

深圳高速公路股份有限公司
SHENZHEN EXPRESSWAY COMPANY LIMITED

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

(Stock Code: 548)

2006 Annual Results Announcement

The Board is pleased to announce the audited results of the Group for the year ended 31 December 2006, prepared in accordance with HKFRS, together with comparative figures for the corresponding year in 2005, as follows:

Consolidated income statement

	<i>Note</i>	Year ended 31 December	
		2006	2005
		<i>RMB'000</i>	<i>RMB'000</i>
Continuing operations			
Revenue	2	1,188,556	911,482
Other income	3	97,858	191,930
Business tax and surcharges	2	(38,964)	(38,361)
Depreciation and amortisation		(219,533)	(167,634)
Employee benefit expenses		(70,255)	(67,163)
Road maintenance expenses		(20,644)	(15,181)
Other operating expenses		(177,944)	(48,157)
Operating profit		759,074	766,916
Finance costs	4	(98,397)	(100,621)
Share of loss of associates		(16,948)	(24,015)
Profit before income tax		643,729	642,280
Income tax expenses	5	(49,900)	(80,071)
Profit for the year from continuing operations		593,829	562,209
Discontinued operation			
Loss for the year from discontinued operation	6	(3,056)	—
Profit for the year		590,773	562,209
Attributable to:			
Equity holders of the Company		579,090	552,622
Minority interest		11,683	9,587
		590,773	562,209
Earnings per share for profit from continuing operations attributable to the equity holders of the Company during the year (expressed in RMB per share)			
- Basic and diluted	7	0.267	0.253
Loss per share for loss from discontinued operation attributable to the equity holders of the Company during the year (expressed in RMB per share)			
- Basic and diluted	7	(0.001)	—
Dividends		283,491	261,684

Consolidated balance sheet

	<i>Note</i>	As at 31 December	
		2006	2005
		<i>RMB'000</i>	<i>RMB'000</i>
ASSETS			
Non-current assets			
Property, plant and equipment		4,745,718	4,055,081
Construction in progress		861,245	693,443
Land use rights		351,192	368,830
Intangible assets		770,535	824,585
Investments in associates		3,006,665	2,966,903
Deferred income tax assets		32,656	6,764
Loan to a jointly controlled entity		—	78,240
		<u>9,768,011</u>	<u>8,993,846</u>
Current assets			
Inventories		2,961	3,540
Trade and other receivables	8	101,396	157,829
Restricted cash		6,872	31,615
Cash and cash equivalents		379,641	892,485
		<u>490,870</u>	<u>1,085,469</u>
Non-current assets and disposal group classified as held for sale	6	<u>58,360</u>	—
		<u>549,230</u>	<u>1,085,469</u>
Total assets		<u>10,317,241</u>	<u>10,079,315</u>
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		2,180,700	2,180,700
Other reserves		3,419,372	3,376,930
Retained earnings			
- Proposed final dividend		283,491	261,684
- Others		721,075	510,307
		<u>6,604,638</u>	<u>6,329,621</u>
Minority interest		—	43,138
Total equity		<u>6,604,638</u>	<u>6,372,759</u>
LIABILITIES			
Non-current liabilities			
Borrowings		1,114,989	2,230,602
Deferred income tax liabilities		125,226	155,030
Government grants		350,461	364,388
		<u>1,590,676</u>	<u>2,750,020</u>
Current liabilities			
Other payables and accrued expenses		856,331	670,692
Current income tax liabilities		33,624	15,736
Borrowings		1,226,641	270,108
		<u>2,116,596</u>	<u>956,536</u>

		As at 31 December	
	<i>Note</i>	2006	2005
		<i>RMB'000</i>	<i>RMB'000</i>
Liabilities directly associated with disposal group classified as held for sale	6	<u>5,331</u>	<u>—</u>
		<u>2,121,927</u>	<u>956,536</u>
Total liabilities		<u>3,712,603</u>	<u>3,706,556</u>
Total equity and liabilities		<u>10,317,241</u>	<u>10,079,315</u>
Net current (liabilities)/assets		<u>(1,572,697)</u>	<u>128,933</u>
Total assets less current liabilities		<u>8,195,314</u>	<u>9,122,779</u>

Notes:

1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with HKFRS. This basis of accounting differs in certain respects from that used in the preparation of the Group's PRC statutory financial statements. The PRC statutory financial statements of the Group have been prepared in accordance with accounting principles and financial regulations applicable to the Group in the PRC (the "PRC GAAP"). Appropriate restatements have been made to the PRC statutory financial statements to conform with HKFRS. Differences arising from the restatements are not incorporated in the Group's accounting records.

The Group reported net current liabilities of approximately RMB1,572,697,000 as at 31 December 2006. The directors of the Company 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 it has maintained good relationship with banks that it has not experienced any difficulties in renewing its banking facilities, and the Company plans to seek other financing channels. In addition, the Group had unutilised banking facilities of approximately RMB4.9 billion at 31 December 2006 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.

Amendments to HKAS 19, 21 and 39, HKFRS 4 and 6, Amendments to HKFRS 1 and 6 and HKFRS – Int 4, 5 and HK(IFRIC) — Int 6 are effective in 2006, but they are not relevant to the Group's operations or have no material impact on the financial statements of the Group.

2 Revenue and business tax and surcharges

	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>
Income from toll roads	<u>1,188,556</u>	<u>911,482</u>

No segment information is presented as all revenue of the Group is toll income earned in the PRC.

Business tax and surcharges include PRC business tax and surcharges levied on the Group's income from toll roads at RMB36,635,000 (2005: RMB34,956,000). Revenue of the Group is subject to the following taxes and surcharges:

- PRC business tax at 3% or 5% of toll income. Before 31 May 2005, the toll income derived from expressways was subject to PRC business tax at 5%. Pursuant to the relevant tax regulations and effective from 1 June 2005, PRC business tax of the toll income from expressways is charged at 3%;

- City development tax at 1% of the PRC business tax; and
- Education supplementary fee at 3% or 5% of the PRC business tax.

