Corporate Mission and Objectives

The mission of Shenzhen Expressway is to provide safe, convenient, comfortable and environment-friendly infrastructure facilities and services to the public; to create increasing value to shareholders and the community at large; and to cultivate for its staff a good environment for work and development.

With our full commitment and continuous pursuit for excellence, we strive for:

- Building and sustaining an unwavering corporate system leadership
- Providing ever-improving customer service
- Fulfilling the objectives set by the Company and the government
- Establishing good business partnerships
- Valuing mutual respect and development for staff

Our goal is to develop into a highly competitive infrastructure facilities developer and operator in China, an enterprise which is market-driven, commercially prudent and with good corporate governance. We aim to develop and manage world-class toll highways and related businesses, with a view to enhancing value for the Company and its shareholders.

Contents

Financial Highlights

1. Prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS")

Results Highlights

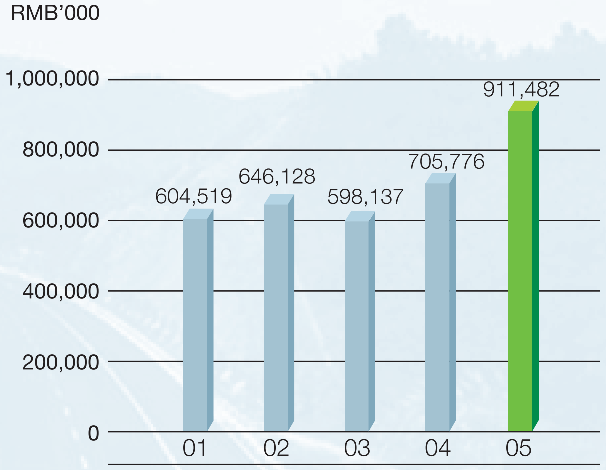
(for the year ended 31 December)

(RMB'000)	**2005**	2004 (Restated*)	2003 (Restated*)	2002 (Restated*)	2001 (Restated*)
Turnover	**911,482**	705,776	598,137	646,128	604,519
Profit before interests, tax, depreciation and amortisation	**910,535**	654,463	1,204,275	558,372	575,303
Profit before interests and tax	**742,901**	522,777	1,084,412	428,695	458,172
Profit before taxation	**642,280**	498,725	1,058,433	403,768	416,525
Profit for the year	**562,209**	422,706	910,882	343,974	404,645
Profit attributable to equity holders of the Company	**552,622**	414,888	904,484	338,230	398,402
Basic earnings per share for profit attributable to equity holders of the Company (RMB)	**0.25**	0.19	0.41	0.16	0.20
Dividend per share to equity holders of the Company (RMB)	**0.12**	0.11	0.19	0.12	0.10

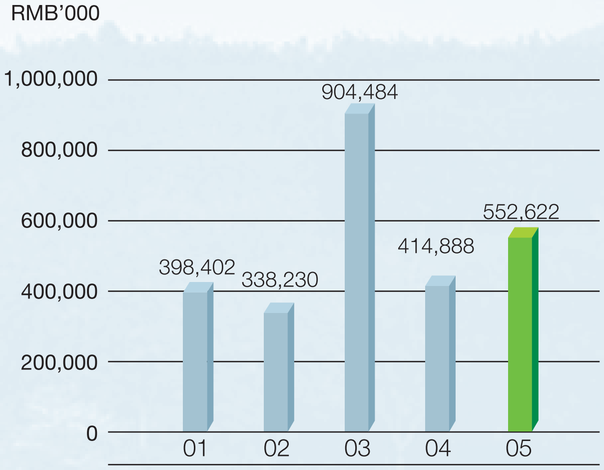
Assets Highlights

(As at 31 December)

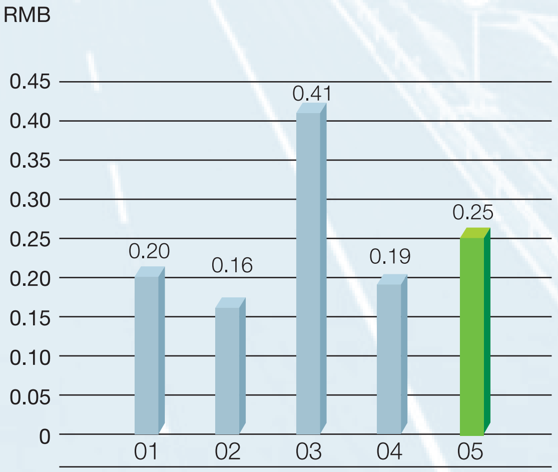
(RMB'000)	**2005**	2004 (Restated*)	2003 (Restated*)	2002 (Restated*)	2001 (Restated*)
Total assets	**10,079,315**	7,527,763	7,184,338	6,957,138	7,032,522
Total liabilities	**3,706,556**	1,458,998	1,116,098	1,530,468	1,727,499
Equity attributable to equity holders of the Company	**6,329,621**	6,027,065	6,026,510	5,384,616	5,264,456
Total equity	**6,372,759**	6,068,765	6,068,240	5,426,670	5,305,023
Net assets per share to equity holders of the Company (RMB)	**2.90**	2.76	2.76	2.47	2.41



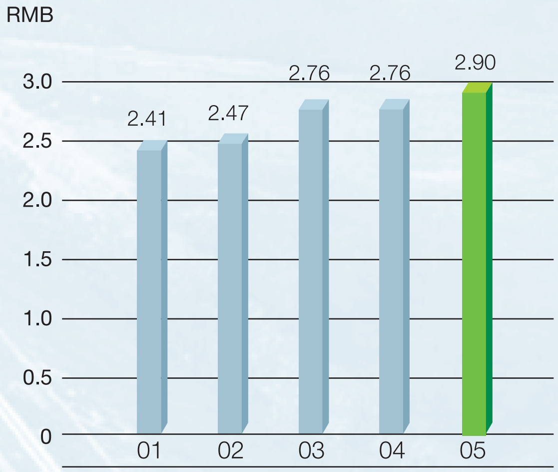
Turnover



Profit Attributable to Equity Holders



Basic Earnings Per Share



Net Assets Per Share

Financial Highlights

Principal Financial Ratios**

(For the year ended 31December)

	2005	2004	2003	2002	2001
(RMB'000)		(Restated*)	(Restated*)	(Restated*)	(Restated*)
Operating profit ratio	**84.14%**	74.17%	181.29%	66.35%	75.79%
Toll road operating profit ratio	**68.57%**	66.36%	67.02%	64.23%	63.72%
Return on equity attributable to equity holders of the Company	**8.73%**	6.88%	15.01%	6.28%	7.57%
Interest covered multiple	**7.74**	21.99	41.74	17.20	11.00

(As at 31 December)

	2005	2004	2003	2002	2001
(RMB'000)		(Restated*)	(Restated*)	(Restated*)	(Restated*)
Gross liabilities-to-equity ratio	**58.16%**	24.04%	18.39%	28.20%	32.56%
Net borrowings-to-equity ratio	**25.24%**	N/A	N/A	5.72%	5.35%

* In 2005, the Group adopted certain new or revised Hong Kong Financial Reporting Standards 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/Turnover

Toll road operating profit ratio = Operating profit from toll roads(excluding government subsidies)/Turnover from toll roads

Return on equity = Profit attributable to equity holders of the Company/Equity attributable to the shareholders 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

2. Reconciliation of financial statements

The Group has prepared a separate set of financial statements for the year ended 31 December 2005 in accordance with the PRC GAAP. The differences between the financial statements prepared under the PRC GAAP and HKFRS are summarised as follows:

RMB'000	**Profit attributable to equity holders of the Company for the year ended 31 December 2005**	Capital and reserve attributable to the Company's equity holders as at 31 December 2005
As reported under the PRC GAAP	**485,043**	6,269,421
Impact of HKFRS adjustments:		
Adjustment on interest in an associate based on the fair value of the net assets acquired	**13,902**	13,902
Depreciation of property, plant and equipment	**(311)**	16,706
Amortisation of intangible assets and related deferred tax	**(848)**	(848)
Adjustment on a loan to a jointly controlled entity at amortised cost	**6,315**	(5,027)
Recognition of the excess of fair value of share of the acquired net assets of a jointly controlled entity over cost of acquisition	**34,955**	34,955
Interest adjustments on discounting long-term receivables	**13,054**	—
Reversal of amortisation of equity investment differences under PRC GAAP	**512**	512
Net amount of adjustments	**67,579**	60,200
As restated after HKFRS adjustments	**552,622**	6,329,621

Corporate Profile

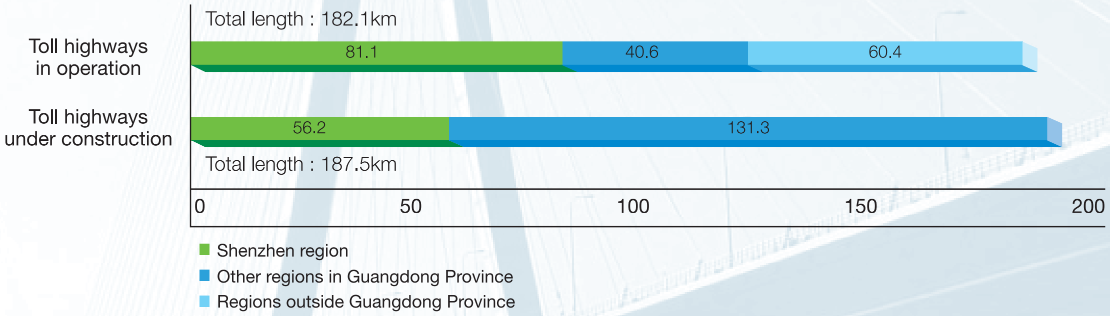
The Company is principally engaged in the investment, construction, operation and management of toll highways and roads.

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 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% shares 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 road 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 Company (as at 31 December 2005)

Shenzhen International

100%

- **A-share holders** 7.57%
- **H-share holders** 34.28%
- **XTC Company** 30.03%
- **SGH Company** 20.99%
- **Other shareholders** 7.13%

Shenzhen Expressway Company Limited

Toll Highway Business

Projects in Operation

🟩	Meiguan Expressway	95%
🟩	Jihe East	55%
🟩	Jihe West	100%
🟩	Yanba (A & B)	100%
🟩	Shuiguan Expressway	40%
🟩	Shuiguan Extension	40%
🟧	Yangmao Expressway	25%
🟧	Guangwu Expressway	30%
🟧	Jiangzhong Expressway	25%
🟦	Changsha Ring Road	51%
🟦	Wuhuang Expressway	55%
🟦	Geputan Bridge	42%
🟦	Nanjing Third Bridge	25%

Projects under Construction

🟩	Yanpai Expressway	100%
🟩	Nanguang Expressway	100%
🟩	Yanba C	100%
🟧	GZ W2 Expressway	25%
🟧	Qinglian Project*	56.28%

Other Businesses

Entrusted Construction Management	
Advertising	99.75%
Engineering Consulting	30%

🟩 Shenzhen region

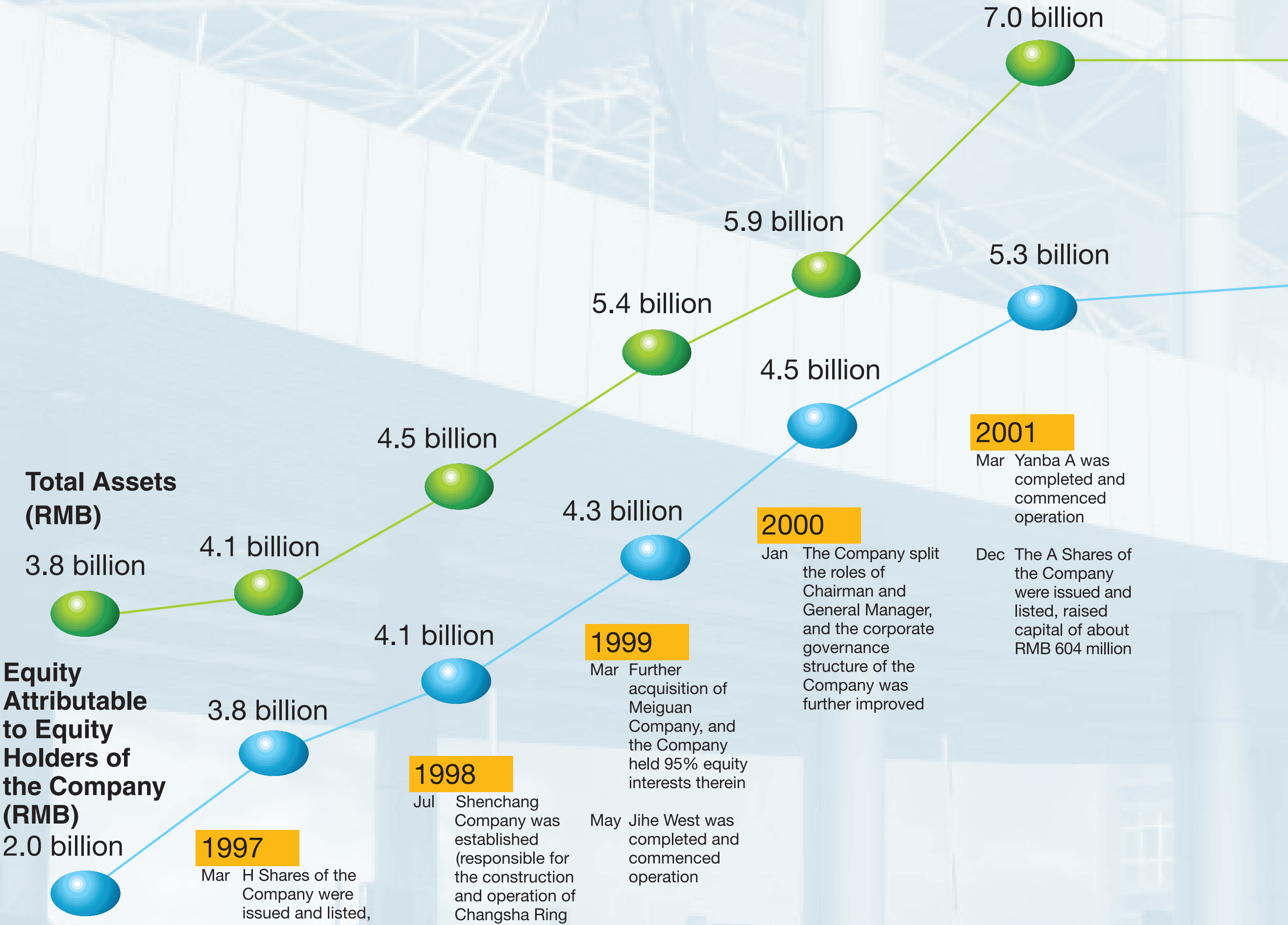
🟧 Other regions in Guangdong Province

🟦 Regions outside Guangdong Province

Note:

* The Company signed an agreement on 8 February 2006 to propose further acquisition of 20.09% equity interest in Qinglian Project. Such acquisition is subject to shareholders' approval at the general meeting.

Major Events for Ten Years' Development of the Company



1996

Dec The Company was established

1997

Mar H Shares of the Company were issued and listed, raised capital of about RMB 1.685 billion

Oct Jihe East was completed and commenced operation

1998

Jul Shenchang Company was established (responsible for the construction and operation of Changsha Ring Road). The company held 51% equity interests therein

1999

Mar Further acquisition of Meiguan Company, and the Company held 95% equity interests therein

May Jihe West was completed and commenced operation

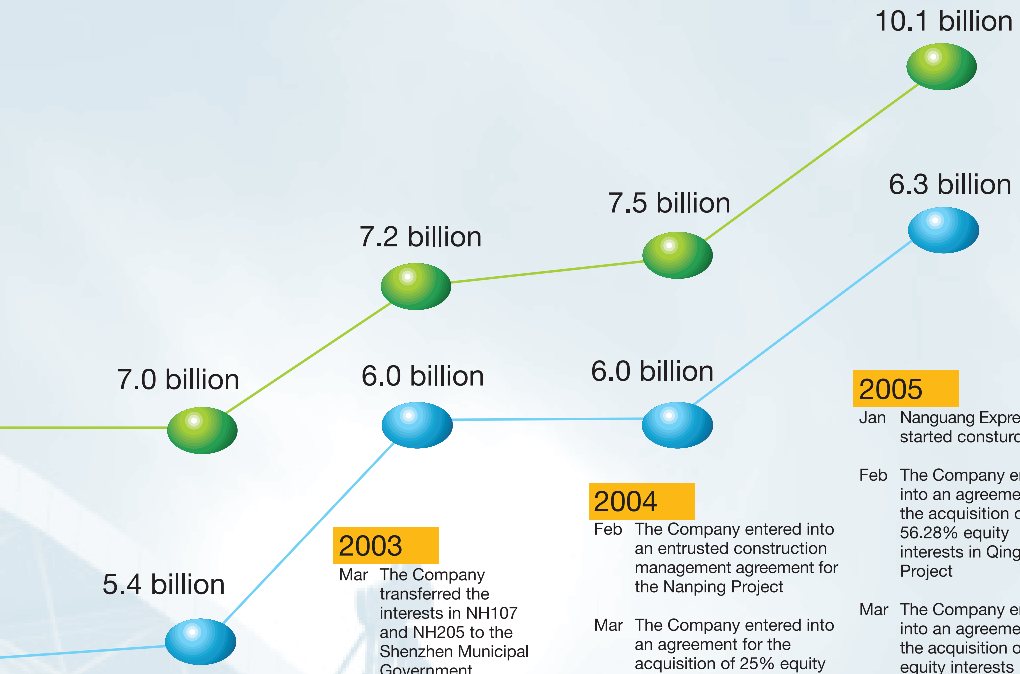
2000

Jan The Company split the roles of Chairman and General Manager, and the corporate governance structure of the Company was further improved

2001

Mar Yanba A was completed and commenced operation

Dec The A Shares of the Company were issued and listed, raised capital of about RMB 604 million



2002

Dec	Acquisition of 40% equity interests in Shuiguan Expressway

2003

Mar	The Company transferred the interests in NH107 and NH205 to the Shenzhen Municipal Government
Jun	Yanba B was completed and commenced operation, and the construction of Yanbai Expressway started
Nov	The Company acquired Mei Wah Company, which held 42% equity interests in Geputan Bridge

2004

Feb	The Company entered into an entrusted construction management agreement for the Nanping Project
Mar	The Company entered into an agreement for the acquisition of 25% equity interests in Yangmao Company, which was responsible for the construction and operation of Yangmao Expressway
Apr	The Company entered into an agreement for the acquisition of 25% equity interests in Jiangzhong Company, which was responsible for the construction and operation of Jiangzhong Expressway
May	Western Second Ring Company was established and was responsible for the construction and operation of GZ W2 Expressway, in which the Company held 25% equity interests
	The Company entered into an agreement for the acquisition of 40% equity interests in Huayu Company, which was responsible for the construction and operation of Shuiguan Extension
June	The Company invested in Nanjing Third Bridge Company, which was responsible for the construction and operation of Nanjing Third Bridge, and held 25% equity interests therein
Nov	Yangmao Expressway was completed and commenced operation
Dec	The Company entered into an agreement for the acquisition of 30% equity interests in Guangyun Company, which was responsible for the construction and operation of Guangwu Expressway. Guangwu Expressway was completed and commenced operation

2005

Jan	Nanguang Expressway started consturction
Feb	The Company entered into an agreement for the acquisition of 56.28% equity interests in Qinglian Project
Mar	The Company entered into an agreement for the acquisition of 55% equity interests in Wuhuang Expressway
Jul	Shuiguan Extension was completed and commenced operation
Oct	Nanjing Third Bridge was completed and commenced operation
Nov	Jiangzhong Expressway was completed and commenced operation
Dec	The western section of Nanping Freeway (Phase I) was completed and commenced operation

2006

Jan	The Company successfully issued the first batch of the short-term commercial papers of RMB1 billion
Feb	The Company completed the share segregation reform. The Company entered into an agreement for further acquisition of 20.09% equity interests in Qinglian Project

The Company will fully capitalise on its advantages, improve the operation and construction of its existing highway projects, and in line with its established development strategies, seek suitable investment opportunities. The Company will integrate its resources when appropriate and carry out a sound operation.

Chairman's Statement

To all shareholders:

Committed to its established core mission, in 2005, the Group adhered to its strategy of expanding across the Pearl River Delta region as well as other economically developed regions in China from its base in Shenzhen. Based on its 2004 endeavors, the Group continued to capitalise on the opportunities arising from the demand for quality transportation facilities driven by a sound macro-economic environment, with a remarkable progress made in the operation, investment, construction and other areas and achieving planned operating results.

RESULTS AND DIVIDENDS

I am pleased to report to the shareholders that the Group's overall results in 2005 were good, with revenue amounting to RMB911,482,000 (2004: RMB705,776,000), representing an increase of 29.15% compared to 2004; profit attributable to equity holders of the Company amounted to RMB552,622,000 (2004: RMB414,888,000); and earnings per share amounted to RMB0.25 (2004: RMB0.19), representing an increase of 33.20% compared to same period of the previous year.

It has always been the Group's policy to reward shareholders with a cash dividend of stable and high payout ratio. The Board recommended the payment of a final dividend of RMB0.12 per share in cash for year 2005, representing 54% of the net profit of the PRC Statutory Financial Statements for the Year or 48% of profit attributable to equity holders of the Company as adjusted under the HKFRS for the Year.

BUSINESS REVIEW

In 2005, the Company committed itself to a market-driven approach to attract more traffic flow on the one hand and incessantly sought suitable opportunities to build new income bases on the other hand.

Toll revenue is the main source of the Group's profit. Owing to the strong economic growth in China, particularly in the Pearl River Delta and its neighboring areas, there have been higher demands for greater capacity and better quality of expressways arising from business commuting, logistics flow and the people's travel, and these factors provided a strong driving force for the Group's growth in toll highway operations. The traffic flow and toll revenues of the toll highways operated and invested in by the Group inherited the growth trend of 2004 and recorded an average growth rate topping 31% and 29% respectively. This formed a solid basis for the Group's profit growth.

The Group incessantly seeks suitable opportunities to invest in toll highway projects situated in superior geographical positions so as to expand its principal operations and achieve its strategic objectives. Following the progress made in the previous year on investing beyond Shenzhen, the Group entered into agreements in 2005 to invest in the Qinglian Project and Wuhuang Expressway, for which total capitals amounted to about RMB2.5 billion and the total mileage of high-grade toll highways acquired was 280 km. The Group also plans to re-construct the Qinglian Project into an expressway. Shuiguan Extension, Nanjing Third Bridge and Jiangzhong Expressway, in which the Group invested in 2004, were all open to traffic during the Year. Wuhuang Expressway has been proportionately consolidated into the Group since August 2005 and the Group's share of its profit reached approximately RMB20,565,000. The above investments have built a good foundation for a continued growth of the Group's profits in future.

The Group's entrusted construction management business in Shenzhen is contributing new profits to the Group. The construction of the western section of the Nanping Project, appointed by the Shenzhen Municipal Government, has been completed and was widely acclaimed by the government and other members of the community. It demonstrated public recognition to the Group's extensive project construction and management experiences accumulated over the past decade. This also demonstrated the Group's competitive advantages in developing government-invested highways and in "exporting" its project management techniques and experiences.

In February 2006, the Company entered into an agreement to further acquire equity interests in the Qinglian Project. The further acquisition aims to strengthen the Group's control and management of the project so as to ensure a speedy and efficient implementation of its reconstruction into an expressway, with a view to expanding the Group's business scale and profit base and consolidating its core advantages in highway investment, construction, operations management and innovation. The acquisition is a significant initiative of the Group's development strategy, which will in turn enhance the return for its investors.

OUTLOOK AND STRATEGIES

Sustained economic prosperity, accelerated integration of the regional economy and increasing urbanisation are the driving forces to the demand for quality transportation. To meet the needs for economic development, the State and local governments have worked out comprehensive, forward-looking plans for the transportation network. All these factors are expected to accelerate the development of the Group's principal operations in the toll highway sector. Besides, the consistent promotion and use of the "entrusted construction system" in the management of government-invested projects will also create good opportunities for the development of the Group's entrusted construction management business.

On the other hand, the sectors of both toll highways and government-invested projects' management are becoming more transparent, market-oriented and regulated. This has also brought more market entrants, intensified competition and accelerated pace. The Group is also exposed to rising interest rates on loans, changes in industry policies and highway network plans and other risk factors. The next several years will be a critical period for the Company's development. The Company will continuously focus on the investment, construction, operation and management of toll highways and roads. The Company will also fully capitalize on its advantages, consolidate its core competitive strengths, improve the operation and construction of its existing highway projects, and in line with its established development strategies, seek suitable investment opportunities. The Company will integrate its resources when appropriate, assess and prevent risks prudently, and carry out a sound operation. The Company will reward its investors with satisfactory standards in corporate governance and promising operating results.

APPRECIATION

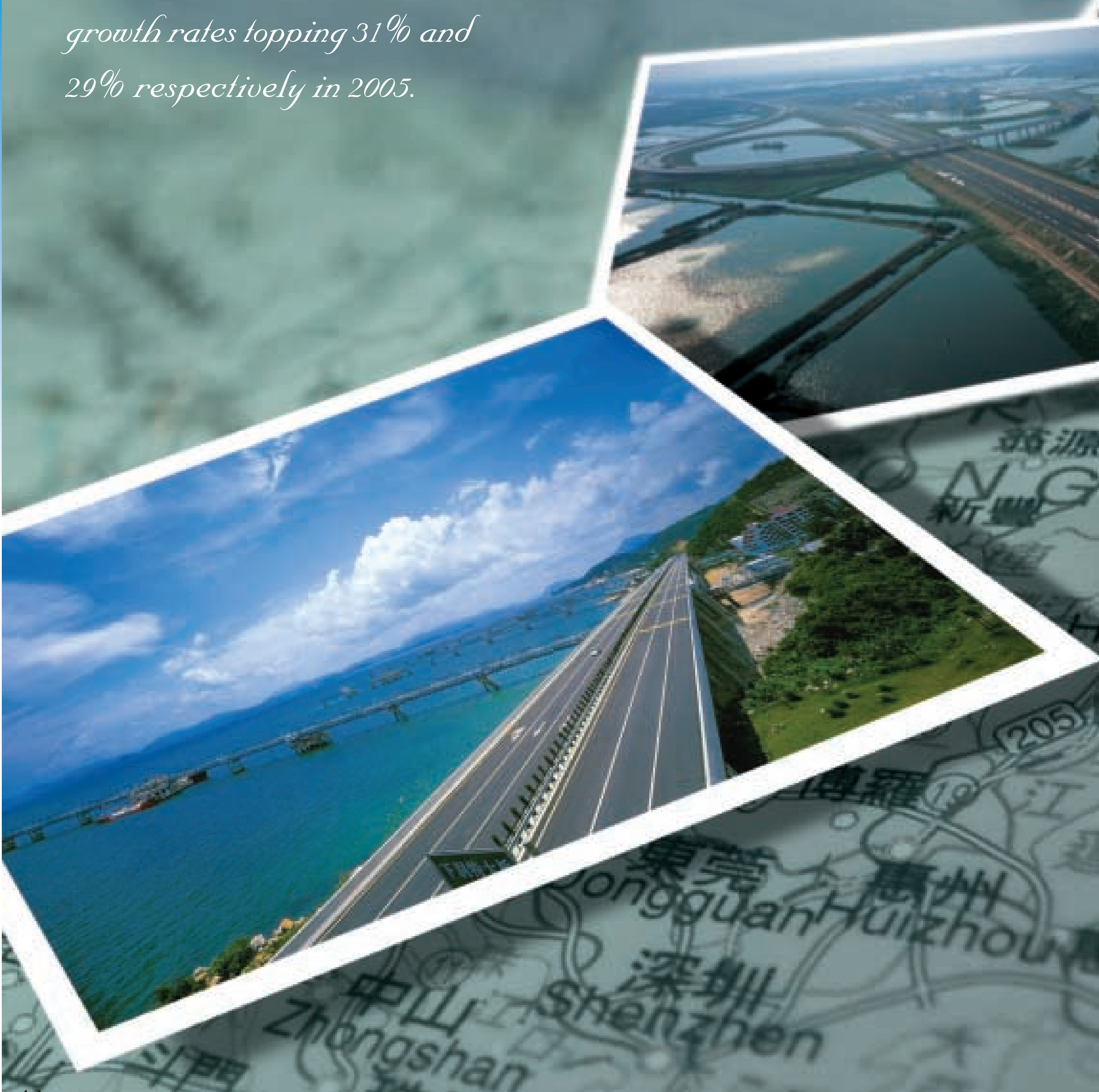
2006 will mark our tenth anniversary. Over the past decade, we have made a number of breakthroughs, as witnessed by the growth in assets and revenues as well as the expansion of our toll highway operations from Shenzhen to Guangdong Province and other areas across the country. I would to take this opportunity to express, on behalf of the Board, high respect to our founders and forerunners for their industrious work, in particular to our former Chairman Mr. Chen Chao who made a major contribution with his heart and soul in achieving multi-step development of the Company. Mr. Chen Chao has been the Chairman since the establishment of the Company. He has shepherded all the staff to overcome various difficulties, such as shortage of qualified personnel and financing resources, at the initial development stage of the Company. Capitalising on the right opportunities, he has made courageous expansion moves and has effected a sound, cost-efficient and stable development of the Company. During Mr. Chen's term of office, the Company invested almost RMB 6,000 million in the construction of expressways, shaping our strategy of expanding from Shenzhen to Guangdong and other regions. The Company also succeeded in establishing financing channels from the capital markets in China and overseas by seeking listings on the stock markets in both Hong Kong and Shanghai. With such listing status, the Company was not only able to solve the fundamental problem of inadequate funds needed for construction projects but also to attain a balanced and diversified shareholding structure, which has in turn served as a solid foundation for establishing a sound corporate governance structure. Mr. Chen Chao has also actively promoted a business operation based on rules and regulations as well as a democratic decision-making process. He has established a check-and-balance mechanism within the Company to ensure a long-term, sound development of the Company. The Company is one of the enterprises in China which has taken a lead in recruiting external directors and overseas independent directors, and establishing specialised committees under the Board to ensure that our decisions are made in an objective, independent and scientific manner. Under the leadership of Mr. Chen Chao, the Company was able to capitalise on opportunities and fully unleash the potential competitive edges and strengths of the Company and the industry. On the basis of the business built over the past decade, the Board will lead the Company's staff and will not cease its endeavours in achieving the Company's strategic objectives.

I would like to take this opportunity to express, on behalf of the Board, sincere gratitude to our shareholders and other members of the community for their longstanding care and support, to the third session of the Board of Directors and the Supervisory Committee for their invaluable contributions, and to our dedicated staff for their unceasing efforts.

Yang Hai
Chairman

Shenzhen, PRC, 31 March 2006

The traffic flow and toll revenues of the toll highways operated and invested in by the Group recorded average growth rates topping 31% and 29% respectively in 2005.



Management Discussion and Analysis

China's economy has been growing speedily and steadily for many years. According to the preliminary statistics released by the National Bureau of Statistics, China's GDP increased by 9.9% in 2005 over the previous year, representing an approximately 10% growth for three consecutive years. Blessed by its favourable policy and geographical proximity to Hong Kong and Macau, the Pearl River Delta region has always been one of the most vibrant areas and is most characterised by a dynamic and export-oriented economy. In 2005, the GDP of Guangdong Province and Shenzhen increased by 12.5% and 15% respectively, higher than the national average, whilst their exports totalled US$428 billion and US$182.9 billion respectively, an increase of 19.8% and 24.2% respectively over the previous year. Economic prosperity is set to lead to frequent passenger and cargo flows, which in turn results in rising traffic demand.

