

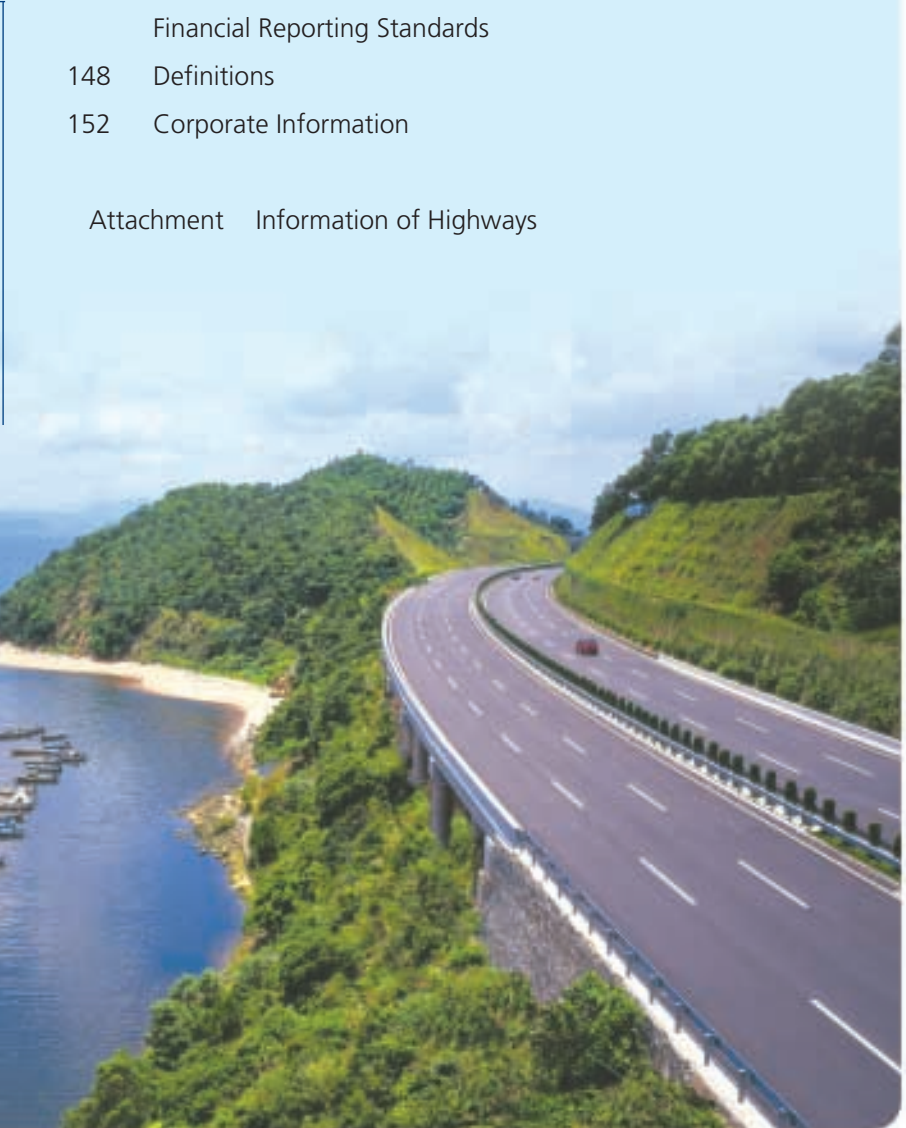
### **Gearing Up...for a Far Journey**

*"For a Far Journey" ("引重致遠") comes from Part II of I-Ching's Commentary on the Appended Judgements (《周易•繫辭下》) – "They tamed the ox and yoked the horse, to enable them to carry heavy loads for a far journey, for the benefit of the world..." ("服牛乘馬，引重致遠，以利天下...") What this really means is that one has to work diligently and devote persistent efforts in order to go far and beyond and make contributions to the society at the same time.*

*After ten years of hard work, Shenzhen Expressway has attained and accumulated substantial project resources, but it is also facing the pressure from the resulting capital expenditure and financing costs. The adoption of "Gearing Up...for a Far Journey" as the theme of this year's annual report, on the one hand, reflects the Company's focus of work in the next two years: consolidating and developing quality resources, with relevant adjustments to be made to underperforming projects. On the other hand, the theme denotes the fact that Shenzhen Expressway has now reached a critical point of its development, and that it must make its best efforts to achieve farther and higher objectives. Meanwhile, in enhancing the benefits for shareholders and itself, the Company should also bear in mind its social responsibilities and strive to be a responsible corporate citizen.*

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# Financial Highlights

(Prepared in accordance with HKFRS)

## Results Highlights

(For the year ended 31 December)

(RMB'000)	2006	2005	2004 (Restated*)	2003 (Restated*)	2002 (Restated*)
Revenue	<b>1,188,556</b>	911,482	705,776	598,137	646,128
Profit before interests, tax, depreciation and amortisation	<b>961,659</b>	910,535	654,463	1,204,275	558,372
Profit before interests and tax	<b>742,126</b>	742,901	522,777	1,084,412	428,695
Profit before tax	<b>643,729</b>	642,280	498,725	1,058,433	403,768
Profit for the year	<b>590,773</b>	562,209	422,706	910,882	343,974
Profit attributable to equity holders of the Company	<b>579,090</b>	552,622	414,888	904,484	338,230
Basic earnings per share for profit attributable to equity holders of the Company (RMB)	<b>0.266</b>	0.253	0.190	0.415	0.155
Dividends per share to equity holders of the Company (RMB)	<b>0.13</b>	0.12	0.11	0.19	0.12

## Assets Highlights

(As at 31 December)

(RMB'000)	2006	2005	2004 (Restated*)	2003 (Restated*)	2002 (Restated*)
Total Assets	<b>10,317,241</b>	10,079,315	7,527,763	7,184,338	6,957,138
Total Liabilities	<b>3,712,603</b>	3,706,556	1,458,998	1,116,098	1,530,468
Equity attributable to equity holders of the Company	<b>6,604,638</b>	6,329,621	6,027,065	6,026,510	5,384,616
Total equity	<b>6,604,638</b>	6,372,759	6,068,765	6,068,240	5,426,670
Net assets per share to equity holders of the Company (RMB)	<b>3.03</b>	2.90	2.76	2.76	2.47

## Principal Financial Ratios\*\*

(For the year ended 31 December)	2006	2005	2004 (Restated*)	2003 (Restated*)	2002 (Restated*)
Operating profit ratio	<b>63.86%</b>	84.14%	74.17%	181.29%	66.35%
Toll road operating profit ratio	<b>67.57%</b>	68.57%	66.36%	67.02%	64.23%
Return on equity attributable to equity holders of the Company	<b>8.77%</b>	8.73%	6.88%	15.01%	6.28%
Interest covered multiple	<b>6.63</b>	7.74	21.99	41.74	17.20

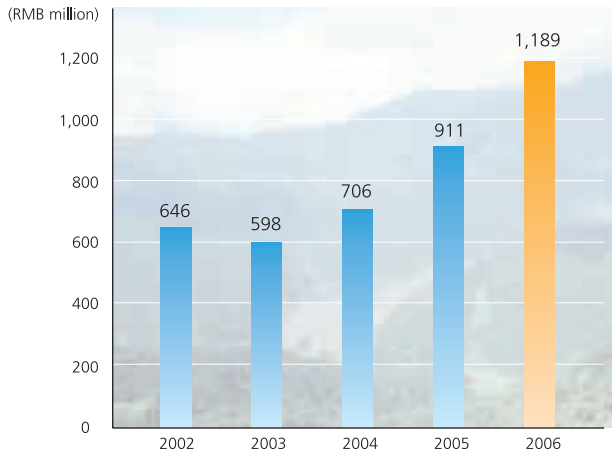
(As at 31 December)	2006	2005	2004 (Restated*)	2003 (Restated*)	2002 (Restated*)
Gross liabilities-to-equity ratio	<b>56.21%</b>	58.16%	24.04%	18.39%	28.20%
Net borrowings-to-equity ratio	<b>29.57%</b>	25.24%	N/A	N/A	5.72%

\* In 2005, the Group adopted certain new or revised HKFRS which are relevant to its operations. The comparative figures in previous years have been restated in accordance with the relevant requirements.

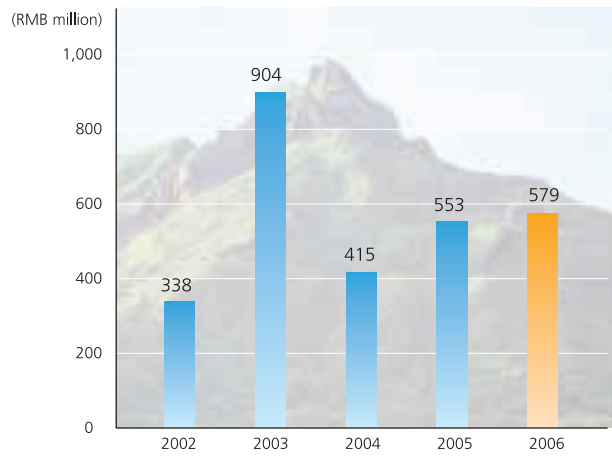
\*\* Description of Principal Financial Ratios:  
 Operating profit ratio = Operating profit/Revenue  
 Toll road operating profit ratio = Operating profit from toll roads (excluding government subsidies)/Revenue from toll roads  
 Return on equity = Profit attributable to equity holders of the Company/Equity 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



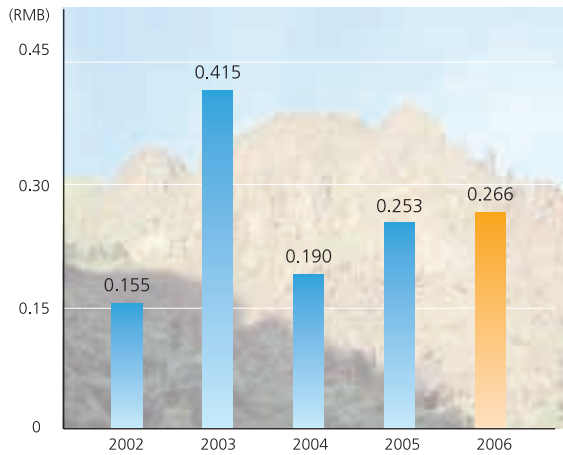
### Revenue



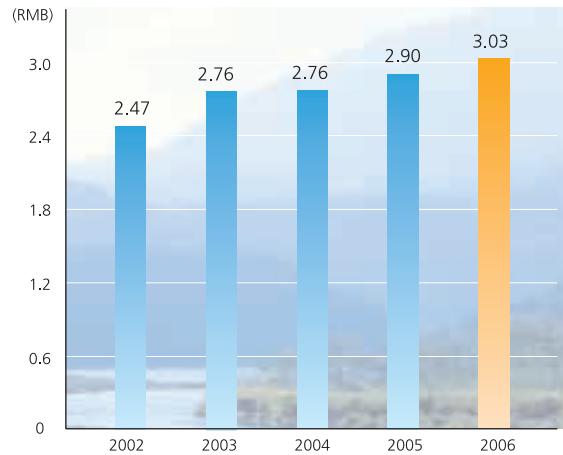
### Profit Attributable to Equity Holders



### Basic Earnings Per Share



### Net Assets Per Share



# Corporate Profile

The Company is principally engaged in the investment, construction, operation and management of toll highways and roads.

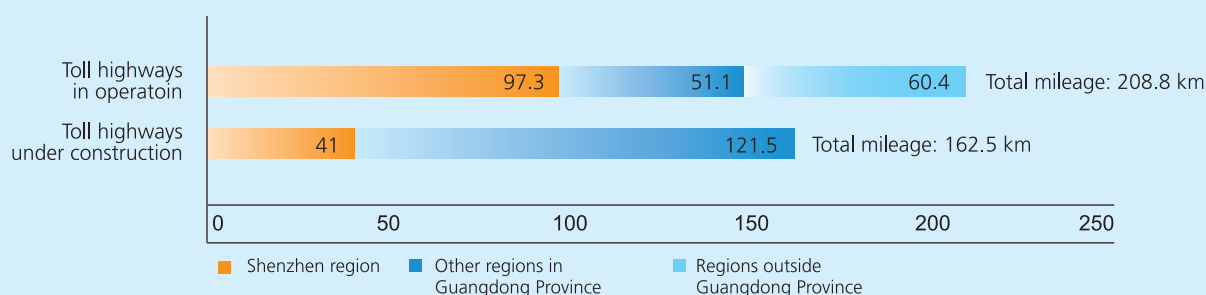
The Company adheres to the development strategy of focusing on toll highway operations as its core business and the investment strategy of expanding towards the Pearl River Delta region as well as other economically developed regions in the PRC through establishing a foothold in Shenzhen. It aims at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

The Company was established on 30 December 1996 with a total share capital of RMB1,268,200,000. In March 1997, the Company issued 747,500,000 foreign shares (H Shares), which were listed on HKEX on 12 March 1997 (stock code: 0548). In December 2001, the Company issued 165,000,000 Renminbi-denominated ordinary shares (A Shares), which were listed on SSE on 25 December 2001 (stock code: 600548).

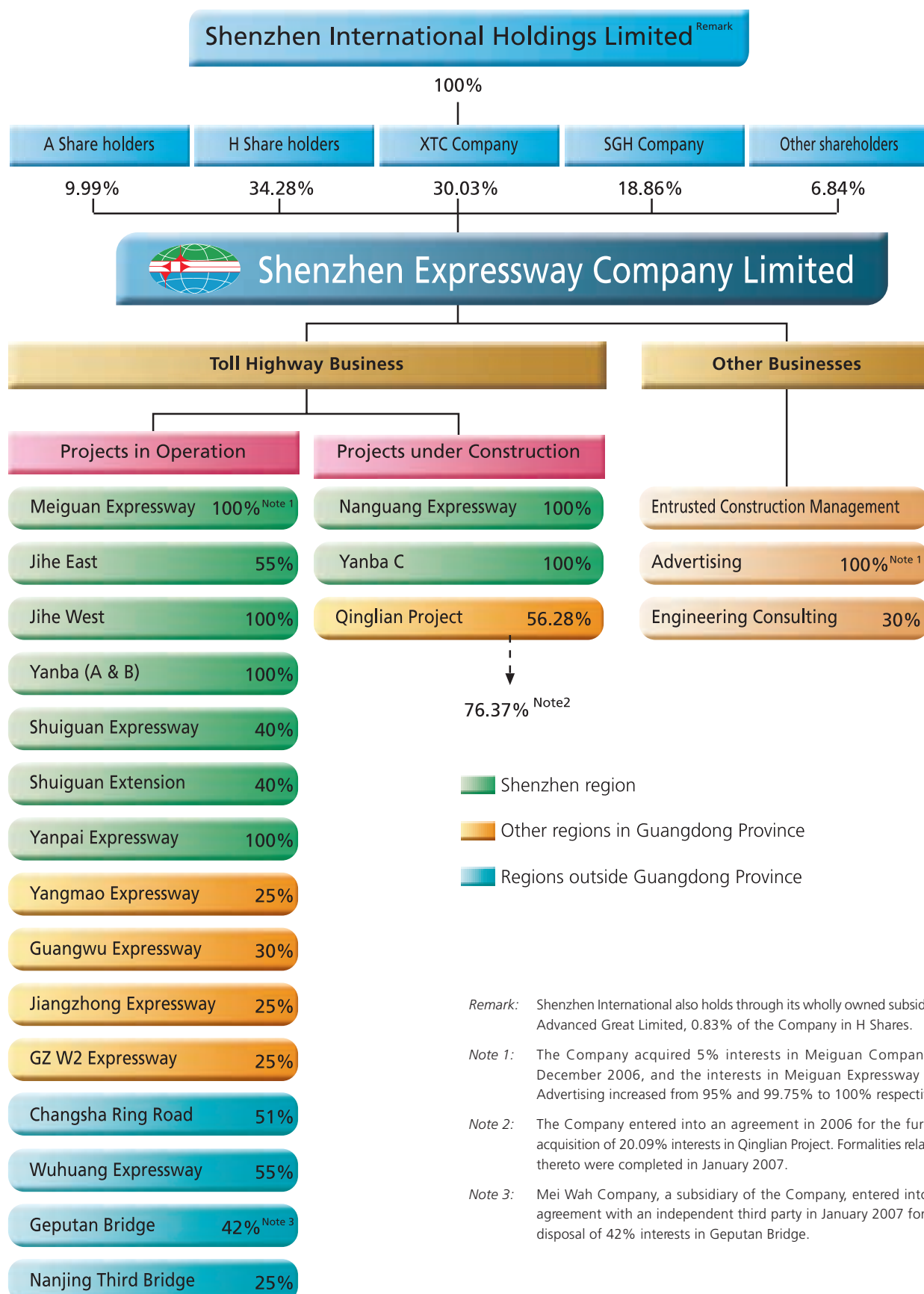
The existing total share capital of the Company amounts to RMB2,180,700,000. The Share Segregation Reform Proposal of the Company was implemented on 27 February 2006, subsequent to which the total number of shares held by the former holders of non-circulating shares of the Company decreased from 1,268,200,000 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 before and after the implementation of the Share Segregation Reform Proposal remained unchanged. The largest shareholder of the Company is Xin Tong Chan Development (Shenzhen) Company Limited, a wholly-owned subsidiary of Shenzhen International Holdings Limited (stock code: 0152), which is listed on HKEX, holding approximately 30.03% of the Company.

The toll highways operated and invested in by the Group in Shenzhen City 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.

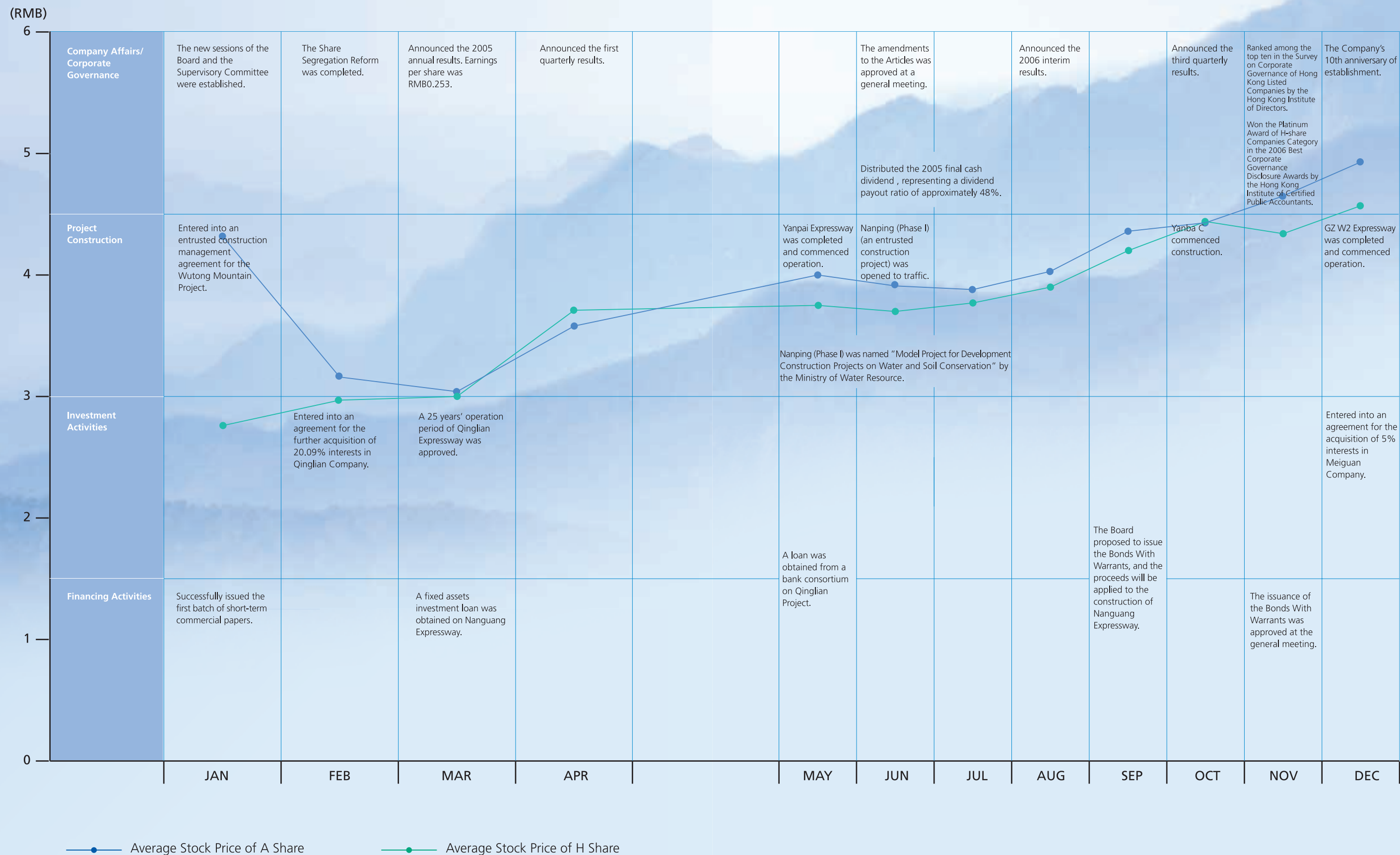
As at the end of Reporting Period, the total mileage of the toll highways calculated on the basis of equity interests held by the Group is as follows:



The Shareholding and Business Structure of the Group (as at 31 December 2006):



# 2006 Major Events



Shouldering the

# EXPECTATIONS



of shareholders, staff and the community, we will continue to perform our duties with integrity and diligence and take the Company farther ahead.





# Chairman's Statement

## 2006 RESULTS AND DIVIDENDS

In 2006, the Company realised a revenue of RMB1,189 million, representing an increase of 30.4% over 2005; profit attributable to equity holders of the Company amounted to RMB579 million with earnings per share being RMB0.266, representing an increase of 4.8% over 2005. 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 RMB0.13 per share in cash for 2006, representing

51% of the net profit under the PRC Statutory Financial Statements for the Year, or 49% of profit attributable to equity holders of the Company as adjusted under the HKFRS for the Year.

***To all shareholders:***

***I am pleased to report to the shareholders that the Group's overall results in 2006 were good with steady growth maintained. Driven by the robust economic growth of the neighbouring regions, the major toll highways of the Group maintained favourable growth momentum in terms of traffic flow and revenues. Meanwhile, the Company's operating strategies formulated on the aspects of business development, risk control, management enhancement and customer service were implemented effectively, thus laying a solid foundation for the Company to brace for the massive challenges in the next two years.***

building top quality expressways such as Jihe, Yanba and Yanpai with reliance on its own management team, Shenzhen Expressway has also been providing quality management services to government-invested road projects, having expanded itself into other economically developed regions in Guangdong Province and other parts in the PRC by way of acquisitions and equity investments. Shenzhen Expressway has listed its shares in Hong Kong and Shanghai, giving it a sound platform for future development and expansion besides obtaining invaluable funding. Meanwhile, the promotion of unwavering corporate system leadership and the emphasis on internal management are also established visions and development cornerstones of the Shenzhen Expressway people.

## TEN-YEAR REVIEW

In 2006, Shenzhen Expressway celebrated its 10th anniversary. Ten years is not exactly a long history, but for Shenzhen Expressway it is the most essential beginning. What we should be grateful is that over the past ten years, in spite of the many storms weathered, Shenzhen Expressway has also garnered a myriad of support. With the unflagging efforts of our people, the Company has gradually identified and confirmed its own development targets and has prepared itself for making bigger strides ahead.

Looking back these ten years, besides

## Chairman's Statement

Investing in and building expressways can make positive contributions to the economic development and social progress of the local community. During the past ten years, the Company has been devoting itself to improving the traffic of the community, with the mileage of its invested highways (on an equity basis) increased from about 90 kilometres in the Company's early days to over 400 kilometres at present. Meanwhile, the Company's total assets has also risen from the initial RMB3 billion to RMB10 billion, with an aggregate profit close to RMB4 billion and almost RMB2 billion of cash dividends distributed, thus effectively achieving the Company's development target of simultaneous growth for corporate and community interests.

### DEVELOPMENT MISSIONS

The steady development of Shenzhen Expressway so far is owing to the support of shareholders, government and various sectors of the community, the relentless effort of the Shenzhen Expressway people, and the Company's vision that values regulated management, transparency and balanced development. Since the establishment of Shenzhen Expressway, there has always been an emphasis on **regulated management**. In the realm of corporate governance and operation management, this has led to continuous studies in, and enhancement of, rules and procedures that suit the Company's own characteristics, as well as establishing an internal check-and-balance authority structure so as to assure healthy long-term growth for the Company. Shenzhen Expressway not only complies with market rules in its own actions and strives to be a responsible corporate citizen, but also starts to champion for continuous improvements of industry regulations in recent years. This is because we are aware of the fact that a long-lasting enterprise can only emerge from a healthy and regulated market. In addition, Shenzhen Expressway also insists on enhancing the **transparency** of the Company and facilitating both internal and external communication and understanding. We believe transparency is the basis of expanding mutual understanding and trust that can raise the confidence of investors, creditors, cooperation partners and governments, thus allowing the Company to win opportunities for cooperation and success and to elevate corporate competitiveness. In November 2006, the Hong Kong Institute of Directors released a comprehensive report of its 2005 corporate governance survey on Hong Kong listed companies and named Shenzhen Expressway in its Top Ten List which counted some of the world's famous enterprises. This evidences the efforts the Company has been dedicating all these years for being a regulated and transparent enterprise. Just like all enterprises, Shenzhen Expressway looks forward to maintaining rapid growth; yet it would never sacrifice the interests of shareholders, employees and the community for momentary magnificence. Between short-term performance and long-term development, we have opted for the latter. The Company has been increasing its external investments in the past two years. While the increase in financial burden may affect the short-term results to a certain extent, such moves will bring to the Company extra growth potential in the long run. Meanwhile, the Company has been maintaining a policy of high dividend payout ratio that caters for both the immediate and long-term interests of shareholders. It is our belief that the development of an enterprise is a long-term process, and **balanced** development is the basis of achieving the objective.





## THE DEVELOPMENT ENVIRONMENT AND CHALLENGES

An individual of ten years old is still at an age of formation. An enterprise of ten years old has just entered the beginning of the future. The Chinese toll highway industry to which Shenzhen Expressway belongs is currently at the high growth stage, offering room for the Company's growth.

To meet the needs of economic development, the Guidelines of the Eleventh Five-Year Plan issued by the State in 2006 outlines that preference should be given to developing the transportation industry. The State and local governments have also made comprehensive, forward-looking plans for the transportation network, resulting in enormous investment demand in the Chinese highway market. Moreover, statistics from the Ministry of Communications suggest that the number of private-owned vehicles in China will rise from 31.6 million in 2005 to 140 million by 2020, equivalent to an average annual growth rate of 10%. All these also imply strong development potential for the toll highway industry over a relatively long time in the future, bringing good opportunities for the Group's development.

Nevertheless, challenges always come hand in hand with opportunities. If one is not acutely aware of his own deficiencies and impending risks, one can only watch opportunities slip away. For Shenzhen Expressway, challenges at the current stage come from both the external market and internal resources and management. **Market challenges** come primarily from intensifying competition and industry policy adjustments. With the toll highway market and the entrusted construction market of government-invested projects becoming increasingly regulated and investment and financing structures becoming more diverse, the number of market participants is on the rise, resulting in intensified competition and an accelerated pace. In addition, as the transportation industry is highly relevant to the interests of the State and the public, the government has to consider maintaining a balance among the interests of different sectors, the public and the community as a whole while exercising its management authority, and policy adjustments in stages are thus inevitable. **Resource challenges** come primarily from shortages in financial and human resources faced by the Company during a stage of rapid development. While the existing capital and financial resources of the Company are sufficient to finance the capital expenditures already approved by the Board, certain limitations are already seen in the Company's ability in taking up liabilities for new investment projects. Moreover, the rise in gearing will also increase the pressure and risks regarding the Company's results growth over the next two years. Also, with the Company expanding its scale and developing its business, there is a higher demand for human resources – no matter in terms of quantity or quality. While the Company is enhancing the professional qualities and management abilities of existing staff, it also has to recruit appropriate staff in a timely manner and helps them integrate into the corporate culture as soon as practicable. **Management challenges** are shown in the execution and innovation abilities of an enterprise. With the Company growing, the original modes of management should be timely adjusted to match the development. In this process, the questions of how to strengthen the execution effort and efficiency and how to elevate the enthusiasm and innovation of the staff are urgent issues to be resolved by the management.

### STRATEGY

After detailed analyses on the industry and the operating environment, together with an assessment on our own strengths and weaknesses, the Board formulated a five-year development strategy at the end of 2004, with stage-based objectives set for the aspects of development direction, investment and financing strategies, management output, organisational structure and human resources.

2006 is the second year of the Company's implementation of the five-year development strategy, and we are now undergoing a crucial period of continuous adjustments for further development. In terms of the scale of development, the Company has basically achieved the targets set forth in the development strategy. However, what Shenzhen Expressway pursues is not simply growth in scale, but growth in quality. To boost the overall return of the Company's assets, the Company will, on the one hand, press ahead with the progress of projects under construction and takes opportunities to expand the Company's market share in Shenzhen and the Pearl River Delta. On the other hand, the Company will capitalise on the opportunities presented by a robust market and the industry's growth to increase its interests in quality projects, while reducing or exiting from its shareholding in non-controlling or under-performing projects. Appropriate consolidation of existing project resources will optimise the Company's asset structure, thus allowing the Company to concentrate its financial and management resources on quality projects.

2007 will be a highly crucial and challenging year of transition in the implementation of the Company's strategy. In this year, completing the reconstruction of Qinglian Project into an expressway and the construction targets of Nanguang Expressway will top the list of the Company's priorities, as such items are essential for assuring the completion of the projects in 2008 as scheduled and reaching the Company's results growth targets. In line with the progress of construction works, the Company heads into the peak of investment with the gearing ratio reaching a relatively high level. Without contributions from new projects, the Company has to fully exploit the growth potential of existing projects and to strengthen its management on financing and operating costs, so as to maintain a steady growth for the Company's results.

For Shenzhen Expressway, ten years is not just a mark in time, but a new starting point for its venture to new heights. Shouldering the expectations of shareholders, staff and the community, we will continue to perform our duties with integrity and diligence and take the Company farther ahead.

**Yang Hai**

*Chairman*

Shenzhen, the PRC, 2 March 2007



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Continued

# GROWTH

of the economy and an increasingly regulated market will bring bright development opportunities to the Group.

# Management Discussion and Analysis

## DIRECTOR AND GENERAL MANAGER'S OVERVIEW

As we have mentioned in our annual report of the previous year, the Company's "Development Strategies 2005 – 2009" have been devised by the Board, under which the general strategies and objectives will be:



- Focus on the principal operations of toll highway investment, construction, operation and management, and expand from Shenzhen as the base to the Pearl River Delta and other economically-developed regions to increase market share on an on-going basis;
- Make a head start in establishing a presence in the road construction and management sector by outputting technology and experience in engineering and management;
- Raise management standards and quality of human resources in all aspects in line with business development and risk control;
- Eventually achieve sustained profit growth for yielding above-average returns for our shareholders.

To achieve the Company's overall plans, the management set specific operating objectives in 2006 in the five aspects of financial results, business development, risk control, management enhancement and customer service, which were divided into different tasks for execution by relevant offices and staff. In 2006, the Company's entire staff, under the leadership of the Board, accomplished a number of tasks conscientiously, laying a key foundation for the Group to achieve its long-term development objectives.

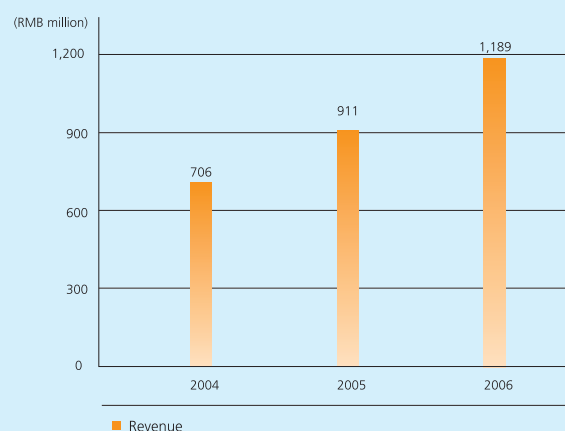
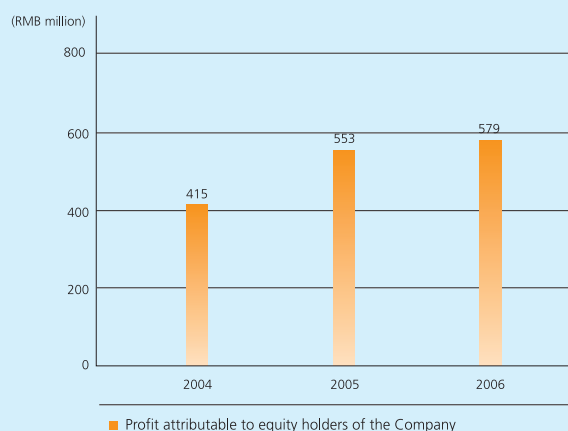
During the Reporting Period, our major work covered the following:

- strengthening the analysis of the highway network and the marketing activities in relation thereto to maintain sound operating performance;
- improving the internal control over toll operations and strengthening the monitoring management of toll collection to prevent toll revenue loss;
- adjusting the management structure of the operating system to enhance efficiency and reduce costs;
- reviewing and adjusting the management structure and processes of invested enterprises, as well as specifying different management focuses, with a view to safeguarding the benefits of the invested projects and enhancing the overall management standards;
- strengthening the progress and on-site management of projects under construction, and stimulating the enthusiasm and initiatives of project management offices and construction companies through various means such as project competitions, with a view to ensuring the fulfillment of project schedule objectives;

## Management Discussion and Analysis

- strengthening the management of project tender invitations and contracts for effective control of costs and enhancement of efficiency in project execution;
- improving the safety regulatory regime by starting with the implementation of precautionary measures, with a view to strengthening our control over processes to ensure works safety;
- raising the awareness of environmental protection and soil and water conservation;
- adopting the strategies of deviation management in line with the characteristics of the entrusted construction management projects for effective control of risks and utilisation of resources;
- actively pursuing new entrusted construction management projects and lobbying the government to establish a market-based and standardised mode for the entrusted construction business;
- acquiring additional interests in Qinglian Project and Meiguan Expressway and actively carrying out resources integration;
- conducting post-investment assessments of completed investment projects;
- conducting research on, and adoption of, different types of financing; adjusting debt maturity and interest structure; and segmenting capital management, with a view to reducing finance costs and safeguarding against risks associated with interest rates and liquidity;
- completing the work on performance management; intensifying the adoption of the open competition system for recruitment; and strengthening staff training and retention of talent;
- strengthening the communication with investors and government departments to nurture a sound external operating environment;
- implementing the vision on good corporate governance by increasing transparency in information disclosure.