3 Other income

	<i>Note</i>	2006 <i>RMB'000</i>	2005 <i>RMB'000</i>
Interest income from bank deposits		6,313	9,798
Interest income from discounting of long-term receivables		—	13,054
Interest income from a loan extended to a jointly controlled entity		5,027	6,315
Income derived from construction management services	(a)	31,468	72,830
Government subsidy income		20,947	27,356
Subsidies from local governments	(b)	12,789	10,309
Advertising income		15,694	10,914
Excess of fair value of share of net assets acquired in a jointly controlled entity, JEL Company, over the cost of acquisition		—	34,955
Others		<u>5,620</u>	<u>6,399</u>
		<u>97,858</u>	<u>191,930</u>

- (a) The Company was engaged to manage the construction of the Nanping (Phase I), Hengping Project and Wutong Mountain Project. The management services income is determined based on the savings achieved in managing these construction management projects according to the provisions of the relevant contracts.

Due to the fact that the south and north sections of Hengping Road are included into part of Shenzhen Outer Ring Expressway, the construction of Hengping Project has been suspended by the Company according to a notice issued by the relevant government authorities. Therefore, no construction management service income has been recognised for Hengping Project by the Company for the year (2005: RMB5,507,000). After consulting the legal counsel, the Directors considered that it is not likely for the Company to assume management liabilities for the project or incur a substantial loss.

The construction management service income for the Nanping (Phase I) recognised during the year using the percentage of completion method in accordance with the accounting policies of the Group amounted to approximately RMB29,203,000 (2005: RMB67,323,000).

As at 31 December 2006, the outcome of the Wutong Mountain Project could not be estimated reliably. As a result, the Company recognised income of RMB2,265,000 (2005: Nil) to the extent of the project management expenses incurred by the Company, which is expected by the directors to be recovered from the project with certainty.

- (b) This represents government subsidies granted by the Shenzhen Municipal Government in relation to the cancellation of certain preferential policies on the PRC enterprise income tax of the Group.

4 Finance costs

	2006 <i>RMB'000</i>	2005 <i>RMB'000</i>
Interest on bank borrowings	103,030	94,845
Interest on other borrowings	845	1,186
Less: interest expenses capitalised in construction in progress	<u>(3,989)</u>	<u>(11,782)</u>
	99,886	84,249
Other borrowing costs	7,666	16,409
Net foreign exchange transaction gains	<u>(9,155)</u>	<u>(37)</u>
	<u>98,397</u>	<u>100,621</u>

Borrowing costs of RMB3,989,000 (2005: RMB11,782,000) arising from 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 5.05% to 5.51% (2005: 5.05% to 5.51%) per annum were used, representing the borrowing costs of the loans incurred for financing the projects.

5 Income tax expenses

	<i>Note</i>	2006 <i>RMB'000</i>	2005 <i>RMB'000</i>
Current income tax			
- PRC enterprise income tax		105,596	73,057
Deferred income tax			
- Originating temporary differences		(13,562)	7,014
- Reversal	(d)	<u>(42,134)</u>	<u>—</u>
		<u>(55,696)</u>	<u>7,014</u>
		<u>49,900</u>	<u>80,071</u>

(a) In 2006, the Company is subject to PRC enterprise income tax at a rate of 15% (2005: 15%), the preferential tax rate for enterprises established in the Shenzhen Special Economic Zone.

(b) Pursuant to the approvals of the relevant tax authorities, a jointly controlled entity of the Company, Qinglong Company, is exempt from PRC enterprise income tax for the first two profit-making years and is entitled to a 50% reduction of its PRC enterprise income tax for the three consecutive years thereafter. It is now the third profit making year for Qinglong Company, and as a result, Qinglong Company is subject to PRC enterprise income tax at a rate of 7.5%.

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 and jointly controlled entities located in the PRC of the year at rates of tax applicable to the respective companies at 15% or 33% (2005: 15% or 33%).

(c) The applicable tax rate of Mei Wah Company, a subsidiary of the Company incorporated in Hong Kong, is 17.5% (2005: 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 Company and JEL Company are incorporated in the British Virgin Islands and Cayman Islands, respectively, which are not subject to profits tax.

(d) 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 is allowed to claim tax reduction on depreciation charges as they are applying the straight-line method according to the relevant tax regulations. The enterprises of the Group with non-foreign investments, including the Company, Meiguan Company and Shenchang Company, have received formal replies from relevant local tax authorities that provision of depreciation of toll road assets of these companies under units-of-usage basis are allowable for tax reporting purposes as from 1 January 2006. Accordingly, the Group has re-assessed the adequacy of the unutilised deferred tax provision brought forward from 31 December 2005 for these companies and reversed deferred tax liabilities of RMB42,134,000, which was reflected as a credit in income tax expenses for the year. The relevant tax base of the toll road assets owned by the foreign investment enterprises of the Group using the units-of-usage basis of depreciation, namely Jihe East Company and Qinglong Company, had not yet been finalised and agreed upon by the local tax authorities. Accordingly, the Group continued to adopt the same basis for assessing their deferred tax liabilities as used in prior years.

6 Discontinued operation

In October 2006, the directors of the Company approved the disposal of its 42% equity interest in Yungang Company. The disposal transaction is expected to be completed in 2007. Accordingly, the assets and liabilities related to this equity investment had been presented separately as a disposal group classified as held for sale in the consolidated balance sheet and the relevant operating results is presented separately as discontinued operation in the consolidated income statement.

7 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.

	2006	2005
Profit from continuing operations attributable to equity holders of the Company (RMB'000)	582,146	552,622
Loss from discontinued operation attributable to equity holders of the Company (RMB'000)	(3,056)	—
Number of ordinary shares in issue (thousands)	2,180,700	2,180,700
Basic earnings/(loss) per share (RMB per share)		
- Profit from continuing operations	0.267	0.253
- Loss from discontinued operation	(0.001)	—

The Company had no dilutive potential shares in both 2005 and 2006 and the diluted earnings/(loss) per share presented is the same with basic earnings/(loss) per share.

