



# SHENZHEN EXPRESSWAY COMPANY LIMITED

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



## Gaining Opportunities

## Gaining Mileage



Annual Report 2004

## 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

2	Financial Highlights
6	Corporate Profile
8	2004 Major Events
10	Chairman's Statement
14	Corporate Governance
22	Investor Relations
24	Investors' Q&A
28	Management Discussion and Analysis
29	Business Review
39	Financial Review
46	Risk Management
49	Outlook
50	Basic Information of Toll Highways
58	Road Networks
62	Report of the Directors
77	Report of the Supervisory Committee
78	Directors, Supervisors and Senior Management
84	Report of the International Auditors
85	Financial Statements Prepared in accordance with Hong Kong Accounting Standards
134	Notices of General Meetings
146	Definitions
150	Corporate Information

# Financial Highlights

## I Prepared in accordance with Hong Kong accounting standards

### Results Highlights

For the year ended 31 December

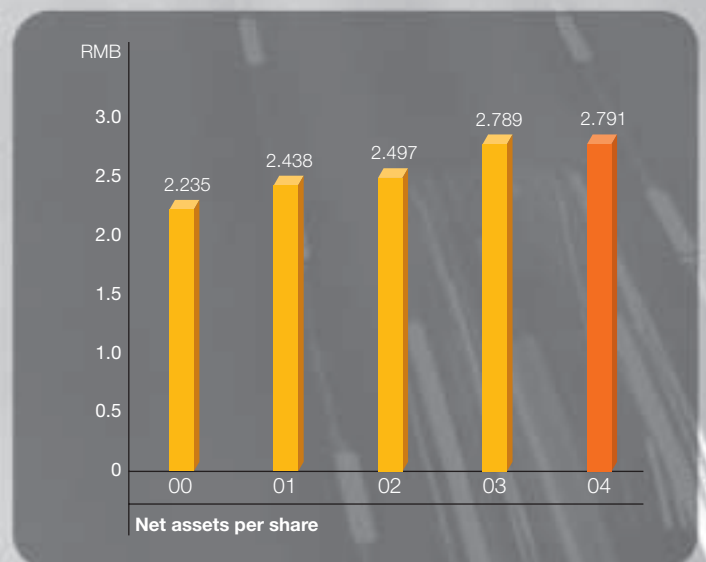
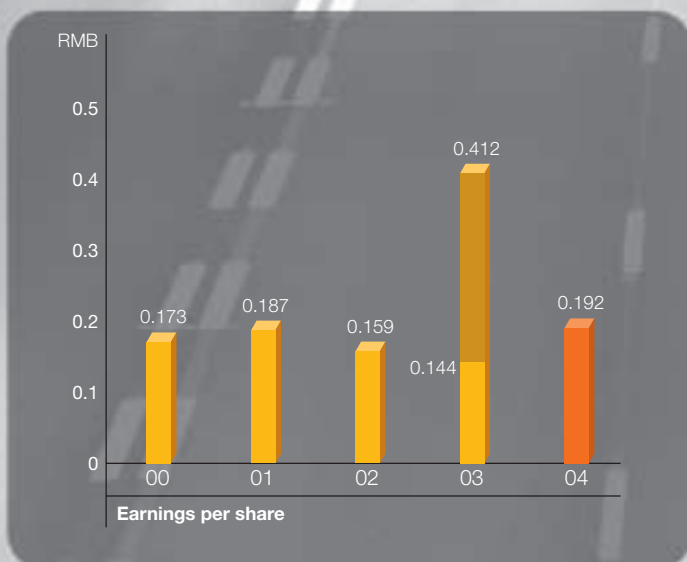
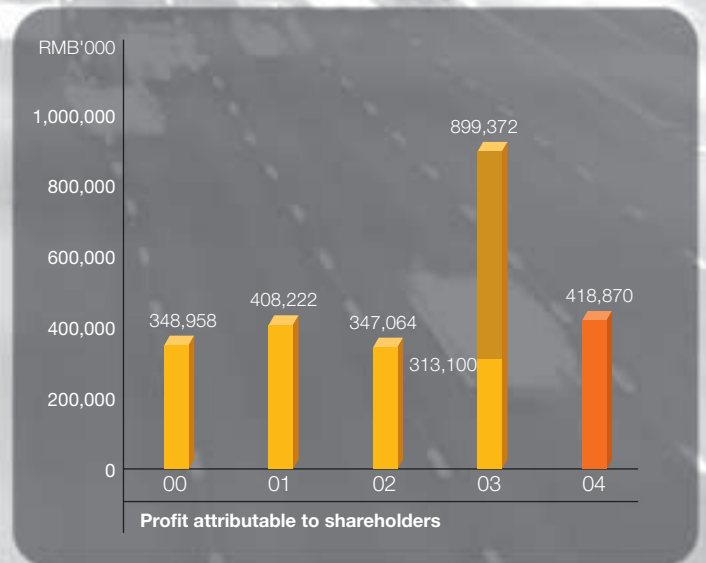
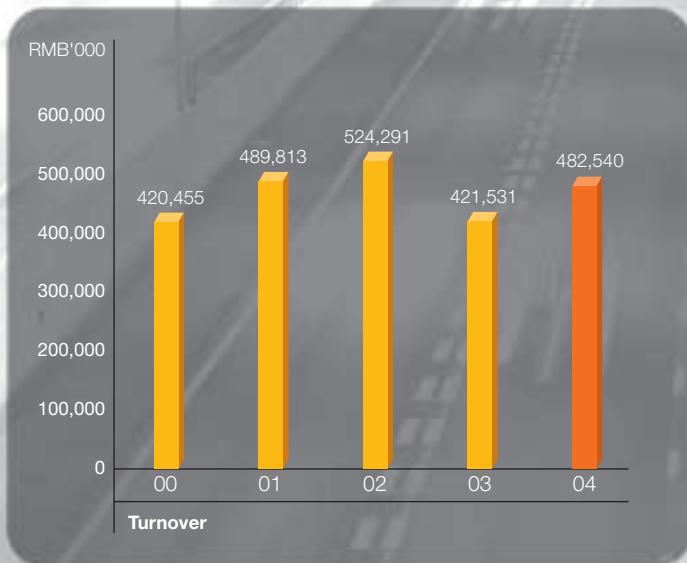
(RMB'000)	2004	2003*	2003	2002	2001	2000
Turnover	<b>482,540</b>	421,531	421,531	524,291	489,813	420,455
Profit before interests, tax, depreciation and amortization	<b>606,112</b>	458,442	1,149,858	539,619	554,402	458,490
Profit before interests and taxation	<b>516,461</b>	376,254	1,067,670	438,945	466,252	399,793
Profit before taxation	<b>503,539</b>	363,114	1,054,530	414,018	424,605	365,598
Profit attributable to shareholders	<b>418,870</b>	313,100	899,372	347,064	408,222	348,958
Earnings per share (RMB)	<b>0.192</b>	0.144	0.412	0.159	0.187	0.173
Dividend per share (RMB)	<b>0.110</b>	0.100	0.190	0.120	0.100	0.100

\* These figures represent results of the Group's ordinary business ("Ordinary Business") for 2003 and are derived after excluding the gain on disposal of two Class 1 highways of RMB586,272,000 ("Assets Disposal Gain") and special dividend per share of RMB0.09 and are for reference only.

### Assets Highlights

As at 31 December

(RMB'000)	2004	2003	2002	2001	2000
Total assets	<b>7,345,486</b>	6,988,973	6,700,302	6,764,379	5,712,406
Total liabilities	<b>1,208,814</b>	856,937	1,204,739	1,399,678	1,158,209
Minority interests	<b>50,066</b>	49,967	50,282	48,414	48,690
Shareholders' funds	<b>6,086,606</b>	6,082,069	5,445,281	5,316,287	4,505,507
Net assets per share (RMB)	<b>2.791</b>	2.789	2.497	2.438	2.235



## Financial Highlights

### Financial Ratio

	2004	2003*	2003	2002	2001	2000
Operating profits ratio	<b>82.30%</b>	71.33%	239.26%	68.19%	79.02%	77.81%
Toll road operating profits ratio	<b>71.86%</b>	73.30%	73.30%	69.84%	61.66%	75.21%
Return on shareholders' funds	<b>6.88%</b>	6.05%	13.60%	6.45%	8.31%	7.94%
Interest covered multiple	<b>39.97</b>	28.63	81.25	17.61	11.20	11.69
Gross liabilities equity ratio	<b>19.86%</b>	14.09%	14.09%	22.12%	26.33%	25.77%

\* In calculating the relevant ratio, the Assets Disposal Gain has been deducted.

## II Major Differences Between Accounts Prepared in accordance with HK GAAP and PRC Accounting Standards

The Group has compiled consolidated accounts as at 31 December 2004 in accordance with PRC Accounting Standards. The major differences between accounts prepared in accordance with HK GAAP and PRC Accounting Standards are listed as follows:

	Note	Profit attributable to shareholders for the year ended 31 December 2004 (RMB'000)	Net assets as at 31 December 2004 (RMB'000)
As per PRC statutory accounts		484,564	6,023,100
Impact of HK GAAP adjustments			
Amortization of land use rights and related deferred tax	Note 1	3,982	59,541
Depreciation of fixed assets	Note 1	654	17,022
Extra compensation in respect of assets disposal	Note 2	(106,109)	—
Imputed interest adjustment on long-term portion of receivables	Note 3	35,779	(13,054)
Others		—	(3)
Net amount of adjustments		(65,694)	63,506
As restated after HK GAAP adjustments		418,870	6,086,606

**Note 1. Difference of amortisation of land use rights and depreciation of fixed assets**

In compiling the PRC statutory accounts in accordance with Rules of Accounting for Enterprise (《企業會計制度》) and other relevant regulations, the Group accounted for land use rights as intangible asset and premium arising from acquisition of equity interest as goodwill on acquisition. Both intangible asset and goodwill on acquisition are amortised under the straight-line method. In restating the accounts under HK GAAP adjustments, the Group accounted for land use rights in relation to toll roads and the premium arising from the acquisition of Meiguan Company as costs of fixed assets, and depreciation of these fixed assets are calculated on an units-of-usage basis. These different accounting treatments cause derivation on net asset values and profit attributable to shareholders.

**Note 2. Difference on tax compensation in respect of assets disposal**

In compiling the PRC statutory accounts in accordance with Rules of Accounting for Enterprise (《企業會計制度》), tax compensation in respect of the disposal of NH107 and NH205 in 2003 was accounted as revenue when the amount was received in 2004. In restating the accounts under HK GAAP adjustments, the Company accounted for the amount as gain on disposal of assets in 2003. This created a difference on profit attributable to shareholders.

**Note 3. Imputed interest adjustment on long term portion of receivables**

In compiling the PRC statutory accounts in accordance with Rules of Accounting for Enterprise (《企業會計制度》), the Company accounted for the full consideration on disposal of assets in the year of disposal in 2003, without taking into account the timing effect of these long term instalment payments. In restating the accounts under HK GAAP adjustments, the Company calculated the discounted value of the consideration receivable and deducted from the disposal consideration. The discounting effect are recognised as interest income in the years 2004 and 2005 when the instalments are actually received. These have created differences in net asset value and profit attributable to shareholders.

# Corporate Profile

The Company is principally engaged in the investment, construction, operation and management of toll highways and roads. It was granted first refusal rights to develop new expressways in Shenzhen. During 2004, the Company was entrusted to undertake construction management services for certain government-invested roads.

The Company adheres to the development strategy of focusing on toll 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.