Fuelled by internal demands from economic development and the move towards economic globalisation, regional economies are rapidly integrating, coupled with increasing trade exchanges and cooperation between regions. In particular, with the gradual implementation of CEPA and the Pan-Pearl River Economic Circle, the logistics transportation industry of the Pearl River Delta region - a gateway into Hong Kong, Macau and other provinces of China - is growing rapidly. Taking Shenzhen as an example, its port cargo throughput reached 153.51 million tons in 2005, an increase of 13.4% over the previous year; and its containers throughput reached 16.2 million TEUs, an increase of 18.6% over the previous year, enabling Shenzhen to retain the position as the world's fourth largest container port. Cargo and passenger turnovers handled by the whole city increased by more than 20% in 2005 over the previous year.

Economic growth will also drive the pace of urbanisation, resulting in an increase in the number and size of counties and towns as well as in personal income of local residents, all of which in turn push up the demand for public travels in terms of quantity and quality. The Pearl River Delta region had an early and speedy economic startup, leading the nation in terms of number of established counties and towns, population density, personal income level and so forth. According to the figures of GDSTATS.GOV.CN, the per capita disposable income of residents of counties and towns in Guangdong Province amounted to RMB14,770 in 2005, an increase of 8% over the previous year, while the per capita expenditure on the purchase of family cars increased by 95% over the previous year, representing a car ownership rate of 9.7 vehicles per 100 households, an increase of 47.7% over the previous year. Car-related expenditures also surged substantially, and spending on cars has become a major spending hotspot in 2005. In accordance with the White Paper on Composite Management Solutions to Traffic Conditions in Shenzhen City (深圳交通綜合治理工作白皮書) promulgated in March 2006, the total numbers of vehicles in Shenzhen registered in 2002 and 2005 were 461,000 and 813,000, respectively, representing a growth of approximately 75%. As at the end of 2005, the total number of motor vehicles in Shenzhen (including vehicles from other places) amounted to 970,000.

Toll revenue is a major source of the Group's income. Driven by the strong economic growth in China and in particular, the Pearl River Delta and its neighbouring areas, the Group recorded a continued increase in its business. The Board is pleased to announce that the Group achieved a revenue of RMB911,482,000 in 2005 (2004: RMB705,776,000) prepared in accordance with the HKFRS, representing an increase of 29.15% over the same period of the previous year. Profit attributable to equity holders of the Company amounted to RMB552,622,000 (2004: RMB414,888,000). Earnings per share was RMB0.25 (2004: RMB0.19), representing an increase of 33.20% over the same period of the previous year.

BUSINESS REVIEW AND ANALYSIS

As at the end of the Reporting Period, the Group operated and invested in 18 toll road projects which were either in operation or under construction. General information about each road is set out in Information of Toll Highways attached to this annual report.

Toll Road Operations

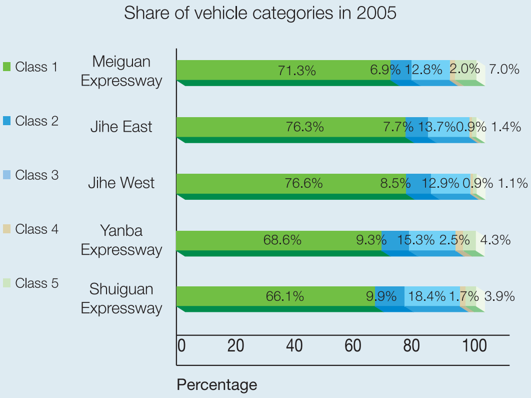
Shenzhen Area

Having benefited from a number of factors such as the robust economic growth in Shenzhen and its neighbouring areas, regional integration and urbanisation during the Reporting Period, the Group continued to maintain a steady growth in traffic flow and toll revenue generated on its various toll roads located in the Shenzhen area.

	Average daily mixed traffic volume (number of vehicles)			Average daily toll revenue (RMB)		
Toll road	**2005**	**2004**	**Change**	**2005**	**2004**	**Change**
Meiguan Expressway	76,343	64,199	18.92%	795,315	707,711	12.38%
Jihe East	56,468	44,446	27.05%	786,573	631,107	24.63%
Jihe West	46,462	35,257	31.78%	739,855	593,856	24.58%
Yanba A and B	11,572	9,427	22.75%	115,139	89,165	29.13%
Shuiguan Expressway	54,747	39,733	37.79%	504,054	382,291	31.85%
Shuiguan Extension*	31,739	N/A	N/A	229,452	N/A	N/A

* Shuiguan Extension was completed and opened to traffic in July 2005, and tolled from October 2005.

Small vehicles accounted for the main share of traffic flow on Jihe Expressway. Traffic flow of the Class 1 vehicles running on Jihe East and Jihe West increased by 28% and 35% respectively in 2005, contributing significantly to the increase in traffic flow on Jihe Expressway. Traffic flow of Class 4 and 5 vehicles increased by approximately 40% and 60% respectively, remarkably higher than the increase in mixed traffic flow, reflecting the positive impact of the construction and development of industrial centres and logistics parks in the surrounding areas on the operating performance of Jihe Expressway. Yanpai Expressway, a Yantian Port feeder road of Jihe Expressway, is scheduled to be completed and opened to traffic by the middle of 2006 and is set to contribute further traffic growth on Jihe Expressway.



During the Reporting Period, Shuiguan Expressway recorded a rapid increase of 38% in its traffic flow over the same period of the previous year as a result of the speedy development of the Longgang Industrial Zone and its neighbouring counties and towns, coupled with the opening of Shuiguan Extension in July 2005. Traffic flow on Shuiguan Expressway only increased by 24% in the first half of 2005 over the same period of the previous year, which demonstrated a strong driving force to traffic flow upon the formation of a highway network. In addition, in the year of its opening, Shuiguan Extension already recorded a daily average mixed traffic flow exceeding 30,000 vehicles, thus suggesting a huge traffic demand from the neighbouring areas as well. Upon the full operation of Nanping Freeway which will connect Shuiguan Expressway and Shuiguan Extension, the improved highway network in the surrounding area is expected to stimulate further traffic growth for Shuiguan Expressway and Shuiguan Extension.

As mentioned in our previous periodic reports, Yanba Expressway's toll revenue under-performed in the short-term due to the absence of a holistic network coverage in the eastern part of Shenzhen. The Company sought to identify a large batch of potential customers through the launch of aggressive marketing activities and to lure traffic flow by providing quality and smooth travel services. Besides, members of the community have been upbeat about the traffic convenience brought about by the opening of Yanba A and B, as construction works in the surrounding areas of the expressway have been increased and vehicles related to construction works have brought additional traffic flow to Yanba Expressway. As a result, the rate of increase in toll revenue of Yanba Expressway in 2005 was higher than the average rate of increase of roads in the Shenzhen area. The construction of Shenhui Coastal Expressway in Huizhou has already commenced, and Yanba C is scheduled to be completed corresponding with Shenhui Coastal Expressway. With increased development in the eastern part of Shenzhen and Huizhou and an improving highway network forthcoming, Yanba Expressway is expected to continue to enjoy a growth in traffic flow and toll revenue.

In 2005, Meiguan Expressway was able to maintain a growth in traffic flow and toll revenue but the growth began to slow down, partly because the expressway was entering a mature phase of its operation. Furthermore, since the middle of the year, the reconstruction works of a municipal road connecting with Meiguan Expressway had affected the travel efficiency on the connected section, forcing large trucks to switch to other roads. The opening of Shuiguan Extension has also diverted some traffic to Shuiguan Expressway.

While Yanpai Expressway, Nanguang Expressway and Longda (Longhua - Dalingshan) Expressway have been completed and opened to traffic, and improvements are being made to the highway network in the Dongguan and Huizhou areas, traffic flows on the various toll roads in Shenzhen are expected to be redistributed. In light of the sound economic environment in Shenzhen and its neighbouring areas, the management remains optimistic about the overall growth in traffic flow on the toll roads in the region.

Other Areas

To increase its market share and to enhance its position and influence in the sector, the Company has capitalised on the opportunity arising from the disposal of equity interests in toll road projects by Guangdong Province and other provinces over the past two years and has been undertaking active participation in toll road project investments beyond Shenzhen.

Listed below are operational toll road projects invested in by the Company in Guangdong Province, together with their operating performance details:

Toll road	Percentage of equity interest	Daily average mixed traffic volume (numbers of vehicles)	Daily average toll revenue (RMB)	Date of commencement of operation
Yangmao Expressway	25%	10,362	546,907	November 2004
Guangwu Expressway	30%	6,120	164,830	December 2004
Jiangzhong Expressway	25%	6,563	200,847	November 2005
Qinglian Highway	56.28%	16,459	364,449	—

Yangmao Expressway, Guangwu Expressway and Jiangzhong Expressway, in which the Company does not have controlling interests, have not contributed substantially to the Company's revenues and profits at the moment since they are still at the initial stage of operation. Blessed by the sound macro-economic environment, these expressways showed a sign of growth in both traffic flow and toll revenue. Among the three, Yangmao Expressway outperformed and recorded increases of 27% and 39% in daily average traffic flow and toll revenue, respectively, in 2005 compared to the month when operation commenced. The commencement of operation of the Guangdong section of Yuzhan (Chongqing - Zhanjiang) Expressway at the end of 2005 will further enhance the operating performance of Yangmao Expressway in future. Guangwu Expressway recorded a slight growth in daily average toll revenue in 2005 against the period of initial stage of operation, which is within the Company's expectations. Upon completion of the Guangwu Phase II (under planning) connecting with its western end, Guangwu Expressway, which forms an integral part of an express passage linking the Pearl River Delta with Guangxi and southwestern provinces, is expected to have an improved performance. Jiangzhong Expressway, once operated, has shortened the traveling distance between the eastern and western parts of the Pearl River Delta (with Guangzhou as centre) by almost 80 km. Jiangzhong Expressway is expected to see steadily rising traffic flow and toll revenue.

Located in the northern part of Guangdong Province, Qinglian Class I Highway covers a total mileage of 215.85 km and serves as a major passage linking the Pearl River Delta with the central and northern parts of Guangdong Province, Hunan Province and other central regions, offering an advantageous strategic location. However, the highway fails to satisfy current and future traffic needs due to poor road surface conditions. Qinglian Highway recorded fair operating performance as a whole during the Reporting Period. The Company invested in this project mainly for the purpose of reconstructing it into an expressway to fully capitalise on its existing routing and its role as an essential corridor. Upon completion of the project, the reconstructed Qinglian Class I Highway will connect with the highway network in the Pearl River Delta via Guangqing (Guangzhou - Qingyuan) Expressway in the south, and with Jingzhu (Beijing - Zhuhai) Expressway in the north via the Lianzhou-Yizhang section. It will also interconnect with the latest-planned Erguang (Erlianhaote - Guangzhou) Expressway, Jingzhu Expressway Dual Lane and Shankun (Shantou - Kunming) Highway, forming an essential route linking the northern and southern highway framework in Guangdong Province and enhancing the trading and economic activities from the Pearl River Delta region towards the central areas. The reconstruction project will generate promising investment returns for the Group and presents a major strategic significance to the Group's growth. Please refer to the section of "Project Construction and Management" on page 20 of this annual report for relevant details in the reconstruction progress of Qinglian Class 1 Highway.

The Group has invested in toll road projects in areas outside Guangdong Province, which include Wuhuang Expressway and Geputan Bridge in Hubei Province, Changsha Ring Road in Hunan Province and Nanjing Third Bridge in Jiangsu Province, in which the Group owns equity interests of 55%, 42%, 51% and 25% respectively.

Wuhuang Expressway covers a total mileage of 70.3 km, which is a highway trunk connecting with Wuhan and Huangshi and exiting from eastern part of Hubei Province, and also forms an integral part of Hurong (Shanghai - Chengdu) National Highway and commands a superior and strategic location. Wuhuang Expressway recorded a daily average mixed traffic flow of 22,895 vehicles and a daily average toll revenue of RMB728,039 during 2005, up approximately 10% and 17% respectively over 2004. Wuhuang Expressway's satisfactory operating performance was attributable to the economic growth and improving highway networks in Hubei Province. Besides, certain toll rates for trucks have increased in actuality as a result of the government's measures against vehicle overloading, and so the rate of increase in Wuhuang Expressway's toll revenue was higher than that in traffic flow for the same period. Nanjing Third Bridge was opened to traffic in October 2005, about two years ahead of schedule. Its daily average mixed traffic flow and daily average toll revenue amounted to 8,276 vehicles and RMB324,889 respectively in the first three months since its opening. Changsha Ring Road and Geputan Bridge did not have satisfactory operating performance during the Reporting Period, recording daily average mixed traffic flow of 5,393 and 2,730 vehicles respectively. However, they did not have a major impact on the Group's overall operating performance, given that their revenues accounted for only approximately 1% of the Group's total revenue.

Toll Policy and Others

Pursuant to the "Notice Concerning Adjustments of the Toll Rates of Vehicles on Expressways" jointly issued by Guangdong Provincial Price Index Bureau (廣東省物價局) and Guangdong Provincial Communications Department (廣東省交通廳), from 1 June 2005 the toll coefficient for Class 5 vehicles traveling on Meiguan Expressway and Jihe Expressway was amended from 6 to 5, representing an approximately 16.7% decrease; the toll coefficient for Class 5 vehicles traveling on Yanba Expressway, Shuiguan Expressway, Yangmao Expressway and Guangwu Expressway was amended from 4 to 3.5, representing a an approximately 12.5% decrease; while the toll coefficients for Class 1 to 4 vehicles traveling on all expressways remain unchanged. Considering that toll revenues from Class 5 vehicles account for a small proportion of the Group's total revenues, and the decrease in toll rates will have positive effect on traffic flow, the aforesaid changes did not have a material impact on the Group's revenues or profits. A toll-by-weight pilot scheme for Guangdong Province is being tried out but not throughout the province yet.

In 2005, toll standards were already revised in Hubei Province, Hunan Province and Jiangsu Province pursuant to the instruction of the Ministry of Communications. The Company's toll standards applicable to its highway projects in these provinces are set out in the Information of Toll Highways attached to this annual report. The toll-by-weight system will be implemented in Hubei Province in April 2006, which is expected to be conducive for the operating performance of Wuhuang Expressway.

Operation and Management

The Group has timely adjusted the focus of work on its toll road operation in the recent two years in response to the impact brought about by various changes: improved highway networks, implementation of inter-road network toll collection and the Company's expansion on external investments. On the one hand, the Group has worked to ensure that its toll revenue target would be achieved through stepping up the analysis of highway networks and the marketing activities aimed at specific vehicles. On the other hand, it has enhanced the management of the enterprises in which the Group invested to help achieve returns from the investments through strengthening the development and training of assigned management staff. Furthermore, in respect of the implementation of the inter-road network toll collection project, the Company has taken relevant measures such as continuously reviewing and improving the management system and operation rules, organising training for toll collection staff, and maintaining close liaison with relevant management authorities to ensure that toll revenues would be distributed timely and accounted for safely, so that the Company's operating objectives would be smoothly achieved.

Project Construction and Management

The Company is currently carrying out the construction of Yanpai Expressway and Nanguang Expressway as well as preliminary preparation work on Yanba C. For Yanpai Expressway, as per the progress of the physical completion of the project, an accumulated amount of approximately RMB915 million had been utilised as construction costs as at the end of the Reporting Period, representing approximately 80% of the estimated investment. Foundation, bridge-culvert and tunnel works have basically been completed. As for Nanguang Expressway, land requisition, demolition and relocation are underway, while tenders have already been invited for the construction of some sub-contracted sections of the expressway. Constructions on the main roads of the two expressways are scheduled for completion by the middle of 2006 and by the end of 2007 respectively. For Yanba C, the preliminary design has been reviewed and the Municipal Environmental Protection Bureau has given a reply in respect of the environmental assessment report. With a construction plan being drawn up, the project is scheduled for completion concurrently with Shenhui Coastal Expressway, now under construction in Huizhou. Meanwhile, for GZ W2 Expressway, a project being constructed by an associated company, an accumulated amount of RMB1,434 million had been utilised as construction costs representing approximately 48% of the estimated investment. The whole project is scheduled for completion by the first half of 2007.

Six expressways have been planned for development by the Shenzhen Municipal Government in Shenzhen, with the proprietary development right of only Exterior Ring Expressway 6 being unconfirmed. A proprietary tendering scheme is being implemented across Guangdong Province pursuant to the requirements of the “Toll Road Management Regulations” and relevant legislations, under which the development rights to the toll highway projects should be determined by way of bidding in government tenders. The Shenzhen Municipal Government had granted the Company the first right of refusal to develop the planned expressways in Shenzhen in 1997. While pursuant to the requirements of the “Toll Road Management Regulations” and relevant legislations, a public tender announcement on the development right to Exterior Ring Highway has recently been published by the Shenzhen Municipal Government, and the Company is actively participating in the tenders to strive for the proprietary right to the project, in an attempt to further consolidate the Company’s share of the toll highway sector in Shenzhen and to earmark quality highway projects for the Company’s long-term, stable development.

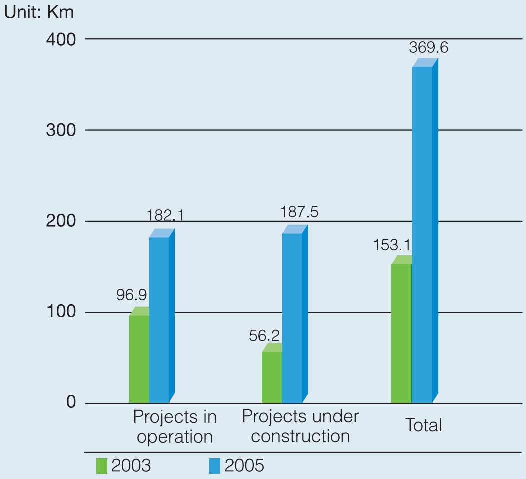
The reconstruction of Qinglian Class I Highway into an expressway proceeded smoothly during 2005. Senior management members and key technical and management staff of the Company have been assigned to set up a construction management head office to actively push forward relevant work. Tenders have been invited for project designs and for the construction of the project management office. Land requisition, demolition and relocation is all underway as well. The reconstruction of an experimental section started in full wing in December 2005, marking the commencement of a special research on foundation works and laying a sound platform for achieving the objective of successfully completing Qinglian Expressway and opening it to traffic in 2008.

The reconstruction of Qinglian Class I Highway and the construction of Nanguang Expressway are the Company’s key construction management projects in the next three years. On the premises of accomplishing the objectives on quality, safety and environmental protection, to complete the projects on schedule is key to reducing project financial expenses and management costs and to assuring investment returns, which will lay a good foundation for the Group to achieve exponential growth in operating scale and operating results according to its established objectives. To such end, the management highly values the construction and management of these projects and will step up controls over phase-by-phase objectives and on-site management through assigning accountabilities to specific positions. Apart from full support in terms of funds and human resources that the Company has given to the project, two project competitions have also been organised and a special incentive scheme has been devised to specify rules for rewarding and penalising staff, with an aim to promote and ensure the achievement of the overall objectives of the projects by mobilising the enthusiasm and sense of responsibility of project managers.

Project Acquisitions

In 2005, the Company acquired 30% equity interest in Guangwu Expressway, 56.28% equity interest in Qinglian Project and 55% equity interest in Wuhuang Expressway. The operations of these projects during the Reporting Period have been described in the preceding paragraphs. Details of the relevant transactions are set out in "Connected Transactions" of the Report of the Directors on page 63 of this annual report.

Since 2004, the Company's management has been implementing the development strategies and objectives devised by the Board and actively proceeding with investment in and acquisition of quality toll highway projects. As such, the Group's business has expanded from Shenzhen to Guangdong Province and other areas across the PRC, recording a breakthrough increase in total equity-based mileage of the Group's toll highways at the end of 2005 as compared to the end of 2003.



To increase its control over the Qinglian Project and to enhance its management of the operation and project construction of Qinglian Company so that a smooth and efficient reconstruction of Qinglian Class I Highway will be facilitated, the Company entered into an agreement with the liquidation committee of Qingyuan Yueqing Highway Construction and Development Co., Ltd. on 8 February 2006 for a proposed further acquisition of 20.09% equity interest in Qinglian Company at a consideration of RMB484 million. This transaction is subject to the approval of independent shareholders at a shareholders' meeting pursuant to the Listing Rules of the HKEX. Should the acquisition be completed, the Group will own a total of 76.37% equity interest in Qinglian Company, and the Group will be entitled to appoint 12 out of 15 directors of Qinglian Company. From an accounting viewpoint, Qinglian Company will change from the status of an associate to a subsidiary of the Group, and its operating results will be consolidated into the Group's financial statements. This will help the Group to further strengthen its operating scale and to expand its income base.

In view of the rapidly expanding investment size and the substantial proportion of projects-in-progress within the Company's existing investment portfolio, the Company will be even more prudent than before in decision making as regards project investment and acquisition. The management has recently focused on the integration of existing resources and will conduct a thorough assessment of the impact of new projects on the development of the Company as a whole, as well as the impact on the compatibility of these projects with the Company's strategic objectives and on the security of the Company's financial resources. Such assessment work aims to further rationalise the Company's investment portfolio to enhance the overall returns of the projects.

Entrusted Construction Management – Business of "Entrusted Construction System"

Entrusted Construction Management refers to the government's selection and appointment of private companies specialising in project management to organise, implement and manage the construction of government-invested projects. Under the entrusted construction management system, the entrusted administrator provides construction management services to the government for a management fee. Generally, the management fee is charged on a balance-of-cost basis, and the administrator is responsible for any breach of contract in respect of construction costs, construction schedules and quality within the scope of entrustment as agreed in the contract.

Over the past decade, the Group has built extensive experience in highway construction and management, and has earned a reputation for assuring reliable quality and for its professional capabilities in controlling budgets and work schedules, which are the Group's advantages and assets for competing in the Entrusted Construction Management sector.

The Company has been appointed by the government as administrators for Nanping Project and Hengping Project in 2004. As at the end of the Reporting Period, as per the progress of the physical completion, an accumulated amount of approximately RMB1,908 million had been utilised as construction costs in Nanping Project. The western section was opened to traffic on 3 December 2005 while the whole project is scheduled for completion by the first half of 2006. During the Reporting Period, Nanping Project contributed a profit of approximately RMB59,968,000 to the Company, which is within the Company's expectations. Based on the management's reasonable and prudent expectations, the project will still generate management income in phases for the Company in the next two years. Hengping Project is lagging behind schedule due to land requisition, demolition and relocation works, and the whole project is scheduled for completion by 2007. As at the end of the Reporting Period, as per the progress of the physical completion, an accumulated amount of approximately RMB137 million had been utilised as construction costs in Hengping Project, representing approximately 30% of estimated investment. As the Company is not required by the agreement to be responsible for land requisition, demolition or relocation, the Company's performance in accordance with the construction schedules as stipulated in the agreement will not be affected.

In 2006, new progress was made in the Company's entrusted construction management business. Pursuant to the contract entered into with the Shenzhen Communications Bureau (representing the Shenzhen Municipal Government), the Company has been appointed as project administrator for the Wutong Mountain Avenue (Supplementary Road) and Jihe Expressway Yantian Subsidiary Road Checkpoint Station Project in Shenzhen. This project is an auxiliary project of Yanpai Expressway, with a construction budget of approximately RMB254 million, subject to finalisation by the Shenzhen Municipal Audit Bureau. Pursuant to the contract terms, the Company's management income is to be determined by the project costs savings: if the final savings of project costs or any deficit was to fall within 2.5% of the estimated construction budget, then the savings or the deficit amount would be credited to or borne by the Company. If the savings or the deficit was greater than 2.5% of the estimated construction budget, the portion of savings or deficit that exceeded 2.5% would be equally shared or borne by the Company and the Shenzhen Communications Bureau.

The Entrusted Construction System is now being widely promoted and applied to the management of government-invested projects, and is becoming more transparent and market-oriented, offering a favourable opportunity for the Group to develop entrusted construction management business through the utilisation of its engineering management expertise and experience, which will become a new income base for the Group in the next few years.

Other Businesses and Matters

The Company invests in an advertising company which is engaged in the businesses of billboard leasing, advertising agency, design production and related services, utilising land-use rights alongside the Company's toll highways and toll stations. During the Reporting Period, the Advertising Company recorded a revenue of RMB10,914,000 and a profit of RMB2,705,000.

The Company has established Consulting Company together with certain engineering and technical personnel as primary shareholders to develop businesses such as project management consultancy, information technology consultancy, engineering consultancy, and construction costs consultancy and tendering agency. Preliminary progress has been made by Consulting Company in its current efforts to expand the markets in Shenzhen and the Pearl River Delta. In 2005, Consulting Company recorded a revenue of RMB12,010,000 and a net profit of RMB656,000.

The Wutongling Ropeway project remains suspended. In line with the spirit of the relevant meetings of the Shenzhen Municipal Government, the government has decided to cancel the project and offered suitable compensations to investors based on the audit findings of the Shenzhen Municipal Audit Bureau. Part of the impairment provisions made for the project in previous periods was hereby written back during the Reporting Period. Please refer to note 9(b) to the financial statements.

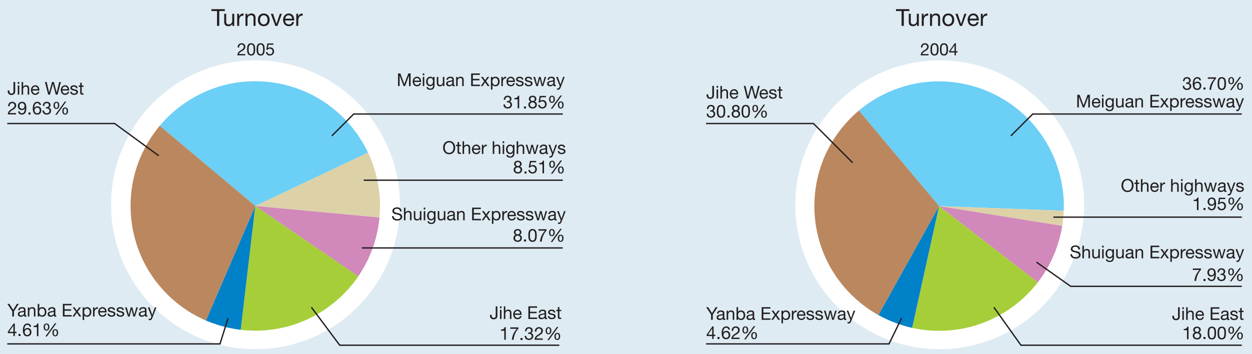
ANALYSIS OF OPERATING RESULTS

Principal financial indicator (RMB'000)	2005	2004 (restated)	Change
Turnover	911,482	705,776	29.15%
Operating expenses	298,135	259,588	14.85%
Operating profit	766,916	523,483	46.50%
Share of profit/(loss) of associates	(24,015)	(706)	N/A
Finance costs	100,621	24,052	318.34%
Profit attributable to the equity holders of the Company	552,622	414,888	33.20%

Turnover

During 2005, the Group recorded turnover of RMB911,482,000, representing an increase of 29.15% as compared to 2004. Among such increase, Meiguan Expressway, Jihe East, Jihe West, Yanba Expressway, Shuiguan Expressway and Changsha Ring Road recorded increases of 12.07%, 24.29%, 24.24%, 28.78%, 31.49% and 5.38% respectively. Wuhuang Expressway was consolidated with the Group's financial statements since August 2005. Excluding this new project, the Group recorded an increase of 20.12% in turnover as compared to the previous year.

Composition of Turnover



During the Reporting Period, benefited from the continuous growth of the PRC economy and the increase in the number of vehicles, the source of growth in the Group's turnover was mainly from the increase of traffic flow on the Group's major toll highways. The composite traffic flow of the Group's toll highways recorded an overall increase of 30.95% as compared to the previous year. Without taking into account the effect brought by Wuhuang Expressway, the composite traffic flow of the Group's toll highways increased by 26.15% as compared to the previous year. Due to the slight increase in the proportion of small vehicles in the Group's toll vehicle composition as compared to the corresponding period of the previous year, and the moderate decrease in the toll coefficient for Class 5 vehicles since 1 June 2005 (Please refer to "Business Review and Analysis" on page 19 of this annual report for details), and without taking into account the effect brought by the newly acquired Wuhuang Expressway, the average toll revenue per vehicle for the Group's toll highways dropped slightly by 3.83% as compared to the previous year. As a result, the growth rate of toll revenue was slightly lower than that of traffic flow for the Reporting Period.

	Average toll revenue per vehicle (RMB)		
Toll highway	**2005**	**2004**	**Change**
Meiguan Expressway	10.42	11.02	-5.50%
Jihe East	13.93	14.20	-1.90%
Jihe West	15.92	16.84	-5.46%
Yanba Expressway	9.95	9.46	5.20%
Shuiguan Expressway	9.21	9.62	-4.31%
Changsha Ring Road	10.81	11.93	-9.41%
Geputan Bridge	7.27	7.97	-8.77%
Subtotal	**11.90**	**12.37**	**-3.83%**
Wuhuang Expressway *	31.80	27.86	14.15%
Total	**12.67**	**12.37**	**2.38%**

* Presented in terms of year-on-year figures

Taxes on Turnover

In accordance with the "Notice Concerning Policies Regarding Business Tax on Toll Fee Income of Highway Operation Enterprises by the Ministry of Finance and the State Administration of Taxation" jointly promulgated 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%). Hence during the Reporting Period, the rate of increase in business tax and surcharges was lower than the rate of increase in turnover.

Operating Expenses

Due to the growth in traffic flow on the Group's major toll highways and the increase of operating expenses in relation to new projects during the Reporting Period, operating expenses of the Group during the Reporting Period amounted to RMB298,135,000 , representing an increase of 14.85% as compared to the previous year, among which:

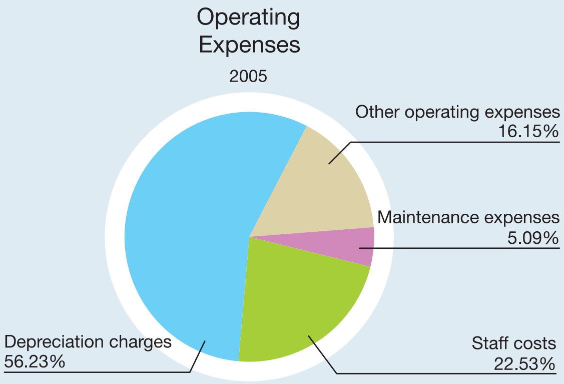
- as a result of traffic growth, depreciation charges increased by 27.30% as compared to the corresponding period of the previous year to RMB167,634,000.

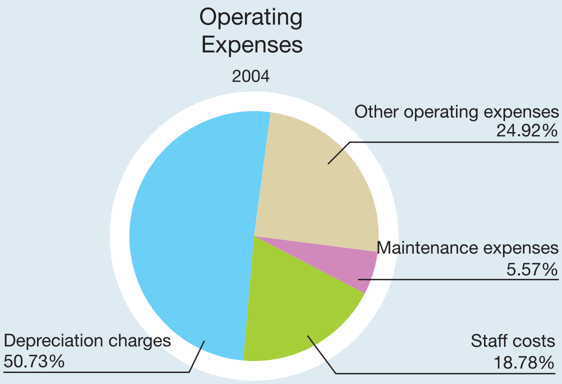
- employee benefit expenses increased by 37.78% as compared to the previous year to RMB67,163,000, mainly due to the increases in toll stations and toll collection staff as a result of traffic growth, rise of wage standards on toll collection staff and the provision of incentive cash bonus under the share appreciation rights scheme of RMB4,412,000 during the Reporting Period.

- road maintenance expenses increased by 5.05% as compared to the corresponding period of the previous year to RMB15,181,000 due to the growth of traffic flow and aging of roads, which led to more resources put on maintenance to ensure good road conditions and traffic environment. However, maintenance expenses in general accounted only for a small percentage of toll revenue. Currently, various toll highways of the Group are in good conditions and no major overhaul is scheduled in the coming two years.