The Group registered continued growth in its operations in 2006. 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 (basic) was RMB0.266 (2005: RMB0.253), representing an increase of 4.79% over the same period of the previous year.



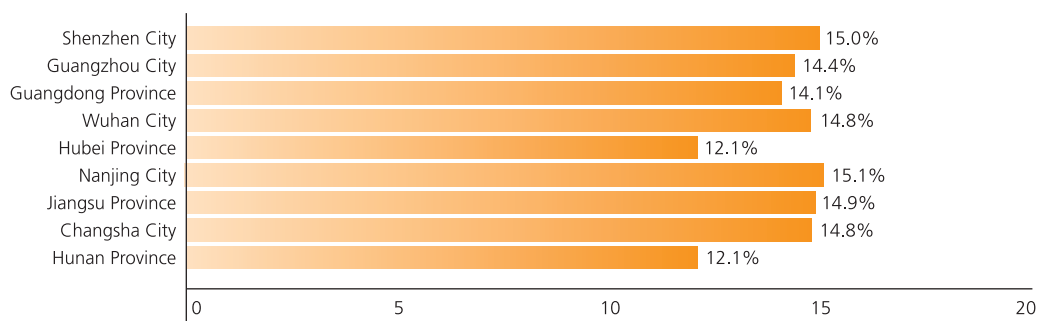


## THE ECONOMIC ENVIRONMENT IN 2006

Economic development is a key factor in determining the growth in traffic demand. The Company's existing operational toll highway projects are largely located in Shenzhen and the Pearl River Delta region in Guangdong Province, while it has three projects outside Guangdong Province which are also located in relatively economically-developed areas in China – Hubei Province, Hunan Province and Jiangsu Province, either located in or linking up with the capital cities of these provinces (Wuhan, Changsha and Nanjing). The economic development in these areas is, therefore, very closely associated with the operating performance of the highway projects operated and invested in by the Company. Nevertheless, other factors such as the specific location and function of each highway, changes in the neighbouring highway networks and industry development will have an impact of varying degrees on the operating performance of each highway.

With an increase of 10.5%<sup>1</sup> in GDP in 2006 over the previous year, China has been maintaining its rapid and stable growth momentum for many years. Based on the government work reports published by the local governments of various regions on the preliminary assessments of the local economic development in their regions, the projected GDP growths in these regions in 2006 were all higher than the national average:

**Projected GDP Growth by Province/City - 2006**



Economic prosperity is set to lead to frequent passenger and cargo flows, which will in turn result in rising traffic demand. Increasing economic cooperation and exchange between different regions are products of the realisation of comparative advantages of such regions, and it is an irreversible trend in economic development. In particular, the gradual implementation of CEPA and the Pan-Pearl River Delta Economic Circle has laid down a base for a new round of economic cooperation and division of labour and led to rising demand for trade and commercial flows as well as cargo transportation in the Pearl River Delta region. Besides, economic growth will also further advance the progress of urbanisation, improve the living standard of residents and drive the increase in vehicle ownership and demand for highway infrastructures, while improved highway networks and facilities will, in turn, further boost residents' demand and choice for certain modes of highway transportation.

In 2006, imports and exports of Guangdong Province and Shenzhen City totalled US\$527.2 billion and US\$237.4 billion respectively, representing increases of 23.2% and 29.9%<sup>2</sup> respectively. The port cargo throughput handled by Shenzhen City amounted to 176 million tons in 2006, representing an increase of 14.6%. Container throughput reached 18.47 million TEUs, representing an increase of 14.0%, enabling Shenzhen to secure its position as the world's fourth largest container port<sup>3</sup>.

Based on the figures released by the Shenzhen Traffic Police Bureau in January 2007, the local vehicle ownership of Shenzhen has reached 963,000 vehicles, representing an increase of 174,000 vehicles over early 2006 or an aggregate increase of nearly 450,000 vehicles over the past three years. In 2006, passenger and cargo turnovers handled by means of highway transportation in Shenzhen grew by approximately 18% and 20% respectively, with highway passenger volume topping the critical point of 100 million passenger trips<sup>3</sup> for the first time. The growth of medium- and short-distance passenger transportation, largely by means of vehicle transportation, is attributed to both the rapid development of the local tourism industry and increasingly frequent travels and the conducive role of an improving expressway network in Guangdong Province.

<sup>1</sup> Based on the preliminary audit findings published by the National Bureau of Statistics of China

<sup>2</sup> Based on the information released by the Statistics Bureaus of Guangdong Province and Shenzhen

<sup>3</sup> Based on the statistics provided by the Shenzhen Communications Bureau

### BUSINESS REVIEW AND ANALYSIS

Toll highway operation and investment are the primary source of the Group's earnings. As at the end of the Reporting Period, the Group operated and invested in 18 toll highway projects, of which 15 were already in operation and 3 were under construction. General information about each highway is set out in "Information of Highways" attached to this annual report.

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 Company. 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 of 5% interests in Meiguan Expressway. The Group also disposed of 42% interests in Geputan Bridge by means of auction.

### Toll Highway Operations

Toll Expressway	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)			Average daily toll revenue per km (RMB'000)
			2006	2005	Change (%)	2006	2005	Change (%)	
<b>Shenzhen Region:</b>									
Meiguan Expressway*3	100%	100%	90	76	17.8	878	795	10.4	46
Jihe West	100%	100%	54	46	15.7	776	740	4.9	37
Jihe East	55%	55%	70	56	24.5	904	787	15.0	39
Yanpai Expressway*1	100%	100%	16	N/A	N/A	252	N/A	N/A	17
Yanba A and B	100%	100%	14	12	22.5	153	115	32.9	8.1
Shuiguan Expressway	40%	40%	75	55	37.5	683	504	35.5	34
Shuiguan Extension*1	40%	—	25	32	N/A	163	229	N/A	31
<b>Other Regions in Guangdong Province:</b>									
Yangmao Expressway	25%	—	13	10	26.4	719	547	31.5	9.0
Guangwu Expressway	30%	—	7.7	6.1	25.7	224	165	36.0	6.1
Jiangzhong Expressway*1	25%	—	26	15	N/A	386	201	N/A	10
GZ W2 Expressway*1	25%	—	2.2	N/A	N/A	69	N/A	N/A	1.6
<b>Other Provinces in the PRC:</b>									
Wuhuang Expressway*2	55%	55%	24	23	2.8	887	728	21.9	13
Changsha Ring Road	51%	51%	5.5	5.4	2.5	54	58	-7.2	1.6
Geputan Bridge*4	42%	42%	2.9	2.7	4.7	22	20	10.7	38
Nanjing Third Bridge*1	25%	—	12	8.3	N/A	472	325	N/A	30

\*1 Shuiguan Extension, Yanpai Expressway, Jiangzhong Expressway, GZ W2 Expressway and Nanjing Third Bridge commenced toll operation 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 revenue 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 corresponding earnings generated from October to December 2006 from the 5% interests in Meiguan Company would be due to the Company. Details of the relevant transaction are set out in "Connected Transactions" in the "Report of the Directors".

\*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. Details of the relevant transaction are set out in "Project Investment and Development" below.

## Shenzhen Region

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 growths 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 (the figures of Shuiguan Extension and Yanpai Expressway were not computed, considering the comparability of figures). Given the different functions and the impact of varying degrees of other factors such as changes in the neighbouring traffic environment and highway network, each highway performed differently to a certain extent.

Upon the completion and operation of a number of highway projects such as Longda (Longhua-Dalingshan in Dongguan) Expressway, Changhu (Changping-Humen, both in Dongguan) Expressway, Shuiguan Extension, Yanpai Expressway and Nanping Freeway (Phase I) 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<sup>Note</sup>, thereby re-distributing traffic flows on the highways in these areas on an ongoing basis, there was certain impact on the revenue status of each highway for the current period:

Event	General impact on average daily toll revenue in 2006				
	Meiguan Expressway	Jihe East	Jihe West	Shuiguan Expressway	Shuiguan Extension
1. Operation of Yanpai Expressway and implementation of traffic control on Luosha Road from August 2006 <sup>Note</sup>	+1.3%	+14.8%	+7.6%	Positive	—
2. Operation of Changhu Expressway and Longda Expressway	-1.2%	-2.1%	-6.9%	—	—
3. Operation of Nanping (Phase I)	-4.7%	-4.5%	—	Positive	Negative
4. Implementation of traffic control on Huanggang Road and Nigang Road from September 2006 <sup>Note</sup>	-6.3%	—	—	—	Positive

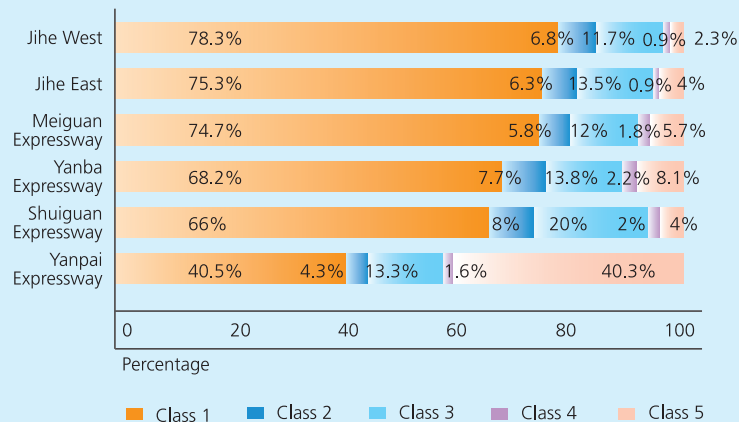
*Note:* To separate urban traffic from port-bound traffic and cross-border traffic so as to mitigate the impact of the travel of container vehicles in urban areas on the environment and livelihood of residents and raise highway network utilisation and traffic quality, a cargo traffic arrangement scheme was implemented by phase in Shenzhen in August and September 2006 by restricting large trucks from travelling on some main roads in the urban areas, including Luosha Road, Huanggang Road and Nigang Road, etc.

With the completion and operation of Shenzhen Western Corridor (Hong Kong-Shenzhen), Nanguang Expressway, Yanba C, Shenhui Coastal Expressway (Shenzhen-Huizhou) and some municipal roads in the near future, it is anticipated that traffic flows on highways will be further re-distributed. In general, improvements in highway network deployment and traffic arrangements are for meeting traffic demand arising from economic growth, and this will improve traffic condition and enhance travel efficiency, thereby stimulating the overall utilisation of the expressways in Shenzhen.

**Meiguan Expressway** has been in operation for more than ten years, with an average daily traffic volume of nearly 90,000 vehicles. The expressway maintained a steady growth in traffic volume, but the growth began to slow down in recent years because it has entered a mature phase of its operation. In 2005, the reconstruction works of a municipal road connecting with Meiguan Expressway had affected the travel efficiency on the connected section, forcing some large trucks to switch to other roads. However, after such an impact was removed in April 2006, the travel condition has been improving substantially for vehicles travelling to and from Meiguan Expressway, resulting in an increase in the number of vehicles above Class 3 travelling on the expressway.

**Jihe Expressway's** operating performance in 2006 was largely impacted by the above changes in the highway network. In addition, the nearly six-month renovation works carried out during the Year on Huiyan Expressway (Huizhou-Yantian in Shenzhen), which connects with Jihe East, had an adverse impact on the growth of traffic volume and toll revenue on Jihe Expressway. Such an impact was removed upon completion of the renovation works at the end of 2006. Since compared to Jihe West, Jihe East had a larger proportion of non-cross-border city-bound vehicles, the growth of traffic volume on Jihe East was relatively higher.

**Vehicle category mix of principal toll highways during the Reporting Period**



**Yanpai Expressway** acts as an exclusive passage for Yantian Port to divert the port's traffic. The growth in traffic volume on the expressway is dependent upon the increase in container vehicles in Yantian Port. In 2006, the container throughput handled by Yantian international container terminal reached 8,296,000 TEUs, representing an increase of 13%<sup>1</sup>. To attract vehicles to Yanpai Expressway and in line with the Shenzhen Municipal Government's traffic arrangements for improving cross-border cargo transport and port cargo transport diversion, the Group has launched a series of marketing activities since the end of June 2006 by offering a price discount to cargo vehicles running on Yanpai Expressway, the connected Jihe Expressway and Shuiguan Expressway. The average daily number of container vehicles running on Yanpai Expressway currently accounts for more than 60% of container vehicles travelling to and from Yantian Port. The steady growth in port throughput will provide an assurance for the operating performance of Yanpai Expressway.

Along **Yanba Expressway** a number of new factories have been built, with increasing industrial production activities in nearby areas coupled with the growing tourism industry in the eastern area and increasing number of tourists, which all fuelled the rapid growth of traffic volume on Yanba Expressway. To facilitate the travel of Shenzhen residents to and from the eastern coast for leisure and vacationing, the government entered into an agreement with the Company, pursuant to which the government will, from February 2007, pay the tolls, by means of a method mutually agreed upon, collectively for all vehicles travelling between the Yantian-to-Dameisha section on Yanba Expressway. In 2006, the average daily toll revenue generated on



<sup>1</sup> Based on the statistics provided by the Shenzhen Communications Bureau

the Yantian-to-Dameisha section was approximately RMB18,000. The management believes that the change in the toll collection method for the 3 km section will not have a major impact on the operation of Yanba Expressway.

Operation of new roads and the implementation of a traffic arrangement scheme during the Reporting Period had a positive impact on **Shuiguan Expressway**, so much so that its growth rate during the Year was far above the average growth rate in the Shenzhen area. However, following the operation of Nanping (Phase I), some traffic on **Shuiguan Extension** was diverted to Nanping (Phase I), and the commencement of works on the Longjing Interchange in the first half of the Year also reduced traffic on the expressway. Interchanges connecting with Shuiguan Expressway and Yanpai Expressway will be completed successively for operation in 2007, which will act as a direct stimulus to the growth of traffic volume on Shuiguan Expressway. Continuously benefitting from the traffic arrangement scheme implemented in September 2006, Shuiguan Extension is expected to regain its increase in traffic volume.

#### Other Regions in Guangdong Province

As at the end of the Reporting Period, the four projects invested in by the Company as a minority shareholder in other regions in Guangdong Province have all been in operation. However, they will not make any substantial contribution to the Company's revenue and profit in the short term, given that they are still at the initial stage of operation and that the Company holds only 25%-30% of the interests in them. Among these expressways, **Yangmao Expressway** and **Guangwu Expressway**, which have been operating for two years, came up beyond the Company's annual expectations in terms of their operating performance and results, as a result of increased market awareness and an improved economic environment. Opened to traffic in November 2005, **Jiangzhong Expressway** registered increases of 69% and 92% in average daily traffic volume and average daily toll revenue respectively for the Year compared to the initial stage of its operation. During the Reporting Period, **GZ W2 Expressway** was opened to traffic on 19 December 2006 ahead of schedule following the approval of its toll rates by the Guangdong Provincial Government. The current average daily toll revenue from this expressway is approximately RMB68,600. The two main overline interchanges connecting GZ W2 Expressway with Guangsan (Guangzhou-Sanshui) Expressway are scheduled for operation by the second quarter of 2007 and are anticipated to achieve operating performance in line with expectations then.

Qinglian Class 1 Highway, located in the northern part of Guangdong, is being reconstructed into an expressway. During the reconstruction, the highway will be closed by section for construction works, subject to project progress, while the sections which remain open will still allow traffic and generate toll revenue at the standard of a Class 1 highway. In 2006, the average daily mixed traffic volume (inclusive of traffic volume charged by annual tickets) on **Qinglian Project** amounted to 20,000 vehicle trips, while the average daily toll revenue was approximately RMB322,000 (2005: RMB364,000). The revenue level is expected to fall substantially in 2007 with the proceeding of the reconstruction works. Please refer to the relevant contents in "Project Construction and Management" and "Project Investment and Development" below for details of the acquisition and reconstruction progress on Qinglian Project.

*Q: Qinglian Project currently generates an annual revenue of only approximately RMB130 million. Why did the Company spend nearly RMB2.3 billion on acquiring a 76.37% interests in it?*

*A: The Group invested in Qinglian Project because upon completion of the reconstruction into an expressway, Qinglian Class 1 Highway will serve as a safer and more comfortable road for vehicles travelling between Guangdong Province and Hunan Province and the inland region so that the advantage of its existing location will be fully exploited, thereby generating satisfactory investment return for the Group. Based on the traffic forecast report submitted by independent traffic consultant Parsons Brinckerhoff (Asia) Limited, a consultant engaged by the Company for the acquisition of this project, the revenue for the first year following the operation of Qinglian Expressway is estimated at more than RMB800 million under conservative assumptions. In March 2006, Qinglian Company was granted by the Guangdong Provincial Government with a 25 years' toll collection right to Qinglian Expressway, giving even better prospects to the expected return of the project. The traffic forecast report was published in the circular to the shareholders dispatched on 25 April 2006 and is accessible on the websites of the stock exchange and the Company. The forecasts by the traffic consultant were, of course, made on the basis of a number of assumptions and the consultant's judgement over traffic volume, tolls and their growth rates as well as distances, etc, and contain some uncertainties. The Company's management will carry out assessment on a regular basis and make a reasonable judgement in line with the changes in relevant factors to safeguard the Company's investment benefits.*



*Wu Ya De, Director and General Manager*

### Other Provinces in the PRC

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 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, a relatively high level. Regulations of the Hubei Provincial Government have been enforced on expressways within the inter-road network from 20 October 2006 by revising the toll standards upwards by 10% on the basis of the existing standards (details of which are set out in "Information of Highways" attached to this annual report). However, the increased portion of toll revenue must be turned in to the provincial transport bureau in accordance with the regulations and will not be accounted for as toll revenue from highways. Such regulations will be tried out for a year and is expected to have an adverse impact on the traffic volume growth. However, since the commencement of operations of Jingdong (Jingzhou-Dongyue) Expressway and Hanxiao (Wuhan-Xiaogan) Expressway in September and December 2006 respectively, the traffic networks in these places 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 standards have been revised for expressways in Hunan Province since October 2005 by reclassifying vehicles types and reducing toll rates accordingly. As a result, Changsha Ring Road saw a fall in its average daily toll revenue during the Reporting Period.

**Nanjing Third Bridge** performed satisfactorily in general, registering increases of 47% and 45% in average daily traffic volume and average daily toll revenue respectively for the Year, compared to the initial stage of its operation in the fourth quarter of 2005. Upon the operation of Ninglian (Nanjing-Lianyungang) Expressway connecting with Nanjing Third Bridge in the north in December 2006, it is anticipated that the improved highway network will act as a direct positive stimulus to the operating performance of Nanjing Third Bridge.

**Q:** *The Company currently has 15 toll highway projects in operation. How can it carry out effective management?*

**A:** *For projects in Shenzhen City in which it has a controlling stake, the Company manages directly the toll stations through the operations management department; for projects in which it does not have a controlling stake, the Company assigns management staff to participate in the operation of the project companies and to execute supervisory functions as a shareholder.*

*The Company has been striving to explore and seek a model of operations management in line with the actual condition of the Company. This year, we have revised the operations management structure by removing the operations centre; establishing two business departments - operations management department and road asset management department; further specifying the functions, duties and limits of authority of the Operations Controller, various departments and toll stations; and enhancing the supervision and appraisal of toll stations to raise management standards.*

*During the recent two years, the Group has prioritised its tasks in a timely manner in the operation of toll highways, to cope with the impact brought about by various changes such as an improvement of the highway network, the implementation of the inter-road network toll collection scheme and an expansion of the scale of the Company's external investments. On the one hand, the Company makes sure that the toll revenue objective is fulfilled by reinforcing the analysis of highway networks and by carrying out targeted marketing activities. On the other hand, it reviews and revises the management structure and processes for the invested enterprises, and improves the Group's management of the invested enterprises by strengthening training, management and supervision of dispatched management staff, thereby ensuring greater investment profits. This year, the Company received satisfactory feedback from the marketing activities launched for Yanpai Expressway. Moreover, with respect to the implementation of the inter-road network toll collection scheme, the Company has adopted corresponding measures to make sure that operating objectives are fulfilled, such as continuously reviewing and improving the internal control and operational rules of the toll business, strengthening the monitoring and management of toll collection, organising training for toll collection staff, and closely coordinating with relevant management offices to make sure that toll revenues are distributed promptly and accounted for securely.*



Li Jian, Operations Controller

## 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 into an expressway. It is anticipated that these projects will be completed and opened to traffic by the end of 2008, and the total mileage of the Group's expressways in operation will more than double the current total mileage.

As at the end of the Reporting Period, an aggregate investment amount of approximately RMB750 million had been utilised for **Nanguang Expressway**. The project management office proceeded aggressively with land requisition, demolition and relocation which created a favourable condition for full commencement of works. As a result, 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 on 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 which is currently under construction in Huizhou. Approximately 10% of the subgrades and bridge-culvert engineering works on 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.

**Q:** *How can the Company make sure that Qinglian Expressway and Nanguang Expressway are operational on schedule in 2008?*

**A:** *The reconstruction of Qinglian Class 1 Highway into an expressway and the construction of Nanguang Expressway are the key construction and management projects of the Company in the next two years. Provided that quality and safety are assured and environmental protection objectives are fulfilled, the completion of the projects on schedule is crucial to the reduction of financial expenses and management costs of the projects and the assurance of investment gains, which will lay a sound foundation for the Group to achieve growth in leaps and bounds in line with established objectives. This is why the Company's management takes the construction and management of these two projects very seriously, and delegates its duties to specific positions while reinforcing control over phase-by-phase objectives and on-site management order.*

*In addition to the full support offered to the projects in terms of construction funds, human resources, and so forth, the Company has organised a competition for the two projects and formulated incentive schemes exclusively for the two projects, laying down specified reward and punitive measures to motivate initiatives and sense of responsibility from project management staff so as to ensure that the overall objectives will be fulfilled.*

*Besides, by taking advantage of the prime seasons for work commencement in autumn and winter, the project management office has stimulated the initiatives of all units through various means, so that they will devote more involvement and rationalise their works arrangements. The project management department has also reinforced the supervision, inspection, progress, on-site management of the projects as well as the management over invitation of tenders and contracts for projects, thereby exercising effective cost control and enhancing execution efficiency.*



*Ge Fei, Engineering Controller*

### **Entrusted Construction Management – Business of “Entrusted Construction System”**

The “Entrusted Construction System” for government-invested projects refers to the government’s appointment, through specified procedures, of project management companies with relevant qualities or other enterprises with relevant project management capabilities to organise and manage the construction of government-invested projects. The “Entrusted Construction System” defines the rights, duties and obligations of each party in a contract and helps the government exercise control and constraint over anticipatory objectives of the projects so as to control the quality, construction schedules and construction costs more effectively and to ensure efficient utilisation of financial funds. At present, a number of local governments are gradually applying the model of the “Entrusted Construction System”, which will offer a right opportunity to the Group to “export” its technology and experience built in road project management.

Appointed by the Shenzhen Municipal Government or its subordinate district governments, 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 Company’s management achievement is not only demonstrated in the provision of a safe, efficient and comfortable traffic environment for the community, the project has also been named the “Model Project for Development and Construction Projects on Water and Soil Conservation” by the Ministry of Water Resources of China, reflecting the Company’s tireless efforts devoted to environmental protection. 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 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 ancillary 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 customs checkpoint station accounted for approximately 10% of the estimated total investment. The checkpoints are scheduled for completion by the middle of 2007.

Please refer to the relevant contents in “Analysis of Operating Results” below for details of recognition of income during the Reporting Period.



## Project Investment and Development

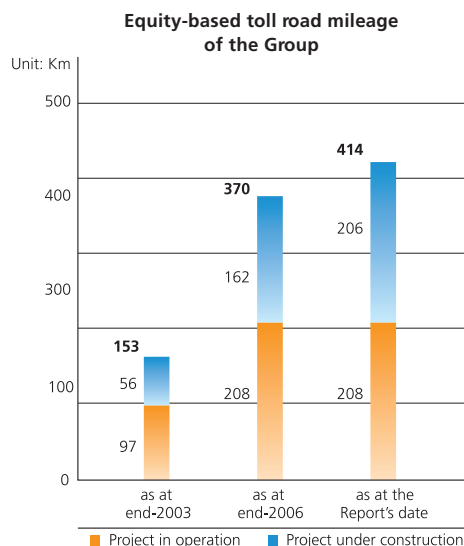
During the Reporting Period, the Company entered into agreements on proposed acquisitions of additional 20.09% interests in Qinglian Project and 5% interests in Meiguan Expressway. The operating details of these projects during the Reporting Period have been described above. Details of the relevant transactions are set out in "Connected Transactions" of the "Report of the Directors" on page 76 of this annual report.

The disposal by the Company to the Shenzhen Municipal Government of two Class 1 highway assets in 2003 had a substantial impact on the Company's asset size and operating profit. To ensure its sustainable development and results growth, the Company has been actively working on the Shenzhen toll highway sector over the past three years and aggressively seeking opportunities for local project developments and acquisitions, while carrying out a number of quality toll highway project investments and acquisitions in other regions. At present, the total equity-based mileage of the Group's toll highways has increased from 153 km at the end of 2003 to the current over 400 km, while business has been expanded from Shenzhen to Guangdong Province and other economically-developed regions in China.

Formalities relating to the acquisition of interests in Qianlian Project were completed in January 2007. The Group's interests in Qinglian Company has been increased from 56.28% at the end of 2006 to 76.37%, entitling the Group to appoint 12 directors out of 15 to the board of directors of Qinglian Company and to exercise majority control over Qinglian Company. From an accounting viewpoint, 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 earnings base.

In view of the Group's rapidly expanding investment size and the substantial proportion of projects under construction within the existing investment portfolio, the Company's management, during the recent two years, has been gradually switching its focus of project investment to retention of project resources and optimisation and integration of existing resources. The Company will conduct thorough assessments of the impact of new investment opportunities in various respects such as the overall development of the Company, the compatibility of these projects with the Company's strategic objectives, and the security of the Company's financial resources. The Company will be prudent in making decisions on project investment.

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 upon approval by the Shenzhen Municipal Government. The outer ring expressway, the last one out of the six expressways under the planning of the Shenzhen Municipal Government, situated in the northern part of Shenzhen, with the main line running east-to-west spanning across Shenzhen's Bao'an and Longgang Districts and Dongguan City. The Company is proceeding with the survey, design on the Hengping section and other preparatory work and will, based on the findings of relevant work, determine the mode of investment and development plan. The acquisition of the proprietary ownership of the project 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.



## Management Discussion and Analysis

During the Reporting Period, the Company carried out reviews and assessments for seven major projects invested in recent years by analysing whether their operating performance meets the expectations set at the time of investment, the changes and impact of the occurrence of risk factors as well as problems existing in or arising from the jointly run operations. The Company 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 October 2006, a resolution was passed by the Board to approve Mei Wah Company of the disposal of the entire 42% interests in Geputan Bridge by means of an open auction on an assets and equity exchange, and for a consideration within a range set on the basis of the valuation findings by a valuer. The auction was completed in January 2007. Mei Wah Company entered into a transfer agreement with an independent third party and the consideration was RMB10,800,000. The relevant transaction has not been completed as at the date of this annual report. The Company believes that the timely disposal of the Geputan Bridge 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.

### **Other Businesses**

The Company invests in Advertising Company which is engaged in the businesses of billboard leasing, advertising agency, design production and related services, utilising land-use rights alongside the Group's toll highways and toll stations. During the Reporting Period, the Advertising Company recorded a revenue of RMB15,694,000 and a net profit of RMB4,825,000, representing increases of 44% and 78% respectively over 2005.

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 2006. Consulting Company recorded a revenue of RMB23,508,000 and a net profit of RMB1,868,000, representing increases of 96% and 185% respectively over 2005.

## FINANCIAL REVIEW AND ANALYSIS

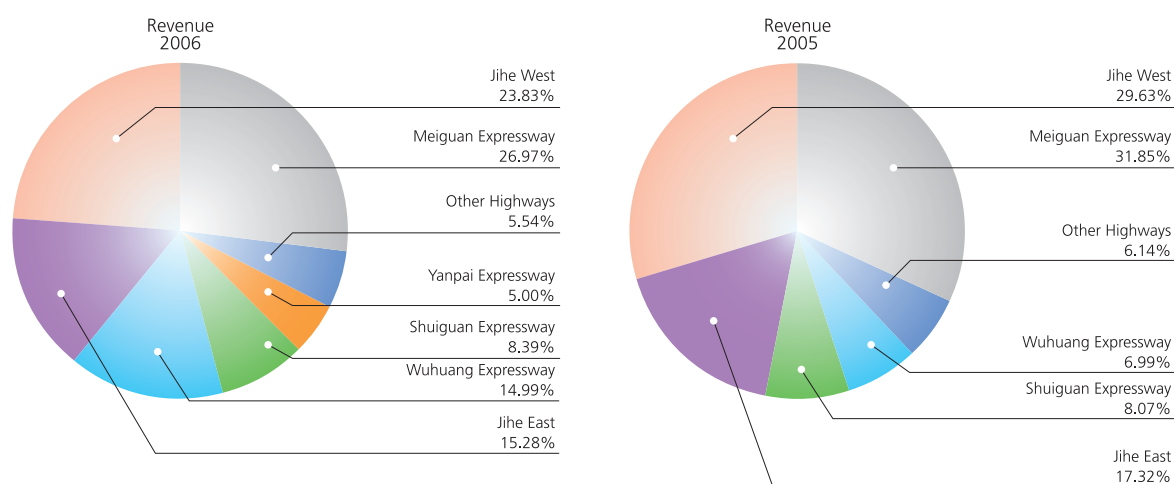
### Analysis of Operating Results

Principal financial indicator	(RMB'000)		
	2006	2005	Increase/ decrease (%)
Revenue	1,188,556	911,482	30.40%
Operating expenses	488,376	298,135	63.81%
Other income	97,858	191,930	-49.01%
Operating profit	759,074	766,916	-1.02%
Share of profit (loss) of associates	(16,948)	(24,015)	-29.43%
Finance costs	98,397	100,621	-2.21%
Income tax expenses	49,900	80,071	-37.68%
Profit attributable to equity holders of the Company	579,090	552,622	4.79%

### Revenue

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 increased 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 increased by 12.17% as compared to 2005.

### Toll Revenue Mix



During the Reporting Period, the source of growth in the Group's toll revenue was mainly the increase in traffic volume on the Group's major toll highways. Excluding the effect from Yanpai Expressway, the average daily mixed traffic volume of the Group's toll highways in 2006 recorded an overall increase of 21.60% as compared to 2005, riding on the continuous growth of the PRC economy and the increase in the number of vehicles. For the analysis on the operating performance of the Group's major toll highways, please refer to "Business Review and Analysis" on pages 18 to 22 of this annual report.

## Management Discussion and Analysis

The growth rate of toll revenue was slightly lower than that of traffic volume for the Reporting Period, mainly due to the slight drop in average toll revenue per vehicle for the Group's toll highways during 2006 as compared to 2005. Due to the slight increase in the proportion of small vehicles in the Group's toll vehicle mix as compared to 2005, the downward adjustment of toll co-efficient for class 5 vehicles for toll highways in Guangdong Province since 1 June 2005 and the toll concessions for trucks using Yanpai Expressway and the connecting Jihe Expressway and Shuiguan Expressway implemented by the Group since June 2006, the average toll revenue per vehicle for the Group's toll highways in the Shenzhen area dropped by 4.81% as compared to 2005. Nevertheless, the adoption of the toll-by-weight system by Wuhuang Expressway since April 2006 resulted in an 18.62% increase in its average toll revenue per vehicle as compared to 2005. As a result, the overall average toll revenue per vehicle for the Group's toll highways dropped slightly by 3.40% as compared to 2005.