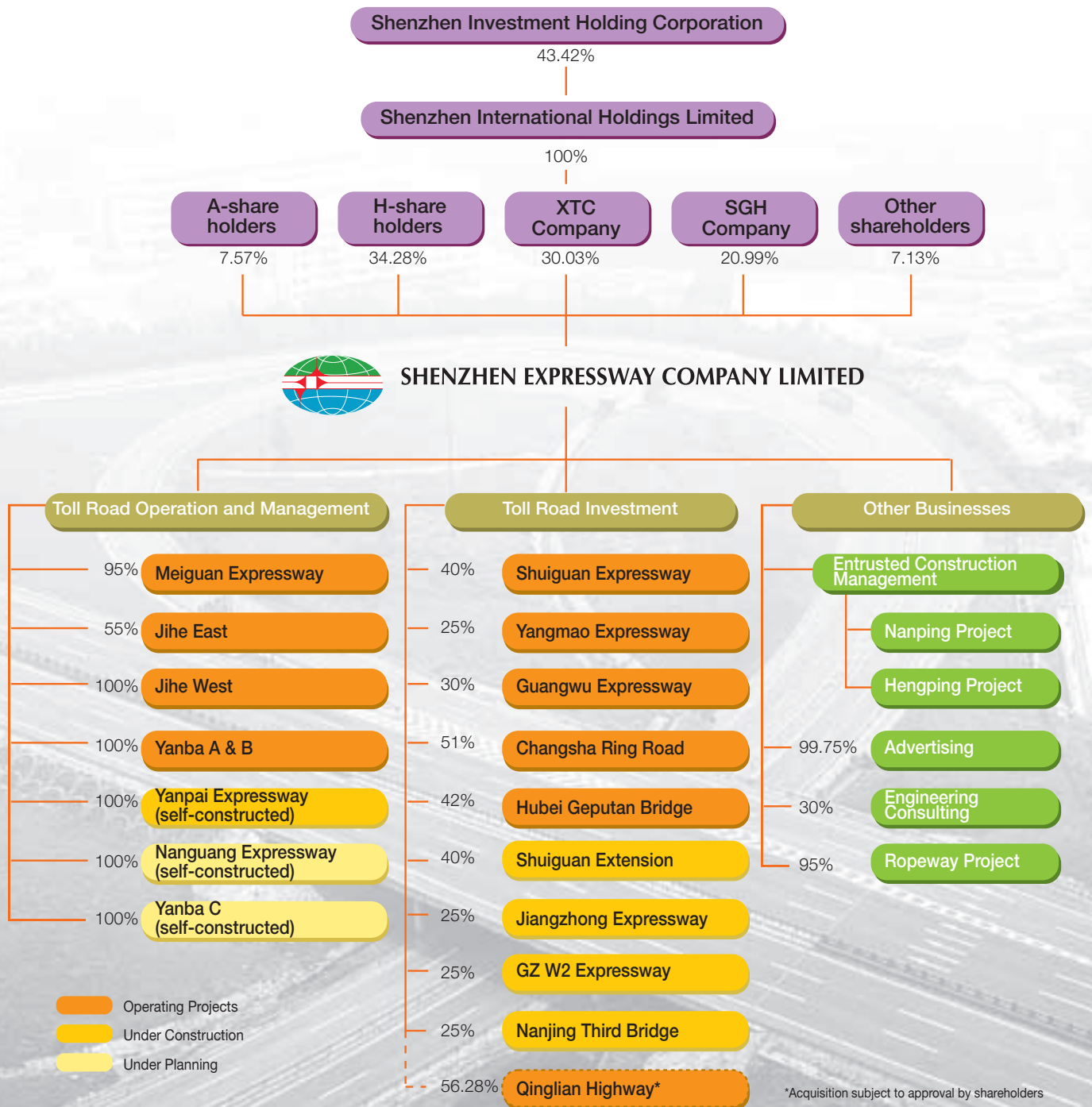
The Company was established on 30 December 1996 with a total share capital of RMB1,268,200,000. In March 1997, the Company issued 747,500,000 foreign shares (H Shares), which were listed on HKEX on 12 March 1997 (stock code: 0548). In December 2001, the Company issued 165,000,000 Renminbi-denominated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

shares (A Shares), which were listed on SSE on 25 December 2001 (stock code: 600548). The total share capital of the Company at present 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% of the Company.

As at 31 December 2004, toll highways operated and invested by the Group included eight operating projects and five projects under construction. Among them, the toll highways in Shenzhen City and other regions of Guangdong Province operated and invested by the Group 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 “9+2” Pan Pearl River Delta Economic Zone.



The Shareholding and Business Structure of the Company



# 2004 Major Events



Entered into an entrusted construction management agreement for the Nanping Project in Shenzhen. Appointed by the Shenzhen Municipal Government as the project administrator.

Entered into an equity transfer agreement for the acquisition of 25% equity interests in Jiangzhong Expressway.

Entered into an agreement for the investment of 25% equity interests in Nanjing Third Bridge.

Ranked 33rd in "2003 China Listed Company 100" by "China Business Time 100".

JAN

MAR

MAY

FEB

APR

JUN



Entered into an equity transfer agreement for the acquisition of 25% equity interests in Yangmao Expressway, making the first step towards investing in expressways in other regions within Guangdong Province.

Entered into an entrusted construction management agreement for the Hengping Project. Appointed by the Longgang District Government of Shenzhen as the project administrator.

Held fund manager/analyst meetings and press conferences in Shenzhen and Hong Kong announcing the Company's 2003 annual results.

International roadshow activities were organised in eight countries and regions including the United Kingdom and the United States to meet with more than 50 investment fund management companies by way of one-on-one meetings.

Entered into a joint venture agreement for the investment of 25% equity interests in GZ W2 Expressway.

Roadshow activities were organised with fund management companies in Beijing by way of one-on-one meetings.

Included as a constituent stock in the MSCI China Index.

The Board set up Risk Management Committee to further strengthen the Company's risk management.

Held fund manager/analyst meetings and press conferences in Shenzhen and Hong Kong announcing the Company's 2004 interim results, together with an on-the-web presentation via the "Panorama Network".

Roadshow activities were organised with investment fund companies in Hong Kong and Singapore by way of one-on-one meetings.



With the approval of the Board, the Company carried out the Business Controller System to further optimise the corporate structure and strengthen its accountability management.

Entered into an equity transfer agreement for the acquisition of 30% equity interests in Guangwu Expressway. (The expressway commenced operation in the same month of the signing of the agreement.)

The Board approved the investment in Nanguang Expressway.

The Board approved "The Company's Strategic Plans for 2005-2009".

JUL

SEP

NOV

AUG

OCT

DEC



Yangmao Expressway commenced operation.

Completed revamping work on the toll system. The city-wide inter-road network toll collection system in Shenzhen formally commenced operation.

Ranked 61st in "Top 100 China Listed Enterprises" by "Asia Week".

The "Shenzhen Expressway" brand was named "The Most Influential Renowned Brands of Shenzhen 2004".



# Chairman's Statement





To all shareholders:

**Blessed by sound macro-economic environment in 2004, the Group continued to implement an outreaching investment strategy of expanding towards the Pearl River Delta region as well as other economically developed regions in China from our base in Shenzhen. Riding on opportunities presented by geared-up highway construction in local regions, we took a major stride forward in the area of project development, on top of solid growth in operating results. 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. Thanks are also due to our dedicated staff for their unceasing efforts and invaluable contributions during the Year.**

### Results and Dividends

I am pleased to report to the shareholders that the Group achieved positive overall results in 2004 with turnover and profit attributable to shareholders amounting to RMB483 million and RMB419 million respectively (2003: RMB422 million and RMB899 million). Earnings per share amounted to RMB0.192 (2003: RMB0.412). Excluding the effect of asset disposals in 2003, profit attributable to shareholders and earnings per share grew by 33.78%.

The Group is committed to securing sound rewards to shareholders by maintaining a consistently high dividend payout ratio. The Board recommended the payment of a final dividend of RMB0.11 per share in cash for the year 2004 at the Annual General Meeting to be held on 8 April 2005, representing a dividend payout ratio of 57%.

### Review

In 2004, the Company's management and staff worked diligently and aggressively in concerted efforts, under the core guiding principle of "Unwavering Corporate System Leadership". We adhere to a market-driven approach to attract more traffic flow. The Company achieved promising results in 2004 in terms of capturing new market share and building new income bases, in addition to a satisfactory growth in our existing business.

Traffic flow of the toll highways operated and invested by the Group increased rapidly to register an average growth rate topping 30% for the Year. The surging private vehicle ownership, business commuting and logistics flow and a growing travelling public provided the major driving forces of the Group's toll highway operations in the context of robust economic growth in the Pearl River Delta region and the gradual implementation of CEPA and the Pan Pearl River Delta Economic Zone.

Capitalising on opportunities presented by the divestiture of toll highway projects by the Guangdong Provincial Government, the Group participated actively in toll highway investment beyond Shenzhen in a bid to increase its market share in Guangdong Province and has made major inroads. During 2004, the Group signed up and announced a total of six investment projects covering a total mileage of over 200 km, involving total investments of approximately RMB1.3 billion. Among them, Yangmao Expressway and Guangwu Expressway commenced operations in November 2004 and December 2004, respectively, and other projects are scheduled for completion and operation within the next one or two years. These projects are set to contribute positively to the continued growth of the Company's profits in future.

## Chairman's Statement

In Shenzhen, the Group acquired rights for the construction and operation of the Nanguang Project by virtue of a concession agreement that provided the Group with first concession to develop expressway projects in Shenzhen. Moreover, we were appointed by the Shenzhen Municipal Government and the Shenzhen Longgang District Government as project administrator for Nanping Freeway and Hengping Highway, respectively, in recognition of our extensive experience in project construction management gained over the last decade. The construction management business with government invested public roads further utilises our project management expertise and enables the Company to create new value and expand beyond its principal business operations, thereby providing a new income base for the Company.

Entering 2005, the Company made further and major progress in investment activities. In February 2005, the Group entered into agreements for the proposed investment in the Qinglian project in Guangdong Province which is a strategically located major trunk highway between Hunan and Guangdong over 200 km. This project is set to add further strengths to the Company's principal business and will enhance shareholder return with its sound development potential.

### Opportunities and Challenges

Amidst China's continued economic growth, the Pearl River Delta region is a frontier of reforms and a window for foreign investment. Underpinned by a massive population of manufacturing bases and thriving flow of goods, the region has been one of the fastest-growing regions in China, as well as a passage connecting Hong Kong and Macau with other Mainland provinces and cities. In a move to facilitate the formation of the Pan Pearl River Delta Economic Zone, the Guangdong Provincial Government has recently put in the pipeline the construction of expressways with a total outreach of 4,000 km by 2008. Robust demand for traffic is expected as upbeat business and trade activities within a fast-integrating regional economy are set to contribute to economic growth and rapid development of the transport and logistics sectors.

China's urbanisation process is moving forward speedily, with the number of cities and townships increasing and their sizes growing. As a pilot region in the course of China's economic reforms, the Pearl River Delta region continues to top national levels in terms of urbanisation, individual income and vehicle ownership rate. The growing travelling needs and demand for quality road passage from road users will become a major driver for the development of the toll highway industry.

According to State plans and policies, China will add around 3,000 km per year to its expressway network up till 2010, translating into annual investments of approximately RMB140 billion to RMB150 billion. Given the existing situation of insufficient government resources and excessive bank lending, the highway industry will be looking at more diverse options in future in terms of structure of investment or financing. Tolls from highway users will remain to be a source of reward for investors and the industry is set to embrace new opportunities. Construction management for toll-free road projects invested by the government, on the other hand, will gradually be operated on a market-driven basis and "Entrusted Construction Management" will become a new form of policy adopted by the government.

The Company benefits from strategic opportunities for ongoing rapid development arising from sound macro-economic conditions and favourable government policies. On the other hand, we are fully conscious of the challenges ahead. With a gradually developed highway network, there will be less quality projects and the change in investment structure of toll road projects will further intensify competition among investors. Therefore, it is imperative that the Company rightly capture market opportunities to achieve ongoing growth and strengthen its position and influence in the industry by leveraging and continuously enhancing its competitive strengths.

### Objectives and Strategies

The Company is dedicated to becoming a public infrastructure developer and management service provider operating on a market-driven basis in accordance with prudent business principles, stringent corporate governance standards and strong competitiveness. We seek to provide the public with infrastructure services that are safe, convenient, comfortable and environment-friendly, to increase value for shareholders and the community at large, and to create a favourable working environment and career opportunities for our staff.

