotong Company and the relevant industry and commerce registration was completed on 29 December 2007. Therefore, the aforesaid payment became credit/liabilities between the Company and connected parties. In order to settle the balance of funds transaction between connected parties, which is caused by the debtor being acquired by a connected party, the Company recovered in full the aforesaid payment on 9 January 2008 after active coordination by the relevant parties.

2. Other payables for Magerk Company is funds transaction between the Company and Magerk Company. As at the date of this report, the funds has been settled.

3. Other payables for Nanjing Company is the pre-dristributted dividends from Nanjing Company.

Besides, the loan in a sum of US$2,308,673.43 from the Spanish Government on-lent by China Construction Bank was secured by a substantial shareholder of the Company, XTC Company.

OTHER MATERIAL CONTRACTS

In addition to those contracts related to the acquisitions as stated in this annual report, other material contracts of the group during the Reporting Period were as follows:

1. Management contract:

   Pursuant to a contract dated 7 June 1995 together with subsequent amendments thereof, the Company's jointly controlled entity, Magerk Company, entrusted the toll collection of Wuhaung Expressway and the usage, management, preservation, maintenance and repair of Wuhuang Expressway and its ancillary facilities to 湖北省高級公路管理路 (Hubei Bureau for the Administration of Higher Class Public Roads), or other sub-contractors whom it may designate from time to time. (湖北省武黃高速公路管理經營有限公司 (Hubei Wuhuang Expressway Management Co. Ltd.) is the sub-contractor currently designated.) Throughout the operating period of Wuhuang Expressway, the service was charged at a fee which is equivalent to a fixed percentage of the toll revenues. The aforesaid matter was disclosed in the announcement and circular of the Company in relation to the acquisition of interests in Wuhuang Expressway by the Company.

   For the year 2007, investment income of the Company from Wuhuang Expressway amounted to RMB37,946,000, and amounted to RMB84,396,000 after excluding the impact of deferred income tax, representing 5.63% and 12.52% of the profit attributable to equity holders of the Company, respectively. The amount of entrusted management fees accounted for by Magerk Company during the Reporting Period was RMB96,953,000. The aforesaid management contract has no material impact on the financial status and operating results of the Group.

2. Mortgage and Pledge of Assets and Guarantees

   As at the end of the Reporting Period, the Group had the following assets mortgaged or pledged and guarantees:

Asset	Type	Bank	Scope of security	Terms
154,000,000 shares of JEL Company (Note 1)	Mortgage	Industrial and Commercial Bank of China (Asia) Limited	Principal and interests of a HK$680 million bank loan	Until repayment of all liabilities by Mei Wah Company under the loan agreement
Toll collection rights of Qinglian project (Note 2)	Pledge	A consortium including China Development Bank, etc.	Principal and interests of bank loans in an aggregate amount of RMB4.66 billion	Until repayment of all liabilities by Qinglian Company under the load agreement
100% interests in Meiguan Company (Note 3)	Pledge	China Construction Bank Shenzhen Branch	Counter-guarantee for the unconditional and irrevocable guarantee with joint liability in respect of the redemption of the corporate bonds with an amount of RMB800 million upon maturity	Until repayment of corporate bonds (principal and interests)

1. Pledged by the subsidiary Mei Wah Company; as at the end of the Reporting Period, the balance of such loan guaranteed was HK$102 million.

2. Pledged by Qinglian Company, a subsidiary of the Company. On 19 May 2006, Qinglian Company entered into agreements with lending banks, and pledged the following interests in favor of the lending banks for the loans of an aggregate amount of RMB4.66 billion: (a) toll collection rights of Qinglian Class 1 Highway and Qinglian Class 2 Road during the reconstruction period of Qinglian Class 1 Highway into an expressway; (b) toll collecton rights of Qinglian Expressway and Qinglian Class 2 Road after completion of the reconstruction of Qinglian Class 1 Highway into an expressway.

3. Pursuant to an agreement entered into by the Company and China Construction Bank Corporation Shenzhen Branch signed on 20 April 2007, the Company provided a pledge of its 100% interest in Meiguan Company in favor of China Construction Bank Corporation Shenzhen Branch, as a counter-guarantee to it for the unconditional and irrevocable guarantee with joint liability in respect of the redemption of the corporate bonds issued by the Company with an amount of RMB800 million upon maturity. As stipulated by the agreement, the pledging procedure for the aforesaid interest was completed in August 2007. Please refer to "Summary of the General Meetings" of "Profiles of Securities and Shareholders" of this annual report for the matters relating to the approval of the counter-guarantee by the general meeting.

Save as disclosed above, the Company did not enter into any contract in respect of the management and administration of its overall business or any material business, nor did it enter into any other material contracts in relation to entrustment, subcontracting, leasing, guarantee or cash assets management during the Reporting Period. Furthermore, there were no such prior material contracts subsisting during the Reporting Period.

The Independent Directors of the Company have, in accordance with the relevant regulations of the CSRC, delivered specific explanations and independent opinions in relation to the external guarantees of the Company.

UNDERTAKING

1. The shareholders of the Company, XTC Company and SGH Company, each of which has more than 5% shareholding in the Company, have undertaken in the promoters' agreement that they will not engage in Shenzhen in any industry or business in any form, which, directly or indirectly, competes with the Company. As at the end of the Reporting Period, the Company did not notice violation of such undertaking by the above two major shareholders.

2. Special undertakings and the fulfillment made by the shareholders during the process of Share Segregation Reform:

Name of shareholders	Special undertakings	Fulfillment
XTC Company SGH Company Huajian Centre GDRB Company	1. Within 36 months from the day of granting listing status to the unlisted shares of the Company held by them, they shall not trade such shares on the stock exchanges; 2. During three consecutive years immediately following the completion of implementation of the Share Segregation Reform, they shall propose resolutions at the annual general meeting of the Company that the Company shall distribute at least 50% of the profit available for distribution in the corresponding periods as cash dividends to the shareholders, and they shall vote for such resolutions at the annual general meeting; 3. They shall pay all relevant expenses arising from the Share Segregation Reform in proportion to their shareholdings.	The Company did not notice that these shareholders had violated such undertakings during the Report Period.

3. Shenzhen International (indirectly holds 31.153% shares of the Company through XTC Company and its another subsidiaries) announced on 18 October 2007 that it proposed to acquire 100% equity interest in SGH Company through its wholly-owned subsidiary, Yiwan Industry. After the completion of the acquisition, Shenzhen International will in aggregate indirectly hold 50.021% shares of the Company. Details of the acquisition are set out in" Information of the de facto Controller" in the section of "Profiles of Securities and Shareholders".

Shenzhen International and Yiwan Industry made the following undertakings in 《詳式權益變動報告書》("Detailed Report on the Change of Equity Interests") published on 18 October 2007 in the securities market of PRC:

1. SGH Company shall be procured to continue to comply with the relevant undertakings made under the Share Segregation Reform of Shenzhen Expressway.

2. In order to avoid any competition in the future, Shenzhen International and Yiwan Industry undertake that:

   Without the approval of the Board of Shenzhen Expressway and written consent from the Independent Directors of Shenzhen Expressway, Shenzhen International and Yiwan Industry shall not, severally or jointly with any other person or company, directly and indirectly engage in any business which competes with the principal business of the Company save and except for the following circumstances:

   1) The interests of a company to be invested in or acquired are 5% or less (5% inclusive).

   2) Where business opportunities which are similar to the principal business of Shenzhen Expressway arise, Shenzhen International and Yiwan Industry shall make their best effort to procure that such business opportunities could be transferred to Shenzhen Expressway (including but not limited to obtaining consent from third parties) and Shenzhen Expressway shall have a right of first refusal to take up such business opportunities. If Shenzhen Expressway does not exercise the right of first refusal, Shenzhen International may invest in or transfer such business opportunities to other subsidiaries.

   3) If Shenzhen Expressway considers that the business invested in by Shenzhen International or Yiwan Industry competes with Shenzhen Expressway's business, Shenzhen International and Yiwan Industry shall resolve in a way permitted under laws and regulations or by regulatory authorities (including but not limited to transfer, entrusted operation, entrusted management, lease, operating lease, etc.) and Shenzhen Expressway shall have a right to choose a reasonable and fair solution.

   4) Shenzhen International may invest in or acquire such business in advance if such investment or acquisition is made from the perspectives of maximising the group's benefits or carrying out its development strategies, and necessary arrangements have been made to enable such business to be transferred to Shenzhen Expressway in the course of investment or acquisition. Shenzhen International shall resolve such matter in a way pursuant to paragraph 3 above within three years from the date of investment or acquisition of such business. If it fails to resolve such matter in time (except that written consent has been obtained from the Independent Directors of Shenzhen Expressway), Shenzhen International shall transfer such business to an independent third party and the Company shall have a pre-emptive right under the same conditions.

3. Upon completion of the transaction, connected transactions with the Company should be avoided if possible. In case that such connected transactions are necessary and unavoidable, the parties shall ensure that such transactions are entered into at arm's length negotiation and of fair value, and that such transactions are conducted in compliance with the procedures and disclosure obligations required by relevant laws and regulations as well as requirements under any regulatory documents.

As at the end of Reporting Period, the aforesaid acquisition was not completed yet.

SUBSEQUENT EVENTS

On 7 January 2008, the Company entered into an entrusted management agreement with 怡賓實業（深圳）有限公司 (Yibin Industrial (Shenzhen) Company Limited), a wholly-owned subsidiary of Shenzhen International. Pursuant to the entrusted management agreement, 怡賓實業(深圳)有限公司 (Yibin Industrial (Shenzhen) Company Limited) entrusted the Company to manage the operation of its 100% equity interest in Baotong Company and 89.93% equity interest in 深圳龍大高速公路有限公司 (Shenzhen Longda Expressway Company Limited) owned by Baotong Company. The term of the entrusted management is from 8 January 2008 to 31 December 2009. The entrusted management fees are calculated on an annual basis at RMB15 million or 8% of the audited net profit of 深圳龍大高速公路有限公司 (Shenzhen Longda Expressway Company Limited) (but in any event shall not exceed RMB25 million), whichever is the higher. 深圳龍大高速公路有限公司 (Shenzhen Longda Expressway Company Limited) is principally engaged in toll collection, maintenance, management and development of Longda Expressway. Pursuant to the Listing Rules of HKEx, 怡賓實業（深圳）有限公司 (Yibin Industrial (Shenzhen) Company Limited) is a connected person of the Company and the transaction constitutes a continuing connected transaction of the Company. Details of the transaction is available in the announcement of the Company dated 8 January 2008, which was published on the website of HKEx (http://www.hkex.com.hk) and the Company(http://www.sz-expressway.com).

RESULTS REVIEW

The Audit Committee of the Company has reviewed and confirmed the annual results announcement and the annual report for the twelve months ended 31 December 2007.

AUDITORS

The details of the appointment and remuneration of the auditors are set out in the section "Corporate Governance Report" of this annual report.

NAME OF DIRECTORS

As at the date of this report, the Directors of the Company are Mr. Yang Hai (Chairman of the Board), Mr. Wu Ya De (Executive Director and President), Mr. Li Jing Qi (Non-executive Director), Mr. Wang Ji Zhong (Non-executive Director), Mr. Liu Jun (Non-executive Director), Mr. Lin Xiang Ke (Non-executive Director), Ms. Zhang Yang (Non-executive Director), Mr. Chiu Chi Cheong, Clifton (Non-executive Director), Mr. Li Zhi Zheng (Independent Director), Mr. Zhang Zhi Xue (Independent Director), Mr. Poon Kai Leung, James (Independent Director) and Mr. Wong Kam Ling (Independent Director).

By Order of the Board
Yang Hai
Chairman

Shenzhen, PRC, 14 March 2008

Independent Auditor's Report

PRICEWATERHOUSECOOPERS

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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF
SHENZHEN EXPRESSWAY COMPANY LIMITED
(Incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Shenzhen Expressway Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 99 to 173, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstance, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 14 March 2008

Consolidated Balance Sheet

	Note	As at 31 December 2007 RMB'000	2006 RMB'000 (Restated)
ASSETS			
Non-current assets			
Property, plant and equipment	6	**7,410,318**	3,634,655
Construction in progress	7	**4,208,432**	857,525
Land use rights	8	**215,526**	226,869
Investments in jointly controlled entities	11	**1,513,630**	1,685,182
Investments in associates	12	**1,141,828**	3,006,665
Deferred income tax assets	20	**—**	1,878
		14,489,734	9,412,774
Current assets			
Inventories		**2,956**	2,403
Trade and other receivables	13	**223,886**	95,283
Restricted cash	14	**16,032**	6,872
Cash and cash equivalents	15	**466,990**	328,494
		709,864	433,052
Non-current assets classified as held for sale	16	**—**	53,029
		709,864	486,081
Total assets		**15,199,598**	9,898,855

Consolidated Balance Sheet

	Note	As at 31 December 2007 RMB'000	2006 RMB'000 (Restated)
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	17	**2,180,700**	2,180,700
Other reserves	18	**3,586,887**	3,264,104
Retained earnings			
– Proposed final dividend	31	**348,912**	283,491
– Others		**1,133,714**	876,343
		7,250,213	6,604,638
Minority interest in equity		**712,480**	—
Total equity		**7,962,693**	6,604,638
LIABILITIES			
Non-current liabilities			
Borrowings	19	**5,251,963**	855,789
Deferred income tax liabilities	20	**474,235**	26,867
Government grants	21	**337,263**	350,461
		6,063,461	1,233,117
Current liabilities			
Other payables	22	**754,895**	835,244
Current income tax liabilities		**27,565**	22,715
Borrowings	19	**390,984**	1,203,141
		1,173,444	2,061,100
Total liabilities		**7,236,905**	3,294,217
Total equity and liabilities		**15,199,598**	9,898,855
Net current liabilities		**(463,580)**	(1,575,019)
Total assets less current liabilities		**14,026,154**	7,837,755

YANG HAI
Director

WU YA DE
Director

The notes on pages 107 to 173 are an integral part of these consolidated financial statements.

Balance Sheet

	Note	As at 31 December 2007 RMB'000	2006 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	6	**2,904,534**	2,941,612
Construction in progress	7	**2,524,507**	857,308
Land use rights	8	**63,790**	67,146
Investments in subsidiaries	9	**3,518,193**	1,649,963
Investments in jointly controlled entities	11	**841,461**	958,859
Investments in associates	12	**1,242,424**	2,691,624
Loan to a subsidiary	10	**807,837**	—
		11,902,746	9,166,512
Current assets			
Inventories		**1,971**	1,933
Trade and other receivables	13	**206,115**	94,919
Restricted cash	14	**16,032**	6,872
Cash and cash equivalents	15	**307,783**	228,890
		531,901	332,614
Non-current assets classified as held for sale	16	**—**	40,000
		531,901	372,614
Total assets		**12,434,647**	9,539,126

Balance Sheet

	Note	As at 31 December 2007 RMB'000	2006 RMB'000
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	17	**2,180,700**	2,180,700
Other reserves	18	**3,628,123**	3,305,340
Retained earnings			
– Proposed final dividend	31	**348,912**	283,491
– Others		**979,434**	686,719
Total equity		**7,137,169**	6,456,250
LIABILITIES			
Non-current liabilities			
Borrowings	19	**3,929,292**	693,028
Deferred income tax liabilities	20	**112,539**	22,611
Government grants	21	**337,263**	350,461
		4,379,094	1,066,100
Current liabilities			
Other payables	22	**508,863**	800,087
Current income tax liabilities		**18,537**	13,548
Borrowings	19	**390,984**	1,203,141
		918,384	2,016,776
Total liabilities		**5,297,478**	3,082,876
Total equity and liabilities		**12,434,647**	9,539,126
Net current liabilities		**(386,483)**	(1,644,162)
Total assets less current liabilities		**11,516,263**	7,522,350

YANG HAI
Director

WU YA DE
Director

The notes on pages 107 to 173 are an integral part of this financial statement.

Consolidated Income Statement

	Note	Year ended 31 December 2007 RMB'000	2006 RMB'000 (Restated)
Revenue	5	**1,103,455**	769,291
Business tax and surcharges	25	**(37,427)**	(24,685)
Cost of services	25	**(338,666)**	(209,955)
Gross profit		**727,362**	534,651
Other income	23	**38,386**	41,903
Other gains/(losses) – net	24	**349**	(4,285)
Administrative expenses	25	**(50,232)**	(45,357)
Operating profit		**715,865**	526,912
Finance costs	27	**(131,777)**	(81,558)
Share of profit of jointly controlled entities	11	**203,950**	202,266
Share of loss of associates	12	**(13,486)**	(16,948)
Profit before income tax		**774,552**	630,672
Income tax expenses	28	**(106,630)**	(39,899)
Profit for the year		**667,922**	590,773
Attributable to:			
Equity holders of the Company		**674,347**	579,090
Minority interest		**(6,425)**	11,683
		667,922	590,773
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in RMB per share)			
– **Basic and diluted**	30	**0.309**	0.266
Dividends	31	**348,912**	283,491

The notes on pages 107 to 173 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

	Note	Attributable to equity holders of the Company					
		Share capital RMB'000 (Note 17)	**Other reserves RMB'000** (Note 18)	**Retained earnings RMB'000**	**Total RMB'000**	**Minority interest RMB'000**	**Total RMB'000**
Balance at 1 January 2006, as previously stated		2,180,700	3,376,930	771,991	6,329,621	43,138	6,372,759
Adjustment for changes in accounting policies	2.2	—	(126,361)	126,361	—	—	—
Balance at 1 January 2006, as restated		2,180,700	3,250,569	898,352	6,329,621	43,138	6,372,759
Currency translation differences		—	(1,153)	—	(1,153)	—	(1,153)
Profit for the year		—	—	579,090	579,090	11,683	590,773
Total recognised income for 2006		—	(1,153)	579,090	577,937	11,683	589,620
Transfer to reserve fund		—	55,924	(55,924)	—	—	—
Dividend relating to 2005		—	—	(261,684)	(261,684)	(7,889)	(269,573)
Acquisition of minority interest in a subsidiary		—	(41,236)	—	(41,236)	(46,932)	(88,168)
Balance at 31 December 2006		2,180,700	3,264,104	1,159,834	6,604,638	—	6,604,638
Balance at 1 January 2007, as previously stated		2,180,700	3,419,372	1,004,566	6,604,638	—	6,604,638
Adjustment for changes in accounting policies	2.2	—	(155,268)	155,268	—	—	—
Balance at 1 January 2007, as restated		2,180,700	3,264,104	1,159,834	6,604,638	—	6,604,638
Profit for the year		—	—	674,347	674,347	(6,425)	667,922
Equity component of convertible bonds, net of transaction costs	19(c)	—	327,914	—	327,914	—	327,914
Deferred tax for convertible bonds		—	(73,195)	—	(73,195)	—	(73,195)
Acquisition of a subsidiary	33	—	—	—	—	718,905	718,905
Transfer to reserve fund		—	68,064	(68,064)	—	—	—
Dividends related to 2006		—	—	(283,491)	(283,491)	—	(283,491)
Balance at 31 December 2007		**2,180,700**	**3,586,887**	**1,482,626**	**7,250,213**	**712,480**	**7,962,693**

The notes on pages 107 to 173 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

	Note	Year ended 31 December 2007 RMB'000	2006 RMB'000 (Restated)
Cash flows from operating activities			
Cash received from toll income		**998,447**	712,309
Cash paid to suppliers		**(66,662)**	(38,895)
Cash paid to employees		**(72,490)**	(49,506)
Other cash received		**25,052**	71,681
Cash generated from operations	32	**884,347**	695,589
Interest paid		**(204,748)**	(97,245)
Income tax paid		**(83,726)**	(50,444)
Government subsidies received		**11,103**	10,240
Net cash generated from operating activities		**606,976**	558,140
Cash flows from investing activities			
Purchase of property, plant and equipment and investment in construction in progress		**(3,373,383)**	(668,762)
Deposits (returned to)/received from contractors for road construction projects		**(59,236)**	145,936
Proceeds from sales of property, plant and equipment		**30**	312
Proceeds from disposal of non-current assets classified as held for sale		**10,800**	—
Acquisition of a subsidiary, net of cash acquired	33	**(451,089)**	—
Profit distribution and appropriation from jointly controlled entities		**375,502**	340,121
Advance from an associate		**26,250**	8,000
Profit distribution and appropriation from associates		**24,050**	33,290
Interest received		**8,917**	6,003
Settlement of consideration payable for acquisition of a jointly controlled entity	22(a)	**(18,459)**	—
Acquisition of minority interest in a subsidiary		**—**	(96,000)
Acquisition of associates		**—**	(357,784)
Increase in investments in associates		**—**	(90,000)
Net cash used in investing activities		**(3,456,618)**	(678,884)

Consolidated Cash Flow Statement

	Note	Year ended 31 December 2007 RMB'000	2006 RMB'000 (Restated)
Cash flows from financing activities			
Proceeds from borrowings		**5,195,472**	2,430,012
Proceeds from issuance of short-term bonds		**—**	1,000,000
Proceeds from issuance of convertible bonds	19(c)	**1,458,885**	—
Proceeds from issuance of corporate bonds	19(d)	**790,283**	—
Government grant received		**5,000**	7,020
Repayments of borrowings		**(4,173,339)**	(2,528,796)
Repayments of short-term bonds		**—**	(1,000,000)
Payments for other borrowing costs		**(326)**	(7,666)
Repayment of advance from a minority equity owner of a subsidiary		**—**	(2,350)
Dividends paid to the Company's shareholders		**(283,491)**	(261,684)
Dividends paid to minority equity owners of subsidiaries		**—**	(7,889)
Net cash generated from/(used in) financing activities		**2,992,484**	(371,353)
Net increase/(decrease) in cash and cash equivalents		**142,842**	(492,097)
Cash and cash equivalents at beginning of the year		**328,494**	822,805
Exchange losses on cash and cash equivalents		**(4,346)**	(2,214)
Cash and cash equivalents at end of the year		**466,990**	328,494

The notes on pages 107 to 173 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1 General information

Shenzhen Expressway Company Limited (the "Company") was established as a joint stock limited company in the People's Republic of China (the "PRC") on 30 December 1996. The principal activities of the Company and its subsidiaries (collectively the "Group") are the development, operation and management of toll highways and expressways in the PRC.

The address of the registered office of the Company is 19/F, Tower A, United Plaza, No. 5022 Binhe Road North, Shenzhen, the PRC.

The H shares and A shares of the Company are listed on The Stock Exchange of Hong Kong Limited and the Shanghai Stock Exchange of the PRC, respectively.

These consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 14 March 2008.

The names of some of the companies referred to in these financial statements represent management's best efforts on translating the Chinese names of these companies as no English names have been registered.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The PRC statutory financial statements of the Group have been prepared in accordance with the Accounting Standards for Business Enterprises (2006) of the People's Republic of China ("CAS"). Appropriate restatements have been made to the PRC statutory financial statements to conform with HKFRS.

The consolidated financial statements have been prepared under the historical cost convention.

The Group reported net current liabilities of approximately RMB463,580,000 as at 31 December 2007. The directors of the Company had made an assessment and concluded that there is no going concern issue of the Group based on the facts that the Group has been generating positive and increasing operating cash flows and the total equity of the Group at 31 December 2007 amounted to approximately RMB7,962,693,000 and it has not experienced any difficulties in renewing its banking facilities and there is no evidence indicating that the banks will not renew the facilities. In addition, the Group had unutilised banking facilities of approximately RMB8.3 billion at 31 December 2007, including the facilities expiring beyond one year of approximately RMB5.3 billion, in order to meet its obligations and commitments. Consequently, the financial statements have been prepared by the directors of the Company on a going concern basis.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

The following new standards, amendment to standard and interpretations are mandatory for financial year ended 31 December 2007:

- HK(IFRIC)-Int 7, 'Applying the Restatement Approach under HKAS 29', this interpretation is not relevant to the Group's operations.

- HK(IFRIC)-Int 8, 'Scope of HKFRS 2', this interpretation is not relevant to the Group's operations.

- HK(IFRIC)-Int 9, 'Reassessment of Embedded Derivatives', this interpretation does not have significant impact on the Group's financial statements.

- HK(IFRIC)-Int 10, 'Interim Financial Reporting and Impairment', prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. Management has adopted the interpretation but it does not have any impact on the Group's financial statements.

- HKFRS 7, 'Financial Instruments: Disclosures' and the complementary amendment to HKAS 1, 'Presentation of Financial Statements - Capital Disclosures', introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the Group's financial instruments, or the disclosures relating to taxation and other payables.

The following new/revised standards and interpretations to existing standards have been issued but are not effective for 2007 and have not been early adopted or are not relevant to the Group's operations:

- HK(IFRIC)-Int 11, 'HKFRS 2 - Group and Treasury Share Transactions', effective for annual periods beginning on or after 1 March 2007. This interpretation provides guidance on whether share-based transactions involving treasury shares or involving group entities should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. Management do not expect the interpretation to be relevant for the Group.

- HK(IFRIC)-Int 12, 'Service Concession Arrangements', effective for annual periods beginning on or after 1 January 2008. This interpretation applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services. The Group will apply this interpretation from 1 January 2008. The expected impact is still being assessed in detail by management.