Toll highway	Average toll revenue per vehicle (RMB)			Change in average daily mixed traffic volume	Change in average daily toll revenue
	2006	2005	Change		
Meiguan Expressway	9.80	10.42	-5.95%	17.77%	10.39%
Jihe West	14.42	15.92	-9.42%	15.72%	5.20%
Jihe East	12.90	13.93	-7.39%	24.46%	15.28%
Yanba Expressway	9.66	9.95	-2.91%	22.53%	28.61%
Shuiguan Expressway	9.07	9.21	-1.52%	37.51%	35.46%
Yanpai Expressway	16.24	N/A	N/A	N/A	N/A
Changsha Ring Road	9.79	10.81	-9.44%	2.52%	-7.16%
Wuhuang Expressway**	37.72	31.80	18.62%	2.77%	21.90%
<b>Total</b>	<b>13.15</b>	<b>13.61</b>	<b>-3.40%</b>	<b>27.54%*</b>	<b>23.21%</b>

\* (Total average daily mixed traffic volume of all toll highways in 2006) / (Total average daily mixed traffic volume of all toll highways in 2005)

\*\* 2005 figures for Wuhuang Expressway are presented in full-year terms

### Taxes on Revenue

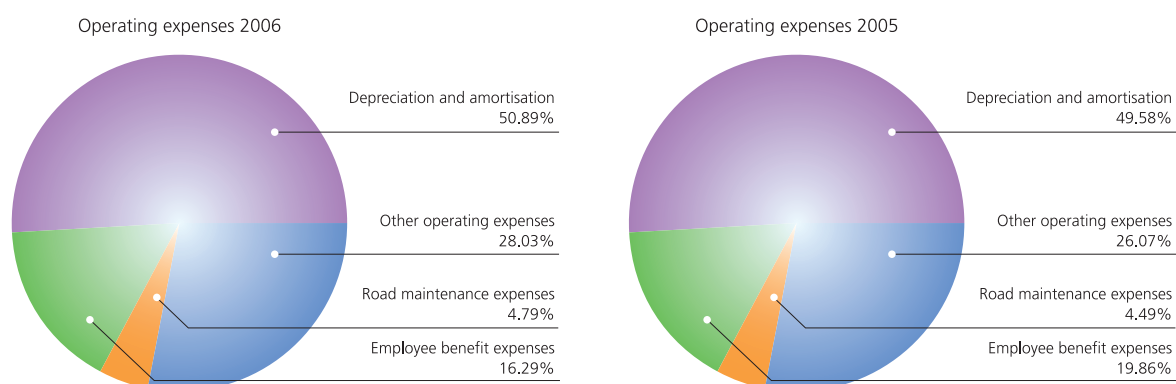
In accordance with the "Notice Concerning Policies Regarding Business Tax on Toll Income of Highway Operation Enterprises by the Ministry of Finance and the State Administration of Taxation", starting from 1 June 2005, the business tax on the Group's toll revenue derived from expressways has been reduced to 3% (before adjustment: 5%), and hence during the Reporting Period, business tax and surcharges increased by only 1.57% as compared to 2005, less than the rate of increase in turnover.

### Operating Expenses

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 reversal 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. Factors contributing to the increase include the following:

- 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. During the Year, the Group appointed independent professional institutions to perform updated forecasts on the future traffic flows for the remaining operation periods 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 the future traffic flows for the remaining operation periods of the toll highways, and corresponding adjustments were made. The adjustments have reduced the depreciation expenses for the Reporting Period by RMB8,979,000.
- Employee benefit expenses increased by 4.60% to RMB70,255,000, mainly due to the commencement of Yanpai Expressway and increase in staff at the headquarters and toll stations.
- Road maintenance expenses increased by 35.99% to RMB20,644,000. With the growth of traffic volume and aging of roads, the Group has put more resources on maintenance to ensure good road conditions and traffic environment. However, on the whole, the percentage of maintenance expenses over toll revenue remained reasonable.
- Other operating expenses amounted to RMB177,944,000. Excluding aforesaid incomparable factors such as the 2006 impairment provision for highway assets and the 2005 reversal of the impairment provision for Ropeway Project, 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 entrusted management fee of Wuhuang Expressway was charged at a fixed rate of 25.25% of its toll revenue.

### Structure of Operating Expenses



Note: The chart of structure of operating expenses excluded such incomparable factors as impairment provision of toll highway assets in 2006 and reversal of impairment provision for Ropeway Project in 2005.

### Impairment Provision for Highway Assets

During the Year, the Company appointed independent professional institutions to perform updated forecasts on the future traffic flows for the remaining operation periods of the Company's toll highways, and appointed a valuer to assess the value in use of Changsha Ring Road over its remaining operating period in accordance with the aforementioned forecasts. According to the valuation for Changsha Ring Road, the Group made an impairment provision of RMB57,000,000 during the Reporting Period for the the Group's 51% interests in Changsha Ring Road. After deducting the impact of the corresponding deferred income tax assets, the net effect to profit for the Reporting Period decreased by RMB42,750,000. As at 31 December 2006, the aggregate impairment provisions for the highway assets of Changsha Ring Road amounted to RMB134,000,000, representing 32.68% of the highway asset's book value, while the corresponding balance of deferred income tax assets amounted to RMB32,656,000. The Directors believe that regular review of traffic forecasts and recoverable amounts 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.

## Management Discussion and Analysis

### Other Income

During the Reporting Period, the Group's other income decreased by 49.01% to RMB97,858,000 as compared to 2005, mainly attributable to the following:

	(RMB'000)		
	2006	2005	Change in amount
Interest income in respect of long-term receivables discounted in connection with the disposal of two Class 1 highways	—	13,054	-13,054
Income recognised in respect of recognition of the excess of fair value of share of the acquired net assets of the jointly controlled entity, JEL Company, over the cost of acquisition	—	34,955	-34,955
Income from entrusted construction management services	<b>31,468</b>	72,830	-41,362
Deferred government subsidies	<b>20,947</b>	27,356	-6,409
Bank deposit interest income	<b>6,313</b>	9,798	-3,485
Subsidies granted by the Shenzhen Municipal Government in respect of the cancellation of certain preferential policies on the income tax of the Group	<b>12,789</b>	10,309	2,480
Income from advertising operations	<b>15,694</b>	10,914	4,780

During 2006, an income of RMB31,468,000 from entrusted construction management services was recognised, representing a decrease of RMB41,362,000 as compared to 2005. The main-line works of Nanping (Phase I) was open to traffic by the end of June 2006, but part of the major works had yet to be computed and recognised as at the end of the Reporting Period. Based on the completion progress determined with reference to the actually incurred costs as a percentage of the total budgeted construction costs, an income of RMB29,203,000 was recognised in respect of the entrusted construction management services while the profit from entrusted construction management services amounted to RMB21,259,000, representing a decrease of RMB38,709,000 as compared to 2005. As no reliable estimate could be made in respect of the management results for the Wutong Mountain Project, and the Directors believe that future reimbursements of management expenses incurred relating to this project were probable, the Company recognised income and expenses for the project on the basis of actual management expenses of RMB2,265,000 incurred during the Reporting Period. In addition, as certain sections of Hengping Class I Highway will be included in the planning of the Shenzhen Outer Ring Expressway, the construction of Hengping Project has been suspended as requested by the entrusting party and thus no income or expenses were recognised during the Reporting Period. As agreed in the management contract, if the responsibility for the suspension of works does not fall on the part of the project administrator, the management expenses incurred by the project administrator and the verified claims actually paid to construction companies may be reimbursed accordingly by the entrusting party. After taking into account the legal consultants' opinion, the Directors consider that it is not likely for the Company to assume entrusted construction management liabilities for the project or incur a substantial loss, and therefore it is not necessary to accrue loss for entrusted construction management services.



Q: How is the income from "entrusted construction management" projects calculated?

A: "Entrusted construction management" is a newly developed business on the market, whereby the management income entitled to a project management company pursuant to the existing terms of the contract entered into is dependent upon the savings on project expenditure, i.e. the difference between the budgeted construction costs and actually incurred project expenditure, of which:

**Budgeted construction costs:** Computed on the basis of the agreed construction costs calculation method in an entrusted construction management contract; calculated and determined on the basis of construction design drawings, policies, legislation as well as relevant fixed unit prices and unit prices agreed upon in the contract regarding road construction;

**Project expenditure:** Comprising the construction costs of each single project, whereby the construction costs of a single project are determined by unit prices and quantity of works: the unit prices are specified in the contract terms reached pursuant to tendering procedures, and quantity of works is computed by quantity of works under the construction drawings or the quantity of works actually generated.

Taking Nanping (Phase I) and Wutong Mountain Project as examples, if an actual project expenditure saving or excess falls within 2.5% of the budgeted construction costs, the saving or excess will all be shared or borne by the Company; if the saving or excess falls beyond 2.5% of the budgeted construction costs, the portion of saving or excess beyond will all be equally shared or borne by the Company and the Shenzhen Communications Bureau.

When reasonable and reliable estimates of the budgeted construction costs and relevant project expenditures can be made for the completed portions of a project, the Company will recognise the revenue, expenses and profits for the current period on the basis of the percentage of the completed portions. If reliable estimates of the relevant completions cannot be made yet and when management expenses incurred are anticipated to be reimbursed in future, the Company will recognise an equal amount of revenue on the basis of the management expenses incurred, and will not realise profit contribution for the current period.

To make sure that a reasonable and reliable computation of the achievement of the entrusted construction management business can be made, the Company has engaged an independent highway construction cost consulting firm to be in charge of preparing the relevant budgets, and an independent supervisory firm and supervisory engineers to be in charge of reviewing project expenditures. However, the budgeted construction costs and project expenditures are ultimately subject to verification or review by the government's audit department.



Gong Tao Tao,  
Financial Controller

## Operating Profit

The Group recorded an operating profit of RMB759,074,000 during the Reporting Period, representing a decrease of RMB7,842,000 or 1.02% as compared to 2005. Excluding the aforementioned incomparable factors regarding impairment provision, the operating profit for the Reporting Period actually increased by RMB89,158,000 or 12.26% 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 as that of 2005.

## Share of Results of Associates

During the Reporting Period, the Group's share of the results of associates amounted to RMB-16,948,000, including the shares of profits or losses after tax of Yangmao Company, Guangyun Company, Jiangzhong Company, Huayu Company, Nanjing Company, GZ W2 Company, Consulting Company and Qinglian Company. The share of the results of associates saw a decrease of RMB7,067,000 in losses when compared to 2005, mainly due to increase in revenue of the Company's invested toll highways which led to increased shares of profits or reduced shares of losses for the Group. The information on associates is set out in note 11 to the Financial Statements.

## Management Discussion and Analysis

### Earnings before Interest and Taxation (“EBIT”)

During the Reporting Period, contributions by the Group’s principal operations to EBIT were as follows:

Principal operation	(RMB'000)			
	2006	2005	Change in amount	Change (%)
Meiguan Expressway	246,706	213,360	33,346	15.63%
Jihe East	138,658	117,535	21,123	17.97%
Jihe West	228,898	211,339	17,559	8.31%
Yanba Expressway	28,500	25,193	3,307	13.13%
Shuiguan Expressway	70,597	42,913	27,684	64.51%
Yanpai Expressway	34,609	N/A	34,609	N/A
Wuhuang Expressway	75,582	24,840	50,742	204.28%
Other highways (Note 1)	(73,760)	(21,052)	(52,708)	(Note 1)
Entrusted construction management business	21,259	59,968	(38,709)	-64.55%
Highway-related businesses (Note 2)	16,758	79,037	(62,279)	(Note 2)
<b>Subtotal</b>	<b>787,807</b>	<b>753,133</b>	<b>34,674</b>	<b>4.60%</b>
Unallocated expenses of the Group (Note 3)	(45,681)	(10,232)	(35,449)	(Note 3)
<b>Total</b>	<b>742,126</b>	<b>742,901</b>	<b>(775)</b>	<b>-0.10%</b>

Note 1: Other highways include Changsha Ring Road and the highways operated by associates. The 2006 figure includes a RMB57,000,000 impairment provision made for the Changsha Ring Road assets during the Reporting Period.

Note 2: Income from highway-related businesses includes earnings from Advertising Company and bank deposit interest income, etc. The 2005 figure also includes a total income of RMB48,009,000 attributable to both income from acquisition of a jointly controlled entity and discounted interest income from installment receivables.

Note 3: The relevant expenses for 2005 include the RMB40,000,000 reversal of impairment provision for the Ropeway Project.

### Finance Costs

The Group’s finance costs for 2006 amounted to RMB98,397,000, representing a decrease of 2.21% as compared to 2005. Such decrease was mainly attributable to an RMB9,155,000 exchange gain arising from the Company’s foreign currency borrowings and a decrease in the Company’s average borrowing costs as compared to the previous year.

### Income Tax Expenses

The Group recorded RMB49,900,000 in income tax expenses during the Reporting Period (2005: RMB80,071,000), representing a decrease of 37.68% as compared to 2005. According to Guo Shui Han [2006] No.452 “Reply on Issues Regarding the Fixed Asset Depreciation Approach” (國稅函[2006] 452 號《關於固定資產折舊方法有關問題的批覆》) issued by the State Administration of Taxation on 14 May 2006, the units-of-usage basis is deemed straight-line depreciation approach, and enterprises adopting the





units-of-usage basis for the depreciation of fixed assets may report tax in accordance with Article 27 of "Rules on Pre-tax Deductions for Corporate Income Tax" (《企業所得稅稅前扣除辦法》). Domestic enterprises of the Group, including the Company, Meiguan Company and Shenchang Company, have already received approval from the relevant local taxation authorities for their applications to adopt the units-of-usage basis to calculate depreciation for the purpose of pre-income tax deductions. After a review by the Group on the deferred income tax liabilities for such enterprises as at 31 December 2005, an amount of RMB42,134,000 of deferred income tax liabilities was reversed and a corresponding amount was deducted from the income tax expenses for the Reporting Period. The adoption of the units-of-usage basis to calculate depreciations for pre-income tax deductions by the Group's foreign enterprises including Jihe East Company and Qinglong Company is still pending approval by the relevant local taxation authorities.

### **Loss from Discontinued Operation for the Year**

During the Reporting Period, the Directors have approved Mei Wah Company's disposal of its 42% interests in Yungang Company and the transaction is expected to be completed by mid-2007. Accordingly, the assets and liabilities related to such interests are separately presented in the consolidated balance sheet as disposal group classified as held for sale, and the operating results related to this interests are also separately presented as a discontinued operation in the consolidated income statement. Yungang Company originally reported a book profit of RMB1,086,000 during the Reporting Period. After recognising a loss computed based on the lower of carrying amount and fair value less costs to sell of the assets in disposal group amounting to RMB4,142,000, a net loss of RMB3,056,000 as discontinued operation was reported for the Year. Please refer to note 15(a) to the Financial Statements for details of discontinued operation.

### **Profit Attributable to Equity Holders of the Company**

Despite a decrease in entrusted construction management services income and an impairment provision for the Group's highway assets during the Reporting Period, there was 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 profit attributable to equity holders of the Company of RMB579,090,000, representing an increase of 4.79% as compared to 2005.

## **Analysis of Financial Position**

### **Non-current Assets**

The Group is principally engaged in the operation of toll highways and its non-current assets comprise mainly fixed asset investments, equity investments and debt investments in high-grade toll highways. As at 31 December 2006, the net amount of the Group's non-current assets is RMB9,768,011,000 (2005: RMB8,993,846,000), representing an increase of 8.61% as compared to the end of 2005. Such increase was mainly attributable to the increase in investment in the construction projects of Nanguang Expressway, Yanpai Expressway and Yanba C as well as the capital expenditure for investing in the associates of Jiangzhong Company and GZ W2 Company during the Reporting Period. Such increase includes an increase of RMB690,637,000 in property, plant and equipment, an increase of RMB167,802,000 in construction in progress and an increase of RMB39,762,000 in interests in associates. During the Reporting Period, the RMB42,544,000 investment in the Ropeway Project originally presented as construction in progress and the RMB12,431,000 net value of Yungang Company's assets originally presented as property, plant and equipment were all classified as non-current assets and disposal group classified as held for sale. New investments made during the Reporting Period will become new sources of profit growth for the Group in future. Details of the new investments made during the Reporting Period are set out in "Business Review and Analysis" on page 18 to page 26 of this annual report.



### 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 Reporting 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 the agreements. The increase in current liabilities during the Reporting Period was mainly attributable to the increase in short-term borrowings.

As at 31 December 2006, the net current liabilities of the Group amounted to approximately RMB1,572,697,000. The Directors have assessed and determined that the Group can generate a positive and increasing cash flow from its operations and maintains solid relationships with banks. Moreover, the Group's bank credit facilities of approximately RMB4.9 billion available as at 31 December 2006 and the Company's plan to seek other financing channels should fulfill the capital need to meet the Group's borrowing and funds commitments. Based on such facts, the Directors believe that there is no going-concern issue of the Group.

### Non-current Liabilities

As at 31 December 2006, non-current liabilities of the Group amounted to RMB1,590,676,000, which included the following:

- Long-term borrowings amounted to RMB1,114,989,000 (excluding the portion due within one year), including bank borrowings of RMB1,096,961,000 and the Spanish government loans of RMB18,028,000.
- Deferred tax liabilities amounted to RMB125,226,000. The Group's net deferred tax liabilities amounted to RMB92,570,000, comprising deferred tax liabilities of RMB43,651,000 and RMB83,453,000 respectively arising from the temporary differences between the carrying amounts of toll roads and toll road operating right and their different tax bases; and deferred tax assets of RMB34,534,000 in respect of the impairment provision for assets in the Ropeway Project and Shenchang Company.
- The balance of government subsidies amounted to RMB350,461,000, which included the subsidies of RMB270,784,000 paid by the relevant government authorities to subsidise the insufficient traffic flow on Yanba Expressway due to its early completion in accordance with the overall planning requirements of the Shenzhen Municipal Government; special financial subsidies of RMB25,677,000 granted by the Ministry of Finance for the construction of Yanpai Expressway (the subsidies are recognised annually in the income statement pursuant to the accounting policy of the Group within the duration of the expressway's operation period); and an amount of RMB54,000,000 that has no clear repayment obligations provided to Yanba Expressway by the Ministry of Communications.

## Equity

As at 31 December 2006, total equity of the Group amounted to RMB6,604,638,000 (2005: RMB6,372,759,000), representing an increase of RMB231,879,000 as compared to the end of 2005. Such increase was mainly due to an increase of RMB579,090,000 as profit attributable to the Company during the Reporting Period and a deduction of RMB261,684,000 as dividends for the year 2005 distributed.

## Contingencies

For details of contingencies, please refer to note 33 to the Financial Statements.

## 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 amount of borrowings-cash and cash equivalents)/total equity)	29.57%	25.24%
Gross debt-to-equity ratio (total debts/total equity)	56.21%	58.16%
	2006	2005
Interest coverage multiple (profit before interests and tax/interest expenses)	6.63	7.74

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

## Capital Expenditure Plans

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 at present given the Group's financial resources and financing capabilities.

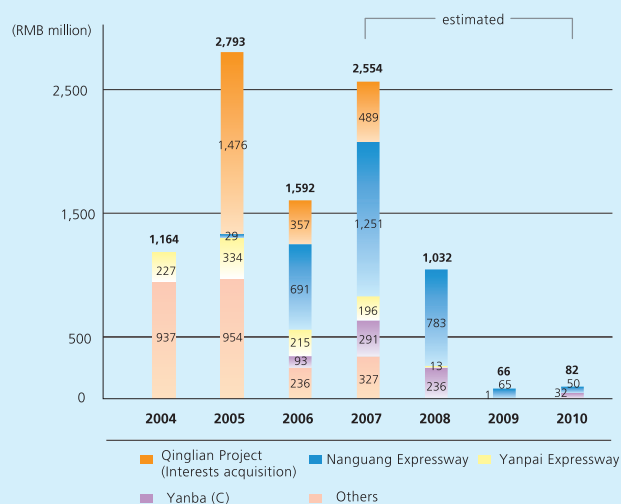
**Q:** *Is the Company confident about further increasing its financial gearing to acquire more assets?*

**A:** *The Company believes that the maintenance of a sound capital structure helps increase shareholder value and reduce financial risks. The Company's existing capital and financial resources are capable of supporting capital expenditures approved by the Board. However, investment in future new projects has been subject to the ability in taking up liabilities to a certain extent. The Company has been aggressively seeking suitable investment opportunities. In the short-term, payment of investment consideration by means of debts remains to be the most convenient and fastest financing method. In the long-term, the Company will expand its capital size in a timely manner to enhance its capacity for future development.*



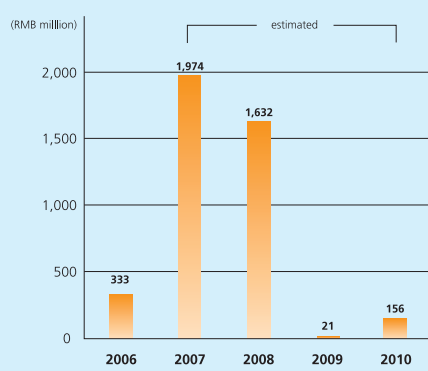
Gong Tao Tao,  
Financial Controller

### Capital Expenditure Plans



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.

Capital expenditure plans for the reconstruction of the Qinglian Project into an expressway are as follows:



## Capital/Financing

### Cash Flows 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 (excluding interests capitalised) on Yanpai Expressway, Nanguang Expressway, Yanba C, Qinglian Project, Jiangzhong Expressway, GZ W2 Expressway, Meiguan Expressway and so forth, as well as a total of RMB376,777,000 for payments of dividends and interest expenses.

## Financing Activities

With the backing of steady growth in cash flows, a sound credit record and an excellent industry reputation, the Group retained the AAA credit rating for another year in 2006 by a recognised institution of the People's Bank of China. A good credit rating is beneficial for the Company's financing activities and allows the Company to continue to enjoy prime rates under the interest rate policy of the People's Bank of China. 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 light of increases in capital expenditures and borrowing scale, the Company is actively seeking new financing channels and gradually raising the proportions of fixed-rate and medium-/long-term borrowings in the debt structure, so as to optimise the Company's capital structure and reduce its financial risks. 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. A combination of fixed rates and floating rates was applied for the loan, thus controlling the risks of interest rate increase within a certain range.

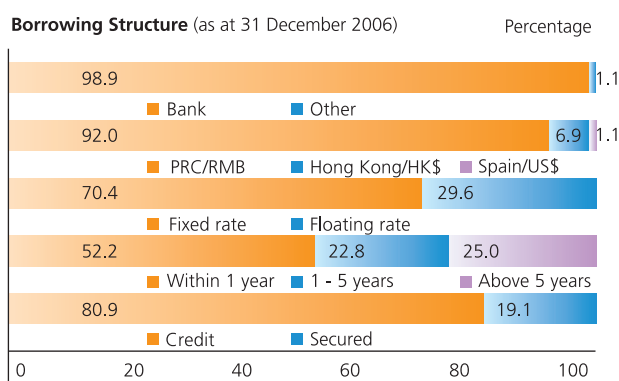
During the Reporting Period, the Group capitalised on both the favourable internal conditions and external opportunities to negotiate new financing facilities and agreements with banks. As at 31 December 2006, total unutilised banking facilities available to the Group amounted to RMB4.9 billion.

In November 2006, the shareholders of the Company considered and approved the resolutions 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 Directors believe the issuance of the Bonds With Warrants will help the Company broaden financing channels, lower capital costs and financial risks, and will facilitate the optimisation of the Company's capital structure and boost its long-term development potential. The issuance is subject to approval by the CSRC, and as at the date of this report, documents for the application are being prepared. The Company plans to submit the application for the issuance to the regulatory authorities in due course.

## 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 the 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.



### **Adoption of the New PRC “Accounting Standards for Enterprises” – Accounted for Interests in Jointly Controlled Entities Using the Equity Method**

With effect from 1 January 2007, the new PRC “Accounting Standards for Enterprises” (the “new PRC ASE”) have been adopted for statutory financial statements of the Group. The new PRC ASE are in essence similar to HKFRS. The adoption of the new PRC ASE affects primarily the scope of consolidation of financial statements, and there will be no significant impact on accounting estimates or the Group’s financial position and operating results.

Pursuant to “ASE No.33 – Consolidated Financial Statements” and “ASE No.2 – Long-term Equity Investments”, interests in jointly controlled entities are to be accounted for using the equity method and will no longer fall within the scope of consolidation of the Group with effect from 1 January 2007.

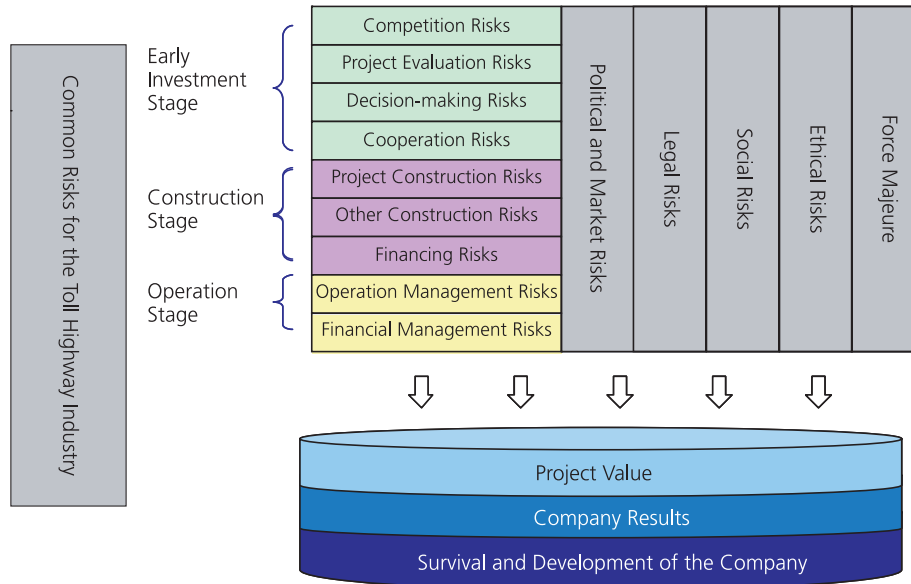
According to HKAS 31 “Interests in Joint Ventures”, interests in jointly controlled entities may be accounted for using either the equity method or the proportionate consolidation method. For 2006 and the preceding years, the Group adopted the proportionate consolidation method to account for its interests in jointly controlled entities in the financial statements prepared in accordance with HKFRS. In order to be consistent with the accounting policy of the statutory financial statements, the Group plans to adopt, 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.

Upon the adoption of the equity method to account for interests in jointly controlled entities, the consolidated balance sheet and the consolidated income statement will no longer include the assets, liabilities, income and expenses of jointly controlled entities, but will instead presented the interests and share of profits of jointly controlled entities respectively in the consolidated balance sheet and the consolidated income statement. If the Group changed the aforementioned accounting policies and correspondingly made retrospective adjustments to the 2006 consolidated financial statements, the total assets as at 31 December 2006 presented on the consolidated balance sheet and the income and expenses as stated in the 2006 consolidated income statement would decrease accordingly, while the yearly profit and the profit attributable to equity holders of the Company would not be changed.

The Directors believe that the change in accounting policies will facilitate consistency between financial information disclosures in the domestic and foreign markets. The Directors will make decisions thereabout in a timely manner in accordance with the progress of the Company’s work in this regard.

## RISK MANAGEMENT

Faced with opportunities for continued rapid growth, the management places high regard to various risks currently confronting the Group. Active reviews and appropriate preventive measures are continuously undertaken to achieve the strategic development goals of the Group.



After ten years of development, the Company has accumulated considerable experience and expertise in the investment, construction, and operational management of toll highway projects. Corresponding systems and management approaches are established for various management aspects that are timely amended and enhanced with reference to the Company's actual situations, thus basically forming a relatively solid internal control environment and regime.

However, as the Company faces different major risks in different development stages, there is a need for the Board and the management to continuously pay attention to, identify and evaluate such risks, setting preventive measures accordingly to minimise the negative impact of various risks on the Company and facilitating the effective execution and realisation of the Group's strategies and objectives.

### Major Risks Faced by the Group at Present

#### Political and Market Risks

##### *Approval of Toll Rate Standards*

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

##### *Tax Policies*

The preferential corporate income tax rate for enterprises established in the Shenzhen Special Economic Zone is applicable for the Company and its invested enterprises in the Shenzhen region. As for invested enterprises in other regions of the country, some are also enjoying preferential tax rates and relevant preferential policies for foreign enterprises. The State has been conducting studies on tax regime reform in recent years, with plans to unify the income tax rate for all domestic and foreign enterprises at around 25%, which is above the 15% tax rate currently enjoyed by Shenzhen and foreign enterprises.

### Our Major Measures and Preparations Against Risks

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.

A cancellation of the preferential corporate income tax rate for the Shenzhen Special Economic Zone, if happens, will result in a considerable impact on the Company's profits. As the study of tax regime reform has been undergoing for quite some time, the Company has been fully aware of the possibility of tax rate changes when investing in new projects over the past few years and has taken this factor as a basic assumption while making projections on the projects' rates of return. In case the corporate income tax rates are unified, there will be no substantial impact on the values of investment projects.





## Major Risks Faced by the Group at Present

### *Environmental Protection Policies*

Construction of expressways causes certain impact on the environment in various aspects, such as vegetation, soil and water, of the adjacent areas. In addition, certain environmental problems such as harmful gases, dusts and noises are caused by vehicle traffic to various degrees. With the State strengthening its efforts on environmental protection, there may be new requirements on expressway projects including route planning, technical standards, greening efforts, noise insulation, and so forth.

### *Multiplication of Investing Bodies*

Following the announcement and introduction of "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. Non-professional firms and private capital are increasingly active in investing in the toll highway sector, thus intensifying market competition in the sector.

## Our Major Measures and Preparations Against Risks

The Company always believes that environmental protection is not just an obligation to be fulfilled as ordered, but also an undeniable social responsibility for enterprises. In the construction and planning of road projects, the Company reduces the impact of noise through expanded greening effort along the route and improved quality of road surface materials, as well as relocation of the relatively severely affected residents along the route and the strengthening of other noise-prevention measures. During the construction process, appropriate arrangements are made for spoil grounds, quarries, waste disposal sites, and so forth, so as to reduce the pollution by dusts during the construction stage. The Company will continue to closely follow the State policies on environmental protection, and will more actively shoulder responsibilities on environmental protection on the basis that standards actually adopted by the Company are not below the basic requirements set out by the government. This will increase the Group's relevant construction and operating costs to a certain extent.

After ten years of development, the Company has accumulated considerable experience and expertise in the investment, construction, operational management of road projects. Besides, in order to further foster its ability of sustainable development and growth, the Company has been relentlessly pursuing investment opportunities in the sector that matched its development strategies in the past few years and remarkable headway has been made. On the one hand, the Company was able to enhance its competitive edge in management through cost control in construction and operations. On the other hand, the Company also enjoyed "non-price" competitive advantages from its good reputation, public image and government connections, thereby maintaining and showcasing its overall competitive advantages.

### Major Risks Faced by the Group at Present

#### *Changes in Highway Network Deployment*

The continuous growth in demand for quality transport in the community offers a guarantee of growth in traffic volume on highways. However, concerns of economic growth and overall urban planning are also pushing local governments to keep on improving the planning of regional highway networks, such as building free high-speed trunk roads or implementing traffic control measures in some areas. Changes in highway network deployment may create diversion effects on existing highways.

### Financial Risks

#### *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.

### Our Major Measures and Preparations Against Risks

The Company has strengthened the analysis and study on factors such as highway network changes and their impact, traffic flow composition, price elasticity of demand, in order to introduce targeted sales and marketing measures. Meanwhile, the Company improves service quality through the provision of quality services and facilities, and strengthens its promotion effort to attract traffic flow, thus enhancing the competitiveness of the existing highways. In addition, the Company will continue to maintain good communication and cooperative relations with various government authorities and industry peers to seek a rationalised layout of highway networks and connections in the region.

While the commencement of surrounding roads may create certain diversion effects on existing highways in the short run, it will also facilitate economies of scale of the overall highway network at the same time, thus boosting the pull for traffic flow. Accordingly, the diversion effects brought by surrounding roads often disappear some time after the commencement of new roads and ultimately result in mutual improvements.

The Group is gradually raising the proportion 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, to lower the average interest rate. 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.

## Major Risks Faced by the Group at Present

### *Cash Flow Risks*

The toll highway business is characterised by its capital-intensive nature and a long period for investment return. At the present stage, the Company is at the peak of capital expenditure. Therefore, it is particularly important for the Company to contain cash flow risks.

### *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 payments 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.

### **Operation Risks**

#### *Construction Management*

Long cycles and huge capital injections are features of highway construction, and whether effective controls are implemented on crucial targets such as construction period, quality and costs 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 construction projects. As a result of factors such as price fluctuations in construction materials, increase in difficulties in land requisition, demolition and relocation and resettlement of residents, changes in construction plans and promulgation of new policies and technical regulations by the government, the construction projects are exposed to the risks of increasing costs, delay and impaired work quality.

## Our Major Measures and Preparations Against Risks

The Company has established a rigorous model of financial forecasts and estimates for evaluating its investment in new projects and its financial resources. All new projects are evaluated and prioritised strictly against criteria such as preset levels of return, cash flow of the Company and cost of capital. Necessary sensitivity analyses were conducted in respect of all important assumptions and parameters. The Company prepares a capital budget each year to coordinate and arrange the Group's capital sources and expenses planning for the next year, so as to ensure the Group's cash management efforts are systematic and forward-looking. It also reviews the implementation of the previous year's budget to guarantee its effectiveness. In addition, the Company maintains a balanced mix of debt portfolio and bank facilities to ensure its cash liquidity by taking into account repayment terms, and factors such as interest rates and exchange rates.

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.

The Company's professional expertise and years of experience in highway construction management have formed the integral basis for managing the above risks. The Company has formulated a "Project Management Manual" and related regimes which offer detailed regulations on the progress, quality, costs, contract management, safety management, supervision, and so forth, of construction projects, and strengthen the management effort on tendering and contracting and enhance the management of sites and progress through a tight grip on important matters such as survey, design and change in construction work in actual work. The financial departments also exercise financial control duties over the payment of construction costs and construction management fees through measures such as enhancing authorisation procedures and strengthening budget controls. Moreover, the Company has also effectively transferred such risks as appropriate by entering into relevant insurance contracts, construction contracting agreements and centralised procurement contracts for major materials.

### Major Risks Faced by the Group at Present

#### *Repairs and Maintenance of Highways*

Appropriate routine repairs and maintenance of road surface are required once a highway is open to traffic with an aim to assure a good traffic environment. As the useful life of the highways elapses and traffic flows and wear-and-tear increase, the scale of repair work and the related costs may also increase. Moreover, toll income will decline as normal traffic may be hindered in case the area of repair work is relatively larger and the time involved is relatively longer. Besides, road conditions may also be impaired to different degrees by traffic accidents and other factors.