The Board will continue to develop businesses that are in line with the Company's development strategies on the basis of prudent evaluation of its core strengths, the strategic values of such projects and relevant risk factors. In this way, the Company can leverage fully its strengths in highway investment, construction, operation management and innovations to pursue prudent operations and avert various risks, thereby enhancing its profitability and resilience and rewarding its shareholders with better profitability and return.

Looking to the future, the Company will leverage every opportunity and rise to every challenge. Focusing on toll highway operation as its principal business, the Company will continue to build on its core competitive strengths while braving for ever-higher standards in corporate governance, with a view to achieving rapid but stable growth on all fronts and scoring new landmarks in its business development.

**Chen Chao**

Chairman

Shenzhen, PRC, 18 February 2005



# Corporate Governance







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 firm belief that such an aim would 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.

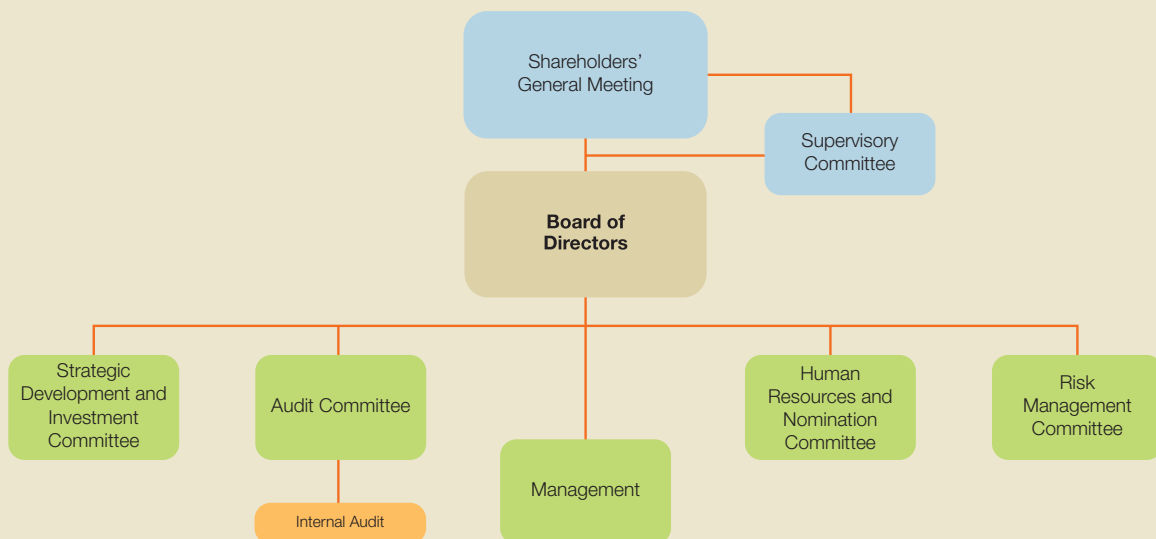
### Board of Directors

The Board is composed of twelve Directors, including four Independent Non-executive Directors. The Board is in its third session since the establishment of the Company. The terms of office of the current Directors are from 1 January 2003 or the respective dates of their appointments to 31 December 2005.

The principal duties of the Board is to exercise management and decision-making power as conferred by the Shareholders' General Meeting (the "General Meeting") in respect of corporate development strategies, management structures, investment and financing, planning, financial control and human resources and so forth.

Directors are elected or replaced at the General Meeting, 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. The directors serve for a term of three years and may offer themselves for re-election. The office of Independent Non-executive Director shall be undertaken by appointees not related to the Company's management and substantial shareholders in any aspect. Independent Non-executive Directors are eligible for re-election subject to a maximum term of six years.

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 the operation of the Board and monitoring the implementation 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 senior management of the Company.



Members of the Board are from different industry backgrounds with expertise in corporate management, finance and accounting, investment banking, highway management and construction and human resources management. Brief biographies of the Directors are set out on pages 78 to 81 of this annual report.

Two Directors (being 1/6 of the total number of Directors) undertook specific management duties for the Company in 2004, enabling the Board to exercise close assessment and monitoring of the Company's management process.

The Board currently has four Independent Non-executive Directors, representing 1/3 of the total number of Directors. The incumbent Independent Non-executive Directors of the Company have extensive professional experience, and they all participated in the Board 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 is 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.

The Company held eight board meetings in 2004 to discuss the Group's development strategies, investment projects and the operational and financial performance of the Company. The Board meetings proceeded efficiently and arrived at prompt and prudent decisions. There was an 100% attendance rate (including attendance by appointing other Directors as proxies) for all Board meetings in 2004, details of which are set out on page 19 of this annual report.

Through the Company Secretary, the Directors obtain timely information and updates relating to statutory, regulatory and other ongoing obligations that 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 advice of independent professional institutions in the course of exercising their powers, performing their duties or fulfilling any business requirements. Reasonable expenses incurred in this connection will be borne by the Company.

Matters pertaining to Directors' remuneration are determined at the General Meeting. Details of directors' remuneration are set out under the section headed "Remuneration of the Directors, Supervisors and Senior Management" on pages 66 to 68 of this annual report.

### Specialised Committees of the Board

Four Specialised Committees have been set up under the Board, each with particularly defined terms of reference to monitor specific areas of the Company's business:

#### Audit Committee

Established in August 1999 in line with best practices in corporate governance 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 Audit Committee is principally responsible for reviewing and monitoring the quality and procedures of the Group's financial reporting; evaluating the soundness and effectiveness of the Company's internal control regimes; reviewing the appointment of independent auditors and coordination and reviewing the efficiency and quality of their work; and reviewing all written reports furnished by internal audit officers as well as management feedback to such reports.

The Audit Committee currently comprises Mr. Ho Pak Cho, Denis Morgie\* (chairman), Mr. Chiu Chi Cheong, Clifton and Mr. Poon Kai Leung, James\*. In accordance with the Company's Regulations on the Operation of the Board of Directors (《董事會工作條例》), members of the Audit Committee shall serve for a term of three years and at least one new member must be appointed upon the expiry of each term.

\* Independent Non-executive Director

The Audit Committee held six meetings during 2004, presided over by Mr. Ho Pak Cho, Denis Morgie, the chairman. Details of attendance are set out on page 19 of this annual report. With a view to enhancing the independence of the external auditors, some of these meetings were only attended by the committee and the external auditors. All matters passed at the committee meetings have been properly recorded and filed in accordance with relevant rules. Following each meeting, the chairman submitted a report to the Board on significant matters discussed, and also reported the status and progress of the committee's work at least once every six months.

Major tasks accomplished by the Audit Committee during the Year included the following:

- Reviewing the annual, interim and quarterly reports and financial statements of the Group, as well as management recommendations furnished by the external auditors and the responses from the Company's management;
- Reviewing the accounting policies and practices adopted by the Group and related matters;
- Recommending to the Board the establishment of a risk management committee to assist the Board in undertaking risk management duties;
- Recommending the formulation of Rules Governing the Selection and Appointment of Independent Financial Advisers (《獨立財務顧問選聘管理辦法》) to ensure that all connected transactions of the Company are fair, impartial and open, offering full protection to the interests of minority shareholders;

- Assisting the Board to conduct independent evaluation of the effectiveness of the Group's financial reporting procedures and internal control systems;
- Monitoring the Company's internal audit;
- Furnishing opinions or reminding the management of related risks in respect of significant matters of the Company.

### Strategic Development and Investment Committee

Established in November 2001, the Strategic Development and Investment Committee ("SDIC") is principally responsible for examining and reviewing the directions of the Company's strategic development, formulating the Company's strategic plans, monitoring the implementation of strategic planning, and facilitating timely adjustments to the Company's strategies and governance structure.

Strategic Development and Investment Committee



Human Resources and Nomination Committee



Audit Committee

SDIC currently comprises Mr. Chen Chao (chairman), Mr. Wu Ya De, Mr. Chiu Chi Cheong, Clifton and Mr. Li Zhi Zheng\*.

One SDIC meeting was held during 2004. At the meeting, the analysis report on the Company's development strategies was reviewed and views were furnished to the Board for defining the Company's medium to long term development strategies and objectives. The terms of reference of SDIC were also reviewed and revised. Details of attendance are set out on page 19 of this annual report.

### Human Resources and Nomination Committee

Established in November 2001 as the Human Resources and Remuneration Committee and subsequently renamed Human Resources and Nomination Committee ("HRNC") in January 2003, HRNC is responsible for reviewing or devising the Company's human resources development strategies and planning; examining and reviewing the Company's human resources policies, remuneration policies and incentive regime, and making proposals in respect of the appraisal, appointment/removal and nomination of directors and members of the senior management.

HRNC currently comprises Mr. Li Zhi Zheng\* (chairman), Mr. Chen Chao and Mr. Zhang Zhi Xue\*. HRNC held three meetings during 2004, all of which were presided over by Mr Li Zhi Zheng with full attendance by all committee members. Details of attendance are set out on page 19 of this annual report.

Major tasks accomplished by HRNC during the Year included the following:

- Reviewing the Company's regime for the nomination of directors and revising corresponding sections in the Rules on Corporate Governance (《公司治理規則》);
- Reviewing and furnishing comments on the restructuring plan for staff remuneration and welfare proposed by the Company's management;
- Making proposals and initiating discussions to improve the organisation structure for the senior management team;

\* Independent Non-executive Director

- Reviewing nominations of senior management members to be appointed by the Board;
- Giving guidance to staff training programmes, especially in relation to senior management;
- Reviewing and revising the Company's performance management system based on the principle of integrating corporate performance and personal performance;
- Providing advice regarding the management of company representatives appointed to the enterprises invested by the Company.

### Risk Management Committee

Established in August 2004, the Risk Management Committee ("RMC") is principally responsible for supervising the Company's overall risk management and keeping such risks under reasonable control in accordance with the Company's general risk management policies. It seeks to ensure that risks of various nature associated with the Company's operating activities are effectively managed. At the initial stage of RMC's establishment, the major tasks of RMC are to improve and enhance the Company's procedures and systems for managing its investment activities and to provide support for the Company's business decisions and operations by performing risk analysis and controls in relation to individual investment projects.

RMC currently comprises Mr. Poon Kai Leung, James\* (chairman), Mr. Zhong Shan Qun and Ms. Zhang Yang. One RMC meeting was held during 2004. At the meeting, the two investment projects proposed to the Board by management were reviewed and recommendations were furnished to the Board. Details of attendance are set out on page 19 of this annual report.

## Attendance at meetings of the Board/Supervisory Committee and Specialised Committees

(attendance in person/number of meetings):

Name	Board/ Supervisory Committee	Audit Committee	HRNC	SDIC	RMC
<b>Directors</b>					
Chen Chao	8/8	—	3/3	1/1	—
Wu Ya De	8/8	—	—	1/1	—
Zhang Rong Xing	6/8 <sup>#</sup>	—	—	—	—
Chiu Chi Cheong, Clifton	6/8 <sup>#</sup>	6/6	—	1/1	—
Zhong Shan Qun	8/8	—	—	—	1/1
Tao Hong	7/8 <sup>#</sup>	—	—	—	—
Lin Xiang Ke	7/8 <sup>#</sup>	—	—	—	—
Zhang Yang	7/8 <sup>#</sup>	—	—	—	1/1
<b>Independent Non-executive Directors</b>					
Ho Pak Cho, Denis Morgie	5/8 <sup>#</sup>	6/6	—	—	—
Li Zhi Zheng	7/8 <sup>#</sup>	—	3/3	1/1	—
Zhang Zhi Xue	8/8	—	3/3	—	—
Poon Kai Leung, James	4/8 <sup>#</sup>	5/6	—	—	1/1
<b>Supervisors</b>					
Wang Ji Zhong	6/6	—	—	—	—
Yang Qin Hua	6/6	—	—	—	—
Yi Ai Guo	6/6	—	—	—	—

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

## 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. The size and composition of the Company's Supervisory Committee are in compliance with the requirements of the relevant laws and regulations. The Supervisory Committee held six meetings during 2004 to carry out supervision on behalf of the shareholders in respect of the Company's financial matters and the lawfulness and compliance on the discharge of duties by the Directors and senior management. The Supervisory Committee attended all Board meetings and diligently performed its supervisory duties. Details of attendance of the Supervisory Committee meetings are set out on the above table of this page.