8 Trade receivables

At 31 December 2006 and 2005, the ageing analysis of trade receivables was as follows:

	2006 <i>RMB'000</i>	2005 <i>RMB'000</i>
Within 1 year	48,879	39,666
Over 1 year	<u>15,810</u>	<u>28</u>
	<u>64,689</u>	<u>39,694</u>

9 Contingencies

Pursuant to the terms of the relevant construction management contract, the Company had arranged banks to issue irrevocable performance guarantees on its behalf to the Shenzhen Longgang Highway Bureau amounting to RMB30,000,000, and also paid a guarantee deposit of RMB15,000,000 in 2004.

10 Reconciliation of financial statements

The Group has prepared a separate set of financial statements for the year ended 31 December 2006 in accordance with the PRC GAAP. The differences between the financial statements prepared under the PRC GAAP and HKFRS are summarised as follows:

	Profit attributable to equity holders of the Company for the year ended 31 December 2006 <i>RMB'000</i>	Capital and reserves attributable to the Company's equity holders as at 31 December 2006 <i>RMB'000</i>
As reported under the PRC GAAP	559,245	6,591,829
Impact of HKFRS adjustments:		
Adjustment on interest in an associate based on the fair value of the net assets acquired	18,720	32,622
Depreciation of property, plant and equipment	(1,509)	15,197
Adjustment on a loan extended to a jointly controlled entity at amortised cost	5,027	—
Recognition of the excess of fair value of the share of acquired net assets of a jointly controlled entity over cost of acquisition	—	34,955
Amortisation of intangible assets and related deferred tax	(2,036)	(2,884)
Recognition of loss arising from measurement of assets in disposal group classified as held for sale	(1,192)	(1,192)
Reversal of amortisation of equity investment differences arising from acquisitions under the PRC GAAP	512	1,024
Deferred income recognition for government grants recorded as capital reserve under the PRC GAAP	323	(25,677)
Recognition of the excess of consideration and the acquired minority interest of a subsidiary in reserves	—	(41,236)
Net amount of adjustments	<u>19,845</u>	<u>12,809</u>
As restated after HKFRS adjustments	<u>579,090</u>	<u>6,604,638</u>

ANNUAL RESULTS AND DIVIDENDS

The Group recorded a revenue of RMB1,188,556,000 (2005: RMB911,482,000) prepared in accordance with the HKFRS, representing an increase of 30.40% over the same period of the previous year. Profit attributable to equity holders of the Company amounted to RMB579,090,000 (2005: RMB552,622,000) and earnings per share was RMB0.267 (2005: RMB0.253), representing an increase of 4.79% over the same period of the previous year.

The Board recommended the payment of a final dividend of RMB0.13 per share to all shareholders (2005: RMB0.12 per share), totaling RMB283,491,000, for the year ended 31 December 2006. The dividend will be paid to shareholders of H Share whose names appear in the register of shareholders of the Company at the close of business on 20 March 2007 (Tuesday). For payment of dividend to shareholders of domestic shares, the registration date, payment procedures and date will be otherwise notified. Such dividend shall be subject to the approval by shareholders at the 2006 Annual General Meeting to be held on 20 April 2007 (Friday).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Toll highway operation and investment are the primary sources of the Group's earnings. During the Reporting Period, the Group benefited from continued economic prosperity and the formation and improvement of highway networks, and continued to maintain a steady growth in traffic flow and toll revenue generated on its various major toll highways. Construction projects and entrusted construction management operations also progressed within the overall expectations of the Group. To increase the overall return on assets, the management has been actively considering an integration of existing resources. During 2006, the Company entered into agreements for the acquisitions of additional 20.09% interests in Qinglian Project and 5% interests in Meiguan Expressway. The Group also disposed of 42% interests in Geputan Bridge by means of auction.

1. Toll Highway Operations

	Percentage of equity 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)		
			2006	2005	Change (%)	2006	2005	Change (%)
Toll Expressway Shenzhen Region								
<i>Meiguan</i>								
Expressway* ³	100%	100%	90	76	17.8	878	795	10.4
Jihe West	100%	100%	54	46	15.7	776	740	4.9
Jihe East	55%	55%	70	56	24.5	904	787	15.0
Yanpai Expressway* ¹	100%	100%	16	N/A	N/A	252	N/A	N/A
Yanba A and B	100%	100%	14	12	22.5	153	115	32.9
Shuiguan Expressway	40%	40%	75	55	37.5	683	504	35.5
Shuiguan Extension* ¹	40%	—	25	32	N/A	163	229	N/A
Other Regions in Guangdong Province								
Yangmao Expressway	25%	—	13	10	26.4	719	547	31.5
Guangwu Expressway	30%	—	7.7	6.1	25.7	224	165	36.0
<i>Jiangzhong</i>								
Expressway* ¹	25%	—	26	15	N/A	386	201	N/A
GZ W2 Expressway* ¹	25%	—	2.2	N/A	N/A	69	N/A	N/A
Other Provinces in the PRC								
<i>Wuhuang</i>								
Expressway* ²	55%	55%	24	23	2.8	887	728	21.9
Changsha Ring Road	51%	51%	5.5	5.4	2.5	54	58	-7.2
Geputan Bridge* ⁴	42%	42%	2.9	2.7	4.7	22	20	10.7
<i>Nanjing Third Bridge*¹</i>								
	25%	—	12	8.3	N/A	472	325	N/A

*1 Shuiguan Extension, Yanpai Expressway, Jiangzhong Expressway, GZ W2 Expressway and Nanjing Third Bridge commenced toll collection from October 2005, May 2006, November 2005, December 2006 and October 2005 respectively. There were only partial or no operating figures for the year 2005 available for these projects.

*2 The turnover of Wuhuang Expressway was proportionately consolidated into the Group's financial statements since August 2005, while the information shown represents figures for the whole year of 2005 and are for reference only.

*3 The Company completed the acquisition of 5% interests in Meiguan Company in December 2006. Pursuant to the acquisition agreement, the earnings generated from October to December 2006 from the 5% interests in Meiguan Company accordingly would be due to the Company.