- HK(IFRIC)-Int 13, 'Customer Loyalty Programmes', effective for annual periods beginning on or after 1 July 2008. This interpretation clarifies that where goods or services are sold together with a customer loyalty incentive, the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. The interpretation is not relevant to the Group's operations.

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

- HK(IFRIC)-Int 14, 'HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction', effective for annual periods beginning on or after 1 January 2008. This interpretation provides guidance on assessing the limit in HKAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. This interpretation is not relevant to the Group's operations.

- HKFRS 8, 'Operating Segments', effective for annual periods beginning on or after 1 January 2009. HKFRS 8 replaces HKAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosure about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply HKFRS 8 from 1 January 2009. The expected impact is still being assessed in detail by management.

- HKAS 23 (Revised), 'Borrowing Costs', effective for annual periods beginning on or after 1 January 2009. The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply this revised standard from 1 January 2009. The existing accounting policy of the Group is consistent with this revised standard and the adoption will not result in any changes.

2.2 Changes in accounting policies

In previous years, the Group adopted the proportionate consolidation method under HKAS 31, 'Interests in Joint Ventures', to account for its interests in jointly controlled entities. Effective from 1 January 2007, the Group changed to adopt equity method of accounting, the alternative method under HKAS 31, to account for its interests in jointly controlled entities.

The directors of the Company are of the view that the change in accounting method for interests in jointly controlled entities would provide more reliable, relevant and comparable information of its interests in jointly controlled entities on the Group's financial position, financial performance and cash flows, which is consistent with the basis adopted in the Group's PRC statutory financial statements prepared based on the CAS effective from 1 January 2007. According to CAS, equity method of accounting is mandatorily adopted for the accounting of interests in jointly controlled entities. Given the facts that the CAS is formulated based on a similar conceptual framework as HKFRS and HKAS 31 does not specify whether proportionate consolidation method or equity method of accounting is superior than the other, the directors of the Company consider that consistent application of equity method of accounting would enhance the comparability of financial information presented in its statutory financial statements prepared under CAS as well financial statements prepared under HKFRS. It is also noted that the International Accounting Standards Board is currently considering the removal of proportionate consolidation method of accounting for interests in joint arrangements in the Exposure Draft 9, 'Joint Arrangements'.

2 Summary of significant accounting policies (continued)

2.2 Changes in accounting policies (continued)

This change in accounting policy has been applied retrospectively and resulted in:

	As at 31 December	
	2007	2006
	RMB'000	RMB'000
Increase in investments in jointly controlled entities	**1,513,630**	1,685,182
Decrease in other non-current assets	**1,878,879**	2,042,297
Decrease in current assets	**79,509**	63,149
Decrease in non-current liabilities	**404,118**	359,437
Decrease in current liabilities	**40,640**	60,827
Decrease in other reserves	**9,413**	9,413
Increase in retained earnings	**9,413**	9,413

	Year ended 31 December	
	2007	2006
	RMB'000	RMB'000
Decrease in revenue and other income	**605,372**	475,363
Decrease in costs and expenses	**341,106**	263,096
Decrease in income tax expenses	**60,316**	10,001
Increase in share of profit of jointly controlled entities	**203,950**	202,266

There was no impact on net profit and earnings per share as a result of this change in accounting policy. The opening retained earnings at 1 January 2006 has been increased by RMB3,187,000, as a result of restatements made to share of reserve appropriation of the jointly controlled entities.

In addition, in previous years, the Group reported its share of statutory reserve appropriations made by the entities consolidated in the Group's consolidated financial statements based on the respective equity interests held by the Group in these entities. Effective from 1 January 2007, the Group does not make such reserve appropriations upon the preparation of its consolidated financial statements of the Group, and the corresponding changes to the reserves have been retrospectively restated.

There was no impact on net profit and earnings per share as a result of the change. The opening retained earnings at 1 January 2006 has been increased by RMB126,361,000.

2 Summary of significant accounting policies (continued)

2.2 Changes in accounting policies (continued)

The overall impact of the above restatements to reserves is presented as below:

	As at 31 December	
	2007	2006
	RMB'000	RMB'000
Decrease in other reserves	**190,451**	155,268
Increase in retained earnings	**190,451**	155,268

2.3 Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 December.

(a) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses (Note 2.9). The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

2 Summary of significant accounting policies (continued)

2.3 Consolidation (continued)

(b) Transactions with minority interests

The Group applies a policy of treating transactions with minority interests as transactions with equity owners of the Group. For purchases from minority interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is deducted from equity. Gains or losses on disposals to minority interests are also recorded in equity. For disposals to minority interests, differences between any proceeds received and the relevant share of minority interests are also recorded in equity.

(c) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investments in associates include goodwill (net of any accumulated impairment losses) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other long-term unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in associates are stated at cost less provision for impairment losses (Note 2.9). The results of associates are accounted for by the Company on the basis of dividend received and receivable.

2 Summary of significant accounting policies (continued)

2.3 Consolidation (continued)

(d) Joint ventures

A jointly controlled entity is a contractual arrangement whereby the Group and other parties establish a company to undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

Investments in jointly controlled entities are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investments in jointly controlled entities include goodwill (net of accumulated impairment losses) indentified on acquisition.

The Group's share of its jointly controlled entities' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

In the Company's balance sheet the investments in jointly controlled entities are stated at cost less provision for impairment losses (Note 2.9). The results of jointly controlled entities are accounted for by the Company on the basis of dividend received and receivable.

2.4 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2.5 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in RMB, which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

2 Summary of significant accounting policies (continued)

2.6 Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged in the income statement during the financial period in which they are incurred.

Depreciation of toll roads is calculated to write off their costs on an units-of-usage basis according to the HK Int-1, 'The Appropriate Policies for Infrastructure Facilities', issued by the Hong Kong Institute of Certified Public Accountants, whereby depreciation is provided based on the proportion of actual traffic volume for a particular period over the total projected traffic volume throughout the periods within which the Group is granted the rights to operate those roads. It is the Group's policy to review regularly the total projected traffic volume throughout the operating periods of the respective toll roads. If it is considered appropriate, independent professional traffic studies will be performed. Appropriate adjustments will be made should there be a material change.

Depreciation of buildings and structures is calculated to write off their costs to their estimated residual values on a straight-line basis over the unexpired periods of the leases or the unexpired periods of the rights to operate the relevant roads or their expected useful lives, whichever is shorter. The estimated useful lives of buildings and structures are 10 to 30 years.

Depreciation of other property, plant and equipment is calculated using the straight-line method to allocate cost to their estimated residual values over their estimated useful lives, as follows:

Equipment	
- traffic related	8 - 10 years
- electronic and others	5 - 10 years
Motor vehicles	5 - 6 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are recognised within other gains/(losses) - net, in the income statement.

2 Summary of significant accounting policies (continued)

2.7 Construction in progress

Construction in progress is stated at cost which includes development expenditure and other direct costs, including borrowing costs on the related borrowed funds during the construction period, attributable to the development of the qualifying assets (Note 2.20). Costs are transferred to property, plant and equipment upon completion.

2.8 Land use rights

The up-front prepayments made for land use rights are expensed in the income statement on a straight-line basis over the lease or where there is impairment, the impairment is expensed in the income statement.

2.9 Impairment of investments in subsidiaries, joint ventures and associates and non-financial assets

Assets that have an indefinite useful life or have not yet available for use are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Investments in associates are also assessed whether impairment test is required based on the existence of objective evidence. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.10 Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. During the year, the Group only held financial assets in the category of loans and receivables.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as 'trade and other receivables', 'loan to a subsidiary', 'restricted cash' and 'cash and cash equivalents' in the balance sheet (Notes 2.14 and 2.15). Loans and receivables are carried at amortised cost using the effective interest method.

Regular purchases and sales of financial assets are recognised on the trade-date - the date on which the Group commits to purchase or sell the asset. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment testing of trade receivables is described in Note 2.14.

2 Summary of significant accounting policies (continued)

2.11 Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designed as a hedging instrument.

2.12 Non-current assets held for sale

Non-current assets are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through a continuing use.

2.13 Inventories

Inventories mainly represent toll tickets and materials and spare parts for the repairs and maintenance of expressways, and are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, represents the actual cost of purchase. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

2.14 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within 'other gains/losses'. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'other gains/losses' in the income statement.

2.15 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2 Summary of significant accounting policies (continued)

2.16 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognised in shareholders' equity, net of income tax effects.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.17 Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantially enacted at the balance sheet date in the countries where the Company and its subsidiaries, jointly controlled entities and associates operate and generate taxable income. Management periodically evaluates positions taken in tax return with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, jointly controlled entities and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2 Summary of significant accounting policies (continued)

2.18 Employee benefits

(a) Pension obligations

The Group participates in the municipal retirement schemes which are organised by the local government authorities in the PRC. The schemes are defined contribution plans, under which the Group pays fixed contributions to the local social security administration bureaus and the Group has no legal or constructive obligations to pay further contributions if the bureaus do not have sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. Contributions to the schemes by the Group are calculated as a percentage of employees' basic salaries, subject to a certain ceiling.

The Group pays contributions to the schemes on a mandatory basis and the contributions are recognised as employee benefit expenses when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) Bonus plans

The Group recognises a liability and an expense for bonuses based on a computation method which takes into consideration the amount of profit attributable to the Company's shareholders, after making certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2.19 Provision

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.20 Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

2 Summary of significant accounting policies (continued)

2.21 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of services in the ordinary course of the Group's activities. The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Group and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Toll revenue

Toll revenue from operation of toll roads is recognised on a receipt basis.

(b) Construction management services income

Construction management services income represents the amount of cost savings (the "Savings") achieved in toll road construction management projects engaged by the Group which are determined by comparing the total actual construction costs with the budgeted total construction costs of the projects; or represents a proportion of the Savings as defined in the service agreements entered into with the contract parties.

When the outcome of the construction management services can be estimated reliably, related income is recognised using the percentage of completion method and the stage of completion is measured by making reference to the project construction costs and related management expenses incurred to date as a percentage to the total estimated construction costs and management expenses. When the outcome of the construction management services cannot be estimated reliably, construction management services income is recognised at the same amount of project management expenses incurred only to the extent that such expenses are probable to be recovered.

(c) Income from other services

Income from advertising services are derived from advertisements placed by advertisers on the outdoor advertising billboards owned by the Group. The related revenue is recognised ratably over the period in which the advertisements are displayed.

(d) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flows discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

2 Summary of significant accounting policies (continued)

2.21 Revenue recognition (continued)

(e) Dividend income

Dividend income is recognised when the right to receive payment is established.

(f) Government subsidy income

Government grant in relation to subsidise toll revenues and construction of toll roads are recognised in accordance with the policy as stated in Note 2.22. Other subsidy income is recognised on a receipt basis or when there is a reasonable assurance that the subsidy will be received.

2.22 Government grants

Grants from government are recognised when there is reasonable assurance that the grant will be received.

Government grants provided to the Group to subsidise the toll revenues of a specific toll road are recognised as deferred income in the balance sheet. They are amortised over the period during which the Group is granted the right to operate such toll road. The subsidies recognised in each accounting period is computed based on the actual traffic volume of a period and the basis as determined based on the government grants and the total projected traffic volume throughout the whole approved operating period of the toll road. Subsidies recognised for each accounting period is in reverse proportion with the actual traffic volume of the respective period.

Government grants relating to the construction and purchase of property, plant and equipment are included in non-current liabilities as deferred government grants. Upon completion of the construction of related assets, grants are transferred to deferred income and are credited to the income statement on the same basis as depreciation provided on the relevant assets over their expected useful lives.

2.23 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.24 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

3 Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out by the Risk Management Committee under policies approved by the Board of Directors.

(a) Foreign exchange risk

The Group mainly operates in the PRC with most of the transactions settled in RMB. It did not have significant exposure to foreign exchange risk in the PRC, except for certain cash at bank balances of RMB12,210,000 (2006: RMB55,678,000) and bank borrowings of RMB95,511,000 (2006: RMB162,761,000) which were denominated in Hong Kong dollars ("HKD") and other borrowings of RMB16,864,000 (2006: RMB26,169,000) which were denominated in United States dollars ("USD"), respectively as at 31 December 2007. The conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

As at 31 December 2007, if RMB had weakened/strengthened by 5% against the HKD with all other variables held constant, post-tax profit for the year would have been RMB4,179,000 (2006: RMB5,522,000) lower/higher, mainly as a result of foreign exchange losses/gains on translation of HKD-denominated cash in banks and borrowings. As at 31 December 2007, if RMB had weakened/strengthened by 5% against the USD with all other variables held constant, post-tax profit for the year would have been RMB711,000 (2006: RMB1,110,000) lower/higher, mainly as a result of foreign exchange losses/gains on translation of USD-denominated borrowings.

(b) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group's policy is to maintain approximately 50% of its borrowings in fixed rate instruments. During 2007 and 2006, the Group's borrowings at variable rates were denominated in RMB and HKD.

The Company's long-term borrowings and loan to a subsidiary were issued at fixed rates, and expose the Company to fair value interest rate risk.

The Group's borrowings to the extent of RMB1,612 million (2006: RMB883 million) were issued at variable rates. As at 31 December 2007, if the interest rates had increased or decreased by 0.5%, the finance costs would have been approximately RMB5 million (2006: RMB4 million) higher or lower.

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Cash flow and fair value interest rate risk (continued)

During the year ended 31 December 2007, the Group adopted a floating-to-fixed interest rate swap instrument to manage its cash flow interest rate risk for a long-term borrowing. This interest rate swap has the economic effect of converting borrowings form floating rates to fixed rates. Under the interest rate swap arrangement, the Company agreed with other party to exchange, at specified intervals, the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional amounts.

(c) Credit risk

The Group has no significant concentration of credit risk, except for the amount due from the Shenzhen Communications Bureau for the management services income recognised (Note 13(a)). The carrying amounts of cash and cash equivalents and trade and other receivables represent the Group's maximum exposure in relation to financial assets.

The table below shows the bank deposits balance of the major counterparties of the Group as at 31 December 2007 and 2006:

	As at 31 December	
	2007	2006
	RMB'000	RMB'000
Counterparty		
State-owned banks	**274,207**	130,233
Other banks	**208,471**	204,864
	482,678	335,097

It is expected that there is no significant credit risk associated with the bank deposits as the state-owned banks have the support of the government and others are the listed banks or commercial banks at medium/large size. Management do not expect any losses from non-performance by these counterparties.

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(d) Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and the availability of funding from an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, the Group maintains flexibility in funding by arranging banking facilities and other external financing.

Management monitors the liquidity of the Group through performing rolling forecasts of the Group's liquidity reserve (comprises undrawn borrowing facilities (Note 19(i)) and cash and cash equivalents (Note 15)) based on expected future cash flows.

The table below analyses the Group's and the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000
Group				
At 31 December 2007				
Borrowings	**390,984**	**425,984**	**1,415,807**	**3,776,760**
Other payables	**750,185**	**—**	**4,710**	**—**
At 31 December 2006				
Borrowings	1,203,141	6,397	519,392	330,000
Other payables	810,650	—	24,594	—
Company				
At 31 December 2007				
Borrowings	**390,984**	**425,984**	**1,034,896**	**2,835,000**
Other payables	**508,863**	**—**	**—**	**—**
At 31 December 2006				
Borrowings	1,203,141	6,397	356,631	330,000
Other payables	800,087	—	—	—

3 Financial risk management (continued)

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

Consistent with other industry players, the Group monitors its capital to debt position based on its gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity', as shown in the consolidated balance sheet, plus net debt.

The Group's strategy is maintain a gearing ratio within 50% to 60% and an AAA credit rating. The gearing ratio of the Group at 31 December 2007 and 2006 were as follows:

	2007	2006
	RMB'000	RMB'000
Total borrowings (Note 19)	**5,642,947**	2,058,930
Less: Cash and cash equivalents (Note 15)	**(466,990)**	(328,494)
Net debt	**5,175,957**	1,730,436
Total equity	**7,962,693**	6,604,638
Total capital	**13,138,650**	8,335,074
Gearing ratio	**39.39%**	20.76%

The increase in the gearing ratio during 2007 resulted primarily from the increase of borrowings to finance the new construction projects.

3.3 Fair value estimation

The carrying value less impairment provision, if any, for financial assets and liabilities with a maturity of less than one year, is a reasonably approximation of their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Depreciation of toll roads and recognition of deferred income

As explained in details in Notes 2.6 and 2.22, depreciation of toll road related assets and recognition of deferred income of the Group are calculated and determined based on the total projected traffic volume throughout the approved operating periods of the respective toll roads ("Total Projected Traffic Volume") under the related concessionary rights granted to the Group by the local governments. Material adjustments may need to be made to the carrying amounts of toll roads and deferred income should there be a material difference between the Total Projected Traffic Volume and the actual results.

As an established policy of the Group as stated in Note 2.6, the Total Projected Traffic Volume is reviewed regularly by the directors of the Company. Independent professional traffic studies are also performed periodically in order to ascertain any appropriate adjustments that should be made when there have been material changes. In 2006, the Company appointed a professional traffic consultant in the PRC to perform independent professional traffic study on the Total Projected Traffic Volume of respective major toll roads operated by the Group. The Total Projected Traffic Volume applied by the Group for the determination of depreciation of toll roads and recognition of deferred income for the year ended 31 December 2007 was developed based on the professional traffic study performed in 2006. The directors of the Company considered that these are their best current estimates on the Total Projected Traffic Volume.

(b) Revenue recognition relating to construction management contracts

For the year ended 31 December 2007, the Group recognised construction management services income of RMB102,250,000 in aggregate for construction management services rendered for two construction projects, the Nanping Freeway (Phase 1) Project ("Nanping Project") and the Wutong Mountain Avenue (Supplementary Road) and Airport-Heao Expressway Yantian Subsidiary Road Checkpoint Station Project ("Wutong Mountain Project"). These two projects are undertaken on behalf of the local government authorities. The construction management services income is recognised based on the percentage of completion method (details laid down in the Group's accounting policies as stated in Note 2.21(b)) and the cumulative income recognised for the two projects up to 31 December 2007 was RMB191,876,000 and RMB15,498,000, respectively. The accuracy of recognition of such income rests on estimates made by the directors on the total budgeted project costs to be approved by the government authorities, as well as the total estimated costs for the projects and the compilation of the Savings.

Due to the fact that the total budgeted project costs, total contract prices and the compilation of the Savings of the two projects had not been finalised with the related government authorities as at 31 December 2007, the directors made the best estimate of the amounts based on the results of the audit on each project conducted by the audit department of the government authorities, if available, and the relevant communication results made with the authorities and information obtained from them.

4 Critical accounting estimates and judgements (continued)

(b) Revenue recognition relating to construction management contracts (continued)

In ascertaining the total costs of the project, the directors have made reference to the actual costs incurred/settled to date and relevant third party evidence such as signed construction contracts and their supplements, the related variation orders placed with the contractors, and the related construction and design plans. The directors have also applied their relevant professional judgment and industry experience as required and/or appropriate.

Were the magnitudes of the final approved project costs and the total actual costs for the projects were to be differed by 5% from management's current estimates with all other variables held constant, the construction management services income recognised during the year would be increased by approximately RMB16,827,000 if favorable, or would be decreased by approximately RMB16,827,000 if unfavorable.

(c) Impairment provision of investment in a jointly controlled entity

As mentioned in Note 2.2, the Group previously accounted for its interests in jointly controlled entities under the proportionate consolidation method before 2007. In 2007, the Group changed its accounting policy to equity method of accounting. As at 31 December 2006, the cumulative impairment provision on the toll road assets of Changsha Shenchang Expressway Company Limited ("Shenchang Company"), a jointly controlled entity of the Company, in the amount of RMB134,000,000 had been recognised in the consolidated financial statements of the Company as impairment loss provision against property, plant and equipment as determined based on the Company's equity interest held in Shenchang Company. As the Group changed to adopt equity method of accounting effective from 1 January 2007, the comparative figures of 2006 have been restated that the cumulative impairment provision as at 31 December 2006 is applied against the Company's share of net investment in Shenchang Company.

In addition, in accordance with the accounting policy stated in Note 2.9, the Group performs impairment tests on its investments in jointly controlled entities whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. In current year, there is indication that the toll road assets of Shenchang Company are subject to further impairment losses. In order to assess the recoverable amount of the investment in Shenchang Company, the Company appointed a professional valuer in the PRC to reassess the recoverable amount of the relevant assets of Shenchang Company. According to the assessment results, additional impairment provision of RMB174,510,000 against the toll road assets of Shenchang Company was required. Accordingly, the Group recognised its share of such impairment loss, equal to RMB89,000,000, computed based on the Group's interest in Shenchang Company in current year and the amount was reflected as the Group's share of results of this jointly controlled entity in the consolidated income statement. Overall, the Group's share in Shenchang Company's cumulative impairment provision was RMB223,000,000 as at 31 December 2007.

4 Critical accounting estimates and judgements (continued)

(c) Impairment provision of investment in a jointly controlled entity (continued)

The assessment of the recoverable amount of toll road assets of Shenchang Company was determined based on value-in-use valuation, as well as the re-projected traffic volume throughout the unexpired operating period of the toll road of Shenchang Company as assessed by a professional traffic consultant appointed by the Company in 2006. The accuracy of the valuation and assessment rests on various estimates and assumptions employed in the compilation of a discounted projected cash flow model, which include projected growth/increase of traffic volume and toll rates, the economic development of the area where Shenchang Company's toll road is located, the impact arising from any future toll road network plans to be enacted, the impact of the toll road conditions and any maintenance and overhaul activities to be undertaken, as well as the enterprise income tax rate and discount rate reflecting specific industry risks relating to the toll road operations applied. The directors of the Company have made these assumptions based on the best estimates developed from the current market conditions.

Were the assessed recoverable amount of the toll road assets of Shenchang Company to differ by 5% from the current estimates made by the directors of the Company, the Group would have to report an additional impairment provision of approximately RMB4,500,000 if unfavorable, or to reduce the current year impairment provision by approximately RMB4,500,000 if favorable.

(d) Estimate of fair values of acquired assets and liabilities from acquisition

The Group previously held 56.28% equity interest in Guangdong Qinglian Highway Development Company Limited ("Qinglian Company"). In 2007, the Group acquired 20.09% additional equity interest in Qinglian Company at a cash consideration of RMB484,000,000. Details of the acquisition are set out in Note 33. In accordance with HKFRS 3, the identifiable assets acquired and liabilities and contingent liabilities assumed should be measured at fair value at the date of acquisition in order to determine the difference between the cost of acquisition and the fair value of the Group's share of net assets acquired, which should then be recognised as goodwill in the balance sheet or recognised directly in the income statement. The effective date of the acquisition was on 1 January 2007 (the "Acquisition Date") and Qinglian Company became a subsidiary of the Company from then onwards.

4 Critical accounting estimates and judgements (continued)

(d) Estimate of fair values of acquired assets and liabilities from acquisition (continued)

In the absence of an active market for the above business combination undertaken by the Group, in order to determine the fair values of assets acquired and liabilities assumed, the directors of the Company had made estimates from a variety of sources, in order to determine the fair values of identifiable assets and liabilities in the transaction, as summarised below:

— An enterprise fair value ("Enterprise Fair Value") of Qinglian Company was ascertained by an independent professional valuer close to the Acquisition Date based on the discounted projected cash flow model ("Cash Flow Model");

— Fair values of all working capital items of Qinglian Company are stated at their then net book value as at the Acquisition Date, after making applicable adjustments according to the latest audited results ("Working Capital Values");

— The tangible asset to be identified in the acquisition which is subject to significant fair value adjustment assessment is determined to be expenditures incurred by Qinglian Company on constructing the toll road assets under the grant of the operating right. The fair values of related assets are determined based on the Enterprise Fair Value minus the Working Capital Values so ascertained, as described above.

As a result of the above assessment, the directors of the Company determined the respective fair values of the identifiable assets acquired and liabilities assumed in the transaction. The difference between the cost of acquisition and the fair value of the Group's share of net assets acquired amounted to RMB127,206,000 and has been recognised as other gain in the income statement for the year ended 31 December 2007. The change in fair value of the 56.28% equity interest previously held by the Group up to the Acquisition Date amounting to approximately RMB127 million (a revaluation loss) has been charged to the income statement against other gain.

The determination of the Enterprise Fair Value of the acquisition rests on various assumptions employed in the compilation of the Cash Flow Model such as projected growth/increase of traffic flows and toll rates, taxes to be levied on toll income, as well as discount rate applied to discount the expected future cash flows to the net present value. The Company uses assumptions that are mainly based on market conditions existing at the Acquisition Date.

Were the fair value of net assets of Qinglian Company to be differed by 5% from the current estimates made by the directors of the Company, the income recognised in respect of the excess of the fair value of the Group's share of net assets acquired over the cost of acquisition would be increased or decreased by approximately RMB31 million, and the loss recognised in respect of the change in fair value of the 56.28% equity interest previously held would be increased or decreased by approximately RMB31 million.

5 Segment information

At 31 December 2007, the Group is organised into two main business segments:

— Toll road business

— Provision of construction management services

Revenue consists of income from operations of toll roads and service income derived from the construction management services segment, which are RMB1,068,100,000 and RMB750,535,000 for the years ended 31 December 2007 and 2006, respectively.