Supervisory Committee

### Internal Control and 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 the control procedures for financial, operational and supervisory matters. Such internal control system is implemented by the management upon the authorisation of the Board and the effectiveness of the internal control system is reviewed by the Audit Committee from time to time.

The Company's internal audit department has been operating since August 2000 for the purpose of reviewing the internal control system in a more effective manner. 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, supervision and evaluation of the Company's financial information disclosure, operations and internal control activities on a regular or as-needed basis, with the purpose of ensuring transparency in information disclosure, operational efficiencies and effectiveness of the corporate control regimes. It furnishes independent and objective evaluations and recommendations in the form of audit reports. Internal audit officers are authorised to access any data 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.

The Company always pays great efforts in internal control and to that end the Company has developed corresponding internal management systems and procedures in areas including corporate governance, operation, construction, finance, administration and personnel management and so forth. In December 2004, the Company's Internal Control System document was reviewed and approved by the Board. This document contains a comprehensive overview and description of the objectives, content, methods and duties of the internal control system, and will facilitate ongoing examination and evaluation of the Company's compliance with existing rules and regulations and of the effectiveness of internal control.

### 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 accounting standards and in compliance with relevant provisions of HKEX, CSRC and SSE. The Financial Controller is also responsible for organising 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 thereof to the Board.

### 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 powers are exercised in accordance with the law to determine significant matters of the Company. The Annual or Extraordinary General Meeting provides a channel for direct communication between the Board and the shareholders. The Company puts high regard to the 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.

### Substantial Shareholders

As substantial shareholders of the Company, XTC Company (with a 30.03% interest) and SGH Company (with a 20.99% interest), conduct their activities in a regulated manner. They have never been involved in any acts of by passing the General Meeting in ultra vires interference, whether directly or indirectly, with the

Company's policy decisions or operations. The Company and the substantial shareholders are independent from each other in terms of staffing, assets, finance, institution and business.

### Information Disclosure and Investor Relations Management

The Company Secretary is responsible for information disclosure of the Company and reception of visiting shareholders and investors. The Company also set up a public relations department in 2004 to enhance the management of investor relations. The Company has formulated the Rules Governing Information Disclosure (《信息披露管理制度》) and the Information Management System (《信息管理制度》) to ensure openness, fairness and impartiality in information disclosure and to enhance transparency.

The Company is making constant efforts to enhance its management of investor relations. For the Company's philosophy, communication channels and accomplishments during the Year in the area of investor relations, please refer to pages 22 to 23 of this annual report.

### Other Stakeholders

While dedicated to seeking sound 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 local laws and environmental regulations, improving its standard of corporate governance and actively participating in social welfare and environmental concerns. We firmly believe that the sustainable development of a company cannot be achieved in isolation from a healthy social environment. Noble corporate behaviour 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

The Rules on Corporate Governance (《公司治理規則》) are being implemented with full force in all aspects of the Company's operation, following the conclusion of the drafting and editing process in 2001. The handbook of the Rules on Corporate Governance contains the Articles of Association of the Company, Regulations on the Operation of Shareholders' General Meetings (《股東大會工作條例》), Regulations on the Operation of the Supervisory Committee (《監事會工作條例》), Regulations on the Operation of the Board of Directors (《董事會工作條例》), Regulations on the Operation of the General Manager (《總經理工作條例》) and terms of reference for the Audit Committee, SDIC and HRNC. The Company's Articles of Association were also revised in 2004 to assure compliance with relevant provisions laid down by domestic and foreign regulatory authorities in the context of the Company. Additions and revisions regarding the nomination of directors have been made to Regulations on the Operation of the Board of Directors to enhance its guiding effect. We have also formulated the terms of reference for RMC, while the Rules on Corporate Governance are being supplemented and updated from time to time.

### Conclusion

The corporate governance regime adopted by a company is an indication of the standard 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 requirements of regulatory authorities. It is a long-term goal of the Company to achieve unwavering corporate system leadership, through establishing and improving upon a modernised corporate system. As such, we will continue to enhance corporate governance as part of our efforts to ensure stable development and increase shareholders' value.



# Investor Relations

The Company's management puts high regard to investor relations. Aside from full disclosure of information to investors in strict accordance with relevant regulations, the Company also seeks to strengthen communication with investors through various means to enhance transparency. The Group is also committed to bringing sound rewards for its investors by consistently maintaining a high dividend payout ratio.

## Proactive Communication with Investors

The Company makes persistent efforts to enhance mutual communication with investors through proactive investor relations programmes. Our aim is to enhance transparency by making adequate disclosure of our business status and development trends to the public to ensure investors gain a better understanding of, and trust in the Company's business with stronger investment confidence. Understanding and confidence on the part of investors will facilitate market recognition and support for the Company, so that the Company's true value can be fully reflected in the market.

We believe it takes more than mere disclosure of corporate information to the public and stakeholders to foster good investor relations. We must readily listen to investors' feedback and understand their concerns and queries through mutual, interactive communication such as regular opinion surveys and day-to-day contact. Upon such feedback, appropriate measures should also be taken to clarify possible market misconceptions about the Company, while allowing the Board and management to take into full account investors' wishes and expectations for the Company.



In a persistent effort to improve our information disclosure standards, ever since the listing of its shares, the Company has maintained regular and timely dissemination of statutory information and other information on matters affecting investors' interests. For the coming year, we pledge continued efforts to strengthen corporate transparency and to maintain sound corporate governance by improving various management regimes.

## Review of 2004

In 2004, we continued to update investors on the Company's latest developments and prospects through the dissemination of announcements and press releases in connection with financial matters and investment projects, meetings with institutional investors and stock analysts, participation in investor forums, telephone conferences, roadshows and investor opinion surveys.

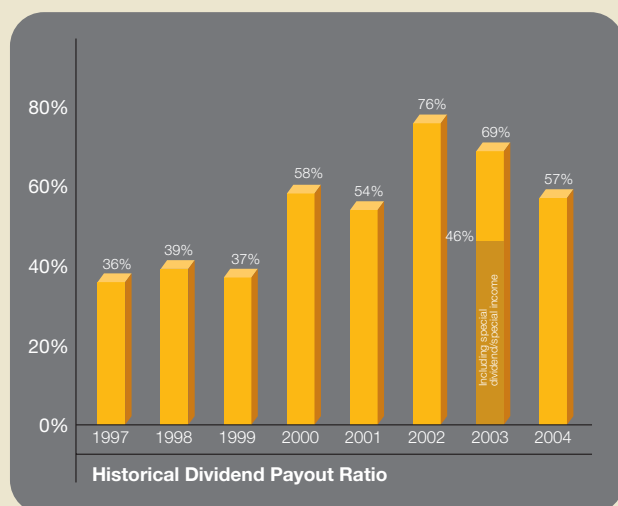
The Company held two major presentations during the Year to brief investors and financial news media on its results and future development strategies and to address concerns of investors and the media. Following the announcement of 2003 annual results, the Chairman led the management team to embark on a roadshow across eight countries and regions including the UK and the US, conducting one-on-one presentations to more than 50 investment fund companies. Subsequently, the Company also appointed an independent investor relations consultant to interview analysts and investors to collect views and comments on the Company's results and future development. In 2004, the Company issued about 20 announcements in accordance with requirements of domestic and foreign stock exchanges to make disclosure on important information or the progress of major projects to facilitate timely understanding of the Company's latest developments and project details. Aside from statutory announcements, the Company also maintained close liaison with the media and institutional investors by issuing press releases from time to time. Management interviews with various financial news media, including major local and foreign players such as CCTV, Finance Asia, South China Morning Post, Wen Wei Po and RTHK, were arranged during the Year. These efforts in ongoing, proactive communication with the financial community, investors and the public have contributed to better understanding of the Company.





## Emphasis on Shareholder Return

The Company has consistently maintained a high return to its shareholders ever since the listing of its shares, underpinned by the payment of cash dividend for seven consecutive years with a cumulative dividend payment of RMB1,413 million or 50% of its cumulative profit attributable to shareholders since listing.



## Increasing Market Recognition

The Company enjoyed solid share-price performance in 2004 with a high level of turnover. Our shares were among constituent stocks in international as well as domestic stock indices, while the Company was named among the Top 100 PRC Listed Enterprises by the internationally renowned Asia Week, as efforts in investor relations were being paid off with increasing market recognition.

The Company's prestigious position in the capital market was reinforced by its inclusion in Morgan Stanley's MSCI China Index in May 2004 and in the Shanghai Stock Exchange's new SSE Dividend Index (上證紅利指數) in early 2005, indicating a benchmarked recognition of its market size and turnover in shares. Strong buys for the Company's shares are expected as constituent stocks of these two indices are favourite picks for institutional investors.

## Outlook

The Company will maintain proactive communication with investors in 2005 to enable more in-depth understanding of its business and support for its strategies as it continues to pursue prudent expansion and growth. We would like to see investors buying on confidence and the business potential and true value of the Company be fully reflected in the market.

# Investors' Q&A



- 1. The Company has recently begun to expand its highway operations beyond Shenzhen. What is the Company's competitive edge in this regard and what challenges does the Company foresee in such expansion?**



Mr. Pierre Lau  
ABN AMRO Bank N.V.

The Company is backed by strong cashflow and extensive experience in project construction and operational management generated in the past 10 years. Because of our ability to control construction costs, operating costs and financing costs, we believe we are well positioned to make profit from these projects. Moreover, the Company is more market-driven than its competitors, while a high level of corporate governance represents another competitive edge.

We believe the biggest challenge comes from our relative lack of knowledge of other regional markets. As we have focused on highway operations in Shenzhen in the past, we may not be as familiar with highway operations in other regions as our competitors in those regions. However, we have already made full preparations by, among other things, appointing experienced traffic consultants and other intermediaries to work with our own professionals for a detailed evaluation of the risks and prospects of each new project. In terms of project management and collaboration with local governments of other regions, we can rely on our local partners, who are more familiar with local markets and operations. In Guangdong, the Company is actively pursuing a mutually beneficial business partnership with GD Communications Group, who owns close to 90% of the highways in the province. The "local edge" of our partners will complement with Shenzhen Expressway's "system edge" to create more competitive investment portfolios.



**2. What role do you envisage for the Company in the context of the Pan Pearl River Delta Economic Zone? Has the Company come up with any specific strategies to leverage this development?**

Ms. Rachel Tsang  
Daiwa Institute of Research (H.K.) Ltd.

As a major highway operator in Shenzhen, we will leverage our experience in the industry to play our part in facilitating logistics and trade activities within the Pan Pearl River Delta region by providing the region with highway facilities that are safe, convenient, comfortable and environment-friendly and assisting the region to build and develop economically efficient highway networks.

In view of the development prospects in the Pan Pearl River Delta region, the Company will fully leverage opportunities presented by Guangdong and other regions' disposal of shareholdings in toll highway projects, so as to expand the Company's market share of the region's trunk toll roads. Meanwhile, the Company will endeavour to foster a close working relationship with the Guangdong Provincial Government and to achieve good performance on the Guangdong highway projects that we have acquired, so as to build the Company's track record and image as an excellent highway operator, helping us to secure more business opportunities in Guangdong Province and the Pan Pearl River Delta region in the future.

**3. To what extent will the Company be affected by toll rate reductions for trucks proposed by the Ministry of Communications?**



Mr. Alan Lam  
Guotai Junan Securities  
(Hong Kong) Limited

Toll rate reductions for trucks is a policy proposed by the Ministry of Communications which requires the formulation of implementation plans at provincial levels by relevant communications and pricing authorities and the approval of provincial governments. As of now, the Company has not received any policy documents from the Guangdong Provincial Government in connection with toll rate adjustments. Therefore, we are not in a position to give any meaningful estimates of the impact of the policy on the Company's results.