#### *Reliability of the Tolling System*

As of now, most provinces in the country are adopting in stages the Inter-road network toll collection scheme for expressways. Inter-road network toll collection can reduce the number of tolling stations along the main roads and lowering the times of toll collections for vehicles on inter-section trips. This will be a positive boost for the improvement of traffic efficiency of the road network as a whole, while at the same time setting a newer and higher benchmark for the stability and safety of the tolling system and the prevention of toll losses.

#### *Project Evaluation Risks*

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

### Our Major Measures and Preparations Against Risks

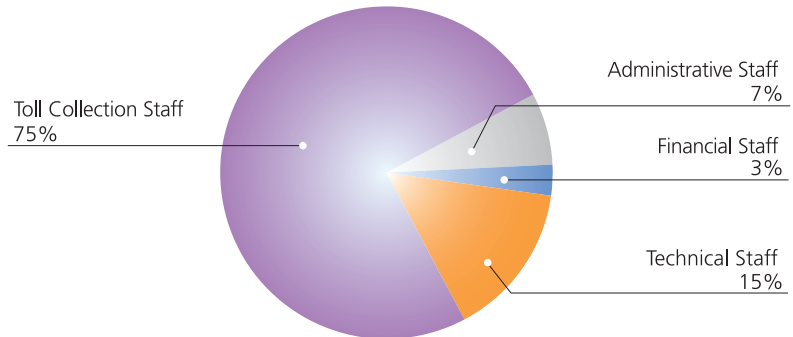
At present, the highways of the Group are kept in good conditions. Maintenance costs as a percentage of operating costs stood at a relatively low level during the Reporting Period. The Company's medium-/long-term repair and maintenance plan, which is currently being drafted, will provide uniform arrangement and preparation for repairs and maintenance of highways so as to elevate management efficiency and work quality, as well as reducing management costs. As for the implementation of the repair and maintenance plan, the Company will also strive to maintain smooth traffic flows on its highways as a whole and minimise the impact upon peak-hours traffic by rationalising works arrangements, such as arranging works on a section-by-section or lane-by-lane basis, as well as arranging night-time works. On the other hand, the Company will dutifully conduct road inspections to effect prompt investigation and evidence collection for road facility damage and road accidents, thereby achieving higher repair efficiency and a higher compensation rate for road asset losses.

The Group has completed the renovation of, and has passed the checking and acceptance for, the Inter-road network toll collection system of toll highways in the Shenzhen area in November 2004. The system is running smoothly at present. In order to ensure that the Inter road network toll collection system runs effectively and efficiently, the Company has compiled the "Management Rules for the Inter-road network toll collection system in the Shenzhen Area" and has organised several training sessions for toll collection staff. During the Reporting Period, the Company has also enhanced the capacity of the monitoring centre and formulated the responsibilities, regulation and procedures for tolling inspectors of the monitoring centre. Tolling efficiency and quality were enhanced with toll losses prevented through sound internal control which has improved tolling management.

The Company has established the Risk Management Committee to persistently improve the Company's management procedures and regimes regarding investments and strengthen the risk analysis and monitoring over material investment projects. Prior to submission to the Board for consideration, investment projects are to be reviewed by the General Manager Working Meeting of the Company and the Risk Management Committee. Any deals involving connected transactions are subject to acknowledgement and approval by Independent Directors. In order to raise the accuracy of professional reports, the Company has engaged external supervisors to monitor and review the course of evaluation on certain projects. The Company's engineers also take part in improving such proposals. Currently, the Company is amending the rules governing investment management and drafting a standardised model for investment proposals, so as to minimise the decision-making risks that might be brought by discrepancies or insufficiencies of information.

## HUMAN RESOURCES

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. 33% of the Company's staff held tertiary or above qualifications and 85% of the administrative, financial and technical staff held tertiary or above qualifications, among whom 17% held master degrees and 44% held bachelor degrees.



### Employee's Remuneration

Pursuant to the "Management Rules for Employee's Remuneration and Benefits" (《員工薪酬福利管理辦法》) adopted by the Company in 2004, 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 positions. Improvement proposals are made to give a fairer and more competitive remuneration system.

### Employee's Insurance and Retirement Schemes

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 and unemployment insurance to its employees. In addition, the Company has also obtained commercial insurance on personal accidents for its frontline 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 2006, 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 2.16 to the Financial Statements.

### Employee's Training

The Company values staff training. In accordance with the requirements for strategic development, the Company has increased the amount devoted to training and has been actively carrying out various training programmes. During the Reporting Period, the Company organised 37 themed training sessions including workshops on the rules governing appointed representatives; themed training sessions "Pause and Think" for middle/senior management members; entry training for toll collection staff; management skill upgrade for toll station management staff, and so forth, 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, covering a wide range of aspects from corporate development, management and leadership skills, human resource management, financial management to personal development. 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.

### **Appraisals and Incentives for Senior Management Members**

Monthly salaries of senior management account for approximately 65% of their total remunerations. In order to attract and motivate quality staff, performance bonus for senior management is mainly based on performance assessment and the Remuneration Committee of the Board is responsible for proposing and reviewing the remuneration and bonus for senior management.

The Board considers the annual operating performance targets at the beginning of each year and sets out clear and concrete rating criteria as the basis of year-end appraisals on the overall performance of the General Manager and the Company. The set key performance targets generally include annual revenue, expenses and profit indicators, completion rate and cost-saving ratio of investment projects, internal management and other substantial matters.

Based on the operating performance targets approved by the Board, the Company is required to confirm the yearly tasks and targets for staff of various grades, and various business controllers are also required to sign accountability statements on performance targets with the General Manager. By the end of the year, the Board and the General Manager 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 the performance bonuses for the General Manager and other senior management members accordingly. The remuneration of all senior management members is subject to review by the Remuneration Committee and required to be reported to the Board.

Since 2001, the share appreciation right scheme (the "Scheme") has been approved by the shareholders and amended at the extraordinary general meeting held on 30 October 2003. According to the amended Scheme, the share appreciation rights involving 5,501,400 shares collectively held by senior management, with the proceeds from the exercise applied as a special incentive fund and distributed by the Company in accordance with the proposal put forward by the General Manager 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 Remuneration Committee, RMB1,150,000 from the special incentive fund has been distributed to reward management members and crucial staff with contributions to important tasks or projects in 2004. Among those rewarded, Director Wu Ya De, Supervisor Yi Ai Guo, and senior management members Wu Xian, Li Jian, Fan Li Ping, Gong Tao Tao, Zhou Qing Ming and Wu Qian were rewarded RMB200,000, RMB30,000, RMB50,000, RMB80,000, RMB60,000, RMB80,000, RMB70,000 and RMB40,000 respectively. As at the end of the Reporting Period, the balance of the special incentive fund amounted to RMB3,960,000, which will be used for the incentive schemes in coming years.

### **Human Resource Management**

The Company has been committed to the people-focused management principle, 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. In accordance with the development needs of the Company, timely amendments were made during the Year on the human resource system and operating approaches regarding performance management, personnel appointment and dismissal, appointment of management representatives, shift arrangement of toll collection staff, and so forth. Guided by the development strategy, the Company will strive to stimulate the passion and creativity of the employees through adoption and continuous improvements of the incentive regime, the control regime and the talent grooming and selection regime. Through such efforts, the Company will foster a sound development platform for staff, so as to achieve harmony and a win-win situation between the interests of employees and the Company.

## OUTLOOK AND STRATEGY

### Development Environment

To satisfy the needs of economic development, the State and the local governments have devised comprehensive and forward-looking plans for the development of the transportation industry. In the Guidelines of the Eleventh Five-Year Plan (2006-2010) issued by the State in 2006, it is stated that preference should be given to developing the transportation industry and further improving the highway network. It is set out clearly in the guidelines that during the Eleventh Five-Year Plan, the focus of work will be building a nationwide expressway network, further improving the national highways and provincial trunk networks, connecting the passages between provinces, and fully exploiting the potential of the highway network. The total mileage of highways will reach 2,300,000 km, of which 65,000 km will be expressways. On the other hand, according to "Guangdong Province Expressway Network Plan" (2004-2030), investments on expressway construction over the next 25 years will exceed RMB400 billion, with the mileage of expressways reaching 8,800 km (of which investments in the Pearl River Delta will amount to some RMB170 billion with total mileage of 3,500 km). All these will move China's expressways to a level matching, or even surpassing, the current level of developed countries.



The promulgation of the "Toll Highway Management Regulations" by the State Council in 2004 and the issuance of "Notice on Further Regulation of Toll Highway Management" by the Ministry of Communications near the end of 2006 have provided strong policy safeguards on the marketisation and regulation of toll highway investment, construction and operation, which helps protect the interests of investors, road users and the general public, thus facilitating the healthy development of the industry in the long run.

### Strategy and Plans for 2007

In 2007, the Group will continue to consider the situation and formulate and implement effective yearly operating strategies and plans with prudence in accordance with the Company's strategic development goals, in order to ensure that its yearly targets are on the same path as long-term development objectives.

#### Annual Targets

Financial results:	Stable shareholder return
Business expansion:	Maintain leadership in the Shenzhen market and enhance future growth potential of the Company
Risk control:	Maintain a balance between results, growth and risks aversion
Management enhancement:	Support business targets and enhance core competitiveness
Customer service:	Foster a positive external operating environment and improve internal teamwork

## Management Discussion and Analysis

The Company's focus of work in 2007 includes:

- **Full completion of management tasks for construction projects.** In 2007, the construction management of Qinglian Project, Nanguang Expressway and Yanba C will be pursued with utmost effort, pressing ahead with the construction progress so as to ensure completion of such projects in 2008 as scheduled and to effectively control construction costs within budget. In addition, the studies for the "4 lanes-to-6 lanes" plan for the north section of Meiguan Expressway and for the road-surface renovation plan of Meiguan Expressway will commence within the year.
- **Ensuring the achievement of toll income targets.** Based on the reasonable assumption that there will be no significant changes on the crucial aspects of the operating environment, the management expects to maintain a two-digit average growth in traffic volume on its toll highways. The Group has set an aggregate toll income target of no less than RMB900 million for 2007 (2006 (Note): RMB720 million).  
*Note:* The Group's adoption of the new "Accounting Standard for Enterprises" effective from 2007 will lead to changes in accounting policies and adjustments of scope of consolidation. Joint ventures will be accounted for by the equity method instead of proportionate consolidation. Adjustments in accordance with the new principles were made to arrive at the figures listed above.
- **Active and prudent study and evaluation of investment projects.** The Company will actively pursue acquisitions and development of highway projects within Shenzhen City and maintain its attention to sources of quality projects within Guangdong Province, building up project resources essential for the Company's long-term development. The Company will progress rationally on its project investments and will control its overall investment scale. In addition, existing resources will be integrated in an appropriate manner in accordance with results of investment project evaluations, so as to rationalise the Group's asset structure and to replenish funding for new investment projects.
- **Reducing financial costs and preventing financial risks.** The Company will actively pursue the applications for issuance of financing tools such as Bonds With Warrants and corporate bonds, appropriately increase the proportion of medium-/long-term borrowings and arrange for a certain proportion of fixed-rate borrowings, and will further implement sophisticated capital management.
- **Enhancing management quality.** The Company will make enhancing human resource management a top priority. It will also further enhance the internal control mechanism and implement the risk management regime so as to further elevate the quality of corporate governance.

### Development Objectives

Continued growth of the economy and an increasingly regulated market will bring bright development opportunities to the Group. 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 will 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.



## Corporate Governance Report

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The Company adopts various means to strengthen

# COMMUNICATION

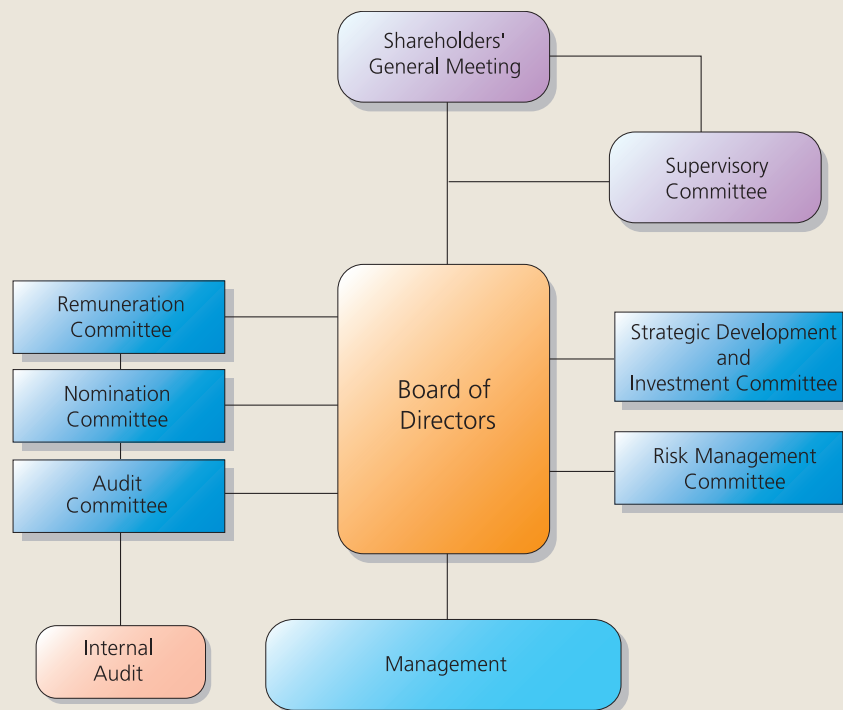
and two-way exchange with investors. A corporate culture based on respect and accountability towards investors has been initiated and developed within the Company.



# Corporate Governance Report

The Company always aims to ensure stable business development and to enhance value for shareholders through its commitment to the corporate values of integrity and diligence. It is our belief that such an aim will be achieved by persistent adherence to sound corporate governance principles, efforts to enhance transparency and independence of the Company's operations and the establishment of an effective accountability system.

**The Company's corporate governance structure is as follows:**



## 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. 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 raised by shareholders.

In recent years, the Company has strengthened the transparency of information disclosure regarding areas in which 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 and relevant practices currently adopted by the Company have gone beyond the requirements of the aforesaid Code in certain aspects, including:

- the adoption of the cumulative voting system for elections of directors;
- the stipulation on the terms of office for Independent Directors of no more than six 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;
- disclosure of senior management remuneration on named basis in annual report;
- preparing and publishing quarterly results announcements in accordance with PRC accounting standards, and voluntarily notify major differences between the accounting statements prepared under PRC accounting standards and HKFRS;
- increasing the disclosure of shareholder information;
- enhancing communication with shareholders.

Details regarding the above are contained herebelow, whereas the content 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, as well as 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 "General Manager") have been clearly defined which have also been spelt out in the Articles and the attachments to the Articles ㉠. The Chairman of the Company is Mr. Yang Hai, while the General Manager 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, including: overseeing and coordinating the operation of the Board to ensure efficient functioning of the Board; 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 General Manager, 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 is composed of 12 directors. Details of the members of the Board are as follows:

Name	Position	Principal Duties in Shareholder Entity	Date First Became Director	Experience/Skills
<b>Executive Directors:</b>				
Yang Hai	Chairman	Director, XTC Company	April 2005	industry experience; road and bridge construction
Wu Ya De	General Manager	—	January 1997	industry experience; corporate management
<b>Non-executive Directors:</b>				
Li Jing Qi	Non-executive Director	Executive Director and President, Shenzhen International	April 2005	international banking experience; risk management
Wang Ji Zhong	Non-executive Director	Director and Deputy General Manager, XTC Company	April 2005	industry experience; financial management
Liu Jun	Non-executive Director	Executive Director and Vice President, Shenzhen International	January 2006	financial and foreign investment management
Lin Xiang Ke	Non-executive Director	Chairman and General Manager, SGH Company	June 1998	industry experience; financial management
Zhang Yang	Non-executive Director	Assistant to General Manager, Huajian Centre	March 2001	industry experience; investment project management
Chiu Chi Cheong, Clifton	Non-executive Director	—	December 1996	financial, securities and accounting
Li Zhi Zheng	Independent Non-executive Director	—	January 2003	technical, operations and administrative management
Zhang Zhi Xue	Independent Non-executive Director	—	January 2003	human resources management
Poon Kai Leung, James	Independent Non-executive Director	—	May 2003	investment banking experience; financial and risk management
Wong Kam Ling	Independent Non-executive Director	—	June 2005	financial management

The above-mentioned Directors were nominated by shareholders of the Company or the Board, and were elected at the extraordinary general meeting held on 28 December 2005. The terms of office of all Directors are from 1 January 2006 to 31 December 2008.

Members of the Board come from different industries, with more than one Independent Director possessing professional accounting qualifications as required by the stock exchanges or appropriate expertise in accounting or related financial management. Brief biographies of the members of the Board are set out on pages 82 to 87 of this annual report.

The Board currently has four Independent Directors, representing 1/3 of the total membership of the Board. All incumbent Independent Directors have extensive professional experience, and all have participated in the meetings of the Board and related specialised committees in a highly conscientious and responsible manner. By providing independent judgment, knowledge and experience to the matters to be resolved, they have played an important check-and-balance role to safeguard the interests of the Company and shareholders as a whole by ensuring that reporting on the Company's financial or other responsible matters would be properly conducted by the Board and by offering constructive criticisms and assistance on the Company's formulation of strategic plans. Since 2005, the Independent Directors have submitted annual work reports each year to the annual general meeting for shareholders' scrutiny.

### **Board Meetings**

Seven Board meetings were held in 2006 to discuss the Group's operational and financial performance, management structure, investment and financing proposals 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;
- amendments to the Articles;
- election of new Chairman, formulation of a new session of the specialised committees of the Board;
- formulation of the Directors' remuneration scheme;
- determination of the Company's annual performance targets, renewals of appointments of senior management of the Company;
- re-appointment of international auditors and statutory auditors;
- consideration of the proposed issuance of Bonds With Warrants and approval of the Company's borrowing proposals;
- consideration of acquisitions or disposals of toll highway projects.

Discussions were carried out effectively and decisions were made swiftly and prudently at the Board meetings. Attendance of Directors at the Board meetings in 2006 was 100% (including attendance by appointing other Directors as proxies). Details of attendance of each Director at the Board meetings and the specialised committees' meetings are as follows:

Director	Attendance in Person / Total Number of Meetings					
	Strategic Development and Investment Committee		Audit Committee	Remuneration Committee	Nomination Committee	Risk Management Committee
	The Board					
<b>Executive Directors:</b>						
Yang Hai	7/7	1/1	5 (as observer)	4/4	5/5	—
Wu Ya De	6/7 <sup>#</sup>	1/1	4 (as observer)	3 (as observer)	3 (as observer)	—
<b>Non-executive Directors:</b>						
Li Jing Qi	7/7	—	—	—	—	3/3
Wang Ji Zhong	6/7 <sup>#</sup>	1 (as observer)	—	—	—	—
Liu Jun	6/7 <sup>#</sup>	—	—	—	—	—
Lin Xiang Ke	6/7 <sup>#</sup>	—	—	—	—	—
Zhang Yang	5/7 <sup>#</sup>	—	—	—	—	3/3
Chiu Chi Cheong, Clifton	6/7 <sup>#</sup>	1/1	6/6	—	—	—
<b>Independent Directors:</b>						
Li Zhi Zheng	5/7 <sup>#</sup>	1/1	—	4/4	5/5	—
Zhang Zhi Xue	7/7	1 (as observer)	—	4/4	5/5	—
Poon Kai Leung, James	5/7 <sup>#</sup>	—	5/6 <sup>#</sup>	—	—	3/3
Wong Kam Ling	7/7	1 (as observer)	6/6	—	—	—

<sup>#</sup> 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.

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<sup>①</sup>, 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 the investment proposal of acquiring 5% interests in Meiguan Company, four Directors holding offices in connected companies reported their respective interests in accordance with the relevant rules and abstained from voting.

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, in particular the progress on substantial issues of the Company, whenever Board meetings are convened. The Directors, as well as the specialised committees of the Board, may seek the services of independent professional institutions in the course of exercising their authorities, performing their duties or fulfilling any business requirements. Reasonable expenses incurred in this connection will be borne by the Company.

## 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 three 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 six years.

The Company's Rules of Procedures for the Board of Directors<sup>①</sup> 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 and Professional Development**

Upon appointment, new Directors are provided with a comprehensive set of introductory materials by the Company, including a brief introduction to the Group's operations, the responsibilities of Directors, and other statutory requirements. The Company will also arrange for them specialised training organised by external or internal parties. In addition, through the Company Secretary, all the Directors, during their terms of appointment, are able to obtain timely information and updates relating to the statutory, regulatory and other ongoing obligations that the Directors of a listed company must comply with. In 2006, the Company compiled 10 issues of reference document reports or market news summaries for the Directors, providing them with the most updated compliance policy documents and related reports and analyses of the securities market and the news media. During the Year, the Company also held an annual work progress meeting and an investment and financing work progress meeting, and organised a trip for the Directors to inspect Qinglian Project. During the Year, six Non-executive Directors took part in training courses for directors organised by regulatory bodies, while two Executive Directors and two Non-executive Directors participated in the professional training sessions held internally by the Company.

Through various approaches ranging from provision of information, progress reports and field trips to professional training, all Directors, particularly the Non-executive Directors, may obtain timely updates on the Company's business development, competition and regulatory environment and other information which may affect the Group and the industry, thus ensuring a good understanding of their duties, facilitating themselves to exercise correct decision-making and effective monitoring, and a thorough implementation of the procedures of the Board and due compliance with applicable laws and regulations.

### **Remuneration of Directors**

The Company has been disclosing the remunerations of Directors and Supervisors on named basis since 2004 and the same policy has been adopted for senior management since 2005. 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 on page 46 and pages 72 to 73 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 still regarded as independent.

### **Securities Transactions by Directors**

The Securities Transaction Code of the Company<sup>(6)</sup> 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 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 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 in "Hong Kong Economic Times" and "The Standard" regarding the sale of the Company's shares by Mr. Liu Jun.

### 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<sup>(f)</sup> 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, the SDIC is principally 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.

Members of the SDIC include:

Mr. Yang Hai (Chairman of the Committee)	<i>Executive Director</i>
Mr. Wu Ya De	<i>Executive Director</i>
Mr. Chiu Chi Cheong, Clifton	<i>Non-executive Director</i>
Mr. Li Zhi Zheng	<i>Independent Director</i>

One meeting of the SDIC was held in 2006, attended by all incumbent members as well as by invited Directors, Supervisors and senior management of the Company. The Company's "Development Strategies 2005-2009" and their implementation in the past two years were reviewed and evaluated at the meeting. The Company's strategic development directions, specific implementation strategies and corresponding management and work objectives were discussed with reference to changes in the internal and external environment. Opinions formed by the SDIC regarding the implementation approaches and planning of strategies were submitted to the Board for confirmation as guiding principles and basis for the management to ascertain the future work focus and planning.

#### Audit Committee

The Audit Committee was established in August 1999, with its terms of reference drawn from proposals set forth in "A Guide for Effective Audit Committees" issued by the Hong Kong Institute of Certified Public Accountants, the "Code on Corporate Governance Practices" in Appendix 14 to the Listing Rules of the HKEX, and the "Corporate Governance Standards for Listed Companies in China" issued by the CSRC. The Audit Committee is 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.

Members of the Audit Committee include:

Mr. Wong Kam Ling (Chairman of the Committee)	<i>Independent Director</i>
Mr. Poon Kai Leung, James	<i>Independent Director</i>
Mr. Chiu Chi Cheong, Clifton	<i>Non-executive Director</i>

Six meetings of the Audit Committee were held in 2006, with the external auditors invited to five of such meetings. In order to ensure the independence of reporting, prior to each meeting, the chairman of the meeting would fully consult the external auditors, the Company's management and the internal audit department so as to confirm whether the relevant institutions would need independent meetings with the Audit Committee, and would make arrangements accordingly if applicable.

### Report of the Audit Committee

The Audit Committee is principally 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; 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 2006 (prepared under PRC Accounting Standards) and the unaudited financial statements for the first six months of 2006 have been reviewed by the Audit Committee and submitted to the Board for approval prior to their publication.

The Audit Committee has discussed with the management and the external auditors the consolidated financial statements contained in the 2006 Annual Report, and conducted studies and communications regarding the adoption of accounting policies and substantial accounting treatment matters, and the impact of the new PRC Accounting Standards scheduled to be adopted on 1 January 2007. The Audit Committee has obtained a report from the external auditors and met with them to discuss the scope of their audit and their evaluation on the Group's internal control regimes. On the basis of the aforesaid reviews and discussions as well as the report of the external auditors, the Audit Committee proposed the Board to approve the consolidated financial report for the year ended 31 December 2006 and the auditors' report in relation thereto.

The Audit Committee also carried out an independent evaluation on whether the Group's internal control regimes were efficient; monitored and appraised the Company's internal audit; and furnished the management with professional advice on the enhancement of internal control and corporate governance standards on an ongoing basis. In addition, the Audit Committee also furnished the management promptly with professional advice on the Company's significant matters or reminded the Company of any risks associated with such matters.

In 2006, the Audit Committee provided the Company with a basic framework of risk management, and assisted the Company to develop and implement a thorough risk management regime. In addition, the Audit Committee also discussed the issue of preventing fraud within the Company and set up a separate reporting mail box<sup>☎</sup> to obtain fraud-related information in a timely manner.

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.

Members of the Audit Committee

Wong Kam Ling, Poon Kai Leung, James, Chiu Chi Cheong, Clifton

2 March 2007



Established in November 2001 as the Human Resources and Remuneration Committee and subsequently renamed as the Human Resources and Nomination Committee (collectively referred to as "HRNC") in January 2003, HRNC is responsible for the remunerations of, and nominations to, the Board. Its principal duties include: examining and devising the Company's human resources development strategies and planning; examining and reviewing the Company's human resources policies, remuneration policies and incentive regimes; and making proposals in respect of appraisals, appointments/removals and nominations of Directors and members of the senior management. Pursuant to a resolution of the Board, HRNC was split into the Remuneration Committee and the Nomination Committee in June 2005 to perform their respective duties.

### Remuneration Committee

The Remuneration Committee is principally 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.

Members of the Remuneration Committee include:

Mr. Li Zhi Zheng (Chairman of the Committee)	<i>Independent Director</i>
Mr. Zhang Zhi Xue	<i>Independent Director</i>
Mr. Yang Hai (Ceased to be a member of the Committee from 8 December 2006)	<i>Executive Director</i>
Ms. Zhang Yang (Appointed to the Committee on 8 December 2006)	<i>Non-executive Director</i>

To further enhance the governance quality of the Company and accelerate the establishment of the Company's stock option incentive regime, the Board appointed Ms. Zhang Yang, a Non-executive Director, as a member of the Remuneration Committee, while Executive Director Mr. Yang Hai ceased to be a member of the committee.

Four meetings of the Remuneration Committee were held in 2006, attended by all incumbent members. Major tasks accomplished by the Remuneration Committee during the Year include:

- Reviewing the execution of the Company's operating performance for 2005 and the management's performance targets for 2006;
- Reviewing the Company's proposals on enterprise annuity adjustment, management remuneration disclosure, and annual distribution of the special incentive fund under the share appreciation rights scheme;
- Drafting the remuneration proposal for the Directors of the fourth session of the Board;
- Providing guidance on the review and improvement work on the Company's remuneration system and the implementation of the Company's performance management and incentive schemes.

### Nomination Committee

The Nomination Committee is principally 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.

Members of the Nomination Committee include:

Mr. Li Zhi Zheng (Chairman of the Committee)	<i>Independent Director</i>
Mr. Zhang Zhi Xue	<i>Independent Director</i>
Mr. Yang Hai	<i>Executive Director</i>

Five meetings of the Nomination Committee were held in 2006, attended by all incumbent members. Major tasks accomplished by the Nomination Committee during the Year include:

- Providing guidance on the institutional reform and organisational improvement work of the Company, and reviewing the proposal on the adjustment of the operations centre's organisation;
- Guiding and monitoring the work arrangement and appraisal procedures for the term appraisals on the members of the senior management, as well as reviewing the results of the term appraisal on the Administrative Controller;
- Reviewing the Company's proposals on appointing representatives to invested enterprises;
- Making proposals to the Board regarding membership changes of the Remuneration Committee;
- Providing guidance on the training work for the Company's management.

### **Risk Management Committee**

Established in August 2004, currently the RMC is principally 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.

Members of the RMC include:

Mr. Poon Kai Leung, James (Chairman of the Committee)	<i>Independent Director</i>
Ms. Zhang Yang	<i>Non-executive Director</i>
Mr. Li Jing Qi	<i>Non-executive Director</i>

Three meetings of the RMC were held in 2006, attended by all incumbent members. During the Year, the RMC reviewed and discussed the Company's risk management handbook on investment projects, setting preliminary drafts of standardised investment proposals and financial analysis model for investment projects, as well as providing relevant requirements for post-investment follow-up reporting and risk evaluation analysis. In addition, the RMC also considered two proposals on toll highway asset acquisition or disposal and offered constructive opinions to the Board.

### **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 90.

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 90 to 146. 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.



## D. CONTROL MECHANISMS

### Supervisory Committee

The Supervisory Committee exercises independently the power of supervision upon the Company in accordance with the law to ensure that the lawful 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. Zhong Shan Qun (Chairman of the Supervisory Committee), Mr. Zhang Yi Ping and Mr. Yi Ai Guo. The Supervisory Committee is in its fourth session since the establishment of the Company. The term of office of the Supervisors commenced from 1 January 2006 to 31 December 2008.

The size and composition of the Company's Supervisory Committee are in compliance with the requirements of the relevant laws and regulations. Seven meetings of the Supervisory Committee were held during 2006 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 Report of the Supervisory Committee on pages 80 to 81 of this annual report.

### Internal Control

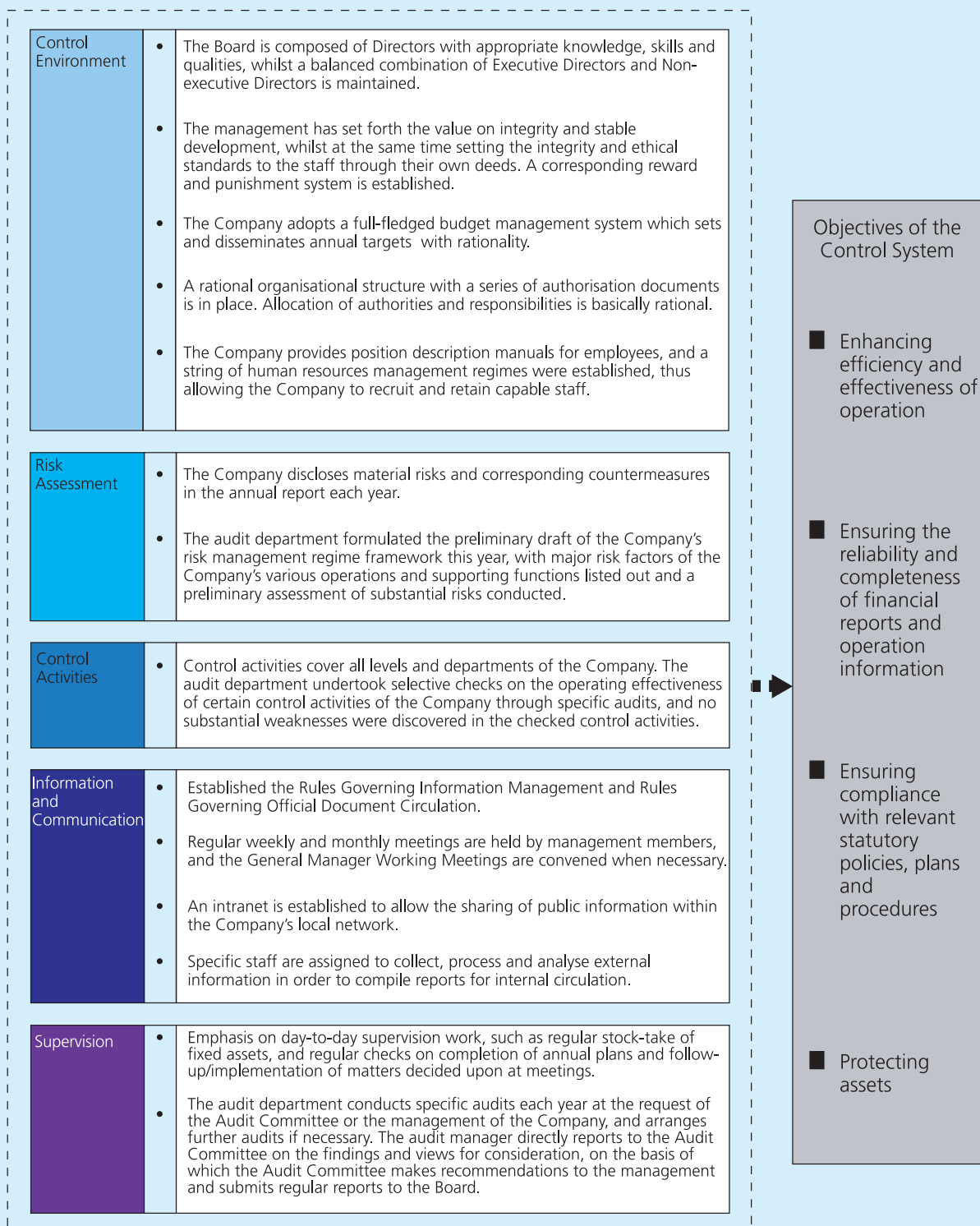
The Board is responsible for developing and maintaining an internal control system of the Company to protect shareholders' interest and to safeguard the Group's assets by reviewing the effectiveness of major control procedures for financial, operational, compliance and risk management matters. In December 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. This manual contains a comprehensive overview and description of the objectives, content, methods and duties of the Company's internal controls, and will facilitate the ongoing examination and evaluation conducted by the Board in respect of the effectiveness of the internal controls. 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 considers that internal controls may help the Company to realise its operating results and objectives, as well as making significant contributions to an effective use of resources. It can also provide reasonable assurance over the reliability and statutory compliance of the Company's financial statements, preventing damage to the public image or other undesirable consequences, and ultimately safeguarding the tangible and intangible assets of the Company. During this stage of business development, the Company's business and internal administration institutions are under an ongoing process of restructuring and adjustment, and in an ever-changing environment, staying alert to any matters having implications on internal controls and detecting and managing such matters in a timely manner are key to the success of the Company's business.