*4 Mei Wah Company, a subsidiary of the Company, entered into an agreement with an independent third party in January 2007 for the disposal of 42% interests in Geputan Bridge.

The economic growth momentum, a steadily expanding transportation network and an increasing vehicle ownership in Shenzhen and its neighbouring areas in recent years have driven a persistent growth in traffic volume and toll revenue on expressways. Compared to 2005, the Group recorded respective growth of 24% and 15% in average daily mixed traffic volume and average daily toll revenue generated on its toll highways located in Shenzhen during the Reporting Period.

In the recent two years, an expressway network in Shenzhen and nearby areas has been basically formed, and constant improvement is being made to it. Given the improvement of the highway network and the implementation of an urban traffic arrangement scheme, and that traffic flows on the highways in these areas are re-distributed on an ongoing basis, there was certain impact on the revenue status of each highway for the current period. In general, the structure of the highway network and traffic arrangements have been improved to meet the traffic demand arising from economic growth, and this will improve traffic conditions and enhance travel efficiency, serving as a direct stimulus to the overall utilisation of expressways in Shenzhen.

A toll-by-weight scheme 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 virtually increased the toll rates of some trucks, resulting in a slowdown in the growth of traffic volume on Wuhuang Expressway which, however, still registered approximately 22% increase in toll revenue. Since the commencement of operations of Jingdong Expressway (Jingzhou-Dongyuemiao) and Hanxiao Expressway (Wuhan-Xiaogan) in September and December 2006 respectively, the traffic networks in these areas have been improving which is anticipated to drive an increase in the overall traffic volume on Wuhuang Expressway. Changsha Ring Road was impacted by traffic diversions due to the changes in its neighbouring highway network. Tariff standard has been revised for expressways in Hunan Province since October 2005 by reclassifying vehicle types and reducing toll rates were reduced accordingly. As a result, Changsha Ring Road saw a fall in its average daily toll revenue during the Reporting Period.

2. Project Construction and Management

Yanpai Expressway was completed and opened to traffic on schedule during the Reporting Period. The Group and its associates are currently undertaking the construction of various toll highway projects which include Nanguang Expressway, Yanba C and the reconstruction of Qinglian Class 1 Highway.

As at the end of the Reporting Period, an aggregate amount of approximately RMB750 million had been utilised for Nanguang Expressway. During the Year, the investment amount exceeded the Company's budgetary target at the beginning of the year. As the project management office proceeded aggressively with land requisition, demolition and relocation which created a favourable condition for full commencement of works, the construction works carried out on the commenced sections progressed ahead of schedule. Currently, some difficulties remain unresolved in connection with a small amount of land requisition, demolition and relocation works, and the Company will have to strengthen communication and coordination to make sure that Nanguang Expressway will be completed and operational according to schedule by the first half of 2008. Construction of Yanba C officially commenced in October 2006 and is scheduled for completion concurrently with Shenhui Coastal Expressway (Shenzhen-Huizhou) which is currently under construction in Huizhou. Approximately 10% of the subgrades and bridge-culvert engineering of Yanba C was completed as at the end of the Reporting Period, and an aggregate investment amount of approximately RMB95 million was utilised. During the Reporting Period, the initiation of the reconstruction of Qinglian Project was approved by the relevant departments of the Guangdong Provincial

Government, and Qinglian Company has been granted a 25-year-toll collection and operating right upon completion of the reconstruction of Qinglian Class 1 Highway into an expressway. As at the end of the Reporting Period, survey, design, and invitations of tenders for the major civil engineering works of Qinglian Project were completed. Qinglian Company is proceeding aggressively with the progress of the works as well as related land acquisition, demolition and relocation works. An aggregate investment amount of RMB330 million has been utilised for Qinglian Project. The whole reconstruction project is scheduled for completion by 2008.

3. Entrusted Construction Management — Business of “Entrusted Construction System”

Appointed by the Shenzhen Municipal Government or its subordinate district authorities, the Company is now the administrator for Nanping (Phase I), Hengping Project and Wutong Mountain Project.

The main-line works of Nanping (Phase I) was completed and opened to traffic in June 2006, and was widely acclaimed by the government, the public and the community at large. The Shenzhen Municipal Government has agreed in principle that the Company will continue to act as the administrator for Phase II of the project. The terms of the relevant contract are under negotiation, subject to examination and approval by both parties in accordance with their respective internal management procedures. In line with the government’s proposal to include part of the sections of the Hengping Class 1 Highway into the planning for the Shenzhen Outer Ring Expressway, the Shenzhen Longgang District Highway Bureau, as the project owner and entrusting party to the management contract, has issued a notice suspending the construction of Hengping Project during the Reporting Period. The Company, as the project administrator, is fully cooperating with the government departments in taking care of the works completed as well as the review of relevant checking and settlement of accounts. Wutong Mountain Project is an auxiliary project of Yanpai Expressway. As at the end of the Reporting Period, the auxiliary road of Wutong Avenue was completed and ready for operation. The investment (as per progress of physical completion) made in the auxiliary construction of the government’s customs checkpoints accounted for approximately 10% of the estimated total investment. The checkpoints are scheduled for completion by the middle of 2007.

4. Project Investment and Development

During the Reporting Period, the Company entered into agreements on proposed acquisitions of additional 20.09% interests in Qinglian Project and 5% interests in Meiguan Expressway. The acquisition of 5% interests in Meiguan Expressway was completed in December 2006. Formalities relating to the acquisition of interests in Qinglian Project have been completed in January 2007. Following the completion of the acquisition, Qinglian Company, formerly an associate of the Company, will become a subsidiary of the Group, and its operating results will be consolidated into the Group’s financial statements. This acquisition will both reduce the Group’s average cost of investment in Qinglian Project and help the Group to further expand its asset scale and earning base.

In April 2006, the Company was granted the development right of the Shenzhen Outer Ring Expressway in an open tender according to relevant rules and regulations and the approval by the Shenzhen Municipal Government. The Company is proceeding with the survey, design and other preparatory work on the Hengping section and will, based on the findings of relevant work, determine the mode of investment and development plan.