Nonetheless, as Category 4 and Category 5 vehicles respectively accounted for 3% and 12% of the Group's toll revenue, the policy should not have any significant impact on the Group's overall operating income. Moreover, traffic flow on highways is likely to increase as a result of reduced toll rates, so the impact should not be perceived as being entirely negative.

4. **Will toll highway operations remain the principal business of the Company in future or will the Company make a strategic shift to entrusted construction management (such as the Nanping Project)?**



Mr. Gary Zhang  
Sun Hung Kai Research Ltd.

Strategically speaking, we will continue to focus on toll highway operations. The Company will seek to consolidate its position in Shenzhen and continue to operate and develop its toll highway business there. Meanwhile, we will also seek to identify opportunities in other prosperous regions outside Shenzhen, so that we can expand our market share of the toll highway business.

On the other hand, as we have generated extensive experience in construction management, we believe that participation in the business of entrusted construction management on the back of our experience will channel new opportunities for profit growth at relatively low costs. Provided costs are effectively controlled, the entrusted construction management business is promising in terms of profitability, and could represent a desirable channel to increase income.

Therefore, while we are committed to improving our toll highway operations, we will also actively look for opportunities in the entrusted construction management business that offer synergies, with a view to expanding our income source and base.

5. **Will the Company increase its risk exposure by way of participating in the entrusted construction management business?**



Mr. Jim Wong  
BNP Paribas  
Peregrine Securities  
Limited

The Company has taken appropriate measures to contain risks in relation to its participation in the entrusted construction management business. Take the Nanping Project for example, pricing risks are controlled within an acceptable range pursuant to the terms of the agreement between the Company and the Shenzhen Communications Bureau, which stipulates that the Company and the Shenzhen Communications Bureau shall share or absorb on an equal basis any surplus or deficit in excess of 2.5% by which the final cost of the project falls short of or exceeds its budget estimates. Moreover, such budget estimates will be prepared by the Company and approved by the Shenzhen Audit Bureau. As such, risks facing the Company in undertaking entrusted construction management projects should be rather limited.

In fact, with our experience in highway construction, we are confident that we will be able to control project expenditure within a reasonable range so that substantial surplus will be resulted. The Company has formulated a series of management rules and risk control measures to counter possible adverse impact associated with raw materials, volatility in workers' wages, schedule delays and insufficient management resources, and so forth. In fact, the Company managed to reduce its construction costs in 2004 leveraging lower raw material prices as a result of macro-economic controls. We believe that participation in the entrusted construction management business will provide the Company with a new income base at relatively high cost efficiency.

**6. Does the Company have plans to improve operating efficiency and enhance cost controls?**



Mr. Michael Chan  
BOCI Research Limited

The Company has been installing electronic toll collection systems at its 11 toll stations and 28 exclusive passages since 2001. This system, allowing toll payment without vehicle stopping, has shortened toll payment time, improved passage conditions, and enhanced overall passage capacity and efficiency. The Group also installed intra-provincial network IC card toll collection systems at Yanba Expressway, Meiguan Expressway and Jihe Expressway in November 2004 which has been in operation. The system can improve passage capacity and efficiency of the entire highway network and lower operating costs for certain mainline toll collection stations in the combined highway network, as well as facilitating more convenient and direct auditing and control over toll collection.

The Company has employed diligent cost-control efforts to lower its operating costs. We have developed a comprehensive budget regime that provides for defined targets and plans for the Company's income and expenditure. Through controls, analyses, appraisals and the provision of incentives in respect of budget implementation, management efficiency and effectiveness have been enhanced. The Company has formulated relevant management systems and processes for its investments,

operations and construction works to ensure that all expenses and charges are reasonably incurred and effectively controlled. For example, the Company outsources the daily maintenance of its highways to independent service providers selected through planned management and market tenders, as a means to ensure that maintenance and repair expenses are controlled within a reasonable range. The Company's construction costs in 2004 were generally lower than their original estimates as it fully capitalised on opportunities presented by falling raw material prices as a result of macro-economic controls.



# Management Discussion and Analysis





## Business Review

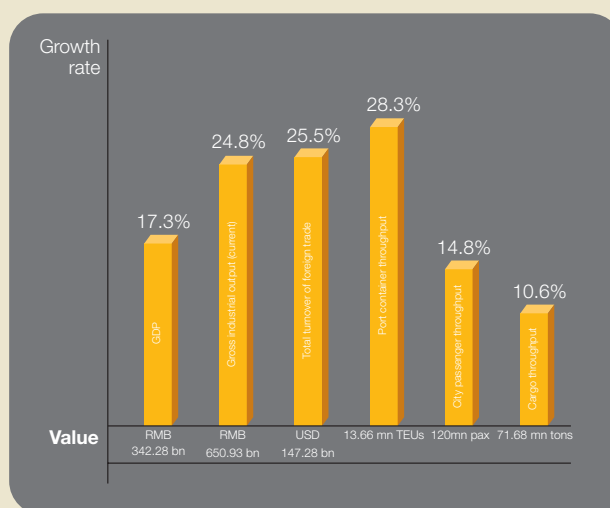
Benefiting from China's sound economic growth and reform policies coupled with geographic proximity to Hong Kong, the Pearl River Delta region has been standing out as one of the most rapidly-growing regions in terms of economic growth and foreign trade cooperation against the backdrop of the rapid, consistent and healthy development of the Chinese economy in recent years. While providing home bases to various manufacturing industries and serving as an important passage for passenger and cargo flow, the Pearl River Delta region now assumes an important position in the global economy.

The gradual implementation of CEPA coupled with the formation of the "9+2" Pan Pearl River Delta Economic Zone is set to provide further drive to the Pearl River Delta economy, resulting in a direct boost of traffic flow on toll roads. Shenzhen's characteristics as an externally driven economy are underscored by its unique geographic position at the gateway of the Pearl River Delta region supported by a sound investment environment and favourable policies. Shenzhen's average GDP growth rate for the past five years was 15.4% per annum, while in 2004 it was 17.3%. In 2004, Shenzhen registered trade turnover of US\$147.3 billion, ranking first among large and medium-scale cities in China for 12 consecutive years. Port container throughputs reached 13.66 million TEUs, firmly establishing the city among the four largest container transportation hubs in the world.

Economic growth in the Pearl River Delta region has resulted in increased personal income for local residents and a faster pace of urbanisation, as the region leads the nation in terms of the number of established counties and towns, population density, personal

income level and vehicle ownership rate. In 2004, Shenzhen had a population of over 11 million and topped the nation with an average annual income per capita close to RMB60,000. Shenzhen is also one of China's cities with the highest density of private vehicles, accommodating close to 700,000 motor cars at present, including around 120,000 new cars registered in 2004. All these factors point to faster development of the local highway industry to cope with rising travelling needs and the demand for road passage with higher quality.

## Major Economic Indicators of Shenzhen 2004



## Operating Results

In 2004, the Group achieved a turnover of RMB 482,540,000 and profit attributable to shareholders of RMB418,870,000, whilst earnings per share amounted to RMB0.192. A detailed financial analysis is set out on pages 39 to 46 of this annual report.

# Management Discussion and Analysis

## Toll Road Business

### Traffic volume and toll revenue

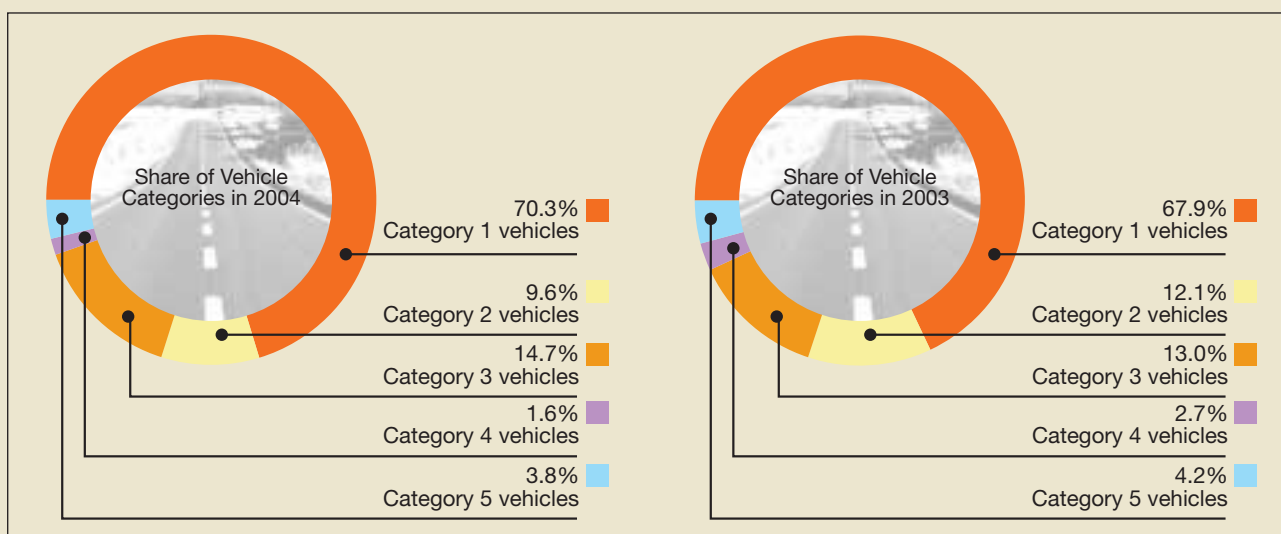
Details of the operation of the toll roads during the reporting period are as follows:

Toll Road	Average daily mixed traffic volume			Average daily toll revenue		
	2004 (number of vehicle)	2003 (number of vehicle)	Change (%)	2004 (RMB)	2003 (RMB)	Change (%)
Meiguan Expressway	64,199	46,397	38.37	707,711	560,477	26.27
Jihe East	44,446	33,308	33.44	631,107	499,489	26.35
Jihe West	35,257	28,284	24.65	593,856	484,467	22.58
Yanba A and B*	9,427	7,423	27.00	89,165	61,171	45.76
Shuiguan Expressway	39,733	30,397	30.71	382,291	300,079	27.40
Changsha Ring Road	4,623	3,454	33.84	55,170	46,836	17.79
Geputan Bridge	2,888	2,706	6.73	22,512	24,359	-7.58

\* Yanba B was completed and opened to traffic in June 2003.

Driven by robust economic growth and substantial increase in the number of vehicles, our toll road operations sustained rapid growth during the reporting period.

For most road sections, the growth in toll revenue lagged behind slightly the growth in traffic volume as small vehicles accounted for an increasing share of total vehicle ownership in the region, with Category 1 vehicles accounting for a 70.3% share of total traffic volume on average in 2004, as compared to 67.9% in 2003.





### *Meiguan Expressway*

During 2004, traffic flow on Meiguan Expressway increased rapidly by 38% over the previous year. Following the opening of the Nonglin Feeder Road of Guanshen (Dongguan-Shenzhen) Expressway in Dongguan in July 2004, a significant volume of Dongguan-Shenzhen traffic on other roads in Dongguan was diverted to Guanshen Expressway and Meiguan Expressway. In the second half of 2004, traffic flow between Guanshen Expressway and Meiguan Expressway accounted for 44% of the total traffic flow, creating favourable conditions for Meiguan Expressway to score record highs in traffic volume and toll revenue. The rise in traffic volume on Meiguan Expressway was also attributable to the Company's increased effort to improve traffic flow on major peripheral driveways, which resulted in increased traffic volume on certain sections in addition to effectively alleviating congestion on these peripheral driveways.