The Company's internal control system is operated through 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 Board has been dedicating itself to reviewing the effectiveness of the Group's financial and non-financial control systems, which include operation and compliance controls, risk management and the Group's internal control procedures. Review work includes an evaluation of internal controls by the Company's audit department, and the submission of reports by the external auditors regarding issues discovered in statutory auditing work.

During the Year, the Board has thoroughly reviewed the effectiveness of the Company's internal control system for the year ended 31 December 2006 through the Audit Committee and its subordinate audit department, with reference to the five crucial elements of internal control: the control environment, risk assessment, control activities, information and communication, and supervision. Based on the reviews in previous years and an assessment of the internal control system for the Year, the Board is of the view that during the Year and as at the date of this annual report, the Company has continuously maintained a comprehensive internal control system covering the areas of corporate governance, operation, construction, finance, administration and personnel management, and that such an internal control system is effective.

Basic Evaluation of the Internal Control System, 2006



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 false representations or losses.

## 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. Internal audit staff are authorised to access 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 2006, the audit department has reviewed the Company's domestic and foreign annual and interim reports, as well as the domestic quarterly reports; 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.

Moreover, the audit department conducts specific audits each year on the basis of risk assessment. In the past three years, the specific audits conducted by the audit department covered key business aspects including operation, construction, investment, corporate governance and financial management, providing continuous monitoring and evaluation of the Company's internal control system and management efficiency:

Year	Contents of the Specific Audit				
	Operation	Construction	Investment	Corporate	Financial
2004		1	1		
2005	1		2	1	1
2006	1	1 (in progress)	1		2

The four specific audits completed by the audit department in 2006 include: the specific audit on the operations centre's reform results, the specific audit on the Wuhuang project, the specific audit on capital management and the specific audit on toll highway tariff income. The respective audit reports 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. By the end of the Year, the audit department had also compiled a summary of audit proposals and a report on the follow-up of such proposals for review by the Board.

## Auditors

The financial statements contained in the Company's 2006 annual report were prepared in accordance with the PRC accounting standards 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.

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.

PwC as the Company's international auditors has been providing audit services to the Company for 11 consecutive years since 1996. Its partners in charge of the Company's audit were changed in 2003. PwC Zhong Tian was appointed as statutory auditors since 2004, and it has been providing audit services to the Company for three consecutive years.

The remuneration of the auditors in the year 2006 is set out as follows:

(RMB'000)	2006		2005	
	Audit fees <sup>Note 1</sup>	Other fees <sup>Note 1</sup>	Audit fees <sup>Note 1</sup>	Other fees <sup>Note 1</sup>
PwC	1,650	—	1,650	1,265
PwC Zhong Tian	1,800 <sup>Note 2</sup>	—	800	—

As other fees are all about specific audit fees and evaluation service fees for due diligence reviews on the Company's investment projects provided by the auditors, the Board believes that this would not affect the independence of the auditors. However, from the perspective of improving governance quality, the Audit Committee has clarified its principles on the issue. The Company has ceased appointing the Company's auditors to conduct other non-audit services.

*Note 1:* 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. The "Other fees" mentioned in the table above are specific audit fees and evaluation service fees for due diligence reviews on the Company's proposed investments provided by the auditors. The Company was not required to pay for travel expenses of the auditors incurred for providing audit and review services, but should pay for travel expenses incurred for providing specific audit and evaluation services for due diligence reviews.

*Note 2:* 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.

The Audit Committee has discussed and assessed the professional qualities of PwC ZhongTian and PwC, the execution of audit work for 2006 and the proposed fees for 2007, and has offered opinions and improvement suggestions accordingly. The Audit Committee proposed renewing the appointments of PwC Zhong Tian as the Company's statutory auditors and PwC as the Company's international auditors. The proposal was approved by the Board and would be submitted to the 2006 annual general meeting for shareholders' approval and authorisation.

### E. SHAREHOLDERS AND OTHER STAKEHOLDERS

The Company strives to ensure that all shareholders, especially the minority shareholders, are able to fully exercise their rights on an equal basis.

#### 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 June 2006, and arranged the Chairman of the Audit Committee and the representing committee members appointed by the Chairmen of 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 on pages 69 to 70 of this annual report.





## Substantial Shareholders

XTC Company and SGH Company are substantial shareholders of the Company. The Company and the substantial shareholders are independent from each other in terms of staffing, assets, finance, institution and business. As substantial shareholders of the Company, XTC Company and SGH Company conducted their activities in a regulated manner. 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 and shareholding details of the top ten holders of circulating shares, are set out on pages 74 to 75 of this annual report.

## Investor Relations and Communication

The Company regards effective communication as the core of investor relations, aimed at achieving a win-win situation for both the Company and its investors.

It is the Company's belief that good investor relations are underpinned by adequate disclosure of information. The Company fulfills its obligation of making statutory disclosures of information promptly and accurately and in strict compliance with relevant laws and the Listing Rules. On this basis, the Company takes the initiative in disclosing other relevant information about which investors are concerned, to enhance their understanding of the Company's business and development trends so that they have more confidence in their investment in the Company. Fair treatment towards all shareholders is the Company's primary principle in order to excel in investor relations. Accordingly, various means should be adopted to strengthen communication and two-way exchange with investors, so as to facilitate timely access to, and accurate understanding of, the Company's information by different types of investors, in particular public investors. A corporate culture based on respect and accountability towards investors should also be initiated and developed within the Company.



The Rules Governing Information Disclosure<sup>(i)</sup> and the Rules Governing Information Management of the Company have been formulated to ensure that information disclosures are open, fair and impartial. In addition, the Company has set up the corporate website <http://www.sz-expressway.com> to provide shareholders and the public with a wide range of information of investors' interest such as details of the Company's assets, traffic flow data, information disclosure, corporate governance, and so forth.

In 2006, interim and annual results announcements were made promptly pursuant to relevant regulations, and some 40 announcements and 4 circulars were released to shareholders, providing, in an objective way, statutory information on matters which might have an impact on investors' interests. The standards for making information disclosures are being continuously raised as well. Moreover, the Company continued to update investors on its latest moves and development prospects through various activities such as regular dispatches of press releases and investor newsletters in connection with the Company's operations and development, regular meetings with investors and analysts, prompt responses to investors' inquiries, participation in investor forums, results presentations, news briefings, telephone conferences, local and overseas roadshows and Online Investors Reception Days. During the Year, the Company received 92 investor visits involving about 210 visitors, and continuously held or participated in various presentation activities, of which details are as follows:

- |          |  |
|----------|--|
| January  | <ul style="list-style-type: none"> <li>Organised roadshows in Beijing, Shanghai, Hong Kong, and so forth.</li> </ul>   |
| February | <ul style="list-style-type: none"> <li>Participated in the transportation industry conference organised by BNP Paribas Peregrine in Shenzhen</li> </ul>  |
| April    | <ul style="list-style-type: none"> <li>Held annual results presentations and press conferences in Hong Kong and Shenzhen</li> <li>Participated in the "China Conference" organised by JP Morgan Chase in Beijing</li> <li>Organised roadshows in Beijing</li> <li>Held Online Reception Day<sup>(i)</sup></li> </ul> |
| May      | <ul style="list-style-type: none"> <li>Participated in the "Chinese Investors Forum" organised by Credit Lyonnais Securities in Shanghai</li> </ul>  |

- |           |   |
|-----------|---|
| June      | <ul style="list-style-type: none"> <li>Participated in the "Corporate Day" organised by BNP Paribas Peregrine in Hong Kong</li> </ul>   |
| July      | <ul style="list-style-type: none"> <li>Participated in the "Investment Forum" organised by United Securities in Guangzhou</li> <li>Participated in the "Transport Sector Day" organised by Credit Lyonnais Securities in Hong Kong</li> </ul> |
| August    | <ul style="list-style-type: none"> <li>Held interim results presentations and press conferences in Hong Kong and Shenzhen</li> </ul>  |
| September | <ul style="list-style-type: none"> <li>Participated in the "Investment Forum" organised by Ping An Securities in Shenzhen</li> <li>Organised roadshows in Hong Kong</li> </ul>  |
| October   | <ul style="list-style-type: none"> <li>Participated in the "Greater China Conference" organised by Citigroup in Macau</li> <li>Organised reverse roadshows</li> <li>Held Online Reception Day<sup>(1)</sup></li> </ul>                        |
| November  | <ul style="list-style-type: none"> <li>Organised media relations activities</li> </ul>  |

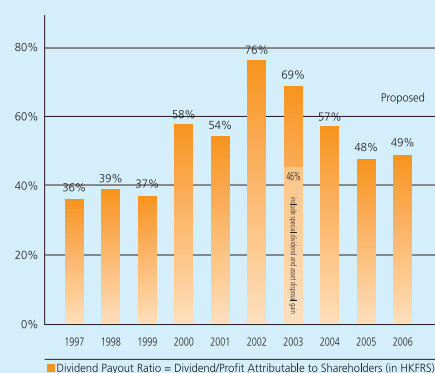
Through the participation in the above activities, the Company was able to convey its message to investors, to collect information from them and to sincerely listen to their feedback, thereby creating a constructive interaction between investors and the Company for mutual benefits.

### Shareholder Return

The Company has consistently maintained a high return for its shareholders ever since its flotation, underpinned by the payment of cash dividends for nine consecutive years with an aggregate dividend payment of approximately RMB1.9 billion.

A substantial increase in capital expenditures has been incurred to the Company due to increased investments and acquisitions of quality projects in recent years for the purpose of achieving the Company's development objectives and a higher-than-average return for its shareholders as its ultimate goal. However, the Board will still maintain a consistent dividend payout policy in the years ahead in the long-term interest of the Company's investors and for their benefit of current gains. In 2006, the Board recommended the payment of a cash dividend of RMB0.13 per share, representing 51% of the net profit in the PRC statutory financial statements or 49% of adjusted profit attributable to shareholders under the HKFRS for the Year.

**Historical Dividend Payout Ratio**



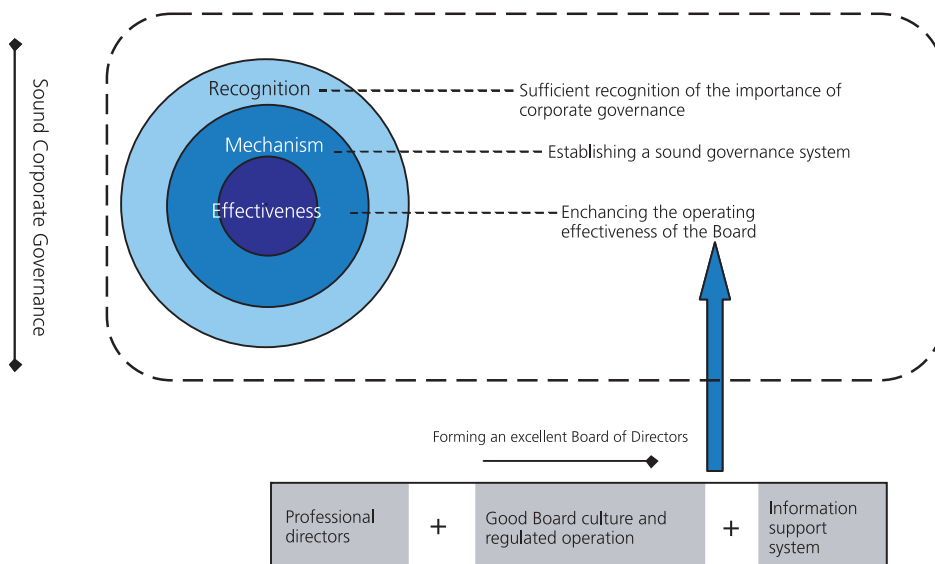
## Other Stakeholders

While dedicated to seeking satisfactory rewards for shareholders, the Company is also committed to its customers, in terms of provision of quality services, and to its employees, by making available opportunities for career development. With strong commitment to shareholders, investors, staff, customers, suppliers and the community at large and always acting with integrity and in good faith, the Company pledges to contribute to the society while pursuing profit growth: by managing and growing its business within the bounds of the law and environmental regulations, improving its standard of corporate governance and actively participating in social charities and environmental protection. It is our belief that the sustainable development of a company cannot be achieved in isolation from a healthy social environment. Noble corporate conduct is also instrumental for enhancing a company's competitiveness, and it is our duty and obligation to help improve the society and the environment on which our very existence depends.

As for our employees, apart from procuring social medical insurance under statutory requirements, the Company also voluntarily procured commercial insurance on personal accidents for our frontline employees. On this basis, the Company initiated the "Employee Mutual Aid Fund for Severe Illnesses and Personal Accidents" (the "Mutual Aid Fund") in 2002, with funds raised through voluntary employee contribution, donations from invested enterprises and the Company's donations and sponsorships, to further enhance our employees' ability to weather the risks of illnesses and injuries. In recent years, the Mutual Aid Fund has raised RMB1.87 million in aggregate, with a total of RMB530,000 distributed and 27 employees being direct beneficiaries, thus eliminating worries among our employees.

## F. CONCLUSION

The Company completed the drafting and editing of "Rules for Corporate Governance" in 2001, with amendments and improvements made continuously with reference to the relevant regulations issued by domestic and foreign regulatory bodies from time to time and the Company's actual situation. According to the requirements set out by "Notice on Convening General Meetings for Amendments to the Articles of Association" (「關於召開股東大會修改公司章程有關問題的通知」) issued by the SSE in March 2006, the Company amended certain provisions on the Articles with reference to its own actual situation and such amendments were approved by shareholders at the annual general meeting held in June 2006. For details of the amendments to the Articles, please refer to the announcement published in designated domestic and foreign newspapers and the circular to shareholders posted on the stock exchanges and the Company's websites dated 28 April 2006.



Sound corporate governance contributes to the healthy development of a company and enhances investors' confidence in the company, and the effectiveness of the Board is the core of sound corporate governance. Accordingly, in the next two years, the current session of the Board will continue to dedicate itself to advancing the efficiency and quality of decision-making and will start working on the development of a formal system of Board performance evaluation system. Meanwhile, the Board puts an emphasis on enhancing the professional qualities of the Directors and on nurturing an active and sound Board culture, so as to elevate the overall quality and performance of the Board, ensuring a stable development of the Company as well as raising shareholder value.

The Board emphasises enhancing the

# PROFESSIONAL

qualities of Directors and nurturing an active and sound Board culture, ensuring a stable development of the Company as well as raising shareholder value.



# Report of the Directors

The Board is pleased to present herewith the Directors' report and the audited financial statements of the Company and the Group for the year ended 31 December 2006.

## 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 the year 2006, seven board meetings were held, of which details are set out on pages 54 to 55 in the "Corporate Governance Report" of this annual report.

## 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 on which the information disclosed	Disclosure Date
Relevant Shareholders' Meetings of the A Share Market	23 January 2006		24 January 2006
The First Extraordinary General Meeting 2006	12 June 2006		13 June 2006
The 2005 Annual General Meeting, the 2006 Extraordinary General Meeting for Holders of Overseas-listed Foreign Shares, the 2006 Extraordinary General Meeting for Holders of Domestic Shares		Shanghai Securities News Securities Times Hong Kong Economic Times The Standard	
The Second Extraordinary General Meeting 2006, the Second Extraordinary General Meeting 2006 for Holders of H Shares, the Second Extraordinary General Meeting 2006 for Holders of Domestic Shares	3 November 2006		6 November 2006

## Report of the Directors

The shareholders considered the following important matters at the above general meetings or relevant shareholders' meeting:

1. Passed 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 2005
  - the budget plan and the emoluments of the Directors and Supervisors for the year 2006
  - re-appointment of international auditors and statutory auditors
  - acquisition of 20.09% interests in Qinglian Company
  - the feasibility of the project to be invested with the proceeds from the proposed issuance of Bonds With Warrants
  - the use of proceeds from the previous issuance
2. Passed the following matters as special resolutions:
  - the Share Segregation Reform Proposal
  - amendments to the Articles
  - authorisation to the Board to repurchase H Shares of the Company
  - proposal for the issuance of Bonds With Warrants

For details of the relevant resolutions and the consideration and passing of the relevant resolutions, please refer to the above disclosure of information.

### 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 turnover and contributions to operating profit for the Reporting Period is set out on pages 27 to 33.

The turnover of and the operating profit contributed to the Group are not separately analysed in terms of business and geographical segments as the turnover and results reported in the Reporting Period are principally derived from toll roads operated by the Group, which are located in the PRC.

### 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.



## FINANCIAL RESULTS

The results of the Group for the year ended 31 December 2006 are set out in the consolidated income statement of the Financial Statements attached in this annual report on page 94.

The financial positions of the Group and the Company as at 31 December 2006 are set out in the balance sheets of the Financial Statements attached in this annual report on pages 92 to 93.

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 2006

The Board recommended the payment of a final dividend of RMB0.13 per share (tax included) to all shareholders, totalling RMB283,491,000, for the year ended 31 December 2006. The dividend will be paid to the shareholders of H Shares whose names appear in the register of shareholders of the Company at the close of business on 20 March 2007. For payment of dividend to the 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).

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 2005 and its implementation

Pursuant to the approval at the 2005 Annual General Meeting, the Company paid a final dividend of RMB0.12 per share for the year 2005 to all shareholders on the basis of the total share capital comprising 2,180,700,000 shares as at the year end of 2005, totalling RMB261,684,000. Such dividend distributions had been completed before 31 July 2006.

## DIRECTORS AND SUPERVISORS

### 1. The details of the Directors and the Supervisors are set out on pages 82 to 85 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, its subsidiaries or its jointly controlled entities 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.

### THE DETAILS OF ELECTION AND CHANGE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. At the Sixth Extraordinary General Meeting 2005 held on 28 December 2005, the Company elected members for the fourth session of the Board and the Supervisory Committee. The terms of office for all the members of the fourth session of the Board and the Supervisory Committee are 3 years effective from 1 January 2006 to 31 December 2008. Details of the composition of the Board and the Supervisory Committee are set out on pages 53 and 61 in the Corporate Governance Report of this annual report.
2. At the first meeting of the fourth session of the Board and the first meeting of the fourth session of the Supervisory Committee held on 6 January 2006, Mr. Yang Hai and Mr. Zhong Shan Qun were elected as the chairman of the Board and the chairman of the Supervisory Committee respectively.
3. At the first meeting of the fourth session of the Board, a resolution relating to formation of the new session of specialised committees of the Board was approved. Details of the committee members are set out on pages 57 to 60 in the "Corporate Governance Report" of this annual report.
4. At the sixth meeting of the fourth session of the Board held on 26 October 2006, the Board agreed to the reappointment of Mr. Zhou Qing Ming as Administrator Controller of the Company with a term of office of two years.
5. At the seventh meeting of the fourth session of the Board held on 8 December 2006, the Board agreed to the appointment of Ms. Zhang Yang, a non-executive Director, as a member of the Remuneration Committee. Mr. Yang Hai, an executive Director, has no longer been a member of the Remuneration Committee.

### 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 to formulate the proposal for the Directors' remunerations to the Board.

In the year 2006, four Independent Directors and Mr. Chiu Chi Cheong, Clifton, a Director not nominated by shareholders, received Directors' 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. The executive Directors and the Supervisor representing staff received management remuneration in accordance with their specific management positions in the Company. The remuneration of the senior management comprises three parts, namely position salary, performance bonus and benefits, including the contributions to social retirement insurance (a retirement scheme), other kinds of social insurance and the supplemental retirement scheme, etc., that are paid by the Company according to the relevant rules. Information relating to the remuneration policy of the Company and the assessment and incentive scheme of the senior management are set out in "Human Resources" on page 46 of this annual report.



Details of the remuneration received by the Directors, Supervisors and senior management of the Company in the year 2006 are as follows:

Unit: RMB'000(before tax)

Name	Total remuneration received from the Company during the Reporting Period			Total	Whether receive remuneration from shareholder or other connected entities
	Director's/ Supervisor's emolument	Meeting subsidies	Management remuneration (including insurance and fringe benefits)		
<b>Executive Director:</b>					
Yang Hai <sup>Note 1</sup>		— <sup>Note 1</sup>	944	<b>944</b>	No
Wu Ya De <sup>Note 1</sup>		— <sup>Note 1</sup>	755	<b>755</b>	No
<b>Non-executive Director:</b>					
Li Jing Qi		11		<b>11</b>	Yes
Wang Ji Zhong		8		<b>8</b>	Yes
Liu Jun		7		<b>7</b>	Yes
Lin Xiang Ke		7		<b>7</b>	Yes
Zhang Yang		8		<b>8</b>	Yes
Chiu Chi Cheong, Clifton <sup>Note 2</sup>	(HK\$) 300	13		<b>319</b>	No
<b>Independent Director:</b>					
Li Zhi Zheng	150	13		<b>163</b>	No
Zhang Zhi Xue	150	15		<b>165</b>	No
Poon Kai Leung, James <sup>Note 2</sup>	(HK\$) 150	11		<b>164</b>	No
Wong Kam Ling <sup>Note 2</sup>	(HK\$) 150	15		<b>168</b>	No
<b>Supervisor:</b>					
Zhong Shan Qun		10		<b>10</b>	Yes
Zhang Yi Ping		12		<b>12</b>	Yes
Yi Ai Guo <sup>Note 3</sup>		13	372	<b>385</b>	No
<b>Senior Management:</b>					
Wu Xian <sup>Note 3</sup>			609	<b>609</b>	No
Li Jian <sup>Note 3</sup>			484	<b>484</b>	No
Ge Fei <sup>Note 3</sup>			537	<b>537</b>	No
Fan Li Ping <sup>Note 3</sup>			531	<b>531</b>	No
Gong Tao Tao <sup>Note 3</sup>			573	<b>573</b>	No
Zhou Qing Ming <sup>Note 3</sup>			501	<b>501</b>	No
Wu Qian			559	<b>559</b>	No
				<b>6,920</b>	

Notes:

1. Yang Hai and Wu Ya De, Directors, renounced the meeting subsidies receivable of RMB19,000 and RMB13,000 respectively for the Year.
2. For the purpose of conversion, amounts in HK\$ have been converted into RMB using an exchange rate of HK\$1 = RMB1.02.
3. According to relevant policy guidelines of the Shenzhen Municipal Government, the Company adopts 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, a Supervisor Yi Ai Guo and some senior management members namely, Wu Xian, Li Jian, Ge Fei, Fan Li Ping, Gong Tao Tao and Zhou Qing Ming, participated in the above plan. During the Reporting Period, the aforesaid person received vehicle subsidies of RMB43,200, RMB38,400, RMB60,000, RMB60,000, RMB60,000, RMB60,000 and RMB60,000 respectively.

## DISCLOSURE OF INTERESTS

1. As at 31 December 2006, 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 16 to the Financial Statements.

### PROFILES OF SHAREHOLDERS

- As at 31 December 2006, the Company had 24,841 shareholders in total, including 24,491 holders of domestic shares and 350 holders of H Shares.
- As at 31 December 2006, 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
XTC Company (note 2)	654,780,000	45.68%	30.03%
SGH Company (note 3)	411,459,887	28.71%	18.86%
Huajian Centre (note 3)	87,211,323	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
Sumitomo Life Insurance Company	51,430,000 (note 5)	6.88%	2.36%
Sumitomo Mitsui Asset Management Company, Limited	51,430,000 (note 6)	6.88%	2.36%
Halbis Capital Management (Hong Kong) Limited (formerly known as HSBC Halbis Partners (Hong Kong) Limited)	44,302,000 (note 7)	5.93%	2.03%
JP Morgan Chase & Co.	37,959,000 (note 8)	5.08%	1.74%

*Notes:*

- Restricted circulating shares.
- XTC Company is a limited company incorporated under the laws of the PRC and is a wholly owned subsidiary of Shenzhen International whose shares are listed on HKEX. In addition to the above-mentioned domestic shares of the Company held through XTC Company, Shenzhen International, through its wholly owned subsidiary Advance Great Limited, held 18,008,000 H Shares of the Company. As at the date of this annual report, Advance Great Limited held 24,568,000 H Shares of the Company.
- State-owned enterprises incorporated under the laws of the PRC with limited liability.
- Shares listed on the main board of HKEX.
- These 51,430,000 H Shares were held through Sumitomo Mitsui Asset Management Company, Limited, in which Sumitomo Life Insurance Company had a controlling interest.
- These 51,430,000 H Shares were held by Sumitomo Mitsui Asset Management Company, Limited as investment manager.
- These 44,302,000 H Shares were held by Halbis Capital Management (Hong Kong) Limited as investment manager.
- These 37,959,000 H Shares were held by JP Morgan Chase & Co. as approved lending agent.

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 2006.

3. As at 31 December 2006, 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 Shareholder	Number of non-restricted circulating shares held	Type of Shares
HKSCC Nominees Limited (Note)	731,663,398	H Share
Social Insurance Fund Portfolio 102	13,596,445	A Share
ICBC – China Universal Balanced Growth Securities Investment Fund	13,000,000	A Share
CCB – Boserá Thematic Sector Securities Investment Fund	10,723,247	A Share
Social Insurance Fund Portfolio 103	9,239,432	A Share
CCB – Boserá Value Appreciation Securities Investment Fund No.2	5,487,708	A Share
First Capital Securities Co., Ltd.	3,996,200	A Share
China Galaxy Securities Company Limited	3,974,374	A Share
The Bank of Nova Scotia	3,521,813	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.

4. The Share Segregation Reform Proposal (the "Reform Proposal") of the Company was successfully implemented on 27 February 2006. Holders of former non-circulating shares of the Company paid to circulating A Shares shareholders 3.2 shares for every 10 A Shares held by such A Shares shareholder on the registration date of the implementation of the Reform Proposal (i.e. 24 February 2006), so as to obtain the circulation rights of the non-circulating shares on the A shares stock market. After the implementation of the Reform Proposal, 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 before and after the implementation of the Reform Proposal remained unchanged.

Name of restricted circulating shares shareholder	Number of restricted circulating shares	Restricted circulating condition	Date allowed for trading
XTC Company	654,780,000 shares	Within 36 months from the day of obtaining the circulation rights, they shall not be traded on the stock exchange	2 March 2009
SGH Company	411,459,887 shares		
Huajian Centre	87,211,323 shares		
GDRB Company	61,948,790 shares		

5. 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.

### **PURCHASE, SALE OR REDEMPTION OF SHARES**

During the Reporting Period, no shares 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 Company during the Reporting Period are set out in note 17 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 5 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 18 to the Financial Statements.

### **INTEREST CAPITALISED**

The amount of interest capitalised by the Group and the Company during the Reporting Period are set out in note 26 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 27 and 24 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 10 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 or its jointly controlled entities nor is there any material prior litigation or arbitration subsisting in the Reporting Period.

### **INVESTMENTS AND ACQUISITIONS**

Please refer to the Business Review and Analysis from page 25 and the following "Connected Transactions" for details of the investments and acquisitions of the Company in the Reporting Period.

### **CONNECTED TRANSACTIONS**

In 2006, the Group had made the following disclosures in relation to connected transactions in accordance with Chapter 14A of the Listing Rules of HKEX:

1. On 8 February 2006, the Company entered into an agreement with the liquidation committee of Yueqing Company for the acquisition of 20.09% interests in Qinglian Company at a consideration of RMB484,000,000. In accordance with the Listing Rules of HKEX, since Yueqing Company is an associate of GDRB Company, which is a promoter of the Company (holding approximately 2.96% of the shares of the Company at that time), the transaction constituted a major and connected transaction of the Company and was subject to the reporting, announcement and independent shareholders' approval requirements under the Listing Rules. On 12 June 2006, the aforesaid acquisition was approved at the extraordinary general meeting of the Company. GDRB Company and its associates abstained from voting at the general meeting. For details of the transaction, please refer to the announcement dated 8 February 2006 and circular dated 25 April 2006 of the Company. The relevant industrial and administrative registration for the transaction was completed in January 2007.

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2. On 11 December 2006, the Company entered into an agreement with XTC Company for the acquisition of 5% interests in Meiguan Company at a consideration of RMB96,000,000. XTC Company is one of the promoters of the Company, holding approximately 30.03% of the shares of the Company. According to the Listing Rules of HKEX and SSE, the transaction constituted a connected transaction of the Company and was only subject to the reporting and announcement requirements but was exempted from independent shareholders' approval requirements. The aforesaid acquisition was approved by the Board on 8 December 2006. Mr. Yang Hai, Mr. Li Jing Qi, Mr. Wang Ji Zhong and Mr. Liu Jun, Directors, who also hold posts in XTC Company, declared their interests and abstained from voting at the relevant Board meeting. For details of the transaction, please refer to the announcement of the Company dated 11 December 2006. The acquisition was completed in December 2006.

The relevant considerations of the above two acquisitions were determined through tender or after arm's length negotiation. The relevant agreements were entered in accordance with normal commercial terms and in the ordinary course of business, which are fair and reasonable to the Company and all shareholders and in the interests of the Company and shareholders as a whole. The above acquisitions would strengthen the Group's asset scale and profit base, and are consistent with the overall business strategy of the Group in the investment of toll highways.

### FUNDS TRANSACTION BETWEEN CONNECTED PARTIES

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

1. During the Reporting Period, there is no appropriation of the Company's funds by its controlling shareholders or its subsidiaries. The non-operating current accounts between the Company and its subsidiaries, jointly controlled entities and other related parties (as defined in the relevant PRC regulatory rules) were the disbursements provided by the Company in performing the obligations of the guarantee for the Ropeway Company in previous years. The balance as at 31 December 2006 was RMB46,084,000. The statutory auditors of the Company have issued a specific report on the table of the appropriation of funds by the controlling shareholder and other connected parties compiled in accordance with "The Notice of Certain Matters on Administration of Fund between Listed Company and its Connected Parties and Listed Company's External Guarantees" (Zhengjianfa, No. 56 of (2003)) 《關於規範上市公司與關聯方資金往來及上市公司對外擔保若干問題的通知》(證發監(2003)56號).
2. Please refer to note 2 in the following "Mortgage and Pledge of Assets" for the Company's provision of counter-guarantee for the bank loan of Mei Wah Company.
3. The loan in a sum of US\$3,351,300 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 Wuhaung Expressway and its ancillary facilities to the Hubei Bureau for the Administration of Higher Class Public Roads (湖北省高等級公路管理局), or other sub-contractors whom it may designate from time to time (Hubei Wuhaung Expressway Management Co. Ltd. (湖北武黃高速公路經營有限公司) is the sub-contractor currently designated), throughout the operating period of Wuhaung Expressway at a consideration which is equivalent to a fixed percentage of the toll revenues. The aforesaid matters were disclosed in the announcement and circular of the Company in relation to the acquisition of interests in Wuhaung Expressway by the Company.

In 2006, revenue and profit of Wuhaung Expressway attributable to the Group represented 14.99% of the Group's revenue and 10.47% of the Group's after-tax profit respectively. The amount of entrusted management fees attributable to the Company with reference to 55% interests in Magerk Company held by the Company is RMB44,984,000. Please refer to "Financial Review and Analysis" from page 27 to page 35 of this annual report for relevant details of the impact on the financial status and operating results of the Company.

### 2. Mortgage and Pledge of Assets

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

Asset	Type	Bank	Scope of security	Terms
Toll collection rights of Shuiguan Expressway	Pledge*	China Construction Bank	RMB650 million bank loan (principal and interests)	Until repayment of all indebtedness by Qinglong Company under the loan agreement
154,000,000 shares of JEL Company	Mortgage**	Industrial and Commercial Bank of China (Asia) Limited	HK\$680 million bank loan (principal and interests) (note 2)	Until repayment of all indebtedness by Mei Wah Company under the loan agreement

\* Pledged by Qinglong Company, a jointly controlled entity of the Company

\*\* Mortgaged by Mei Wah Company, a wholly owned subsidiary of the Company

Notes:

- The Company had pledged its 95% shareholding in Meiguan Company in favour of China Development Bank for a credit line of RMB 1.4 billion since 25 June 2005. During the Reporting Period, the said pledge was released since the relevant loan had been settled.
- In 2005, Mei Wah Company mortgaged its shares in JEL Company for guaranteeing a loan of HK\$680 million in favour of Industrial and Commercial Bank of China (Asia) Limited. Meanwhile, Shenzhen Branch of Industrial and Commercial Bank of China ("ICBC Shenzhen") issued a letter of credit for guaranteeing the performance of Mei Wah Company and the Company provided a credit counter-guarantee to ICBC Shenzhen therefor. As part of the loan had been repaid, the Company entered into a supplementary agreement with the relevant parties, pursuant to which, the letter of credit provided by ICBC Shenzhen have been released from 19 June 2006 and the credit counter-guarantee provided by the Company to ICBC Shenzhen was released accordingly. As at the end of the Reporting Period, the amount of outstanding loan is HK\$162 million.
- On 19 May 2006, Qinglian Company, an associated company of the Company, pledged the following interests in favour of the lending bank 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 collection rights of Qinglian Expressway and Qinglian Class 2 Road after completion of the reconstruction of Qinglian Class 1 Highway into an expressway. Information relating to the relevant loan arrangement is set out in the "Capital/Financing" on page 37 in this annual report.

Save as disclosed above, the Company did not enter into any contract in respect of the management and administration of its entire 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.