- Other operating expenses decreased by 25.57% as compared to the previous year to RMB48,157,000. During the Reporting Period, there were new expenses of settlement service charges incurred for the new inter-road network toll collection system of Guangdong Province, and business expenses on new projects also increased as compared to the previous year, but other operating expenses decreased as compared to the previous year mainly due to the write-back of impairment provision of RMB40 million for the ropeway project made in previous years.

Structure of Operating Expenses





Other Revenues

During the Reporting Period, the Group's other revenues increased by 67.10% as compared to the previous year to RMB191,930,000, mainly represented by:

- A bank deposit interest income of RMB9,798,000, representing a decrease of 21.26% as compared to the previous year.
- Interest income of RMB13,054,000 in respect of long-term receivables discounted in connection with the disposal of two Class 1 highways being recognised in this period (2004: RMB35,779,000), representing a decrease of 63.51% over the previous year.
- A discounted interest income of RMB6,315,000 derived from advances made to Qinglong Company.
- An income of RMB34,955,000 recognised in respect of the recognition of the excess of fair value of share of the acquired net assets of jointly controlled entity, JEL Company, over the cost of acquisition.
- An income of RMB27,356,000 (2004: RMB35,708,000) recognised during the Year in respect of government subsidies for Yanba Expressway, representing a decrease of RMB8,352,000 over the previous year.
- During the Year, the Company received subsidies of RMB10,309,000 granted by the Shenzhen Municipal Government in relation of the cancellation of certain preferential policies on the income tax of the Group.
- During the Reporting Period, an income of RMB72,830,000 was recognised according to the completion progress in respect of the entrusted construction management service, representing an increase of RMB54,962,000 over the previous year. Among such income, an income of RMB67,323,000 was recognised for the entrusted construction management service provided to Nanping Project, while an income of RMB5,507,000 was recognised for the entrusted construction management service provided to Hengping Project. The profit recognised during the Reporting Period for the entrusted service provided to Nanping Project amounted to RMB59,968,000. As the outcome of Hengping Project could not be estimated reliably, and the Directors believe that future reimbursements of administration expenses incurred relating to this project were probable, the Company recognised income and expenses for the project on the basis of actual administration expenses of RMB 5,507,000 incurred during the Reporting Period. No profit was accounted for during the Reporting Period.

Operating Profit

As a result of growth in toll revenues and other revenues, the Group recorded an operating profit of RMB766,916,000 during the Reporting Period, representing an increase of 46.50% as compared to the previous year. During the Reporting Period, operating profit margin of toll highway (excluding government allowance) was 68.57%, representing an increase of 2.21 percentage points over the previous year, which was mainly attributable to the decrease in business tax rate in the Reporting Period.

Share of Profit of Associates

During the Reporting Period, the Group's share of results of associates amounted to RMB-24,015,000, including the share of profits or losses after tax of Yangmao Company, Guangyun Company, Jiangzhong Company, Huayu Company, Nanjing Third Bridge Company, Consulting Company and Qinglian Company. The information on associates is set out in Note 11 to the financial statements.

Earnings before Interest and Tax ("EBIT")

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

(Unit: RMB'000)

Principal activities	2005	2004	Change (amount)	Change (%)
Meiguan Expressway	213,360	184,105	29,255	15.89%
Jihe East	117,535	94,907	22,628	23.84%
Jihe West	211,339	166,480	44,859	26.95%
Yanba Expressway	25,193	31,948	(6,755)	-21.14%
Shuiguan Expressway	42,913	33,580	9,333	27.79%
Other highways (Note 1)	5,992	2,645	3,347	126.54%
Highway-related business (Note 2)	157,889	67,076	90,813	135.39%
Subtotal	**774,221**	**580,741**	**193,480**	**33.32%**
Unallocated expenses of the Group	(31,320)	(57,964)	26,644	-45.97%
Total	**742,901**	**522,777**	**220,124**	**42.11%**

Note 1: Other highways included Wuhuang Expressway, Changsha Ring Road, Geputan Bridge and the highways operated by associates.

Note 2: Income from highway-related businesses consisted of income on project management fees from government-entrusted construction management services, income from Advertising Company, income generated from the acquisition of a jointly controlled entity, discounted interest income from installment payment collections, bank deposit interest income and subsidies from government, etc.

Finance Costs

During the Reporting Period, the Group's finance costs amounted to RMB100,621,000, representing an increase of 318.34% as compared to the previous year. Such increase was mainly attributable to the increased scale of borrowings as compared to the previous year.

Change of Accounting Policies

During the Year, the Group has changed certain accounting policies in accordance with the new and revised HKFRS that are effective for accounting period commencing on or after 1 January 2005. The major impact of the changes to the accounting policies of the Group and the adoption of such new policies are as follows:

- The proportionate consolidation approach under HKAS 31 "Interests in Joint Ventures" is adopted to account for the interests in jointly controlled entities. In the previous years, the interests in jointly controlled entities of the Group were accounted for using the equity method of accounting. After the adoption of the new policy, the Group has restated the 2004 comparative figures. However, earnings per share and retained earnings remained unaffected.

- Adoption of HKAS 39 "Financial Instruments: Recognition and Measurement": The accounting policies in respect of loans and receivables and long-term liabilities have been changed such that these instruments are initially stated at fair values and subsequently measured at amortised costs using the effective interest method. According to the standard, the recognition, derecognition and measurement of financial assets and liabilities are not applied retrospectively. But the amount of resulting adjustments should be recognised as an adjustment of retained earnings at the beginning of the Reporting Period. Adoption of such policy led to a decrease of RMB11,342,000 of retained earnings at the beginning of the Year. During the Reporting Period, an other income of RMB6,315,000 recognised using the effective interest method in respect of loan to a jointly controlled entity. As to the impact on long-term liabilities, the Directors consider that such amount does not have material impact on the financial statements, so no relevant adjustment was made.

- Adoption of HKFRS 3 "Business Combination": The amortisation of goodwill was ceased from 1 January 2005, and from the year ended 31 December 2005 onwards, goodwill is tested annually for impairment as well as there is indication of impairment. In the previous years, goodwill was amortised on a straight-line basis over its estimated useful life or 20 years, whichever is shorter, and assessed for an indications of impairment at each balance sheet date. The change of this accounting policy is applied prospectively. The retained earnings at 1 January 2004 remain unaffected.

- Adoption of HKAS 17 "Leases": The land use rights are reclassified as operating leases and are amortised over their useful lives using the straight-line method. In the previous years, the land use rights were classified as property, plant and equipment and were amortised using the units-of-usage method. According to the requirement of the standard, such change in accounting policy is required to be applied retrospectively and the retained earnings at 31 December 2004 was reduced by RMB59,541,000 as a result.

Details about the impact of adopting the new or revised HKFRS on the Group are set out in Note 2.1 to the financial statements on page 88 to page 93 of this annual report.

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 assets investment, equity investment and debt investment in high-grade toll highways. As at 31 December 2005, the Group's non-current assets amounted to RMB8,993,846,000 (2004: RMB5,813,760,000), representing an increase of 54.70% as compared to the beginning of the Year. Such increase was mainly attributable to the increase in investment expenditures on Qinglian Project, Wuhuang Expressway, Yanpai Expressway, Guangwu Expressway, Jiangzhong Expressway, GZ W2 Expressway, etc. during the Reporting Period, which included increase in construction in progress of RMB406,859,000, interests in associates of RMB2,096,205,000 and intangible assets of RMB817,770,000. New investments made during the Reporting Period will become new sources of profit growth for the Group in the future. Details of the new investments made during the Reporting Period are set out in the "Business Review and Analysis" on pages 16 to 22 of this annual report.

Current Assets and Liabilities

As at 31 December 2005, the Group's current assets amounted to RMB1,085,469,000 (2004: RMB1,714,003,000), including cash and cash equivalents of RMB892,485,000, restricted cash of RMB31,615,000 and accounts and other receivables of RMB157,829,000. During the Reporting Period, the Company received the balance of consideration of RMB386 million for the transfer of ownerships in two Class 1 highways in previous years. As such, the accounts receivable arising from the transfer of the two Class 1 highways had been fully received.

The cash of the Group is generally placed in commercial banks as current or short term fixed deposits. No deposit is placed with financial institutions other than banks or used for securities investment.

As at 31 December 2005, the Group's current liabilities amounted to RMB956,536,000 (2004: RMB883,556,000), including RMB253,900,000 as short-term borrowings, RMB16,208,000 as long-term liabilities due within one year, RMB141,760,000 as construction costs payable and deposits, RMB27,901,000 as performance bonds and RMB384,062,000 as balances outstanding for the acquisition of equity interests in Qinglian Company and JEL Company under the agreements. On the basis of the Group's existing liquidity position and the Group's arrangements and plans on future cash flow, the Group expects to have adequate funds for satisfying the relevant payments.

Equity

As at 31 December 2005, total equity for the Group amounted to RMB6,372,759,000 (2004: RMB6,068,765,000), representing an increase of RMB303,994,000 as compared to the beginning of the Year. Such increase was mainly attributable to the increase of RMB552,622,000 as the profit attributable to the Company during the Year and the deduction of RMB239,877,000 as the distribution of dividend of 2004.

Non-current Liabilities

As at 31 December 2005, non-current liabilities of the Group amounted to RMB2,750,020,000, which included the following:

- Long-term borrowings amounted to RMB2,230,602,000, including bank borrowings of RMB2,195,795,000, the Spanish government loans of RMB25,243,000 (excluding the portion due within one year) and minority shareholders' advance of RMB9,564,000.

- Deferred tax liabilities amounted to RMB155,030,000. The Group's net deferred tax liabilities amounted to RMB148,266,000, comprising deferred tax credits of RMB86,049,000 and RMB88,751,000 respectively arising from the temporary differences between the carrying amount of toll roads and toll road operating right and their tax bases and deferred tax debits of RMB26,534,000 in respect of the provision for impairment losses for investments in the Wutongling Ropeway Project and Shenchang Company.

- The balance of government subsidies amounted to RMB364,388,000, which included the subsidies of RMB291,408,000 paid by the relevant government bodies to subsidise the insufficient traffic flows on Yanba Expressway owing to its early completion in accordance with the overall township planning requirements of the Shenzhen Government (The subsidies are recognised annually in the income statement pursuant to the accounting policy of the Group within the duration of the operation franchise to Yanba Expressway), and a fund provided to Yanba Expressway by the Ministry of Communications amounting to RMB54,000,000 that is non-interest bearing with no fixed repayment terms, and a special financial allocations of RMB18,980,000 granted by the Ministry of Finance for the construction of Yanpai Expressway.

Contingent Liabilities

According to the construction management contracts of Nanping Project and Hengping Project, the Company shall bear the management responsibility for overrun costs. For Hengping Project, the Company shall be liable for all the costs exceeding the budgeted costs of the project. For Nanping Project, if the actual construction cost exceeds the budgeted construction costs by 2.5% or less, the Company shall bear all the cost exceeding such budgeted cost of the project. If the overrun costs are more than 2.5%, the Company together with the relevant government department shall bear the portion that exceeds the 2.5% threshold. In addition, pursuant to the requirements of the contracts, the Company has provided to the Longgang Highway Bureau and the Shenzhen Communications Bureau with irrevocable letters of bank guarantee in the amount of RMB30 million and RMB100 million respectively. A deposit of RMB15 million has been paid to the Longgang Highway Bureau to guarantee the achievement of agreed progress of construction, quality and safety management of Hengping Project.

Cash Flow of the Group

As at 31 December 2005, the Group's cash and cash equivalents amounted to RMB892,485,000 (2004: RMB1,241,838,000), representing a decrease of RMB349,353,000 as compared to the beginning of the Reporting Period.

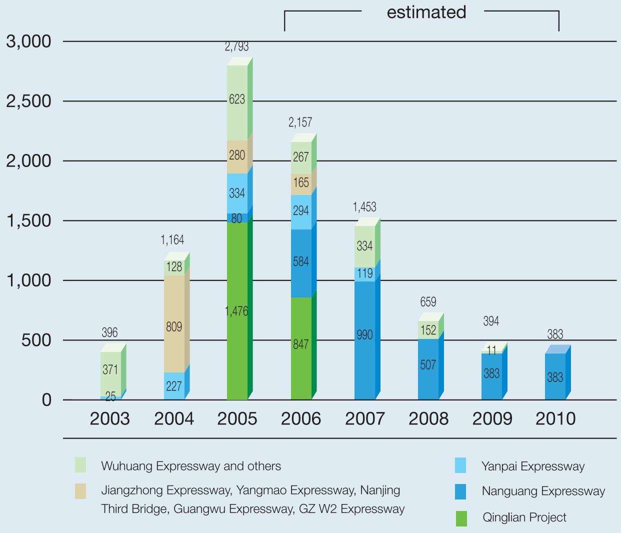
During 2005, the Group's net operating cash inflows amounted to RMB564,752,000 (2004: RMB470,487,000), representing an increase of 20.04%. Such increase was mainly attributable to the continuous growth in toll revenue from the major toll highways operated by the Group during the Reporting Period. During the Reporting Period, the net increase of borrowings of the Group was RMB1,691,113,000, and the remaining balance of RMB386,000,000 from the disposal of two Class 1 highways and a special financial allocation to Yanpai Expressway from the government amounting to RMB18,980,000 were received.

During the Reporting Period, the Group's main cash outflows comprised capital expenditure of RMB2,793,516,000 on Yanpai Expressway, Nanguang Expressway, Qinglian Project, Jiangzhong Expressway, GZ W2 Expressway, Guangwu Expressway, Wuhuang Expressway, etc.(excluding interests capitalised) as well as the payment of dividend and interest of RMB328,869,000 in total.

Capital Structure

As at 31 December 2005, the Group's debt-to-asset ratio (total liabilities/total assets) was 36.77% (2004: 19.38%), net borrowings-to-equity ratio ((total borrowings-cash and cash equivalents)/equity) was 25.24% (2004: not applicable, net borrowings amounted to RMB-515,845,000), gross liabilities-to-equity ration (total liabilities/total equity) was 58.16% (2004: 20.04%); the Group's debt-to-equity ratio (total debts/total equity) was 58.16% (2004: 24.04%); interest coverage (profits before interest and taxation/interest expenses) during the Reporting Period was 7.74 times (2004: 21.99 times). At the end of the Reporting Period, the proportion of liabilities of the Group increased significantly as compared to the beginning of the period but still maintained at a secure level.

Capital Expenditure Plans (RMB'million)



Capital Expenditures and Financing Capability

As at 31 December 2005, the Group's capital expenditure plans comprised mainly construction expenditures for Yanpai Expressway, Nanguang Expressway and Yanba C and investment amounts in acquiring the interests of Qinglian Project, GZ W2 Expressway and Jiangzhong Expressway. Total capital expenditures to be incurred for the next five years are estimated to amount to RMB5,046 million. The Company plans to fund the capital expenditures of the Group for the next five years by both internal resources and borrowings. At present, according to the assessment of the Directors, the Group is able to meet various expected capital expenditures given the Group's financial resources and financing capabilities.

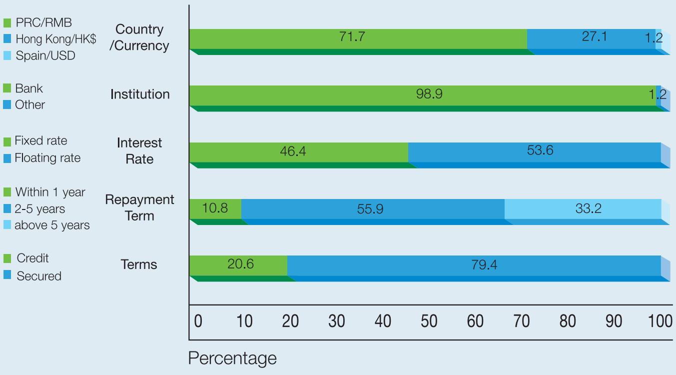
Apart from the aforesaid capital expenditure of the Company, funds for the reconstruction of Qinglian Class I Highway into an expressway amounting to RMB4.2 billion (including interests) is expected to be satisfied by external borrowings by Qinglian Company.

Financing Activities

With the backing of steady growth in cash flow, a sound credit record and an excellent industry reputation, the Group has been granted an AAA credit rating for three consecutive years up to 2005 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 Republic of China.

During the Reporting Period, with the increase in the scale of borrowings, adjustments have been made in the borrowing structure such that there was an increased proportion of long-term borrowings and fixed-interest borrowings for the purpose of reducing various financial risks. The average borrowing rate during the Year was 5.42%, higher than 4.78% of the previous year.

Borrowing Structure (at 31 December 2005)



During the Reporting Period, the Group capitalised on both the favorable internal and external conditions to negotiate new financing facilities and agreements with banks. As at 31 December 2005, total credit facilities obtained by the Group amounted to RMB10 billion, of which utilised and unutilised credit facilities amounted to RMB3.18 billion and RMB6.82 billion respectively as at the end of the Reporting Period. The credit facilities available to the Group will meet the need of capital requirements for the Company's future development.

On 10 October 2005, the shareholders of the Company considered and approved the resolution for the issue of short-term commercial papers. Pursuant to the approval of the People's Bank of China, the Company is allowed to issue the short-term commercial papers up to RMB2 billion, which is valid until the end of November of 2006. The Company already issued the first batch of short-term commercial papers in the total amount of RMB1 billion in January 2006 with a term of nine months at 3.07% per annum. The issue of short-term commercial papers expanded the financial channels of the Company, improved the borrowing structure and lowered the overall financing costs of the Company.

Use of Proceeds

The Company raised RMB604 million from the issue of A shares in 2001. During the Reporting Period, the Company applied such proceeds in the construction of Yanba B in strict compliance with representations made in the Prospectus. The construction of Yanba B started in June 2001 and the section was opened to traffic for toll collection in June 2003.

An amount of RMB25,987,000 was applied during the Reporting Period and the cumulative amount of proceeds applied was RMB439,987,000. As at 31 December 2005, proceeds in the amount of RMB164,013,000 remained unutilised and were mainly held as short-term fixed deposits with banks in PRC to be used for the settlement of remaining project payments for Yanba B. 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, details of which are set out in the section headed "Business Review and Analysis" on page 16 of this annual report.

RISK MANAGEMENT

Faced with strategic opportunities for sustained rapid growth, the management also attaches great importance to various risks currently confronting the Group. Such risks are constantly subject to stringent reviews and appropriate preventive measures are undertaken, so as to achieve the strategic development goals of the Group.

Political and Market Risks

An Open Market with Intensified Competition

Since the promulgation of the "Regulations on Administration of Toll Roads"(收費公路管理條例) in 2004 and the launch of other relevant incentive policies, the toll road sector has seen increasingly active participation from non-specialised companies and privately-owned companies, leading to intensified market competition. While presenting the Group with opportunities in developing entrusted construction management business, the continuous opening and marketisation of management services for government-funded projects have also attracted competition.

After a decade of development, the Company has accumulated considerable experience and expertise in the investment, construction, operational management and innovation of road projects. Besides, in order to further foster its core competitiveness, the Company has relentlessly pursued investment opportunities in the sector that matched its growth strategies in the past few years. Remarkable headway has been made. As such, the Company was able to enhance its competitive edge in the sector through cost control in construction and operations. On the other hand, it also enjoyed "non-price" competitive advantages from its good reputation, public image and government connections.

Toll Rate Adjustments

As mentioned on page 19 in this annual report, toll rates in Guangdong Province for Class 5 vehicles were adjusted downwards in 2005. While such adjustments did not have a significant impact on the Company's revenue and profit during the Reported Period, the trends of toll rate adjustments, as well as whether toll rates will go up in accordance with sustained inflation or increase in interest rate, are still subject to the State's relevant policies and the approval of provincial government authorities.

In view of the uncertainty arising from toll rate adjustments, the Company has adopted prudent assumptions for price adjustments when analysing project investments, so as to equip new projects with stronger risk resilience. In addition, the Company will continue its cost reduction measures to enhance operating margins 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 cooperation 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.

Variations in Traffic Flow

The continued economic growth of the PRC and the increase in vehicle ownership ensure the growth of traffic on toll roads. However, the operating performance of toll roads is subject to a variety of factors. Since all road projects are subject to limited terms of operation, if the traffic flows on the Company's projects fail to reach the projected levels during the terms of operation as a result of, inter alia, sluggish economic growth or changes in highway network deployment, the profit of the Company may be adversely affected.

To mitigate the impact of such risks, the Company has adopted a more prudent approach in project investment, such as avoiding new construction projects in unfamiliar and underdeveloped regions. Conservative assumptions were used when evaluating the growth of traffic flow to ensure a strengthened risk resilience of new projects. As for operation of projects, the Company has been devoted to attracting traffic flow and enhancing competitiveness of its expressways through various initiatives, including providing quality road services and facilities and reinforcing promotion and marketing of new expressways. Building on this basis, the Company also continues to maintain good communication and cooperative relations with various government authorities and industry peers to seek a rationalised layout of road networks and connections in the region.

Financial Risks

Interest Rate Risks

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

The Group employs an optimised portfolio comprising fixed and floating interest rates and short and long term borrowings to contain the risks arising from interest rate fluctuations within an acceptable range. The Group's good credit rating and reputation in the sector also presented an advantage in securing more preferential borrowing rates. Furthermore, the Company is actively exploring other financing channels. During the Reporting Period, a resolution regarding issue of short-term commercial papers was approved by shareholders of the Company. In January 2006, the first batch of RMB1 billion short-term commercial papers were issued and the financing cost was lower than the then prevailing bank borrowing rate, which reduced the consolidated financing costs of the Company. During the Reporting Period, the Company did not use any interest rate swap option contracts.

Cash Flow Risks

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

Over the years, 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 reviews the principal assumptions of the abovementioned model on a regular basis to ensure their compatibility with the latest situations. In addition, the Company maintains a balanced mix of debt portfolio and bank facilities to ensure its cash liquidity by taking into account such factors as repayment terms, interest rates and exchange rate risks with reference to the specific conditions of the industry, the domestic loan market and the Company.

Exchange Rate Risks

All major operations of the Group are located in the PRC and the majority of transactions are settled in RMB. The Group did not have significant exposure to foreign exchange risk in the PRC, except for certain cash at bank balances of RMB58,200,000 and bank borrowings of RMB676 million which were denominated in HK$ and other borrowings of RMB30,051,000 which were denominated in United States dollars, respectively.

Operation Risks

Construction Management

In recent years, the Group has been engaged in large expressway construction projects. As a result of factors such as price fluctuations in construction materials, increasing difficulties in land requisitioning 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.

As the core competitive strengths of the Group, the Company's extensive expertise and experience in toll road construction management have formed the basis for managing the above risks. The Company has formulated and implemented a series of management systems and measures to effectively control risks and to eventually ensure completion of the projects in accordance with the required quality, construction costs, completion dates and safety standards. Moreover, the Company has also effectively transferred such risks as appropriate by entering into relevant insurance contracts, construction outsourcing agreements and centralised procurement contracts for major materials.

Repairs and Maintenance of Highways

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. 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. Besides, road conditions may also be impaired to different extents by traffic accidents and other factors.

During the Reporting Period, the Company continued to step up reforms in the operational management model for the projects invested in by the Group in the Shenzhen area. Various road sections, previously rather independently managed, have now been centralised to enhance management efficiency and work quality and to reduce management costs. Moreover, the Company reinforced road inspections to effect prompt investigation and evidence collection for road facility damage and road accidents, thereby achieving a higher compensation rate for road asset losses. The Company will also strive to maintain smooth traffic flows on its highways as a whole 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 to minimise the impact upon peak-hours traffic.

OUTLOOK

Objectives and Plans

The Company's general development plan for the next five years is defined in its Development Strategies 2005-2009. These strategies principally aim to: (1) focus on the principal operations of toll road 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; (2) make a head start in establishing a presence in the highway construction and management sector by outputting engineering and management technology and experience; (3) raise management standards and quality of human resources in all aspects in line with business development and risk control; and (4) eventually achieve sustained profit growth for yielding above-average returns for our shareholders.

In 2006, the management will concentrate on enhancing the management of projects under construction and the operation and management of projects in operation and external investment projects, and make sure that the Company's growing needs will be sufficiently met by financial and human resources. The operating performance and results of various businesses in 2006 will serve as an essential base for the Group to achieve its development objectives in the next five years.

Based on its reasonable expectation that there will be no drastic changes in major aspects of the business environment while taking into account the performance of new projects, the management expects a double-digit increase in traffic flow on its toll roads on average, with total toll revenue of no less than RMB1.2 billion set as target for 2006. With respect to project construction, Yanpai Expressway and Nanping projects will be operational by the middle of 2006, construction of Qinglian Project and Nanguang Expressway will commence in full wing within the year, Construction investments of approximately RMB2 billion will be made for the whole year, and all of the investment for the construction projects will be kept within budget. With respect to project investment, the management will carry out a post-investment assessment of existing projects, focus on the proposed rational integration of existing resources, and assess and decide on future new projects in a more prudent manner.

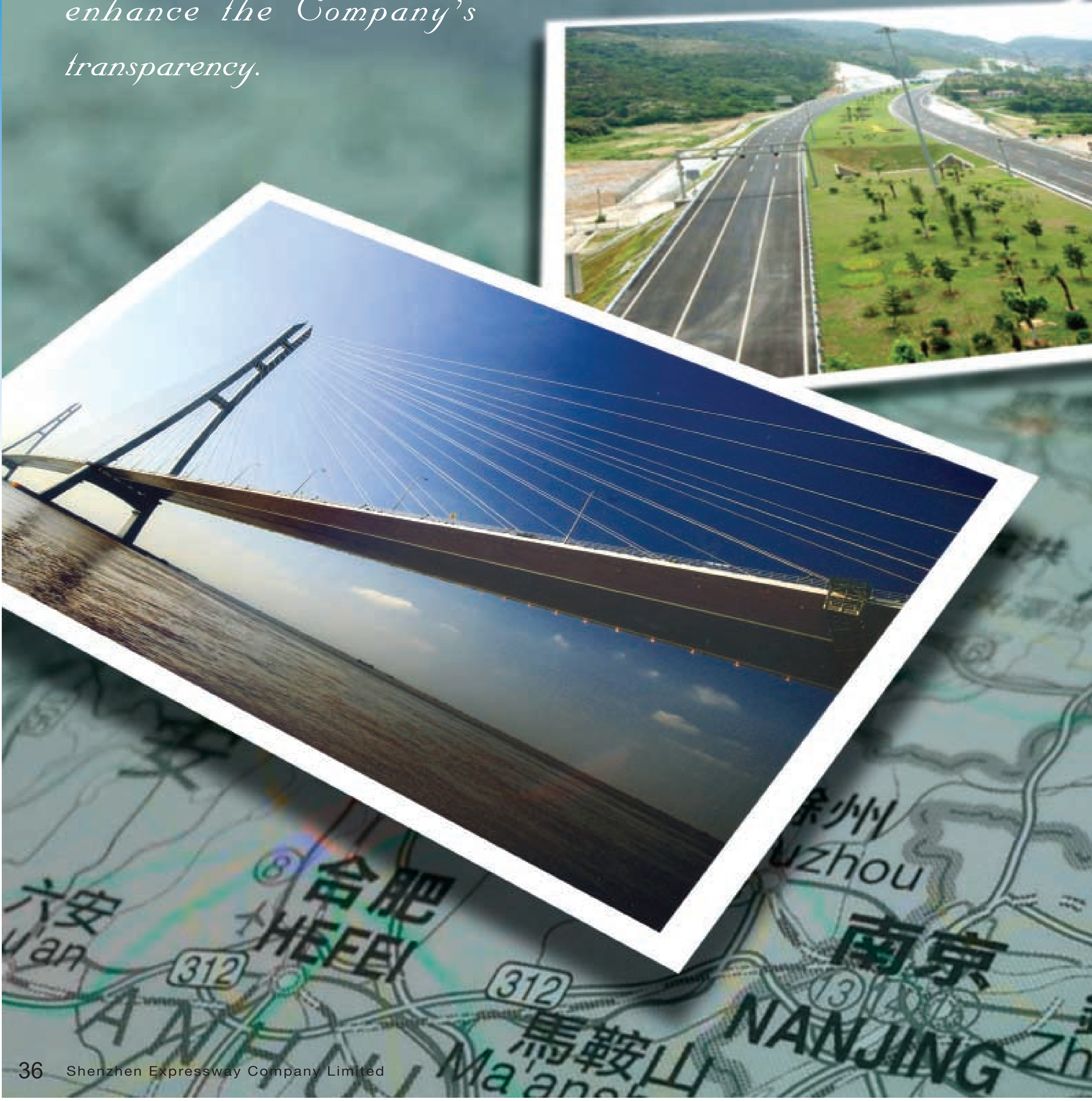
In 2006, capital expenditure plans will be financed mainly by the Group's internal funds, issuance of short-term commercial papers and increased bank loans. Other types of borrowings other than bank loans will also be considered cautiously. Average lending rates will be kept at an appropriate level by proper debt or capital restructuring arrangements. The Group's financial costs are expected to surge substantially, given the increase in total capital expenditures. Besides, with the increased number of operating projects and an expanded operating scale, there will be a rise in the Group's operating expenses mainly comprising increased depreciation expenses and staff costs. The Group also plans to moderately increase its investment in highway maintenance in order to maintain good highway and traveling conditions. The management will strive to keep costs under control through strengthening routine management, optimising financing structure and other measures, so that the Company's profits can be maintained at a relatively stable level which will form a base for the Company's rapid growth in the years ahead.

Outlook

Against the background of a growing Chinese economy, Guangdong Province and Shenzhen have been able to record an economic growth higher than the national average for many years and have gradually developed into a major industrial hub of China. In future, there will be huge demands and investments in highways in China to meet the needs of economic development. According to planning, the total mileage of expressways will increase by approximately 3,000 km annually throughout China until 2010, involving an annual average investment of RMB140 billion. The Guangdong Provincial Government has also proposed to build highways covering a total mileage of 4,000 km across the province by 2008. To raise funding from various sources, the major composition of investments in highways will become more diversified in future while the operation of highways will become more commercialised. The promulgation of the "Regulations for the Management of Toll Roads" and increasing regularisation of the toll road and construction management sectors will help safeguard the interests of investors, road users and the general public and help promote a long-term and healthy development of the sectors.

Increase in the transparency, commercialisation and regularisation of the toll road and construction management sectors has provided the Group with unprecedented opportunities for development on the one hand and has attracted more market entrants, intensified competition and accelerated pace on the other hand. Exposed to an external environment full of opportunities and challenges, the Group will remain committed to its principal operations and development directions, fully capitalise on its existing competitive advantages, consistently enhance management standards and staff quality, and foster and reinforce its core competitive strengths. The management is fully aware of the risks confronting the Group in the financial, marketing, operational and other aspects. On-going assessments and reviews will be conducted in a prudent manner and relevant preventive measures will be accordingly adopted, and resistance enhanced, for achieving a rapid and healthy growth.

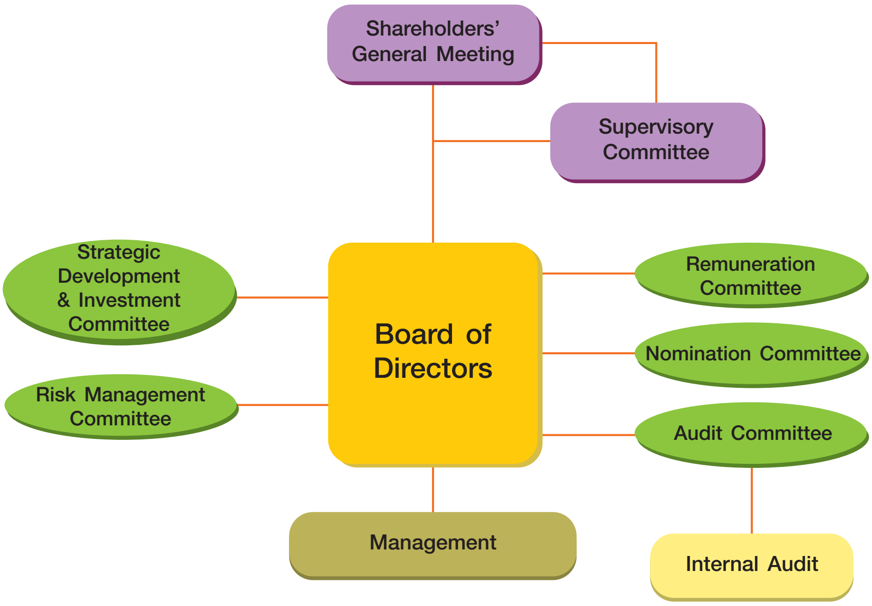
The management seeks to strengthen communication and interaction with investors through various means to enhance the Company's transparency.