Other group operations mainly comprise provision of advertising services and other services. None of these operations constitutes a separately reportable segment.

The segment results for the year ended 31 December 2007 are as follows:

	Toll road RMB'000	Construction management services RMB'000 (Note 13(a))	Others RMB'000	Unallocated RMB'000	Group RMB'000
Segment revenue	**965,850**	**102,250**	**35,355**	**—**	**1,103,455**
Segment result	**614,907**	**94,494**	**17,961**	**—**	**727,362**
Other income (Note 23)	**29,301**	**—**	**—**	**9,085**	**38,386**
Other gains/(losses) – net (Note 24)	**2,516**	**—**	**—**	**(2,167)**	**349**
Administrative expenses	**—**	**—**	**—**	**(50,232)**	**(50,232)**
Operating profit					**715,865**
Finance costs (Note 27)	**(140,326)**	**—**	**—**	**8,549**	**(131,777)**
Share of profit of jointly controlled entities (Note 11)	**203,950**	**—**	**—**	**—**	**203,950**
Share of loss of associates (Note 12)	**(14,457)**	**—**	**971**	**—**	**(13,486)**
Profit before income tax					**774,552**
Income tax expenses (Note 28)					**(106,630)**
Profit for the year					**667,922**

5 Segment information (continued)

The segment results for the year ended 31 December 2006 (restated, note (a)) are as follows:

	Toll road RMB'000	Construction management services RMB'000 (Note 13(a))	Others RMB'000	Unallocated RMB'000	Group RMB'000
Segment revenue	719,067	31,468	18,756	—	769,291
Segment result	504,809	21,118	8,724	—	534,651
Other income (Note 23)	31,187	—	—	10,716	41,903
Other losses – net (Note 24)	(4,142)	—	—	(143)	(4,285)
Administrative expenses	—	—	—	(45,357)	(45,357)
Operating profit					526,912
Finance costs (Note 27)	(83,052)	—	—	1,494	(81,558)
Share of profit of jointly controlled entities (Note 11)	202,266	—	—	—	202,266
Share of loss of associates (Note 12)	(17,508)	—	560	—	(16,948)
Profit before income tax					630,672
Income tax expenses (Note 28)					(39,899)
Profit for the year					590,773

Other segment items included in the income statement are as follows:

	Year ended 31 December 2007					Year ended 31 December 2006 (restated, note (a))				
	Toll road RMB'000	**Construction management services RMB'000**	**Others RMB'000**	**Unallocated RMB'000**	**Group RMB'000**	Toll road RMB'000	Construction management services RMB'000	Others RMB'000	Unallocated RMB'000	Group RMB'000
Depreciation (Note 6)	**172,899**	**—**	**1,262**	**4,153**	**178,314**	109,298	—	1,555	3,990	114,843
Amortisation (Note 8)	**11,343**	**—**	**—**	**—**	**11,343**	11,343	—	—	—	11,343

Note (a): During 2006, construction management services did not qualify as a separate segment. However, the segment qualifies as a separate segment in 2007 and comparative figures for 2006 have been restated accordingly.

5 Segment information (continued)

Segment assets consist primarily of property, construction in progress, plant and equipment, land use rights, inventories, trade and other receivables, restricted cash and cash and cash equivalents. Unallocated assets comprise deferred taxation, investments in jointly controlled entities, investments in associates, non-current assets classified as held for sale and other assets not subject to allocation.

Segment liabilities comprise operating liabilities. Unallocated liabilities comprise items such as taxation and borrowings.

Capital expenditure comprises additions to property, plant and equipment (Note 6) and construction in progress (Note 7), including those additions resulting from acquisitions through business combination (Note 33).

The segment assets and liabilities at 31 December 2007 and capital expenditure for the year then ended are as follows:

	Business segment				
	Toll road	Construction management services	Others	Unallocated	Group
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Assets	**12,073,960**	**150,498**	**21,679**	**2,953,461**	**15,199,598**
Liabilities	**923,388**	**19,161**	**11,441**	**6,282,915**	**7,236,905**
Capital expenditure (Notes 6 and 7)	**7,206,261**	**—**	**3,574**	**123,064**	**7,332,899**

Segment assets and liabilities are reconciled to the Group's assets and liabilities at 31 December 2007 as follows:

	Assets RMB'000	Liabilities RMB'000
Segment assets/liabilities	**12,246,137**	**953,990**
Unallocated:		
Property, plant and equipment	**36,642**	**—**
Construction in progress	**134,204**	**—**
Investments in jointly controlled entities	**1,513,630**	**—**
Investments in associates	**1,141,828**	**—**
Cash and cash equivalents	**88,781**	**—**
Trade and other receivables	**38,376**	**—**
Other payables	**—**	**138,168**
Current income tax liabilities	**—**	**27,565**
Deferred income tax liabilities	**—**	**474,235**
Current borrowings	**—**	**390,984**
Non-current borrowings	**—**	**5,251,963**
Total	**15,199,598**	**7,236,905**

5 Segment information (continued)

The segment assets and liabilities at 31 December 2006 and capital expenditure for the year then ended are as follows:

	Business segment				
	Toll road RMB'000	Construction management services RMB'000	Others RMB'000	Unallocated RMB'000	Group RMB'000
Assets	4,890,176	59,528	14,856	4,934,295	9,898,855
Liabilities	1,111,151	12,496	5,360	2,165,210	3,294,217
Capital expenditure (Notes 6 and 7)	1,105,979	—	3,478	3,836	1,113,293

Segment assets and liabilities are reconciled to the Group's assets and liabilities at 31 December 2006 as follows:

	Assets RMB'000	Liabilities RMB'000
Segment assets/liabilities	4,964,560	1,129,007
Unallocated:		
Property, plant and equipment	36,187	—
Construction in progress	10,214	—
Investments in jointly controlled entities	1,685,182	—
Investments in associates	3,006,665	—
Cash and cash equivalents	129,181	—
Trade and other receivables	11,959	—
Deferred income tax assets	1,878	—
Non-current assets classified as held for sale	53,029	—
Other payables	—	56,698
Current income tax liabilities	—	22,715
Deferred income tax liabilities	—	26,867
Current borrowings	—	1,203,141
Non-current borrowings	—	855,789
Total	9,898,855	3,294,217

No geographical segment information is presented as substantially all the Group's business activities were carried out and all the Group's assets are located in the PRC.

6 Property, plant and equipment

Group

	Toll roads RMB'000	Buildings and structures RMB'000	Equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
At 1 January 2006, as restated					
Cost	2,839,225	192,497	222,650	15,933	3,270,305
Accumulated depreciation	(241,304)	(39,669)	(92,815)	(10,723)	(384,511)
Net book amount	2,597,921	152,828	129,835	5,210	2,885,794
Year ended 31 December 2006, as restated					
Opening net book amount	2,597,921	152,828	129,835	5,210	2,885,794
Transfer from construction in progress (Note 7)	825,739	24,098	49,962	—	899,799
Additions	—	454	2,500	1,425	4,379
Disposals	(40,256)	—	(97)	(121)	(40,474)
Depreciation	(83,100)	(7,923)	(22,165)	(1,655)	(114,843)
Closing net book amount	3,300,304	169,457	160,035	4,859	3,634,655
At 31 December 2006, as restated					
Cost	3,624,708	217,049	274,507	14,932	4,131,196
Accumulated depreciation	(324,404)	(47,592)	(114,472)	(10,073)	(496,541)
Net book amount	3,300,304	169,457	160,035	4,859	3,634,655
Year ended 31 December 2007					
Opening net book amount, as restated	**3,300,304**	**169,457**	**160,035**	**4,859**	**3,634,655**
Transfer from construction in progress (Note 7)	**54,350**	**8,207**	**27,662**	**—**	**90,219**
Acquisition of a subsidiary (Note 33)	**3,876,055**	**286**	**5,920**	**1,445**	**3,883,706**
Additions	**—**	**200**	**3,710**	**3,935**	**7,845**
Disposals	**(25,531)**	**—**	**(2,253)**	**(9)**	**(27,793)**
Depreciation	**(139,660)**	**(8,560)**	**(28,097)**	**(1,997)**	**(178,314)**
Closing net book amount	**7,065,518**	**169,590**	**166,977**	**8,233**	**7,410,318**
At 31 December 2007					
Cost	**7,529,583**	**225,742**	**306,354**	**20,224**	**8,081,903**
Accumulated depreciation	**(464,065)**	**(56,152)**	**(139,377)**	**(11,991)**	**(671,585)**
Net book amount	**7,065,518**	**169,590**	**166,977**	**8,233**	**7,410,318**

6 Property, plant and equipment (continued)

Company

	Toll roads RMB'000	Buildings and structures RMB'000	Equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
At 1 January 2006					
Cost	2,036,465	149,701	165,296	5,910	2,357,372
Accumulated depreciation	(113,769)	(21,292)	(61,096)	(2,704)	(198,861)
Net book amount	1,922,696	128,409	104,200	3,206	2,158,511
Year ended 31 December 2006					
Opening net book amount	1,922,696	128,409	104,200	3,206	2,158,511
Transfer from construction in progress (Note 7)	786,309	23,023	49,552	—	858,884
Additions	—	494	2,208	1,056	3,758
Disposals	(826)	—	(90)	(76)	(992)
Depreciation	(52,306)	(5,481)	(19,228)	(1,534)	(78,549)
Closing net book amount	2,655,873	146,445	136,642	2,652	2,941,612
At 31 December 2006					
Cost	2,821,948	173,218	216,462	5,442	3,217,070
Accumulated depreciation	(166,075)	(26,773)	(79,820)	(2,790)	(275,458)
Net book amount	2,655,873	146,445	136,642	2,652	2,941,612
Year ended 31 December 2007					
Opening net book amount	**2,655,873**	**146,445**	**136,642**	**2,652**	**2,941,612**
Transfer from construction in progress (Note 7)	**54,350**	**8,207**	**27,662**	**—**	**90,219**
Additions	**—**	**—**	**1,337**	**3,495**	**4,832**
Disposals	**(25,531)**	**—**	**(1,564)**	**—**	**(27,095)**
Depreciation	**(72,945)**	**(6,354)**	**(24,163)**	**(1,572)**	**(105,034)**
Closing net book amount	**2,611,747**	**148,298**	**139,914**	**4,575**	**2,904,534**
At 31 December 2007					
Cost	**2,850,767**	**181,425**	**242,269**	**8,937**	**3,283,398**
Accumulated depreciation	**(239,020)**	**(33,127)**	**(102,355)**	**(4,362)**	**(378,864)**
Net book amount	**2,611,747**	**148,298**	**139,914**	**4,575**	**2,904,534**

6 Property, plant and equipment (continued)

(a) The toll roads and buildings of the Group are all located in the PRC.

(b) The Group have been granted by the relevant local government authorities the rights to operate the respective toll roads for a period of 19 to 30 years. According to the relevant governments' approval documents and the relevant regulations, the Group is responsible for the construction of the toll roads and the acquisition of the related facilities and equipment. It is also responsible for the operations and management, maintenance and overhaul of the toll roads during the approved operating periods. The toll fees collected and collectible during the operating periods are attributable to the Group. The relevant toll roads assets are required to be returned to the local government authorities when the operating rights periods expire without any considerations payable to the Group. According to the relevant regulations, these operating rights are not renewable and the Group does not have any termination options.

7 Construction in progress

	Group		**Company**	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
		(Restated)		
At 1 January	**857,525**	691,201	**857,308**	648,089
Additions	**3,088,274**	1,108,914	**1,757,564**	1,068,350
Acquisition of a subsidiary (Note 33)	**353,074**	—	**—**	—
Transfer to property, plant and equipment (Note 6)	**(90,219)**	(899,799)	**(90,219)**	(858,884)
Transfer to non-current assets classified as held for sale (Note 16(a))	**—**	(42,544)	**—**	—
Other transfers	**(222)**	(247)	**(146)**	(247)
At 31 December	**4,208,432**	857,525	**2,524,507**	857,308

Construction in progress at 31 December 2007 mainly represents construction costs incurred for toll roads of the Group not yet completed.

8 Land use rights

The Group's land use rights represent prepaid operating lease payments. Their net book value is analysed as follows:

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000 (Restated)	**RMB'000**	RMB'000
Outside Hong Kong, held on:				
Leases of between 10 to 50 years	**215,526**	226,869	**63,790**	67,146

	Group		Company	
	2007	2006	**2007**	**2006**
	RMB'000	RMB'000 (Restated)	**RMB'000**	RMB'000
Opening balance	**226,869**	238,212	**67,146**	70,504
Amortisation of prepaid operating lease payments	**(11,343)**	(11,343)	**(3,356)**	(3,358)
Closing balance	**215,526**	226,869	**63,790**	67,146

The land use rights of the Group are all located in the PRC in relation to the operations of its toll roads.

9 Investments in subsidiaries

		Company	
	Note	**2007**	2006
		RMB'000	RMB'000
Unlisted investments, at cost		**3,518,193**	1,642,431
Provision for impairment		**—**	(4,142)
		3,518,193	1,638,289
Advance to a subsidiary	(b)	**—**	11,674
		3,518,193	1,649,963

9 Investments in subsidiaries (continued)

(a) The following is a list of the principal subsidiaries of the Company at 31 December 2007:

Name	Place of incorporation and nature of legal entity	Principal activities and place of operation	Particulars of issued share capital/ paid-in capital	Interest held Direct	Indirect
Shenzhen Meiguan Expressway Company Limited ("Meiguan Company")	PRC, limited liability company	Construction, operation and management of an expressway in the PRC	RMB332,400,000	100%	—
Shenzhen Expressway Advertising Company Limited	PRC, limited liability company	Advertising agency in the PRC	RMB2,000,000	95%	5%
Mei Wah Industrial (Hong Kong) Limited ("Mei Wah")	Hong Kong, limited liability company	Investment holding in Hong Kong	795,381,300 Ordinary shares of HKD1 each	100%	—
Maxprofit Gain Limited ("Maxprofit")	British Virgin Islands, limited liability company	Investment holding in British Virgin Islands	1 Ordinary share of USD1 each	—	100%
Qinglian Company (Note 33)	PRC, limited liability company	Development, operation and management of highways	RMB1,200,000,000	51.37%	25%

(b) The balance at 31 December 2006 represents advance made to Meiguan Company as part of the investment made by the Company to this subsidiary in accordance with the provisions of the relevant investment agreement. The advance was fully repaid during the year. The subsequent appropriation made by Meiguan Company out of the funds to be generated from the operations of its toll road is accounted for by the Company as redemption of its investment cost in Meiguan Company.

10 Loan to a subsidiary

The balance represent a loan granted to Qinglian Company, which is unsecured, bearing interest at 5.5% per annum and is repayable out of the funds to be generated from the operations of the Qinglian Expressway (upon completion of constructon) of Qinglian Company. The loan and interest should be fully repaid by 2022. The fair value of the loan to Qinglian Company at 31 December 2007 is approximately RMB790,283,000, which is determined based on expected cash flows discounted using a rate based on the borrowing rate of 5.5% per annum.

11 Investments in jointly controlled entities

	Note	Group 2007 RMB'000	Group 2006 RMB'000 (Restated)	Company 2007 RMB'000	Company 2006 RMB'000
Beginning of the year		**1,685,182**	1,833,288	**958,859**	1,105,944
Share of profit	4(c)	**203,950**	202,266	**—**	—
Dividends declared and appropriation made by jointly controlled entities		**(375,502)**	(335,745)	**(50,648)**	(104,335)
Provision for impairment	4(c)	**—**	—	**(66,750)**	(42,750)
Transfer to non-current assets classified as held for sale	16(b)	**—**	(14,627)	**—**	—
End of the year		**1,513,630**	1,685,182	**841,461**	958,859

The year end balance comprises the following:

	Note	Group 2007 RMB'000	Group 2006 RMB'000 (Restated)	Company 2007 RMB'000	Company 2006 RMB'000
Unlisted investments, at cost		**—**	—	**424,738**	436,477
Share of net assets other than goodwill		**934,181**	1,066,824	**—**	—
Goodwill on acquisition		**1,636**	1,636	**—**	—
Provision for impairment	(b)	**—**	—	**(161,090)**	(94,340)
		935,817	1,068,460	**263,648**	342,137
Advances to jointly controlled entities	(c)	**577,813**	616,722	**577,813**	616,722
		1,513,630	1,685,182	**841,461**	958,859

11 Investments in jointly controlled entities (continued)

(a) The following is a list of all jointly controlled entities of the Company at 31 December 2007:

Name	Place of incorporation and nature of legal entity	Principal activities and place of operation	Interest held Direct	Interest held Indirect
Shenzhen Airport-Heao Expressway (Eastern Section) Company Limited ("Airport-Heao Eastern Company")	PRC, Sino-foreign cooperative enterprise	Construction, operation and management of an expressway in the PRC	55%	—
Shenzhen Qinglong Company Limited ("Qinglong Company")	PRC, Sino-foreign cooperative enterprise	Construction, operation and management of an expressway in the PRC	40%	—
Shenchang Company	PRC, limited liability company	Construction, operation and management of a ring road in the PRC	51%	—
Jade Emperor Limited ("JEL")	Cayman Islands, limited liability company	Investment holding in Cayman Islands	—	*55%
Hubei Magerk Expressway Management Company Limited ("Magerk Company")	PRC, wholly foreign owned enterprise	Operation and management of an expressway in the PRC	—	**55%

* The interest in JEL is held indirectly through Mei Wah, a subsidiary of the Company.

** JEL is the sole equity holder of Magerk Company. The Company holds an effective 55% interest in Magerk Company through Mei Wah and JEL.

(b) This represents the provision for impairment loss made against the Company's investment in Shenchang Company arising from impairment of the underlying toll road assets operated by Shenchang Company. During the year ended 31 December 2007, management reassessed the recoverable amount of the toll road of Shenchang Company and as a result, an additional impairment provision of RMB66,750,000 was required to be recognised for the Company's investment in Shenchang Company. The details of such impairment assessment on the toll road assets of Shenchang Company are disclosed in Note 4(c).

(c) Amounts represent advances made to Airport-Heao Eastern Company of RMB310,523,000 (2006: RMB341,573,000) and Shenchang Company of RMB267,290,000 (2006: RMB275,149,000) respectively. The advances were made by the Company as part of its investment commitments in these jointly controlled entities as stipulated in the provisions under the relevant investment agreements. In the opinion of the directors, these advances are investment in nature and are therefore stated at cost.

The advances are unsecured, non-interest bearing and are repayable out of the funds to be generated from the operations of the respective toll road projects of Airport-Heao Eastern Company and Shenchang Company. The directors consider that there was no recoverability problem associated with these amounts as at 31 December 2007. The advance to Shenchang Company had also been taken into account in the impairment assessment of the Company's investment in Shenchang Company as mentioned in details in Note 4(c).

11 Investments in jointly controlled entities (continued)

(d) The Group's share of the results and aggregated assets (including goodwill) and liabilities of its jointly controlled entities are as follows:

	Airport-Heao Eastern Company		Qinglong Company		Shenchang Company		JEL (consolidated with Magerk Company)		Hubei Yungang Transportation Development Company Limited ("Yungang Company") (Note 16(b))		Total	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Non-current assets	**555,765**	580,872	**388,208**	404,023	**201,780**	274,263	**733,126**	782,209	**—**	—	**1,878,879**	2,041,367
Current assets	**40,014**	29,863	**16,518**	18,007	**2,601**	3,243	**20,376**	9,294	**—**	—	**79,509**	60,407
Total assets	**595,779**	610,735	**404,726**	422,030	**204,381**	277,506	**753,502**	791,503	**—**	—	**1,958,388**	2,101,774
Non-current liabilities	**19,636**	13,449	**258,800**	262,536	**40**	—	**125,642**	83,452	**—**	—	**404,118**	359,437
Current liabilities	**23,015**	13,724	**5,589**	6,486	**3,880**	3,991	**8,156**	32,954	**—**	—	**40,640**	57,155
Total liabilities	**42,651**	27,173	**264,389**	269,022	**3,920**	3,991	**133,798**	116,406	**—**	—	**444,758**	416,592
Revenue	**231,347**	181,575	**141,556**	99,685	**12,350**	10,075	**211,184**	178,154	**—**	3,370	**596,437**	472,859
Cost and expenses	**(85,591)**	(63,333)	**(56,199)**	(47,714)	**(77,459)**	(40,997)	**(173,238)**	(116,265)	**—**	(2,284)	**(392,487)**	(270,593)
Profit/(loss) after income tax	**145,756**	118,242	**85,357**	51,971	**(65,109)**	(30,922)	**37,946**	61,889	**—**	1,086	**203,950**	202,266

Other than the commitment in respect of returning the underlying toll roads assets to the respective local government authorities upon expiration of the operating periods under the grants, as mentioned in Note 6(b), there were no other material commitments and contingent liabilities arising from the Group's investments in these jointly controlled entities, and there were no material outstanding commitments and contingent liabilities in the jointly controlled entities as at 31 December 2007.

12 Investments in associates

		Group		Company	
	Note	**2007**	2006	**2007**	2006
		RMB'000	RMB'000	**RMB'000**	RMB'000
Beginning of the year		**3,006,665**	2,966,903	**2,691,624**	2,601,624
Increase in investments in associates		**11,899**	90,000	**—**	90,000
Transfer to investment in a subsidiary as a result of business combination	33	**(1,839,200)**	—	**(1,449,200)**	—
Dividends declared and appropriation made by associates		**(24,050)**	(33,290)	**—**	—
Share of losses		**(13,486)**	(16,948)	**—**	—
End of the year		**1,141,828**	3,006,665	**1,242,424**	2,691,624

The year end balance comprises the following:

		Group		Company	
	Note	**2007**	2006	**2007**	2006
		RMB'000	RMB'000	**RMB'000**	RMB'000
Unlisted investments, at cost		**—**	—	**1,242,424**	2,562,134
Share of net assets other than goodwill		**1,066,528**	2,801,875	**—**	—
Goodwill on acquisition	(c)	**75,300**	75,300	**—**	—
		1,141,828	2,877,175	**1,242,424**	2,562,134
Advance to an associate	(d)	**—**	129,490	**—**	129,490
		1,141,828	3,006,665	**1,242,424**	2,691,624

12 Investments in associates (continued)

(a) The Group's share of the results and aggregated assets (including goodwill) and liabilities of its associates, all of which were established and are operating in the PRC, are as follows:

Name	Nature of legal entity and paid-in capital	Principal activities	Assets		Liabilities		Revenue		Profit/(loss)		*Interest held	
			2007 RMB'000	2006 RMB'000	**2007 RMB'000**	2006 RMB'000	**2007 RMB'000**	2006 RMB'000	**2007 RMB'000**	2006 RMB'000	**2007 %**	2006 %
Guangdong Jiangzhong Expressway Company Limited ("Jiangzhong Company") (Note (b))	Limited liability company, RMB1,015,000,000	Development operation and management of expressways and related facilities	**763,527**	781,150	**505,661**	516,658	**53,092**	35,501	**(6,627)**	(12,928)	**25%**	25%
Guangzhou Western Second Ring Expressway Company Limited ("GZ W2 Company") (Note (b))	Limited liability company, RMB700,000,000	Development, operation and management of expressway	**714,071**	580,779	**564,745**	408,473	**16,490**	223	**(22,979)**	(2,695)	**25%**	25%
Shenzhen Huayu Expressway Investment Company Limited	Limited liability company, RMB150,000,000	Development, investment, operation and management of expressway	**232,775**	238,895	**168,165**	177,546	**26,670**	23,750	**3,262**	3,853	**40%**	40%
Shenzhen Expressway Engineering Consulting Company Limited ("Consulting Company")	Limited liability company, RMB7,000,000	Project management consulting, construction consulting and sales of construction materials	**13,239**	10,101	**7,957**	5,790	**13,672**	7,052	**971**	560	**30%**	30%
Nanjing Yangzi River Third Bridge Company Limited ("Nanjing Third Bridge Company")	Limited liability company, RMB1,080,000,000	Development, operation and management of bridges	**868,674**	844,141	**619,032**	590,460	**57,420**	43,116	**(4,040)**	(8,154)	**25%**	25%
Guangdong Yangmao Expressway Company Limited ("Yangmao Company")	Limited liability company, RMB200,000,000	Development, operation and management of expressway	**637,829**	594,728	**392,300**	343,198	**83,317**	65,574	**18,049**	11,180	**25%**	25%
Yunfu Guangyun Expressway Company	Limited liability company, RMB10,000,000	Development, operation and management of expressway	**435,032**	444,909	**265,459**	273,214	**29,114**	24,533	**(2,122)**	(1,608)	**30%**	30%
Qinglian Company	Sino-foreign cooperative enterprise, RMB1,200,000,000	Development, operation and management of highways	**—**	2,450,276	**—**	752,465	**—**	70,279	**—**	(7,156)	*****	56.28%
			3,665,147	5,944,979	**2,523,319**	3,067,804	**279,775**	270,028	**(13,486)**	(16,948)		

12 Investments in associates (continued)

* Except for Qinglian Company (Note 33), the Company directly holds interests in all its other associates.

** There were no material contingent liabilities arising form the Group's interests in associates, and there were no material contingent liabilities and commitments in the associates as at 31 December 2007.