### CONTINUING DISCLOSURE OBLIGATIONS UNDER THE LISTING RULES OF HKEX

The Group acquired 56.28% interests in Qinglian Company in 2005, and also undertook, in proportion to its interests acquired, the advances and the related accrued but unpaid interests of Qinglian Company from the original equity holders for a total amount of RMB958,883,000 which is reflected in the interests in associates. During the Reporting Period, according to the agreement of the equity holders of Qinglian Company and the resolution of the board of directors of Qinglian Company, the Company converted the aforesaid advances with an amount of RMB829,393,000 into capital investment. As such, as at the end of the Reporting Period, there is no matter required to be disclosed pursuant to the continuing disclosure obligations under rule 13.22 of the Listing Rules of HKEX.

## UNDERTAKING

1. The shareholders of the Company, XTC Company and SGH Company, each of which has more than 5% shareholding, 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	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 exchange;	
SGH Company	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 to distribute at least 50% of the profit available for distribution in the corresponding periods as cash dividends to the shareholders and to vote for such resolutions at the annual general meeting;	The Company did not notice that these shareholders had violated such undertaking during the Reporting Period.
Huajian Centre		
GDRB Company		
	3. They would pay all relevant expenses arising from the Share Segregation Reform in proportionate to their shareholdings.	

## 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 2006.

## AUDITORS

The details of the appointment and remuneration of the auditors are stated in the Corporate Governance Report on pages 63 to 64 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 (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 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, the PRC, 2 March 2007

# Report of the Supervisory Committee

Adhering to the principle of conscientiousness and complying with the Company Law of the PRC, the Listing Rules, the Articles and other relevant requirements, all new members of the Supervisory Committee of the Company faithfully discharged their duties with prudence and endeavors during the year 2006 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:

During the Reporting Period, the Supervisory Committee convened seven 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 passed by the Supervisory Committee include:


- Election of chairman of the fourth session of the Supervisory Committee;
- The report of the Supervisory Committee for 2005 and the work plan for 2006;
- The remuneration of the Supervisors;
- Review of the final accounts and audited financial report for 2005, the profit distribution scheme for 2005, the 2005 annual report and its summary, and the budget plan for 2006;
- Review of the first quarterly report, interim report and third quarterly report of 2006;
- Review of the proposal for issuance of Bonds With Warrants, the feasibility of the project to be invested with the proceeds from the proposed issuance of Bonds With Warrants, and the explanation on the use of proceeds from the previous issuance;
- Review of the investment proposal to acquire 5% interests in Meiguan Company.

During the year 2006, the members of the Supervisory Committee attended and observed 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. It would promptly inform the Board and the Company's management regarding any potential risks in relation thereto. During the Reporting Period, there was no incident about which the Supervisors make representations to the Directors or sue 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 2006:

1. In 2006, 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 standard of corporate governance. All the Directors, general manager and other 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.



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2. Upon reviewing the unqualified auditors' reports which are issued by PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian CPAs Co. Ltd. on the financial statements of the Company for the year 2006 prepared in accordance with the HKFRS and the PRC GAAP respectively, the Supervisory Committee considered that the financial statements for the year 2006 have objectively, truly and fairly reflected the financial status, operating results and cash flow positions of the Company and the Group.
  3. The Company issued 165 million A Shares in December 2001 and raised funds amounting to RMB604 million. Such funds were used to invest in Yanba B. Up to 31 December 2006, a total of RMB485 million out of the raised funds was spent. The actual project in which the proceeds were applied is consistent with the project represented in the Prospectus.
  4. During the year 2006, the Company entered into contracts to further acquire 20.09% interests in Qinglian Project and 5% interests in Meiguan Company. According to the Listing Rules of the SSE, the acquisition of 5% interests in Meiguan Company constitutes a connected transaction. Under the Listing Rules of the HKEX, the above two acquisitions both constituted connected transactions. The Supervisory Committee, after reviewing these acquisitions (in respect of the further acquisitions of 20.09% interests in Qinglian Project, the review was conducted in 2005), considered that the above acquisitions were in the overall interests of the Company and the shareholders and the terms of the transactions were fair and reasonable to the Company and all the shareholders. The relevant decision-making procedures for such acquisitions were lawful. The Supervisory Committee was not aware of any insider dealings or the existence of any violation of the principle of fairness and honesty in respect of the decisions made, contracts signed or information disclosed by the Board.

By Order of the Supervisory Committee

**Zhong Shan Qun**

*Chairman of the Supervisory Committee*

Shenzhen, the PRC, 2 March 2007

# Directors, Supervisors and Senior Management

## DIRECTORS

### Mr. YANG Hai

aged 46, senior engineer, the chairman of the Board, 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 section head, department head and assistant to the head of the Second Road Engineering Bureau of Ministry of Communications. From 1997 to 2000, he had been the deputy general manager of the Company. In March 2000, he joined Shenzhen International (a Hong Kong listed company) as the general manager of Yiwan Industry Development (Shenzhen) Co., Ltd., a wholly owned subsidiary of Shenzhen International till April 2005 and had been a vice president of Shenzhen International from June 2004 to July 2006. Since April 2005, he has been the chairman of the Company, and is now also the chairman of Mei Wah Company, a company invested by the Company. Mr. Yang is also a director of various subsidiaries of Shenzhen International, namely XTC Company, Shen Ke Industry and Development (Shenzhen) Co., Ltd., a director of Shenzhen Western Logistics Co., Ltd., and a supervisor of CSG Holding Co., Ltd. (a PRC listed company).

### Mr. WU Ya De

aged 43, Director and the general manager 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 served as the chief of the administration department of Shenzhen Roads Bureau, manager of a toll road company, etc. Since November 1996, he has been in sequence the general manager and chairman of SGH Company and the deputy 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 he is now also the chairman of Qinglian Company, a company invested by the Company.

### Mr. LI Jing Qi

aged 51, 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 experience in international banking, foreign exchange business and risks management. From March 2000 to August 2006, Mr. Li had been an executive director and vice president of Shenzhen International. Since August 2006, he has been an executive director and president of Shenzhen International. Since April 2005, Mr. Li has been a Director of the Company. Mr. Li is the chairman of CSG Holding Co., Ltd., (a PRC listed company) and also a director of various subsidiaries of Shenzhen International including XTC Company. He had also been an executive director of Shenzhen High-Tech Holdings Limited (a Hong Kong listed company).

### Mr. WANG Ji Zhong

aged 60, senior accountant, Director of the Company. After graduated from the institute, Mr. Wang had worked in different sizable enterprises in the field of architecture, construction materials, instruments and tobacco, responsible for accounting and management duties for more than thirty years and has accumulated extensive experience. He had been the director of the finance department of Shenzhen Investment Holding Corporation and then joined XTC Company as deputy general manager since October 1997. He 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. Mr. Wang is also a director of XTC Company, Shenzhen South-China International Logistics Co., Ltd., Shenzhen Dasheng Advanced Science & Technique Engineering Co., Ltd. and Man Tai Cheng Utilities Construction Co., Ltd. and the deputy chairman of Total Logistics (Shenzhen) Co., Ltd.



**Mr. LIU Jun**

aged 44, Director of the Company. Mr. Liu graduated from Nanjing Polytechnic University, holds 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, finance management and foreign investment management. In April 2000, he joined Shenzhen International as vice president. In May 2004, he was appointed as an executive director of Shenzhen International. Mr. Liu has been a Director of the Company since January 2006. He is also the chairman of Total Logistics (Shenzhen) Co., Ltd., a director of CSG Holding Co., Ltd. (a PRC Listed Company), Shenzhen Airlines and various subsidiaries of Shenzhen International including XTC Company.

**Mr. LIN Xiang Ke**

aged 51, senior political officer, senior accountant, 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 has been the chairman and general manager of SGH Company since April 2004. From June 1998, Mr. Lin has been a Director of the Company.

**Ms. ZHANG Yang**

aged 43, political officer, Director of the Company and a member of Risk Management Committee and Remuneration Committee of the Company. Ms. Zhang graduated from Lanzhou University and obtained a bachelor's degree in economics in 1987. She obtained a master's degree in economics from the Department of Economic Management of the Central Party School in 2001. She had worked in the Ministry of Aviation and joined Huajian Centre in 1994 as project manager and then became department manager. Ms. Zhang is currently the assistant to general manager and the manager of the securities department of Huajian Centre. From March 2001, Ms. Zhang has been a Director of the Company. Additionally, Ms. Zhang is also a director of Xiamen Port Development Co., Ltd. (a PRC listed company), Zhejiang Expressway Co., Ltd. (a Hong Kong listed company) and Sichuan Expressway Co., Ltd. (a Hong Kong listed company).

**Mr. CHIU Chi Cheong, Clifton**

aged 53, a registered accountant in the USA, Director of the Company, member of the Audit Committee and the Strategic Development & Investment Committee of the Company. Mr. Chiu graduated from the University of Southern California with a MBA degree in 1977. Mr. Chiu is currently managing director of Harvester (Holdings) Co., Ltd. He has accumulated extensive experience in international finance, securities and accounting. Mr. Chiu had been an independent director of the Company from December 1996 to December 2002. From 2003, he has been a Director of the Company. Mr. Chiu has been the vice chairman of the Takeovers and Mergers Panel of the Securities and Futures Commission since January 1996, and had been a member of the 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).

## Directors, Supervisors and Senior Management

### **Mr. LI Zhi Zheng**

aged 65, senior research engineer, Independent Director of the Company, the chairman of the Remuneration Committee and 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. From 1988, he has been the chief executive officer of CATIC Shenzhen Group, the chairman of several PRC listed companies and the chairman of Shenzhen Catic Investment Management Co., Ltd. Mr. Li is currently a director and executive president of Laimengpengyuan Company. Since January 2003, Mr. Li has been an Independent Director of the Company.

### **Mr. ZHANG Zhi Xue**

aged 38, Independent Director of the Company, a member of the Remuneration Committee and 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 the Institute of Economics of Jinan University. Mr. Zhang has more than ten years professional experience in human resources management and consultation. Mr. Zhang 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 Company since March 1999 and the chairman of Zuo You Management Consultants Company since February 2006. From January 2003, he has been an Independent Director of the Company.

### **Mr. POON Kai Leung, James**

aged 42, Independent Director of the Company, the chairman of the Risk Management Committee and a member of the Audit Committee of the Company. Mr. Poon holds a master's degree in business administration and a Ph.D. degree in finance from the Chinese University of Hong Kong and is a fellow member of The Society of Registered Financial Planner (FRFP) in Hong Kong. He joined ING Bank Hong Kong in 1993 and was appointed as head of corporate financial services of Shanghai branch and 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 of Greater China of ING Bank Hong Kong. From May 2003, he has been an Independent Director of the Company.

### **Mr. WONG Kam Ling**

aged 58, 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). Mr. Wong 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). From 1987 to 1991, he had been the chief accountant of the group of China Dyeing Holdings Ltd. (a formerly Hong Kong listed company) and Captronic Group Ltd. (a formerly Hong Kong listed company). Between September 1991 and December 2004 before his retirement, Mr. Wong had been the financial controller and financial consultant of Bel Fuse Ltd. (a subsidiary of Bel Fuse Inc., a company listed on NASDAQ). Apart from duties in relation to financial control, Mr. Wong was also responsible for the establishment of the system and procedures for corporate governance. Mr. Wong has substantial experience in financial management, accounting and corporate governance. Since June 2005, Mr. Wong has been an Independent Director of the Company.



## SUPERVISORS

### Mr. ZHONG Shan Qun

aged 43, the chairman of the Supervisory Committee of the Company. Mr. Zhong graduated from Changsha Institute of Communications in 1985, with a bachelor's degree in civil engineering and economics. He obtained a master's degree in Management Science and Engineering from Hunan University in 2002. Mr. Zhong has more than ten years experience in engineering construction management and corporate management. He joined XTC Company in 1994 and served in sequence as manager of the engineering department, assistant to general manager, deputy general manager and general manager of XTC Company. He has been the chairman and general manager of XTC Company since September 2005 and had been a vice president of Shenzhen International from June 2004 to July 2006. From January 1997 to April 2005, he had been a Director of the Company, and since January 2006 he has been the chairman of the Supervisory Committee of the Company. Mr. Zhong is currently the chairman of Shenzhen South-China International Logistics Co., Ltd., and a director of Shenzhen Venture Technology Capital Co., Ltd.

### Mr. ZHANG Yi Ping

aged 42, auditor, registered property valuer, Supervisor of the Company. Mr. Zhang graduated from the Accounting Department of Hunan University. Mr. Zhang has over ten years experience in auditing, and had been an office staff of the audit bureau of Hengyang City, Hunan Province, a project manager of the audit department of the Shenzhen Special Economy Zone Auditor Firm. He was transferred to Shenzhen Roads Bureau in February 1998, had been engaged in sequence in the internal auditing and enterprise reforming in the audit department and the office of enterprises' reform and development. From May 2004, he has been the deputy general manager of SGH Company. Mr. Zhang has been a Supervisor of the Company since January 2006. Currently, he is also a director of SGH Company, a supervisor of Shenzhen Yuetong Construction Co., Ltd, Shenzhen Road-Tunnel Maintenance and Management Co., Ltd. and Shenzhen Taixinli Property Management Co., Ltd.

### Mr. YI Ai Guo

aged 44, 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 served as the section chief of the administrative office 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. Mr. Yi has been a Supervisor representing the staff since January 2003. He is currently also a director of Yungang Company and Advertising Company, which are invested by the Company.

## SENIOR MANAGEMENT

### Mr. WU Xian

aged 49, registered supervising engineer, a director and the general manager of Qinglian 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 deputy controller of Jihe East. Since the establishment of the Company, Mr. Wu served 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 2005, Mr. Wu has been a director and the general manager of Qinglian Company and the general manager of the Project Administration Office for reconstruction of Qinglian project. He is now responsible for the operation management of Qinglian Company and construction management of the reconstruction of Qinglian project.

## Directors, Supervisors and Senior Management

### **Mr. LI Jian**

aged 49, lecturer, the Operations Controller of the Company. Mr. Li graduated from Changsha Institute of Communications. Mr. Li joined XTC Company in 1994 and had been the administrative officer. Upon establishment of the Company, Mr. Li served as the manager of the Operations Department and the manager of the Investment and Development Department in sequence. He had also been the Supervisor representing the staff of the second session of the Supervisory Committee of the Company. Since August 2005, Mr. Li has been the Operations Controller of the Company. He is mainly responsible for the operations management of toll highways and the related matters. Mr. Li is also the chairman of Jihe East Company, the deputy chairman of Jiangzhong Company, Nanjing Company and a director of Meiguan Company and GZ W2 Company, which are invested by the Company.

### **Mr. GE Fei**

aged 39, engineer, the Engineering Controller 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. In January 1994, he joined XTC Company 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. Since 1998, he joined the Company, being deputy general manager of the Project Management Office of Jihe Expressway, deputy manager of the Engineering Department of the Company, general manager of the Project Management Office of Yanba Expressway. From 2003 to August 2005, he had been a director and the deputy general manager of Consulting Company. Mr. Ge has been the Engineering Controller of the Company since August 2005, is mainly responsible for the management of construction of highways projects and entrusted construction business. Mr. Ge is also a director of Qinglong Company and Huayu Company, which are invested by the Company.

### **Mr. FAN Li Ping**

aged 44, senior engineer, the Technical Controller of the Company. Mr. Fan graduated from Chongqing Institute of Architecture and Engineering. He worked in the No. 1 Highway Survey, Planning and Design Institute of the Ministry of Communications and joined XTC Company in 1994, serving as senior engineer and manager of the Contracting Department of the Administration Office of Jihe East. Upon establishment of the Company, he served in sequence as the deputy manager of the Engineering Department, manager of the Operations and Management Department and the deputy general manager of the Project Administration Office of Jihe West, the general manager of the Project Administration Office of Yanba A and Engineering Controller of the Company. Mr. Fan has been the Technical Controller of the Company since August 2005, who is mainly responsible for the preliminary development of the highways projects and technology management of the Company. Mr. Fan is also the deputy chairman of Yungang Company and a director of Guangyun Company, which are invested by the Company.

### **Ms. GONG Tao Tao**

aged 34, certified public accountant and certified public valuer of PRC, the Financial Controller of the Company. Ms. Gong graduated from the Accounting Department of Shanghai University of Finance & Economics in 1994 and obtained a master's degree in business administration from Fudan University in 1999. She served as the auditor, project manager and department manager of Shenzhen Dahua Certified Public Accountants. Ms. Gong joined the Company in 1999, serving in sequence as the deputy manager of the Finance Department and the manager of the Internal Audit Department. Since November 2002, She has been the Financial Controller of the Company, and is currently also the qualified accountant of the Company. Ms. Gong is mainly responsible for preparing the annual budget and accounts of the Company, monitoring the implementation of the financial and operational plans, devising the relevant internal control systems, etc. Ms. Gong is also the chairman of Advertising Company, which is invested by the Company.



### **Mr. ZHOU Qing Ming**

aged 50, senior engineer, registered safety officer, the Administrative Controller of the Company. Mr. Zhou joined the Company as the administrative officer in March 1998. From March 2000 to October 2004, he had been the assistant to general manager of the Company. Since October 2004, he has been the Administrative Controller of the Company. Mr. Zhou is mainly responsible for the development of the information system and the corporate culture, public relations and crisis management as well as the administrative duties of the Company. Mr. Zhou is also a director of Consulting Company and a supervisor of Meiguan Company, which are invested by the Company.

### **Ms. WU Qian**

aged 35, certified public accountant of PRC, economist, Joint 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 company secretary 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 has been appointed as the joint company secretary of the Company since September 2004. Ms. Wu 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.

### **Mr. TSE Yat Hong**

aged 37, Fellow of the Hong Kong Institute of Certified Public Accountants and certified public accountant of CPA Australia, Joint Company Secretary of the Company. Mr. Tse graduated from Monash University Australia in 1992, majoring in accounting and computer science. He had worked in an international accounting firm for many years. From 2000 onwards, he has been the chief financial officer of Shenzhen International, and he is also the company secretary and the qualified accountant of Shenzhen International, responsible for the financial management and planning, as well as coordinating major transactions and corporate governance matters. Mr. Tse has extensive experience in accounting, finance and corporate governance of listed companies and has extensive knowledge on Hong Kong and PRC's accounting and financial rules and regulations. Since September 2004, Mr. Tse was appointed as the joint company secretary of the Company, assisting Ms. Wu Qian in discharging her duties as company secretary.



羅兵咸永道會計師事務所

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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") set out on pages 90 to 146, which comprise the consolidated and company balance sheets as at 31 December 2006, 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 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 the Group as at 31 December 2006 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, 2 March 2007

# Consolidated Balance Sheet

As at 31 December 2006

	Note	2006 RMB'000	2005 RMB'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	5	4,745,718	4,055,081
Construction in progress	6	861,245	693,443
Land use rights	7	351,192	368,830
Intangible assets	8	770,535	824,585
Investments in associates	11	3,006,665	2,966,903
Deferred income tax assets	19	32,656	6,764
Loan to a jointly controlled entity		—	78,240
		<b>9,768,011</b>	8,993,846
<b>Current assets</b>			
Inventories		2,961	3,540
Trade and other receivables	12	101,396	157,829
Restricted cash	13	6,872	31,615
Cash and cash equivalents	14	379,641	892,485
		<b>490,870</b>	1,085,469
Non-current assets and disposal group classified as held for sale	15	58,360	—
		<b>549,230</b>	1,085,469
<b>Total assets</b>		<b>10,317,241</b>	10,079,315
<b>EQUITY</b>			
<b>Capital and reserves attributable to the Company's equity holders</b>			
Share capital	16	2,180,700	2,180,700
Other reserves	17	3,419,372	3,376,930
Retained earnings			
— Proposed final dividend	30	283,491	261,684
— Others		721,075	510,307
		<b>6,604,638</b>	6,329,621
<b>Minority interest</b>	9(a)(i)	—	43,138
<b>Total equity</b>		<b>6,604,638</b>	6,372,759

	Note	2006 RMB'000	2005 RMB'000
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	18	1,114,989	2,230,602
Deferred income tax liabilities	19	125,226	155,030
Government grants	20	350,461	364,388
		<b>1,590,676</b>	2,750,020
<b>Current liabilities</b>			
Other payables and accrued expenses	21	856,331	670,692
Current income tax liabilities		33,624	15,736
Borrowings	18	1,226,641	270,108
		<b>2,116,596</b>	956,536
Liabilities directly associated with disposal group classified as held for sale	15	5,331	—
		<b>2,121,927</b>	956,536
<b>Total liabilities</b>		<b>3,712,603</b>	3,706,556
<b>Total equity and liabilities</b>		<b>10,317,241</b>	10,079,315
<b>Net current (liabilities)/assets</b>		<b>(1,572,697)</b>	128,933
<b>Total assets less current liabilities</b>		<b>8,195,314</b>	9,122,779

**YANG HAI**

Director

**WU YA DE**

Director

The notes on pages 97 to 146 are an integral part of these consolidated financial statements.

# Balance Sheet

As at 31 December 2006

	Note	2006 RMB'000	2005 RMB'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	5	2,941,612	2,158,511
Construction in progress	6	857,308	648,089
Land use rights	7	67,146	70,504
Investments in subsidiaries	9	1,649,963	812,690
Investments in jointly controlled entities	10	958,859	1,105,944
Investments in associates	11	2,691,624	2,601,624
		<b>9,166,512</b>	7,397,362
<b>Current assets</b>			
Inventories		1,933	2,225
Trade and other receivables	12	94,919	144,074
Restricted cash	13	6,872	31,615
Cash and cash equivalents	14	228,890	748,672
		<b>332,614</b>	926,586
Non-current assets classified as held for sale	15	40,000	—
		<b>372,614</b>	926,586
<b>Total assets</b>		<b>9,539,126</b>	8,323,948
<b>EQUITY</b>			
<b>Capital and reserves attributable to the Company's equity holders</b>			
Share capital	16	2,180,700	2,180,700
Other reserves	17	3,305,340	3,249,416
Retained earnings			
— Proposed final dividend	30	283,491	261,684
— Others		686,719	503,248
<b>Total equity</b>		<b>6,456,250</b>	6,195,048

	Note	2006 RMB'000	2005 RMB'000
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	18	693,028	1,285,243
Deferred income tax liabilities	19	22,611	32,218
Government grants	20	350,461	364,388
		<b>1,066,100</b>	1,681,849
<b>Current liabilities</b>			
Other payables and accrued expenses	21	800,087	242,243
Current income tax liabilities		13,548	—
Borrowings	18	1,203,141	204,808
		<b>2,016,776</b>	447,051
<b>Total liabilities</b>		<b>3,082,876</b>	2,128,900
<b>Total equity and liabilities</b>		<b>9,539,126</b>	8,323,948
<b>Net current (liabilities)/assets</b>		<b>(1,644,162)</b>	479,535
<b>Total assets less current liabilities</b>		<b>7,522,350</b>	7,876,897

**YANG HAI**  
Director

**WU YA DE**  
Director

The notes on pages 97 to 146 are an integral part of this financial statement.

# Consolidated Income Statement

For the year ended 31 December 2006

	Note	2006 RMB'000	2005 RMB'000
<b>Continuing operations</b>			
Revenue	22	1,188,556	911,482
Other income	23	97,858	191,930
Business tax and surcharges	24	(38,964)	(38,361)
Depreciation and amortisation		(219,533)	(167,634)
Employee benefit expenses	25	(70,255)	(67,163)
Road maintenance expenses		(20,644)	(15,181)
Other operating expenses		(177,944)	(48,157)
<b>Operating profit</b>		<b>759,074</b>	766,916
Finance costs	26	(98,397)	(100,621)
Share of loss of associates	11	(16,948)	(24,015)
<b>Profit before income tax</b>		<b>643,729</b>	642,280
Income tax expenses	27	(49,900)	(80,071)
<b>Profit for the year from continuing operations</b>		<b>593,829</b>	562,209
<b>Discontinued operation</b>			
Loss for the year from discontinued operation	15(a)	(3,056)	—
<b>Profit for the year</b>		<b>590,773</b>	562,209
<b>Attributable to:</b>			
Equity holders of the Company	28	579,090	552,622
Minority interest		11,683	9,587
		<b>590,773</b>	562,209
<b>Earnings per share for profit from continuing operations attributable to the equity holders of the Company during the year</b> (expressed in RMB per share)			
— Basic and diluted	29	0.267	0.253
<b>Loss per share for loss from discontinued operation attributable to the equity holders of the Company during the year</b> (expressed in RMB per share)			
— Basic and diluted	29	(0.001)	—
<b>Dividends</b>	30	<b>283,491</b>	261,684

The notes on pages 97 to 146 are an integral part of these consolidated financial statements.

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2006

	Note	Attributable to equity holders of the Company				Total RMB' 000
		Share capital	Other reserves	Retained earnings	Minority interest	
		RMB' 000 (Note 16)	RMB' 000 (Note 17)	RMB' 000	RMB' 000	
<b>Balance at 1 January 2005</b>		2,180,700	3,247,852	587,171	41,700	6,057,423
Currency translation differences		—	1,153	—	—	1,153
Profit for the year		—	—	552,622	9,587	562,209
<b>Total recognised income for 2005</b>		—	1,153	552,622	9,587	563,362
Transfer to reserve funds		—	127,925	(127,925)	—	—
Dividend relating to 2004		—	—	(239,877)	(8,149)	(248,026)
<b>Balance at 31 December 2005</b>		2,180,700	3,376,930	771,991	43,138	6,372,759
<b>Balance at 1 January 2006</b>		2,180,700	3,376,930	771,991	43,138	6,372,759
Currency translation differences		—	(1,153)	—	—	(1,153)
Profit for the year		—	—	579,090	11,683	590,773
<b>Total recognised income for 2006</b>		—	(1,153)	579,090	11,683	589,620
Transfer to reserve funds		—	84,831	(84,831)	—	—
Dividend relating to 2005		—	—	(261,684)	(7,889)	(269,573)
Acquisition of minority interest in a subsidiary	9(a)(i)	—	(41,236)	—	(46,932)	(88,168)
<b>Balance at 31 December 2006</b>		2,180,700	3,419,372	1,004,566	—	6,604,638

The notes on pages 97 to 146 are an integral part of these consolidated financial statements.

# Consolidated Cash Flow Statement

For the year ended 31 December 2006

	Note	2006 RMB'000	2005 RMB'000
<b>Cash flows from operating activities</b>			
Cash received from toll income		1,182,625	920,170
Cash received from the road construction management services		17,335	27,868
Cash paid to suppliers		(98,845)	(45,581)
Cash paid to employees		(60,551)	(57,666)
Other cash received/(paid)	36	47,283	(125,804)
<b>Cash generated from operations</b>	31	1,087,847	718,987
Interest paid		(115,093)	(88,992)
Income tax paid		(87,762)	(75,552)
Government subsidies received		12,789	10,309
<b>Net cash generated from operating activities</b>		897,781	564,752
<b>Cash flows from investing activities</b>			
Purchases of property, plant and equipment and payments for construction in progress		(688,525)	(425,271)
Proceeds from sales of significant property, plant and equipment		—	386,000
Proceeds from sales of other property, plant and equipment		312	—
Deposits received from contractors for road construction projects	36	145,936	—
Acquisition of minority interest in a subsidiary	9(a)(i)	(96,000)	—
Acquisition of a jointly controlled entity, net of cash acquired		—	(612,651)
Acquisition of associates	21(a)	(357,784)	(1,653,754)
Increase in investments in associates	11(b)	(90,000)	(101,840)
Redemption of loan due from a jointly controlled entity		54,506	40,092
Profit distribution and appropriation from an associate		33,290	—
Interest received		6,313	9,798
<b>Net cash used in investing activities</b>		(991,952)	(2,357,626)
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		2,531,762	3,394,072
Proceeds from issuance of short-term bonds	18(a)	1,000,000	—
Repayments of borrowings		(2,672,746)	(1,702,959)
Repayments of short-term bonds	18(a)	(1,000,000)	—
Payments for other borrowing costs		(7,666)	(16,409)
Government grant received		7,020	18,980
Repayment of advance from a minority equity owner of a subsidiary		(2,350)	(2,528)
Dividends paid to the Company's shareholders	30	(261,684)	(239,877)
Dividends paid to minority equity owners of subsidiaries		(7,889)	(8,149)
<b>Net cash (used in)/generated from financing activities</b>		(413,553)	1,443,130
<b>Net decrease in cash and cash equivalents</b>		(507,724)	(349,744)
Cash and cash equivalents at beginning of the year		892,485	1,241,838
Exchange (losses)/gains on cash and cash equivalents		(2,922)	391
<b>Cash and cash equivalents at end of the year</b>	14	381,839	892,485

The notes on pages 97 to 146 are an integral part of these consolidated financial statements.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

## 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, its subsidiaries and its jointly controlled entities (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 2 March 2007.

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

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. In addition, the Company is going to issue bonds attached with warrant rights, and the Group had unutilised committed 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.

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.

For the year ended 31 December 2006

## 2 Summary of significant accounting policies (continued)

### 2.1 Basis of preparation (continued)

The following standard, amendments and interpretations are effective in 2006. Unless otherwise specified, they are not relevant to the Group's operations or have no material impact on the financial statements of the Group:

- Amendment to HKAS 19, 'Actuarial Gains and Losses, Group Plans and Disclosures', effective for annual periods beginning on or after 1 January 2006;
- Amendment to HKAS 21, 'Net Investment In a Foreign Operation', effective for annual periods beginning on or after 1 January 2006;
- Amendment to HKAS 39, 'Cash Flow Hedge Accounting of Forecast Intragroup Transactions', effective for annual periods beginning on or after 1 January 2006;
- Amendment to HKAS 39, 'The Fair Value Option', effective for annual periods beginning on or after 1 January 2006;
- Amendments to HKAS 39 and HKFRS 4, 'Financial Guarantee Contracts', effective for annual periods beginning on or after 1 January 2006;
- HKFRS 6, 'Exploration for and Evaluation of Mineral Resources', effective for annual periods beginning on or after 1 January 2006;
- Amendments to HKFRS 1 and 6, 'First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources', effective for annual periods beginning on or after 1 January 2006;
- HKFRS-Int 4, 'Determining whether an Arrangement contains a Lease', effective for annual periods beginning on or after 1 January 2006. The Group has reviewed all its executed contracts. None of them are required to be accounted for as leases in accordance with HKAS 17, 'Leases';
- HKFRS-Int 5, 'Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds', effective for annual periods beginning on or after 1 January 2006. As all toll road assets of the Group are required to be returned to the local government authorities upon the expiry of the respective operating rights periods granted (Note 5(b)), this interpretation is not relevant to the Group; and
- HK(IFRIC)-Int 6, 'Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment', effective for annual periods beginning on or after 1 December 2005.

The following new standard and interpretations to existing standards have been issued but are not effective for 2006 and have not been early adopted:

- HK(IFRIC)-Int 7, 'Applying the Restatement Approach under HKAS 29', effective for annual periods beginning on or after 1 March 2006. Management do not expect the interpretation to be relevant for the Group;
- HK(IFRIC)-Int 8, 'Scope of HKFRS 2', effective for annual periods beginning on or after 1 May 2006. Management do not expect the interpretation to be relevant for the Group;

## 2 Summary of significant accounting policies (continued)

### 2.1 Basis of preparation (continued)

- HK(IFRIC)-Int 9, 'Reassessment of Embedded Derivatives', effective for annual periods beginning on or after 1 June 2006. Management do not expect the interpretation to be relevant for the Group;
- HK(IFRIC)-Int 10, 'Interim Financial Reporting and Impairment', effective for annual periods beginning on or after 1 November 2006. This interpretation explains that management should not reverse an impairment loss recognised in a previous interim period in respect of goodwill or investment in either an equity instrument or a financial asset carried at cost. This interpretation is applicable to the Group and the Group will apply it for the annual periods beginning 1 January 2007;
- HK(IFRIC)-Int 11, 'HKFRS 2-Group and Treasury Share Transactions', effective for annual periods beginning on or after 1 March 2007. 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 companies that participate in service concession arrangements and provides guidance on the accounting by operations in public-to-private service concession arrangements. This interpretation is applicable to the Group and the Group will apply it for the annual periods beginning 1 January 2008; and
- HKFRS 7, 'Financial instruments: Disclosures', effective for annual periods beginning on or after 1 January 2007. Amendment to HKAS 1, 'Capital Disclosures', effective for annual periods beginning on or after 1 January 2007. The Group assessed the impact of HKFRS 7 and the amendment to HKAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and capital disclosures required by the amendment of HKAS 1. The Group will apply HKFRS 7 and the amendment to HKAS 1 for annual periods beginning 1 January 2007.

### 2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries and jointly controlled entities 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 (Note 2.7(a)). 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.

For the year ended 31 December 2006

## 2 Summary of significant accounting policies (continued)

### 2.2 Consolidation (continued)

#### (a) Subsidiaries (continued)

Intercompany 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 2.8). The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

#### (b) Transactions with minority shareholders

The Group applies a policy of treating transactions with minority interests as transactions with equity holders 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 recorded in 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 loss) identified on acquisition (Note 2.7(a)).

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 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 assets 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 2.8). 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)

### 2.2 Consolidation (continued)

#### (d) Joint ventures

The Group's interests in jointly controlled entities are accounted for by proportionate consolidation. The Group combines its share of the jointly controlled entities' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements. The Group recognises the portion of gains or losses on the sale of assets by the Group to the jointly controlled entity that it is attributable to the other venturers. The Group does not recognise its share of profits or losses from the jointly controlled entity that result from the Group's purchase of assets from the jointly controlled entity until it resells the assets to an independent party. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment loss.

In the Company's balance sheet, the investments in jointly controlled entities are stated at cost less provision for impairment losses (Note 2.8). The results of jointly controlled entities are accounted for by the Company on the basis of dividend received and receivable.

### 2.3 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"). All the entities within the Group have determined RMB as their functional currency. The consolidated financial statements are also presented in RMB, 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.

### 2.4 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.

For the year ended 31 December 2006

## 2 Summary of significant accounting policies (continued)

### 2.4 Property, plant and equipment (continued)

Depreciation of buildings and structures is calculated to allocate 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 their costs 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 2.8).