Corporate Governance Report

The Company always aims to ensure stable business development and 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, all the provisions of the Code on Corporate Governance Practices in Appendix 14 to the Listing Rules of the HKEX (the "Code") have been adopted, with the following exception:

— Three extraordinary general meetings were held in the first half of 2005 for the approval of the Company's connected transactions. The Company did not arrange for members of the independent board committee to attend these meetings but as a transitional arrangement, the independent financial advisor appointed by the independent board committee attended these meetings to respond to questions raised by shareholders. Internal guidelines and arrangements have been made to ensure that members of the independent board committee will attend in future any general meetings to be held for the approval of connected transactions or transactions which require independent approval, so that they will respond to questions raised by shareholders.

The codes on corporate governance currently adopted by the Company go beyond the requirements of the above Code in certain aspects. Relevant details are set out in this report.

BOARD OF DIRECTORS

Directors' Duties

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 and human resources and so forth. The amended Articles of Association of the Company and the attachments to the Articles of Association, as approved at the extraordinary general meeting held on 26 August 2005, have already spelt out the Board's duties and authorities in respect of corporate development strategies, planning and management thereof; financial management and personnel administration; the Board's duties and authorities to supervise and inspect the Company's development and operation; and the duties and authorities of the Chairman and the General Manager. The roles of the Chairman and the General Manager are distinctively separated and the positions are undertaken by different persons. The Chairman is responsible for overseeing and coordinating the operation of the Board and monitoring the execution of the Board's resolutions, whilst the General Manager is responsible for managing and overseeing the Group's business operations, implementing the strategies laid down by the Board and making day-to-day operating decisions with the support and assistance of the Board and other senior management of the Company.

Composition of the Board

The Board is composed of twelve directors. As at 31 December 2005, members of the Board included:

Executive Directors:	Yang Hai (Chairman) Wu Ya De (Director and General Manager) and Zhang Rong Xing
Non-executive Directors:	Li Jing Qi, Wang Ji Zhong, Lin Xiang Ke, Zhang Yang and Chiu Chi Cheong, Clifton
Independent Directors:	Li Zhi Zheng, Zhang Zhi Xue, Poon Kai Leung, James and Wong Kam Ling

The Board is in its third session since the establishment of the Company. The terms of office of the current Directors commence from 1 January 2003 or the respective dates of their appointments to 31 December 2005. During the Reporting Period, in accordance with the succession and continuity planning for the Directors or due to personal reasons, Directors, Mr. Chen Chao, Mr. Zhong Shan Qun and Ms. Tao Hong, and an Independent Director, Mr. Ho Pak Cho, Denis Morgie, resigned on 8 April and 3 June 2005 respectively. Mr. Yang Hai, Mr. Li Jing Qi and Mr. Wang Ji Zhong were elected as Directors by shareholders, while Mr. Wong Kam Ling was elected as an Independent Director to take over the position left vacant by the resignation of the above directors. In addition, an extraordinary general meeting of the Company was held on 28 December 2005 for the election of members of the fourth session of the Board. The terms of office of all Directors for the new session commence from 1 January 2006 to 31 December 2008, details of which are set out on page 56 of this annual report.

Directors are elected or replaced at shareholders' general meetings, where the election is conducted by way of cumulative voting. Shareholders of the Company, the Board or the Supervisory Committee are eligible to nominate candidates for directorship in writing. Directors serve for a term of three years and may offer themselves for re-election upon expiry of the term. The office of an Independent Director shall be undertaken by a person not related to the Company's management and substantial shareholders in any aspect. Independent Directors are eligible for re-election, subject to a maximum term of six years.

Members of the Board come from different industry's backgrounds with expertise in corporate management, finance and accounting, investment banking, highway management and construction and human resources management. Of these members, more than one Independent Director possess accounting professional qualifications as required by stock exchanges or appropriate expertise in accounting or related financial management. Brief biographies of the members of the Board for the new session are set out on pages 71 to 74 of this annual report.

The Board currently has four Independent Directors, representing 1/3 of the total number of Directors. The 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. They have played an important check-and-balance role to safeguard the interests of the Company and the shareholders as a whole by ensuring that reporting on the Company's financial or other matters would be properly conducted at the Board and by furnishing independent views and advice to the Board and independent shareholders in respect of significant matters and connected transactions of the Company.

Board Meetings

Ten Board meetings were held in 2005 to discuss the Group's operational and financial performance, management structure, investment and financing proposals and so forth. Major items cover:

- annual final accounts and budgets, work reports of the Board, internal control assessment reports, annual, interim and quarterly reports;

- resignations of Directors, elections of new Directors and Chairman, by-elections of members of specialised committees, formulation of a Directors' remuneration proposal, appointments and renewals of appointments of senior management members of the Company;

- amendments to the Articles of Association and approval of attachments to the Articles of Association, establishment of specialised committees, preparation and revision of terms of reference of specialised committees and formulation of the Company's code on securities transactions

- determination of the Company's annual performance targets and approval of the exercise of the Company's share appreciation rights scheme;

- renewal of appointment of international auditors and statutory auditors;

- repurchase of the Company's H shares;

- issuance of short-term commercial papers.

Discussions were carried out effectively and decisions made swiftly and prudently at the Board meetings. Attendance of Directors at Board meetings in 2005 was 100% (including attendance by appointing other Directors as proxies). Details of attendance of each Director at Board meetings are as follows:

Name	Attendance at Board meetings (attendance in person/number of meetings to be attended)	Description
Executive Director		
Yang Hai	8/8	Appointed on 8 April 2005. 8 Board meetings were held during the term of office.
Wu Ya De	10/10	
Zhang Rong Xing	4/10#	Sent to studies in the UK from January to July 2005.
Non-executive Director		
Lin Xiang Ke	10/10	
Zhang Yang	6/10#	
Chiu Chi Cheong, Clifton	8/10#	
Li Jing Qi	8/8	Appointed on 8 April 2005. 8 Board meetings were held during the term of office.
Wang Ji Zhong	6/8#	Appointed on 8 April 2005. 8 Board meetings were held during the term of office.
Chen Chao	2/2	Resigned on 8 April 2005. 2 Board meetings were held during the term of office.
Zhong Shan Qun	2/2	Resigned on 8 April 2005. 2 Board meetings were held during the term of office.
Tao Hong	2/2	Resigned on 8 April 2005. 2 Board meetings were held during the term of office.
Independent Director		
Li Zhi Zheng	9/10#	
Zhang Zhi Xue	9/10#	
Poon Kai Leung, James	10/10	
Wong Kam Ling	6/6	Appointed on 3 June 2005. 6 Board meetings were held during the term of office.
Ho Pak Cho, Denis Morgie	2/4#	Resigned on 3 June 2005. 4 Board meetings were held during the term of office.

\# 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.

Through the Company Secretary, the Directors obtain timely information and updates relating to statutory, regulatory and other ongoing obligations that the directors of a listed company must comply with, ensuring understanding of their duties and assuring thorough implementation of procedures of the Board and due compliance with applicable laws and regulations. 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.

SPECIALISED COMMITTEES OF THE BOARD

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

Strategic Development and Investment Committee ("SDIC")

Established in November 2001, SDIC is principally responsible for examining and reviewing the directions of the Company's strategic plans, formulating strategic planning, monitoring the implementation of strategies and facilitating adjustments to the Company's strategies and governance structure on a timely basis.

Members of SDIC are as follows:

Name	Description	No. of meetings to be attended in 2005	Actual attendance
Mr. Yang Hai, Director	(Chairman of the Committee. Appointed on 28 April 2005.)	1	1
Mr. Wu Ya De, Director		1	1
Mr. Chiu Chi Cheong, Clifton, Director		1	1
Mr. Li Zhi Zheng, Independent Director		1	1
Mr. Chen Chao, Director	(Former Chairman of the Committee. Resigned from directorship of the Company on 8 April 2005.)	—	—

One meeting of SDIC was held in 2005, attended by all incumbent members as well as by invited Directors, Supervisors and senior management members of the Company. The Company's "Development Strategies 2005-2009" were reviewed at the meeting.

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 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; the appointment of independent auditors, work coordination and reviewing the efficiency and quality of their work; and reviewing all written reports furnished by internal audit officers as well as management's feedback to such reports.

Members of the Audit Committee are as follows:

Name	Description	No. of meetings to be attended in 2005	Actual attendance
Mr. Wong Kam Ling, Independent Director	(Chairman of the Committee. Appointed on 3 June 2005.)	4	4
Mr. Poon Kai Leung, James, Independent Director		7	6
Mr. Chiu Chi Cheong, Clifton, Director		7	7
Ho Pak Cho, Denis Morgie, Independent Director	(Former Chairman of the Committee. Resigned from directorship of the Company on 3 June 2005.)	3	3

Seven meetings of the Audit Committee were held in 2005. With a view to enhancing the independence of reporting by the external auditors, some of these meetings were attended only by the committee members and the external auditors.

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 relevant procedures, the management is responsible for the preparation of the Group's financial statements, including the selection of appropriate accounting policy therefor; the external auditors are responsible for auditing and verifying the Group's financial statements; while the Audit Committee supervises the management's work with the external auditors and approves the procedures and protection measures adopted by the management and the external auditors.

The unaudited financial statements for the first and third quarters of 2005 (prepared under PRC Accounting Standards) and the unaudited financial statements for the first six months of 2005 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 2005 Annual Report, and conducted sufficient studies and communications as to the matters relating to the adoption of accounting policies and practices and the impact of the revised Hong Kong Financial Reporting Standards. The Audit Committee has obtained a report from the external auditors and met with them to discuss the scope of their audit.

On the basis of the aforesaid reviews and discussions as well as the report of the external auditors, the Audit Committee proposed that the Board approved the consolidated financial report for the year ended 31 December 2005 and the auditors' report in relation thereto.

The Audit Committee also carried out an independent evaluation of 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.

The terms of reference of the Audit Committee have been reviewed and revised in line with the HKEX's revised corporate governance requirements. 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, Chiu Chi Cheong, Clifton, Poon Kai Leung, James
31 March 2006

Remuneration Committee

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. 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 senior management and conducting appraisals thereof.

Members of the Remuneration Committee are as follows:

Name	Description	No. of meetings to be attended in 2005	Actual attendance
Mr. Li Zhi Zheng, Independent Director	(Chairman of the Committee)	3	3
Mr. Zhang Zhi Xue, Independent Director		3	3
Mr. Yang Hai, Director	(Appointed on 28 April 2005)	3	3
Mr. Chen Chao, Director	(Former member of the Committee. Resigned from the directorship of the Company on 8 April 2005.)	—	—

Three meetings of the Remuneration Committee were held in 2005, attended by all incumbent members. Major tasks accomplished by the Remuneration Committee during the year included: reviewing the coefficient of the Company's operating performance for 2004: examining the management's performance targets for 2005; drafting a remuneration proposal for the Directors for the new session of the Board; and providing guidance on, and monitoring of, the review and improvement work on the Company's remuneration scheme.

Details of the Company's remuneration policies, Directors' remunerations, appraisals and incentive regimes for the members of the senior management are set out on pages 56 to 58 of this annual report.

Nomination Committee

As discussed above, HRNC was split into the Remuneration Committee and the Nomination Committee in June 2005. 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 Company's Directors and members of the senior management.

Members of the Nomination Committee are as follows:

Name	Description	No. of meetings to be attended in 2005	Actual attendance
Mr. Li Zhi Zheng, Independent Director	(Chairman of the Committee)	3	3
Mr. Zhang Zhi Xue, Independent Director		3	3
Mr. Yang Hai, Director	(Appointed on 28 April 2005)	3	3
Mr. Chen Chao, Director	(Former member of the Committee. Resigned from the directorship of the Company on 8 April 2005.)	—	—

Three meetings of the Nomination Committee were held in 2005, attended by all incumbent members.

The method for nominating Directors, recommendation procedures and the qualifications and general quality requirements of Directors have been set out in the Company's Articles of Association and the implementation details thereof. During the Year, the Nomination Committee monitored and provided guidance on the election procedures and work arrangements for the new session of the Board, reviewed and assessed written nomination materials on the candidates for Directors (including details of nominees, their written opinions on the acceptance of nominations, etc.) submitted by shareholders and the Board, and completed the arrangement of the nominations for the fourth session of the Board. In addition, the Nomination Committee guided and monitored the work arrangement and appraisal procedures for the term appraisals on the management, as well as conducting the term appraisal on the general manager and reviewing the results of the term appraisals on other members of the senior management. The Nomination Committee also assisted the Board in the renewal of appointment and appointment of the management.

Risk Management Committee ("RMC")

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 RMC are as follows:

Name	Description	No. of meetings to be attended in 2005	Actual attendance
Mr. Poon Kai Leung, James, Independent Director	(Chairman of the Committee)	3	3
Madam Zhang Yang, Director		3	3
Mr. Li Jing Qi, Director	(Appointed on 28 April 2005)	1	1
Mr. Zhong Shan Qun, Director	(Former member of the Committee. Resigned from the directorship of the Company on 8 April 2005.)	2	1

Three meetings of RCM were held in 2005, at which two investment projects proposed by the Company to the Board were considered and recommendations were furnished to the Board, and terms of reference and rules of procedure of the RMC were re-defined.

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 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 Report of the Auditors on page 78.

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 79 to 148.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 China and Hong Kong.

SECURITIES TRANSACTIONS BY DIRECTORS

The Securities Transaction Code of the Company has been adopted by the Board in accordance with Appendix 10 to the Listing Rules of HKEX entitled "Model Code for Securities Transactions by directors of Listed Issuers" (the "Model Code") and the relevant rules of the SSE in light of the Company's actual situation, as a written guide to regulate dealings in the Company's securities by Directors, Supervisors and relevant staff. The standards set under the Model Code have been incorporated into the Securities Transaction Code, and after specifically inquiring with all the Directors and Supervisors, the Company confirms that all the Directors and Supervisors complied with the standards for securities transactions by directors as stipulated under the aforesaid codes during the Reporting Period.

CONTROL MECHANISMS

Supervisory Committee

The Supervisory Committee exercises independently the power of supervision upon the Company in accordance with the law to protect the lawful rights of the shareholders, the Company and its staff against any infringement. It is composed of three supervisors. As at 31 December 2005, its members were Mr. Chen Chao (Chairman of the Supervisory Committee), Mr. Yang Qin Hua and Mr. Yi Ai Guo. The Supervisory Committee is in its third session since the establishment of the Company. The term of office of the Supervisors commenced from 1 January 2003 or the respective dates of their appointments to 31 December 2005. During the Reporting Period, as a result of internal work re-arrangements by nominating shareholders, Mr. Wang Ji Zhong, a Supervisor, resigned on 8 April 2005 and Mr. Chen Chao was appointed as supervisor on the same date. In addition, following the election of the members of the fourth session of the Supervisory Committee at an extraordinary general meeting held on 28 December 2005, the term of office of all the Supervisors for the new session has commenced from 1 January 2006 to 31 December 2008. Relevant details are set out on page 56 of this annual report.

The size and composition of the Company's Supervisory Committee are in compliance with the requirements of the relevant laws and regulations. Seven meetings of the Supervisory Committee were held during 2005 to supervise, on behalf of the shareholders, the Company's financial matters and whether the discharge of duties by the Directors and senior management was lawful and compliant. 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 page 68 of this annual report.

Internal Control and Internal Audit

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 major control procedures for financial, operational, compliance and risk management matters. Such internal control system is implemented by the management upon the authorisation of the Board and the effectiveness of the system is reviewed by the Audit Committee.

The Company's internal audit department has been operating since August 2000 for the purpose of reviewing, in a more effective manner, whether the internal control system is effective. Depending on the materiality of 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, operations and internal control activities on a regular or as-needed basis, with a view to ensuring transparency in information disclosures, operational efficiencies and effectiveness of the corporate control regimes. 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 December 2004, the Company's Internal Control System manual was considered and approved by the Board. This manual contains a comprehensive overview and description of the objectives, content, methods and duties of the internal control system, and will facilitate the ongoing examination and evaluation of the Company's compliance with existing rules and regulations and of the effectiveness of internal control. The Board plans to carry out a comprehensive examination and monitoring of the internal control system annually for the purpose of complying with the relevant requirements of the Code. During the Year and as at the date of this annual report, the Company consistently had a full set of the internal control system covering the areas of corporate governance, operation, construction, finance, administration and personnel management. The Board has, through the Audit Committee and its internal audit department, carried out ongoing examination and monitoring of the Company's internal control system and completed an evaluation of the internal control system for the Year.

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.

Financial Controller

The Financial Controller oversees all financial matters of the Company and is accountable to the General Manager. The Financial Controller is responsible for preparing financial statements in accordance with the PRC and Hong Kong general accounting standards and in compliance with the rules of securities regulatory body, HKEX and SSE in relation to disclosures. The Financial Controller is also responsible for arranging the preparation of the Company's annual budget plans and annual accounts and monitoring the implementation of annual financial and operational plans. The Financial Controller is also required to collaborate with the Board in the formulation of relevant internal control systems and to make recommendations thereon to the Board.

Auditors and Auditors' Remuneration

The financial statements contained in the Company's 2005 annual report were prepared in accordance with the PRC accounting standards and Hong Kong accounting principles 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 ten 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 from 2004, and it has been providing audit services to the Company for two consecutive years.

The remuneration of the auditors in the year 2005 is set out as follows:

	2005		2004	
(Unit: RMB'000)	**Audit fees**	**Other fees**	**Audit fees**	**Other fees**
PwC	1,650	1,265	1,230	1,006
PwC Zhong Tian	800	—	500	150

Notes:

a. The above audit fees include audit and review service fees of the auditors. Other fees represent specific audit fees and evaluation service fees for due diligence reviews on the Company's investments provided by the auditors. The Company was not required to pay for overseas travel expenses of the auditors incurred for providing audit and review services, but should pay for overseas travel expenses incurred for providing specific audit and evaluation services for due diligence reviews.

b. 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 this would not affect the independence of the auditors.

SHAREHOLDERS, INVESTOR RELATIONS 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 the significant matters of the Company. The annual or extraordinary general meeting provides a channel of direct communication between the Board and the shareholders. The Company puts high regard to general meetings. The notice on the convening of a general meeting is issued 45 days prior to the date of the meeting, and all Directors and members of the senior management are requested to make their best effort to attend. All shareholders are encouraged to attend general meetings and make their voice heard. Details of general meetings held during the Reporting Period are set out on page 53 of this annual report.

Substantial shareholders

As substantial shareholders of the Company, XTC Company and SGH Company conducted their activities in a regulated manner. The Company and the substantial shareholders are independent from each other in terms of staffing, assets, finance, institution and business. 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 policy decisions or operations.

Information about other shareholders as at the end of the Reporting Period are set out in the Report of the Directors, on pages 59 to 61 of this annual report.

Information Disclosures and Investor Relations Management

The Company Secretary is responsible for information disclosures and investor relations management of the Company. The Rules Governing Information Disclosure and the Rules Governing Information Management of the Company have been formulated to ensure that information disclosures are open, fair and impartial. The Company has been committed to strengthening investor relations management, and an investor relations department was set up in 2004 in order to communicate better with investors and to enhance transparency of the Company. The Company's philosophy, communication channels and accomplishments during the year in the area of investor relations are set out on pages 50 to 51 of this annual report.

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 staff, 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 laws 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 environment on which our very existence depends.

RULES ON CORPORATE GOVERNANCE

During the Reporting Period, parts of the Company's Articles of Association were amended, and Rules of Procedures for the Shareholders' General Meeting, Rules of Procedures for the Board of Directors and Rules of Procedures for the Supervisory Committee were tabled to the general meetings for consideration as attachments to the Articles of Association, pursuant to the requirements of the CSRC's "Notice for Supervising Listed Companies over Amendments to Articles of Association" in light of the actual situation of the Company. These amendments and rules of procedures were approved at an extraordinary general meeting held on 26 August 2005. During the Reporting Period, the terms of reference of SDIC and the Audit Committee were revised and the terms of reference of the Remuneration Committee and the Nomination Committee were devised.

CONCLUSION

The corporate governance regime adopted by a company is an indication of its abilities in managing and operating its business. Sound corporate governance contributes to the healthy development of a company and enhances investors' confidence in the company. To be effective in corporate governance, relevant measures must be reviewed on a regular basis to ensure that they are in tandem with market trends and the requirements of regulatory authorities. As such, we will continue to enhance corporate governance as part of our efforts to ensure a stable development of the Company and to enhance shareholder value.

Investor Relations

The Company's management value investor relations. It helps investors improve their understanding of, and identification with, the Company through full disclosure of information to them, and seeks to strengthen communication and interaction with them through various means to enhance the Company's transparency. The Group strives to yield fruitful rewards for its investors as well by consistently maintaining a high dividend payout ratio.

COMPANY'S PHILOSOPHY

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. A listed company grows with its investors by maintaining a sound business operation and ensuring a satisfactory profit level and growth. This will in turn foster a good and healthy corporate image in the capital market needed for the Company's further business development, enabling a constructive interaction between the Company's business and capital operations for maximising the interests of shareholders and maintaining a sustained, rapid growth of the Company.

It is our belief that good investor relations is underpinned by full 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. Impartial 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 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.

REVIEW OF 2005

In 2005, we continued to update our investors on the Company's latest moves and development prospects through various activities such as the issue of announcements in newspapers and on designated websites, regular dispatch 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, teleconferencing, local and overseas roadshows and online investor reception days.

During the year, interim and final results announcements were made promptly pursuant to relevant regulations and more than 40 provisional announcements were released, providing, in an objective way, the statutory information on matters which might have an impact on the investors' interest. The standards for making information disclosures are being continuously raised as well. In addition, investors were briefed on the Company's routine operating performance and updates through the regular publication of the "Letters to the Investors" and the provision of monthly traffic flow figures. These announcements and information were posted simultaneously on the websites of the stock exchanges and of the Company to facilitate investors' browsing. In 2005, the Company's management received 67 investor visits involving about 120 visitors, and consistently held or participated in various presentation activities, details of which are as follows:

January	• Participated in the "5th Greater China Forum" organised by UBS Warburg in Shanghai
February	• Held annual results presentation and news briefing in Hong Kong and Shenzhen
	• Organised roadshows in Hong Kong
	• Held teleconferencing with investors on the Qinglian Project

March	• Organised roadshows in Beijing
	• Participated in the “China Concept 2005” conference organised by Deutsche Bank AG in Beijing
April	• Held online reception day
May	• Participated in the “10th Chinese Investors Forum” organised by Credit Lyonnais Securities in Beijing
	• Participated in the “China Investment Front Conference 2005” organised by Goldman Sachs Gao Hua Securities in Kunming
	• Participated in an industry seminar organised by China Merchants Securities in Shenzhen
June	• Organised international roadshows
	• Participated in the “1st Chinese Investor Relations Annual Conference” organised by Securities Market Weekly. Awarded the title of “Excellence in Investor Relations”
August	• Held interim results presentation and news briefing in Hong Kong and Shenzhen
October	• Held online reception day
December	• Organised roadshows in Beijing and Shanghai

Through the participation in the above activities, we were able to Convey our message to investors effectively and collect information from them and sincerely listen to their feedback, creating a constructive interaction between investors and the Company for the benefit of both.

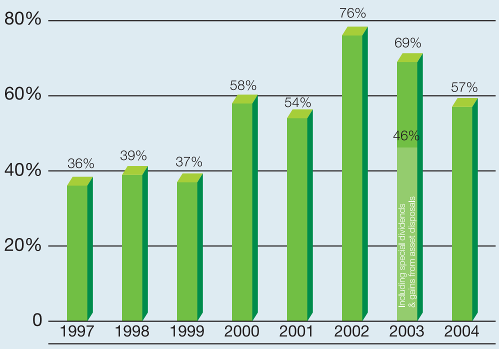
EMPHASIS ON SHAREHOLDER RETURN

The Company has consistently maintained a high return for its shareholders ever since its flotation, underpinned by the payment of cash dividends for eight consecutive years with an aggregate dividend payment of approximately RMB1,652 million.

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 2005, the Board recommended the payment of a cash dividend of RMB0.12 per share, representing 54% of the net profit in the PRC statutory financial statements or 48% of adjusted profit attributable to shareholders under the Hong Kong Accounting Standards for the Year.

Historical Dividend Payout Ratio

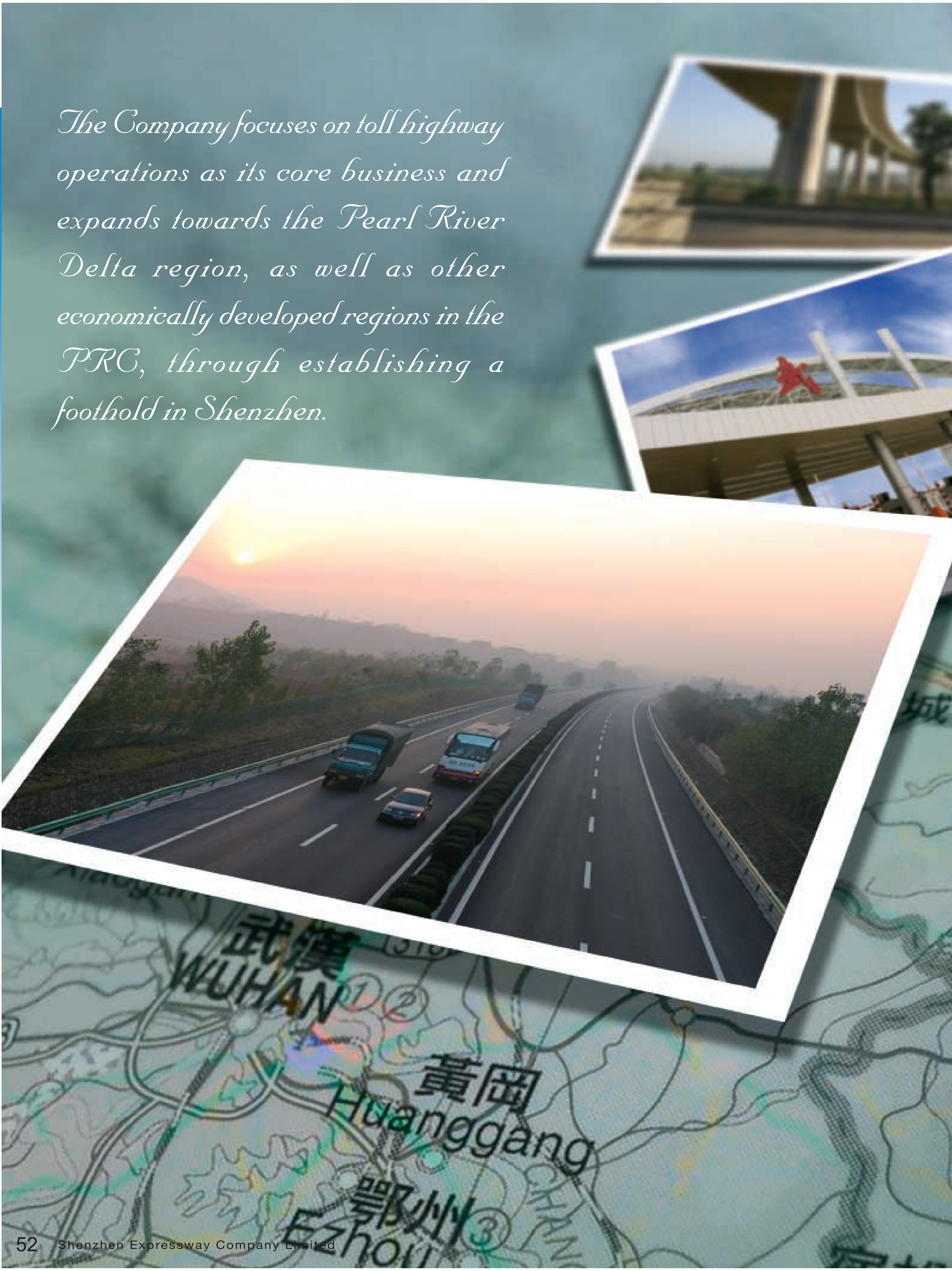
Payout ratio = dividend/profit attributable to shareholders
(calculated under Hong Kong Accounting Standards)

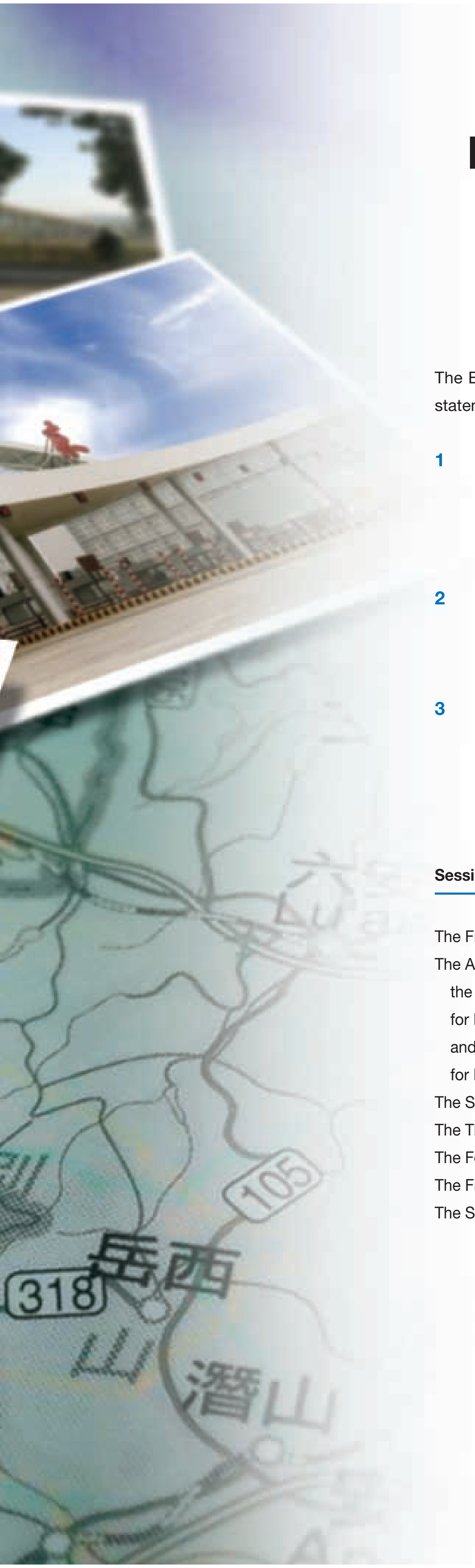


OUTLOOK

In 2006, the Company will continue to treat all investors on an equal basis and strive to maintain adequate and effective communication and interaction with investors, in strict compliance with various regulations, with a view to enhancing their understanding of and identification with the Company. Meanwhile, it will continue to seek new ways and channels by making use of information technology such as the Internet for further increasing participation by medium and small investors and enhancing the Company’s transparency so that our investor relations work will move up to a new level.

The Company focuses on toll highway operations as its core business and expands towards the Pearl River Delta region, as well as other economically developed regions in the PRC, through establishing a foothold in Shenzhen.





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 2005.

1 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.

2 Summary of the Report of the Board

During the year 2005, ten board meetings were held, details of which are set out on pages 39 to 40 in the Corporate Governance Report of this annual report.