During the Reporting Period, the Company carried out reviews and assessments of major projects invested in recent years and will, on the basis of the findings of the assessments, formulate operating improvement measures or a resource integration scheme accordingly, with a view to increasing the overall returns on the Group's assets. In January 2007, Mei Wah Company entered into a transfer agreement with an independent third party to dispose of its 42% interests in Yungang Company (operating Geputan Bridge) at a consideration of RMB10,800,000. As at the date of this announcement, the relevant transaction has not been completed. The Company believes that an appropriate integration of existing project resources will optimise the Company's asset structure, thus allowing the Company to concentrate its financial and management resources in quality projects.

Analysis of Operating Results

During 2006, the Group recorded a revenue of RMB1,188,556,000, representing an increase of 30.40% as compared to 2005. Wuhuang Expressway has been proportionately consolidated into the Group's financial statements since August 2005, and during the Year, an additional seven months contribution made toll revenue increase by RMB114,426,000 as compared to 2005. Yanpai Expressway commenced operation in May 2006 and recorded a toll revenue of RMB59,465,000 during the Reporting Period. The overall revenue from other toll highways of the Group increased by 12.17% as compared to 2005.

Operating expenses of the Group during the Reporting Period amounted to RMB488,376,000, representing an increase of 63.81% as compared to 2005. This is mainly due to the fact that operating expenses in 2006 included an impairment provision of RMB57,000,000 for Changsha Ring Road, while a write-back of impairment provision of RMB40,000,000 relating to the Ropeway Project was included in 2005 that offset the same amount in operating expenses. Excluding such incomparable factors, the actual increase in operating expenses was RMB93,241,000 or 27.57% during the Reporting Period. As a result of traffic growth on the toll highways, the additional seven months results contribution from Wuhuang Expressway and the addition of Yanpai Expressway etc., depreciation and amortisation increased by 30.96% to RMB219,533,000, representing an increase of RMB51,899,000. In addition, excluding aforesaid incomparable factors, other operating expenses increased by 37.19%, representing an increase of RMB32,787,000, primarily due to an increase of RMB28,893,000 in entrusted management fee of Wuhuang Expressway during the Reporting Period as compared to 2005. The operating profit margin (excluding income from government subsidies) from toll highway operations was 67.57% during the Reporting Period, maintaining at the same level that of 2005.

During the Year, the Group appointed independent professional institutions to prepare updated forecasts on the future traffic flows for the remaining operating period of Meiguan Expressway, Jihe East, Jihe West, Yanba Expressway, Yanpai Expressway, Shuiguan

Expressway and Changsha Ring Road in accordance with the Group's policy of regularly reviewing forecasts on traffic flows for the remaining operating period of the toll highways, and corresponding adjustments were made. The adjustments have reduced the depreciation expenses for the Reporting Period by RMB8,979,000. Moreover, according to the forecasts on the future traffic flows for the remaining operating period of toll highways prepared by independent professional institutions, the Company appointed a professional valuer to assess the fair value of Changsha Ring Road over its remaining operation period. According to the valuation for Changsha Ring Road, the Group made an impairment provision of RMB57,000,000 during the Reporting Period for the Group's 51% interests in Changsha Ring Road. After adjusting the corresponding deferred income tax liabilities, the net effect to profit for the Reporting Period decreased by RMB42,750,000. The Directors believe that regular review of traffic forecasts and fair values of the Company's highway assets for their future operating period and making reasonable impairment assessment for the toll highways with lackluster results will help to avert operating risks and to enhance the quality of the Group's assets.

During the Reporting Period, the Group's share of the operating results of associates amounted to RMB-16,948,000, representing a decrease of RMB7,067,000 in losses when compared to 2005. This is mainly due to the increase in revenue of these toll highways which led to increased share of profits or reduced share of losses for the Group.

Despite a decrease in entrusted construction management services income (please refer to Note 3(a) to consolidated income statement for details) and an impairment provision for the Company's highway assets during the Reporting Period, there were continued growth in revenues and operating profits from major toll highways and new profit contributions from Yanpai Expressway and Wuhuang Expressway. In the Year 2006, the Group recorded a RMB579,090,000 profit attributable to equity holders of the Company, representing an increase of 4.79% as compared to 2005.

Analysis of Financial Position

1. Current Assets and Liabilities

As at 31 December 2006, the Group's current assets amounted to RMB549,230,000 (2005: RMB1,085,469,000), including cash and cash equivalents of RMB379,641,000, restricted cash of RMB6,872,000, accounts receivable of RMB101,396,000 and non-current assets and disposal group classified as held for sale of RMB58,360,000. The decrease in current assets as at the end of the Reporting Period as compared to the beginning of the Year was mainly attributable to a RMB512,844,000 decrease in cash at the end of the period as a result of applying the cash held at the beginning of the Year for investments such as construction projects during the Reporting Period, as well as a RMB56,433,000 decrease in accounts receivable by the end of the period owing to the recovery of the construction costs advanced for the Wutong Mountain Project in 2005. The cash of the Group is generally deposited in commercial banks as current or short-term fixed deposits. No deposit has been placed with institutions other than banks, nor has any cash been used for securities investment.

As at 31 December 2006, the Group's current liabilities amounted to RMB2,121,927,000 (2005: RMB956,536,000), including RMB1,218,100,000 as short-term borrowings, RMB8,541,000 as long-term loans due within one year, RMB176,603,000 as construction projects costs payable, RMB359,242,000 as bills payable, RMB179,568,000 as performance guarantees and deposits and RMB24,594,000 as balances outstanding for the acquisitions of interests in JEL Company and Qinglian Company under agreements. The increase in current liabilities during the Reporting Period was mainly attributable to the increase in short-term borrowings.