(b) According to the provisions of the investment agreements of Jianzhong Company and GZ W2 Company, the Company is required to make further capital contributions amounting to RMB8,750,000 and RMB75,000,000 respectively to these two associates based on the funding requirements determined according to the progress of construction of the toll road projects undertaken by these two associates.

(c) The balance represents the goodwill arising from the acquisition of equity interests in Jiangzhong Company and Yangmao Company in previous years amounting to RMB30,135,000 and RMB45,165,000 respectively. After the assessment made by the directors, there was no impairment loss to be recognised as at 31 December 2007.

(d) The balance at 31 December 2006 represents advances to Qinglian Company assumed by the Company upon the acquisition of 56.28% equity interest of Qinglian Company made in 2005. The balance has been transferred to the Company's investment in Qinglian Company as its subsidiary after the completion of the Company's acquisition of 20.09% additional equity interest in Qinglian Company during the year (Note 33).

13 Trade and other receivables

		Group		Company	
	Note	**2007**	2006	**2007**	2006
		RMB'000	RMB'000	**RMB'000**	RMB'000
			(Restated)		
Trade receivables	(a)	**152,560**	61,505	**145,481**	58,285
Amount due from a jointly controlled entity	(c)	**—**	148	**—**	148
Other receivables	(d)	**54,213**	29,777	**53,540**	33,515
Prepayments		**17,113**	3,853	**7,094**	2,971
		223,886	95,283	**206,115**	94,919

(a) Trade receivables mainly represent amounts due from the Shenzhen Communications Bureau of RMB131,337,000 (2006: RMB47,032,000) for management services income recognised.

The Company was engaged by the local government authorities to manage the construction of three main toll road construction projects, namely the Nanping Project, the western section of Hengping Highway ("Hengping Project") and the Wutong Mountain Project. In return, the Company is entitled to management services income which is determined based on the Savings achieved in managing these construction management projects according to the provisions of the relevant contracts.

In 2006, the construction of Hengping Project had been suspended in accordance with a notice issued by the government authorities due to a change in the toll road network plan of the government. In 2007, the relevant government authorities issued another notice advising the Company that construction of certain sections of the Hengping Project could be resumed but no actual construction work had been resumed/undertaken as at 31 December 2007. Accordingly, no service income had been recognised by the Group during the year. After consultation made with the legal counsel, the directors consider that it is not likely for the Company to assume any management liabilities arising from the project delay nor it is required to incur substantial losses.

The construction management services income of the Nanping Project and Wutong Mountain Project recognised during the year, using the percentage of completion method in accordance with the accounting policies of the Group, amounted to approximately RMB89,017,000 (2006: RMB29,203,000) and RMB13,233,000 (2006: RMB2,265,000), respectively. Details are disclosed in Note 4(b).

The Company undertakes to bear costs overruns for these projects. For the Hengping Project, the Company is obliged to bear all the cost overruns incurred in construction as compared to the original budget. For the Nanping Project and Wutong Mountain Project, the Company is obliged to bear solely all the cost overruns incurred in construction as compared to the original budget in case the overrun is less than 2.5% of the total budgeted contract costs, while the related government department will share the overruns portion exceeding 2.5% jointly with the Company if the overrun exceeds 2.5% of the total budgeted contract costs. The outflow of resources arising from the cost overruns of these projects is considered remote by the directors of the Company taking into account the actual progress and status of these projects.

13 Trade and other receivables (continued)

(b) Trade receivables are neither past due nor impaired at 31 December 2007 and 2006 and are analysed as below:

	2007	2006
	RMB'000	RMB'000
Unbilled	**131,337**	47,032
Billed	**21,223**	14,473
	152,560	61,505

Credit quality of trade receivables can be assessed by reference to historical information about counterparty default rates:

	2007	2006
	RMB'000	RMB'000
Counterparty		
– Local government authorities	**134,337**	47,032
– Existing customers with no defaults in the past	**17,776**	13,973
– New customers	**447**	500
	152,560	61,505

At 31 December 2007 and 2006, the ageing analysis of trade receivables was as follows:

	Group		**Company**	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
		(Restated)		
Within 1 year	**121,140**	45,695	**114,088**	42,475
Over 1 year	**31,420**	15,810	**31,393**	15,810
	152,560	61,505	**145,481**	58,285

The ageing analysis is presented based on the time frame from the recognition date of the receivables to the balance sheet date.

(c) The balance at 31 December 2006 represented the amount due from Airport-Heao Eastern Company, a jointly controlled entity of the Company, for the amounts paid by the Company on its behalf.

Due to the geographical layout of the toll roads operated by the Group, certain toll gates of the toll roads of the Company, Meiguan Company and Airport-Heao Eastern Company are overlapping and they collect toll income for each other. During the year, the aggregate toll income collected by the Company and Meiguan Company on behalf of Airport-Heao Eastern Company was RMB117,721,000 (2006: RMB109,432,000), while the aggregate toll income collected by Airport-Heao Eastern Company on behalf of the Company and Meiguan Company was RMB139,137,000 (2006: RMB112,784,000), respectively. All toll income collected is paid back to the counterpary within three days after collection without charging any handling fees.

(d) Other receivables at 31 December 2007 included an amount of RMB30,041,000 (2006: Nil) due from Shenzhen Baotong Expressway Construction Company Limited ("Baotong Company"), a subsidiary indirectly held by Shenzhen International Holdings Limited ("Shenzhen International"), for the projects construction payments made by the Company on behalf of this entity. Shenzhen International indirectly owns 31.153% interest of the Company (Note 36). The remaining balances of other receivables are neither part due nor impaired and are due from counterparties with no default in the past.

14 Restricted cash

	Group and Company	
	2007	2006
	RMB'000	RMB'000
Project funds retained for construction management contracts	**16,032**	6,872

This represents the unutilised balance of project funds received from government authorities for the use of the Hengping Project managed by the Company under a management service contract. The project funds are advanced by the governments and they are deposited in bank accounts jointly supervised by the Company and the relevant government departments. The project funds balance is presented as restricted cash in the balance sheet with a corresponding liability of the same amount included in other payables.

15 Cash and cash equivalents

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
		(Restated)		
Cash at bank and in hand	**461,469**	298,090	**307,783**	228,890
Short-term bank deposits	**5,521**	30,404	**—**	—
	466,990	328,494	**307,783**	228,890

The effective interest rate on short-term bank deposits was 3.03% (2006: 4.1%) per annum. The deposits have a maturity of 7 days (2006: 7 days).

16 Non-current assets classified as held for sale

		Group		Company	
	Note	**2007**	2006	**2007**	2006
		RMB'000	RMB'000	**RMB'000**	RMB'000
Construction in progress	(a)	**—**	42,544	**—**	—
Investment in a jointly controlled entity	(b)	**—**	10,485	**—**	—
Investment in a subsidiary	(a)	**—**	—	**—**	40,000
		—	53,029	**—**	40,000

16 Non-current assets classified as held for sale (continued)

(a) In 2005, the construction of a ropeway project undertaken by Shenzhen Wongtongling Ropeway Company Limited ("Ropeway Company"), a subsidiary of the Company, was put into a halt following the instruction of the local government authorities. The authorities undertake to compensate a portion of the losses suffered by the Company associated with such cessation and the equipment and facilities relating to the project were put under an auction for realisation in 2006. Accordingly, the carrying amount of the related assets (mainly construction in progress) had been presented as non-current assets classified as held for sale and was stated at the lower of the carrying amount and the fair value less costs to sell at RMB42,544,000. In January 2007, the Company received a compensation of approximately RMB47,240,000 from the government authorities and a gain of approximately RMB1,587,000 was recognised in current year after settlements of the liabilities of Ropeway Company.

(b) In October 2006, the Group's 42% equity interest in Yungang Company, initially a jointly control entity of the Group, was approved to be disposed. In January 2007, the Group entered into an agreement with a third party for the disposal of its entire interest in Yungang Company at a cash consideration of RMB10,800,000. Accordingly, the investment in Yungang Company at 31 December 2006 was presented as non-current assets classified as held for sale and was stated at the lower of carrying amount and fair value less costs to sell at RMB10,485,000. The transaction was completed during the year and a gain of approximately RMB315,000 was recognised in 2007.

17 Share capital

	2007 **RMB'000**	2006 RMB'000
Registered, issued and fully paid 2,180,700,000 shares of RMB1 each		
Liquid shares subject to sale restrictions		
– Shares held by the State	**654,780**	654,780
– Shares held by legal persons	**560,620**	560,620
	1,215,400	1,215,400
Listed shares		
– Ordinary shares, listed in the Mainland ("A shares")	**217,800**	217,800
– Foreign invested shares, listed in Hong Kong ("H shares")	**747,500**	747,500
	965,300	965,300
Total	**2,180,700**	2,180,700

After implementation of the Shareholding Structure Reallocating Scheme in February 2006, the formerly non-liquid shares of the Company were converted into shares with liquidity but subject to certain restrictions in their sales. These shares cannot be traded until 2 March 2009 according to the relevant restriction provisions.

Pursuant to the Company's articles of association, all shares are of nominal value of RMB1 each and they are all ordinary shares. Apart from certain restrictions on disposal and the currency used for distribution of dividends, all shares rank pari passu against each other.

18 Other reserves

Group	Share premium RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Discretionary surplus reserve RMB'000	Currency translation differences RMB'000	Others RMB'000	Total RMB'000
Balance at 1 January 2006, as previously stated	2,060,009	453,292	409,085	453,391	1,153	—	3,376,930
Adjustment for changes in accounting policies (Note 2.2)	—	(85,284)	(41,077)	—	—	—	(126,361)
Balance at 1 January 2006, as restated	2,060,009	368,008	368,008	453,391	1,153	—	3,250,569
Reclassification of reserve fund, as restated	—	368,008	(368,008)	—	—	—	—
Acquisition of minority interest in a subsidiary	—	—	—	—	—	(41,236)	(41,236)
Transfer from retained earnings	—	55,924	—	—	—	—	55,924
Currency translation differences	—	—	—	—	(1,153)	—	(1,153)
Balance at 31 December 2006, as restated	2,060,009	791,940	—	453,391	—	(41,236)	3,264,104
Equity component of convertible bonds, net of transaction costs (Note 19(c))	—	—	—	—	—	327,914	327,914
Deferred tax arising on initially stating the convertible bonds at fair value	—	—	—	—	—	(73,195)	(73,195)
Transfer from retained earnings	—	68,064	—	—	—	—	68,064
Balance at 31 December 2007	**2,060,009**	**860,004**	**—**	**453,391**	**—**	**213,483**	**3,586,887**

Company	Share premium RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Discretionary surplus reserve RMB'000	Currency translation differences RMB'000	Others RMB'000	Total RMB'000
Balance at 1 January 2006	2,060,009	368,008	368,008	453,391	—	—	3,249,416
Reclassification of reserve fund	—	368,008	(368,008)	—	—	—	—
Transfer from retained earnings	—	55,924	—	—	—	—	55,924
Balance at 31 December 2006	2,060,009	791,940	—	453,391	—	—	3,305,340
Equity component of convertible bonds, net of transaction costs (Note 19(c))	—	—	—	—	—	327,914	327,914
Deferred tax arising on initially stating the convertible bonds at fair value	—	—	—	—	—	(73,195)	(73,195)
Transfer from retained earnings	—	68,064	—	—	—	—	68,064
Balance at 31 December 2007	**2,060,009**	**860,004**	**—**	**453,391**	**—**	**254,719**	**3,628,123**

18 Other reserves (continued)

(a) Pursuant to relevant PRC regulations and the articles of association of the Company, profit after tax shall be appropriated according to the following sequence from 2006 onwards:

— make up any accumulated losses;

— transfer 10% of the profit after tax to the statutory surplus reserve. When the balance of the statutory surplus reserve reaches 50% of the share capital, such transfer need not be made;

— transfer to the discretionary surplus reserve an amount as approved by the shareholders in the Annual General Meeting; and

— distribute as dividends to shareholders.

The amounts of transfer to the statutory surplus reserve shall be determined based on profit after tax reported in the PRC statutory financial statements of the Company prepared in accordance with the CAS.

(b) Share premium

Share premium mainly represents premium arising from the issuance of shares, net of related issuing expenses. According to the relevant PRC regulations, share premium can only be used to increase the share capital.

(c) Statutory surplus reserve and discretionary surplus reserve

According to the relevant PRC regulations, statutory surplus reserve and discretionary surplus reserve can be used to make up losses or to increase the share capital.

According to the relevant PRC regulations, the Company is not required to provide statutory public welfare fund for profit appropriation effective from 1 January 2006, accordingly, the balance of statutory public welfare fund as at 31 December 2005 was transferred to the statutory surplus reserve.

(d) Profit distributable to shareholders

Pursuant to the relevant PRC regulations and the articles of association of the Company, profit distributable to shareholders shall be the lower of the accumulated distributable profits determined according to the CAS as stated in the PRC statutory financial statements and the accumulated distributable profits adjusted based on HKFRS. The profit attributable to shareholders at 31 December 2007 amounted to RMB1,279,143,000.

19 Borrowings

		Group		Company	
	Note	**2007**	2006	**2007**	2006
		RMB'000	RMB'000	**RMB'000**	RMB'000
			(Restated)		
Non-current					
Bank borrowings					
– Secured	(a)	**1,322,671**	162,761	**—**	—
– Unsecured		**1,985,000**	675,000	**1,985,000**	675,000
		3,307,671	837,761	**1,985,000**	675,000
Other borrowings – guaranteed	(b)	**16,864**	26,169	**16,864**	26,169
Convertible bonds	(c)	**1,143,129**	—	**1,143,129**	—
Corporate bonds	(d)	**790,283**	—	**790,283**	—
		5,257,947	863,930	**3,935,276**	701,169
Less: Current portion of long-term borrowings – guaranteed	(b)	**(5,984)**	(8,141)	**(5,984)**	(8,141)
		5,251,963	855,789	**3,929,292**	693,028
Current					
Bank borrowings – Unsecured		**385,000**	1,195,000	**385,000**	1,195,000
Current portion of long-term borrowings – guaranteed	(b)	**5,984**	8,141	**5,984**	8,141
		390,984	1,203,141	**390,984**	1,203,141
Total borrowings		**5,642,947**	2,058,930	**4,320,276**	1,896,169

(a) For the secured bank borrowings, RMB95,511,000 (HKD102,000,000) is secured by a pledge of the 55% equity interest of JEL held by Mei Wah and RMB1,227,160,000 is secured by a pledge of the operating rights of Qinglian Class I Highway, Qinglian Class II Highway and Qinglian Expressway (upon completion of its reconstruction) of Qinglian Company, a subsidiary of the Company.

(b) Other borrowings totaling USD2,308,673 (equivalent to RMB16,864,000) were extended by the Spanish Government through the China Construction Bank Corporation. The loans comprise two portions, USD1,563,940 bearing interest at 1.8% per annum and another portion of USD744,733 which is interest-bearing at 7.17% per annum. The borrowings are guaranteed by Xin Tong Chan Development (Shenzhen) Company Limited ("Xin Tong Chan"), a substantial shareholder of the Company.

19 Borrowings (continued)

(c) The Company issued 15,000,000 1% convertible bonds with attached warrants subscription rights at a par value of RMB1,500,000,000 on 9 October 2007. The bonds will mature 6 years from the issue date at their nominal value of RMB1,500,000,000. The holders of the bonds have warrants subscription rights to subscribe newly issued A shares of the Company at the rate of 7.2 shares per bond. The values of the liability component and the equity conversion component embedded in the bond offer were determined at the date of issuance of the bonds.

The fair value of the liability component, included in non-current borrowings, was calculated using a market interest rate for a non-convertible bond in the market with equivalent terms. The residual amount, representing the carrying value of the bonds after deduction of the fair value of the liability component, represents fair value of the equity conversion option, is included in shareholders' equity under other reserves (Note 18), net of the attributable transaction costs. The full amount of principal and interest of the bonds is guaranteed by the Shenzhen Branch of the Agricultural Bank of China.

The convertible bonds recognised in the balance sheet is calculated as follow:

	2007 RMB'000
Face value of convertible bonds issued on 9 October 2007	**1,500,000**
Fair value of liability component	**(1,162,802)**
Equity component	**337,198**
Fair value of liability component on 9 October 2007	**1,162,802**
Transaction costs attributable to liability component	**(32,018)**
Liability component on initial recognition at 9 October 2007	**1,130,784**
Interest expense	**12,345**
Liability component at 31 December 2007	**1,143,129**

(d) The Company also issued long-term corporate bonds of RMB800 million for a term of 15 years bearing interest at 5.5% per annum in August 2007. Interest is paid annually and the principal is repayable in full upon maturity. The full amount of principal and interest of the bonds is unconditionally and irrevocably guaranteed by China Construction Bank Corporation, which is in turn secured by the Company's 100% equity interest in Meiguan Company.

19 Borrowings (continued)

(e) The effective interest rates at the balance sheet date are as follows:

	2007	2006
Unsecure bank borrowings		
– non-current	**5.67% - 6.723%**	5.508% - 5.67%
– current	**5.265% - 5.832%**	4.86% - 5.022%
Secured bank borrowings - non-current	**4.64% - 6.48%**	4.99% - 6.12%
Convertible bonds	**5.5%**	—
Corporate bonds	**5.5%**	—

(f) At 31 December 2007, the Group's borrowings are repayable as follows:

	Bank borrowings		Other borrowings and bonds	
Group	**2007**	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
		(Restated)		
Within 1 year	**385,000**	1,195,000	**5,984**	8,141
Between 1 and 2 years	**420,000**	—	**5,984**	6,397
Between 2 and 5 years	**1,410,911**	507,761	**4,896**	11,631
Wholly repayable within 5 years	**2,215,911**	1,702,761	**16,864**	26,169
Over 5 years	**1,476,760**	330,000	**1,933,412**	—
	3,692,671	2,032,761	**1,950,276**	26,169

	Bank borrowings		Other borrowings and bonds	
Company	**2007**	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 1 year	**385,000**	1,195,000	**5,984**	8,141
Between 1 and 2 years	**420,000**	—	**5,984**	6,397
Between 2 and 5 years	**1,030,000**	345,000	**4,896**	11,631
Wholly repayable within 5 years	**1,835,000**	1,540,000	**16,864**	26,169
Over 5 years	**535,000**	330,000	**1,933,412**	—
	2,370,000	1,870,000	**1,950,276**	26,169

19 Borrowings (continued)

(g) The carrying amounts and fair values of the non-current borrowings are as follows:

	Carrying amounts		Fair values	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
		(Restated)		(Restated)
Bank borrowings	**3,307,671**	837,761	**3,142,586**	794,976
Other borrowings	**10,880**	18,028	**9,764**	16,594
Convertible bonds	**1,143,129**	—	**1,143,129**	—
Corporate bonds	**790,283**	—	**790,283**	—
	5,251,963	855,789	**5,085,762**	811,570

The fair values of bank borrowings and other borrowings are determined based on cash flows discounted using effective interest rates ascertained based on the rates of general bank borrowings at 7.56% to 7.83% (2006: 6.30% to 6.84%) per annum.

The fair values of the convertible bonds and corporate bonds are calculated using cash flows discounted at a rate based on a market interest rate for an equivalent non-convertible bond at 5.50% per annum and that of a comparable corporate bond at 5.50% per annum respectively.

The fair values of current borrowings approximate their respective carrying amounts, and the effect of discounting is not significant.

(h) The carrying amounts of the borrowings are denominated in the following currencies:

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
		(Restated)		
RMB	**5,530,572**	1,870,000	**4,303,412**	1,870,000
USD	**16,864**	26,169	**16,864**	26,169
HKD	**95,511**	162,761	**—**	—
	5,642,947	2,058,930	**4,320,276**	1,896,169

19 Borrowings (continued)

(i) The Group has the following undrawn banking facilities:

	2007 RMB'000	2006 RMB'000 (Restated)
Floating rate		
– Expiring within one year	**2,972,000**	2,837,000
– Expiring beyond one year	**3,123,000**	1,245,000
	6,095,000	4,082,000
Fixed rate		
– Expiring beyond one year	**2,205,000**	770,000
	8,300,000	4,852,000

20 Deferred income tax

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

	Group		Company	
	2007 **RMB'000**	2006 RMB'000 (Restated)	**2007** **RMB'000**	2006 RMB'000
Deferred tax assets				
– to be recovered within 12 months	**—**	(1,878)	**—**	—
Deferred tax liabilities				
– to be settled after more than 12 months	**464,596**	25,687	**103,014**	22,111
– to be settled within 12 months	**9,639**	1,180	**9,525**	500
	474,235	26,867	**112,539**	22,611
Deferred tax liabilities – net	**474,235**	24,989	**112,539**	22,611

20 Deferred income tax (continued)

The gross movement on the deferred income tax account is as follows:

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
		(Restated)		
Beginning of the year	**24,989**	49,830	**22,611**	32,218
Acquisition of a subsidiary (Note 33)	**357,997**	—	**—**	—
Deferred tax liability arising on initially stating convertible bonds at fair value charged directly to equity (Note 18)	**73,195**	—	**73,195**	—
Adjustment to the enacted tax rate (Note (a))	**16,875**	—	**15,455**	—
Amounts reversed (Note (b))	**—**	(24,243)	**—**	(9,104)
Recognised in the income statement	**1,179**	(598)	**1,278**	(503)
End of the year	**474,235**	24,989	**112,539**	22,611

20 Deferred income tax (continued)

The movements in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

	Deferred tax assets			Deferred tax liabilities				
Group	Impairment loss of property, plant and equipment RMB'000	Provision for impairment losses of other assets RMB'000	Total RMB'000	Depreciation of property, plant and equipment RMB'000	Intangible assets RMB'000	Toll road assets RMB'000	Convertible bonds RMB'000	Total RMB'000
At 1 January 2006, as previously stated	24,656	1,878	26,534	86,049	88,751	—	—	174,800
Adjustment arising from change in accounting policy (Note 2.2)	(24,656)	—	(24,656)	(34,341)	(88,751)	—	—	(123,092)
At 1 January 2006, as restated	—	1,878	1,878	51,708	—	—	—	51,708
Amounts reversed (Note (b))				(24,243)				(24,243)
Recognised in the income statement	—	—	—	(598)	—	—	—	(598)
At 31 December 2006, as restated	—	1,878	1,878	26,867	—	—	—	26,867
At 1 January 2007, as previously stated	32,656	1,878	34,534	43,651	83,453	—	—	127,104
Adjustment arising from change in accounting policy (Note 2.2)	(32,656)	—	(32,656)	(16,784)	(83,453)	—	—	(100,237)
At 1 January 2007, as restated	—	1,878	1,878	26,867	—	—	—	26,867
Acquisition of a subsidiary (Note 33)	—	—	—	—	—	357,997	—	357,997
Recognised in the income statement	—	(1,878)	(1,878)	(699)	—	—	—	(699)
Adjustment to the enacted tax rate (Note (a))	—	—	—	16,875	—	—	—	16,875
Deferred tax on convertible bonds	—	—	—	—	—	—	73,195	73,195
At 31 December 2007	**—**	**—**	**—**	**43,043**	**—**	**357,997**	**73,195**	**474,235**

20 Deferred income tax (continued)

Company	Deferred tax assets	Deferred tax liabilities
	Provision for impairment losses of assets	Depreciation of property, plant and equipment
	RMB'000	RMB'000
At 1 January 2006	1,878	34,096
Amounts reversed (Note (b))	—	(9,104)
Recognised in the income statement	—	(503)
At 31 December 2006	1,878	24,489
Deferred tax on convertible bonds	—	73,195
Adjustment to the enacted tax rate (Note (a))	—	15,455
Recognised in the income statement	(1,878)	(600)
At 31 December 2007	**—**	**112,539**

(a) On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the "new CIT Law"). Effective from 1 January 2008, all enterprises are subject to a standard PRC enterprise income tax rate of 25%, except for particular provisions and preferential policies. According to the new CIT Law and the relevant regulations, the income tax rate applicable to the Company and all of its subsidiaries established in the PRC will be gradually increased to 25% over a five-year period from 2008 to 2012. The rates are 18% for 2008, 20% for 2009, 22% for 2010, 24% for 2011 and 25% for 2012.

Due to the fact that deferred tax assets and deferred tax liabilities are measured at the applicable tax rates in the the period when the temporary differences are realised or settled, the change in the applicable tax rate will affect the determination of the carrying amounts of the respective deferred tax assets and liabilities of the Group. Based on an assessment made by the Group with reference to the new CIT Law, the carrying amount of deferred tax liabilities of the Group was increased by RMB16,875,000 and has been charged to the income statement for the year.

(b) According to a notice issued by the State Administration of Taxation on 14 May 2006, the units-of-usage basis adopted for the provision of depreciation of property, plant and equipment is also recognised as a straight-line method for tax reporting purposes. Business enterprises which adopt the units-of-usage basis are allowed to claim tax deduction on depreciation charges as if they are applying the straight-line method. Entities within the Group had received formal confirmation replies from relevant local tax authorities that provision of depreciation for their toll road assets under the units-of-usage basis is allowed for tax reporting purposes effective from 1 January 2006. Accordingly, the Group re-assessed the carrying amounts of the deferred tax provision brought forward from 31 December 2005 and reversed deferred tax liabilities of RMB24,243,000, which was reflected as credit to income tax expenses for 2006.