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are recognised within other operating expenses, in the income statement.

### 2.5 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 2.18). Costs are transferred to property, plant and equipment upon completion.

### 2.6 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.

### 2.7 Intangible assets

#### (a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate/jointly controlled entity at the date of acquisition. Goodwill on acquisitions of subsidiaries and jointly controlled entities is included in intangible assets. Goodwill on acquisitions of associates is included in interests in associates and is tested annually for impairment as part of the overall balance. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

#### (b) Toll road operating right

Toll road operating right is capitalised on the basis of the costs incurred to acquire the right and is amortised using the straight-line method over the approved operating period.



## 2 Summary of significant accounting policies (continued)

### 2.8 Impairment of investments in subsidiaries, joint ventures, 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 that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. 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). Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

### 2.9 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 in the balance sheet (Note 2.12).

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. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

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.

### 2.10 Non-current assets and disposal groups held for sale

Non-current assets and disposal groups 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.

### 2.11 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.

For the year ended 31 December 2006

## 2 Summary of significant accounting policies (continued)

### 2.12 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 operating expenses. 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 operating expenses in the income statement.

### 2.13 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.

### 2.14 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.

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.

### 2.15 Deferred income tax

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)

### 2.16 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) Share-based compensation

The Company operates the Appreciation Right Scheme, which is a cash-settled, share-based compensation plan. Under the Appreciation Right Scheme, Appreciation Rights are granted to management employee and can be exercised from the date of grant and before the respective expiry dates. A bonus award in the form of cash payment will be made to the extent of the surplus of the prevailing share price at exercise date over the pre-determined exercise price of the Appreciation Rights at the date of grant.

The fair value of the employee services received in exchange for the Appreciation Rights is recognised as an expense. The liability incurred is measured, initially and at each reporting date until settled, at the fair value of the liability, taking into account the terms and conditions on which the Appreciation Rights were granted, and the extent to which the employees have rendered service to date. Any changes in fair value are recognised in the income statement.

#### (c) 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.

### 2.17 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. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

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.

For the year ended 31 December 2006

## 2 Summary of significant accounting policies (continued)

### 2.18 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.

### 2.19 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, 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.

#### (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 2.20. Other subsidy income is recognised on a receipt basis or when there is a reasonable assurance that the subsidy will be received.



## 2 Summary of significant accounting policies (continued)

### 2.20 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 over 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. 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.

### 2.21 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), liquidity risk and cash flow interest rate risk.

#### (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 RMB55,407,000 and bank borrowings of RMB162,761,000 which were denominated in Hong Kong dollars ("HKD") and other borrowings of RMB26,169,000 which were denominated in United States dollars ("USD") respectively as at 31 December 2006. The conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

#### (b) 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.

The Group had unutilised available committed borrowing facilities of approximately RMB4.9 billion at 31 December 2006. The directors of the Company believe that such facilities would enable the Group to meet its obligations and capital commitments as and when they fall due.

#### (c) 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 has not used any interest rate swaps to hedge its exposure to interest rate risk during the year.

For the year ended 31 December 2006

## 3 Financial risk management (continued)

### 3.2 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 reasonable 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 2.4 and 2.20, 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 2.4, 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 Group appointed professional traffic consultants in the PRC to perform independent professional traffic studies on the Total Projected Traffic Volume of respective major toll roads operated by the Group. The Group also provided depreciation of respective toll roads for the year based on the adjusted Total Projected Traffic Volume according to the results of the studies. The directors of the Company considered that these are the best current estimates on the Total Projected Traffic Volume.

### (b) Revenue recognition relating to construction management contract

For the year ended 31 December 2006, the Group recognised project management services income of RMB29,203,000 in relation to construction management services rendered for a construction project, the Nanping Freeway (Phase I) project ("Nanping Project"). The Nanping Project is undertaken on behalf of the local government authorities (Note 23(a)). The project management income is recognised based on the percentage of completion method (details laid down in the Group's accounting policies as stated in Note 2.19(b)) and the aggregate income recognised was RMB102,859,000 as at 31 December 2006. 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 to be incurred in order to complete the project.

Due to the fact that the total budgeted project costs had not been finalised with the related government authorities as at 31 December 2006, the directors made the best estimate of the amounts based on the relevant communication results made with the authorities and information obtained from them.

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

#### 4 Critical accounting estimates and judgements (continued)

**(b) Revenue recognition relating to construction management contract (continued)**

Were the magnitudes of the final approved project costs and the total costs to be incurred for the project were to be differed by 5% from management's current estimates, the Group would have to report a higher project management services income of approximately RMB115,874,000 if the change is favorable, or it is required to report a project management services loss of approximately RMB172,000,000 if the change is unfavorable, for the next year.

**(c) Impairment provision of toll road assets**

In accordance with the accounting policy stated in Note 2.8, the Group performs impairment tests on property, plant and equipment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. In 2003, the Company recognised an impairment provision of RMB77,000,000 on the toll road assets of Hunan Changsha Shenchang Expressway Company Limited ("Shenchang Company"), a jointly controlled entity of the Company, in its consolidated financial statements by applying proportionate consolidation based on the Company's equity interest in Shenchang Company. In current year, there is indication that the toll road assets of Shenchang Company are subject to further impairment losses, the Company appointed a valuer in the PRC to re-assess the recoverable amount of the relevant assets. According to the relevant assessment results, additional impairment provision of RMB57,000,000 had been made in current year. As a result, the cumulative impairment provision made against the assets was RMB134,000,000 as at 31 December 2006.

The assessment of the recoverable amount was determined based on value-in-use calculations, 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. 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 pre-tax 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 Shenchang Company's toll road were to differ from the current estimates made by the directors of the Company by 5% favorably or unfavorably, the Group would have to report a reversal of impairment loss previously recognised or a further impairment loss of approximately RMB12,910,000 for the next year.

**(d) Estimate of costs of a completed toll road project**

In May 2006, a toll road project constructed by the Company, the Yanpai Expressway, had been completed and was put into operation. Accordingly, the related assets were transferred from construction in progress to property, plant and equipment according to the relevant categories of toll road assets constructed with depreciation started to be provided thereon. Due to the fact that the final determination of the total costs incurred for the construction of such assets had not been finalised up to the date of approval of these financial statements, pending the finalisation of certain verification assessments and agreements to be made/reached by the relevant contractors and third party agents, the directors of the Company made estimate on the total costs of the assets at approximately RMB897,331,000 based on information available such as the budgeted project costs, actual project costs incurred and the outstanding bills and claims filed by the contractors which had not yet been settled, etc. The directors of the Company consider that these are the best current estimates on the total assets costs and they consider that there should not be material differences that would arise from the actual results derived from the final assessments to be made/final agreements to be reached.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

## 5 Property, plant and equipment

Group	Buildings and		Equipment	Motor	Total
	Toll roads	structures			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>At 1 January 2005</b>					
Cost	4,076,920	241,002	249,865	18,996	4,586,783
Accumulated depreciation	(231,539)	(41,384)	(93,825)	(12,672)	(379,420)
Accumulated impairment loss (Note (c))	(77,000)	—	—	—	(77,000)
Net book amount	3,768,381	199,618	156,040	6,324	4,130,363
<b>Year ended 31 December 2005</b>					
Opening net book amount	3,768,381	199,618	156,040	6,324	4,130,363
Transfer from construction in progress (Note 6)	17,340	7,123	15,435	—	39,898
Additions	—	255	2,759	1,835	4,849
Acquisition of a jointly controlled entity	—	1,460	8,667	352	10,479
Disposals	—	—	(434)	(64)	(498)
Depreciation	(94,527)	(9,608)	(24,069)	(1,806)	(130,010)
Closing net book amount	3,691,194	198,848	158,398	6,641	4,055,081
<b>At 31 December 2005</b>					
Cost	4,094,260	250,253	278,019	20,494	4,643,026
Accumulated depreciation	(326,066)	(51,405)	(119,621)	(13,853)	(510,945)
Accumulated impairment loss (Note (c))	(77,000)	—	—	—	(77,000)
Net book amount	3,691,194	198,848	158,398	6,641	4,055,081
<b>Year ended 31 December 2006</b>					
Opening net book amount	3,691,194	198,848	158,398	6,641	4,055,081
Transfer from construction in progress (Note 6)	836,699	24,098	54,963	—	915,760
Additions	—	461	5,268	1,935	7,664
Disposals	(8,771)	(11)	(115)	(180)	(9,077)
Depreciation	(114,487)	(10,025)	(27,666)	(2,101)	(154,279)
Transfer to disposal group classified as held for sale (Note 15(a))	(11,357)	(716)	(272)	(86)	(12,431)
Impairment (Note (c))	(57,000)	—	—	—	(57,000)
Closing net book amount	4,336,278	212,655	190,576	6,209	4,745,718
<b>At 31 December 2006</b>					
Cost	4,905,847	273,738	336,705	19,273	5,535,563
Accumulated depreciation	(435,569)	(61,083)	(146,129)	(13,064)	(655,845)
Accumulated impairment loss (Note (c))	(134,000)	—	—	—	(134,000)
Net book amount	4,336,278	212,655	190,576	6,209	4,745,718

## 5 Property, plant and equipment (continued)

Company	Buildings and		Equipment	Motor	Total
	Toll roads	structures			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>At 1 January 2005</b>					
Cost	2,036,465	144,260	153,986	5,273	2,339,984
Accumulated depreciation	(78,921)	(16,612)	(45,802)	(1,923)	(143,258)
Net book amount	1,957,544	127,648	108,184	3,350	2,196,726
<b>Year ended 31 December 2005</b>					
Opening net book amount	1,957,544	127,648	108,184	3,350	2,196,726
Transfer from construction in progress (Note 6)	—	5,441	10,029	1,227	16,697
Additions	—	—	1,410	—	1,410
Disposals	—	—	(129)	(590)	(719)
Depreciation	(34,848)	(4,680)	(15,294)	(781)	(55,603)
Closing net book amount	1,922,696	128,409	104,200	3,206	2,158,511
<b>At 31 December 2005</b>					
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
<b>Year ended 31 December 2006</b>					
Opening net book amount	1,922,696	128,409	104,200	3,206	2,158,511
Transfer from construction in progress (Note 6)	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
<b>At 31 December 2006</b>					
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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

## 5 Property, plant and equipment (continued)

- (a) The toll roads and buildings of the Group are all located in the PRC.
- (b) The Group has been granted by the relevant local government authorities the rights to operate the respective toll roads for periods ranging from 15 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 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 non-renewable and the Group does not have any termination options. Accordingly, except for the Airport-Heao Expressway (Western Section) operated by the Company, the Meiguan Expressway operated by Shenzhen Meiguan Expressway Company Limited ("Meiguan Company"), a subsidiary of the Company, and the Airport-Heao Expressway (Eastern Section) operated by Shenzhen Airport-Heao Expressway (Eastern Section) Company Limited ("Airport-Heao Eastern"), a jointly controlled entity of the Company, the Group has not obtained the relevant land use rights in relation to the toll roads owned and operated by the Group.
- (c) The accumulated impairment loss represents the impairment loss provision against the carrying value of a toll road operated by Shenchang Company, a jointly controlled entity of the Company. In previous years, an impairment loss provision of RMB77,000,000 had been made against the toll road. In current year, a further impairment loss provision of RMB57,000,000 was made based on an assessment made by the directors of the Company.

## 6 Construction in progress

	Group		Company	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
<b>At 1 January</b>	<b>693,443</b>	286,584	<b>648,089</b>	280,242
Additions	<b>1,126,353</b>	412,729	<b>1,068,350</b>	389,861
Reversal of provision for impairment	—	40,000	—	—
Transfer to property, plant and equipment (Note 5)	<b>(915,760)</b>	(39,898)	<b>(858,884)</b>	(16,697)
Transfer to non-current assets classified as held for sale (Note 9(b))	<b>(42,544)</b>	—	—	—
Other transfers	<b>(247)</b>	(5,972)	<b>(247)</b>	(5,317)
<b>At 31 December</b>	<b>861,245</b>	693,443	<b>857,308</b>	648,089

Construction in progress at 31 December 2006 mainly represents construction costs incurred for toll roads of the Group not yet completed.



## 7 Land use rights

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

	Group		Company	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Outside Hong Kong, held on: Leases of duration between 10 to 50 years	<b>351,192</b>	368,830	<b>67,146</b>	70,504

	Group		Company	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Opening balance	<b>368,830</b>	386,468	<b>70,504</b>	73,862
Amortisation of prepaid operating lease payments	<b>(17,638)</b>	(17,638)	<b>(3,358)</b>	(3,358)
Closing balance	<b>351,192</b>	368,830	<b>67,146</b>	70,504

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

## 8 Intangible assets

	Goodwill RMB'000 (Note (a))	Toll road operating right RMB'000 (Note (b))	Total RMB'000
<b>At 1 January 2005</b>			
Cost	8,425	—	8,425
Accumulated amortisation	(665)	—	(665)
Accumulated impairment loss	(945)	—	(945)
Net book amount	6,815	—	6,815
<b>Year ended 31 December 2005</b>			
Opening net book amount	6,815	—	6,815
Acquisition of a jointly controlled entity	—	837,756	837,756
Amortisation	—	(19,986)	(19,986)
Closing net book amount	6,815	817,770	824,585
<b>At 31 December 2005</b>			
Cost	6,815	837,756	844,571
Accumulated amortisation	—	(19,986)	(19,986)
Net book amount	6,815	817,770	824,585

# Notes to the Consolidated Financial Statements

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## 8 Intangible assets (continued)

	<b>Goodwill</b>	<b>Toll road operating right</b>	<b>Total</b>
	RMB'000	RMB'000	RMB'000
	(Note (a))	(Note (b))	
<b>Year ended 31 December 2006</b>			
Opening net book amount	6,815	817,770	824,585
Amortisation	—	(48,871)	(48,871)
Transfer to disposal group classified as held for sale (Note 15(a))	(5,179)	—	(5,179)
Closing net book amount	1,636	768,899	770,535
<b>At 31 December 2006</b>			
Cost	1,636	837,756	839,392
Accumulated amortisation	—	(68,857)	(68,857)
Net book amount	1,636	768,899	770,535

### (a) Impairment test for goodwill

Goodwill is allocated to the Group's cash generating units ("CGU") identified according to the respective toll roads operations as below:

	<b>2006</b>	<b>2005</b>
	RMB'000	RMB'000
Geputan Bridge and its leading road	—	5,179
Shuiguan Expressway	<b>1,636</b>	1,636
	<b>1,636</b>	6,815

The Geputan Bridge and its related leading road and the Shuiguan Expressway are operated by Hubei Yungang Transportation Development Company Limited ("Yungang Company") and Shenzhen Qinglong Expressway Company Limited ("Qinglong Company"), respectively, both are jointly controlled entities of the Group.

The directors of the Company has approved the Group to dispose of its 42% equity interest in Yungang Company during the year. The goodwill relating to this equity investment in the amount of RMB5,179,000 was transferred to a disposal group classified as held for sale for presentation and measurement (Note 15(a)). The recoverable amount of the CGU of the Shuiguan Expressway is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by the management covering a five-year period. Cash flows beyond the five-year period are projected based on estimates made by management. Management determined the budgeted operating results based on past performance and its expectations for the market development. The discount rate used is pre-tax and reflects specific risks relating to the relevant toll road operation. Based on the impairment test on the goodwill associated with the Shuiguan Expressway performed on 31 December 2006, no impairment provision is required.

## 8 Intangible assets (continued)

### (b) Toll road operating right

This represents the toll road operating right of Wuhuang Expressway of Hubei Magerk Expressway Management Company Limited ("Magerk Company"), a jointly controlled entity of the Group, acquired from the Hubei Communications Bureau. The operating period is 25 years starting from September 1997 to August 2022. The operating right was accounted for initially at fair value of RMB837,756,000 in the consolidated financial statements as part of the acquired assets in the acquisition of 55% share interest in Jade Emperor Limited ("JEL") made by the Group and it is amortised on a straight-line basis over the remaining approved operating period.

## 9 Investments in subsidiaries

	Note	Company	
		2006 RMB'000	2005 RMB'000
Unlisted investments, at cost	(a)	<b>1,642,431</b>	759,945
Provision for impairment	(b)	<b>(4,142)</b>	(12,005)
		<b>1,638,289</b>	747,940
Loans to a subsidiary	(b)	—	46,084
Provision for impairment	(b)	—	(6,084)
Advance to a subsidiary	(c)	<b>11,674</b>	40,000
		<b>11,674</b>	24,750
		<b>1,649,963</b>	812,690

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

## 9 Investments in subsidiaries (continued)

(a) The following is a list of all subsidiaries of the Company at 31 December 2006:

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
Meiguan Company (i)	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%
Shenzhen Wongtongling Ropeway Company Limited ("Ropeway Company") (Note (b))	PRC, limited liability company	Construction and management of a ropeway in the PRC	RMB5,000,000	95%	—
Mei Wah Industrial (Hong Kong) Limited ("Mei Wah") (ii)	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%

(i) Meiguan Company was previously 95% owned by the Company. In December 2006, the Company entered into an agreement with Xin Tong Chan Development (Shenzhen) Company Limited ("Xin Tong Chan") for the acquisition of Xin Tong Chan's 5% equity interest held in Meiguan Company, together with its advance made to Meiguan Company, at an aggregate cash consideration of RMB96,000,000. Xin Tong Chan is the substantial shareholder of the Company which holds 30.03% of the Company's equity interests. The acquisition was completed in December 2006. The difference between the consideration paid and the then book value of the minority interest so acquired in Meiguan Company amounting to RMB41,236,000 has been recorded in the debit of other reserves in the consolidated financial statements.

(ii) In 2006, the Company increases its equity investment in Mei Wah at RMB805,705,000 (equivalent to HKD778,381,000) by subscribing to newly created authorised share capital which were issued by that subsidiary.

## 9 Investments in subsidiaries (continued)

- (b) In 2005, the construction of a ropeway project undertaken by Ropeway Company, a subsidiary of the Company, was put into a halt. The local government 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 administered by the government authorities for realisation during the year. Accordingly, the carrying value of the related assets amounting to RMB42,544,000, written down to their respective estimated fair value less costs to sell, was reclassified from the construction in progress balance and presented as non-current assets classified as held for sale (Note 15) in the consolidated balance sheet of the Group at 31 December 2006. In addition, the Company's investment in Ropeway Company and loans made to it, after deducting an impairment provision in order to write down the carrying value to its fair value less costs to sell, of RMB40,000,000 were also reclassified as non-current assets classified as held for sale (Note 15) in the Company's balance sheet. In January 2007, the Company received a compensation amount of approximately RMB47,240,000 from the government authorities. The Company and the Group were not required to recognise any additional gain or loss in the arrangements.
- (c) The amount 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 is unsecured, interest-free and is repayable out of the funds to be generated from the operations of the toll road of Meiguan Company. In the opinion of the directors, the advance is considered to be investment in nature and is therefore stated at cost. The directors also consider that there was no recoverability problem associated with the amount as at 31 December 2006.

## 10 Investments in jointly controlled entities

	Note	Company	
		2006 RMB'000	2005 RMB'000
Unlisted investments, at cost	(a)	<b>436,477</b>	384,000
Provision for impairment	(b)	<b>(94,340)</b>	(51,590)
		<b>342,137</b>	332,410
Advances to jointly controlled entities	(c)	<b>616,722</b>	643,134
Loan to a jointly controlled entity	(d)	—	130,400
		<b>958,859</b>	1,105,944

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

## 10 Investments in jointly controlled entities (continued)

(a) The following is a list of all jointly controlled entities of the Company at 31 December 2006:

Name	Place of incorporation and nature of legal entity	Principal activities and place of operation	Interest held	
			Direct	Indirect
Airport-Heao Eastern	PRC, Sino-foreign cooperative enterprise	Construction, operation and management of an expressway in the PRC	55%	—
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%	—
Yungang Company	PRC, Sino-foreign cooperative enterprise	Construction, operation and management of a bridge in the PRC	—	*42%
JEL	Cayman Islands, limited liability company	Investment holding in Cayman Islands	—	*55%
Magerk Company	PRC, wholly foreign owned enterprise	Operation and management of an expressway in the PRC	—	**55%

\* The interests in Yungang Company and JEL are held indirectly through Mei Wah, a subsidiary of the Company. In the first four years of operations of Yungang Company, the Group is entitled to 90% share of its profit.

\*\* 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 for the Company's investment in Shenchang Company due to impairment of the underlying toll road operated by Shenchang Company. During the year ended 31 December 2006, management reassessed the recoverable amount of the toll road, which resulted in a further impairment provision of RMB42,750,000 required to be recognised for the Company's investment in Shenchang Company. The details of the impairment assessment on the toll road of Shenchang Company are mentioned in Note 4(c).

(c) Amounts represent advances made to Airport-Heao Eastern of RMB341,573,000 (2005: RMB361,372,000) and Shenchang Company of RMB275,149,000 (2005: RMB281,762,000) respectively. The advances to Airport-Heao Eastern and Shenchang Company were made by the Company as part of its investments in these jointly controlled entities in accordance with the provisions of respective 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 generated from the operations of the respective toll road projects of Airport-Heao Eastern and Shenchang Company. The directors consider that there was no recoverability problem associated with these amounts as at 31 December 2006.

## 10 Investments in jointly controlled entities (continued)

- (d) The balance at 31 December 2005 represented the loan to Qinglong Company. The loan is unsecured, non-interest bearing and was repayable based on appropriation of surplus cash flows derived from the operations of Qinglong Company with preferential right.
- (e) The following amounts represent the unaudited assets and liabilities, and turnover and results related to the Group's interests in jointly controlled entities, which have already been included in the consolidated balance sheet and income statement:

	Airport-Heao Eastem		Qinglong Company		Shenchang Company		Yungang Company*		JEL (consolidated with Magerk Company)		Total	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
<b>Assets</b>												
Non-current assets	580,872	604,149	422,847	448,152	274,263	310,175	—	13,679	782,209	788,641	2,060,191	2,164,796
Current assets	29,863	24,662	18,007	35,220	3,243	27,747	—	2,624	9,294	18,879	60,407	109,132
	610,735	628,811	440,854	483,372	277,506	337,922	—	16,303	791,503	807,520	2,120,598	2,273,928
<b>Liabilities</b>												
Non-current liabilities	13,449	12,497	262,536	263,335	—	—	—	—	83,452	99,767	359,437	375,599
Current liabilities	13,724	12,336	6,486	6,291	3,991	2,720	—	181	32,954	62,370	57,155	83,898
	27,173	24,833	269,022	269,626	3,991	2,720	—	181	116,406	162,137	416,592	459,497
<b>Net assets</b>	583,562	603,978	171,832	213,746	273,515	335,202	—	16,122	675,097	645,383	1,704,006	1,814,431
Revenue	181,575	157,904	99,685	73,592	10,075	10,853	—	3,043	178,154	63,727	469,489	309,119
Other income	4,057	2,858	951	1,073	169	624	—	9	175	101	5,352	4,665
Costs and expenses	(67,390)	(59,440)	(48,665)	(44,258)	(41,166)	(11,950)	—	(2,387)	(116,440)	(43,263)	(273,661)	(161,298)
<b>Profit/(loss) after income tax</b>	118,242	101,322	51,971	30,407	(30,922)	(473)	—	665	61,889	20,565	201,180	152,486

\* The interest in Yungang Company has been approved to be disposed (Note 8(a)). Accordingly, the assets and liabilities related to the interest in Yungang Company at 31 December 2006 have been transferred to a disposal group classified as held for sale in the consolidated balance sheet; and relevant results for the year ended 31 December 2006 have been presented as discontinued operation in the consolidated income statement (Note 15(a)).

Other than the commitment in respect of the return of the toll roads assets to the respective local government authorities upon the expiration of the operating periods granted mentioned in Note 5(b), there were no material commitments and contingent liabilities arising from the Group's investments in the jointly controlled entities, and there were no material outstanding commitments and contingent liabilities in the jointly controlled entities as at 31 December 2006.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

## 11 Investments in associates

	Note	Group		Company	
		2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Beginning of the year		<b>2,966,903</b>	870,698	<b>2,601,624</b>	871,404
Acquisition of associates		—	2,018,380	—	1,628,380
Increase in investments in associates	(b)	<b>90,000</b>	101,840	<b>90,000</b>	101,840
Dividends declared and appropriation made by an associate		<b>(33,290)</b>	—	—	—
Share of associates' results	(a)	<b>(16,948)</b>	(24,015)	—	—
End of the year		<b>3,006,665</b>	2,966,903	<b>2,691,624</b>	2,601,624

The year end balance comprises the following:

	Note	Group		Company	
		2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Unlisted investments, at cost		—	—	<b>2,562,134</b>	1,642,741
Share of net assets other than goodwill	(a)	<b>2,801,875</b>	1,932,720	—	—
Goodwill on acquisition of associates	(c)	<b>75,300</b>	75,300	—	—
		<b>2,877,175</b>	2,008,020	<b>2,562,134</b>	1,642,741
Advance to an associate	(d)	<b>129,490</b>	958,883	<b>129,490</b>	958,883
		<b>3,006,665</b>	2,966,903	<b>2,691,624</b>	2,601,624



## 11 Investments in associates (continued)

(a) The Group's interests in its associates, all of which were established and are operating in the PRC, were as follows (unaudited):

Name	Nature of legal entity and paid-in capital	Principal activities	Assets		Liabilities		Revenue		Profit/(loss)		Capital commitments		*Interest held	
			2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
			RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	%	%
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	751,015	755,130	516,658	525,345	35,501	3,363	(12,928)	(6,464)	—	—	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	580,779	330,772	408,473	228,272	223	—	(2,695)	—	—	35,795	25%	25%
Shenzhen Huayu Expressway Investment Company Limited	Limited liability company RMB150,000,000	Development, investment, operation and management of expressway	238,895	240,168	177,546	182,672	23,750	6,149	3,853	(2,504)	—	—	40%	40%
Shenzhen Expressway Engineering Consulting Company Limited	Limited liability company RMB7,000,000	Project management consulting, construction consulting and sales of construction materials	10,101	6,345	5,790	2,594	7,052	3,603	560	197	—	—	30%	30%
Nanjing Yangzi River Third Bridge Company Limited	Limited liability company RMB1,080,000,000	Development, operation and management of bridges	844,141	849,127	590,460	587,291	43,116	6,997	(8,154)	(8,164)	—	—	25%	25%
Guangdong Yangmao Expressway Company Limited ("Yangmao Company")	Limited liability company RMB200,000,000	Development, operation and management of expressway	549,563	591,333	343,198	362,858	65,574	49,882	11,180	3,541	—	—	25%	25%
Yunfu Guangyun Expressway Company Limited	Limited liability company RMB10,000,000	Development, operation and management of expressway	444,909	449,513	273,214	276,211	24,533	11,285	(1,608)	(5,878)	—	—	30%	30%
Guangdong Qinglian Highway Development Company Limited ("Qinglian Company")	Sino-foreign cooperative enterprise, RMB1,200,000,000	Development, operation and management of highways	2,450,276	2,326,633	752,465	1,451,058	70,279	38,131	(7,156)	(4,743)	2,190,000	2,359,270	56.28%	56.28%
			<b>5,869,679</b>	<b>5,549,021</b>	<b>3,067,804</b>	<b>3,616,301</b>	<b>270,028</b>	<b>119,410</b>	<b>(16,948)</b>	<b>(24,015)</b>	<b>2,190,000</b>	<b>2,395,065</b>		

\* Except for Qinglian Company, the Company directly holds interests in all other associates. Qinglian Company is 31.28% directly held by the Company and with another 25% of the interest held indirectly through its two wholly owned subsidiaries, Mei Wah and Maxprofit.

\*\* There were no material contingent liabilities arising from the Group's interests in associates, and there were no material contingent liabilities in the associates as at 31 December 2006.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

## 11 Investments in associates (continued)

- (b) According to the provisions of the investment agreements of Jiangzhong Company and GZ W2 Company, the Company made additional capital contributions at RMB17,500,000 and RMB72,500,000, respectively, into the two associates during the year. The contributions were made based on the funding requirements according to the progress of construction of the toll road projects undertaken by these two associates. The remaining future contributions that are required to be made by the Company to Jiangzhong Company and GZ W2 Company amounted to RMB23,840,000 and RMB75,000,000 respectively, as governed by the provisions of the relevant investment agreements.
- (c) The balance represents the unamortised amount of 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. In accordance with the requirements of HKFRS 3 and HKAS 38, the Group ceased amortisation of goodwill on 1 January 2005 and the goodwill balance has been included in interests in associates and it is tested annually for impairment as part of the overall balance. After the assessment made by the directors, there was no impairment loss recognised as at 31 December 2006.
- (d) The advance to an associate as at 31 December 2005 represent the amount undertaken to be assumed by the Company upon the acquisition of equity interest in Qinglian Company. The amount was related to advances made by the original equity owners of Qinglian Company to the associate. In 2006, with the agreement of the Company and approved by the board of Qinglian Company in its relevant board minutes, the Company capitalised the advance to the extent of RMB829,393,000 as its additional capital contribution made to Qinglian Company. Accordingly, the amount was transferred to investment in Qinglian Company.

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 was completed in January 2007 and the Company began to directly and indirectly hold 76.37% aggregate equity interest in Qinglian Company.

## 12 Trade and other receivables

	Note	Group		Company	
		2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Trade receivables	(a)	<b>63,820</b>	39,694	<b>58,285</b>	35,708
Amount due from a jointly controlled entity					
– Trade		<b>869</b>	—	—	—
– Non-trade		<b>67</b>	838	<b>148</b>	1,862
Other receivables	(b)	<b>936</b>	838	<b>148</b>	1,862
Prepayments	(c)	<b>32,820</b>	112,304	<b>33,515</b>	103,176
		<b>3,820</b>	4,993	<b>2,971</b>	3,328
		<b>101,396</b>	157,829	<b>94,919</b>	144,074

## 12 Trade and other receivables (continued)

- (a) Trade receivables mainly represent amounts due from the Shenzhen Communications Bureau of RMB47,032,000 (2005: RMB33,118,000) for management services income recognised (Note 23(a)).

At 31 December 2006 and 2005, the ageing analysis of trade receivables (including amount due from a jointly controlled entity of trading in nature) was as follows:

	Group		Company	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Within 1 year	<b>48,879</b>	39,666	<b>42,475</b>	35,708
Over 1 year	<b>15,810</b>	28	<b>15,810</b>	—
	<b>64,689</b>	39,694	<b>58,285</b>	35,708

- (b) The balance at 31 December 2006 mainly represents the net amount due from Airport-Heao Eastern, a jointly controlled entity of the Company, for the toll income collected by Airport-Heao Eastern on behalf of the Company and Meiguan Company, a subsidiary of the Company. The balance at 31 December 2005 represented the amount due from Airport-Heao Eastern 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 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 was RMB109,432,000 (2005: RMB103,428,000), while the aggregate toll income collected by Airport-Heao Eastern on behalf of the Company and Meiguan Company was RMB112,784,000 (2005: RMB100,020,000). All toll income collected is paid back to the counter party within three days after collection without charging any handling fees.

- (c) Other receivables at 31 December 2005 included an amount due from the Shenzhen Communications Bureau of RMB74,024,000 in respect of amounts paid by the Company on behalf of the government authority for the construction of the Wutong Mountain Avenue (Supplementary Road) and the Airport-Heao Expressway Yantian Subsidiary Road Checkpoint Station Project (the "Wutong Mountain Project"). In January 2006, the Company officially entered into a construction management service contract with the Shenzhen Communications Bureau under which the Company assumes the management of the construction of the Wutong Mountain Project and most of the amounts paid by the Company on behalf of the bureau had been settled during this year. As at 31 December 2006, the amount due from the bureau amounted to RMB3,143,000.

## 13 Restricted cash

	Group and Company	
	2006 RMB'000	2005 RMB'000
Project funds retained for construction management contracts	<b>6,872</b>	31,615

This represents the unutilised balance of project funds received from government authorities for the use of the construction of the western section of Hengping Highway ("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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

## 14 Cash and cash equivalents

	Group		Company	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Cash at bank and in hand	349,237	863,025	228,890	748,672
Short-term bank deposits	30,404	29,460	—	—
	<b>379,641</b>	892,485	<b>228,890</b>	748,672

The effective interest rate on short-term bank deposits was 4.1% (2005: 4.1%) per annum. These deposits have an average maturity of 7 days (2005: 33 days).

Cash and cash equivalents include the following for the purpose of the cash flow statement:

	Group	
	2006 RMB'000	2005 RMB'000
Cash and cash equivalents	379,641	892,485
Cash and cash equivalents included in disposal group classified as held for sale (Note 15(a))	2,198	—
	<b>381,839</b>	892,485

## 15 Non-current assets and disposal group classified as held for sale

	Group		Company	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Non-current assets classified as held for sale (Note 9(b))				
– Construction in progress	42,544	—	—	—
– Investment in a subsidiary	—	—	40,000	—
	<b>42,544</b>	—	<b>40,000</b>	—
Disposal group classified as held for sale (Note (a))	15,816	—	—	—
	<b>58,360</b>	—	<b>40,000</b>	—
Liabilities directly associated with disposal group classified as held for sale (Note (a))	5,331	—	—	—

## 15 Non-current assets and disposal group classified as held for sale (continued)

- (a) In October 2006, the directors of the Company approved the disposal of its 42% equity interest in Yungang Company, a then jointly controlled entity. 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. Details are as follows:

### Disposal group classified as held for sale

	Group	
	2006 RMB'000	2005 RMB'000
Disposal group classified as held for sale		
Property, plant and equipment	12,431	—
Goodwill	1,037	—
Cash and cash equivalents (Note 14)	2,198	—
Other current assets	150	—
	<b>15,816</b>	—
Liabilities directly associated with disposal group classified as held for sale		
Current income tax liabilities	30	—
Other current liabilities	5,301	—
	<b>5,331</b>	—

### Analysis of the results of discontinued operation

	Group	
	2006 RMB'000	2005 RMB'000
Revenue	3,370	—
Other income	9	—
Business tax and surcharges	(169)	—
Depreciation and amortisation	(1,255)	—
Employee benefit expenses	(414)	—
Other costs and expenses	(371)	—
<b>Profit from discontinued operation – before tax</b>	<b>1,170</b>	—
Income tax	(84)	—
<b>Profit from discontinued operation – after tax</b>	<b>1,086</b>	—
<b>Loss from asset measurement of disposal group</b>	<b>(4,142)</b>	—
<b>Loss for the year from discontinued operation</b>	<b>(3,056)</b>	—

Disposal group held for sale is measured at the lower of carrying amount and fair value less costs to sell. The loss recognised from the measurement amounting to RMB4,142,000, which had been reflected by writing down the carrying value of the goodwill balance.