2. Cash Flow of the Group

As at 31 December 2006, the Group's cash and cash equivalents amounted to RMB381,839,000 (2005: RMB892,485,000), representing a decrease of RMB510,646,000 as compared to the end of 2005. During 2006, the Group's net operating cash inflows and returns on investment amounted to a total of RMB985,577,000 (2005: RMB604,844,000), representing an increase of 62.95% as compared to 2005. Such increase was mainly attributable to the continued growth in toll revenues from the toll highways operated and invested in by the Group during the Reporting Period, as well as the extra net operating cashflows to the Group from Wuhuang Expressway and Yanpai Expressway, and the recovery of the construction costs advanced for the Wutong Mountain Project in 2005.

During the Reporting Period, the Group's main cash outflows comprised capital expenditures totalling RMB1,232,309,000 on Yanpai Expressway, Nanguang Expressway, Yanba C, Qinglian Project, Jiangzhong Expressway, GZ W2 Expressway, Meiguan Expressway and so forth (excluding interests capitalised) as well as a total of RMB376,777,000 for payments of dividends and interest expenses.

3. Capital Structure

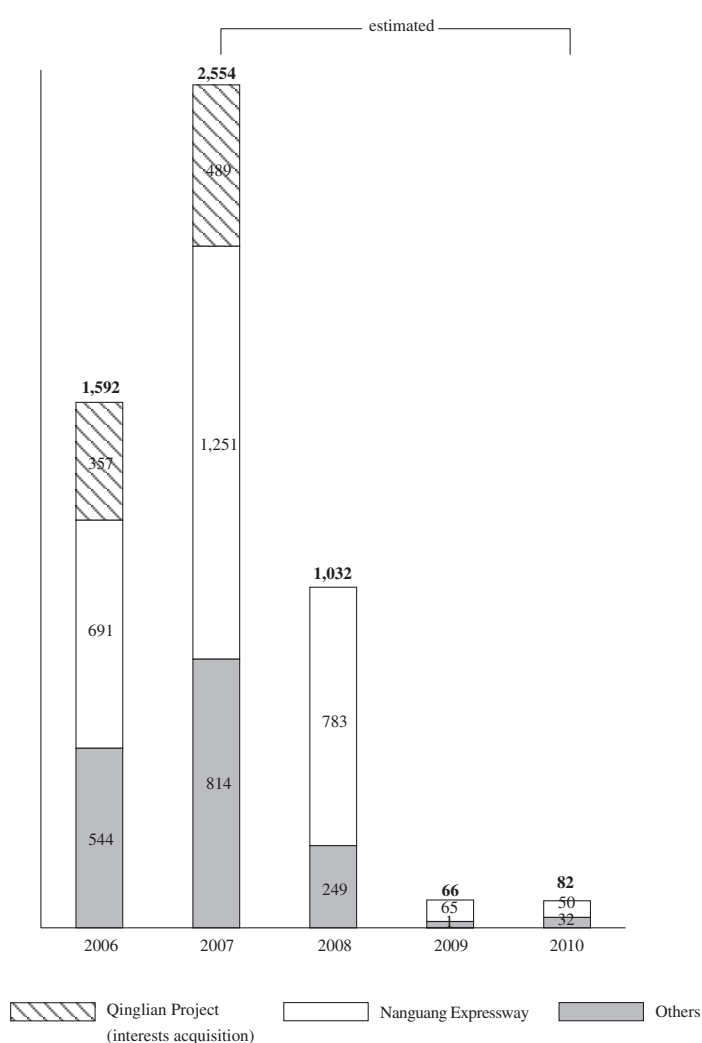
	31 December 2006	31 December 2005
Debt-to-asset ratio (total liabilities/total assets)	35.98%	36.77%
Net borrowings-to-equity ratio ((total borrowings-cash and cash equivalents)/equity)	29.57%	25.24%
Gross debt-to-equity ratio (total debts/total equity)	56.21%	58.16%
	2006	2005
Interest coverage multiple (profits before interest and taxation/interest expenses)	6.63	7.74

At the end of the Reporting Period, the debt ratio of the Group was basically the same as at the Year's beginning and remained at a secure level.

4. Capital Expenditure Plan

As at 31 December 2006, the Group's capital expenditure plans comprised mainly construction investments in Yanpai Expressway, Nanguang Expressway and Yanba C; and equity investments in Qinglian Project, GZ W2 Expressway and Wuhuang Expressway etc. Total capital expenditures to be incurred until the end of 2010 are estimated at approximately RMB3.73 billion. The Company plans to fund such capital requirements by internal resources, bank borrowings, issuance of bonds and so forth. According to the assessment of the Directors, the Group is able to meet various expected capital expenditures given the Group's financial resources and financing capabilities.

Capital Expenditure Plan (RMB' million)



Apart from the aforesaid capital expenditures, funds for the reconstruction of Qinglian Class 1 Highway into an expressway amounting to RMB4.2 billion (including interests) is expected to be satisfied by methods such as external borrowings by Qinglian Company.

5. **Financing Activities**

As at 31 December 2006, the Group's total outstanding amount of bills payable and borrowings was RMB2,700,872,000, representing an increase of RMB200,162,000 as compared to the end of 2005. The average borrowing rate during the Year was 4.847% which is lower than the 5.42% for the previous year.

In January 2006, the Company issued short-term commercial papers in the total amount of RMB1 billion at an interest rate of 3.07% per annum, and the amount has been repaid during the Year. The issuance of short-term commercial papers has effectively lowered the Group's funding costs. In May 2006, Qinglian Company obtained a loan in a total amount of RMB4.66 billion from a consortium including China Development Bank, using the toll collection rights of the Qinglian Project as collateral.

In November 2006, the shareholders of the Company considered and approved the resolution for the proposed issuance of Bonds With Warrants, approving the Company to issue 6-year bonds in the amount of not more than RMB1.5 billion with warrants involving not more than 330 million shares. Proceeds will be applied to the construction and investment of Nanguang Expressway. The issuance is subject to approval of the CSRC, and as at the date of this announcement, documents for the application are being prepared. The Company plans to submit the application for the issuance to the regulatory authorities in due course.

As at 31 December 2006, the total unutilised banking facilities available to the Group amounted to RMB4.9 billion.