21 Government grants

	Note	Group and Company 2007 RMB'000	2006 RMB'000
Deferred income	(a)	**278,263**	296,461
Advances from government	(b)	**59,000**	54,000
		337,263	350,461

(a) Deferred income

	Group and Company 2007 RMB'000	2006 RMB'000
Beginning of the year	**296,461**	291,408
Addition	**—**	26,000
Government subsidy income recognised for the year (Note 23)	**(18,198)**	(20,947)
End of the year	**278,263**	296,461

(b) The balance comprised of an advance of RMB54,000,000 (2006: RMB54,000,000) from the relevant government authorities received in previous year as an inducement of the Company to participate in the Yanba toll road project, and an additional advance of RMB5,000,000 received in current year as a government grant for the construction of Yanba toll road. For the advance of RMB54,000,000, the relevant governments authorities have not stipulated clear provisions and regulations on the repayment obligations of the fund but since the construction period of the toll road will extend beyond one year, the fund has been presented as a non-current liability in the balance sheet. For the advance of RMB5,000,000, it is specified as government grant to finance the construction of Yanba toll road according to a notice issued by the government authorities, it will be transferred to deferred income and is amortised to the income statement upon completion of the toll road construction.

22 Other payables

	Note	Group 2007 RMB'000	Group 2006 RMB'000 (Restated)	Company 2007 RMB'000	Company 2006 RMB'000
Consideration payable for acquisition of interests in an associate and a jointly controlled entity	(a)	**4,710**	24,594	**—**	—
Payables for construction in progress and quality deposits	(b)	**237,509**	173,260	**173,738**	173,143
Guaranteed deposits for construction projects contracts	(b)	**187,118**	179,568	**187,118**	179,568
Project funds retained for construction management contracts	14	**16,032**	6,872	**16,032**	6,872
Notes payable	(b)	**94,323**	359,242	**20,993**	359,242
Advance from an associate	(c)	**46,500**	20,250	**46,500**	20,250
Advance from a jointly controlled entity	(c)	**21,300**	—	**—**	—
Interest payable		**33,922**	2,275	**31,422**	2,008
Salary payable		**43,454**	20,767	**30,257**	19,341
Others		**70,027**	48,416	**2,803**	39,663
		754,895	835,244	**508,863**	800,087

(a) The balance at 31 December 2006 included the remaining balance of consideration payable in relation to the acquisitions of equity interests of both Qinlian Company and JEL made in 2005 amounting to RMB4,857,000 and RMB19,737,000, respectively. In December 2007, the Company received a notice from the People's Procuratorate of Hubei. According to the notice, the Company was required to pay the remaining balance of acquisition consideration for JEL amounting to approximately HKD19,645,000 to the authority. The Company had made the payment to the authority (settled at RMB18,459,000) during the year and the remaining balance at 31 December 2007 represents the portion for acquisition of Qinglian Company of RMB4,710,000 (2006: RMB4,857,000).

(b) These represent liabilities and quality deposits arising from the progress project payments payable for the construction of certain toll roads projects of the Group of approximately RMB237,509,000 (2006: RMB173,260,000); deposits received from the contractors as guarantees for bidding and their performance commitment for the construction of these projects amounting to RMB187,118,000 (2006: RMB179,568,000) and bills payable of RMB94,323,000 (2006: RMB359,242,000) for projects construction, respectively. Bills payable are bearing interest at 4.56% to 6.48% (2006: 2.3% to 3.74%) per annum and are required to be settled within one year.

(c) These represent the advances from Nanjing Third Bridge Company, an associate of the Company, and Magerk Company, a jointly controlled entity of the Company, of RMB46,500,000 (2006: RMB20,250,000) and RMB21,300,000 (2006: Nil) respectively.

23 Other income

	Note	2007 RMB'000	2006 RMB'000 (Restated)
Government subsidy income	21(a)	**18,198**	20,947
Subsidies from local government		**11,103**	10,240
Interest income from bank deposits		**9,085**	5,689
Interest income from a loan extended to a jointly controlled entity		**—**	5,027
		38,386	41,903

24 Other gains/(losses) – net

	Note	2007 RMB'000	2006 RMB'000 (Restated)
Excess of fair value of net identifiable assets acquired in a business combination over the cost of acquisition	33	**127,206**	—
Adjustment on fair value of the equity interest previously held in the acquiree at acquisition date	33	**(127,206)**	—
Gain on disposals of non-current assets classified as held for sale	16	**1,902**	—
Change in fair value of derivative instrument		**614**	—
Loss recognised for measurement of non-current assets classified as held for sale		**—**	(4,142)
Others		**(2,167)**	(143)
		349	(4,285)

25 Expenses by nature

	Note	2007 RMB'000	2006 RMB'000 (Restated)
Business tax and surcharges	(a)	**37,427**	24,685
Employee benefit expenses	26	**80,733**	57,603
Road maintenance expenses		**49,611**	11,501
Depreciation and amoritsation		**189,657**	126,186
International auditor's remuneration			
– Annual audit		**1,950**	1,550
– Other audit/review services		**—**	100
Statutory auditor's remuneration			
– Annual audit		**990**	650
– Other audit/review services		**—**	1,150
Rental expenses		**1,678**	1,296
Agency fee		**3,989**	1,567
Utility expenses		**11,137**	7,914
Management fee of toll road network		**9,807**	7,376
Material consumption		**4,017**	3,846
Transportation expenses		**1,676**	1,053
Other expenses		**33,653**	33,520
Total cost of services and administrative expenses		**426,325**	279,997

(a) The amount represents PRC business tax and surcharges levied on the Group's toll road income at RMB30,135,000 (2006: RMB22,434,000); service income derived from the provision of construction management services income at RMB3,190,000 (2006: RMB982,000); and income arising from the provision of other services at RMB4,102,000 (2006: RMB1,269,000).

Toll income of the Group is subject to the following taxes and surcharges:

– PRC business tax at 3% or 5% of toll income;

– City development tax at 1% of the PRC business tax; and

– Education supplementary fee at 3% of the PRC business tax.

26 Employee benefit expenses

	Note	2007 RMB'000	2006 RMB'000 (Restated)
Wages, salaries and bonus		**64,594**	43,882
Pension costs – defined contribution plans	(a)	**4,085**	3,382
Other staff welfare benefits		**12,054**	10,339
		80,733	57,603

(a) The Group participates in the municipal retirement schemes managed by the local social security administration bureaus. Pursuant to the relevant provisions, the Group is required to make a monthly contribution equivalent to 10% to 11% (2006: 8% to 10%) of the monthly salary of the employees during the year. The bureaus are responsible for making the pension payments to the retired employees of the Group and the Group has no further obligations. There was no forfeited contribution utilised during the year to reduce future contribution. Contributions totalling RMB39,000 (2006: RMB38,000) were payable to the fund at 31 December 2007.

(b) Directors', supervisors' and senior management's emoluments

The remuneration of each director and supervisor for the year ended 31 December 2007 is set out below:

Name of director/supervisor	Fees RMB'000	Salary RMB'000	Discretionary bonuses RMB'000	Other benefits and allowances RMB'000	Employer's contribution to pension scheme RMB'000	Total RMB'000
Mr. Yang Hai	—	705	190	20	43	958
Mr. Wu Ya De	—	542	446	18	43	1,049
Mr. Li Jing Qi	—	—	—	—	—	—
Mr. Wang Ji Zhong	—	—	—	10	—	10
Mr. Liu Jun	—	—	—	—	—	—
Mr. Lin Xiang Ke	—	—	—	10	—	10
Ms. Zhang Yang	—	—	—	13	—	13
Mr. Chiu Chi Cheong, Clifton	282	—	—	11	—	293
Mr. Li Zhi Zheng	150	—	—	13	—	163
Mr. Zhang Zhi Xue	150	—	—	11	—	161
Mr. Poon Kai Leung, James	141	—	—	15	—	156
Mr. Wong Kam Ling	141	—	—	14	—	155
Mr. Jiang Lu Ming (ii)	—	167	47	15	22	251
Mr. Zhang Yi Ping	—	—	—	9	—	9
Mr. Yi Ai Guo	—	276	163	71	31	541
Mr. Zhong Shan Qun (i)	—	—	—	4	—	4

26 Employee benefit expenses (continued)

(b) Directors', supervisors' and senior management's emoluments (continued)

The remuneration of each director and supervisor for the year ended 31 December 2006 is set out below:

Name of director/supervisor	Fees RMB'000	Salary RMB'000	Discretionary bonuses RMB'000	Other benefits and allowances RMB'000	Employer's contribution to pension scheme RMB'000	Total RMB'000
Mr. Yang Hai	—	706	211	8	19	944
Mr. Wu Ya De	—	543	186	7	19	755
Mr. Li Jing Qi	—	—	—	11	—	11
Mr. Wang Ji Zhong	—	—	—	8	—	8
Mr. Liu Jun	—	—	—	7	—	7
Mr. Lin Xiang Ke	—	—	—	7	—	7
Ms. Zhang Yang	—	—	—	8	—	8
Mr. Chiu Chi Cheong, Clifton	306	—	—	13	—	319
Mr. Li Zhi Zheng	150	—	—	13	—	163
Mr. Zhang Zhi Xue	150	—	—	15	—	165
Mr. Poon Kai Leung, James	153	—	—	11	—	164
Mr. Wong Kam Ling	153	—	—	15	—	168
Mr. Zhang Yi Ping	—	—	—	12	—	12
Mr. Yi Ai Guo	—	272	75	63	18	428
Mr. Zhong Shan Qun (i)	—	—	—	10	—	10

(i) Resigned in 3 September 2007.

(ii) Appointed on 3 September 2007.

(iii) Other benefits and allowances include employer's contribution to medical scheme, allowance paid to the directors and supervisors for their attendance in the board or directors' meetings and traveling allowances.

In 2007, Mr. Yang Hai, Mr. Wu Ya De, Mr. Li Jing Qi and Mr. Liu Jun waived the allowance provided for their attendance in the board of directors' meetings at RMB13,000 (2006: RMB19,000), RMB13,000 (2006: RMB13,000), RMB8,000 (2006: Nil) and RMB7,000 (2006: Nil), respectively. No other directors and supervisors waived any emoluments during the years ended 31 December 2007 and 2006.

During the years ended 31 December 2007 and 2006, no emoluments had been paid by the Group to the directors and supervisors as an inducement to join or upon joining the Group or as a compensation for loss of office.

26 Employee benefit expenses (continued)

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2006: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2006: three) individuals during the year are as follows:

	2007	2006
	RMB'000	RMB'000
Basic salaries	**1,241**	1,226
Bonuses	**922**	413
Contributions to the retirement scheme	**123**	57
Other benefits and allowances	**156**	143
	2,442	1,839

The emoluments for all the above senior management fell within the band of nil to RMB940,000 (HKD1,000,000) during the years ended 31 December 2007 and 2006.

27 Finance costs

	2007	2006
	RMB'000	RMB'000
		(Restated)
Interest on bank and other borrowings	**229,097**	63,130
Interest on short-term bonds	**—**	22,962
Interest on convertible bonds and corporate bonds	**15,756**	—
Less: interest expenses capitalised in construction in progress	**(104,527)**	(3,040)
	140,326	83,052
Other borrowing costs	**326**	7,686
Net foreign exchange gains	**(8,875)**	(9,180)
	131,777	81,558

Borrowing costs of RMB104,527,000 (2006: RMB3,040,000) arising on financing specifically entered into for the construction of toll roads and related facilities were capitalised during the year and are included in additions of construction in progress. Capitalisation rates ranged from 4.86% to 6.48% (2006: 5.05% to 5.24%) per annum were used, representing the borrowing costs of the loans used to finance the projects.

28 Income tax expenses

	2007 RMB'000	2006 RMB'000 (Restated)
Current income tax		
– PRC enterprise income tax	**88,576**	64,740
Deferred income tax		
– Originating temporary differences	**1,179**	(598)
– Amounts reversed (Note 20(b))	**—**	(24,243)
– Adjustment to the enacted tax rate (Note 20(a))	**16,875**	—
	18,054	(24,841)
	106,630	39,899

(a) In 2007, the Company is subject to PRC enterprise income tax at a rate of 15% (2006: 15%), the preferential tax rate for enterprises established in the Shenzhen Special Economic Zone.

(b) The PRC enterprise income tax charged to the consolidated income statement has been calculated based on the assessable profits of the Company and its subsidiaries located in the PRC of the year at a rate of tax applicable to the respective companies at 15% (2006: 15%).

(c) The applicable tax rate to Mei Wah, a subsidiary of the Company incorporated in Hong Kong, is 17.5% (2006: 17.5%). No provision for Hong Kong profits tax has been made in the financial statements since the subsidiary has no income assessable under Hong Kong profits tax. Maxprofit is incorporated in the British Virgin Islands, which is not subject to profits tax.

(d) As mentioned in Note 20(a), the income tax rate applicable to the Company and its subsidiaries established in the PRC will be gradually increased to 25% in a 5-year period from 2008 to 2012.

28 Income tax expenses (continued)

(e) The tax on the Group's profit before tax differs from the theoretical amount that would arise using the tax rate applicable to profits of the Company as follows:

	2007 **RMB'000**	2006 RMB'000 (Restated)
Profit before income tax	**774,552**	630,672
Calculated at a tax rate of 15% (2006: 15%)	**116,183**	94,601
Adjustment to the enacted tax rate	**16,875**	—
Reversal of deferred tax liabilities	**—**	(24,243)
Income not subject to tax	**(21,998)**	(2,666)
Expenses not deductible for tax purpose	**20,062**	40
Tax losses of which no deferred income tax was recognised	**4,078**	—
Share of results of jointly controlled entities and associates of which no deferred income tax was recognised	**(28,570)**	(27,833)
Income tax expenses	**106,630**	39,899

Income not subject to tax and expenses not deductible for tax purpose for the year mainly represented the income and loss recognised for acquisition of Qinglian Company respectively (Notes 33(a) and 33(b)).

29 Profit attributable to equity holders of the Company

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of RMB709,691,000 (2006: RMB522,886,000).

The movement of retained earnings of the Company during the year is as follows:

	Company	
	2007 **RMB'000**	2006 RMB'000
At 1 January	**970,210**	764,932
Profit for the year	**709,691**	522,886
Transfer to reserve fund	**(68,064)**	(55,924)
Dividend relating to 2006 (2005)	**(283,491)**	(261,684)
At 31 December	**1,328,346**	970,210

30 Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the number of ordinary shares in issue during the year.

	2007	2006
Profit attributable to equity holders of the Company (RMB'000)	**674,347**	579,090
Number of ordinary shares in issue (thousands)	**2,180,700**	2,180,700
Basic earnings per share (RMB per share)	**0.309**	0.266

The Company had no dilutive potential shares in both 2007 and 2006 and the diluted earnings per share presented is the same with basic earnings per share.

As mentioned in Note 19(c), the Company issued convertible bonds with attached warrants subscription rights. Though the contingently issuable shares of the Company due to the exercise of the warrants subscription rights by the bonds holders may potentially dilute basic earnings per share in the future, the exercise price of those rights is higher than the prevailing share price of the Company as at 31 December 2007 and therefore, they were not included in the calculation of diluted earnings per share for the year.

31 Dividends

The dividends paid during the years ended 31 December 2007 and 2006 were RMB283,491,000 (RMB0.13 per share) and RMB261,684,000 (RMB0.12 per share), respectively. The directors recommend the payment of a final dividend of RMB0.16 per ordinary share, totalling RMB348,912,000. Such dividend is to be approved by the shareholders at the 2007 Annual General Meeting. This proposed dividends was not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2008.

	2007	2006
	RMB'000	RMB'000
Proposed final dividend of RMB0.16 (2006: RMB0.13) per ordinary share	**348,912**	283,491

32 Cash generated from operations

	2007 RMB'000	2006 RMB'000 (Restated)
Profit for the year	**667,922**	590,773
Adjustments for:		
– Income tax	**106,630**	39,899
– Depreciation	**178,314**	114,843
– Amortisation	**11,343**	11,343
– Loss recognised for measurement of non-current assets classified as held for sale	**—**	4,142
– Gain on disposal of non-current assets classified as held for sale	**(1,902)**	—
– Gain on disposal of property, plant and equipment	**2,126**	50
– Interest income	**(9,085)**	(10,716)
– Government subsidy income	**(18,198)**	(20,947)
– Subsidies from local government	**(11,103)**	(10,240)
– Interest expense	**140,326**	83,052
– Other borrowing costs	**326**	7,686
– Share of loss of associates	**13,486**	16,948
– Share of profit of jointly controlled entities	**(203,950)**	(202,266)
– Exchange gains	**(8,875)**	(9,180)
Changes in working capital (excluding the effects of acquisition):		
– Inventories	**(333)**	695
– Trade and other receivables	**(91,324)**	50,379
– Other payables	**108,644**	29,128
Cash generated from operations	**884,347**	695,589

33 Business combination

In June 2005, the Group acquired 56.28% equity interest in Qinglian Company. As a result of the acquisition, Qinglian Company was 31.28% directly held by the Company and with another 25% of the interest held indirectly through two wholly owned subsidiaries of the Company, Mei Wah and Maxprofit. In accordance with the articles of association of Qinglian Company, the Group nominated nine directors of Qinglian Company, representing 60% voting rights in the board of directors of Qinglian Company. However, the key operating and financial decisions of Qinglian Company have to be approved by over two thirds of the directors (66.67%). As a result, the Group could not control the key operating and financial decisions of Qinglian Company but could only exercise significant influence therein, Qinglian Company had been accounted for as an associate of the Group using the equity method of accounting.

On 8 February 2006, the Company entered into an agreement with the liquidation committee of Qingyuan Yueqing Highway Construction and Development Company Ltd ("Yueqing", one of the equity owners of Qinglian Company) for the acquisition of Yueqing's 20.09% equity interest held in Qinglian Company, together with its equity owner's loan and all other distributable interests in Qinglian Company at an aggregate cash consideration of RMB484,000,000. The Acquisition Date is 1 January 2007 and the Company began to directly and indirectly hold 76.37% aggregate equity interest in Qinglian Company and could control the key operating and financial decisions of Qinglian Company. Since then, Qinglian Company is accounted for as a subsidiary of the Group.

The acquired business contributed revenue of approximately RMB93,959,000 and net loss of approximately RMB27,190,000 to the Group for the period from the Acquisition Date to 31 December 2007.

(a) The acquisition of Qinglian Company constitutes a business combination achieved in stages and it is required to account for each transaction separately using the respective acquisition costs and fair values of the share of acquired net assets as at the date of each transaction in order to determine the amount of any goodwill, if any, associated with each transaction. There was no material difference between the acquisition cost and the fair value of the share of net assets acquired relating to the acquisition of 56.28% equity interest in Qinglian Company. Details of net assets acquired in relation to the acquisition of the 20.09% additional equity interest in Qinglian Company are as follows:

	RMB'000
Purchase consideration for acquisition of 20.09% equity interest in Qinglian Company – cash paid	484,000
Fair value of net identifiable assets acquired – shown as below	(611,206)
Excess of fair value of net assets acquired over the cost of acquisition credited to the income statement (Note 24)	(127,206)

33 Business combination (continued)

(a) (continued)

The assets and liabilities arising from the acquisition are as follows:

	Fair value	Acquiree's carrying amount
	RMB'000	RMB'000
Cash and cash equivalents	32,911	32,911
Property, plant and equipment	3,883,706	4,003,309
Construction in progress	353,074	353,074
Receivables	34,146	34,146
Inventories	220	220
Other current assets	87	87
Borrowings	(635,420)	(635,420)
Payables	(268,386)	(268,386)
Deferred income tax liabilities	(357,997)	(251,941)
Net assets	3,042,341	3,268,000
Minority interest	(718,905)	
Net assets attributable to the Group	2,323,436	
Net assets related to 56.28% interest previously held	(1,712,230)	
Net assets related to 20.09% additional interest acquired	611,206	
Purchase consideration settled in cash	484,000	
Cash and cash equivalents in subsidiary acquired	(32,911)	
Net cash outflow on acquisition	451,089	

There were no business combination in the year ended 31 December 2006.

(b) Impact of fair value adjustment on 56.28% equity interest in Qinglian Company previously held by the Group

	RMB'000
Fair value of the 56.28% equity interest previously held by the Group as at the Acquisition Date	1,712,230
Carrying amount of the 56.28% equity interest previously held by the Group as at the Acquisition Date	(1,839,200)
Change in equity of Qinglian Company after the acquisition of 56.28% equity interest and up to the Acquisition Date, that is attributable to 56.28% interest	(236)
Change in fair value of the 56.28% equity interest previously held	(127,206)

The adjustment of RMB127,206,000 on the fair value of the 56.28% equity interest previously held by the Group mainly represents the change in fair value of property, plant and equipment, after taking into account the related tax impact, which should be accounted for as assets revaluation loss and has been charged to the income statement as other loss (Note 24).

34 Commitments

Capital expenditure and investment commitments at the balance sheet date not yet incurred are as follows:

	2007 RMB'000	2006 RMB'000 (Restated)
Capital commitments – construction of toll roads		
– contracted but not provided for	**3,458,803**	1,256,118
– authorised but not contracted for	**787,374**	1,389,332
	4,246,177	2,645,450
Investment commitments		
– contracted but not provided for	**83,750**	582,480
	4,329,927	3,227,930

In the opinion of the directors, the above commitments could be fulfilled by internal financial resources, banking facilities and external financing arrangement made available to the Group.

35 Contingencies

Pursuant to the terms of the contract of Hengping Project, the Company had arranged a bank to issue irrevocable performance guarantees on its behalf to the Shenzhen Longgang Highway Bureau amounting to RMB19,000,000. The Company also paid a guarantee deposit of RMB9,425,000 for assuring the progress, quality and safety standards for the construction of the Hengping Project.

During the year, the Company entered into two project construction management contracts with the Shenzhen Communications Bureau (representing the Shenzhen Municipal Government). The Company was appointed to manage the construction of the main route of Nanping Freeway (Phase II) and the renovation project of the Shenyun-North Ring Interchange in Shenzhen. Pursuant to the terms of the contracts, the Company had arranged banks to issue irrevocable performance guarantees on its behalf to the Shenzhen Communications Bureau amounting to RMB50,000,000 and RMB1,000,000 respectively.

36 Related party transactions

The substantial shareholder of the Company is Xin Tong Chan, which owns 30.026% interest of the Company. Xin Tong Chan is wholly owned by Shenzhen International, a company whose shares are listed on The Stock Exchange of Hong Kong Limited. Shenzhen International indirectly holds 1.127% interest of the Company through its another wholly owned subsidiary. Shenzhen International is controlled by the Shenzhen Municipal State-owned Assets Supervision and Administration Commission, which is a state-owned authority. In addition, as at 31 December 2007, 22.86% of the equity interests of the Company are held by other different state-owned legal persons. As a result, equity interest of 54% is indirectly held by the PRC government authorities in aggregate.

36 Related party transactions (continued)

Apart from the related party transactions and balances in relation to construction management services, toll income collection, payments on behalf, guarantee for borrowings and advance received which have already been disclosed in Notes 13(a), 13(c), 13(d), 19(b) and 22(c) respectively to these financial statements, the following material transactions were carried out with related parties on a normal commercial basis during the year:

(a) Bank deposits and interest income

	2007 RMB'000	2006 RMB'000
Bank deposits balance		
State-owned banks	**274,207**	130,233
Interest income from bank deposits		
State-owned banks	**2,505**	2,131

(b) Borrowings and interest expenses

	2007 RMB'000	2006 RMB'000
Loans from state-owned banks		
Beginning of the year	**1,745,162**	2,126,195
Acquisition of a subsidiary	**584,235**	—
New borrowings	**3,270,660**	2,010,000
Repayments	**(3,107,246)**	(2,393,438)
Interest expense	**149,496**	53,916
Interest paid	**(147,552)**	(51,511)
End of the year	**2,494,755**	1,745,162

The loans from state-owned banks are mainly bearing interest rates ranging from 4.86% to 6.723% (2006: 5.508% to 5.67%).

As at 31 December 2007, the secured loans from state-owned banks amounted to RMB1,322,671,000 (2006: RMB162,761,000).

(c) Capital expenditure and payable balances for construction in progress

	2007 RMB'000	2006 RMB'000
Capital expenditure incurred for construction in progress and related guaranteed deposits received for construction in progress		
State-owned contractors	**2,199,018**	444,598
Payables for construction in progress and guaranteed deposits balance		
State-owned contractors	**221,093**	118,264

36 Related party transactions (continued)

(d) Payment of project management service fee

In January 2006, Qinglian Company, a then associate of the Group and a subsidiary of the Group since January 2007, entered into a project management service contract with Consulting Company, another associate of the Group, under which Consulting Company assumes the management of a phase of the reconstruction project of Qinglian Class I Highway of Qinglian Company. The value of the management service contract is approximately RMB66,989,000. During the year, Qinglian Company paid a management fee of approximately RMB15,260,000 to Consulting Company. The cumulative management fee paid by Qinglian Company to Consulting Company amounted to approximately RMB20,477,000 up to 31 December 2007.