### *Jihe Expressway*

Small vehicles from Shenzhen accounted for the largest share of traffic volume on Jihe Expressway, one of the outer-ring roads of Shenzhen. Meanwhile, expedited construction of logistic parks and trade centres in the surrounding areas of Jihe Expressway provided further drive to rapid traffic growth on Jihe Expressway, particularly Jihe East, whose traffic flow grew 33% in 2004 (2003: 25%). When Guanghui (Guangzhou-Huizhou) Expressway was opened to traffic at the end of 2003, it became the preferred passage for outskirts border-passing vehicles in the northern areas of Humen commuting between Huizhou and Chaozhou/Shantou, causing diversion from Jihe Expressway at the initial stage of its operation. However, the impact of diversion to Guanghui Expressway was short-lived given significant traffic growth driven by thriving economic and trade activities, and consequently Jihe Expressway still sustained strong growth in traffic volume for the year 2004. Traffic flow of Jihe Expressway is expected to maintain rapid growth in the future as industrial centres and logistic parks with a gross area of over 100 sq km are being planned along Jihe Expressway.

### *Yanba Expressway*

Yanba Expressway's under-par performance in toll revenue in the short term was attributable to the absence of holistic network coverage as connection with the highway network within Huizhou had yet to be realised. However, real estate development was prospering in the surrounding area of Yanba Expressway as real estate developers were upbeat about the traffic convenience and economic activities brought about by the commissioning of Yanba A and B. Beginning from the fourth quarter of 2004, vehicles related to construction works had brought additional traffic flow to Yanba Expressway of which traffic volume increased by 27% on a year-on-year basis. Yanba Expressway is expected to enjoy more significant growth in traffic flow and toll revenue when Yanba C becomes operational and when more improvements are concurrently made to the internal road network of Huizhou, thereby bringing the networking effect into play.



### *Shuiguan Expressway*

Shuiguan Expressway has smoothed the traffic flow between the Longgang Industrial Zone and downtown Shenzhen. With a planned area of 38 sq km, the Longgang Industrial Zone is estimated to yield an annual industrial output of RMB22.9 billion upon its completion. Given the rapid development of the Longgang Industrial Zone and the fast-growing population and logistics activities in the satellite counties and towns surrounding Shenzhen, traffic volume on Shuiguan Expressway increased by 31% in 2004.

Shuiguan Extension and Nanping Freeway, both of which are currently under construction, will improve the peripheral networks of Shuiguan Expressway when they become operational, so that these networks can play a more effective role in smoothing traffic flow at the Shenzhen East checkpoint and will facilitate further traffic growth for Shuiguan Expressway.

### *Changsha Ring Road*

Stronger measures against vehicle overloading adopted by Shenchang Company in September 2004 had achieved positive results. Changsha National Highway Ring Expressway (south-western section), which connects with Changsha Ring Road, was operational in November 2004. Apart from enhancing the networking effect, this has made vehicle passage more convenient and faster as combined toll collection was implemented for the two roads to reduce the number of toll stations, and has contributed to growth in traffic flow.

### **Toll rates**

In 2004, the Ministry of Communications proposed toll rate reductions for certain type of trucks. The proposal requires the formulation of implementation plans by relevant communications and pricing authorities at provincial levels and the approval of provincial governments. As of now, the Company has not received any policy documents from the Guangdong Provincial Government in connection with toll rate adjustments. Therefore, we are not in a position to give any meaningful estimates regarding the impact of the policy on the Company's results. Nonetheless, Category 4 and Category 5 vehicles respectively accounted for only 3% and 12% of the Group's toll road revenue, and traffic flow on highways is likely to increase as a result of adjusted toll rates. Therefore, it is expected that the policy will not have any significant impact on the Group's overall operating income.

### **Repair and maintenance of highways**

The maintenance and repair policies adopted by the Company for highways are preventive in nature, emphasising an integrated and comprehensive maintenance and repair programme so that highways and their facilities are maintained at superb working conditions to assure safe, smooth and comfortable driving for roadsters. The Company focuses on management of maintenance and repair skills, while taking proactive and appropriate maintenance and repair measures to enhance the quality of highways. The Company formulated a new maintenance and repair management system in 2004 to further improve relevant processes. The Company's performance quality on toll road maintenance and repair is maintained at an index of above 80, whilst adaptability of its bridges' loading reached 100%.

At the present stage, maintenance and repair works of the Company mainly involve intermediate and minor repair and routine maintenance. Daily operations are administered in accordance with pre-designed plans. Maintenance and repair service providers are selected through invitation for tenders such that expenses incurred are reasonably under control.

The surfaces of toll roads operated by the Company have an operating life of 15 to 20 years. Based on the prevailing good conditions of road surfaces, major repair works of road surfaces are not anticipated for the coming two to three years.

### **Inter-road network toll collection**

Currently, the highway network in Guangdong Province is divided into six districts, namely Guangdong East, Guangdong West, Guangdong North, the Pearl River Delta region, Guangzhou and Shenzhen for the implementation of inter-road network toll

collection. According to relevant planning, inter-road network toll collection will ultimately be implemented throughout the entire province on a uniform basis without any district divisions. Inter-road network toll collection within Guangdong Province will enhance the capacity of the road networks and will facilitate inspection on toll collection.



The Group's inter-road network toll collection system is operating smoothly at present after completion of the modifications in early November 2004 with subsequent approval by relevant authorities of Guangdong Province. To ensure effective performance of the inter-road network toll collection system, the Company compiled the "Rules Governing Inter-network Toll Collection in Shenzhen" (《深圳片區聯網收費管理辦法》). At a press conference held by the Guangdong Provincial Government in December 2004, the Company was named an Advanced Organisation in Inter-road network toll collection modification by the Guangdong Economic and Trade Commission and the Guangdong Communications Bureau.

### Construction and Development

Building upon the operation and management of its existing toll roads, the Company capitalised on its concession rights to develop and operate expressway projects planned by the Shenzhen Government, laying solid foundations for the future expansion of

the Company's asset portfolio and income base. The Company took full advantage of its strengths and experience to engage in project construction and management on its own, in order to ensure the attainment of its targets on quality, construction costs, construction schedules and safety.

The Company's projects currently under construction or at the preliminary stage include Yanpai Expressway, Nanguang Expressway and Yanba C. These projects will be funded solely by the Company and will be, upon completion, run by the Company in terms of toll collection and operational management. These projects are located at prime geographical areas and will play a unique role in providing connections and traffic smoothening functions upon completion, thus having excellent development potential. In particular, Yanpai Expressway and Jihe Expressway will provide links to Yantian Port and Shenzhen airport and form, together with Meiguan Expressway, an express passage for prompt traffic diversion at Yantian Port, playing a significant role in relieving traffic pressure caused by the rapid growth of container throughput at Yantian Port and upon the full operation of Phase 3 construction at Yantian Port. Nanguang Expressway is an express passage connecting the core industrial area of Bao'an with downtown Shenzhen. It is also an essential supporting project of the Hong Kong-Shenzhen Western Corridor aimed at facilitating swift direction of traffic in the western port area of Shenzhen. Yanba Expressway is the main outreaching route for the eastern coastal area of Shenzhen that plays a significant role in meeting increasing traffic demand in eastern coastal Shenzhen and requirements of container transportation at Yantian Port, as well as facilitating tourism and economic activities in eastern Shenzhen.

#### *Yanpai Expressway*

The construction of Yanpai Expressway commenced in July 2003. Its estimated total investment budget was approximately RMB1,149 million. As at the end of the reporting period, RMB281 million or 25% of the above-mentioned budget had been utilised. Completion of the project is scheduled at the end of 2005.

## Management Discussion and Analysis

### *Nanguang Expressway*

The feasibility study report for Nanguang Expressway, with an estimated total investment budget of approximately RMB2,876 million, was approved by the Guangdong Communications Bureau in November 2004. A proposal for toll rates has been submitted to the same bureau through the Shenzhen Communications Bureau pending approval, while other governmental approval procedures are currently in progress. Construction of the project is expected to commence in the first half of 2005 with an estimated construction period of 2.5 years.

### *Yanba C*

Yanba C is the final section of Yanba Expressway with an estimated investment budget of RMB515 million. Preliminary work is currently underway and construction is expected to commence by the end of 2005.

### **Investment and Development**

It is the Company's stated strategy to focus on toll road operations as its principal business and for future development, with Shenzhen as its base expanding towards other areas in the Pearl River Delta region as well as other economically developed regions in China. During the reporting period, the Company made inroads in increasing its market share by investing in toll roads outside Shenzhen, as it capitalised on opportunities arising from the disposal of equity interests in toll road projects by Guangdong and other provinces.

Project	Investment budget (RMB'000)	Amount paid (RMB'000)	Proportion of interest
Yangmao Expressway	271,680	271,680	25%
Jiangzhong Expressway	308,270	205,090	25%
GZ W2 Expressway	250,000	62,500	25%
Nanjing Third Bridge	270,000	270,000	25%
Shuiguan Extension	60,000	60,000	40%
Guangwu Expressway	179,180	—	30%

### *Yangmao Expressway*

On 5 March 2004, the Company entered into an agreement with Guangdong Expressway Company Limited for the acquisition of a 25% equity interest in Yangmao Company at a consideration of RMB271.68 million. Upon completion of the acquisition, Guangdong Expressway Company Limited, Guangdong Transportation Investment Company Limited and the Company hold 60%, 15% and 25% equity interests in Yangmao Company, respectively.

Commencing operation in November 2004, Yangmao Expressway connects with operating expressways at its ends. As a result, it has already achieved good operating performance even at its initial stage of opening. Average daily toll revenue amounted to approximately RMB400,000. Upon completion of the project, the major east-to-west trunk expressway along the coastal line of Guangdong running from Shantou to Zhanjiang through Guangzhou was completely opened to traffic. The expressway serves as a convenient transportation route in Guangdong Province connecting Hainan, Guangxi and other south-western provinces. The traffic volume on Yangmao Expressway will further increase subsequent to the economic development in Yangjiang, Maoming and surrounding areas as well as continuous industrial construction along the expressway.

### *Jiangzhong Expressway*

On 7 April 2004, the Company entered into an agreement with Guangdong Province Highway Construction Company Limited to acquire 25% equity interest in Jiangzhong Company at a consideration of RMB169,500,000. Upon completion of the acquisition, Guangdong Province Highway Construction Company Limited, Yue Expressway Development Company Limited and the Company hold 60%, 15% and 25% equity interests in Jiangzhong Company, respectively. Apart from the payment of consideration to Guangdong Province Highway Construction Company Limited in connection with the equity transfer, the Company might also be required to contribute project funding to Jiangzhong Company at an amount of approximately RMB138.77 million in accordance with the project schedule and in proportion to the Company's shareholding. An amount of RMB2,120.85 million or 67% of the

total investment had been utilised as at the end of the reporting period and completion is scheduled for October 2005. Upon completion, Jiangzhong Expressway will form part of the trunk highway network in southwestern Guangdong, reducing the traffic distance between the eastern and western wings of the Pearl River Delta (with Guangzhou as the centre) by nearly 60 km.

### *GZ W2 Expressway*

On 24 May 2004, the Company entered into a joint venture agreement with Guangzhou Highway Development Company and Guangzhou Yue Peng Information Ltd., a wholly-owned subsidiary of GZI Transport Limited, to form GZ W2 Company for the joint investment in the construction and operation of GZ W2 Expressway. The Company, Guangzhou Highway Development Company and Guangzhou Yue Peng Information Ltd. will hold 25%, 40% and 35% equity interests in GZ W2 Company, respectively. The total investment amount is estimated at approximately RMB3,003 million, of which RMB1,000 million will be registered capital. The Company will contribute RMB250 million. As at the end of the reporting period, a total of RMB306.31 million or 10% of the total investment amount had been utilised. When it is operational, GZ W2 Expressway will be connected with expressways and national highways at the periphery of Guangzhou and will serve as the only route connecting western Guangzhou to Huadu International Airport.