6. **Interest Rate Risks**

In recent years, as a result of increase in acquisitions and construction projects, the Group's capital expenditures have gone up quite substantially, and borrowings as a percentage of capital expenditure has also shown a rising trend. Consequently, the Group is becoming more vulnerable to fluctuations in interest rates, especially medium to long-term interest rates.

The Group is gradually raising the proportions of fixed-rate and medium-/long-term borrowings in the borrowing structure. Presently, for the project borrowings signed up with banks regarding Qinglian Project and Nanguang Expressway, the borrowing terms are fixed at 10 to 18 years with over 50% of the amount under a fixed-rate arrangement for the first five to eight years of the borrowing term. In addition, the Company has used methods such as short-term commercial paper issuance, commercial bill discount, and so forth, to lower the average interest cost. The Company also plans to issue a considerable size of long-term corporate bonds and Bonds With Warrants to broaden its financing channels, optimise the capital structure and reduce capital costs. During the Reporting Period, the Company did not use any interest rate swap option contracts.

7. **Exchange Rate Risks**

All major operations of the Group are located in the PRC. Save for Mei Wah Company which finances and settles in HK\$, the majority of the Group's operating and capital

expenditures are settled in RMB. As at the end of the Reporting Period, the Group had primarily RMB26,169,000 and RMB162,761,000 worth of foreign currency-based liabilities denominated in US\$ and HK\$, respectively, while RMB55,407,000 worth of foreign currency-based assets were denominated in HK\$. Foreign currency-based items resulted in the form of net liabilities.

With RMB on an appreciating trend under current market conditions, it is projected that the trend of exchange rate changes will benefit the Group but there will be no substantial impact on the Group's results.

Outlook

Bright development opportunities are presented to the Group by the continued growth of the economy and an increasingly regulated market. Meanwhile, the management is acutely aware of various risks facing the Group at present, such as the challenges brought by market competition, interest rate volatility, construction management, traffic flow fluctuations, toll policy adjustments and human resources support.

In light of an operating environment where opportunities and challenges go hand in hand and advantages and risks co-exist, the Group will adhere to its established development strategy and continue to devote itself to the investment, construction and operation of toll highways and roads. It will continue to improve resource allocation, enhance profitability, boost the Company's development resilience whenever appropriate, elevate management quality and gear up its effort to foster an internal and external environment that facilitates the Company's development, with a view to achieving rapid and stable growth.

USE OF PROCEEDS

The Company raised RMB604 million from the issuance of A Shares in 2001. During the Reporting Period, the Company applied such proceeds in the construction of Yanba B in strict compliance with representations made in the prospectus. The construction of Yanba B started in June 2001 and a section of approximately 7.75km in length was opened to traffic for toll collection in June 2003. After the commissioning of Yanba B, traffic flow and toll revenue of Yanba Expressway have been significantly enhanced with the formation of a local traffic network with Yanba A.

An amount of RMB45,055,000 was applied during the Reporting Period and the cumulative amount of proceeds applied was RMB485,042,000. As at 31 December 2006, proceeds in the amount of RMB118,958,000 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.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the Reporting Period, no shares of the Company were purchased, sold or redeemed by the Company or any of its subsidiaries and jointly controlled entities.

EMPLOYEES, REMUNERATION AND TRAINING

As at 31 December 2006, the Company and its subsidiaries had 1,185 employees, of whom 298 were management and professional staff while 887 were toll collection staff.

The employee's remuneration comprises three parts, namely monthly salary, annual performance bonus as well as statutory and company fringe benefits. The remuneration is determined in accordance with the results of the overall assessment, of which salary and performance bonus are determined by their position and performance respectively so as to maintain the competitiveness of the Company. In 2006, the Company recruited a human resource consultant to review the existing remuneration system and re-assessed the values of each position. Improvement proposals are made to give a fairer and more competitive remuneration system. Pursuant to statutory requirements, the Group has participated in an employee's retirement scheme which is organised by the local government authorities, and has provided basic medical insurance package, industrial injury insurance and unemployment insurance to its employees. In addition, the Company has also obtained commercial insurance on personal accidents for its frontline employees.

The Company values staff training. During the Reporting Period, the Company organised 37 themed training sessions with a total of 1,542 participants. To diversify training approaches, the Company has also started an internal web training academy with approximately 40 training courses offered in its first stage. In addition, all functional departments and toll stations are actively engaged in activities such as on-the-job training, work competition and experience exchanges, with reference to actual needs.

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

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

During the Reporting Period, the Company has fully adopted the provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules of HKEX. As compared to 2005, during the Reporting Period, the Company arranged member(s) of the Independent Board Committee to attend shareholders' meeting for the approval of the Company's connected transactions to respond to questions from shareholders.

In recent years, the Company has strengthened the transparency of information disclosure regarding areas where shareholders' concern is gradually growing, such as internal control and risk management, investor relations, remuneration of directors and senior management and analyses of financial conditions. The codes on corporate governance currently adopted by the Company go beyond the requirements of the aforesaid Code in certain aspects.

COMPLIANCE WITH THE MODEL CODE

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 and the relevant rules of the SSE in light of the Company's actual situation, as a written guide to regulate dealings in the Company's securities by 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 specifically inquiring with all the Directors, Supervisors and senior management, except that a Director, Mr. Liu Jun, sold his entire holding of 100,000 H Shares of the Company on 4 April 2006, the Company confirms that none of the Directors, Supervisors or senior management had held, bought or sold any securities of the Company during the Reporting Period. On 5 April 2006, the Board published an announcement regarding the sale of the Company's shares by Mr. Liu Jun in "Hong Kong Economic Times" and "The Standard".

AUDIT COMMITTEE/RESULTS REVIEW

The audit committee of the Company has reviewed and confirmed the results announcement and financial statements for the year ended 31 December 2006.