3 Summary of the General Meetings

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

Session Number	Date Convened	Newspapers on which the resolutions disclosed
The First Extraordinary General Meeting 2005	18 February 2005	Shanghai Securities News Securities Times Hong Kong Economic Times The Standard
The Annual General Meeting 2004, the Extraordinary General Meeting 2005 for Holders of Overseas-listed Foreign Shares and Extraordinary General Meeting 2005 for Holders of Domestic Shares	8 April 2005	
The Second Extraordinary General Meeting 2005	23 May 2005	
The Third Extraordinary General Meeting 2005	3 June 2005	
The Fourth Extraordinary General Meeting 2005	26 August 2005	
The Fifth Extraordinary General Meeting 2005	10 October 2005	
The Sixth Extraordinary General Meeting 2005	28 December 2005	

The shareholders passed the following important matters in the above general meetings:

(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 2004
- the budget plan and the emoluments of Directors and Supervisors for the year 2005
- re-appointment of international auditors and statutory auditors
- election of new Directors and Supervisors
- acquisition of 30% interest of Guangwu Expressway
- acquisition of 56.28% interest of Qinglian Project
- acquisition of 55% interest of Wuhuang Expressway

(2) Passed the following matters as special resolutions:

- amendments to the Articles of Association
- authorization to the Board to repurchase H Shares of the Company
- issue of the short-term commercial papers

4 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 Year is set out on pages 23 to 26.

The turnover of and the operating profit contributed to the Group are not separately analysed in terms of different businesses and geographical areas 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.

5 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.

6 Financial Results

The results of the Group for the year ended 31 December 2005 are set out in the consolidated income statement of the financial statements attached in this annual report on page 83.

The financial positions of the Group and the Company as at 31 December 2005 are set out in the balance sheets of the financial statements attached in this annual report on pages 79 to 82.

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 4 of this annual report.

7 Dividends

(1) Proposed dividend for the year 2005

The Board of the Company recommended the payment of a final dividend of RMB0.12 per share (tax included) to all shareholders, totaling RMB261,684,000, for the year ended 31 December 2005. Such dividend shall be subject to the approval by shareholders at the 2005 Annual General Meeting.

According to the Articles of Association, 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 2004 and its implementation

Pursuant to the approval on the 2004 Annual General Meeting, the Company paid a final dividend of RMB0.11 per share for the year 2004 to all shareholders on the basis of the total share capital comprising 2,180,700,000 shares as at the year end of 2004, totaling RMB 239,877,000. Such dividend distributions were completed in two months after the close of the general meeting.

8 Directors and Supervisors

(1) The details of the Directors and the Supervisors are set out on pages 71 to 75 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 2003 to 31 December 2005 except the service contract with an Independent Director, Mr. Poon Kai Leung, James, which is effective from 28 May 2003 to 31 December 2005, the service contracts with Directors, Mr. Yang Hai, Mr. Li Jing Qi, Mr. Wang Ji Zhong, which are effective from 8 April 2005 to 31 December 2005, and the service contract of an Independent Director, Mr. Wong Kam Ling, which is effective from 3 June 2005 to 31 December 2005. 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 in relation to the Company's business 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) Independent Director and its independence

The Company has appointed sufficient 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 and believes that the incumbent Independent Directors have complied with the relevant guidelines as stipulated in such rule and still been regarded as independent persons.

(5) During the Reporting Period, the Group has not 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.

9 The Details of Election and Change of Directors, Supervisors and Senior Management

Name	Position	Time of Appointment	Time of Departure	Reasons of Departure
Chen Chao	Chairman	—	April 2005	Resignation
	Chairman of the Supervisory Committee	April 2005	—	—
Zhong Shan Qun	Director	—	April 2005	Resignation
Tao Hong	Director	—	April 2005	Resignation
Wang Ji Zhong	Chairman of the Supervisory Committee	—	April 2005	Resignation
	Director	April 2005	—	—
Ho Pak Cho, Denis Morgie	Independent Director	—	June 2005	Resignation
Yang Hai	Chairman	April 2005	—	—
Li Jing Qi	Director	April 2005	—	—
Wong Kam Ling	Independent Director	June 2005	—	—
Wang Xue Feng	Operations Controller	—	August 2005	Resignation
Li Jian	Operations Controller	August 2005	—	—
Ge Fei	Engineering Controller	August 2005	—	—
Fan Li Ping	Engineering Controller	—	August 2005	Internal transfer
	Technical Controller	August 2005	—	—
Wu Xian	Technical Controller	—	August 2005	Internal transfer
	Director and General Manager of Qinglian Company	August 2005	—	—

The terms of the third session of the Board and Supervisory Committee expired on 31 December 2005. At the extraordinary general meeting held on 28 December 2005, Mr. Yang Hai, Mr. Wu Ya De, Mr. Li Jing Qi, Mr. Wang Ji Zhong, Mr. Liu Jun, Mr. Lin Xiang Ke, Ms. Zhang Yang and Mr. Chiu Chi Cheong, Clifton were appointed as the directors of the fourth session of the Board; Mr. Li Zhi Zheng, Mr. Zhang Zhi Xue, Mr. Poon Kai Leung, James, and Mr. Wong Kam Ling were appointed as the Independent Directors of the fourth session of the Board; and Mr. Zhong Shan Qun and Mr. Zhang Yi Ping were appointed as the Supervisors of the fourth session of the Supervisory Committee. Additionally, Mr. Yi Ai Guo was elected as the Supervisor representing staff of the fourth session of the Supervisory Committee by the staff's representative meeting. In the Board meeting and the meeting of the Supervisory Committee held on 6 January 2006, Mr. Yang Hai and Mr. Zhong Shang Qun were elected as the chairman of the Board and the chairman of the Supervisory Committee respectively. The terms of appointment for all members of the Board and the Supervisory Committee are three years, starting from 1 January 2006 to 31 December 2008.

10 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 policies and regulations in the PRC with reference to the Company's actual situation and prevailing market conditions, subject to approval in 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 2005, 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 relevant rules. The Directors (including the Chairman) and Supervisors who are employed by the Company received management remuneration in accordance with their specific management positions in the Company.

Remuneration policy of the Company to the management is commensurate with market standards and work performance. The remuneration of the senior management comprises three parts, namely position salary, performance bonus and benefits. In order to attract and motivate quality staff, the performance bonus is mainly based on the performance assessment and the Remuneration Committee of the Board is responsible to make the tenure assessment and to propose or review the remuneration and bonus of the senior management. The benefits of the management include contributions to a retirement scheme (social retirement insurance), other kinds of social insurance and the supplemental retirement scheme, etc., that are paid by the Company according to the relevant rules.

At the end of the Reporting Period, the details of the remuneration received by the incumbent Directors, Supervisors and senior management in the year 2005 are as follows:

Unit: RMB'000 (before tax)

	Total remuneration received from the Company during the Reporting Period					
Name	**Director's/ Supervisor's emolument**	**Meeting subsidies**	**Management remuneration (including insurance and fringe benefits)**	**Total (note)**	**Remarks**	**Whether receive remuneration from shareholder or other related entities**
Executive Director:						
Yang Hai	—	14	756	770	Since April 2005	No
Wu Ya De	—	16	715	731		No
Zhang Rong Xing	—	4	443	447		No
Non-executive Director:						
Lin Xiang Ke	—	11.5	—	11.5		Yes
Zhang Yang	—	10	—	10		Yes
Li Jing Qi	—	8	—	8	Since April 2005	Yes
Wang Ji Zhong	—	9.5	—	9.5		Yes
Chiu Chi Cheong, Clifton	300 (HK$)	14	—	326		No
Independent Director:						
Li Zhi Zheng	150	11	—	161		No
Zhang Zhi Xue	150	12	—	162		No
Poon Kai Leung, James	150 (HK$)	15.5	—	172		No
Wong Kam Ling	86 (HK$)	10.5	—	100	Since June 2005	No
Supervisor:						
Chen Chao	—	—	—	0	renounced the meeting subsidies receivables of RMB11,500 for the Year	Yes
Yang Qin Hua	—	11.5	—	11.5		Yes
Yi Ai Guo	—	13	357	370		No

Unit: RMB'000 (before tax)

	Total remuneration received from the Company during the Reporting Period					
Name	Director's/ Supervisor's emolument	Meeting subsidies	Management remuneration (including insurance and fringe benefits)	Total (note)	Remarks	Whether receive remuneration from shareholder or other related entities
Senior Management:						
Wu Xian	—	—	541	541		No
Li Jian	—	—	161	161	Since September 2005	No
Ge Fei	—	—	179	179	Since September 2005	No
Fan Li Ping	—	—	563	563		No
Gong Tao Tao	—	—	638	638		No
Zhou Qing Ming	—	—	483	483		No
Wu Qian	—	—	536	536		No
Total				**6,391**		

Note:

1. For the purpose of conversion, amount in HK$ have been converted into RMB using an exchange rate of HK$1=RMB1.04.

2. According to relevant policy guidelines of 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 subsides in lieu of providing or arranging business vehicles for them. Zhang Rong Xing, Yi Ai Guo, Wu Xian, Li Jian, Ge Fei, Fan Li Ping, Gong Tao Tao, Zhou Qing Ming participated in the above plan, and during the Reporting Period, the aforesaid persons also received vehicle subsidies of RMB45,600, 43,200, 51,000, 20,000, 20,000, 60,000, 60,000 and 60,000 respectively.

Since 2001, the share appreciation right scheme has been approved by the shareholders and amended by the extraordinary general meeting convened on 30 October 2003. According to the amended share appreciation right scheme, the Board has during the Reporting Period approved the Company to exercise the third session and fourth session of share appreciation rights totally 5,501,400 shares collectively held by senior management authorized by the general meeting, the proceeds of RMB4,412,000 from the exercise shall be 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 the Reporting Period, the shares appreciation rights granted by the general meeting were exercised in full. The special incentive fund generated from the exercise of the rights during the Reporting Period has not yet been distributed.

11 Disclosure of Interests

(1) As at 31 December 2005, 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 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.

12 Share Capital

The total capital of the Company was RMB2,180,700,000 with details set out in note 15 to the financial statements.

13 Profile of Shareholders

(1) As at 31 December 2005, the Company had 33,483 shareholders in total, including 4 non-circulating shareholders, 464 H shareholders and 33,015 A shareholders.

(2) As at 31 December 2005, 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 capital**
XTC Company (note 2)	654,780,000	45.68%	30.03%
SGH Company (note 3)	457,780,000	31.94%	20.99%
Huajian Centre (note 3)	91,000,000	6.35%	4.17%

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 capital**
Sumitomo Mitsui Asset Management Company, Limited	67,036,000 (note 5)	8.97%	3.07%
J.P. Morgan Chase & Co.	63,376,000 (note 6)	8.48%	2.91%
Sumitomo Life Insurance Company	59,674,000 (note 7)	7.98%	2.73%

Notes:

(1) Unlisted shares.

The Share Segregation Reform Proposal ("Proposal") was approved by relevant general meeting of the A shareholders held on 23 January 2006, pursuant to which, all holders of non-circulating shares of the Company would transfer 3.2 shares to A shareholders for every 10 A Shares held by such A Shares shareholder on the registration date of the implementation of the Proposal (i.e. 24 February 2006), so as to obtain the circulation rights of the non-circulating shares on the A shares stock market. The Proposal was successfully implemented on 27 February 2006 after obtaining approval from the governing authorities and the A Shares of the Company resumed trading on 28 February 2006. After the implementation of the Proposal, the original non-circulating shares held by the holders of non-circulating shares of the Company were changed to restricted circulating shares.

Change of shareholding of shareholders subject to selling restriction as follows:

	Before Implementation of the Proposal			**After Implementation of Proposal**	
Non-circulating Shares Shareholders	**shareholding (shares)**	**% of total issued capital**	**shares paid according to the Proposal (shares)**	**shareholding (shares)**	**% of total issued capital**
XTC Company	654,780,000	30.03%	—	654,780,000	30.03%
SGH Company	457,780,000	20.99%	46,320,113	411,459,887	18.86%
Huajian Centre	91,000,000	4.17%	3,788,677	87,211,323	4.00%
GDRB Company	64,640,000	2.96%	2,691,210	61,948,790	2.84%
Total	**1,268,200,000**	**58.15%**	**52,800,000**	**1,215,400,000**	**55.73%**

(2) XTC Company is a limited company incorporated under the laws of the PRC and is a wholly owned subsidiary of Shenzhen International which shares are listed on the main board of HKEX.

(3) State-owned enterprise incorporated under the laws of the PRC.

(4) Shares listed on the main board of HKEX.

(5) These 67,036,000 H Shares were held by Sumitomo Mitsui Asset Management Company, Limited as investment manager.

(6) The capacity of J.P. Morgan Chase & Co. and its associates in holding the 63,376,000 H Shares was, as to 70,000 H Shares, as beneficial owner, as to 28,858,000 H Shares, as investment manager and as to 34,448,000 H Shares, as approved lending agent.

(7) These 59,674,000 H Shares were held through Sumitomo Mitsui Asset Management Company, Limited, in which Sumitomo Life Insurance Company had a controlling interest.

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 2005.

(3) As at 31 December 2005, the top ten holders of shares in circulation of the Company based on the shareholders' registers supplied by the share registrars and the transfer offices of Hong Kong and the PRC were as follows:

Name of Shareholders	Number of shares held at the end of the period	Type of Shares
HKSCC Nominees Limited (Note)	728,587,398	H Shares
Xing He Securities Investment Fund	16,341,584	A Shares
Yu Long Securities Investment Fund	4,712,850	A Shares
HSBC Nominees (Hong Kong) Limited	3,872,000	H Shares
China Merchants Bank Limited – CITIC Classics Portfolio Securities Investment Fund	3,232,310	A Shares
ARSENTON Nominees Limited	3,000,000	H Shares
China Galaxy Securities Company Limited	2,973,371	A Shares
China Merchants Securities – Chartered – ING Bank N.V.	2,340,776	A Shares
Guotai Junan – CCB – The Hongkong and Shanghai Banking Corporation Limited	1,673,925	A Shares
Shenyin Wanguo – HSBC – Merrill Lynch International	1,340,998	A Shares

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

(4) Public Float

Based on the publicly available information and to the best knowledge of the Directors, the Company has maintained sufficient public float as at the latest practicable date prior to the printing of this annual report.

14 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.

With the main purposes to protect shareholders' and investors' interests and to enhance the confidence of investors, the Company had formulated a plan since 2002 to seek authorization and approval from the shareholders and regulatory authorities in respect of the repurchase of H shares of the Company ("Repurchase of H Shares").

The application in relation to the Repurchase of H Shares has been approved by the CSRC. On 8 April 2005, a special resolution was passed by the shareholders of the Company to authorise once again the Directors to execute the Repurchase of H Shares. Pursuant to the authorization of the shareholders, the Board may repurchase H shares in the open market traded on HKEX, of not more than 10% of the nominal value of the issued H Shares of the Company in the relevant period. The relevant period will end on the date when the 2005 Annual General Meeting held.

The Company has completed all the requisite preparatory work for the Repurchase of H Shares in accordance with the relevant laws and regulations. Up to the date of this report, the Company has not yet repurchased any H shares after throughout consideration of a composite of factors such as the price of H shares and the capital expenditure of the Company.

15 Pre-Emptive Rights

According to the articles of association of the Company and the laws of the PRC, 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.

16 Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the Reporting Period.

17 Reserves

The amounts and particulars of material transfer to and from reserves of the Company during the Reporting Period are set out in note 16 to the financial statements.

18 Fixed Assets

The movements in fixed assets of the Company during the Reporting Period are set out in note 5 to the financial statements.

19 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 17 to the financial statements.

20 Interest Capitalised

The amount of interest capitalised by the Group and the Company during the Reporting Period are disclosed in note 25 to the financial statements.

21 Income Tax Rate and Business Tax Rate

In the year 2005, the applicable PRC enterprise income tax of the Company was 15%, which was the preferential tax rate for enterprises established in the Shenzhen Special Economic Zone, while the standard income tax rate is 33%.

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

22 Trust Deposits and Overdue Time Deposits

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

23 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.

24 Material Litigation and Arbitration

In 2005, no material litigation and arbitration subsisted in the Company or its subsidiaries or its jointly controlled entities.

25 Connected Transactions

In 2005, 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 December 2004, the Company entered into an agreement with GDRB Company to acquire a 30% equity interest in Guangyun Company (which operates Guangwu Expressway) at a consideration of RMB179 million. As GDRB Company is one of the promoters of the Company, holding 2.96% shareholding of the Company, the transaction constituted a connected transaction of the Company in accordance with the Listing Rules of HKEX. On 18 February 2005, such acquisition was approved by shareholders at the extraordinary general meeting of the Company, in which GDRB Company and its associates abstained from voting.

(2) On 3 February 2005, the Company together with Mei Wah Company entered into agreements with Mr. Chung Chi Fai, Spring Sun International Limited, Guangdong Yingjun Investment Holding Co., Ltd.("Great Eagle Company"), Maxprofit Gain Limited and Zhuhai New Chang Jiang Construction Investment Co., Ltd. to acquire a 56.28% interest in Qinglian Company at a consideration of RMB1,839.2 million. As Sun Yue Traffic Development Limited ("Sun Yue Company") is an associate of GDRB Company (a promoter of the Company holding 2.96% shareholding of the Company) and holds interests in Qinglian Company, and there was close relationship between the acquisition of the interests of Sun Yue Company in Qinglian Company by Great Eagle Company and the Great Eagle Acquisition (the Great Eagle Acquisition, which is the acquisition of the interests of Great Eagle Company in Qinglian Company by the Company, constituted parts of the acquisitions of 56.28% interests in Qinglian Company. For details, please refer to the Company's announcement dated 15 February 2005 and the circular dated 6 April 2005), the Great Eagle Acquisition constituted a connected transaction of the Company in accordance with the Listing Rules of HKEX. On 23 May 2005, such acquisition was approved by shareholders at the extraordinary general meeting of the Company, in which GDRB Company and its associates abstained from voting. On 29 December 2005, Mei Wah Company has issued a confirmation letter to the vendors, agreeing to extend the deadline for fulfilling the conditions precedent for acquiring 25% interest in Qinglian Company from 31 December 2005 to 30 June 2006.

(3) On 19 March 2005, the Company together with Mei Wah Company entered into an agreement with Flywheel Investments Limited, Hubei Investment Limited, Wong Chik Lim Holdings (H.K.) Limited, Sabagaya Sendirian Berhad and JEL Company. The Group and Flywheel Investments Limited would together acquire 100% interests in Magerk Company (holding operating rights of Wuhuang Expressway) at a consideration of RMB1,188.4 million, of which 55% interests will be acquired by the Group at a consideration of RMB653.6 million. As Flywheel Investments Limited is a wholly-owned subsidiary of Shenzhen International (the holding company of XTC Company, which is the promoter and substantial shareholder of the Company, and indirectly holding 30.03% shares of the Company); the transaction constituted a connected transaction of the Company in accordance with the Listing Rules of HKEX and SSE. On 3 June 2005, such acquisition was approved by shareholders at the extraordinary general meeting of the Company, in which XTC Company and its associates abstained from voting. To facilitate a successful completion of the acquisition, the Company and Mei Wah Company entered into a supplemental agreement with other parties concerned on 12 July 2005. Pursuant to the supplemental agreement, Mei Wah Company directly acquired the 55% interest in JEL Company (the sole business of which is to own and operate Magerk Company) and the consideration for the acquisition was paid as well as the relevant transfer procedures was completed in August 2005.

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

26 Investment and Acquisition

Please refer to the section headed "Business Review and Analysis" under "Management Discussion and Analysis" from page 21 for the investments and acquisitions of the Company in the Reporting Period.

27 Fund Flow between Related Parties

The fund flow between the Company and related parties (as defined under the relevant PRC regulations) is mainly the payment of fees on behalf of Ropeway Company. The statutory auditors of the Company have made specific explanation in respect of the table prepared by the Company in a format compiling situations of the appropriation of funds by the controlling shareholder and other related parties as required by "The Notice of Certain Matters on Administration of Fund Flow between Listed Company and its Related 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通知》（證發監(2003) 56 號）and "No. 5 Memorandum of the Work Report for Year 2005"（《2005 年年度報告工作備忘錄第五號》）issued by SSE.

28 Major Contracts and Fulfillment

In addition to those contracts related to the acquisitions as stated in this annual report, the Group also signed the following material contracts during the Reporting Period:

(1) the Company pledged its 95% shareholding in Meiguan Company in favour of China Development Bank for a credit line of RMB1.4 billion. Such matter has been considered and approved by the Board of the Company and the pledge was effective from 25 June 2005. As at the date of this report, the said pledge has been released since the relevant loan was repaid.

(2) Mei Wah Company pledged all its shares in JEL Company totaling 154,000,000 shares in favour of Industrial and Commercial Bank of China (Asia) Limited ("ICBC Asia") for a credit facility of HK$680 million. The said pledge was effective from 5 August 2005. Additionally, the Company applied to Shenzhen branch of the Industrial and Commercial Bank of China ("ICBC") for issuing a standby letter of credit in favour of Mei Wah Company as a guarantee for Mei Wah Company's application for the loan of HK$680 million with a counter-guarantee provided by the Company to Shenzhen branch of ICBC for the issuance of such letter of credit. Such matters were considered and approved by the Board of the Company. Up to the end of the Reporting Period, the said pledge and counter-guarantee had not been released.

As at the end of the Reporting Period, the details of the assets of the Group mortgaged or pledged are as follows:

Asset	Type	Bank	Scale of Guarantee	Period
95% equity interest in Meiguan company	Pledge	China Development Bank	The credit line of RMB1.4 billion	Until repayment of all debts by the Company under loan agreement
Toll collection right of Shuiguan Expressway	Pledge*	China Merchants Bank	The principal and interests of RMB650 million bank loan	Until repayment of all debts by Qinglong Company under the loan agreement
154 million shares of JEL Company	Mortgage**	ICBC Asia	The principal and interests of HK$680 million bank loan	Until repayment of all debts by Mei Wah Company under the loan agreement
Toll collection right of Wuhuang Expressway	Pledge***	ICBC	The principal and interests of RMB200 million bank loan	Until repayment of all debts by Magerk 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.

*** Pledged by Magerk Company, a jointly controlled entity of the Company.

Save as disclosed above, the Company did not sign any material contract in relation to any other major entrustment, subcontracting, leasing, guarantee or cash assets management during the Reporting Period. Furthermore, the Company had no such major contracts signed in previous period and subsisted during the Reporting Period.

The Independent Directors 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.

29 Continuing Disclosure Obligations under the Listing Rules

(1) Pursuant to rule 13.16 of the Listing Rules:

During the Reporting Period, the Group acquired 56.28% interest in Qinglian Company. The Group has also undertaken, in proportion to its equity interests acquired, the loans 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. As Qinglian Class I Highway held by Qinglian Company is to be reconstructed into an expressway, the Directors have committed to capitalise such loans as additional capital to Qinglian Company. The relevant procedure is pending the approvals by the relevant PRC government authorities.

(2) Pursuant to rule 13.22 of the Listing Rules:

Set out below is the condensed balance sheet of Qinglian Company as at 31 December 2005 prepared in accordance with the HKFRS:

	31 December 2005 **RMB'000**
Assets	
Non-current assets	2,725,845
Current assets	93,164
Total assets	2,819,009
Liabilities	
Non-current liabilities	602,124
Current liabilities	1,748,720
Total liabilities	2,350,844
Net assets	468,165

30 Undertaking

The shareholders of the Company, XTC Company and SGH Company, each of which has more than 5% shareholding, have given undertakings in the promoter's agreement that they will not engage in Shenzhen in any industry or business in any form, directly or indirectly, which competes with the Company. During the Reporting Period, the Company did not notice that the above two major shareholders had violated such undertaking.

31 Subsequent Events

(1) In January 2006, the Company issued short-term commercial papers with a total amount of RMB1 billion, having maturity of nine months and bearing interest at 3.07% per annum.

(2) On 14 January 2006, the Company entered into an entrusted management contract of construction projects with the Shenzhen Communications Bureau for the projects of the Wutong Mountain Avenue (Supplementary Road) and the Jihe Expressway Yantian Subsidiary Road Special Economic Zone Checkpoint Stations.

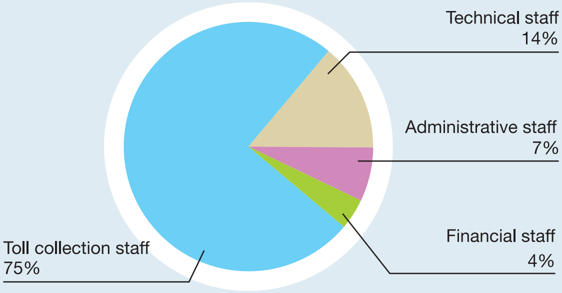
(3) On 8 February 2006, the Company entered into an agreement with the liquidation committee of Qingyuan City Yueqing Public Road Construction and Development Co., Ltd. for the acquisition of 20.09% equity interest in Qinglian Company at a consideration of RMB484 million.

The relevant matters and details of the above transactions are stated in "Management Discussion and Analysis" of pages 15 to 35 and note 35 to audited financial statements.

32 Employees, Remuneration and Training

(1) Staff

As at 31 December 2005, the Company has 1,303 employees, out of which 318 are management and professional staff while the remaining 985 are toll collection staff. 31% of the Company's staff holds tertiary or above qualifications and 83% of the administrative, financial and technical staff holds tertiary or above qualifications.



(2) 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 of three parts, namely monthly salary, annual performance bonus as well as statutory and company fringe benefits and is determined in accordance with the results of the overall performance assessment by reference to the principles of salary determined by positions, bonus determined by performance and maintaining the competitiveness of the Company.

(3) Employee's insurance scheme

The Group has provided basic medical insurance package to its employees which costs are accounted for as employees expenses. Apart from the medical insurance, the Group has also provided industrial injury insurance and unemployment insurance for its employees.

(4) Employee's retirement scheme

The Group has participated in an employee's retirement scheme which is organised by the local government authorities. According to the relevant regulations, the Group should pay fixed contributions to the local social security administration bureau and the Group has no legal or persumed obligations to pay further contributions if the bureau does not have sufficient assets to pay all employees benefits relating to the services provided by the employees in the current and previous periods. Up to 31 December 2005, the Company had two retired staff who had completed the retirement procedures with Shenzhen's social security administration bureau.

(5) Employee's Training

The Company values staff training. During the Reporting Period, the Company had organized seven centralized training, including workshop on the Company's development strategies, specialized training for assigned management staff, orientation training for new staff, continuing professional education for financial staff, and training courses for filing practice, team building and advanced techniques for problem-solving, etc, with a total of 1,182 participants. Furthermore, the individual professional departments also held various kinds of training courses according to the specific requirements, such as courses for operation safety, contract management, tunnel construction management, operation of the network for toll collection and civilised services, etc.

(6) Development Plan for Human Resources

For the coming 5 years, the Company would commence the following tasks on human resources to accommodate the needs of the Company's expansion:

— strengthen the training of the overall management techniques of senior management;

— strengthen the execution capability of the manager and staff;

— recruit and train up certain new middle rank management and professional staff to support the enhancement of the overall performance of key position;

— perfect the performance assessment system, provide more incentive to staff participating in important projects and matters;

— optimise the internal organization structure, simplify the management system and enhance the work effectiveness.

33 Results Review

The Audit Committee of the Company has reviewed and confirmed the results announcement and report of the twelve month ended 31 December 2005.

34 Auditors

The details of the appointment and remuneration of auditors are stated in the Corporate Governance Report on page 47 of this annual report.

35 Name of Directors

The composition and change of the members of the Board during the Reporting Period are set out in the Corporate Governance Report on page 38 of this annual report.

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, PRC, 31 March 2006

Report of the Supervisory Committee

With strict adherence to the Company Law of the PRC, the Listing Rules and the articles of association of the Company, the Supervisory Committee of the Company had faithfully discharged its duties with prudence and endeavors during the year 2005 for the purpose of safeguarding the interests of the Company and its shareholders. Detailed works of the Supervisory Committee during the Reporting Period are as follows:

During the Reporting Period, the Supervisory Committee convened seven meetings and passed one written resolution. Except those required to be abstained from voting, all the members attended all such meetings. Those meetings were held and resolved in accordance with relevant laws, regulations and articles of association and with proper service of notice and quorum. The matters considered and passed by the Supervisory Committee include:

- The report of the Supervisory Committee for 2004 and the work plan for 2005
- The remuneration of the Supervisors for 2005
- Amendment of the Rules of Procedure for the Supervisory Committee
- Review of the final accounts and audited financial report for 2004, profit distribution scheme for 2004, the 2004 annual report and its summary and budget plan for 2005
- Review of the first quarterly report, interim report and third quarterly report of 2005 of the Company
- Approval of the resignation of Supervisor, nomination of the succession Supervisor and election of chairman of the Supervisory Committee
- Nomination of the Supervisor candidates for the fourth session of the Supervisory Committee and proposing its remuneration scheme
- Review of the Company’s investments in Wuhuang Expressway and Qinglian Project
- Review of the investment proposal to further acquire 20.09% interest in Qinglian Company

In addition, the Supervisory Committee had made site visits to the construction projects of the Company during the Reporting Period. Through the means of visiting the construction site and gathering reports directly from the management of the Nanping Project and Yanpai Expressway, the Supervisory Committee had an in-depth understanding about the physical progress and funding requirements of the projects and proposed certain risk management measures for such projects as well.

During the year 2005, the members of the Supervisory Committee attended and observed all the shareholders’ general meetings and Board meetings in accordance with laws, reviewed the written resolutions of the Board, monitored the Company’s decision making procedures as well as the legality and the implementation of such decisions and promptly informed the Board and the Company’s management regarding the potential risk in relation thereto. During the Reporting Period, there is no incidence that the Supervisors make representations to the Directors or sue the Directors on behalf of the Company.

Pursuant to the relevant regulations, the Supervisory Committee made the following independent opinions in relation to the relevant matters of the Company in year 2005:

(1) In 2005, the Company made its operation decisions strictly in accordance with the Company Law, Securities Law, Listing Rules, the articles of association of the Company and the other relevant rules and regulations and operated its business legally. Based on its existing properly established internal control system, the Company continuously improved and properly implemented the internal control system. All the Directors, general manager and other senior management of the Company had, with a view to protecting the interests of the Company and its shareholders, diligently performed their duties and there is no incidence that the rules and regulations or the articles of association of the Company were violated nor had the Company's interest been affected.

(2) The Supervisory Committee had seriously reviewed the unqualified auditor's reports on the financial statements of the Company for the year 2005 that are prepared by PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian CPAs Co. Ltd. in accordance with the Hong Kong accounting standards and the PRC accounting standards respectively and considered that the auditor's reports were objectively, truly and fairly reflected the financial status, operating results and cash flow positions of the Company and the Group.