### *Nanjing Third Bridge*

In June 2004, the Company invested in Nanjing Third Bridge Company (南京三橋公司) by way of equity participation with an investment amount of RMB270 million. The Company, Nanjing Communications Construction and Investment Holdings Company Limited, Bright Oceans Corporation and Nanjing Pukou Economic Development Corporation hold 25%, 45%, 25% and 5% equity interests in Nanjing Third Bridge, respectively. Construction of Nanjing Third Bridge commenced in May 2003 and the total investment amount is estimated at approximately RMB3,301.487 million. As at the end of the reporting period, RMB 1,673.76 million had been utilised, and the project was about 51% completed. Nanjing Third Bridge is the most convenient passage along the

Shanghai-Chengdu national highway trunk (Hurong Line) crossing over Yangtze River at Nanjing. Upon completion in 2006, Nanjing Third Bridge will complete the Jiangsu Section of Hurong Line, contributing to the formation of the east-west highway trunk and the enhancement of the overall national traffic network.

### *Shuiguan Extension*

Shuiguan Extension is an investment of Huayu Company (華昱公司) and is expected to involve a total investment amount of RMB510 million. On 26 May 2004, Shenzhen Huayu Investment Development Joint Stock Company Limited (華昱投資開發股份有限公司), its subsidiary Shenzhen Haorancheng Industrial Company Limited (深圳市浩然成實業有限公司) and the Company entered into share transfer agreements, whereby 10% and 30% equity interests in Huayu Company would be transferred respectively to the Company at a total consideration of RMB20 million. In July 2004, the registered capital of Huayu Company was increased from RMB50 million to RMB150 million, with the additional capital to be applied to finance the construction of the project. The Company has contributed RMB40 million as additional capital.

Shuiguan Extension commenced construction in 2003. As at the end of the reporting period, RMB450 million or 88% of the total investment amount had been invested in works and the construction had been 95% completed. The project, scheduled to become operational by mid-2005, is expected to improve the road network of Shuiguan Expressway and enhance the role of Shuiguan Expressway in alleviating passenger and cargo flow along the line. Upon completion of the project, it will be solely managed by Qinglong Company, which also operates and manages Shuiguan Expressway. The Company holds a 40% interest in each of Qinglong Company and Huayu Company.

### *Guangwu Expressway*

On 8 December 2004, the Company entered into an agreement with GDRB Company to acquire a 30% equity interest in Guangyun Company at a consideration of RMB179.18 million. Upon completion of the acquisition, GDRB Company, Yunfu Expressway Construction Company and the Company will hold 67%, 3% and



## Management Discussion and Analysis



30% interests in Guangyun Company, respectively. Guangwu Expressway, owned by Guangyun Company, was opened to traffic in December 2004 and is set to become an important passage for transportation in western Guangdong by providing to the Pearl River Delta region an economic and transportation link with Guangxi, Yunnan, Guizhou, Chongqing and Sichuan. On 18 February 2005, the said acquisition was approved at the extraordinary general meeting of the Company.

In 2004, the Company made substantial progress in its investments outside Shenzhen with breakthroughs in its expansion to Guangdong Province and the Pearl River Delta region. Aside from providing solid foundations for expanding the Company's income base in future, these collaborative projects would also enable the Company to increase its market share and strengthen its position and influence in the industry by channelling strategic partnerships with GD Communications Group.

Entering 2005, the Company continued to make major strides in external investments. On 3 February 2005, the Company, Mei Wah Company, Mr. Chung Chi Fai (a natural person), Spring Sun International Limited, Guangdong Yingjun Investment Holdings Co. Ltd., Maxprofit Gain Limited and Zhuhai New Chang Jiang Construction Investment Co. Ltd. entered into agreements with an aim to acquire a total of 56.28% equity interest in and related shareholders' loans of Qinglian Company for an aggregate

consideration of RMB1,839.2 million. Qinglian Class I Highway, owned by Qinglian Company, is a 215.85km arterial highway in Guangdong Province, connecting the northern and the southern highway framework in the province and enhancing the trading and economic activities from the Pearl River Delta region to the Mainland. It connects with the proposed Tai-ao (Taiyuan - Macau) Expressway in Lian Zhou. In the south, it connects with Guangqing (Guangzhou-Qingyuan) Expressway, thereby linking up the transportation network of the Pearl River Delta region. In the north, it further extends to Yizhang of Hunan Province where it connects with Beijing-Zhuhai Expressway. In addition, it intersects with the Shantou-Kunming Expressway, a major government-planned highway trunk connecting China's East and West, and is an essential corridor to link up the Pearl River Delta region and the central and northern parts of Guangdong Province with Hunan Province and other mainland provinces. With a view to increasing the traffic capacity of highway networks by enhancing the efficiency of existing lines and bringing the capacity of major trunk highways into full play, plans are underway to re-construct Qinglian Class I Highway into an expressway for a total investment of approximately RMB3.9 billion. The reconstructed Qinglian Class I Highway will be an important transportation infrastructure for the development of the Pan Pearl River Delta Economic Zone as a key passage for the transportation between mainland provinces and the Pearl River Delta and Hong Kong/Macau regions. The Company will ensure sound project construction and management and prudent operation of this asset upon completion of the acquisition on the back of its strengths in highway investment and construction, with a view to enhancing the Company's overall profitability.

### Entrusted Construction Management

Entrusted construction management refers to government selection and appointment of private companies specialised in project management to organise, implement and manage government-invested projects. During the entrustment period, the entrusted administrator assumes certain duties of the investor according to the contract. Such duties normally include reporting, environmental assessment, engineering work tendering, management and

coordination of construction works and during the warranty period, cost control as well as supervision of construction standards and progress, while the commissioning and assessment of project designs, land requisitioning and demolition of buildings, inspection and acceptance upon completion, management and maintenance after acceptance and duties in respect of organisation, coordination and approvals among relevant government authorities are excluded. The administrator is also not liable to advance or provide any funding for the project on behalf of the investor.

The entrusted construction management system represents an effective measure in the government's reform of the investment financing system. It is aimed to effectively separate the functions of investment, construction, operation and supervision in government projects, in order to avoid excessive investment, over-sized construction or excess above stipulated standards. While modifying and defining the role of the government, this system has also opened up new business opportunities for companies in relevant sectors. 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 standards within the scope of entrustment as agreed in the contract. Therefore, on top of reliable quality and credibility, it requires strong expertise in budget and work schedule controls for a project management company to succeed in this emerging business.

The Company boasts proven experience in project construction management, having been engaged in this sector for over 10 years with a track record in controlling construction quality, schedules and costs. It has been widely recognised by the government and the industry as a "model of quality and effectiveness" in highway construction. Therefore, the Company is well-positioned to capitalise on this unique opportunity to develop the business of construction management in connection with government-invested highways by "exporting" its construction management skills and experience. This will further broaden the Company's scope of business and create a new income base for the Company.

### *Nanping Project*

On 11 February 2004, the Company entered into an entrusted construction management agreement with the Shenzhen Communications Bureau (on behalf of the Shenzhen Government) to manage the Nanping Project. The Company was appointed as the project administrator of the Nanping Project. According to the agreement, the Company's management income was to be determined by the project costs balance. The construction budget of the project was estimated at approximately RMB2,268 million. If the final balance of project costs or any deficit was to fall within 2.5% of the construction budget, then the balance or the deficit amount would be credited to or borne by the Company. If the balance or the deficit was greater than 2.5% of the construction budget, the portion of balance or deficit that exceeded 2.5% would be equally shared or borne by the Company and the Shenzhen Communications Bureau. Cost projections were made by the Company and approved by the Shenzhen Audit Bureau.



During the Year, 15 contract sections of the Nanping Project commenced construction and an investment amount of RMB471.92 million had been utilised. The project is expected to be completed in line with schedules specified under the terms and conditions of the agreement, with partial completion scheduled for the first half of 2005 and full completion by the end of 2005.

## Management Discussion and Analysis

The project is expected to be completed on time in accordance with the terms and conditions of the agreement. Based on the tendering status of various contract sections, the accepted tender prices were generally within budget. As at the end of the reporting period, the Company had received RMB400 million from the Shenzhen Government as project funding, of which an aggregate of RMB355.567 million had been paid as project costs.

### *Hengping Project*

On 12 March 2004, the Company entered into an entrusted construction management agreement with Longgang Highway Bureau (on behalf of the Shenzhen Longgang People's Government) to manage the Hengping Project. The Company was appointed as the project administrator of the Hengping Project. The construction budget of the project was estimated at approximately RMB450 million. The Company's management income is to be determined by the project costs balance. Any balance or deficit amount of the final construction costs would be credited to or borne by the Company.

As at the end of the reporting period, Hengping Project incurred project costs of RMB14.09 million. The Company received RMB30 million from the Shenzhen Longgang District Government as project funds and an aggregate of RMB18.445 million had been advanced or paid as project costs. At present, the land requisitioning and demolition work relating to the Hengping Project is falling behind schedule and the completion date will be delayed. The whole project is expected to be completed in the first half of 2006. As the Company is not required by the agreement to be responsible for land requisitioning and demolition, the Company's performance in accordance with the construction schedules as stipulated in the agreement will not be affected.

### **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. The advertising company recorded a profit of RMB1.324 million in 2004.

The Company has established a consultancy company together with certain engineering and technical personnel as primary shareholders to develop businesses such as project management consultancy, information technology consultancy, engineering consultancy, construction costs consultancy and tendering agent. The purpose of establishing this company is to leverage the Company's experience and human resources in highway project management while providing motivations to such engineering and technical personnel. To date, some initial progress have been made on the market development of the businesses concerned.

In a move to resolve problems associated with the Shenzhen Wutongling Ropeway project, the Company acquired the 55% equity interest in Ropeway Company held by Zhongmin Investment Services Limited (深圳市中民投資服務公司) in August 2004 by way of auction for a price of RMB945,000. The Company now holds a total of 95% in the equity interest of Ropeway Company. As at the end of the Year, the Wutongling Ropeway project, which Ropeway Company is responsible for constructing and managing, remained suspended. The Company is actively seeking appropriate solutions. In the event that the project is abrogated by the government, the Company will strive to claim damages for losses from the government.



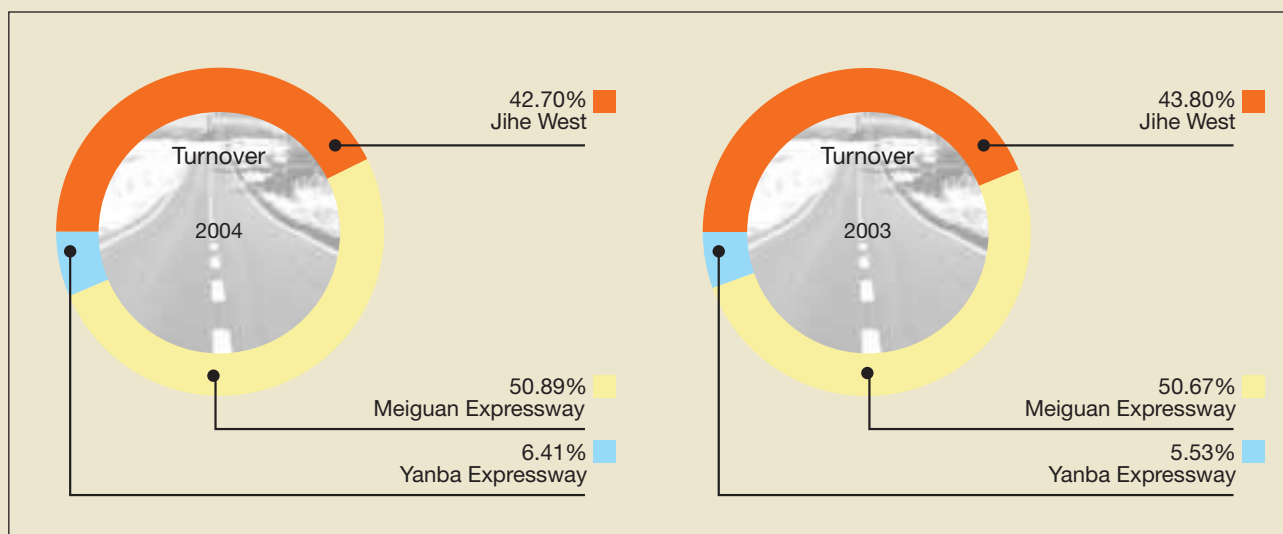
## Financial Review

### Profit Analysis

The Group's profit attributable to shareholders for 2004 amounted to RMB418,870,000, representing an increase of 33.78% as compared to profit attributable to shareholders generated from "ordinary activities" in the previous year. The decrease of 53.43% in total profit over the previous year was attributable to the disposal of two Class 1 highways by the Group in March 2003, which resulted in non-recurring "gain on disposal of assets". The Group's toll roads continued to enjoy rising profitability during the Year and as a result, profit generated from its ordinary activities quickly returned to the same level before the disposal of the two Class 1 highways.