(e) Key management compensation

	2007	2006
	RMB'000	RMB'000
Salaries, bonues and other short-term employee benefits	**7,536**	6,851

The key management include directors (executive and non-executive) and senior management and there are in total 18 (2006: 19) key management personnel of the Company.

37 Events after the balance sheet date

On 7 January 2008, the Company entered into an operation and management entrustment agreement with Yibin Industrial (Shenzhen) Company Limited ("Yibin Company"), a wholly-owned subsidiary of Shenzhen International, pursuant to which Yibin Company will entrust the Company to manage its 100% equity interest held in Baotong Company and the 89.93% equity interest held in Shenzhen Longda Expressway Company Limited ("Longda Company"). The term of the operation and management entrustment agreement commenced on 8 January 2008 and will expire on 31 December 2009. The management entrustment fees are calculated on an annual basis at RMB15 million or 8% of the audited net profit of Longda Company (but in any event shall not exceed RMB25 million), whichever is the higher.

38 Comparative figures

Apart from the restatements made based on changes in accounting policies (Note 2.2), in previous years, the Group presented the analysis of its expenses on the face of the income statement based on the nature of expenses. Effective from 1 January 2007, the Group changed to present its income statement based on the respective function of expenses. In addition, income from the construction management service and income from advertising, which were classified as other income in previous years, are now presented as part of the Group's revenue.

The directors of the Company believe that the revised classification is a better presentation of the Group's revenue and expenses. The comparative figures have been reclassified to conform with current year presentation. There is no impact on net profit as a result of the reclassification.

Supplementary Information

Reconciliation of financial statements

The Group has prepared its PRC statutory financial statements for the year ended 31 December 2007 in accordance with the CAS. The differences between the financial statements prepared under the CAS and HKFRS are summarised as follows:

	Profit attributable to equity holders of the Company for the year ended 31 December 2007 RMB'000	Capital and reserves attributable to the Company's equity holders as at 31 December 2007 RMB'000
As per PRC statutory financial statements	673,602	7,275,144
Impact of HKFRS adjustments:		
Deferred income recognition for government grants recorded in capital reserve under CAS	745	(24,931)
As restated after HKFRS adjustments	674,347	7,250,213

General Information

Corporate Information

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Statutory Auditor	PricewaterhouseCoopers Zhong Tian CPAs Co., Ltd. 11/F, PricewaterhouseCoopers Centre, 202 Hubin Road, Shanghai
Hong Kong Legal Adviser	Loong & Yeung, Solicitors Suite 2201-2203, 22nd Floor, Jardine House, 1 Connaught Place, Central, Hong Kong
PRC Legal Adviser	Guangdong Junyan Law Firm 16/F, B Tower, International Commercial Building, First Fuhua Road, Shenzhen
Share Registrar and Transfer Office in Hong Kong	Hong Kong Registrars Limited 46/F, Hopewell Centre, 183 Queen's Road East, Hong Kong
Domestic Share Registrar and Transfer Office	China Securities Depository and Clearing Corporation Limited, Shanghai Branch 36/F, China Insurance Building, 166 Lu Jia Zui Road East, Pudong New District, Shanghai
Investor Relations Consultant	Rikes Communications Limited Room 1312, Wing On Centre, 111 Connaught Road Central, Hong Kong
Principal Bankers	Industrial and Commercial Bank of China China Merchants Bank China Development Bank

Profiles of Securities and Shareholders

Basic Information of Share Capital

- The Company was established on 30 December 1996 with the total share capital of RMB1,268,200,000.
- In March 1997, the Company issued 747,500,000 H Shares, which were listed on HKEx on 12 March 1997 (stock code: 0548). The total share capital of the Company increased to RMB2,015,700,000.
- In December 2001, the Company issued 165,000,000 A Shares, which were listed on SSE on 25 December 2001 (stock code: 600548). The total share capital of the Company increased to RMB2,180,700,000.
- The Share Segregation Reform of the Company was completed in February 2006. The total number of shares held by the holders of former non-circulating shares of the Company decreased from 1,268,200,000 shares to 1,215,400,000 shares, with the nature of such shares changed from non-circulating shares to restricted circulating shares, and the total number of circulating A Shares increased from 165,000,000 shares to 217,800,000 shares. The total number of shares of the Company remained unchanged.

Issuing and Listing of the Securities

During the three years before the end of Reporting Period, the Company has not issued new shares.

Pursuant to the approval by CSRC through Document 證監發行字 [2007]315 號 (Zheng Jian Fa Xing Zi (2007) No.315), the Company issued Bonds with Warrants of RMB1,500 million on 9 October 2007. Proceeds were used for the construction of Nanguang Expressway. Pursuant to the approval by the SSE through Document 上證上字 [2007]194 號 (Shang Zheng Shang Zi (2007) No.194) and Document 上證權字 [2007]21 號 (Shang Zheng Quan Zi (2007) No.21), the bonds and warrants after separation were listed respectively on SSE on 30 October 2007.

Categories of share and derivative securities	Issuing date	Issuing price	Issuing size	Listing date	Tradable numbers approved	Expiration of Trading
Bonds with Warrants						
- Bonds	2007-10-9	RMB100/ certificate	15,000,000	2007-10-30	15,000,000	2013-10-9
- Warrants	2007-10-9	_	108,000,000	2007-10-30	108,000,000	2009-10-29

The term of the bonds is 6 years with the nominal interest rate being 1.0%. The interests of the bonds are paid once a year, and the principal will be repaid after the expiry. The subscriber of each Bonds with Warrants has received 7.2 warrants from the Company and a total of 108 million warrants were issued. The primary conversion price of the warrants is RMB13.85 per share (no adjustment made during the Reporting Period) and the conversion ratio is 1:1. The warrants should be exercised in the trading days from 23 October 2009 to 29 October 2009, during which time trading in the warrants will be suspended.

Pursuant to the approval by 國家發展和改革委員會 (National Development and Reform Commission) through Document 發改財金 [2007]1791 號 (Fa Gai Cai Jin (2007) No.1791), the Company issued long-term corporate bonds of RMB800 million in August 2007. The proceeds will be used for the reconstruction of Qinglian Project into an expressway. The bonds were issued at par with a par value of RMB100 each. The term of the bonds is 15 years, and the nominal interest rate is 5.5%. The interests of the bonds are paid once a year, and the principal will be repaid after the expiry. The bonds were tradable in the inter-bank bonds market since 10 August 2007.

Public Float

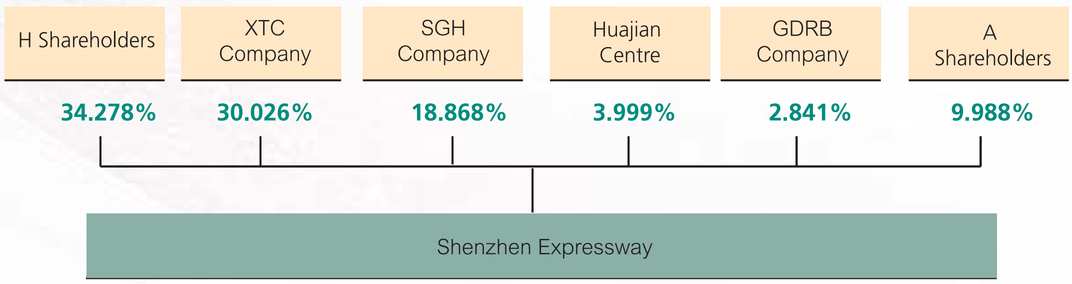
Based on the publicly available information known to the Directors, the Board believes that the Company has maintained a sufficient public float as at the latest practicable date prior to the printing of this annual report.

Circulating Market Capitalisation

Based on the publicly available information, as at the end of the Period, the circulating market capitalisation of H Shares of the Company (circulating H Share capital closing X price of H Shares (HK$8.62)) was HK$6.443 billion and the circulating market capitialisation of A Shares of the Company (circulating A Shares capital X close price of A Shares (RMB12.55)) was RMB2.733 billion.

Profiles of Shareholders

1. As at the end of the Reporting Period, the Company had 43,218 shareholders in total, including 42,961 holders of domestic shares and 257 holders of H Shares. The basic information of the Company's shareholders is as follows:



The shares held by XTC Company, SGH Company, Huajian Centre and GDRB Company are restricted circulating shares. Pursuant to the undertakings made by them respectively during the Share Segregation Reform of the Company, the date to circulate of such shares is 2 March 2009.

2. As at 31 December 2007, so far as is known to the Directors, Supervisors and senior management of the Company, the interests or short positions of shareholders, other than a Director, Supervisor or senior management of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

Long positions in the domestic shares of the Company:

		Number of domestic shares (note 1)		Approximate percentage of total issued domestic share capital	Approximate percentage of total issued share capital
Shenzhen Investment Holding Corporation	(note 2)	1,066,239,887	(note 5)	74.40%	48.89%
Shenzhen International	(note 3)	1,066,239,887	(note 6)	74.40%	48.89%
XTC Company	(note 4)	654,780,000	(note 7)	45.69%	30.03%
SGH Company	(note 4)	411,459,887	(note 7)	28.71%	18.86%
Huajian Centre	(note 4)	87,211,323	(note 7)	6.09%	4.00%

Long positions in the H Shares of the Company:

	Number of H shares (note 4)		Approximate percentage of total issued H Share capital	Approximate percentage of total issued share capital
JPMorgan Chase & Co.	73,154,260	(note 9)	9.79%	3.35%
Capital Research and Management Company	42,916,000	(note 10)	5.74%	1.97%

Notes:

1. Restricted circulating shares.
2. Shenzhen Investment Holding Corporation is an investment holding institution subordinate to the Shenzhen Municipal Government, and is under the supervision of Shenzhen SASAC.
3. Shenzhen International is a company incorporated in Bermuda with limited liability, the shares of which are listed on the main board of HKEx.
4. Limited company incorporated under the laws of the PRC.

5. Interests of controlled corporations owned through Shenzhen International. As at 31 December 2007, Shenzhen Investment Holding Corporation held 40.37% of shares of Shenzhen International. Pursuant to the SFO, Shenzhen Investment Holding Corporation was deemed to be interested in shares of the Company owned by Shenzhen International.

6. Interests of controlled corporations, including 654,780,000 domestic shares held through XTC Company, a wholly-owned subsidiary, as beneficial owner, and 411,459,887 domestic shares held through SGH Company, to be acquired as a wholly-owned subsidiary, as beneficial owner. On 16 October 2007, Yiwan Industry, a wholly-owned subsidiary of Shenzhen International, entered into an agreement with Shenzhen SASAC with conditions precedent about the acquisition of 100% interests in SGH Company. As at the date of this report, the conditions precedent set out in the above-mentioned agreement are still not fully fulfilled. In addition to the interests in the above-mentioned domestic shares, Shenzhen International, through its wholly-owned subsidiary, Advance Great Limited, held 24,568,000 H Shares of the Company.

7. Long positions held directly as beneficial owner.

8. Share listed on the main board of HKEx.

9. These 73,154,260 H Shares were held by the associates of JPMorgan Chase & Co., including 71,818,260 shares of lending pool held directly by JPMorgan Chase Bank, N.A. as custodian, and 1,336,000 shares of long position held directly by J.P. Morgan Whitefriars Inc. as beneficial owner.

10. These 42,916,000 H Shares were long position held directly by Capital Research and Management Company as investment manager.

Save as disclosed above, the register required to be kept under Section 336 of Part XV of the SFO showed that the Company had not been notified of any interests or short positions in the shares and underlying shares of the Company as at 31 December 2007.

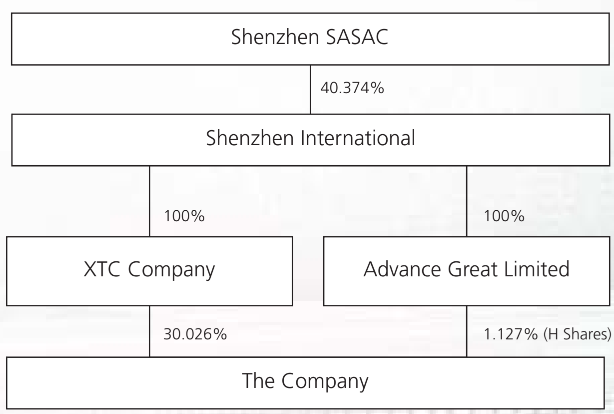
3. As at 31 December 2007, the top ten holders of non-restricted circulating shares of the Company based on the shareholders' registers supplied by the share registrars and the transfer offices of Hong Kong and the PRC were as follows:

Name of shareholders	**Number of non-restricted circulating shares held**	**Type of shares**
HKSCC Nominees Limited (Note)	737,661,098	H Share
BoComm–Bosera Growth Securities Investment Fund	8,999,868	A Share
ICBC – China Universal Balanced Growth Securities Investment Fund	6,810,610	A Share
Social Insurance Fund Portfolio 102	6,000,000	A Share
ABC–Dacheng Innovation Mixed Growth Securities Investment Fund	5,414,633	A Share
CMB–Everbright Pramerica Advantage Portfolio Securities Investment Fund	5,079,049	A Share
ABC–China AMC Stable Growth Mixed Securities Investment Fund	5,001,280	A Share
ICBC-Lion Balance Securities Investment Fund	4,519,336	A Share
BOC–China AMC Sector Selected Securities Investment Fund	3,348,114	A Share
Arsenton Nominees Limited	3,000,000	H Share

Note: The H Shares held by HKSCC Nominees Limited were held on behalf of various clients.

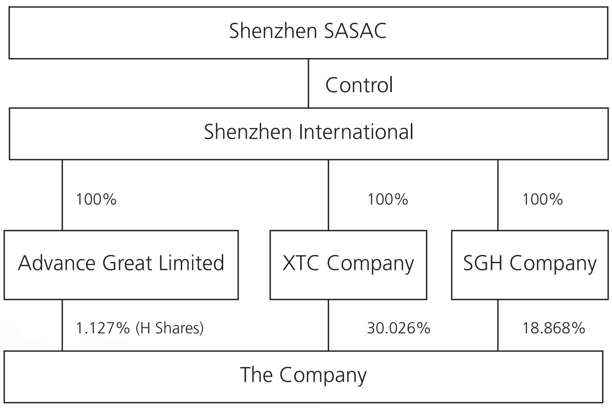
Information of the De-facto Controller

As at the end of the Reporting Period, the equity relationship between the Company and the de-facto controller (as defined in the relevant PRC regulatory rules) is as follows:



Shenzhen International is a company incorporated on 22 November 1989 in Bermuda with limited liability and is listed on the main board of HKEx. Shenzhen International had issued a total share capital of HK$1,421,818,197.50 as at 31 December 2007. It is principally engaged in investment holding. The Group, comprising the company, its subsidiaries, jointly controlled entities and associates, is principally engaged in the provision of logistics infrastructure and ancillary services as well as investment, operation and management of related assets and projects. The de-facto controller of Shenzhen International is Shenzhen SASAC, holding approximately 40.37% issued share capital of Shenzhen International through its authorized institution, Shenzhen Investment Holding Corporation. Shenzhen Investment Holding Corporation is a public-owned enterprise under the Shenzhen Municipal Government. Shenzhen SASAC is the capital contribution and is responsible for its supervision and management. Pursuant to Document Shen Guo Zi Wei [2004] No. 223, Shenzhen Investment Holding Corporation, Shenzhen Construction Investment Holding Corporation and Shenzhen Commercial and Trading Investment Holding Corporation will be merged to form Shenzhen Investment Holding Co., Ltd. Shenzhen Investment Holding Corporation is now undergoing the account settlement process for the merger.

On 16 October 2007, Yiwan Industry, a wholly-owned subsidiary of Shenzhen International, entered into an agreement with conditions precedent with Shenzhen SASAC for the acquisition of 100% interests in SGH Company. On 15 January 2008, the above-mentioned acquisition was approved at the general meeting of Shenzhen International, and all necessary approvals in Hong Kong and the approval from Shenzhen Municipal Government have been obtained. As at the date of this report, it is currently in the process of applying for approvals for the aforesaid acquisition from the relevant PRC government authorities including the State-owned Assets Supervision and Administration Commission of the State Council, the Ministry of Commerce of the PRC and CSRC. Currently, SGH Company holds 18.868% shares of the Company, while completion of the aforesaid acquisition, Shenzhen International will in aggregate hold 50.021% shares of the Company. The equity relationship between the Company and the de-facto controller will change as follows:



Summary of the General Meetings

Details of the general meetings convened by the Company in the Reporting Period are as follows:

Session number	Date convened	Major newspapers and websites on which the information disclosed	Date of disclosure on newspapers
The 2006 Annual General Meeting	20 April 2007	Shanghai Securities News Securities Times Hong Kong Economics Times	23 April 2007
The First Extraordinary General Meeting 2007	3 September 2007	The Standard http://www.sse.com.cn http://www.hkex.com.hk http://www.sz-expressway.com	4 September 2007

The above-mentioned general meetings were held in the conference room of the Company and the following important matters were considered:

1. Approved the following matters as ordinary resolutions:

   — the report of the Directors, the report of the Supervisory Committee, the audited financial report and the profit distribution scheme for the year 2006

   — the budget plan for the year 2007

   — re-appointment of international auditors and statutory auditors

   — the resolution relating to the election of a Supervisor

   — the resolution relating to the approval of the emoluments of a Supervisor

2. Approved the following matters as special resolutions:

   — the resolution relating to the issue of the corporate bonds with an amount of RMB800 million

   — the resolution relating to the approval of the Board or any director(s) so authorized to deal with all the matters relating to the issue of the corporate bonds

   — the resolution relating to the approval of providing counter-guarantee in favor of the guarantee bank for the full amount of principal and interests of the corporate bonds

For details of the relevant resolutions and the deliberation and approval of the relevant resolutions, please refer to the above disclosure of information.

Definitions

Summary of abbreviations of the enterprises invested:

Abbreviation of the company	Full name of the company	Registration place	Note
Advertising Company	深圳市高速廣告有限公司 (Shenzhen Expressway Advertising Company Limited)	Shenzhen City	
Consulting Company	深圳高速工程顧問有限公司 (Shenzhen Expressway Engineering Consulting Company Limited)	Shenzhen City	
Guangyun Company	雲浮市廣雲高速公路有限公司 (Yunfu Guangyun Expressway Company Limited)	Guangdong Province	Owning Guangwu Project
GZ W2 Company	廣州西二環高速公路有限公司 (Guangzhou Western Second Ring Expressway Company Limited)	Guangdong Province	Owning GZ W2 Expressway
Huayu Company	深圳市華昱高速公路投資有限公司 (Shenzhen Huayu Expressway Investment Company Limited)	Shenzhen City	Owning Shuiguan Extension
JEL Company	Jade Emperor Limited	Cayman Islands	Owning 100% interests of Magerk Company
Jiangzhong Company	廣東江中高速公路有限公司 (Guangdong Jiangzhong Expressway Company Limited)	Guangdong Province	Owning Jiangzhong Project
Jihe East Company	深圳機荷高速公路東段有限公司 (Shenzhen Airport-Heao Expressway (Eastern Section) Company Limited)	Shenzhen City	A Sino-foreign joint-venture enterprise which owns Jihe East
Magerk Company	湖北馬鄂高速公路經營有限公司 (Hubei Magerk Expressway Management Private Limited)	Hubei Province	A wholly foreign-owned enterprise which owns the operating rights of Wuhuang Expressway
Maxprofit Company	Maxprofit Gain Limited	British Virgin Islands	Owning 25% interests of Qinglian Company

Abbreviation of the company	Full name of the company	Registration place	Note
Mei Wah Company	Mei Wah Industrial (Hong Kong) Limited	Hong Kong	Owning 55% interests of JEL Company and 100% interests of Maxprofit Company
Meiguan Company	深圳市梅觀高速公路有限公司 (Shenzhen Meiguan Expressway Company Limited)	Shenzhen City	Owning Meiguan Expressway
Nanjing Company	南京長江第三大橋有限責任公司 (Nanjing Yangtze River Third Bridge Company Limited)	Jiangsu Province	Owning Nanjing Third Bridge
Qinglian Company	廣東清連公路發展有限公司 (Guangdong Qinglian Highway Development Company Limited)	Guangdong Province	A Sino-foreign joint-venture enterprise which owns Qinglian Project
Qinglong Company	深圳清龍高速公路有限公司 (Shenzhen Qinglong Expressway Company Limited)	Shenzhen City	A Sino-foreign joint-venture enterprise which owns Shuiguan Expressway
Shenchang Company	湖南長沙市深長快速幹道有限公司 (Hunan Changsha Shenchang Expressway Company Limited)	Hunan Province	Owning Changsha Ring Road
Yangmao Company	廣東陽茂高速公路有限公司 (Guangdong Yangmao Expressway Company Limited)	Guangdong Province	Owning Yangmao Expressway
Yungang Company	湖北雲港交通發展有限公司 (Hubei Yungang Transportation Development Company Limited)	Hubei Province	A Sino-foreign joint-venture enterprise which owns Geputan Bridge

For definitions and details of the relevant toll highways, please refer to the section "Business Structure and of Highway Projects" of this annual report.

A Shares	Renminbi-denominated ordinary shares of the Company with a par value of RMB1.00 each, which were issued in the PRC and subscribed in RMB and are listed on SSE
Articles	The articles of association of Shenzhen Expressway Company Limited
Baotong Company	深圳市寶通公路建設開發有限公司 (Shenzhen Baotong Highway Construction and Development Company Limited), which became a wholly-owned subsidiary of Shenzhen International on 29 December 2007
Board	The board of Directors of the Company
Bonds With Warrants	Convertible corporate bonds, in which bonds and subscription warrants are traded separately
CAS	The Accounting Standards for Business Enterprises (2006) of the PRC
CEPA	Closer Economic Partnership Arrangement, signed between the Hong Kong Special Administrative Region and the PRC
The Company, Company, Shenzhen Expressway	Shenzhen Expressway Company Limited
CSRC	China Securities Regulatory Commission
Director(s)	The director(s) of the Company
GDRB Company	廣東省路橋建設發展有限公司 (Guangdong Roads and Bridges Construction Development Company Limited), a shareholder of the Company
The Group, Group	The Company and its subsidiaries
H Shares	Overseas-listed foreign shares of the Company with a par value of RMB1.00 each, which were issued in Hong Kong and subscribed in HK$ and are listed on HKEx
HK$	Hong Kong dollars, the lawful currency of the Hong Kong Special Administration Region of the PRC
HKEx	The Stock Exchange of Hong Kong Limited
HKFRS	Hong Kong Financial Reporting Standards
Huajian Centre	華建交通經濟開發中心 (Huajian Transportation and Economic Development Centre), a shareholder of the Company
Independent Director(s)	The independent non-executive Director(s) of the Company
Listing Rules	The Rules Governing the Listing of Securities on HKEx and/or the Rules Governing the Listing of Stocks on SSE (as the case may be)

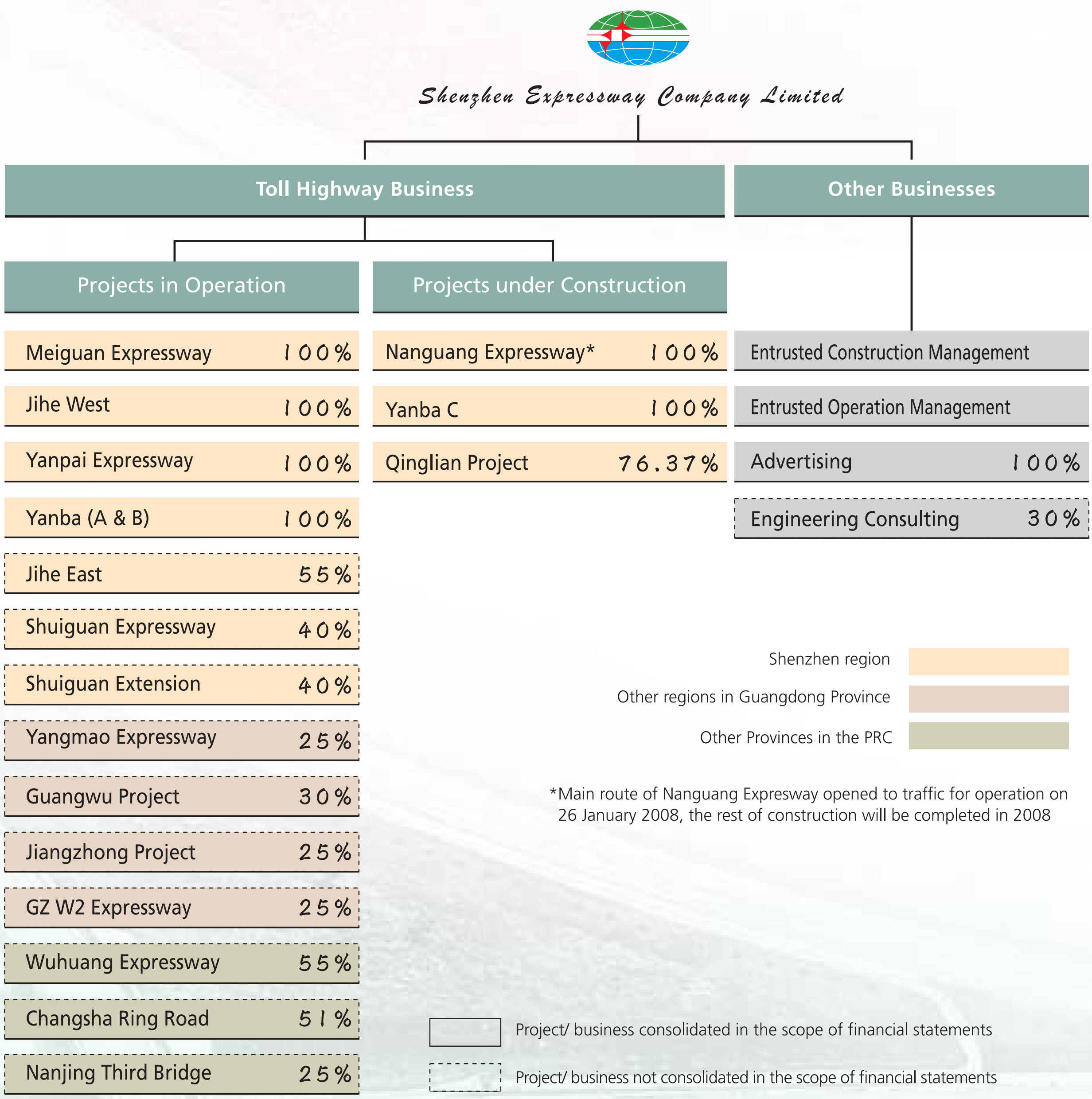
Definitions

New Tax Law	《中華人民共和國企業所得稅》(The Enterprise Income Tax Law of the People's Republic of China), which came into effect on 1 January 2008
PRC	The People's Republic of China excluding, for the purpose of this report, the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan
The Reporting Period, The Period, The Year	For the year ended 31 December 2007
RMB	Renminbi, the lawful currency of the PRC
SFC	Securities and Futures Commission of Hong Kong
SFO	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
SGH Company	深圳市深廣惠公路開發總公司 (Shenzhen Shen Guang Hui Highway Development Company), a shareholder of the Company
Shenzhen International	Shenzhen International Holdings Limited, whose shares are listed on the main board of HKEx, the controlling shareholder of XTC Company
Shenzhen SASAC	深圳市人民政府國有資產監督管理委員會 (State-owned Assets Supervision and Administration Commission of Shenzhen Municipal Government)
SSE	The Shanghai Stock Exchange
Supervisor(s)	The supervisor(s) of the Company
XTC Company	新通產實業開發(深圳)有限公司 (Xin Tong Chan Development (Shenzhen) Company Limited), formerly known as 深圳市高速公路開發公司 (Shenzhen Freeway Development Company Limited), a shareholder of the Company
Yiwan Industry	怡萬實業發展（深圳）有限公司 (Yiwan Industry Development (Shenzhen) Co., Ltd.), a wholly-owned subsidiary of Shenzhen International

Business Structure and Highway Projects

The Company is principally engaged in the investment, construction, operation and management of toll highways and roads. The Company adheres to the development strategy of focusing on toll highway operations as its core business and the investment strategy of expanding towards the Pearl River Delta region as well as other economically developed regions in the PRC through establishing a foothold in Shenzhen. It aims at bringing ever-improving returns to its shareholders and providing premier and efficient services to the public and government at reasonable costs.