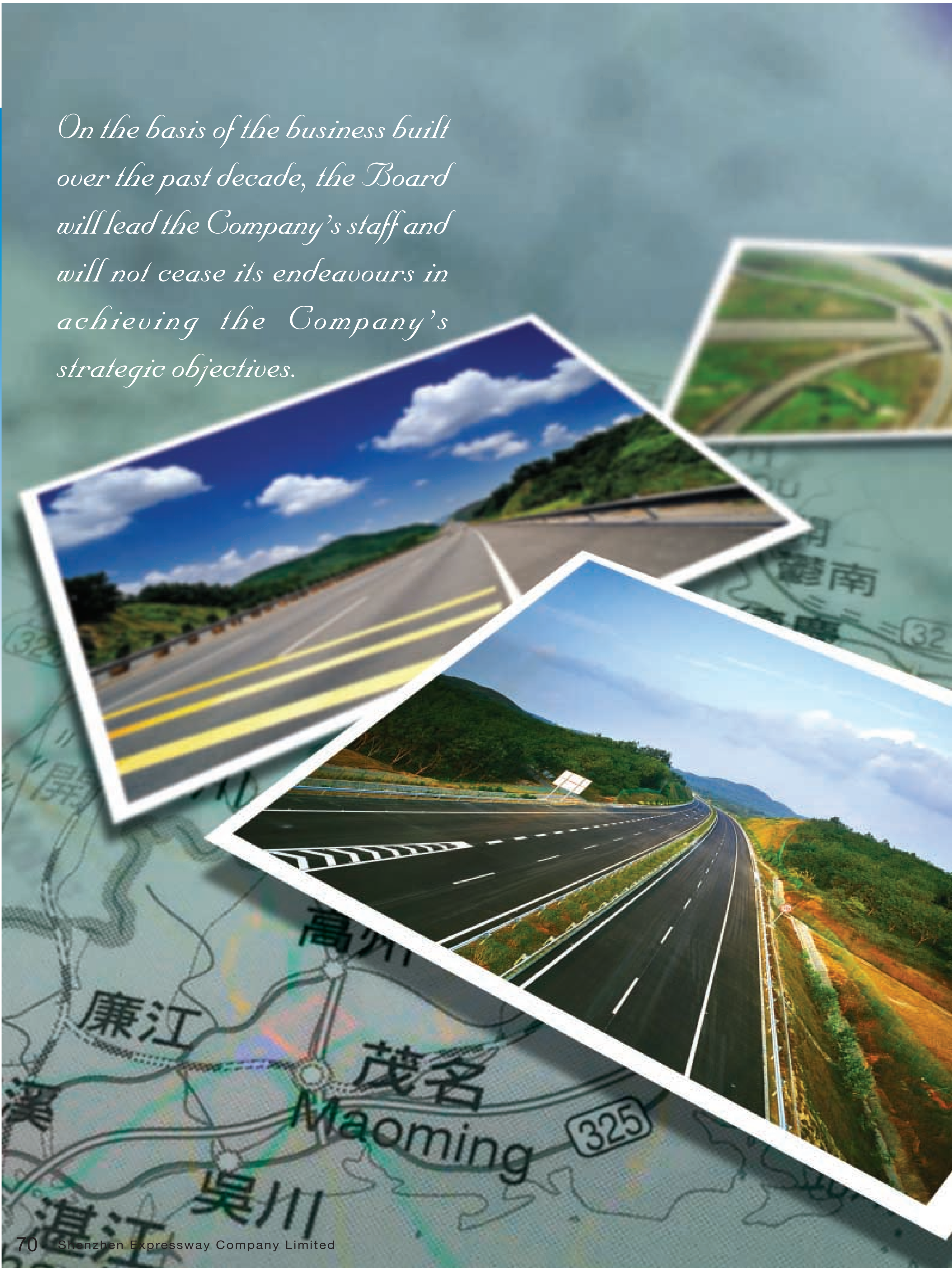
(3) The Company issued 165 million A Shares in December 2001 and raised funds amounted to RMB604 million. Such funds were used to invest in Yanba B. Up to 31 December 2005, a total of RMB440 million out of the raised funds were spent. The actual project in which the proceeds was applied is consistent with the project represented in the Prospectus.

(4) During the Reporting Period, the Company had acquired 30% interest in Guangwu Expressway, 56.28% interest in Qinglian Project and 55% interest in Wuhuang Expressway. As per the Listing Rules of SSE, the acquisition of Wuhuang Expressway was treated as connected transaction, while all the above acquisitions were treated as connected transactions under the Listing Rules of HKEX. The Supervisory Committee, after reviewing the acquisitions, considered that the transactions were fair and the considerations were reasonable, and the internal decision-making procedures for such acquisitions were legal and the acquisitions were all approved by the shareholders' meetings. The Supervisory Committee was not aware of any insider dealings and damages to the interest of some shareholders or any action causing the diminution of asset value of the Company.

By Order of the Supervisory Committee
Zhong Shan Qun
Chairman

Shenzhen, PRC, 31 March 2006

On the basis of the business built over the past decade, the Board will lead the Company's staff and will not cease its endeavours in achieving the Company's strategic objectives.



Directors, Supervisors and Senior Management

Mr. Yang Hai

Mr. Wu Ya De

The brief biographies of the members of the Board and the Supervisory Committee for the fourth session and the other senior management are set out below:

DIRECTORS:

Mr. YANG Hai, aged 45, senior engineer, the chairman of the Board, the chairman of the Strategic Development & Investment Committee and a member of the Remuneration Committee and Nomination 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 has been a vice president of Shenzhen International since June 2004. Since April 2005, he has been the chairman of the Company. Mr. Yang is also a director of various subsidiaries of Shenzhen International, namely XTC Company, Yiwan Industry Development (Shenzhen) Co., Ltd. and Shen Ke Industry and Development (Shenzhen) Company Limited, 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 42, 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 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.

Mr. Li Jing Qi

Mr. Wang Ji Zhong

Mr. Liu Jun

Mr. LI Jing Qi, aged 50, 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. Since March 2000, Mr. Li has been an executive director and vice president of Shenzhen International, responsible for overseeing its financial and corporate structure as well as planning and formulating major transactions. Since April 2005, Mr. Li has been a Director of the Company. Mr. Li is also a director of XTC Company and CSG Holding Co., Ltd. and director or supervisor of various subsidiaries of Shenzhen International such as Innovisions Limited, Flywheel Investments Limited etc. He had also been an executive director of Shenzhen High-Tech Holdings Limited (a Hong Kong listed company).

Mr. WANG Ji Zhong, aged 59, 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. From April 2005, he has been a Director of the Company. Mr. Wang is also a director of XTC Company, Yiwan Industry Development (Shenzhen) Co., Ltd, Shenzhen South-China International Logistics Co., Ltd., Shenzhen Dasheng Advanced Science & Technique Engineering Company Limited and Man Tai Cheng Utilities Construction Company Limited and the deputy chairman of Total Logistics (Shenzhen) Co., Ltd.

Mr. LIU Jun, aged 43, 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 May 2000, he joined Shenzhen International as vice president. In May 2004, he was appointed as an executive director of Shenzhen International, responsible for its overall administration management and project development. Mr. Liu has been a Director of the Company since January 2006. He is also a director of XTC Company and CSG Holding Co., Ltd. and director of various subsidiaries of Shenzhen International, and a supervisor of the Shenzhen Airlines.

Mr. Lin Xiang Ke

Ms. Zhang Yang

Mr. Chiu Chi Cheong, Clifton

Mr. Li Zhi Zheng

Mr. LIN Xiang Ke, aged 50, 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 42, political officer, Director of the Company and a member of Risk Management 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 52, a registered accountant in the USA, a 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 the chairman of Harvester (Hong Kong) 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 Shenzhen Political Consultative Committee, the vice chairman of the Listing Committee of the main board and the growth enterprises market of HKEX, an independent director of Chongqing Iron & Steel Co., Ltd. (a Hong Kong listed company) and Aluminum Corporation of China Limited (a Hong Kong listed company).

Mr. LI Zhi Zheng, aged 64, senior research engineer, an 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 Company Limited. Mr. Li is currently a director of Laimengpeng Company. Since January 2003, Mr. Li has been an Independent Director of the Company.

Mr. Zhang Zhi Xue

Mr. Poon Kai Leung, James

Mr. Wong Kam Ling

Mr. ZHANG Zhi Xue, aged 37, an 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 Beijing Zuo You Management Consultants Co., Ltd. since March 1999 and the chairman of Zuo You Management Consultants Co., Ltd. since February 2006. From January 2003, he has been an Independent Director of the Company.

Mr. POON Kai Leung, James, aged 41, an 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 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 57, an 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.


Mr. Zhong Shan Qun


Mr. Zhang Yi Ping


Mr. Yi Ai Guo

SUPERVISORS:

Mr. ZHONG Shan Qun, aged 42, engineer, 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 a vice president of Shenzhen International since June 2004. 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., the chairman and general manager of Yiwan Industry Development (Shenzhen) Co., Ltd., a director of Shenzhen Venture Capital Co., Ltd. and Yao Du Real Estates and Development (Shenzhen) Co., Ltd.

Mr. ZHANG Yi Ping, aged 41, 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 of 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. 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 43, Supervisor. 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 Company Limited. Mr. Yi joined the Company in October 1998 as the manager of the Operations Department. He is currently the deputy chief of the Operations Center of the Company. Mr. Yi has been a Supervisor representing the staff since January 2003.

Mr. Wu Xian

Mr. Li Jian

Mr. Ge Fei

Mr. Fan Li Ping

SENIOR MANAGEMENT

Mr. WU Xian, aged 48, 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 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, now he is responsible for the operation management of Qinglian Company and construction management of the reconstruction of Qinglian project.

Mr. LI Jian, aged 48, 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, is mainly responsible for the operations management of toll highways and the related matters.

Mr. GE Fei, aged 38, 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 Company Limited. 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 East, 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. FAN Li Ping, aged 43, senior engineer, the Technical Controller of the Company. Mr. Fan obtained a bachelor's degree in engineering 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, served as senior engineer and manager of the Contracting Department of the Administration Office of Jihe East. Upon establishment of the Company, he served 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, is mainly responsible for the development of the highways projects and technology management of the Company.

Ms. Gong Tao Tao

Mr. Zhou Qing Ming

Ms. Wu Qian

Mr. Tse Yat Hong

Ms. GONG Tao Tao, aged 33, 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 and devising the relevant internal control systems..

Mr. ZHOU Qing Ming, aged 49, 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.

Ms. WU Qian, aged 34, 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 management of the information disclosure, investor relations and corporate governance of the Company and coordinating the work of the Board.

Mr. TSE Yat Hong, aged 36, a certified public accountant of both the Hong Kong Institute of Certified Public Accountants and CPA Australia and a member of the Australian Computer Society, and joint company secretary of the Company. Mr. Tse graduated from Monash University in 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 financial controller 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.

Report of the International Auditors

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong
Telephone (852) 2289 8888
Facsimile (852) 2810 9888
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AUDITORS' REPORT TO THE SHAREHOLDERS OF SHENZHEN EXPRESSWAY COMPANY LIMITED

(Incorporated in the People's Republic of China with limited liability)

We have audited the financial statements on pages 79 to 148 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements 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 other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2005 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

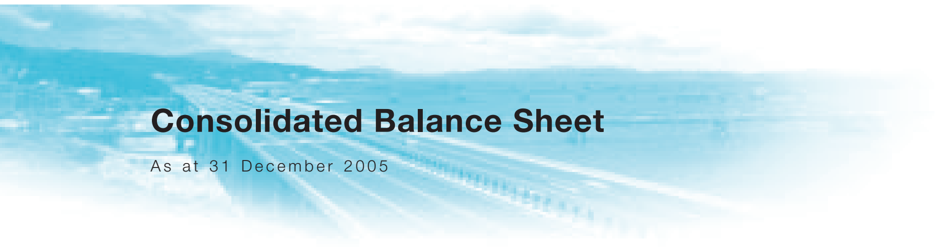
PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 31 March 2006

Consolidated Balance Sheet

As at 31 December 2005

	Note	2005 RMB'000	2004 RMB'000 (Restated)
ASSETS			
Non-current assets			
Property, plant and equipment	5	**4,055,081**	4,130,363
Construction in progress	6	**693,443**	286,584
Land use rights	7	**368,830**	386,468
Intangible assets	8	**824,585**	6,815
Interests in associates	11	**2,966,903**	870,698
Deferred income tax assets	18	**6,764**	9,473
Loan to a jointly controlled entity	10(d)	**78,240**	123,359
		8,993,846	5,813,760
Current assets			
Inventories		**3,540**	7,367
Trade and other receivables	12	**157,829**	408,810
Restricted cash	13	**31,615**	55,988
Cash and cash equivalents	14	**892,485**	1,241,838
		1,085,469	1,714,003
Total assets		**10,079,315**	7,527,763
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	15	**2,180,700**	2,180,700
Other reserves	16	**3,376,930**	3,247,852
Retained earnings			
— Proposed final dividend	29	**261,684**	239,877
— Others		**510,307**	358,636
		6,329,621	6,027,065
Minority interest		**43,138**	41,700
Total equity		**6,372,759**	6,068,765



Consolidated Balance Sheet

As at 31 December 2005

	Note	2005 RMB'000	2004 RMB'000 (Restated)
LIABILITIES			
Non-current liabilities			
Borrowings	17	**2,230,602**	142,911
Deferred income tax liabilities	18	**155,030**	59,767
Government grants	19	**364,388**	372,764
		2,750,020	575,442
Current liabilities			
Other payables and accrued expenses	20	**670,692**	283,443
Current income tax liabilities		**15,736**	17,031
Borrowings	17	**270,108**	583,082
		956,536	883,556
Total liabilities		**3,706,556**	1,458,998
Total equity and liabilities		**10,079,315**	7,527,763
Net current assets		**128,933**	830,447
Total assets less current liabilities		**9,122,779**	6,644,207

The notes on pages 87 to 148 are an integral part of these consolidated financial statements.

Yang Hai

Director

Wu Ya De

Director

Balance Sheet

As at 31 December 2005

	Note	2005 RMB'000	2004 RMB'000 (Restated)
ASSETS			
Non-current assets			
Property, plant and equipment	5	**2,158,511**	2,196,726
Construction in progress	6	**648,089**	280,242
Land use rights	7	**70,504**	73,862
Investments in subsidiaries	9	**812,690**	808,974
Investments in jointly controlled entities	10	**1,105,944**	1,207,483
Investments in associates	11	**2,601,624**	871,404
		7,397,362	5,438,691
Current assets			
Inventories		**2,225**	6,292
Trade and other receivables	12	**144,074**	413,347
Restricted cash	13	**31,615**	55,988
Cash and cash equivalents	14	**748,672**	1,163,284
		926,586	1,638,911
Total assets		**8,323,948**	7,077,602
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	15	**2,180,700**	2,180,700
Other reserves	16	**3,249,416**	3,152,408
Retained earnings			
— Proposed final dividend	29	**261,684**	239,877
— Others		**503,248**	359,383
Total equity		**6,195,048**	5,932,368

Balance Sheet

As at 31 December 2005

	Note	2005 RMB'000	2004 RMB'000 (Restated)
LIABILITIES			
Non-current liabilities			
Borrowings	17	**1,285,243**	130,819
Deferred income tax liabilities	18	**32,218**	26,671
Government grants	19	**364,388**	372,764
		1,681,849	530,254
Current liabilities			
Other payables and accrued expenses	20	**242,243**	245,748
Current income tax liabilities		**—**	6,150
Borrowings	17	**204,808**	363,082
		447,051	614,980
Total liabilities		**2,128,900**	1,145,234
Total equity and liabilities		**8,323,948**	7,077,602
Net current assets		**479,535**	1,023,931
Total assets less current liabilities		**7,876,897**	6,462,622

The notes on pages 87 to 148 are an integral part of these consolidated financial statements.

Yang Hai

Director

Wu Ya De

Director

Consolidated Income Statement

For the year ended 31 December 2005

	Note	**2005** **RMB'000**	2004 RMB'000 (Restated)
Turnover	21	**911,482**	705,776
Other income	22	**191,930**	114,861
Business tax and surcharges	23	**(38,361)**	(37,566)
Depreciation and amortisation		**(167,634)**	(131,686)
Employee benefit expenses	24	**(67,163)**	(48,748)
Road maintenance expenses		**(15,181)**	(14,451)
Other operating expenses		**(48,157)**	(64,703)
Operating profit		**766,916**	523,483
Finance costs	25	**(100,621)**	(24,052)
Share of loss of associates	11	**(24,015)**	(706)
Profit before income tax		**642,280**	498,725
Income tax expenses	26	**(80,071)**	(76,019)
Profit for the year		**562,209**	422,706
Attributable to:			
Equity holders of the Company	27	**552,622**	414,888
Minority interest		**9,587**	7,818
		562,209	422,706
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in RMB per share)			
— Basic	28	**0.25**	0.19
Dividends	29	**261,684**	239,877

The notes on pages 87 to 148 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2005

		Attributable to equity holders of the Company				
	Note	Share capital RMB'000 (Note 15)	Other reserves RMB'000 (Note 16)	Retained earnings RMB'000	Minority interest RMB'000	Total RMB'000
Balance at 1 January 2004, as previously reported as equity		2,180,700	3,127,484	773,885	—	6,082,069
Balance at 1 January 2004, as previously separately reported as minority interest		—	—	—	49,967	49,967
Adjustment for amortisation of land use rights for the adoption of HKAS 17	2.1	—	—	(55,559)	(7,743)	(63,302)
Balance at 1 January 2004, as restated		2,180,700	3,127,484	718,326	42,224	6,068,734
Profit for the year, as restated		—	—	414,888	7,818	422,706
Disposal of a subsidiary		—	—	—	(915)	(915)
Transfer to reserve funds		—	120,368	(120,368)	—	—
Dividend relating to 2003		—	—	(414,333)	(7,427)	(421,760)
Balance at 31 December 2004		2,180,700	3,247,852	598,513	41,700	6,068,765
Balance at 1 January 2005, as brought forward from above		2,180,700	3,247,852	598,513	41,700	6,068,765
Opening adjustment for the adoption of HKAS 39	2.1	—	—	(11,342)	—	(11,342)
Balance at 1 January 2005, as restated		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
Total recognised income for 2005		—	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)
Balance at 31 December 2005		2,180,700	3,376,930	771,991	43,138	6,372,759

The notes on pages 87 to 148 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2005

	Note	2005 RMB'000	2004 RMB'000 (Restated)
Cash flows from operating activities			
Cash received from toll income		**920,170**	708,230
Cash received from the road construction management services		**27,868**	17,351
Cash received from road construction projects		**26,836**	32,445
Cash paid to suppliers		**(45,581)**	(45,720)
Cash paid to employees		**(57,666)**	(47,008)
Other cash payments		**(152,640)**	(105,374)
Cash generated from operations	30	**718,987**	559,924
Interest paid		**(88,992)**	(23,771)
Income tax paid		**(75,552)**	(65,666)
Government subsidies received		**10,309**	—
Net cash generated from operating activities		**564,752**	470,487
Cash flows from investing activities			
Purchases of property, plant and equipment and payments for construction in progress		**(425,271)**	(295,501)
Proceeds from sales of property, plant and equipment	12(c)	**386,000**	684,597
Tax paid for sales of major property, plant and equipment		**—**	(105,204)
Equity investment in a subsidiary, net of cash acquired		**—**	(929)
Acquisition of a jointly controlled entity, net of cash acquired	31	**(612,651)**	—
Acquisition of associates	11(b)	**(1,653,754)**	(868,270)
Increase in investments in associates	11(c)	**(101,840)**	—
Disposal of a subsidiary, net of cash disposed		**—**	(1,468)
Redemption of loan to a jointly controlled entity		**40,092**	35,281
Interest received		**9,798**	12,444
Decrease in fixed bank deposits		**—**	70,000
Net cash used in investing activities		**(2,357,626)**	(469,050)

	Note	2005 RMB'000	2004 RMB'000 (Restated)
Cash flows from financing activities			
Proceeds from borrowings		**3,394,072**	880,807
Repayments of borrowings		**(1,702,959)**	(463,082)
Payments for other borrowing costs		**(16,409)**	—
Government grant received		**18,980**	—
Repayment of advance from a minority shareholder of a subsidiary		**(2,528)**	(3,145)
Dividends paid to the Company's shareholders	29	**(239,877)**	(414,333)
Dividends paid to minority equity owners of subsidiaries		**(8,149)**	(6,890)
Net cash generated from/(used in) financing activities		**1,443,130**	(6,643)
Net decrease in cash and cash equivalents		**(349,744)**	(5,206)
Cash and cash equivalents at beginning of the year		**1,241,838**	1,247,406
Exchange gains/(losses) on cash and cash equivalents		**391**	(362)
Cash and cash equivalents at end of the year	14	**892,485**	1,241,838

The notes on pages 87 to 148 are an integral part of these consolidated financial statements.

1 General information

Shenzhen Expressway Company Limited (the “Company”) was established as a joint stock limited company in the People’s Republic of China (the “PRC”) on 30 December 1996. The principal activities of the Company, 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.

The 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 31 March 2006.

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 the 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 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 Company’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

The adoption of new/revised HKFRS

In 2005, the Group adopted the new/revised standards of HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 (Amendment)	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 21, 23, 24, 27, 28 and 33 did not result in substantial changes to the Group's accounting policies. In summary:

— HKAS 1 has affected the presentation of minority interest, share of net after-tax results of associates and other disclosures.

— HKASs 2, 7, 8, 10, 16, 23, 27, 28 and 33 had no material effect on the Group's policies.

— HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard.

— HKAS 24 has affected the identification of related parties and some other related party disclosures.

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

The adoption of new/revised HKFRS (Continued)

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of land use rights from property, plant and equipment to operating leases. The up-front prepayments made for the land use rights are expensed in the income statement on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the income statement. In prior years, land use rights were accounted for as property, plant and equipment at cost less accumulated amortisation and accumulated impairment losses and amortisation had been provided using the units-of-usage method 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 the toll roads located on the related land.

The Group adopted the proportionate consolidation method under HKAS 31 "Interests in Joint Ventures" to account for its interests in jointly controlled entities. In prior years, the Group's interests in jointly controlled entities were accounted for using the equity method of accounting. The adoption of the proportionate consolidation method under HKAS 31 represents a change in accounting policy.

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the measurement of loans and long-term liabilities. As a transitional provision, the measurement of the loans and long-term liabilities according to the new standard is not required to be applied retrospectively and the amount of the resulting adjustments is recognised as an adjustment of retained earnings as at 1 January 2005.

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments in relation to the Share Appreciation Right Scheme (the "Appreciation Right Scheme") operated by the Company, under which share appreciation rights ("Appreciation Rights") are granted to management employees to obtain benefits, which is determined based on the Appreciation Rights exercised and the difference between the pre-determined exercise price of the Appreciation Rights and the prevailing share price of the Company (Note 2.15(b)). Until 31 December 2004, the amounts paid and payable under the Appreciation Right Scheme are expensed in the income statement as employee benefit expenses in the year the Appreciation Rights were exercised. Effective on 1 January 2005, the Group measures the liability incurred under the Appreciation Right Scheme at the fair value of the liability and until the liability is settled, the fair value of the liability at each reporting date and at the date of settlement is remeasured, with any changes in fair value recognised in the income statement. As a transitional provision, the policy is applied retrospectively to the comparative information relating to a period or date after 7 November 2002. As the amount of resulting adjustments relating to the periods prior to 1 January 2005 was considered by the directors of the Company to be immaterial to the Group's results and financial position, the opening retained earnings as at 1 January 2005 and the comparative information were thus not restated.

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

The adoption of new/revised HKFRS (Continued)

The adoption of HKFRS 3, HKAS 36 and HKAS 38 results in a change in the accounting policy for goodwill. Until 31 December 2004, goodwill was:

— Amortised on a straight-line basis over its estimated useful life or 20 years whichever is shorter; and

— Assessed for an indication of impairment at each balance sheet date.

In accordance with the provisions of HKFRS 3 (Note 2.7(a)):

— The Group ceased amortisation of goodwill from 1 January 2005;

— Accumulated amortisation as at 31 December 2004 has been eliminated with a corresponding decrease in the cost of goodwill;

— From the year ended 31 December 2005 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment.

The Group has assessed the useful lives of its intangible assets in accordance with the provisions of HKAS 38. No adjustment resulted from this assessment.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards, wherever applicable. All standards adopted by the Group require retrospective application other than:

— HKAS 16 - the initial measurement of an item of property, plant and equipment acquired in an exchange of assets transaction is accounted at fair value prospectively only to future transactions;

— HKAS 21 - prospective accounting for goodwill and fair value adjustments as part of foreign operations;

— HKAS 39 - does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The adjustments required for the adoption of HKAS 39 are determined and recognised at 1 January 2005;

— HKFRS 2 - only retrospective application for liabilities arising from share-based payments transactions existing at 1 January 2005 and with the comparative information relates to a period or date after 7 November 2002; and

— HKFRS 3 - prospectively after 1 January 2005.

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

The adoption of new/revised HKFRS (Continued)

The adoption of revised HKAS 17 resulted in a decrease in opening retained earnings at 1 January 2004 by RMB55,559,000 and the impact on the balance sheets and income statements as at and for the years ended 31 December 2004 and 2005 is as follows:

	2005 **RMB'000**	2004 RMB'000
Decrease in property, plant and equipment	**449,788**	465,092
Increase in land use rights	**368,830**	386,468
Decrease in deferred income tax liabilities	**11,069**	10,717
Decrease in minority interest	**8,376**	8,366
Decrease in retained earnings	**61,513**	59,541
Increase in depreciation and amortisation	**2,344**	4,721
Decrease in income tax expenses	**352**	708
Decrease in minority interest	**10**	31
Decrease in basic earnings per share (RMB per share)	**0.001**	0.002

The effect of adopting HKAS 17 in relation to the classification and amortisation of the land use rights owned by jointly controlled entities of the Group, to the extent which is attributable to the Group, has been included in the above by applying proportionate consolidation method under HKAS 31 in the accounting for the Group's interests in the jointly controlled entities. This effect has also been included in the impact on the adoption of HKAS 31 as presented below.

The adoption of HKAS 31 resulted in:

	2005 **RMB'000**	2004 RMB'000
Decrease in interests in jointly controlled entities	**1,814,431**	1,224,720
Increase in other non-current assets	**2,164,796**	1,436,488
Increase in current assets	**109,132**	44,573
Increase in non-current liabilities	**375,599**	15,541
Increase in current liabilities	**83,898**	240,800
Decrease in share of profit of jointly controlled entities	**152,486**	99,893
Increase in turnover	**309,119**	198,113
Increase in other income	**4,665**	2,906
Increase in expenses	**161,298**	101,126

There was no impact on basic earnings per share and there was no impact on opening retained earnings at 1 January 2004 from the adoption of HKAS 31.

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

The adoption of new/revised HKFRS (Continued)

The adoption of HKFRS 3 and HKAS 38 resulted in:

	2005 RMB'000
Increase in intangible assets	512
Increase in interests in associates	3,090
Increase in retained earnings	3,602
Decrease in depreciation and amortisation	512
Decrease in share of loss of associates	3,090
Increase in basic earnings per share (RMB per share)	0.002

There was no impact on opening retained earnings at 1 January 2004 from the adoption of HKFRS 3.

The adoption of HKAS 39 resulted in a decrease in opening retained earnings at 1 January 2005 by RMB11,342,000 and the impact on the balance sheet at 31 December 2005 and the income statement for the year then ended is as follows:

	2005 RMB'000
Decrease in loan to a jointly controlled entity	5,027
Decrease in retained earnings	5,027
Increase in other income	6,315
Increase in basic earnings per share (RMB per share)	0.003

This represents the impact for the measurement of the loan made to a jointly controlled entity at amortised cost using the effective interest method in accordance with HKAS 39.

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2006 or later periods. The Group has not early adopted the applicable new standards, amendments and interpretations as below. The Group has already commenced an assessment of the impact of these standards and interpretations but is not yet in a position to state whether these standards or interpretations would have a significant impact on its results and financial position.

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

The adoption of new/revised HKFRS (Continued)

HKAS 1 (Amendment)	Capital Disclosures
HKAS 21 (Amendment)	Net Investment in A Foreign Operation
HKAS 39 and HKFRS 4 (Amendment)	Financial Guarantee Contracts
HKFRS 7	Financial Instruments: Disclosures
HKFRS-Int 4	Determining whether an Arrangement contains A Lease

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all 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. 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 (Note 2.7(a)).

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

2 Summary of significant accounting policies (Continued)

2.2 Consolidation (Continued)

(b) 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. The results of associates are accounted for by the Company on the basis of dividend received and receivable.

(c) 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. The results of jointly controlled entities are accounted for by the Company on the basis of dividend received and receivable.

2 Summary of significant accounting policies (Continued)

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"). The consolidated financial statements are presented in RMB, which is the Company's functional and presentation currency.

(b) Transactions and balances

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

(c) Group companies

The results and financial position of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

— Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

— Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

— All resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to shareholders' equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2 Summary of significant accounting policies (Continued)

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. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

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

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

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

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.8).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

2 Summary of significant accounting policies (Continued)

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 2.17). 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. 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.

2.8 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. 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). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2 Summary of significant accounting policies (Continued)

2.9 Finanical assets

From 1 January 2005 onwards, 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 and re-evaluates this designation at every reporting date. During the year, the Group only held financial assets in the category of loans and receivables.

Regular purchases and sales of financial assets are recognised on 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 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 reflected as loan to a jointly controlled entity and trade and other receivables in the balance sheet (Note 2.11). 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 Inventories

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

2.11 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 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 effective interest rate. The amount of the provision is recognised in the income statement.

2 Summary of significant accounting policies (Continued)

2.12 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.

2.13 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. 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.

2.14 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, associates and jointly controlled entities, 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)

2.15 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 into 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) *Termination benefits*

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to present value.

(d) *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 Summary of significant accounting policies (Continued)

2.16 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 more likely than not 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.

2.17 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.

2.18 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sales of services. Revenue of the Group is recognised as follows:

(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 cost savings achieved in toll road construction management projects engaged by the Group by comparing the total actual construction costs with the budgeted total construction costs of the projects; or a proportion of such savings.

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

2 Summary of significant accounting policies (Continued)

2.18 Revenue recognition (Continued)

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

2.19 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 and 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.

Government grants relating to the construction and purchase of property, plant and equipment are included in non-current liabilities and are recognised in the income statement on the same basis as those which are adopted for the depreciation of the related assets over the expected useful lives of the assets upon completion of construction.

2.20 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 RMB58,200,000 and bank borrowings of RMB676,195,000 which were denominated in Hong Kong dollars ("HKD") and other borrowings of RMB30,051,000 which were denominated in United States dollars ("USD"), respectively. Nevertheless, 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 implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, the Group aims to maintain flexibility in funding by arranging banking facilities and other external financing.

The Group had unutilised available borrowing facilities of approximately RMB6,820,000,000 at 31 December 2005 and the directors of the Company believe that such facilities would enable the Group to meet its obligations and 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.

3.2 Fair value estimation

The nominal values less impairment provision, if any, for financial assets and liabilities with a maturity of less than one year, are assumed to approximate their fair values. The fair value of financial assets and 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.

4.1 Critical accounting estimates and assumptions

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 detailed in Note 2.4 and Note 2.19, depreciation of toll roads 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 certain concessionary rights granted to the Group. 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 stated in Note 2.4, the Total Projected Traffic Volume is reviewed regularly by the directors of the Company. Independent professional traffic studies are performed in order to ascertain any appropriate adjustments should there be material changes. The Total Projected Traffic Volume applied by the Group for the determination of depreciation of toll roads and recognition of deferred income for the year ended 31 December 2005 was developed based on an independent professional traffic study performed in 2001 and the Group reported depreciation charges of approximately RMB130,010,000 and subsidy income of approximately RMB27,356,000 for the year accordingly. The directors of the Company consider that these are the best current estimates on the Total Projected Traffic Volume and they consider that there should not be material difference from the actual results.

(b) Estimate of fair values of acquired assets and liabilities from acquisitions

During the year, the Group acquired 55% share interest in Jade Emperor Limited ("JEL", a jointly controlled entity of the Group), 56.28% equity interest in Guangdong Qinglian Highway Development Company Limited ("Qinglian Company", an associate of the Group) and 30% equity interest in Yunfu Guangyun Expressway Company Limited ("Guangyun Company", an associate of the Group) at cash considerations of HKD653,632,000, RMB1,839,200,000 and RMB179,180,000, respectively. All these acquiree companies are engaged in the operations of highway business. Details of the acquisitions are set out in Notes 31, 11(b)(i) and 11(b)(ii), respectively. In accordance with HKFRS 3, the identifiable assets acquired and liabilities and contingent liabilities assumed should be measured at fair value at the date of acquisition in order to determine the difference between the cost of acquisition and the fair value of the Group's share of net assets acquired, which should then be recognised as goodwill in the balance sheet or recognised directly in the income statement.