As the results of the discontinued operation in 2005 were not considered material by the directors of the Company, no relevant disclosure has been presented for the year ended 31 December 2005 in the consolidated income statement.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

## 15 Non-current assets and disposal group classified as held for sale (continued)

### Cash flows of discontinued operation

	Group	
	2006 RMB'000	2005 RMB'000
Net cash generated from operating activities	2,369	1,903
Net cash used in investing activities	(7)	(25)
Net cash used in financing activities	(1,937)	(2,258)
	425	(380)

## 16 Share capital

	Opening balance at 1 January 2006 RMB'000	Transfers RMB'000 (Note (a))	Closing balance at 31 December 2006 RMB'000
<b>Registered, issued and fully paid</b>			
<b>2,180,700,000 shares of RMB1 each</b>			
Non-liquid shares			
– Shares held by the State	654,780	(654,780)	—
– Shares held by legal persons	613,420	(613,420)	—
	1,268,200	(1,268,200)	—
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”)	165,000	52,800	217,800
– Foreign invested shares, listed in Hong Kong (“H shares”)	747,500	—	747,500
	912,500	52,800	965,300
Total	2,180,700	—	2,180,700

## 16 Share capital (continued)

- (a) Pursuant to a resolution passed in an A share shareholders meeting held on 23 January 2006, the shareholding structure reallocation scheme (the "Shareholding Scheme") of the Company was approved. All the then shareholders of the Company whose shares did not have liquidity in the market ("Non-liquid Shares") undertook to transfer to the then A share shareholders of the Company as appeared in the share register of the Company as at the date of implementation of the Shareholding Scheme (i.e. 24 February 2006) 3.2 shares of their Non-liquid Shares for each 10 A shares held by the A share shareholders in return for gaining liquidity of the Non-liquid Shares in the A share market of the PRC. The Shareholding Scheme was completed on 27 February 2006 with the approval of the relevant authorities. Immediately after the implementation of the Shareholding Scheme, the shareholders of the Non-liquid Shares held in total 1,215,400,000 shares of the Company while the A share shareholders held in aggregate 217,800,000 shares of A shares of the Company. The formerly non-liquid shares were also converted into shares with liquidity but subject to certain restrictions in their sales. The Company is not required to bear any other expenses and does not have any obligations in respect of the Shareholding Scheme.
- (b) 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 (mentioned in (a) above) and the currency used for distribution of dividends, all shares rank pari passu against each other.

## 17 Other reserves

Group	Share premium	Statutory surplus reserve	Statutory	Discretionary surplus reserve	Currency translation differences	Others	Total
			public welfare fund				
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Balance at 1 January 2005</b>	2,060,009	383,114	351,338	453,391	—	—	3,247,852
Transfer from retained earnings	—	70,178	57,747	—	—	—	127,925
Currency translation differences	—	—	—	—	1,153	—	1,153
<b>Balance at 31 December 2005</b>	2,060,009	453,292	409,085	453,391	1,153	—	3,376,930
Reclassification of reserve fund (Note (c))	—	409,085	(409,085)	—	—	—	—
Acquisition of minority interest in a subsidiary (Note 9(a)(i))	—	—	—	—	—	(41,236)	(41,236)
Transfer from retained earnings	—	84,831	—	—	—	—	84,831
Currency translation differences	—	—	—	—	(1,153)	—	(1,153)
<b>Balance at 31 December 2006</b>	2,060,009	947,208	—	453,391	—	(41,236)	3,419,372

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

## 17 Other reserves (continued)

Company	Share premium RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Discretionary surplus reserve RMB'000	Total RMB'000
<b>Balance at 1 January 2005</b>	2,060,009	319,504	319,504	453,391	3,152,408
Transfer from retained earnings	—	48,504	48,504	—	97,008
<b>Balance at 31 December 2005</b>	2,060,009	368,008	368,008	453,391	3,249,416
Reclassification of reserve fund (Note (c))	—	368,008	(368,008)	—	—
Transfer from retained earnings	—	55,924	—	—	55,924
<b>Balance at 31 December 2006</b>	2,060,009	791,940	—	453,391	3,305,340

- (a) Pursuant to the 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:
- (i) make up any accumulated losses;
  - (ii) 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;
  - (iii) transfer to the discretionary surplus reserve an amount as approved by the shareholders in the Annual General Meeting; and
  - (iv) 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 PRC GAAP.

- (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.



## 17 Other reserves (continued)

(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 PRC GAAP as stated in the PRC statutory financial statements and the accumulated distributable profits adjusted based on HKFRS.

## 18 Borrowings

	Note	Group		Company	
		2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
<b>Non-current</b>					
Bank borrowings					
– Secured	(b)	422,361	1,897,195	—	950,000
– Unsecured	(d)	675,000	310,000	675,000	310,000
		1,097,361	2,207,195	675,000	1,260,000
Other borrowings – guaranteed	(c)	26,169	30,051	26,169	30,051
Advance from a minority shareholder		—	9,564	—	—
		1,123,530	2,246,810	701,169	1,290,051
Less: Current portion of long-term borrowings					
– Bank borrowings – secured	(b)	(400)	(11,400)	—	—
– Other borrowings – guaranteed	(c)	(8,141)	(4,808)	(8,141)	(4,808)
		(8,541)	(16,208)	(8,141)	(4,808)
		1,114,989	2,230,602	693,028	1,285,243
<b>Current</b>					
Bank borrowings					
– Secured		—	50,000	—	50,000
– Unsecured	(d)	1,218,100	203,900	1,195,000	150,000
		1,218,100	253,900	1,195,000	200,000
Current portion of long-term borrowings		8,541	16,208	8,141	4,808
		1,226,641	270,108	1,203,141	204,808
<b>Total borrowings</b>		<b>2,341,630</b>	<b>2,500,710</b>	<b>1,896,169</b>	<b>1,490,051</b>

- (a) As approved by the People's Bank of China, the Company had obtained an approval to issue short-term bonds for an aggregate amount of not more than RMB2 billion before November 2006. On 6 January 2006, the Company issued a portion of short-term bonds at an amount of RMB1 billion, which bore interest at 3.07% per annum with a maturity of 9 months. The issued short-term bonds were fully redeemed in October 2006.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

## 18 Borrowings (continued)

- (b) For the secured bank borrowings, RMB259,600,000 is secured by a pledge of the operating right of Shuiguan Expressway of Qinglong Company; RMB162,761,000 (HKD162,000,000) is secured by a pledge of the 55% equity interest of JEL held by Mei Wah. The effective interest rates of these borrowings ranged from 4.99% to 6.156% per annum.
- (c) Other borrowings totaling USD3,351,300 (equivalent to RMB26,169,000) were extended by the Spanish Government through the China Construction Bank Corporation. The loans comprise two portions, USD2,234,200 bearing interest at 1.8% per annum which is repayable by installment from February 2007 to November 2011; and another portion of USD1,117,100 which is interest-bearing at 7.17% per annum and is repayable by installment from February 2007 to August 2009. These borrowings are guaranteed by Xin Tong Chan.
- (d) The effective interest rates of unsecured borrowings of the Group at 31 December 2006 ranged from 4.698% to 6.156% (2005: 4.698% to 5.85%) per annum.
- (e) The maturity periods of the borrowings are analysed as follows:

Group	Bank borrowings		Other borrowings and advance	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Within 1 year	1,218,500	265,300	8,141	4,808
Between 1 and 2 years	400	81,609	6,397	6,611
Between 2 and 5 years	555,761	1,287,386	11,631	16,829
Wholly repayable within 5 years	1,774,661	1,634,295	26,169	28,248
Over 5 years	540,800	826,800	—	11,367
	<b>2,315,461</b>	2,461,095	<b>26,169</b>	39,615

Company	Bank borrowings		Other borrowings	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Within 1 year	1,195,000	200,000	8,141	4,808
Between 1 and 2 years	—	50,000	6,397	6,611
Between 2 and 5 years	345,000	610,000	11,631	16,829
Wholly repayable within 5 years	1,540,000	860,000	26,169	28,248
Over 5 years	330,000	600,000	—	1,803
	<b>1,870,000</b>	1,460,000	<b>26,169</b>	30,051

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

	Carrying amounts		Fair value	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Bank borrowings	1,096,961	2,195,795	1,042,454	2,157,010
Other borrowings	18,028	25,243	16,594	23,191
Advance from a minority shareholder	—	9,564	—	8,112
	<b>1,114,989</b>	2,230,602	<b>1,059,048</b>	2,188,313

The fair values are determined based on cash flows discounted using an effective interest rate ascertained based on the rates of general bank borrowings at 6.30% - 6.84% (2005: 5.89% - 6.12%) per annum.

## 18 Borrowings (continued)

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

	Group		Company	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
RMB	<b>2,152,700</b>	1,794,464	<b>1,870,000</b>	1,460,000
USD	<b>26,169</b>	30,051	<b>26,169</b>	30,051
HKD	<b>162,761</b>	676,195	—	—
	<b>2,341,630</b>	2,500,710	<b>1,896,169</b>	1,490,051

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

	2006 RMB'000	2005 RMB'000
Floating rate		
– Expiring within one year	<b>2,894,000</b>	3,700,000
– Expiring beyond one year	<b>1,245,000</b>	2,720,000
	<b>4,139,000</b>	6,420,000
Fixed rate		
– Expiring beyond one year	<b>770,000</b>	400,000
	<b>4,909,000</b>	6,820,000

In November 2006, the shareholders of the Company approved a resolution for the proposed issuance of convertible bonds with attached warrants subscription rights by the Company for an aggregate amount of not more than RMB1.5 billion with attached of warrants rights to subscribe not more than 330 million of newly issued A shares of the Company. Proceeds will be applied against the construction of Nanguang Expressway. The issuance is subject to the approval of China Securities Regulatory Commission. As at the date of approval of these financial statements, materials for the application were under preparation and the Company planned to submit the application to the regulatory authorities in due course.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

## 19 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	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Deferred tax assets				
– to be recovered after more than 12 months	<b>(32,256)</b>	(6,364)	—	—
– to be recovered within 12 months	<b>(400)</b>	(400)	—	—
	<b>(32,656)</b>	(6,764)	—	—
Deferred tax liabilities				
– to be settled after more than 12 months	<b>119,928</b>	149,732	<b>22,111</b>	32,218
– to be settled within 12 months	<b>5,298</b>	5,298	<b>500</b>	—
	<b>125,226</b>	155,030	<b>22,611</b>	32,218
	<b>92,570</b>	148,266	<b>22,611</b>	32,218

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

	Group		Company	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Beginning of the year	<b>148,266</b>	50,294	<b>32,218</b>	26,671
Acquisition of a jointly controlled entity	—	90,958	—	—
Amounts reversed (Note (a))	<b>(42,134)</b>	—	<b>(9,104)</b>	—
Recognised in the income statement	<b>(13,562)</b>	7,014	<b>(503)</b>	5,547
End of the year	<b>92,570</b>	148,266	<b>22,611</b>	32,218

## 19 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:

Group	Deferred tax assets			Deferred tax liabilities		
	Impairment loss of property, plant and equipment RMB'000	Provision for impairment loss of other assets RMB'000	Total RMB'000	Depreciation of property, plant and equipment RMB'000	Difference of the accounting base and tax base of an intangible asset RMB'000	Total RMB'000
<b>At 1 January 2005</b>	25,040	1,878	26,918	77,212	—	77,212
Acquisition of a jointly controlled entity	—	—	—	—	90,958	90,958
Recognised in the income statement	(384)	—	(384)	8,837	(2,207)	6,630
<b>At 31 December 2005</b>	24,656	1,878	26,534	86,049	88,751	174,800
Amounts reversed (Note (a))	—	—	—	(42,134)	—	(42,134)
Recognised in the income statement	8,000	—	8,000	(264)	(5,298)	(5,562)
<b>At 31 December 2006</b>	32,656	1,878	34,534	43,651	83,453	127,104

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

## 19 Deferred income tax (continued)

Company	Deferred tax assets	Deferred tax liabilities
	Provision for impairment loss of assets	Depreciation of property, plant and equipment
	RMB'000	RMB'000
<b>At 1 January 2005</b>	1,878	28,549
Recognised in the income statement	—	5,547
<b>At 31 December 2005</b>	1,878	34,096
Amounts reversed	—	(9,104)
Recognised in the income statement	—	(503)
<b>At 31 December 2006</b>	1,878	24,489

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. The non-foreign invested enterprises of the Group, 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 effective from 1 January 2006. Accordingly, the Group had 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 invested enterprises of the Group using the units-of-usage basis of depreciation, namely Airport-Heao Estern and Qinglong Company, had not yet been finalised and agreed by the local tax authorities as at 31 December 2006. Accordingly, the Group continued to adopt the same basis for assessing their deferred tax liabilities as used in prior years.

## 20 Government grants

	Note	Group and Company	
		2006 RMB'000	2005 RMB'000
Deferred income	(a)	<b>296,461</b>	291,408
Advances from government	(b)	<b>54,000</b>	72,980
		<b>350,461</b>	364,388

(a) Deferred income

	Group and Company	
	2006 RMB'000	2005 RMB'000
Beginning of the year	<b>291,408</b>	318,764
Addition	<b>26,000</b>	—
Government subsidy income recognised for the year (Note 23)	<b>(20,947)</b>	(27,356)
End of the year	<b>296,461</b>	291,408

In 2005, the Company obtained an advance of RMB18,980,000 from the relevant government authorities as a government grant for the construction of Yanpai Expressway. An additional advance of RMB7,020,000 was received in current year and the aggregate amount of RMB26,000,000 was recorded as advance from government in the balance sheet. Since the construction of Yanpai Expressway was completed in May 2006, the full amount of the advances received was transferred to deferred income and it started to be amortised in the income statement over the approved operating period of Yanpai Expressway using the same basis for which depreciation is provided on the related toll road assets.

(b) This represents an advance obtained from the relevant government authorities as an inducement of the Company to participate in the Yanba toll road project of RMB54,000,000 (2005: RMB54,000,000). Due to the fact that the relevant government authorities have not stipulated clear provisions and regulations on the repayment obligations of such fund, and the fact that 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

## 21 Other payables and accrued expenses

	Note	Group		Company	
		2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Consideration payable for acquisition of interests in an associate and a jointly controlled entity	(a)	<b>24,594</b>	384,062	—	1,714
Payables for construction in progress	(b)	<b>176,603</b>	141,760	<b>173,143</b>	133,018
Guaranteed deposits for construction projects contracts	(b)	<b>179,568</b>	27,901	<b>179,568</b>	27,901
Project funds retained for construction management contracts	13	<b>6,872</b>	31,615	<b>6,872</b>	31,615
Notes payable	(b)	<b>359,242</b>	—	<b>359,242</b>	—
Others	(c)	<b>109,452</b>	85,354	<b>81,262</b>	47,995
		<b>856,331</b>	670,692	<b>800,087</b>	242,243

- (a) This includes the remaining balance of consideration payable in relation to the acquisitions of equity interests of both Qinglian Company and JEL made in 2005 amounting to RMB4,857,000 (2005: RMB363,626,000) and RMB19,737,000 (2005: RMB20,436,000), respectively. During the year, the Group had settled an amount of approximately RMB357,784,000.
- (b) These represent liabilities arising from the progress project payments for the construction of certain toll roads projects of the Group of RMB176,603,000 (2005: RMB141,760,000); deposits received from the contractors as guarantees for bidding and their performance commitment for the construction of these projects amounting to RMB179,568,000 (2005: RMB27,901,000) and bills payable of RMB359,242,000 (2005: Nil), respectively.
- (c) The balance includes the remaining unsettled auditors' remuneration for the year. Details of the gross auditors' remuneration for the year are as follows, the amount is included in other operating expenses in the income statement:

	2006 RMB'000	2005 RMB'000
International auditors' remuneration		
Annual audit	<b>1,550</b>	1,550
Other audit/review services	<b>100</b>	1,365
Statutory auditors' remuneration		
Annual audit	<b>650</b>	650
Other audit/review services	<b>1,150</b>	150



## 22 Revenue

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

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

## 23 Other income

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

- (a) The Company was engaged by the local government authorities to manage the construction of the Nanping Project, 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 there was a change in the toll road network plan of the government, the construction of Hengping Project has been suspended 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 current year (2005: RMB5,507,000). After consulting the legal counsel, the directors considered that it is not likely for the Company to assume any management liabilities for the project or to incur substantial loss.

The construction management service income for the Nanping Project recognised during the year using the percentage of completion method in accordance with the accounting policies as stated in Note 2.19(b) amounted to approximately RMB29,203,000 (2005: RMB67,323,000). Details are disclosed in Note 4(b).

As at 31 December 2006, the outcome of the Wutong Mountain Project could not be estimated reliably. As a result, the Company had recognised income of RMB2,265,000 (2005: Nil) to the extent of the project management expenses incurred by the Company, which are 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 previously applicable to the Group.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

## 24 Business tax and surcharges

The amount represents PRC business tax and surcharges levied on the Group's toll road income at RMB36,635,000 (2005: RMB34,956,000); service income derived from the provision of construction management services income at RMB982,000 (2005: RMB2,272,000); and income arising from the provision of other services at RMB1,347,000 (2005: RMB1,133,000).

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 is 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.

## 25 Employee benefit expenses

	Note	2006 RMB'000	2005 RMB'000
Wages, salaries and bonus		55,061	48,060
Bonus – the Appreciation Right Scheme		—	4,412
Pension costs – defined contribution plans	(a)	3,988	3,465
Other staff welfare benefits		11,206	11,226
		<b>70,255</b>	67,163

- (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 8% to 10% (2005: 8% to 9%) 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.

## 25 Employee benefit expenses (continued)

### (b) Directors' and senior management's emoluments

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

Name of director	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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

## 25 Employee benefit expenses (continued)

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

The remuneration of each director for the year ended 31 December 2005 is set out below:

Name of director	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	—	534	203	21	12	770
Mr. Wu Ya De	—	522	171	23	15	731
Mr. Zhang Rong Xing	—	380	47	58	8	493
Mr. Lin Xiang Ke	—	—	—	12	—	12
Ms. Zhang Yang	—	—	—	10	—	10
Mr. Li Jing Qi	—	—	—	8	—	8
Mr. Wang Ji Zhong	—	—	—	10	—	10
Mr. Chiu Chi Cheong, Clifton	312	—	—	14	—	326
Mr. Li Zhi Zheng	150	—	—	11	—	161
Mr. Zhang Zhi Xue	150	—	—	12	—	162
Mr. Chen Chao (i)	—	—	—	—	—	—
Ms. Tao Hong (i)	—	—	—	2	—	2
Mr. Zhong Shan Qun (i)	—	—	—	5	—	5
Mr. Ho Pak Cho, Dennis Morgie (ii)	66	—	—	2	—	68
Mr. Poon Kai Leung, James	156	—	—	16	—	172
Mr. Wong Kam Ling	90	—	—	10	—	100

(i) Resigned on 8 April 2005.

(ii) Resigned on 3 June 2005.

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

The emoluments for all directors of the Company (executive and non-executive) fell within the band of nil to RMB1,020,000 (HKD1,000,000) during the years ended 31 December 2006 and 2005.

In 2005, Mr. Chen Chao waived the allowance provided for his attendance in the board of directors' meetings at RMB12,000. In 2006, Mr. Yang Hai and Mr. Wu Ya De waived the allowance provided for their attendance in the board of directors' meetings at RMB19,000 and RMB13,000, respectively. No other directors waived any emoluments during the years ended 31 December 2006 and 2005.

During the years ended 31 December 2006 and 2005, no emoluments had been paid by the Group to the directors as an inducement to join or upon joining the Group or as a compensation for loss of office.

## 25 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 (2005: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2005: three) individuals during the year are as follows:

	2006 RMB'000	2005 RMB'000
Basic salaries	1,226	1,213
Bonuses	413	443
Contributions to the retirement scheme	57	44
Other benefits and allowances	143	213
	<b>1,839</b>	1,913

The emoluments for all the above senior management fell within the band of nil to RMB1,020,000 (HKD1,000,000) during the years ended 31 December 2006 and 2005.

## 26 Finance costs

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

Borrowing costs of RMB3,989,000 (2005: RMB11,782,000) 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 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

## 27 Income tax expenses

	2006 RMB'000	2005 RMB'000
Current income tax		
– PRC enterprise income tax	<b>105,596</b>	73,057
Deferred income tax		
– Originating temporary differences (Note 19)	<b>(13,562)</b>	7,014
– Reversal (Note 19)	<b>(42,134)</b>	—
	<b>(55,696)</b>	7,014
	<b>49,900</b>	80,071

- (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 the third profit-making year for Qinglong Company, 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 to Mei Wah, 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 and JEL are incorporated in the British Virgin Islands and Cayman Islands, respectively, which are not subject to profits tax.

## 27 Income tax expenses (continued)

(d) 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:

	2006 RMB'000	2005 RMB'000
Profit before income tax	643,729	642,280
Calculated at a tax rate of 15% (2005: 15%)	96,559	96,342
Effect of different tax rates in other locations	2,545	1,134
Income not subject to tax	(5,814)	(19,798)
Expenses not deductible for tax purposes	40	74
Tax loss for which no deferred income tax asset was recognised	745	9,082
Utilisation of previously unrecognised tax losses	—	(5,552)
Reversal of deferred tax liabilities (Note 19)	(42,134)	—
Preferential tax benefits of jointly controlled entities	(4,583)	(4,813)
Share of results of associates which no deferred income tax was recognised	2,542	3,602
Income tax expenses	49,900	80,071

## 28 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 RMB522,886,000 (2005: RMB521,460,000).

## 29 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

## 30 Dividends

The dividends paid during the years ended 31 December 2006 and 2005 were RMB261,684,000 (RMB0.12 per share) and RMB239,877,000 (RMB0.11 per share), respectively. A final dividend in respect of 2006 of RMB0.13 per share, amounting to a total dividend of RMB283,491,000 is to be proposed at the Annual General Meeting on 20 April 2007. 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 2007.

	2006 RMB'000	2005 RMB'000
Proposed final dividend of RMB0.13 (2005: RMB0.12) per ordinary share	<b>283,491</b>	261,684

## 31 Cash generated from operations

	2006 RMB'000	2005 RMB'000
Profit for the year	<b>590,773</b>	562,209
Adjustments for:		
– Income tax	<b>49,984</b>	80,071
– Depreciation	<b>154,279</b>	130,010
– Amortisation	<b>66,509</b>	37,624
– Loss recognised for measurement of disposal group classified as held for sale	<b>4,142</b>	—
– Provision for impairment of property, plant and equipment	<b>57,000</b>	—
– Reversal of provision for impairment of assets	—	(40,000)
– (Gain)/loss on disposal of property, plant and equipment	<b>(6)</b>	291
– Interest income from bank deposits	<b>(6,313)</b>	(9,798)
– Interest income from discounting of long-term receivables	—	(13,054)
– Interest income from loan to a jointly controlled entity	<b>(5,027)</b>	(6,315)
– Government subsidy income	<b>(20,947)</b>	(27,356)
– Subsidies from local government	<b>(12,789)</b>	(10,309)
– Excess of fair value of share of the net assets acquired in a jointly controlled entity over the cost of acquisition	—	(34,955)
– Interest expense	<b>99,886</b>	84,249
– Other borrowing costs	<b>7,666</b>	16,409
– Share of loss of associates	<b>16,948</b>	24,015
– Exchange gains	<b>(9,155)</b>	(37)
Changes in working capital (excluding the effects of acquisition):		
– Inventories	<b>571</b>	3,827
– Trade and other receivables	<b>56,093</b>	(121,092)
– Other payables and accrued expenses	<b>38,233</b>	43,198
Cash generated from operations	<b>1,087,847</b>	718,987



## 32 Commitments

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

	2006 RMB'000	2005 RMB'000
Capital commitments – construction of toll roads		
– contracted but not provided for	1,256,118	1,054,550
– authorised but not contracted for	1,389,332	2,700,800
	2,645,450	3,755,350
Investment commitments		
– contracted but not provided for	582,840	188,840
– authorised but not contracted for	—	484,000
	582,840	672,840
	3,228,290	4,428,190

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

## 33 Contingencies

Pursuant to the provisions of the three construction management contracts described in Note 23(a), 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 probability of outflow of resources arising from the cost overruns of these projects is considered low by the directors of the Company taking into account the actual progress and status of these projects.

Pursuant to the terms of the relevant contract, the Company had arranged a bank to issue irrevocable performance guarantee on its behalf to the Shenzhen Longgang Highway Bureau amounting to RMB30,000,000. The Company also paid a guarantee deposit of RMB15,000,000 for assuring the progress, quality and safety standards for the construction of the Hengping Project.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

## 34 Related party transactions

The substantial shareholder of the Company is Xin Tong Chan, which owns 30.03% of the Company's shares. Xin Tong Chan is wholly owned by Shenzhen International Holdings Limited, a company whose shares are listed on The Stock Exchange of Hong Kong Limited.

Apart from the related party transactions and balances in relation to acquisition of minority interest, toll income collection, guarantee for borrowings which have already been disclosed in Notes 9(a)(i), 12(b) and 18(c) respectively to these financial statements, the following material transactions were carried out with related parties during the year:

Key management compensation

	2006 RMB'000	2005 RMB'000
Salaries, bonuses and other short-term employee benefits	6,851	6,402

The key management include directors (executive and non-executive) and senior management and there are in total 19 (2005: 19) key management personnel of the Company.

## 35 Events after the balance sheet date

- (a) As detailed in Note 11(d), the Company acquired 20.09% equity interest held by Yueqing 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 in January 2007. The management of the Company is in the progress of assessing the fair values of the identifiable assets acquired and liabilities assumed and it is not yet in a position to state the results of the acquisition up to the date of approval of these financial statements.
- (b) In January 2007, Mei Wah, a subsidiary of the Company, entered into an agreement with a third party for the disposal of its 42% equity interest in Yungang Company at a cash consideration of RMB10,800,000. The transaction has not been completed up to the date of approval of these financial statements.

## 36 Comparatives

Certain comparative figures have been reclassified to conform with the current year presentation.

# Supplementary Information

## 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:

	<b>Profit attributable to equity holders of the Company for the year ended 31 December 2006</b>	<b>Capital and reserves attributable to the Company's equity holders as at 31 December 2006</b>
	RMB'000	RMB'000
<b>As per PRC statutory financial statements</b>	<b>559,245</b>	<b>6,591,829</b>
<b>Impact of HKFRS adjustments:</b>		
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 share of the net assets acquired in a jointly controlled entity over cost of acquisition	—	34,955
Amortisation of intangible assets and related deferred income 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 under PRC GAAP	512	1,024
Deferred income recognition for government grants recorded in capital reserve under PRC GAAP	323	(25,677)
Recognition of the excess of consideration and the acquired minority interest of a subsidiary in reserves	—	(41,236)
<b>Net amount of adjustments</b>	<b>19,845</b>	<b>12,809</b>
<b>As restated after HKFRS adjustments</b>	<b>579,090</b>	<b>6,604,638</b>

# 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
Articles	The articles of association of Shenzhen Expressway Company Limited
Advertising Company	深圳市高速廣告有限公司 (Shenzhen Expressway Advertising Company Limited), a company incorporated in Shenzhen City with limited liability
Bonds With Warrants	Convertible bonds, in which bonds and subscription warrants are tradable separately
Board	The board of Directors of the Company
CEPA	Closer Economic Partnership Arrangement, signed between the Hong Kong Special Administrative Region and the PRC
Changsha Ring Road	Hunan Changsha Ring Road (Northwestern Section), located in Changsha City of Hunan Province
The Company, Company	Shenzhen Expressway Company Limited
Consulting Company	深圳高速工程顧問有限公司 (Shenzhen Expressway Engineering Consulting Company Limited), a company incorporated in Shenzhen City with limited liability
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)
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
Guangyun Company	雲浮市廣雲高速公路有限公司 (Yunfu Guangyun Expressway Company Limited), a company incorporated in Guangdong Province with limited liability, which owns Guangwu Expressway
GZ W2 Company	廣州西二環高速公路有限公司 (Guangzhou Western Second Ring Expressway Company Limited), a company incorporated in Guangdong Province with limited liability, which owns GZ W2 Expressway
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
Huajian Centre	華建交通經濟開發中心 (Huajian Transportation and Economic Development Centre)
Huayu Company	深圳市華昱高速公路投資有限公司 (Shenzhen Huayu Expressway Investment Company Limited), a company incorporated in Shenzhen City with limited liability, which owns Shuiguan Extension
Independent Director(s)	The independent non-executive Director(s) of the Company
Jiangzhong Company	廣東江中高速公路有限公司 (Guangdong Jiangzhong Expressway Company Limited), a company incorporated in Guangdong Province with limited liability, which owns Jiangzhong Expressway
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 of 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

## Definitions

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 Company	南京長江第三大橋有限責任公司 (Nanjing Yangtze River Third Bridge Company Limited), a company incorporated in Jiangsu Province with limited liability, which owns Nanjing Third Bridge
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 report, 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 Company	深圳市梧桐嶺索道有限公司 (Shenzhen Wutongling Ropeway Company Limited), a company incorporated in Shenzhen City with limited liability, in which the Company holds 95% interest, and the major business of which is construction and operation of Ropeway Project
Ropeway Project	Shenzhen Wutongling Ropeway Project (suspended)
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)
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
Shenzhen International	Shenzhen International Holdings Limited, whose shares are listed on the main board of HKEX
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
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)
Yanba Expressway	The expressway from Yantian to Bagang in Shenzhen City, comprising Yanba A, Yanba B and Yanba C
Yangmao Company	廣東陽茂高速公路有限公司 (Guangdong Yangmao Expressway Company Limited), a company incorporated in Guangdong Province with limited liability, which owns Yangmao Expressway
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
Yueqing Company	清遠市粵清公路建設發展有限公司 (Qingyuan Yueqing Road Construction and Development Company Limited)
Yungang Company	湖北雲港交通發展有限公司 (Hubei Yungang Transportation Development Company Limited), a company incorporated in Hubei Province with limited liability, which owns Geputan Bridge

# Corporate Information

Registered Names of the Company	深圳高速公路股份有限公司 Shenzhen Expressway Company Limited
Legal Representative	YANG Hai
Registered Address of the Company	19/F, Tower A, United Plaza, No.5022 Binhe Road North, Shenzhen
Joint Company Secretary	WU Qian , TSE Yat Hong
Contact Address	19/F, Tower A, United Plaza, No.5022 Binhe Road North, Shenzhen (Postal Code: 518033)
E-mail	secretary@sz-expressway.com
Telephone	(86) 755-8294 5880
Investor Hotline	(86) 755-8295 1041
Fax	(86) 755-8291 0696
Website	<a href="http://www.sz-expressway.com">http://www.sz-expressway.com</a>
Place of Business in Hong Kong	Suites 2911-2912, 29/F, Two International Finance Center, 8 Finance Street, Central, Hong Kong Tel: (852) 2543 0633 Fax: (852) 2543 9996
Initial Registration Date and Place	30 December 1996 / Shenzhen City, Guangdong Province
Latest Date of Registration Update	20 April 2006
Registration Number of Business License	4403011018527
Tax Registration Number	440304279302515
Listing Exchanges	H Share: The Stock Exchange of Hong Kong Limited Stock Code: 0548 Abbreviation: Shenzhen Expressway  A Share: The Shanghai Stock Exchange Stock Code: 600548 Abbreviation: Shenzhen Expressway
Designated Publication Newspaper	Hong Kong: Hong Kong Economic Times, The Standard  PRC: Shanghai Securities News, Securities Times
Designated Publication Website	<a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> <a href="http://www.sse.com.cn">http://www.sse.com.cn</a> <a href="http://www.sz-expressway.com">http://www.sz-expressway.com</a>





Annual Report Available at:	Hong Kong: Suites 2911-2912, 29/F, Two International Finance Center, 8 Finance Street, Central, Hong Kong
	PRC: 19/F, Tower A, United Plaza, No.5022 Binhe Road North, Shenzhen
International Auditors	PricewaterhouseCoopers 22/F, Prince's Building, Central, Hong Kong
Statutory Auditors	PricewaterhouseCoopers Zhong Tian CPAs Co., Ltd. 11/F, PricewaterhouseCoopers Centre, 202 Hubin Road, Shanghai
Hong Kong Legal Adviser	Loong & Yeung, Solicitors in association with Rodyk & Davidson Suites 2911-2912, 29/F, Two International Finance Center, 8 Finance Street, 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 of H Shares	Rikes Communications Limited Room 1312, Wing On Centre, 111 Connaught Road Central, Hong Kong
Investor Relations Consultant of A Shares	Everbloom Investment Consultant Company Limited 7/F, Tower A, United Plaza, No.5022 Binhe Road North, Shenzhen
Principal Bankers	Industrial and Commercial Bank of China China Merchants Bank China Development Bank

# Confirmation to the 2006 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 2006 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:

Wu Xian

Li Jian

Ge Fei

Fan Li Ping

Gong Tao Tao

Zhou Qing Ming

Wu Qian

2 March 2007