The toll highway projects, which were operated and invested in by the Group, located in Shenzhen City, other regions of Guangdong Province and other provinces in the PRC. Apart from operation of and investment in toll highway projects, the Group is also responsible for the project administration of certain municipal roads entrusted by the government. As at the date of this report, the principal business structure of the Company is as follows:



The toll highways operated and invested in by the Company in Shenzhen region and other regions of Guangdong Province are major components of the national or provincial trunk highway networks. These toll highways not only connect the main ports, the airport, customs checkpoints and industrial zones that form a complete highway network in Shenzhen, but also constitute part of the major road passages between Shenzhen and Hong Kong leading towards the Pearl River Delta region. They have become important infrastructures especially after the implementation of CEPA and the establishment of the Pan Pearl River Delta Economic Zone.

Summary of Toll Highway Projects (As at March 2008)

Project Operated and Invested

	Toll highway	Interests held by the Company	Location	Length (km)	No. of lane(s)	Status	Operation period
⚐	Meiguan Expressway	100%	Shenzhen	19.30	6/4	Operation	1995.05-2027.03
⚐	Jihe East	55%	Shenzhen	23.90	6	Operation	1997.10-2027.03
⚐	Jihe West	100%	Shenzhen	21.66	6	Operation	1999.05-2027.03
⚐	Yanba A&B	100%	Shenzhen	18.37	6	Operation	2001.04-2031.12
⚐	Yanba C	100%	Shenzhen	9.80	6	Under-Construction	—
	Shuiguan Expressway	40%	Shenzhen	20.14	6	Operation	2002.02-2025.12
	Shuiguan Extension	40%	Shenzhen	5.25	6	Operation	2005.10-2025.12
⚐	Yanpai Expressway	100%	Shenzhen	15.22	6	Operation	2006.05-2027.03
⚐	Nanguang Expressway	100%	Shenzhen	33.10	6	Operation	Applying for approval
	Yangmao Expressway	25%	Guangdong	79.76	4	Operation	2004.11-2027.07
	Guangwu Project	30%	Guangdong	39.81	4	Operation	2004.12-2027.11
	Jiangzhong Project	25%	Guangdong	37.56	4	Operation	2005.11-2027.08
	GZ W2 Expressway	25%	Guangdong	42.09	6	Operation	Applying for approval
⚐	Qinglian Class 1 Highway	76.37%	Guangdong	215.85	4	Under-Reconstruction	Qinglian Expressway: 25 years
	Wuhuang Expressway	55%	Hubei	70.30	4	Operation	1997.09-2022.09
	Changsha Ring Road	51%	Hunan	34.52	4	Operation	1999.11-2029.12
	Nanjing Third Bridge	25%	Jiangsu	15.60	6	Operation	2005.10-2030.10

⚐: These projects were developed and constructed by the Company (including the former 深圳市高速公路開發公司 (Shenzhen Freeway Development Company Limited)).

Note: With the same number of lanes, the differences in design standards such as design speed and surface quality may cause differences in design capacity. Generally, the design capacity of a four-lane expressway is approximately 100,000 passenger car units per day while the capacity of a six-lane expressway is approximately 120,000 passenger car units per day.

Entrusted Operation Project

Project	Interests held by the Company	Location	Length (km)	No. of lane(s)	Status	Entrusted management period
Baotong Company – Holding 89.93% interests in Longda Expressway	—	Shenzhen/ Dongguan	28.2	6	Operation	2008.01-2009.12

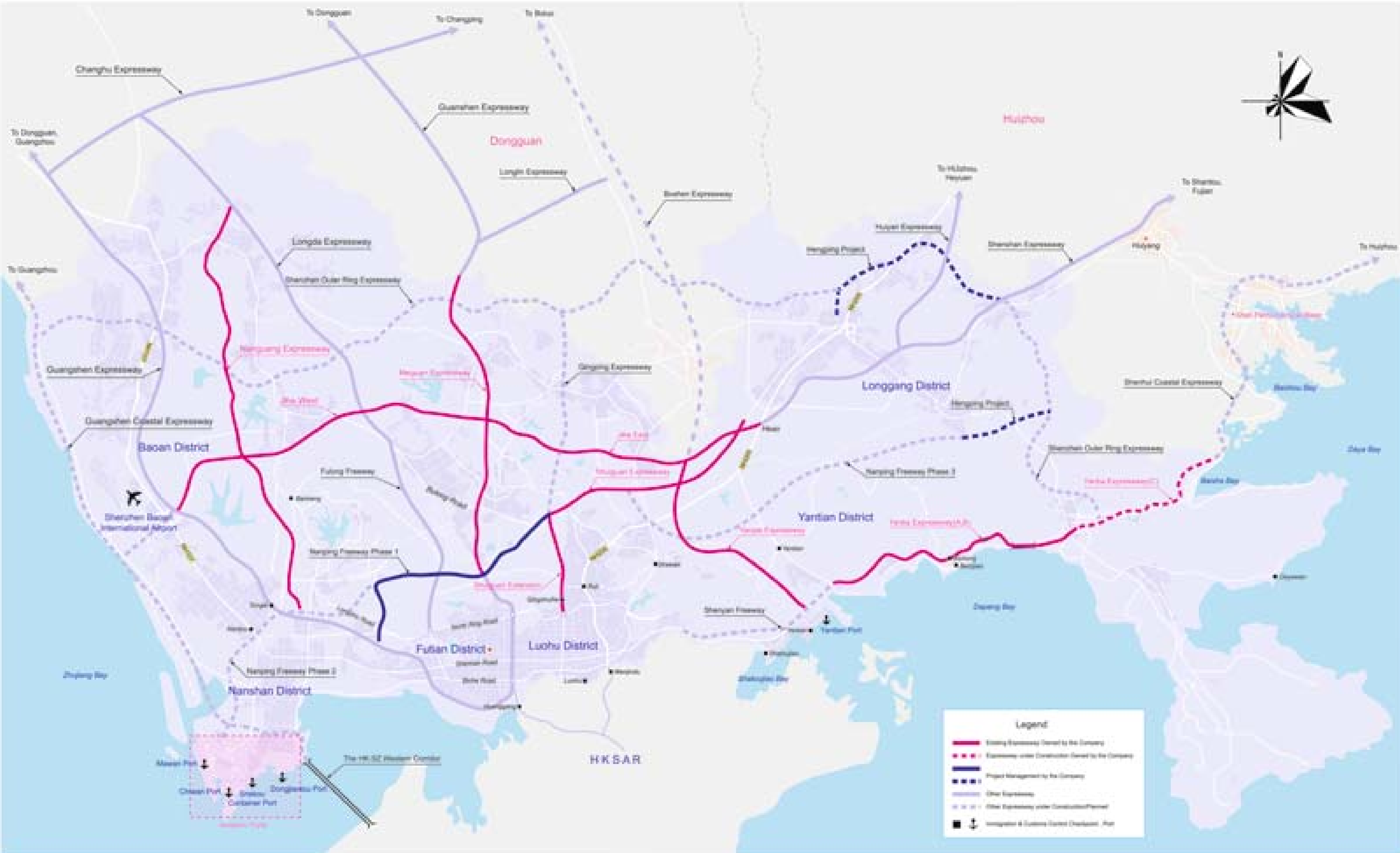
Project in Preliminary Research Stage

Toll highway	Location	Length	Basic information
Outer Ring Expressway	Shenzhen	About 90 km	The Company was granted the development right and has yet to determine the mode of investment and development plan.
Coastal Expressway (Shenzhen Section)	Shenzhen	About 31 km	The Company is proceeding with the preliminary research work
Coastal Expressway Airport Feeder	Shenzhen	About 7 km	The Company is proceeding with the preliminary research work

Entrusted Construction Project

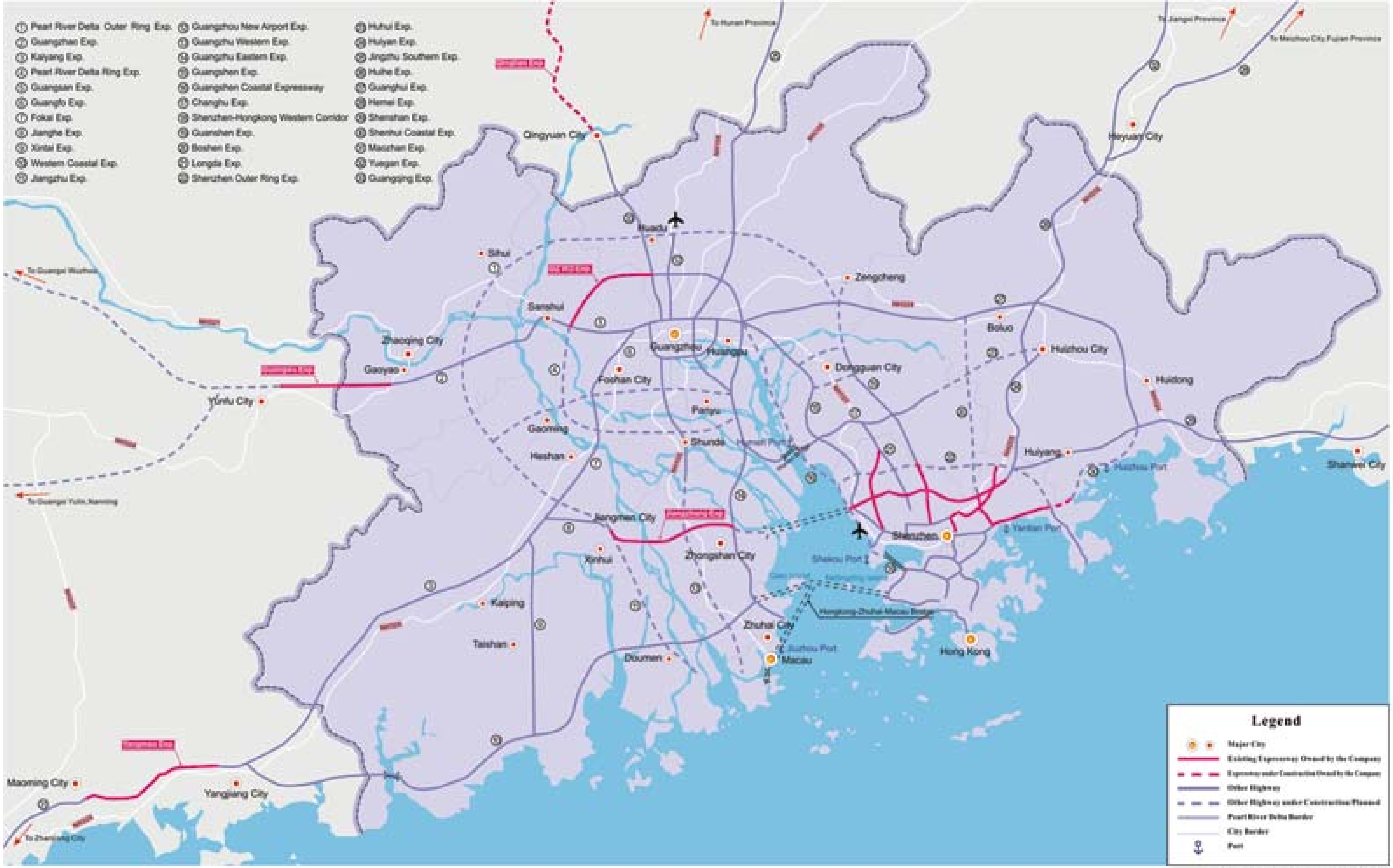
Project	Location	Estimated investment amount	Note
Nanping (Phase I)	Shenzhen	2.3 billion	Was completed and opened to traffic in June 2006.
Wutong Mountain Project	Shenzhen	0.22 billion	Was completed and opened to traffic in May 2007.
Hengping Project	Shenzhen	0.15 billion	Construction suspended in April 2006.
Nanping (Phase II)	Shenzhen	4 billion	Entered into the agreement in November 2007. The scheduled construction period is 36 months.
Shenyun Project	Shenzhen	0.12 billion	Entered into the agreement in November 2007. The scheduled construction period is 30 months.

Road Network of Shenzhen Expressway



Shenzhen Expressway Company Limited
December,2007

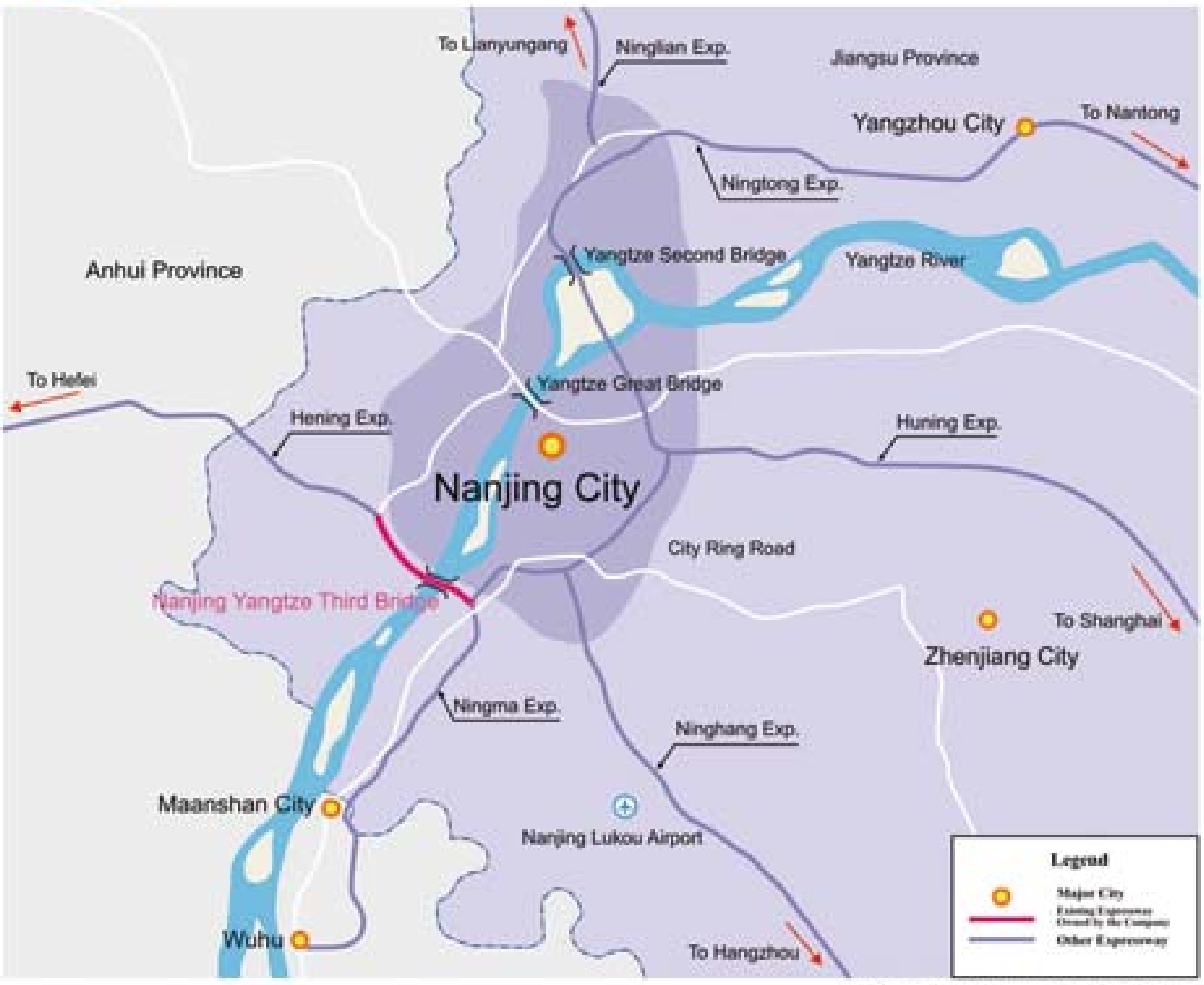
Road Network of Pearl River Delta



Shenzhen Expressway Company Limited
December,2007

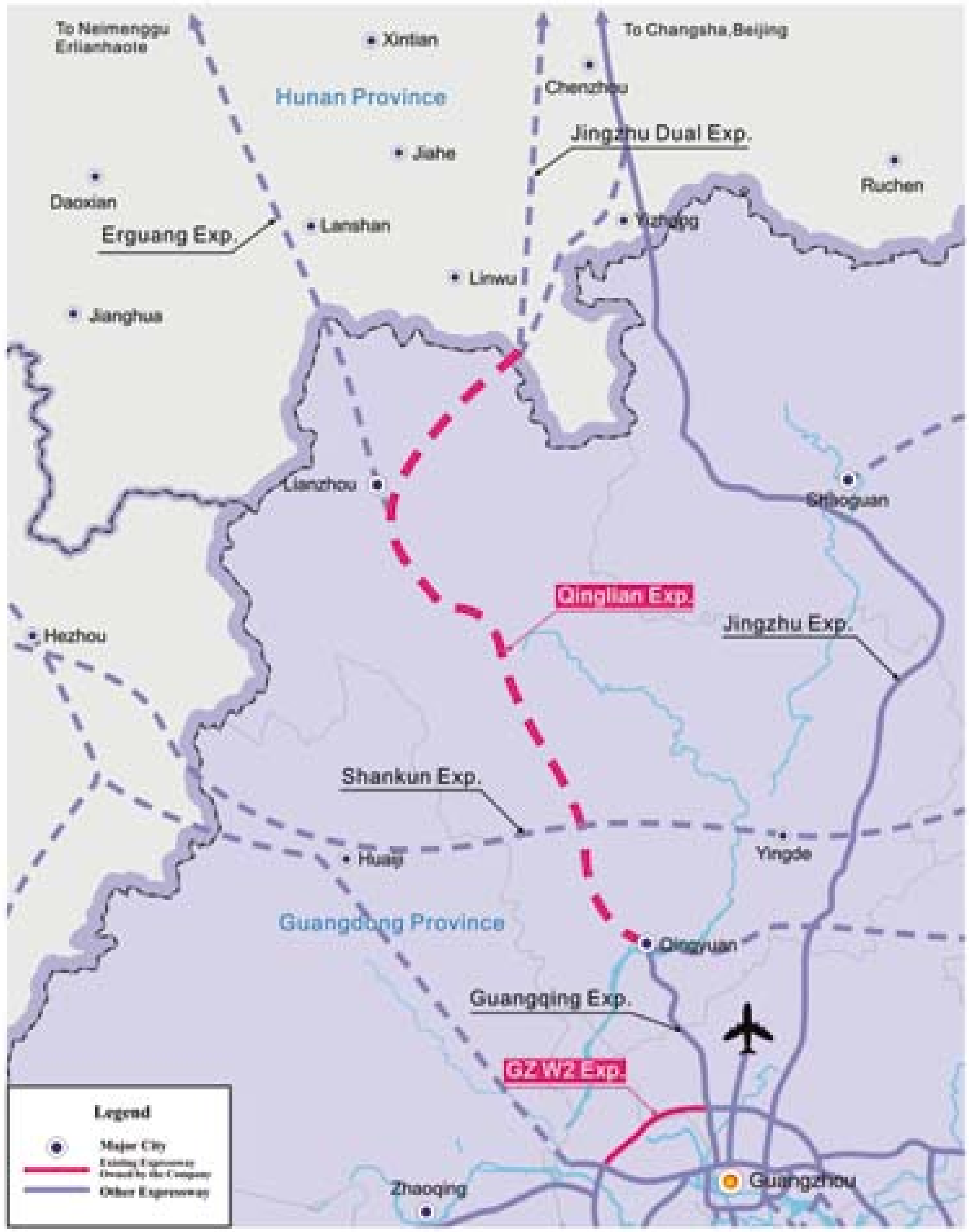
Road Network of Wuhuang Expressway

Road Network of Nanjing Yangtze Third Bridge

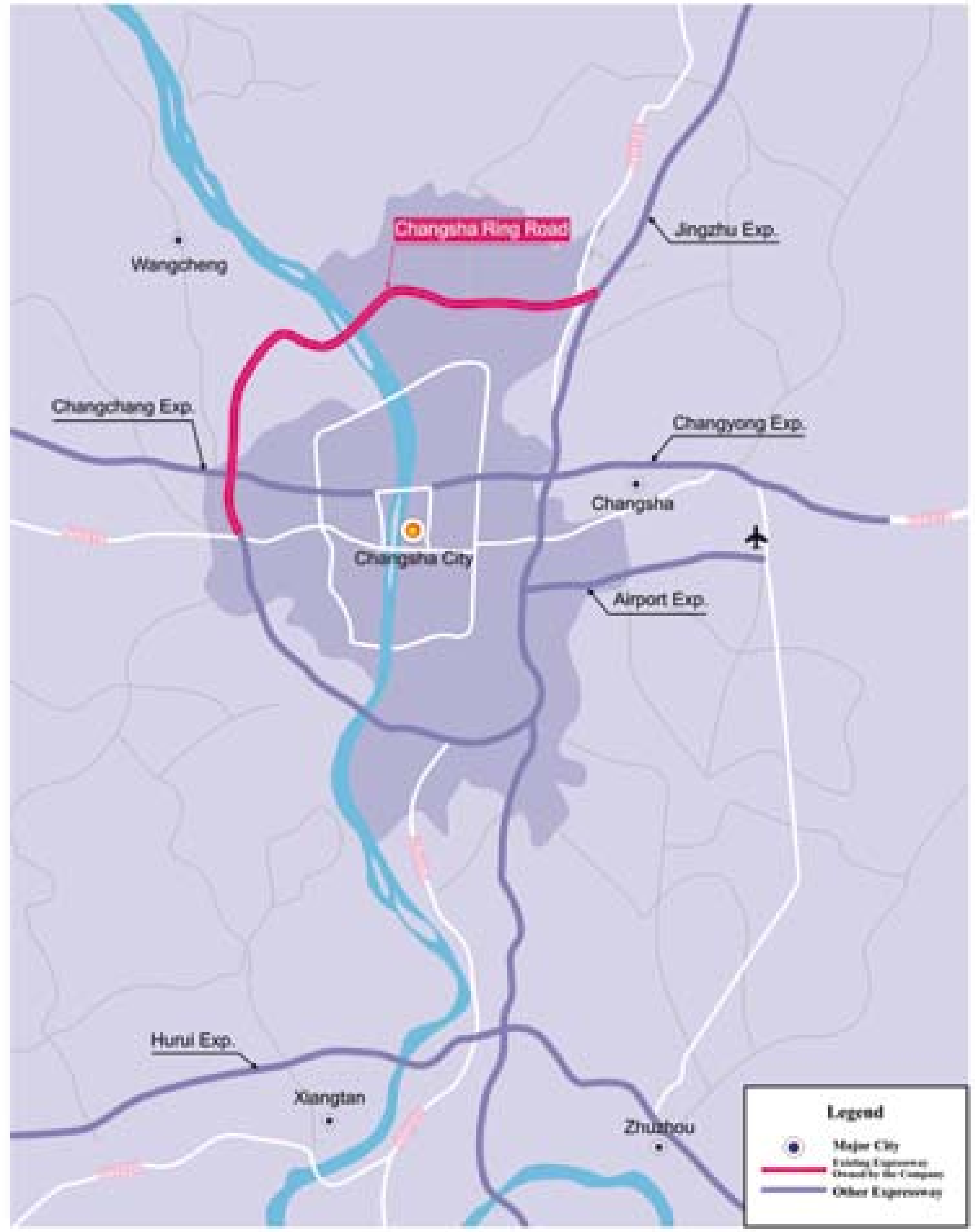


Shenzhen Expressway Company Limited
December,2007

Road Network of Qinglian Project



Road Network of Changsha Ring Road



Shenzhen Expressway Company Limited
December,2007

Operation Status Summary for Ten Years

Unit: number of vehicles

Average daily traffic volume	97	98	99	00	01	02	03	04	05	06	07
Shenzhen Region:											
Meiguan Expressway	12,938	18,736	22,760	23,659	33,634	37,566	46,397	64,199	76,343	89,909	98,285
Jihe East	6,152	13,598	16,799	21,602	25,103	26,547	33,308	44,446	56,468	70,278	88,675
Jihe West			10,028	12,787	16,134	21,809	28,284	35,257	46,462	53,765	65,741
Yanba A&B					5,762	5,343	7,423	9,427	11,572	14,179	12,492
Shuiguan Expressway						22,762	30,397	39,842	54,747	75,281	103,236
Shuiguan Extension									31,739	25,477	28,086
Yanpai Expressway										15,915	26,313
Other Regions in Guangdong Province:											
Yangmao Expressway								8,179	10,362	13,099	16,205
Guangwu Project								1,926	6,120	7,695	9,185
Jiangzhong Project									15,472	26,114	39,492
GZ W2 Expressway										2,186	6,165
Other Provinces in the PRC:											
Wuhuang Expressway									22,895	23,530	27,846
Changsha Ring Road				1,302	1,373	2,576	3,454	4,636	5,393	5,439	5,791
Nanjing Third Bridge									8,276	12,184	16,788