4 Critical accounting estimates and judgements (Continued)

4.1 Critical accounting estimates and assumptions (Continued)

(b) Estimate of fair values of acquired assets and liabilities from acquisitions (Continued)

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

— An enterprise fair value ("Enterprise Fair Value") of each the acquiree company was ascertained by either an independent professional valuer or by the directors themselves (where appropriate) close to the respective acquisition dates based on the discounted projected cash flow model ("Cash Flow Model"). The directors have also taken into account relevant adjustments which had to be made to the expected future cash flows;

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

— The intangible or tangible asset to be identified in the acquisition which is subject to significant fair value adjustment assessment is determined to be either (1) the toll road operating right granted by the relevant local government authorities to the acquiree companies; and/or (2) expenditures incurred by the acquiree companies on constructing the toll road assets under the grant of the respective operating right. The fair values of related assets are determined based on the Enterprise Fair Value minus the Working Capital Values so ascertained, as described above.

As a result of the above assessment, the directors of the Company had determined the difference between the costs of acquisitions and the fair values of the Group's share of net assets acquired in these three transactions. The Group had recognised RMB34,955,000 in the income statement as other income for the year ended 31 December 2005 in relation to the acquisition of JEL (Note 22). There was no material difference between the fair values of the Group's share of the net assets of Qinglian Company and Guangyun Company and related costs of acquisitions.

The determination of the Enterprise Fair Values of the three acquisitions rest on various assumptions employed in the compilation of the respective Cash Flow Models such as projected growth/increase of traffic flows and toll rates, taxes to be levied on toll income, as well as pre-tax discount rate applied to discount the expected future cash flows to their respective net present values. The Company uses assumptions that are mainly based on market conditions existing at the acquisitions dates.

In the case that the assessed Enterprise Fair Values of JEL, Qinglian Company and Guangyun Company were 5% lower than the current estimates made by the directors of the Company, the Group would be required to record impairment losses on the three investments amounting to approximately RMB123,000,000 for the year ending 31 December 2006. If the Enterprise Fair Values were higher than management's current estimates, the Group would not be able to report additional income for the year ending 31 December 2006.

4 Critical accounting estimates and judgements (Continued)

4.1 Critical accounting estimates and assumptions (Continued)

(c) Reversal of provision for impairment of assets

As described in further details in Note 9(b), during the year, the Group reversed a portion of the impairment provision for construction in progress amounting to approximately RMB40,000,000 in relation to a ropeway project undertaken by Shenzhen Wongtongling Ropeway Company Limited ("Ropeway Company"), a subsidiary of the Company. The amount of such reversal was estimated by the directors based on the relevant communication made with and indication made by the local government authorities in compensating the Company for the cessation of the ropeway project and the whole process had not been completed as at 31 December 2005. Were the actual compensation amount to be received by the Company upon the completion of the process in 2006 to differ from management's current estimates by 10% favorably or unfavorably, the Group would report a further reversal of impairment loss previously recognised or an impairment loss of approximately RMB4,000,000 for the year ending 31 December 2006.

4.2 Critical judgements in applying the Group's accounting policies

Revenue recognition relating to construction management contract

For the year ended 31 December 2005, the Group recognised a project management income of RMB67,323,000 in relation to construction management services rendered for a construction project undertaken on behalf of the local government authorities (Notes 20(b) and 22(a)) based on the percentage of completion method (details laid down in the Group's accounting policies as stated in Note 2.18(b)). The recognition of income under such method rest on estimates made by the directors on the total budgeted project costs to be approved by the authorities, as well as the total estimated costs to be incurred 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 2005, the directors made the estimate of the amounts based on the relevant communication made with the authorities as well as based on information obtained from them.

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

Were the magnitudes of the approved budgeted project costs and the total estimated costs to be incurred for the project to differ by 5% from management's estimates, the Group would have to report a higher project management income of approximately RMB86,000,000 if the change is favorable, or it is required to report a project management loss of approximately RMB77,000,000 if the change is unfavorable, for the year ending 31 December 2006.

5 Property, plant and equipment

Group

	Toll roads RMB'000	Buildings and structures RMB'000	Equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
At 1 January 2004					
Cost	4,076,830	233,498	238,998	20,770	4,570,096
Accumulated depreciation	(152,845)	(32,476)	(92,233)	(14,843)	(292,397)
Accumulated impairment loss	(77,000)	—	—	—	(77,000)
Net book amount	3,846,985	201,022	146,765	5,927	4,200,699
Year ended 31 December 2004					
Opening net book amount	3,846,985	201,022	146,765	5,927	4,200,699
Transfer from construction in progress (Note 6)	—	7,542	38,481	—	46,023
Additions	90	209	2,650	2,809	5,758
Disposals	—	(100)	(7,912)	(307)	(8,319)
Disposal of a subsidiary	—	—	(131)	(131)	(262)
Depreciation	(78,694)	(9,055)	(23,813)	(1,974)	(113,536)
Closing net book amount	3,768,381	199,618	156,040	6,324	4,130,363
At 31 December 2004					
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	(77,000)	—	—	—	(77,000)
Net book amount	3,768,381	199,618	156,040	6,324	4,130,363
Year ended 31 December 2005					
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 (Note 31)	—	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
At 31 December 2005					
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	(77,000)	—	—	—	(77,000)
Net book amount	3,691,194	198,848	158,398	6,641	4,055,081

5 Property, plant and equipment (Continued)

Company

	Toll roads RMB'000	Buildings and structures RMB'000	Equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
At 1 January 2004					
Cost	2,036,465	144,260	143,786	6,499	2,331,010
Accumulated depreciation	(52,053)	(11,964)	(35,806)	(4,039)	(103,862)
Net book amount	1,984,412	132,296	107,980	2,460	2,227,148
Year ended 31 December 2004					
Opening net book amount	1,984,412	132,296	107,980	2,460	2,227,148
Transfer from construction in progress (Note 6)	—	—	17,692	—	17,692
Additions	—	—	—	2,490	2,490
Disposals	—	—	(3,349)	(310)	(3,659)
Depreciation	(26,868)	(4,648)	(14,139)	(1,290)	(46,945)
Closing net book amount	1,957,544	127,648	108,184	3,350	2,196,726
At 31 December 2004					
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
Year ended 31 December 2005					
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
At 31 December 2005					
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

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 and 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 is 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 payments to be made to the Group. According to the relevant regulations, these operating rights are not 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 other toll roads owned by the Group.

(c) The accumulated impairment loss represents an impairment loss provision for the toll road operated by Hunan Changsha Shenchang Expressway Company Limited ("Shenchang Company"), a jointly controlled entity of the Company. Based on an assessment made by the directors of the Company, the impairment should not be reversed at 31 December 2005 and no additional losses had to be provided for.

6 Construction in progress

	Group		Company	
	2005 **RMB'000**	2004 RMB'000 (Restated)	**2005** **RMB'000**	2004 RMB'000
At 1 January	**286,584**	39,849	**280,242**	39,540
Additions	**412,729**	290,214	**389,861**	258,394
Acquisition of a subsidiary	**—**	2,544	**—**	—
Reversal of provision for impairment (Note 9(b))	**40,000**	—	**—**	—
Transfer to property, plant and equipment (Note 5)	**(39,898)**	(46,023)	**(16,697)**	(17,692)
Other transfers	**(5,972)**	—	**(5,317)**	—
At 31 December	**693,443**	286,584	**648,089**	280,242

Construction in progress at 31 December 2005 mainly represents construction costs incurred for toll roads not yet completed.

7 Land use rights

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

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
		(Restated)		(Restated)
Outside Hong Kong, held on:				
Leases of duration between 10 to 50 years	**368,830**	386,468	**70,504**	73,862

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
		(Restated)		(Restated)
Opening balance	**386,468**	404,106	**73,862**	77,218
Amortisation of prepaid operating lease payments	**(17,638)**	(17,638)	**(3,358)**	(3,356)
Closing balance	**368,830**	386,468	**70,504**	73,862

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
At 1 January 2004			
Cost	7,480	—	7,480
Accumulated amortisation	(153)	—	(153)
Net book amount	7,327	—	7,327
Year ended 31 December 2004			
Opening net book amount	7,327	—	7,327
Acquisition of a subsidiary	945	—	945
Provision for impairment	(945)	—	(945)
Amortisation expense	(512)	—	(512)
Closing net book amount	6,815	—	6,815
At 31 December 2004			
Cost	8,425	—	8,425
Accumulated amortisation	(665)	—	(665)
Accumulated impairment loss	(945)	—	(945)
Net book amount	6,815	—	6,815
Year ended 31 December 2005			
Opening net book amount	6,815	—	6,815
Acquisition of a jointly controlled entity (Note 31)	—	837,756	837,756
Amortisation expense	—	(19,986)	(19,986)
Closing net book amount	6,815	817,770	824,585
At 31 December 2005			
Cost	6,815	837,756	844,571
Accumulated amortisation	—	(19,986)	(19,986)
Net book amount	6,815	817,770	824,585

8 Intangible assets (Continued)

(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:

	2005 **RMB'000**	2004 RMB'000
Geputan Bridge and leading road	**5,179**	5,179
Shuiguan Expressway	**1,636**	1,636
	6,815	6,815

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

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by the respective management covering a financial year period. Cash flows beyond the financial year period are extrapolated using the estimates made by management.

The key assumptions used for value-in-use calculations for the CGU of Geputan Bridge and leading road are as follows:

(i) The annual growth rate of toll revenue from 2007 to 2010 is approximately 1%; 5% in 2011 as compared to 2010; and toll revenue remains unchanged from 2012 thereafter to the end of the operating period;

(ii) A major overhaul of the bridge and road will be undertaken after 5 years from 2005;

(iii) The applicable PRC enterprise income tax rate from 1 January 2007 onwards will be 15%, after the expiration of the tax preferential period enjoyed by the entity in 2006;

(iv) The discount rate applied on the projected cash flows is 10%.

Management estimates the growth rate of toll revenue based on past performance and its expectation on the market developments and changes in the local operating environment. The discount rate used is pre-tax and reflect specific risks relating to the toll road business. Based on the impairment test performed on the goodwill balance as at 31 December 2005, no impairment loss had been identified.

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. Pursuant to the transfer agreement dated 23 September 1997, Magerk Company was granted the operating right of Wuhuang Expressway by the Hubei Communications Bureau at a transfer consideration of RMB580,000,000 for an operating period of 25 years. The operating right was accounted for initially at fair value in the consolidated financial statements as part of the acquired assets in the acquisition of 55% share interest in JEL made by the Group (Note 31) and it is amortised over the remaining approved operating period.

9 Investments in subsidiaries

		Company	
	Note	**2005** **RMB'000**	2004 RMB'000
Unlisted investments, at cost		**759,945**	759,945
Provision for impairment	(b)	**(12,005)**	(12,005)
		747,940	747,940
Loans to a subsidiary	(b)	**46,084**	46,084
Provision for impairment	(b)	**(6,084)**	(46,084)
		40,000	—
Advance to a subsidiary	(c)	**24,750**	61,034
		812,690	808,974

9 Investments in subsidiaries (Continued)

(a) The following is a list of all subsidiaries of the Company at 31 December 2005:

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	PRC, limited liability company	Construction, operation and management of an expressway in the PRC	RMB332,400,000	95%	—
Shenzhen Expressway Advertising Company Limited	PRC, limited liability company	Advertising agency in the PRC	RMB2,000,000	95%	4.75%
Ropeway Company	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")	Hong Kong, limited liability company	Investment holding in Hong Kong	17,000,000 Ordinary shares of HKD1 each	100%	—
Maxprofit Gain Limited ("Maxprofit") (Note 11(b)(i))	British Virgin Islands, limited liability company	Investment holding in British Virgin Islands	1 Ordinary share of USD1 each	—	100%

9 Investments in subsidiaries (Continued)

(b) Due to the fact that Ropeway Company failed to commence its business operations to construct and operate its ropeway project in Shenzhen as scheduled, the Company had made impairment provision in full for the investment cost of RMB12,005,000 and for loans so extended to it amounting to RMB46,084,000 (including the loans repaid on its behalf by the Company due to the guarantee provided for its bank borrowings) in previous years. According to the relevant communication made with and indication made by the local government authorities during the current year, the government authorities undertake to compensate a portion of the losses suffered by the Company as a result of the cessation of the ropeway project. Based on an assessment made by the directors of the Company, the compensation to be received, after settlement of the relevant liabilities borne by Ropeway Company, was estimated to be approximately RMB40,000,000. As a result, the directors consider that the conditions leading to the provision for impairment loss in the project had been partially removed. Accordingly, the provision for impairment loss for loans advanced to Ropeway Company was reversed to the extent of the amount of the compensation expected to be recovered. In the consolidated financial statements of the Group, such reversal was reflected as a reversal of provision for impairment of construction in progress in relation to the ropeway project (Note 6) and has been credited to other operating expenses in the income statement as the financial statements of Ropeway Company have been consolidated.

(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 is no recoverability problem associated with the amount.

10 Investments in jointly controlled entities

		Company	
	Note	**2005** **RMB'000**	2004 RMB'000
Unlisted investments, at cost		**384,000**	384,000
Provision for impairment	(b)	**(51,590)**	(51,590)
		332,410	332,410
Advances to jointly controlled entities	(c)	**643,134**	669,474
Loan to a jointly controlled entity	(d)	**130,400**	205,599
		1,105,944	1,207,483

10 Investments in jointly controlled entities (Continued)

(a) The following is a list of all jointly controlled entities of the Company at 31 December 2005:

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 (Note 31)	Cayman Islands, limited liability company	Investment holding in Cayman Islands	—	*55%
Magerk Company (Note 31)	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 in previous years for the Company's investment in Shenchang Company due to the impairment of the underlying toll road operated by Shenchang Company. The impairment provision was considered by the directors to be retained as at 31 December 2005 but no additional provision had to be made.

10 Investments in jointly controlled entities (Continued)

(c) Amounts represent advances made to Airport-Heao Eastern of RMB361,372,000 (2004: RMB380,764,000) and Shenchang Company of RMB281,762,000 (2004: RMB288,710,000) 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 is no recoverability problem associated with these amounts.

(d) The Company made a loan to Qinglong Company, a jointly controlled entity of the Company, with an original amount of RMB330,000,000 in 2003 to finance Qinglong Company's repayment of its liabilities. The loan is unsecured, non-interest bearing and is repayable based on a preferential appropriation of surplus cash flows of Qinglong Company from 2003 till the fully repayment of the loan. In the opinion of the directors, there is no recoverability problem associated with the loan.

In prior years, the loan was stated at cost and the outstanding balance at 31 December 2004 was RMB205,599,000. As a result of the adoption of HKAS 39, the amount is considered to be a financial asset of the Company and it was remeasured at amortised cost using the effective interest method. The resulting adjustment of RMB18,903,000 has been made to the retained earnings of the Company at 1 January 2005 according to the transitional provision of the standard. The interest income of the loan recognised for the year by the Company under the effective interest method amounted to RMB10,525,000.

The fair value of the loan at 31 December 2005 was RMB130,400,000 (2004: RMB186,695,000), which was determined based on expected cash flows discounted using a rate of 4.95% (2004: 4.95%) per annum, being the prevailing rate for a similar debt instrument issued by an issuer in the PRC with a similar credit rating.

In the consolidated financial statements of the Group, the carrying amount of the loan at 31 December 2005 was stated at RMB78,240,000 (2004: RMB123,359,000), representing the share of the balance receivable by the Group, after elimination made based on proportionate consolidation of the Company's interest in Qinglong Company. In addition, the effects of the adjustment on the balance due to the adoption of HKAS 39 to the retained earnings of the Group at 1 January 2005 was RMB11,342,000 (Note 2.1) and the interest income recognised under the effective interest method for the year was RMB6,315,000 (Note 22) at the Group level. The directors also made an assessment that the fair value of the loan at the Group level as at 31 December 2005 was RMB78,240,000 (2004: RMB112,017,000).

10 Investments in jointly controlled entities (Continued)

(e) The following amounts represent the 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 Eastern		Qinglong Company		Shenchang Company		Yungang Company		JEL (con-solidated Magerk Company)	Total	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	**RMB'000**	RMB'000
Assets											
Non-current assets	**604,149**	624,948	**448,152**	478,647	**310,175**	317,968	**13,679**	14,925	**788,641**	**2,164,796**	1,436,488
Current assets	**24,662**	27,947	**35,220**	11,474	**27,747**	2,844	**2,624**	2,308	**18,879**	**109,132**	44,573
	628,811	652,895	**483,372**	490,121	**337,922**	320,812	**16,303**	17,233	**807,520**	**2,273,928**	1,481,061
Liabilities											
Non-current liabilities	**12,497**	12,390	**263,335**	3,151	**—**	—	**—**	—	**99,767**	**375,599**	15,541
Current liabilities	**12,336**	12,945	**6,291**	225,149	**2,720**	2,427	**181**	279	**62,370**	**83,898**	240,800
	24,833	25,335	**269,626**	228,300	**2,720**	2,427	**181**	279	**162,137**	**459,497**	256,341
Net assets	**603,978**	627,560	**213,746**	261,821	**335,202**	318,385	**16,122**	16,954	**645,383**	**1,814,431**	1,224,720
Turnover	**157,904**	127,042	**73,592**	57,889	**10,853**	9,721	**3,043**	3,461	**63,727**	**309,119**	198,113
Other income	**2,858**	1,289	**1,073**	992	**624**	613	**9**	12	**101**	**4,665**	2,906
Costs and expenses	**(59,440)**	(49,920)	**(44,258)**	(35,986)	**(11,950)**	(12,761)	**(2,387)**	(2,459)	**(43,263)**	**(161,298)**	(101,126)
Profit/(loss) after income tax	**101,322**	78,411	**30,407**	22,895	**(473)**	(2,427)	**665**	1,014	**20,565**	**152,486**	99,893

There were no material commitments and contingent liabilities arising from the Group's investments in the jointly controlled entities, and there were no material commitments and contingent liabilities in the jointly controlled entities as at 31 December 2005 and 2004.

11 Interests in associates

		Group		Company	
	Note	**2005** **RMB'000**	2004 RMB'000	**2005** **RMB'000**	2004 RMB'000
Beginning of the year		**870,698**	871,404	**871,404**	—
Acquisition of associates	(b)	**2,018,380**	—	**1,628,380**	871,404
Increase in investments in associates	(c)	**101,840**	—	**101,840**	—
Share of associates' results					
- (Loss)/profit before tax		**(23,786)**	839	**—**	—
- Income tax		**(229)**	—	**—**	—
- Amortisation of goodwill		**—**	(1,545)	**—**	—
	(a)	**(24,015)**	(706)	**—**	—
End of the year		**2,966,903**	870,698	**2,601,624**	871,404

The year end balance comprises the following:

		Group		Company	
	Note	**2005** **RMB'000**	2004 RMB'000	**2005** **RMB'000**	2004 RMB'000
Unlisted investments, at cost		**—**	—	**1,642,741**	871,404
Share of net assets other than goodwill	(a)	**1,932,720**	795,398	**—**	—
Goodwill on acquisition of associates	(d)	**75,300**	75,300	**—**	—
		2,008,020	870,698	**1,642,741**	871,404
Advance to an associate	(b)(i)	**958,883**	—	**958,883**	—
		2,966,903	870,698	**2,601,624**	871,404

11 Interests 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:

Name	Nature of legal entity and paid-in capital	Principal activities	Assets		Liabilities		Revenues		Profit/(loss)		Capital commitment		*Interest held	
			2005 RMB'000	2004 RMB'000	**2005 RMB'000**	2004 RMB'000	**2005 RMB'000**	2004 RMB'000	**2005 RMB'000**	2004 RMB'000	**2005 RMB'000**	2004 RMB'000	**2005 RMB'000**	2004 RMB'000
Guangdong Jiangzhong Expressway Company Limited ("Jiangzhong Company") (Note (c))	Limited liability company, RMB945,000,000	Development, operation and management of expressways and related facilities	**755,130**	533,193	**525,345**	358,783	**3,363**	–	**(6,464)**	–	**–**	240,500	**25%**	25%
Guangzhou Western Second Ring Expressway Company Limited ("GZ W2 Company") (Note (c))**	Limited liability company, RMB410,000,000	Development, operation and management of expressway	**330,772**	78,981	**228,272**	16,481	**–**	–	**–**	–	**35,795**	684,500	**25%**	25%
Shenzhen Huayu Expressway Investment Company Limited	Limited liability company, RMB150,000,000	Development, investment, operation and management of expressway	**240,168**	193,770	**182,672**	133,770	**6,149**	–	**(2,504)**	–	**–**	3,200	**40%**	40%
Shenzhen Expressway Engineering Consulting Company Limited	Limited liability company, RMB7,000,000	Project management consulting, construction consulting and sales of construction materials	**6,345**	4,526	**2,594**	972	**3,603**	3,459	**197**	1,420	**–**	–	**30%**	30%
Nanjing Yangzi River Third Bridge Company Limited	Limited liability company , RMB1,080,000,000	Development, operation and management of bridges	**849,127**	575,000	**587,291**	305,000	**6,997**	–	**(8,164)**	–	**–**	272,969	**25%**	25%
Guangdong Yangmao Expressway Company Limited ("Yangmao Company")	Limited liability company, RMB200,000,000	Development, operation and management of expressway	**591,333**	635,685	**362,858**	410,751	**49,882**	3,355	**3,541**	(581)	**–**	–	**25%**	25%
Guangyun Company (Note (b)(ii))	Limited liability company, RMB10,000,000	Development, operation and management of expressway	**449,513**	–	**276,211**	–	**11,285**	–	**(5,878)**	–	**–**	–	**30%**	–
Qinglian Company (Note (b)(i))	Sino-foreign cooperative enterprise, RMB1,200,000,000	Development, operation and management of highways	**2,326,633**	–	**1,451,058**	–	**38,131**	–	**(4,743)**	–	**2,359,270**	–	**56.28%**	–
			5,549,021	2,021,155	**3,616,301**	1,225,757	**119,410**	6,814	**(24,015)**	839	**2,395,065**	1,201,169		

* 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.

** GZ W2 Company had not yet commenced its commercial operations as at 31 December 2005.

*** 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 2005 and 2004.

11 Interests in associates (Continued)

(b) Acquisition of associates represent the acquisition of 56.28% equity interest in Qinglian Company for cash consideration of RMB1,839,200,000 and the acquisition of 30% equity interest in Guangyun Company for cash consideration of RMB179,180,000.

(i) Pursuant to a set of framework agreements (the "Framework Agreements") dated 3 February 2005 entered into between the Company, Mei Wah, a subsidiary of the Company, and jointly with five other independent parties, the Company and Mei Wah acquired an aggregate effective equity interest of 56.28% in Qinglian Company. The Company directly acquired 31.28% equity interest in Qinglian Company while Mei Wah acquired the entire issued share capital of Maxprofit, which in turn directly holds 25% equity interest in Qinglian Company. In addition, the Company also undertook to bear the obligations of advances made to Qinglian Company by its original equity owners and the related unpaid accrued interest in proportion to the Group's acquired equity interest in Qinglian Company (collectively defined as "Shareholders Advance") amounting to approximately RMB958,883,000. The aggregate cash consideration for the whole series of transactions was RMB1,839,200,000. The transactions were completed in June 2005 and up to 31 December 2005, RMB1,475,574,000 of the total consideration had been paid while the remaining unsettled balance of RMB363,626,000 had been recorded in other payables of the Group in the balance sheet. In accordance with the provisions of the Framework Agreements and the revised articles of association of Qinglian Company, the Company could only exercise significant influence in the financial and operating policies of Qinglian Company. Accordingly, Qinglian Company is accounted for as an associate of the Group using the equity method of accounting.

The Shareholders Advance undertaken by the Company of RMB958,883,000 was reflected as an advance made to Qinglian Company by the Company and had been included as part of the Company's interests in associates. Qinglian Company is required to undertake the reconstruction of its toll road and it is the commitment of the directors of the Company to capitalise this advance as its additional equity contribution to be made in Qinglian Company. The process is subject to the final approval of the relevant PRC authorities. Therefore, the directors regard the advance as investment in nature and is stated at cost.

(ii) During the year, the Company acquired 30% equity interest in Guangyun Company from Guangdong Roads and Bridges Construction Development Company Limited, a promoter of the Company, at a cash consideration of RMB179,180,000.

(c) According to the provisions of the investment agreements of Jiangzhong Company and GZ W2 Company, the Company made additional capital contributions at RMB61,840,000 and RMB40,000,000, respectively, into the two associates during the year. The contributions were made based on the funding requirements arising from the progress of construction of the projects undertaken by these two associates. The remaining contributions need to be made to these two associates according to the provisions of the investment agreements amounting to RMB188,840,000 (Note 32).

11 Interests in associates (Continued)

(d) The balance as at 31 December 2004 represents the unamortised amount of the goodwill arising from the acquisition of equity interests in Jiangzhong Company and Yangmao Company of 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. The goodwill is included in interests in associates and is tested for impairment when there is an indication of impairment of the interests. After the assessment made by the directors, there was no impairment loss to be recognised as at 31 December 2005.

12 Trade and other receivables

		Group		Company	
	Note	**2005 RMB'000**	2004 RMB'000 (Restated)	**2005 RMB'000**	2004 RMB'000
Trade receivables	(a)	**39,694**	—	**35,708**	—
Amount due from a jointly controlled entity	(b)	**838**	1,904	**1,862**	3,123
Current portion of long-term receivables	(c)	**—**	372,946	**—**	372,946
Other receivables	(d)	**112,304**	31,941	**103,176**	35,741
Prepayments		**4,993**	2,019	**3,328**	1,537
		157,829	408,810	**144,074**	413,347

(a) Trade receivables mainly represent amounts due from the Shenzhen Communications Bureau of RMB33,118,000 (2004: Nil) for management services income recognised during the year (Notes 20(b) and 22(a)).

At 31 December 2005, the trade receivables were all aged within one year.

(b) The balance at 31 December 2005 represents the amount due from Airport-Heao Eastern, a jointly controlled entity of the Company, for the amounts paid by the Company on its behalf. The balance at 31 December 2004 represents the net amount due from Airport-Heao Eastern for the toll income collected by Airport-Heao Eastern on behalf of the Company and Meiguan Company, a subsidiary of the Company.

Due to the geographical layout of the toll roads of the Group, certain toll gates of the toll roads of the Company, Meiguan Company and Airport-Heao Eastern are overlapped and they collect toll income for each other. During the year, toll income collected by the Company and Meiguan Company on behalf of Airport-Heao Eastern was RMB103,428,000 (2004: RMB92,721,000), while toll income collected by Airport-Heao Eastern on behalf of the Company and Meiguan Company was RMB100,020,000 (2004: RMB98,733,000) respectively. All toll income collected is paid back to the counter party on a monthly basis without charging any handling fees.

12 Trade and other receivables (Continued)

(c) The balance at 31 December 2004 represents the outstanding unsettled balance of the consideration and compensation receivable by the Company, at their discounted net present values, in respect of the transfer of all its rights and interests in National Highway No. 107 (Shenzhen Section) and National Highway No. 205 (Shenzhen Section) to the Shenzhen Communications Bureau pursuant to a transfer agreement signed between the Company and the Shenzhen Communications Bureau on 18 March 2003. The full amount of the balance at RMB386,000,000 was received during the year and the difference with its net present value at RMB13,054,000 represents interest from discounting which had been recorded as other income for the year (Note 22).

(d) Other receivables at 31 December 2005 included an amount due from the Shenzhen Communications Bureau of RMB74,024,000 (2004: Nil) in respect of the amounts paid by the Company on behalf of the government authority for a construction project. Subsequent to the balance sheet date, the Company officially entered into a construction management service contract with the Shenzhen Communications Bureau that the Company undertakes the management of the construction of the project (see also Note 35(b)).

13 Restricted cash

	Group and Company	
	2005 **RMB'000**	2004 RMB'000
Project funds retained for construction management contracts	**31,615**	55,988

This represents the unutilised balance of project funds received from government authorities for the use of two construction management contracts (details are set out in Note 20(b)).

14 Cash and cash equivalents

	Group		Company	
	2005 **RMB'000**	2004 RMB'000 (Restated)	**2005** **RMB'000**	2004 RMB'000
Cash at bank and in hand	**863,025**	1,241,838	**748,672**	1,163,284
Short-term bank deposits	**29,460**	—	**—**	—
	892,485	1,241,838	**748,672**	1,163,284

The effective interest rate on short-term bank deposits was 4.1%. These deposits have a maturity of 33 days.

15 Share capital

	Registered, issued and fully paid				
	Shares held by the State	**Shares held by legal persons**	**Ordinary shares, listed in the Mainland (“A shares”)**	**Foreign invested shares, listed in Hong Kong (“H shares”)**	**Total**
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
At 31 December 2005 and 2004	654,780	613,420	165,000	747,500	2,180,700

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 liquidity restrictions and the currency used for distribution of dividends, all shares rank pari passu against each other.

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 shareholders of the Company whose shares did not have liquidity in the market (“Non-liquid Shares”) undertook to transfer to the existing 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. Right 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.

16 Other reserves

	Share premium RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Discretionary surplus reserve RMB'000	Currency translation differences RMB'000	Total RMB'000
Group						
Balance at 1 January 2004	2,060,009	319,020	295,064	453,391	—	3,127,484
Transfer from retained earnings	—	64,094	56,274	—	—	120,368
Balance at 31 December 2004	2,060,009	383,114	351,338	453,391	—	3,247,852
Balance at 1 January 2005	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
Balance at 31 December 2005	2,060,009	453,292	409,085	453,391	1,153	3,376,930
Company						
Balance at 1 January 2004	2,060,009	271,048	271,048	453,391	—	3,055,496
Transfer from retained earnings	—	48,456	48,456	—	—	96,912
Balance at 31 December 2004	2,060,009	319,504	319,504	453,391	—	3,152,408
Balance at 1 January 2005	2,060,009	319,504	319,504	453,391	—	3,152,408
Transfer from retained earnings	—	48,504	48,504	—	—	97,008
Balance at 31 December 2005	2,060,009	368,008	368,008	453,391	—	3,249,416

16 Other reserves (Continued)

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

(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 10% of the profit after tax to the statutory public welfare fund;

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

(v) distribute as dividends to shareholders.

The amounts of transfer to the statutory surplus reserve and statutory public welfare fund 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 on issue of shares net of 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.

(d) Statutory public welfare fund

According to the relevant PRC regulations, the use of the statutory public welfare fund is restricted to capital expenditures incurred for employee welfare facilities. The statutory public welfare fund is not available for distribution to shareholders except upon liquidation of the Company.

(e) 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.