AUDITORS' PROCEDURES PERFORMED ON THIS RESULTS ANNOUNCEMENT

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2006 have been agreed by the Group's auditors, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the Year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

DEFINITIONS

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 Renminbi and are listed on SSE
Bonds with Warrants	Convertible bonds, in which bonds and subscription warrants are tradable separately
Board	The board of Directors of the Company
Changsha Ring Road	Hunan Changsha Ring Road (Northwestern Section), located in Changsha City of Hunan Province
The Company, Company	Shenzhen Expressway Company Limited
CSRC	China Securities Regulatory Commission

Director(s)	The director(s) of the Company
Geputan Bridge	Hubei Yungang Geputan Bridge, located in Xiaogan City of Hubei Province
The Group, Group	The Company and its subsidiaries and jointly controlled entities
Guangwu Expressway	The expressway from Guangzhou City to Wuzhou City (a section from Ma'an to Hekou), located in Guangdong Province
GZ W2 Expressway	National Trunk Highway Guangzhou Ring Road Xiaotang to Maoshan Section, also referred to as Guangzhou Western Second Ring Expressway, located in Guangdong Province
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
Hengping Project	Shenzhen Hengping Class 1 Highway (Western Section), the Company has been appointed as project administrator for the project
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
Jiangzhong Expressway	The expressway from Zhongshan City to Jiangmen City and the second phase of the expressway from Jiangmen City to Heshan City, located in Guangdong Province
JEL Company	Jade Emperor Limited, a company incorporated in the Cayman Islands with limited liability, which is the sole shareholder of Magerk Company
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), a Sino-foreign cooperative enterprise incorporated in Shenzhen City, which owns Jihe East
Jihe Expressway	The expressway from Shenzhen airport to He'ao in Shenzhen City, comprising Jihe East and Jihe West
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)

Maxprofit Company	Maxprofit Gain Limited, a company incorporated in the British Virgin Islands with limited liability, which owns 25% interests in Qinglian Company
Magerk Company	湖北馬鄂高速公路經營有限公司 (Hubei Magerk Expressway Management Private Limited), a wholly foreign owned enterprise incorporated in Hubei Province, which owns the operating rights of Wuhuang Expressway
Mei Wah Company	Mei Wah Industrial (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability
Meiguan Company	深圳市梅觀高速公路有限公司 (Shenzhen Meiguan Expressway Company Limited), a company incorporated in Shenzhen City with limited liability, which owns Meiguan Expressway
Meiguan Expressway	The expressway from Meilin to Guanlan in Shenzhen City
Nanguang Expressway	The expressway from Xili to Gongming in Shenzhen City, also referred to as Liming Avenue
Nanjing Third Bridge	Nanjing Yangtze Third Bridge, located in Nanjing City of Jiangsu Province
Nanping (Phase I)	Shenzhen Nanping Freeway (also referred to as Nanping Avenue)Phase I, the Company has been appointed as project administrator for the project
PRC	The People's Republic of China excluding, for the purpose of this announcement, the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan
Qinglian Class 1 Highway	Class 1 Highway from Qingyuan City to Lianzhou City, located in Guangdong Province
Qinglian Company	廣東清連公路發展有限公司 (Guangdong Qinglian Highway Development Company Limited), a Sino-foreign cooperative enterprise incorporated in Guangdong Province, which owns Qinglian Project
Qinglian Project	Qinglian Class 1 Highway, and/or its being reconstructed into an expressway, and/or Class 2 Highway from Qingyuan City to Lianzhou City in Guangdong Province (as the case may be)

Qinglong Company	深圳清龍高速公路有限公司 (Shenzhen Qinglong Expressway Company Limited), a Sino-foreign cooperative enterprise incorporated in Shenzhen City, which owns Shuiguan Expressway
The Reporting Period, The Year	For the year ended 31 December 2006
RMB	Renminbi, the lawful currency of the PRC
Ropeway Project	Shenzhen Wutongling Ropeway Project (suspended)
Shenchang Company	湖南長沙市深長快速幹道有限公司 (Hunan Changsha Shenchang Expressway Company Limited), a company incorporated in Hunan Province with limited liability, which owns Changsha Ring Road
Shuiguan Expressway	The expressway from Shuijingcun to Guanjintou in Shenzhen City, also referred to as the No.2 Longgang Passage
Shuiguan Extension	An extension to the Shuiguan Expressway, Phase I of Yuping Avenue(the expressway from Yulongkeng to Pinghu in Shenzhen City, also referred to as Qingping Expressway)
SSE	The Shanghai Stock Exchange
Supervisor(s)	The supervisor(s) of the Company
Wuhuang Expressway	The expressway from Wuhan City to Huangshi City, located in Hubei Province
Wutong Mountain Project	Shenzhen Wutong Mountain Avenue (Ancillary Road) and Jihe Expressway Yantian Subsidiary Road Checkpoint Station Project, the Company has been appointed as project administrator for the project
Yanba Expressway	The expressway from Yantian to Bagang in Shenzhen City, comprising Yanba A, Yanba B and Yanba C
Yangmao Expressway	The expressway from Yangjiang City to Maoming City, located in Guangdong Province
Yanpai Expressway	The expressway from Yantian to Paibang in Shenzhen City, also referred to as Yantian Subsidiary Road to Jihe Expressway

Yungang Company

湖北雲港交通發展有限公司 (Hubei Yungang Transportation Development Company Limited), a Sino-foreign cooperative enterprise incorporated in Hubei Province, which owns Geputan Bridge

By Order of the Board

Yan Hai
Chairman

Shenzhen, the PRC, 2 March 2007

As at the date of this announcement, the directors of the Company are: Mr. Yang Hai (Chairman of the Board), Mr. Wu Ya De (Director and General Manager), 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 non-executive Director), Mr. Zhang Zhi Xue (Independent non-executive Director), Mr. Poon Kai Leung, James (Independent non-executive Director) and Mr. Wong Kam Ling (Independent non-executive Director).

A detailed annual report containing all the information required by Appendix 16 to the Listing Rules will be subsequently published on the website of The Stock Exchange of Hong Kong Limited at <http://www.hkex.com.hk> in due course.

Please also refer to the published version of this announcement in The Standard.