Unit: RMB'000

Average daily toll revenue	97	98	99	00	01	02	03	04	05	06	07
Shenzhen Region:											
Meiguan Expressway	203.8	275.3	304.7	332.2	476.7	501.7	560.5	707.7	795.3	878.3	903.0
Jihe East	116.1	217.0	269.3	364.2	420.4	430.1	499.5	631.1	786.6	904.5	1,150.6
Jihe West			106.8	231.1	287.0	385.0	484.5	593.9	739.9	775.8	945.1
Yanba A&B					36.1	35.5	61.2	89.2	115.1	153.0	172.7
Shuiguan Expressway						234.7	300.1	382.3	504.1	682.8	964.8
Shuiguan Extension									229.5	162.7	181.9
Yanpai Expressway										252.0	370.1
Other Regions in Guangdong Province:											
Yangmao Expressway								394.3	546.9	719.0	913.1
Guangwu Project								75.3	164.8	224.1	266.0
Jiangzhong Project									200.8	386.3	581.8
GZ W2 Expressway										68.6	180.7
Other Provinces in the PRC:											
Wuhuang Expressway									728.0	887.5	1,052.0
Changsha Ring Road				18.0	18.4	36.2	46.8	55.2	58.3	54.1	61.6
Nanjing Third Bridge									324.9	472.5	629.3

Information of Highways (including the definitions of the projects)

Shenzhen Region

Meiguan Expressway, the expressway from Meilin to Guanlan in Shenzhen City, running from south to north, a main trunk in the central part of Shenzhen City. Meiguan Expressway commenced operation in May 1995. It connects in the south with Huanggang Immigration and Customs Control, one of the largest land border checkpoint in Asia and Guanshen Expressway (Dongguan - Shenzhen) in the north. Meiguan Expressway, which intercepts Jihe Expressway located in the middle of Shenzhen City, is one of the main route for ground transportation between Hong Kong and the mainland.

Jihe Expressway, the expressway from Shenzhen airport to He'ao in Shenzhen City, running from east to west, comprising Jihe East and Jihe West. Jihe East commenced operation in October 1997 and Jihe West commenced operation in May 1999. It connects with Shenshan Expressway (Shenzhen - Shantou), Huiyan Expressway (Huizhou - Yantian), G205 (Shenzhen Section) in the east and connects with Yantian Port through its subsidiary route Yanpai Expressway, and links with Guangshen Expressway (Guangzhou - Shenzhen), G107 (Shenzhen Section) and Shenzhen Bao'an International Airport in the west. Jihe Expressway is an expressway connecting the east and west of Shenzhen, and is part of the coastal national trunk highway of Tongsan Highway (Tongjiang, Heilongjiang - Sanya, Hainan) and is also a main trunk in the Pearl River Delta region.

Yanba Expressway, the expressway from Yantian to Bagang in Shenzhen City, comprising Yanba A, Yanba B and Yanba C. Yanba A and Yanba B commenced operation in March 2001 and June 2003 respectively. Construction of Yanba C officially commenced in October 2006 and is scheduled for completion by 2008. Yanba Expressway, located in the east of Shenzhen City, connects Shenzhen Yantian Port and Shenzhen downtown in the west and links with Pingxi Class 1 Highway (Shenzhen - Dapeng) and Huizhou Renbai Expressway (Renshan, Huizhou - Baisha, Shenzhen), also referred to as Huishen Coastal Expressway) under construction in the east, and links Shenshan Expressway (Shenzhen - Shantou) through Renbai Expressway. Yanba Expressway is the trunk highway radiating outward from the eastern region of Shenzhen. It is significant for improving the development of tourism and economy in the east of Shenzhen.

Shuiguan Expressway, the expressway from Shuijingcun to Guanjintou in Shenzhen City, also referred to as the No.2 Longgang Passage. Shuiguan Expressway commenced operation in February 2002. It is the expressway that connects with the Shenzhen downtown and the Longgang Industrial Zone,which is an important industrial zone in Shenzhen, and is also the trunk highway from Longgang to its peripheral areas. The Company acquired its interests in January 2003.

Shuiguan Extension, an extension to Shuiguan Expressway, Phase I of Qingping Expressway (the expressway from Yulongkeng to Pinghu in Shenzhen City, also referred to as Yuping Avenue). Shuiguan Extension commenced operation in July 2005. It connects with Bulong Interchange of Shuiguan Expressway and Qingshuihe Checkpoint in Shenzhen, and links with the Qingshuihe and Sungang warehouse areas, the two large-scale warehouse areas in Shenzhen.

Yanpai Expressway, the expressway from Yantian to Paibang in Shenzhen City, also referred to as Yantian Subsidiary Route to Jihe Expressway. Yanpai Expressway starts from Yantian Port, heading northwest through Wutong Mountain by tunnel, after intersecting with G205 (Shenzhen Section) and Shuiguan Expressway, and oven connecting with Jihe East and Boshen Expressway (Boluo - Shenzhen) in Donguan which is under construction through Paibang Interchange. Yanpai Expressway commenced operation in May 2006. It provides a convenient and express passage for prompt traffic diversion at Yantian Port, and also plays a significant role in relieving the traffic pressure upon Shenzhen downtown as well as facilitating tourism and economic activities in eastern Shenzhen.

Nanguang Expressway, the expressway from Xili to Gongming in Shenzhen City, also referred to as Liming Avenue, running from south to north, a main trunk in western Shenzhen. The main-route of Nanguang Expressway commenced operation in January 2008. It starts from south in Nanshan District of Shenzhen, heading south to connect with Shenzhen-Hong Kong Western Corridor and Dachanwan Port, which are under construction, and the port area in Shekou via Nanping Freeway, and heading north to link with Guangshen Expressway (Guangzhou - Shenzhen), G107 and Guanshen Expressway (Dongguan - Shenzhen) via Longda Expressway and Changhu Expressway (Changping - Humen), passing through Nanshan District, Shenzhen and several important economic areas in Bao'an District, Shenzhen. It connects western Shenzhen port area, logistic parks and important exports processing centres in Guangdong Province. It is a fast and convenient way crossing from Hong Kong through Shenzhen to other regions in Pearl River Delta Region.

Outer Ring Expressway, the Shenzhen Outer Ring Expressway. It located in northern Shenzhen. Its main-route runs from east to west and it is a major east-west trunk corridor in Shenzhen's planned trunk road network, spans across Shenzhen's Bao'an and Longgang Districts and Dongguan City. The Company is proceeding with the preliminary works and applying for approval of Outer Ring Expressway.

Coastal Expressway (Shenzhen Section), the Shenzhen Section of Guangshen Coastal Expressway, The main-route of Guangzhen Coastal Expressway under planning runs from south to north, it starts from Nanshan District, Shenzhen in the south, connects with Shenzhen Western Corridor and ends at Huangpu, Guangzhou in the north. The Shenzhen Section starts from Nanshan District, Shenzhen and ends at the boundary between Dongguan and Shenzhen. **Coastal Expressway Airport Feeder**, the Shenzhen Airport Subsidiary of Guangshen Coastal Expressway. It is planned to run from east to west, connecting with Coastal Expressway (Shenzhen Section) and Jihe Expressway. It will become an important part of Shenzhen Airport's outbound traffic and a traffic diversion channel for Dachanwan Port. Nowadays, the Company is proceeding the preliminary works and applying for approval of Coastal Expressway (Shenzhen Section) and Coastal Expressway Airport Feeder.

Longda Expressway, the expressway from Longhua in Shenzhen City to Dalingshan in Dongguan City. It starts from south in Longhua, Shenzhen and links up with Bulong Class I Highway and the Fulong Freeway, intersects with Jihe Expressway and Nanguang Expressway in the north, and connects with Changhu Expressway (Changping - Humen) in Dalingshan, Dongguan. The Shenzhen Section and Dongguan Section of Longda Expressway commenced operations in September 2005 and January 2007 respectively. Shenzhen International completed the acquisition of Baotong Company in December 2007, and held 89.93% interests in Longda Company indirectly, and entrust the Company to manage 100% equity interest in Baotong Company in January 2008.

Other Regions in Guangdong Province

Yangmao Expressway, the expressway from Yangjiang City to Maoming City. Yangmao Expressway commenced operation in November 2004. It links with Kaiyang Expressway (Kaiping - Yangjiang) and Maozhan Expressway (Maoming - Zhanjiang), and is an important part of the coastal national trunk highway of Tongsan Highway (Tongjiang, Heilongjiang - Sanya, Hainan) in Guangdong Province.

Guangwu Project, the Ma'an to Hekou Section of the expressway from Guangzhou, Guangdong to Wuzhou, Guangxi (called "Guangwu Expressway" for short). Guangwu Project commenced operation in December 2004, it starts from Ma'an Town, Zhaoqing City, Guangdong Province in the east, connects with the Guangzhao Expressway (Guangzhou - Zhaoqing), ends in Hekou Town, Yunfu City, Guangdong Province in the west, and connects with the second phase of Guangwu Expressway under construction. Guangwu Project is a section of national trunk highway from Shantou, Guangdong to Qingshuihe, Yunnan, and facilitates the economic and traffic connection between the Pearl River Delta region, Guangxi Province and southwestern region.

Jiangzhong Project, the expressway from Zhongshan City to Jiangmen City and the second phase of the expressway from Jiangmen City to Heshan City(called Jianghe Expressway for short). Jiangzhong Project commenced operation in November 2005. Together with Phase I of Jianghe Expressway, Guangzhu Section of Jingzhu Expressway (Beijing - Zhuhai), Humen Bridge and Changhu Expressway (Changping - Humen), it formed a major trunk road network in southwest region of Guangdong Province, and helped favorable to enhance the economic activities between western Guangdong Province and Pearl River Delta region.

GZ W2 Expressway, Xiaotang to Maoshan Section of national trunk highway Guangzhou Ring Road, also referred to as Guangzhou Western Second Ring Expressway. GZ W2 Expressway commenced operation in December 2006. It starts from the Guangsan Expressway (Guangzhou - Sanshui) in Nanhai District, Foshan and ends at Baiyun District, Guangzhou. It links with Guangzhou Northern Second Ring Expressway, as well as many Expressways and National Highways around Guangzhou City. It serves as a conventient passage running from the region to the west of Guangzhou to Guangzhou Huadu International Airport.

Qinglian Project, Qinglian Class 1 Highway (Qingyuan - Lianzhou), and/or its being reconstructed into an expressway, and/or Qinglian Class 2 Road (Qingyuan - Lianzhou) (as the case may be). Qinglian Project is located in Guangdong Province and connects Qingyuan City and Fengtouling of Lianzhou City near the boundary of Hunan Province. It is a major highway transport corridor connecting the less developed areas in the northwestern part of Guangdong Province with the developed areas of the Pearl River Delta region. Qinglian Class 1 Highway is being reconstructed into an expressway, and the then expressway will connect with the highway network in the Pearl River Delta via Guangqing Expressway (Guangzhou - Qingyuan) in the south, and with Jingzhu Expressway (Beijing - Zhuhai) in the north via the Lianzhou-Yizhang section. It will form an essential route linking up the northern and southern highway in the networks of Guangdong Province and will enhance the radiating from the Pearl River Delta region towards the central areas. The reconstruction of Qinglian Project is scheduled for completion by 2008.

Other Provinces in the PRC

Wuhuang Expressway, the expressway from Wuhan to Huangshi, located in Hubei Province. Wuhuang Expressway was formerly a Class 1 highway which commenced operation in 1991. In 1996, the highway was reconstructed into an expressway. In 2002 to 2003, Wuhuang Expressway underwent major repairs. The Group acquired its interests in August 2005. Wuhuang Expressway links up with Huangshi Yangtze River Bridge and Huanghuang Expressway (Huangshi - Huangmei) in the east. Through the surrounding highway networks, it further extends to Hejie Expressway (Hefei - Gaohebu - Jiezidun) in Anhui, Changjiu Expressway (Nanchang - Jiujiang) and Jiujing Expressway (Jiujiang - Jingdezhen) in Jiangxi. In the west, Wuhuang Expressway connects with Hanyi Expressway (Wuhan - Yichang) and intersects with Jingzhu Expressway (Beijing - Zhuhai) and G107 in Wuhan. Wuhuang Expressway is a major trunk for eastern Hubei Province and constitutes a major part of Hurong National Highway (Shanghai - Chengdu).

Changsha Ring Road, Changsha National Highway Ring Road (Northwestern Section), located in Hunan Province. Changsha Ring Road commenced operation in November 1999, linking with Jingzhu Expressway (Beijing - Zhuhai), G107 (Changsha Section) in the northeast and Changyi Expressway (Changsha - Yiyang), G319 (Changsha Section) and southwestern section of Changsha National Highway Ring Road in the west. It serves as an important infrastructure facility of Changsha City.

Nanjing Third Bridge, Nanjing Yangtze Third Bridge, located in Jiangsu Province. Nanjing Third Bridge commenced operation in October 2005, connecting with Ninghe Expressway (Nanjing - Hefei) and Ninglian Expressway (Nanjing - Lianyungang) in the north, linking with Ningma Expressway (Nanjing - Ma'anshan) in the south, as well as with Huning Expressway (Shanghai - Nanjing) via Nanjing First Ring Road and with Ninghang Expressway (Nanjing - Hangzhou) and Ninggao Expressway (Nanjing - Gaochun) through Nanjing Airport Expressway. Nanjing Third Bridge is a convenient passage along the Hurong National Highway (Shanghai - Chengdu) crossing over Yangtze River at Nanjing.

Geputan Bridge, Yungang Geputan Bridge, located at the cross-border between Yingcheng City and Yunmeng town in Xiaogan City, Hubei Province. Geputan Bridge is a bridge on th Fu River, a tributary of the Yangtze River, as part of G316 Feeder. All interests in Geputan Bridge held by the Group were disposed of in April 2007.

Entrusted Construction Project

Nanping (Phase I), Nanping (Phase II), Shenzhen Nanping Freeway (also referred to as Nanping Avenue) Phase I, main route project of Nanping Freeway Phase II.

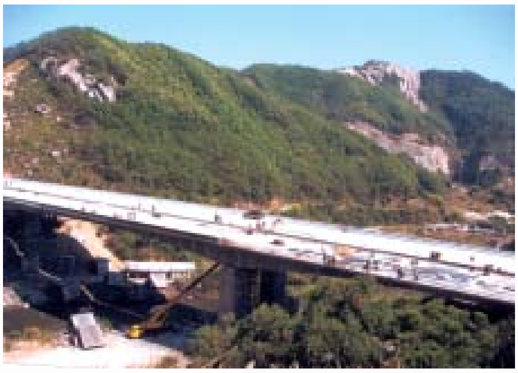
Nanping (Phase I) comprises a main route with a total length of approximately 15km. The main route begins from No.9 Daxuecheng Road, Tanglangshan in Nanshan District of Shenzhen and ends at Longjing Interchange of Shuiguan Expressway with a feeder road of a total length of approximately 4km which begins from No.9 Daxuecheng Road, Tanglangshan to Interchange of Shenyun Road and Guangshen Expressway. It has been open to traffic since 30 June 2006.

The total length of Nanping (Phase II) is approximately 15 km. It starts from Qianhai Interchange of Coastal Expressway, is scheduled to connect with Shenzhen-Hong Kong Western Corridor, Coastal Expressway, Guangshen Expressway and Nanguang Expressway etc., and ends at Tanglangshan Intercange of Nanping (Phase I). The Company is proceeding with the premilinary works and is scheduled to commence construction in the second half of 2008. Its scheduled construction period is 36 months.

Hengping Project, Shenzhen Hengping Class 1 Highway (Western Section). The whole Hengping Class 1 Highway consists of a main route with a total length of approximately 46km, and a feeder road of approximately 4km. It starts from the Henggang exit of Shuiguan Expressway, runs westward to the outbound road of Longgang, and connects with Huiyan Expressway (Huizhou - Yantian) in the southwest, the length of western part of which is approximately 17km. In line with government's proposal to include part of the section of the Hengping Class 1 Highway into the planning for Outer Ring Expressway, the construction of Hengping Project was been suspended since April 2006. Construction of certain contracted sections is expected to resume in 2008.

Wutong Mountain Project, Shenzhen Wutong Mountain Avenue (Ancillary Road) and Jihe Expressway Yantian Subsidiary Road Checkpoint Station Project. Wutong Mountain Project is an auxiliary project of Yanpai Expressway, starting from Yantian Interchange in the south and ending at Yantian Tunnel in the north. The totol length is approximately 2km. It was completed in June 2007.

Shenyun Project, Shenyun-North Ring Interchange renovation project in Shenzhen, includes the additional ramp and relative auxiliary projects, and the old bridge renovation and reinforcement. The length of the additional ramp is appoximately 2km. Its sheduled construction period is 30 months.



Information of Toll Rates

Guangdong Province

Standard of classification					
		Standard of category			
Class	Axle	Wheels	Head height (M)	Wheel base (M)	Vehicles
1	2	2-4	<1.3	<3.2	Vans, jeeps, small-size lorries
2	2	4	≥1.3	≥3.2	Mini buses, station wagons, light vans, small-sized passenger vehicles
3	2	6	≥1.3	≥3.2	Medium-size passenger vehicles, large-size passenger vehicles, medium-size lorries, large-size luxury passenger vehicles
4	3	6-10	≥1.3	≥3.2	Large-size lorries, large-sized trailers and towing vehicles, vehicles towing 20-foot container
5	>3	>10	≥1.3	≥3.2	Heavy-weight lorries, heavy-weight trailers and towing vehicles, vehicles towing 40-foot container

Toll rates					
		Toll rates (RMB/Km)		Toll rates (RMB/Km)	
Class	Coefficient	Meiguan Expressway Jihe Expressway Yanpai Expressway	Coefficient	Yanba Expressway Nanguang Expressway Shuiguan Expressway Shuiguan Extension GZ W2 Expressway	Yangmao Expressway Guangwu Project Jiangzhong Project
1	1	0.60	1	0.60	0.45
2	2	1.20	1.5	0.90	0.675
3	3	1.80	2	1.20	0.90
4	4	2.40	3	1.80	1.35
5	5	3.00	3.5	2.10	1.575

Date of implementation: June 2005

Hubei Province (Wuhuang Expressway)

Toll-by-class system adopted for passenger cars:

Class	Toll standard	Toll rates (RMB/Km)	Actual toll rates *Note* (RMB/Km)
1	Passenger cars with 5 seats or below	0.44	0.40
2	Passenger cars with 6 to 17 seats	0.44	0.40
3	Passenger cars with 18 to 30 seats, passenger cars with berth with 25 seats or below	0.825	0.75
4	Passenger cars with 31 to 50 seats, passenger cars with berth with 26 seats or above	1.10	1.00
5	Passenger cars with 51 seats or above	1.32	1.20

Toll-by-weight system adopted for lorries:

	Toll standard	Toll rates by weight
Normal-loaded	Basic Rate 1	RMB0.088 /ton per km (actual toll rates [Note]: RMB0.08/ton per km)
	Normal-loaded≤10 tons	Basic rate 1
	10 tons < Normal-loaded≤40 tons	Descend from basic rate 1 to the half of basic rate 1 linearly
	Normal-loaded >40 tons	Half of basic rate 1
Over-loaded	Basic Rate 2	RMB0.08 /ton per km
	Over-loaded≤30%	Be charged at basic rate 2 calculated the same as normal-loaded portions
	Over-loaded>30%	Be charged at basic rate 1 for the normal-loaded portion; be charged at basic rate 2 for the over-loaded portion within 30% or below; and increased linearly from one to five times based on the basic rate 2 for the rest portions

Note: The government of Hubei Province stipulated that the toll rates of expressways in Hubei Province's network increased 10% on the basis of original toll rates for passenger cars and normal-loaded portions of lorries. The increased income will be saved into the special finance account of the Communications Office of Hubei Province, but not as the toll revenue of the operation company.

Date of implementation: October 2006

Jiangsu Province (Nanjing Third Bridge):

Toll-by-class system adopted for passenger cars:

	Toll rates (RMB/Vehicle)
≤7 seats	20
8 seats – 19 seats	30
20 seats – 39 seats	50
≥40 seats	50

Toll-by-weight system adopted for lorries (normal loaded):

	Basic rates is RMB5 /ton per vehicle. Total weights less than 5 tons will be charged as 5 tons Additional charges on overload.
Total weights≤10 tons	Be charged at RMB5 /ton per vehicle
10 tons < Total weights≤40 tons	Be charged at RMB5 /ton per vehicle, and decreased linearly to RMB2 /ton per vehicle
Total weights >40 tons	Be charged at RMB2 /ton per vehicle

Date of implementation: October 2005

Hunan Province (Changsha Ring Road)

Class	Vehicles	Toll rates (RMB/Km)
1	Lorries entitled to "green passage" with a capacity of 2 tonnes or below	0.20
2	Lorries with a capacity of 2 tonnes or below, passenger cars with 7 seats or below	0.40
3	Lorries with a capacity of 2 to 5 tonnes, passenger cars with 8 to 19 seats	0.70
4	Lorries with a capacity of 5 to 10 tonnes, passenger cars with 20 to 39 seats	1.00
5	Lorries with a capacity of 10 to 15 tonnes, vehicles towing 20-foot container and passenger cars with 40 seats or above	1.20
6	Lorries with a capacity of above 15 tonnes, vehicles towing 40-foot container	1.40

Date of implementation: October 2005

Confirmation to the 2007 Annual Report by Directors and Senior Management

As the Directors and senior management of the Company, we confirm that there are no false representations or misleading statements contained in or material omissions from the Company's 2007 annual report, and severally and jointly accept responsibility for the truthfulness, accuracy and completeness of the content of the report.

Signature of Directors:

Yang Hai	**Wu Ya De**	**Li Jing Qi**
Wang Ji Zhong	**Liu Jun**	**Lin Xiang Ke**
Zhang Yang	**Chiu Chi Cheong, Clifton**	**Li Zhi Zheng**
Zhang Zhi Xue	**Poon Kai Leung, James**	**Wong Kam Ling**

Signature of Senior Management Members:

Li Jian	**Ge Fei**	**Zhou Qing Ming**
Gong Tao Tao	**Wu Xian**	**Wu Qian**

14 March 2008