17 Borrowings

	Note	Group 2005 RMB'000	 2004 RMB'000 (Restated)	Company 2005 RMB'000	 2004 RMB'000
Non-current					
Bank borrowings					
- Secured	(a)	**1,897,195**	—	**950,000**	—
- Unsecured	(d)	**310,000**	100,000	**310,000**	100,000
		2,207,195	100,000	**1,260,000**	100,000
Other borrowings - guaranteed	(b)	**30,051**	33,901	**30,051**	33,901
Advance from a minority shareholder	(c)	**9,564**	12,092	**—**	—
		2,246,810	145,993	**1,290,051**	133,901
Less: Current portion of long-term borrowings		**(16,208)**	(3,082)	**(4,808)**	(3,082)
		2,230,602	142,911	**1,285,243**	130,819
Current					
Bank borrowings					
- Secured	(a)	**50,000**	220,000	**50,000**	—
- Unsecured	(d)	**203,900**	360,000	**150,000**	360,000
		253,900	580,000	**200,000**	360,000
Current portion of long-term borrowings					
- Bank borrowings - secured		**11,400**	—	**—**	—
- Other borrowings - guaranteed	(b)	**4,808**	3,082	**4,808**	3,082
		16,208	3,082	**4,808**	3,082
		270,108	583,082	**204,808**	363,082
Total borrowings		**2,500,710**	725,993	**1,490,051**	493,901

17 Borrowings (Continued)

(a) Banking facilities of approximately RMB1,400 million had been obtained by the Group from a bank. The facilities so granted are secured by the pledge of the Company's 95% equity interest in Meiguan Company. As at 31 December 2005, RMB50,000,000 and RMB950,000,000 of the short-term and long-term loans had been drawn down from the facilities. The short-term borrowings of RMB50,000,000 is interest-bearing at 5.85% per annum while the terms of the long-term borrowings are as follows:

	Balance at 31 December 2005 RMB'000	**Effective interest rate (per annum)**	**Repayment period**
1st portion	150,000	5.85%	2 annual installments payable from 30 May 2007 to 30 May 2008
2nd portion	400,000	6.12% for the first five years, floating rate for the five consecutive years	4 annual installments payable from 30 May 2011 to 30 May 2014
3rd portion	400,000	Floating rate (current effective interest rate: 5.508%)	7 annual installments payable from 30 May 2009 to 30 May 2015
	950,000		

For the remaining balance of non-current secured bank borrowings, RMB260,000,000 is secured by a pledge of the operating right of Shuiguan Expressway of Qinglong Company; RMB676,195,000 (HKD650,000,000) is secured by a pledge of the 55% equity interest of JEL held by Mei Wah; and RMB11,000,000 is secured by a pledge of the toll road operating right of Wuhuang Expressway of Magerk Company. The effective interest rates of these borrowings ranged from 5.022% to 5.85% per annum.

(b) Other borrowings totalling USD3,723,667 (equivalent to RMB30,051,000) were extended by the Spanish Government through the China Construction Bank. The loans comprise two portions, USD2,234,200 bearing interest at 1.8% per annum which is repayable by installment from November 2006 to May 2011; and the remaining portion of USD1,489,467 which is interest-bearing at 7.17% per annum and is repayable by installment from February 2006 to August 2009. These borrowings are guaranteed by Xin Tong Chan Development (Shenzhen) Company Limited ("Xin Tong Chan"), a substantial shareholder of the Company.

(c) The advance was granted to Meiguan Company, a subsidiary of the Company, by the minority shareholder of Meiguan Company as well as a substantial shareholder of the Company, Xin Tong Chan. The advance is unsecured, non-interest bearing and is repayable out of funds to be generated from the toll road project operated by Meiguan Company.

(d) The effective interest rates of other unsecured borrowings of the Group at 31 December 2005 ranged from 4.698% to 5.85% (2004: 4.536% to 4.941%) per annum.

17 Borrowings (Continued)

(e) The maturity periods of the borrowings are as follows:

Group	Bank borrowings		Other borrowings and advance	
	2005 **RMB'000**	2004 RMB'000 (Restated)	**2005** **RMB'000**	2004 RMB'000
Within 1 year	**265,300**	580,000	**4,808**	3,082
Between 1 and 2 years	**81,609**	100,000	**6,611**	4,931
Between 2 and 5 years	**1,287,386**	—	**16,829**	20,340
Wholly repayable within 5 years	**1,634,295**	680,000	**28,248**	28,353
Over 5 years	**826,800**	—	**11,367**	17,640
	2,461,095	680,000	**39,615**	45,993

Company	Bank borrowings		Other borrowings	
	2005 **RMB'000**	2004 RMB'000	**2005** **RMB'000**	2004 RMB'000
Within 1 year	**200,000**	360,000	**4,808**	3,082
Between 1 and 2 years	**50,000**	—	**6,611**	4,931
Between 2 and 5 years	**610,000**	100,000	**16,829**	20,340
Wholly repayable within 5 years	**860,000**	460,000	**28,248**	28,353
Over 5 years	**600,000**	—	**1,803**	5,548
	1,460,000	460,000	**30,051**	33,901

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

	Carrying amounts		Fair values	
	2005 **RMB'000**	2004 RMB'000	**2005** **RMB'000**	2004 RMB'000
Bank borrowings	**2,195,795**	100,000	**2,157,010**	98,781
Other borrowings	**25,243**	30,819	**23,191**	27,983
Advance from a minority shareholder	**9,564**	12,092	**8,112**	11,697
	2,230,602	142,911	**2,188,313**	138,461

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 5.89% - 6.12% (2004: 5.89% - 6.12%) per annum.

The directors of the Company consider that the carrying amounts of short-term borrowings approximate their fair values.

17 Borrowings (Continued)

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

	Group		Company	
	2005 **RMB'000**	2004 RMB'000 (Restated)	**2005** **RMB'000**	2004 RMB'000
RMB	**1,794,464**	692,092	**1,460,000**	460,000
USD	**30,051**	33,901	**30,051**	33,901
HKD	**676,195**	—	**—**	—
	2,500,710	725,993	**1,490,051**	493,901

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

	2005 **RMB'000**	2004 RMB'000
Floating rate		
— Expiring within one year	**3,700,000**	2,160,000
— Expiring beyond one year	**2,720,000**	2,240,000
	6,420,000	4,400,000
Fixed rate		
— Expiring beyond one year	**400,000**	—
	6,820,000	4,400,000

18 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	
	2005 **RMB'000**	2004 RMB'000 (Restated)	**2005** **RMB'000**	2004 RMB'000 (Restated)
Deferred tax assets				
— to be recovered after more than 12 months	**(6,364)**	(9,089)	**—**	—
— to be recovered within 12 months	**(400)**	(384)	**—**	—
	(6,764)	(9,473)	**—**	—
Deferred tax liabilities				
— to be recovered after more than 12 months	**149,732**	59,767	**32,218**	26,671
— to be recovered within 12 months	**5,298**	—	**—**	—
	155,030	59,767	**32,218**	26,671
	148,266	50,294	**32,218**	26,671

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

	Group		Company	
	2005 **RMB'000**	2004 RMB'000 (Restated)	**2005** **RMB'000**	2004 RMB'000 (Restated)
Beginning of the year	**50,294**	38,605	**26,671**	19,925
Acquisition of a jointly controlled entity (Note 31)	**90,958**	—	**—**	—
Recognised in the income statement	**7,014**	11,689	**5,547**	6,746
End of the year	**148,266**	50,294	**32,218**	26,671

18 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, is as follows:

	Deferred tax assets			Deferred tax liabilities		
Group	**Impairment loss of property, plant and equipment** RMB'000	**Provision for impairment losses of other assets** RMB'000	**Total** RMB'000	**Depreciation of property, plant and equipment** RMB'000	**Difference of accounting base and tax base of of an intangible asset** RMB'000	**Total** RMB'000
At 1 January 2004	25,410	1,878	27,288	65,893	—	65,893
Recognised in the income statement	(370)	—	(370)	11,319	—	11,319
At 31 December 2004	25,040	1,878	26,918	77,212	—	77,212
Acquisition of a jointly controlled entity (Note 31)	—	—	—	—	90,958	90,958
Recognised in the income statement	(384)	—	(384)	8,837	(2,207)	6,630
At 31 December 2005	24,656	1,878	26,534	86,049	88,751	174,800

Company	**Deferred tax assets** **Provision of assets** RMB'000	**Deferred tax liabilities** **Depreciation of property, plant and equipment** RMB'000
At 1 January 2004	1,878	21,803
Recognised in the income statement	—	6,746
At 31 December 2004	1,878	28,549
Recognised in the income statement	—	5,547
At 31 December 2005	1,878	34,096

19 Government grants

	Note	Group and Company 2005 RMB'000	 2004 RMB'000
Deferred income	(a)	**291,408**	318,764
Advances from government	(b)	**72,980**	54,000
		364,388	372,764

(a) Deferred income

	Group and Company 2005 RMB'000	 2004 RMB'000
Beginning of the year	**318,764**	354,472
Government subsidy income recognised for the year (Note 22)	**(27,356)**	(35,708)
End of the year	**291,408**	318,764

Deferred income represents government grants provided to the Company in order to subsidise toll revenue income derived from Sections A and B of the Yanba Expressway. The subsidies were granted due to insufficient traffic volume expected to be achieved by the Yanba Expressway as a result of its construction at the early phase of the township plan of the Shenzhen Municipal Government.

(b) The balance represents advances of RMB54,000,000 (2004: RMB54,000,000) and RMB18,980,000 (2004: Nil) obtained from the relevant government authorities as an inducement of the Company to participate in the Yanba toll road project and for the construction of Yanpai Expressway, respectively.

Due to the fact that the relevant governments authorities have not stipulated clear provisions and regulations on the usage as well as repayment obligations of such funds, and the fact that the construction period of these two toll roads will extend beyond one year, the two funds are presented as non-current liabilities on the balance sheet.

20 Other payables and accrued expenses

		Group		Company	
	Note	**2005** **RMB'000**	2004 RMB'000 (Restated)	**2005** **RMB'000**	2004 RMB'000
Consideration payable for acquisition of an associate and a jointly controlled entity	11(b)(i), 31	**384,062**	—	**1,714**	—
Payables for construction in progress payments	(a)	**141,760**	156,538	**133,018**	145,182
Guaranteed deposits for construction projects contracts	(a)	**27,901**	516	**27,901**	516
Project funds retained for construction management contracts	(b)	**31,615**	55,988	**31,615**	55,988
Others	(c)	**85,354**	70,401	**47,995**	44,062
		670,692	283,443	**242,243**	245,748

(a) These represent liabilities arising from the progress project payments for the construction of certain toll roads projects of the Group of RMB141,760,000 (2004: RMB156,538,000); and deposits received from the contractors as guarantees for bidding and their performance obligations for the construction of these projects amounting to RMB27,901,000 (2004: RMB516,000), respectively.

(b) On 8 February and 12 March 2004, the Company entered into two project construction management contracts with the Shenzhen Municipal Government (represented by the Shenzhen Communications Bureau) and the Shenzhen Longgang Government (represented by the Shenzhen Longgang Highway Bureau), respectively. The Company was appointed as the project manager for the phase I construction project of the Nanping Expressway ("Nanping Project") as well as for the construction of the western section of Hengping Highway ("Hengping Project"). The Company also undertook to enter into construction contracts on behalf of the governments with the contractors who are directly responsible for the construction of the two projects.

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 movements of the project funds balance on these projects is summarised as follows:

	Note	**Nanping Project** RMB'000	**Hengping Project** RMB'000	**Total** RMB'000
Balance of project funds at 1 January 2005		44,432	11,556	55,988
Project funds received during the year		—	116,000	116,000
Construction costs paid on their behalf		(29,453)	(95,941)	(125,394)
Project funds transferred as management fee paid in advance to the Company	(ii)	(14,979)	—	(14,979)
Balance of project funds at 31 December 2005	(i)	—	31,615	31,615

20 Other payables and accrued expenses (Continued)

(i) 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.

(ii) As a result of a change in the policies of the government, effective from 2005, the government is responsible for making progress payments to the contractors of the Nanping Project directly. No further project funds are therefore required to be advanced to the Company. The project funds previously advanced to the Company amounting to RMB14,979,000 not yet utilised was hence agreed to be treated as project management fee paid to the Company in advance. Such amount, together with additional management fee payments made by the government to the Company during the year, had been recognised by the Company as construction management services income for the year ended 31 December 2005 ascertained based on the stage of completion of the project (see also Note 22(a)).

(c) The balance includes the remaining unsettled auditors' remuneration for the year. Details of the gross auditors' remuneration for the year are as follows, which has been included in other operating expenses in the income statement:

	2005 **RMB'000**	2004 RMB'000
International auditors' remuneration		
Annual audit	**1,550**	1,230
Other audit/review services	**1,365**	1,006
Statutory auditors' remuneration		
Annual audit	**650**	500
Other audit/review services	**150**	150

21 Turnover

	2005 **RMB'000**	2004 RMB'000 (Restated)
Income from toll roads	**911,482**	705,776

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

22 Other income

	Note	**2005** **RMB'000**	2004 RMB'000 (Restated)
Interest income from bank deposits		**9,798**	12,444
Interest income from discounting of long-term receivables	12(c)	**13,054**	35,779
Interest income from a loan extended to a jointly controlled entity	10(d)	**6,315**	—
Income derived from construction management services	(a)	**72,830**	17,868
Government subsidy income	19(a)	**27,356**	35,708
Subsidies from local governments	(b)	**10,309**	—
Advertising income		**10,914**	6,473
Excess of fair value of share of the net assets acquired in a jointly controlled entity over the cost of acquisition	31	**34,955**	—
Others		**6,399**	6,589
		191,930	114,861

(a) As mentioned in Note 20(b), the Company was engaged by the local government authorities to manage the construction of the Nanping Project and the Hengping 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.

The construction management service income for the Nanping Project recognised using the percentage of completion method in accordance with the accounting policies as stated in Note 2.18(b) during the year amounted to approximately RMB67,323,000 (2004: RMB6,333,000).

As at 31 December 2005, the outcome of the Hengping Project could not be estimated reliably. As a result, the Company had recognised revenue of RMB5,507,000 (2004: Nil) to the extent of the project management expenses incurred by the Company, which are expected by the directors to be recovered with certainty from the project.

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

23 Business tax and surcharges

The amount represents PRC business tax and surcharges levied on the Group's turnover at RMB34,956,000 (2004: RMB36,460,000); service income derived from the provision of construction management services at RMB2,272,000 (2004: RMB198,000); and income from provision of other services at RMB1,133,000 (2004: RMB908,000).

Turnover 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, 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.

24 Employee benefit expenses

	Note	**2005** **RMB'000**	2004 RMB'000 (Restated)
Wages, salaries and bonus		**48,060**	37,202
Bonus - the Appreciation Right Scheme	(a)	**4,412**	—
Pension costs - defined contribution plans	(b)	**3,465**	2,683
Other staff welfare benefits		**11,226**	8,863
		67,163	48,748

(a) It represents bonus in relation to the Appreciation Right Scheme. During the year, phase III and phase IV of the Appreciation Rights under the Appreciation Right Scheme of the Company totaling 5,501,400 shares had all been exercised and there are no outstanding Appreciation Rights granted but not exercised as at 31 December 2005 (2004: 5,501,400 shares).

(b) 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 9% (2004: 8% to 9%) of the monthly salary of the employees. The bureaus are responsible for making the pension payments to the retired employees of the Group and the Group has no further obligations.

24 Employee benefit expenses (Continued)

(c) Directors' and senior management's emoluments

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 (iii)	—	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 (iii)	—	—	—	8	—	8
Mr. Wang Ji Zhong (iii)	—	—	—	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 (iv)	90	—	—	10	—	100

The remuneration of each director for the year ended 31 December 2004 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. Chen Chao	—	—	—	—	—	—
Mr. Wu Ye De	—	488	133	41	14	676
Mr. Zhang Rong Xing	—	366	67	79	14	526
Mr. Zhong Shan Qun	—	—	—	10	—	10
Ms. Tao Hong	—	—	—	8	—	8
Mr. Lin Xiang Ke	—	—	—	8	—	8
Ms. Zhang Yang	—	—	—	9	—	9
Mr. Chiu Chi Cheong, Clifton	318	—	—	13	—	331
Mr. Ho Pak Cho, Dennis Morgie	159	—	—	11	—	170
Mr. Li Zhi Zheng	150	—	—	12	—	162
Mr. Zhang Zhi Xue	150	—	—	12	—	162
Mr. Poon Kai Leung, James	159	—	—	11	—	170

24 Employee benefit expenses (Continued)

(c) Directors' and senior management's emoluments (Continued)

(i) Resigned on 8 April 2005.

(ii) Resigned on 3 June 2005.

(iii) Appointed on 8 April 2005.

(iv) Appointed on 3 June 2005.

(v) Other benefits and allowances include employers' contribution to medical scheme, allowance paid to the directors for their attendance in the board of directors' meetings and travelling allowances.

The emoluments for all directors of the Company (executive and non-executive) fell within the band of nil to RMB1,040,000 (HKD1,000,000) during the years ended 31 December 2005 and 2004.

During the year, Mr. Chen Chao waived the allowance provided for his attendance in the board of directors' meetings of RMB12,000 (2004: RMB15,000). No other directors waived any emoluments during the years ended 31 December 2005 and 2004.

During the years ended 31 December 2005 and 2004, 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.

(d) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2004: one) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2004: four) individuals during the year are as follows:

	2005 **RMB'000**	2004 RMB'000
Basic salaries	**1,213**	1,610
Bonuses	**443**	440
Contributions to the retirement scheme	**44**	56
Other benefits and allowances	**213**	249
	1,913	2,355

The emoluments for all the above senior management fell within the band of nil to RMB1,040,000 (HKD1,000,000) during the years ended 31 December 2005 and 2004.

25 Finance costs

	2005 **RMB'000**	2004 RMB'000 (Restated)
Interest on bank borrowings	**94,845**	22,221
Interest on other borrowings	**1,186**	1,549
Less: interest expenses capitalised in construction in progress	**(11,782)**	(38)
	84,249	23,732
Other borrowing costs	**16,409**	—
Net foreign exchange transaction (gains)/losses	**(37)**	320
	100,621	24,052

Borrowing costs of RMB11,782,000 (2004: RMB38,000) 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% (2004: 5.02%) were used, representing the borrowing costs of the loans used to finance the projects.

26 Income tax expenses

	2005 **RMB'000**	2004 RMB'000 (Restated)
Current income tax		
— PRC enterprise income tax	**73,057**	64,330
Deferred income tax	**7,014**	11,689
	80,071	76,019

(a) In 2005, the Company is subject to PRC enterprise income tax at a rate of 15% (2004: 15%), the preferential tax rate for enterprises established in the Shenzhen Special Economic Zone.

26 Income tax expenses (Continued)

(b) Pursuant to the approvals of the relevant tax authorities, two jointly controlled entities of the Company, Qinglong Company and Yungang Company, are exempt from PRC enterprise income tax for the first two profit-making years and are entitled to a 50% reduction of their PRC enterprise income tax for the three consecutive years thereafter. It is the second profit making year for Qinglong Company and the fourth profit-making year for Yungang Company, as a result, Qinglong Company is exempt from PRC enterprise income tax while Yungang Company is entitled to a 50% reduction of its PRC enterprise income tax in 2005.

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 of 15% or 33% (2004: 15% or 33%).

(c) The applicable tax rate to Mei Wah, a subsidiary of the Company incorporated in Hong Kong, is 17.5% (2004: 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.

(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:

	2005 **RMB'000**	2004 RMB'000 (Restated)
Profit before income tax	**642,280**	498,725
Calculated at a tax rate of 15% (2004: 15%)	**96,342**	74,809
Effect of different tax rates in other locations	**1,134**	60
Income not subject to tax	**(19,798)**	(10,723)
Expenses not deductible for tax purposes	**74**	1,207
Tax loss for which no deferred income tax asset was recognised	**9,082**	13,855
Utilise of unrecognised tax loss	**(5,552)**	—
Preferential tax benefits of jointly controlled entities	**(4,813)**	(2,848)
Share of results of associates which no deferred income tax was recognised	**3,602**	(341)
Income tax expenses	**80,071**	76,019

27 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 RMB521,460,000 (2004: RMB357,858,000, as restated).

28 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.

	2005	2004 (Restated)
Profit attributable to equity holders of the Company (RMB'000)	**552,622**	414,888
Number of ordinary shares in issue (thousands)	**2,180,700**	2,180,700
Basic earnings per share (RMB per share)	**0.25**	0.19

No fully diluted earnings per share is presented as the Company had no dilutive potential shares in both 2004 and 2005.

29 Dividends

The dividends paid during the years ended 31 December 2005 and 2004 were RMB239,877,000 (RMB0.11 per share) and RMB414,333,000 (RMB0.19 per share), respectively. A final dividend in respect of 2005 of RMB0.12 per share, amounting to a total dividend of RMB261,684,000 is to be proposed at the Annual General Meeting. This proposed dividends was not reflected as a dividend payable in these financial statements, but will be reflected as appropriation of retained earnings for the year ending 31 December 2006.

	2005 **RMB'000**	2004 RMB'000
Proposed final dividend of RMB0.12 (2004: RMB0.11) per ordinary share	**261,684**	239,877

30 Cash generated from operations

	2005 RMB'000	2004 RMB'000 (Restated)
Profit for the year	**562,209**	422,706
Adjustments for:		
— Income tax	**80,071**	76,019
— Depreciation	**130,010**	113,536
— Amortisation	**37,624**	18,150
— Provision for impairment of goodwill	**—**	945
— Reversal of provision for impairment of assets	**(40,000)**	—
— Loss on disposal of property, plant and equipment	**291**	7,573
— Interest income from bank deposits	**(9,798)**	(12,444)
— Interest income from discounting of long-term receivables	**(13,054)**	(35,779)
— Interest income from loan to a jointly controlled entity	**(6,315)**	—
— Government subsidy income	**(27,356)**	(35,708)
— Subsidies from local government	**(10,309)**	—
— Excess of fair value of share of the net assets of a jointly controlled entity acquired over the cost of acquisition (Note 31)	**(34,955)**	—
— Interest expense	**84,249**	23,732
— Other borrowing costs	**16,409**	—
— Share of loss of associates	**24,015**	706
— Exchange (gains)/losses	**(37)**	320
Changes in working capital (excluding the effects of acquisition and exchange differences on consolidation):		
— Inventories	**3,827**	(987)
— Trade and other receivables	**(121,092)**	(17,835)
— Other payables and accrued expenses	**43,198**	(1,010)
Cash generated from operations	**718,987**	559,924

31 Acquisition of a jointly controlled entity

Pursuant to a sets of agreements dated 19 March 2005 and a supplementary agreement dated 12 July 2005 entered into between the Company and Mei Wah, a subsidiary of the Company, jointly with various parties, Mei Wah acquired 55% issued share capital of JEL at a cash consideration of HKD653,632,000 (equivalent to approximately RMB681,215,000) on 5 August 2005. JEL is engaged in investment holding and it holds 100% equity interest in Magerk Company. As a result of the acquisition, the Company started to hold an effective equity interest of 55% in JEL and Magerk Company indirectly. The principal activities of Magerk Company are the operation and management of the Wuhuang Expressway in the PRC.

Flywheel Investments Limited, a wholly owned subsidiary of Shenzhen International Holdings Limited ("Shenzhen International"), acquired another 45% issued share capital of JEL in the same transaction. Shenzhen International is the indirect substantial shareholder of the Company. JEL are subject to the joint control of the Group and Shenzhen International that no one party has unilaterally control over the financial and operational decisions of JEL, accordingly, JEL is accounted for as a jointly controlled entity of the Group.

As at 31 December 2005, approximately HKD19,644,000 (equivalent to approximately RMB20,436,000) out of the total consideration for the acquisition had not yet been settled.

The acquired business contributed revenues of RMB63,727,000 and net profit of RMB20,565,000 to the Group for the period from 5 August 2005 to 31 December 2005 based on proportionate consolidation of the financial statements of JEL. If the acquisition had occurred on 1 January 2005, the Group's revenue would have been RMB993,909,000 (unaudited), and net profit before allocations would have been RMB567,426,000 (unaudited).

Details of net assets acquired are as follows:

	RMB'000
Purchase consideration:	
— Cash consideration (HKD653,632,000)	681,215
— Dividends up to 31 December 2004 entitled by the Group	(16,825)
— Adjustments made to the consideration	(4,674)
Total purchase consideration, net	659,716
Fair value of net assets acquired - shown as below	694,671
Excess of fair value of net assets acquired over the cost of acquisition credited to the income statement (Note 22)	(34,955)

31 Acquisition of a jointly controlled entity (Continued)

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

	Acquiree's carrying amount RMB'000	Fair value RMB'000	Attributable to the Group RMB'000
Cash and cash equivalents	48,417	48,417	26,629
Property, plant and equipment (Note 5)	19,053	19,053	10,479
Toll road operating right (included in intangible assets) (Note 8)	396,333	1,523,192	837,756
Receivables	3,028	3,028	1,665
Payables	(7,212)	(7,212)	(3,967)
Borrowings	(158,061)	(158,061)	(86,933)
Deferred tax liabilities (Note 18)	—	(165,378)	(90,958)
Net assets	301,558	1,263,039	
Net assets acquired		694,671	694,671

	RMB'000
Purchase consideration settled in cash	639,280
Cash and cash equivalents in jointly controlled entity acquired	(26,629)
Cash outflow on acquisition	612,651

There were no material acquisitions in the year ended 31 December 2004.

32 Commitments

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

	2005 **RMB'000**	2004 RMB'000
Capital commitments - construction of toll roads		
— contracted but not provided for	**1,054,550**	310,500
— authorised but not contracted for	**2,700,800**	3,822,500
	3,755,350	4,133,000
Investment commitments		
— contracted but not provided for	**188,840**	469,860
— authorised but not contracted for	**484,000**	2,544,496
	672,840	3,014,356
	4,428,190	7,147,356

In the opinion of the directors, the above commitments which included the acquisition described in Note 35(c) could be fulfilled by internal financial resources and banking facilities made available to the Group.

33 Contingencies

Pursuant to the provisions of the two construction management contracts described in Note 20(b), the Company undertakes to bear costs overruns for the two 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, 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.

Pursuant to the terms of these two contracts, in 2004, the Company had arranged banks to issue irrevocable performance guarantees on its behalf to the Shenzhen Longgang Highway Bureau and the Shenzhen Communications Bureau amounting to RMB30,000,000 and RMB100,000,000, respectively. The Company also paid a guarantee deposit of RMB15,000,000 to the Shenzhen Longgang Highway Bureau for assuring the progress, quality and safety standards for the construction of the Hengping Project.

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, 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 the loan to a jointly controlled entity, acquisition, toll income collection, guarantee for borrowings and advance from the substantial shareholder, already disclosed in Notes 10(d), 11(b), 12(b), 17(b) and 17(c) respectively to these financial statements, the following material transactions were carried out with related parties during the year:

Key management compensation

	2005 **RMB'000**	2004 RMB'000
Salaries, bonuses and other short-term employee benefits	**6,402**	5,428

The key management include directors (executive and non-executive) and senior management and there are in total 19 (2004: 18) key management personnel of the Company.

35 Events after the balance sheet date

Save as disclosed in other notes to the financial statements, the Group has the following significant post balance sheet date events:

(a) As approved by the People's Bank of China, the Company has obtained approval to issue short-term financing bonds for an amount not more than RMB2 billion before November 2006. On 6 January 2006, the Company issued a portion of short-term financing bonds with an amount of RMB1 billion, bearing interest at 3.07% per annum and having a maturity of 9 months.

(b) On 14 January 2006, the Company entered into another project construction management contract with the Shenzhen Communications Bureau (representing the Shenzhen Municipal Government). The Company was appointed as the project manager for the construction of the Wutong Mountain Avenue (Supplementary Road) and the Airport-Heao Expressway Yantian Subsidiary Road Checkpoint Station Project. The Company also undertakes to enter into construction contracts on behalf of the government with the contractors who are directly responsible for the construction of the project. The aggregate project amount of the project is approximately RMB254 million and the project funds are advanced by the government.

(c) 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 transaction is subject to the approval in an Extraordinary General Meeting of the shareholders of the Company. Upon completion of the acquisition, the Company will directly and indirectly hold 76.37% equity interest in Qinglian Company, including the 51.28% equity interest currently held.

(d) The Shareholding Scheme of the Company was completed on 27 February 2006. Details are set out in Note 15.

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
Advertising Company	深圳市高速廣告有限公司 (Shenzhen Expressway Advertising Company Limited)
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 Changcha Ring Road (Northwestern Section), located in Changsha City of Hunan Province
The Company, Company	Shenzhen Expressway Company Limited
Independent Director(s)	The independent non-executive Director(s) of the Company
Consulting Company	深圳高速工程顧問有限公司 (Shenzhen Expressway Engineering Consulting Company Limited)
CSRC	China Securities Regulatory Commission
Director(s)	The director(s) of the Company
GDRB Company	廣東省路橋建設發展有限公司 (Guangdong Roads and Bridges Construction Development Company Limited)
Geputan Bridge	Hubei Yungang Geputan Bridge, located in Yugang 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), which owns Guangwu Expressway
GZ W2 Expressway	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 Hong Kong dollars and are listed on HKEX
Hengping Project	Western Section of Hengping Class 1 Highway, located in Shenzhen City
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
Huajian Centre	華建交通經濟開發中心 (Huajian Transportation and Economic Development Centre)
Huayu Company	深圳華昱高速公路投資有限公司 (Shenzhen Huayu Expressway Investment Company Limited), which owns Shuiguan Extension
Jiangzhong Company	廣東江中高速公路有限公司(Guangdong Jiangzhong Expressway Company Limited), 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	Jihe Expressway (Eastern Section)
Jihe Expressway	Shenzhen Jihe Expressway, comprising Jihe East and Jihe West
Jihe West	Jihe Expressway (Western Section)
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)
Magerk Company	湖北馬鄂高速公路經營有限公司(Hubei Magerk Expressway Management Private Limited), which owns the operating rights of Wuhuang Expressway
Mei Wah Company	Mei Wah Industrial (Hong Kong) Limited
Meiguan Company	深圳市梅觀高速公路有限公司 (Shenzhen Meiguan Expressway Company Limited), which owns Meiguan Expressway
Meiguan Expressway	Shenzhen Meiguan Expressway
Nanguang Expressway	Shenzhen Nanguang Expressway
Nanjing Company	南京長江第三大橋有限責任公司 (Nanjing Yangtze River Third Bridge Company Limited), which owns Nanjing Third Bridge
Nanjing Third Bridge	Nanjing Yangtze Third Bridge, located in Nanjing City of Jiangsu Province
Nanping Project	Nanping Freeway (Phase I), located in Shenzhen City

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 Class1 Highway	Class 1 Highway from Qingyuan City to Lian Zhou 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), which owns Qinglian Project
Qinglian Project	Qinglian Class1 Highway, and/or its project to reconstruct to expressway, and/or Class 2 Highway from Qingyuan City to Lian Zhou 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), which owns Shuiguan Expressway
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)
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)
Shengchang Company	湖南長沙市深長快速幹道有限公司(Hunan Changsha Shenchang Expressway Company Limited), which owns Changsha Ring Road
Shenzhen International	Shenzhen International Holdings Limited, which shares are listed on the main board of HKEX
Shuiguan Expressway	Shenzhen Shuiguan Expressway, also referred to as the “No.2 Longgang Passage”
Shuiguan Extension	An extension to the Shuiguan Expressway, also referred to as the “Qingping Expressway Phase I”, located in Shenzhen City
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
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	Shenzhen Yantian-Bagang Expressway, comprising Yanba A, Yanba B and Yanba C

Definitions

Yangmao Company	廣東陽茂高速公路有限公司 (Guangdong Yangmao Expressway Company Limited), which owns Yangmao Expressway
Yangmao Expressway	The expressway from Yangjiang City to Maoming City, located in Guangdong Province
Yanpai Expressway	Shenzhen Yanpai Expressway, also known as Yantian Subsidiary Road to Jihe Expressway
The Year, The Reporting Period	For the year ended 31 December 2005
Yungang Company	湖北雲港交通發展有限公司(Hubei Yungang Transportation Development Company Limited), 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 1041/8294 5638
Fax	(86) 755-8291 0696
Website	http://www.sz-expressway.com
Place of Business in Hong Kong	Suites 2911-2912, 29/F, Two International Finance Centre, 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	21 April 2005
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 Revised to G Shenzhen Expressway from 28 February 2006

Corporate Information

Designated Publication Newspaper	Hong Kong:	Hong Kong Economic Times The Standard
	PRC:	Shanghai Securities News Securities Times
Designated Publication Website	http://www.hkex.com.hk http://www.sse.com.cn http://www.sz-expressway.com	
Annual Report available at	Hong Kong:	Suites 2911-2912, 29/F, Two International Finance Centre, 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 Centre, 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, No. 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 12/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	