### Turnover

The Group recorded a turnover of RMB482,540,000 in 2004, representing an increase of 14.47% when compared to the previous year. Discounting the turnover from the two Class I highways for the three months prior to their disposal in 2003 (amounting to RMB38,793,000), turnover of the Group's existing highway operations registered a year-on-year growth of 26.08%. For the three toll roads owned by the Group, turnover of Meiguan Expressway increased from RMB193,936,000 in the previous year to RMB245,553,000, representing an increase of 26.62%; turnover of Jihe West Expressway increased from RMB167,635,000 in the previous year to RMB206,049,000, representing an increase of 22.92%; turnover of Yanba A and B increased from RMB21,166,000 in the previous year to RMB30,938,000, representing an increase of 46.17%, as Yanba B was completed and opened to traffic in June 2003.



Growth in the Group's turnover during the Year was mainly attributable to the increase in traffic flow on each of the toll roads as they benefited from the robust growth of China's economy and the substantial increase in the number of vehicles. Given an unchanged

toll rates this year with the previous year, the increasing number of small vehicles among total vehicle ownership in the region caused the Group's average toll revenue per vehicle a slight decrease of 5.19%. As a result, turnover growth lagged slightly behind the growth in traffic flow.

Toll Road	Average Toll Per Vehicle			Growth Rate	
	2004 (RMB)	2003 (RMB)	Growth Rate	Traffic Volume	Growth Rate of Turnover
Meiguan Expressway	11.024	12.080	-8.74%	38.37%	26.62%
Jihe West	16.844	17.129	-1.66%	24.65%	22.92%
Yanba Expressway	9.458	8.241	14.77%	27.00%	46.17%
<b>Total</b>	<b>12.773</b>	<b>13.472</b>	<b>-5.19%</b>	<b>32.62%</b>	<b>26.08%</b>

## Management Discussion and Analysis

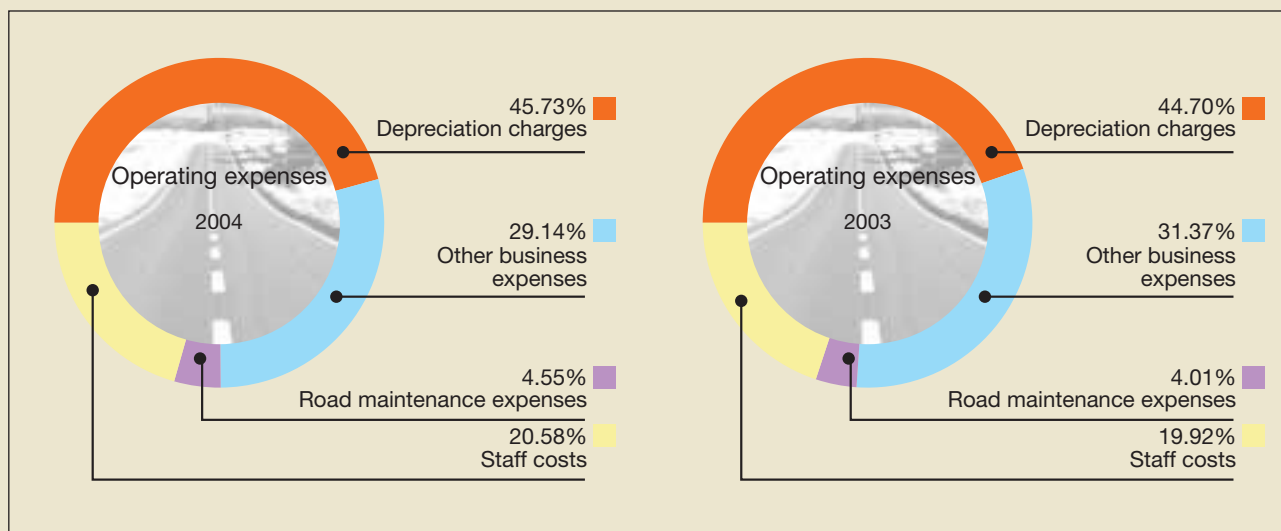
### Operating Expenses

The Group's operating expenses remained under effective control. Despite a larger volume of business relating to new projects, the Group's operating expenses before depreciation increased by only 4.59%.

Staff costs amounted to RMB40,337,000, representing an increase of 10.1% as compared to the previous year, attributable mainly to a longer period of operation of six more months for Yanba B as compared to the previous year, as well as additional headcount required by business expansion. Road maintenance expenses amounted to RMB8,912,000, representing an increase of 20.94% as compared to the previous year, which was attributable to increased investment in road maintenance and repair to ensure sound road conditions in response to increased

traffic flow and longer operating life of roads. Other operating costs decreased by 0.98% to RMB57,114,000, primarily due to provision for impairment loss amounting to RMB28,311,000 made in respect of the Wutongling Ropeway project in the previous year, as well as a write-off of RMB6,104,000 for the replacement and disposal of toll collection systems in connection with the inter-road network toll collection project and the increase in new business development expenses during the Year.

During the Year, the Group reviewed the use of traffic flow estimates as the basis for calculating depreciation, and decided to maintain the existing accounting estimates. Depreciation charge for the Year increased to RMB89,651,000 as traffic flow increased, representing an increase of 9.08% as compared to the previous year.



### Other Revenues

In 2004, the Group's other revenues increased by 39.11% to RMB110,609,000. Such increase was mainly attributable to:

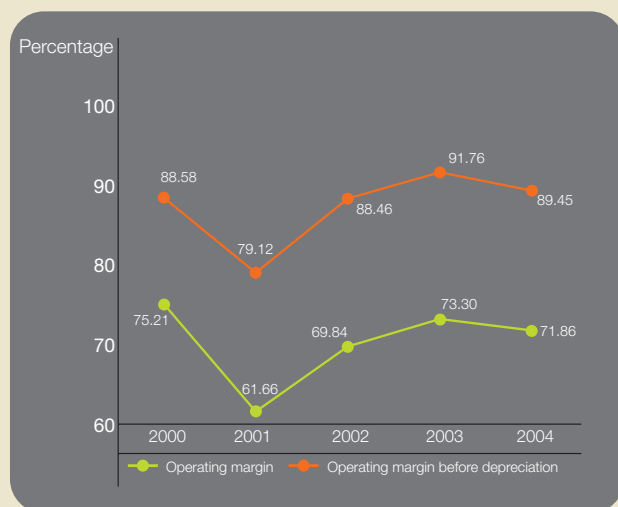
- A deferred income of RMB35,708,000 recognised for the Year in respect of government subsidies for Yanba Expressway;
- A discounted interest income of RMB35,779,000 recognised for the Year in respect of long-term account receivable in connection with the disposal of two Class 1 highways;

- A total income of RMB17,351,000 received in respect of the entrusted construction management service provided for the Yanba linkage project and the Nanping Project. As no reliable estimates could be made in respect of the management results for the project during the Year but future reimbursement of administration expenses incurred relating to this project were probable, the Company recognised income and expenditure for the Nanping Project on the basis of administration expenses of RMB6,333,000 incurred during the Year. No profit was accounted for during the Year; and
- Bank deposit interest income of RMB11,938,000.

## Operating Profit

As a result of the increase in turnover and other revenues, the Group recorded an operating profit of RMB397,135,000 in 2004, representing an increase of 25.22% as compared with that generated from “ordinary activities” in the previous year. Total operating profit for the Year decreased by 60.62% over the previous year, due to the non-recurring profit derived from “gain on disposal of assets” in 2003. Operating margin from toll roads for the Year was 71.86%, as compared to 73.30% in 2003. Such decrease was mainly attributable to the increase in write-off relating to obsolete toll collection systems.

## Operating Margin of Toll Roads



\* Operating margin of toll roads does not include government subsidies for Yanba Expressway.

## Share of Profit of Jointly Controlled Entities

The Group’s share of profit of jointly controlled entities was RMB120,032,000, representing an increase of 103.12% as compared with that of the previous year. This was mainly attributable to the increase in traffic volume on toll roads operated by all jointly controlled entities.

In particular, the Group’s share of profit of Jihe East Company (operator of Jihe East) increased by 23.42% to RMB94,907,000 and its share of profit of Qinglong Company (operator of Shuiguan Expressway) increased substantially by 82.92% to RMB22,444,000. In respect of Qinglong Company, in addition to increased traffic flow, the growth was attributable to a decrease of RMB1,720,000 in interest expense as a result of reduction in borrowing costs for the company. The Group’s share of loss of Shenchang Company (operator of Changsha Ring Road) amounting to RMB28,346,000 in 2003 was reversed to a profit of RMB333,000 for the Year under review (Please refer to Note\*\* under a paragraph entitled Earnings Before Interest and Taxation (“EBIT”) on page 42 for detailed explanations). The Group’s share of profit of Yungang Company (operator of Geputan Bridge), the results of which were included in the Group’s accounts since November 2003, amounted to RMB2,349,000 for the Year under review.

## Share of Profit of Associated Companies

The Group registered six new associated companies during 2004 and its share of loss of associated companies amounted to RMB706,000, comprising share of profit of a consulting company that was formerly a subsidiary amounting to RMB1,420,000 and share of loss of Yangmao Company (operator of Yangmao Expressway which was opened to traffic in late November 2004) amounting to RMB581,000. Other associated companies were in the stage of construction. The Group’s share of loss of associated companies was mainly attributable to amortisation of goodwill on acquisition for the Year amounting to RMB1,545,000.

## Management Discussion and Analysis

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

Contributions of the Group’s principal activities to EBIT were as follows:

Principal Operation	2004 (RMB'000)	2003 (RMB'000)	change (%)
Meiguan Expressway	184,105	154,298	19.32
Jihe West	166,480	142,326	16.97
Jihe East	94,907	76,896	23.42
Yanba Expressway	31,948	30,226	5.69
Shuiguan Expressway	22,443	12,348	81.76
Other highways**	2,645	(28,150)**	N/A
Highway related businesses***	71,897	2,441***	2,846.59
<b>Sub-total</b>	<b>574,425</b>	<b>390,385</b>	<b>47.14</b>
Two Class 1 highways: NH107 and NH205	–	25,931	-100.00
Unallocated expenses of the Group	(57,964)	(40,062)	44.69
<b>Total</b>	<b>516,461</b>	<b>376,254</b>	<b>37.26</b>

\* “Gain on disposal of assets” was not included in the figures for 2003.

\*\* Other highways included Changsha Ring Road, Geputan Bridge and highways operated by associated companies. EBIT from other highways in 2003 comprised the Group’s share of loss of Shenchang Company amounting to RMB28,346,000 (comprising provision for impairment loss of fixed assets amounting to RMB77,000,000, interest income on entrusted project loans amounting to RMB50,026,000, operating losses of Shenchang Company amounting to RMB1,372,000, and operating profit of Geputan Bridge amounting to RMB196,000.

\*\*\* Highway-related businesses consisted of project management fee income from entrusted construction management services, the Ropeway Company, the advertising company and interest income. A provision of RMB30,311,000 was made for impairment loss of the Ropeway Company in 2003.

Finance costs in 2004 amounted to RMB12,922,000, representing a decrease of 1.66% as compared with that of the previous year.

The Group’s profit attributable to shareholders for 2004 amounted to RMB418,870,000. Earnings per share amounted to RMB0.192. The Board recommended a final dividend of RMB0.11 per share.

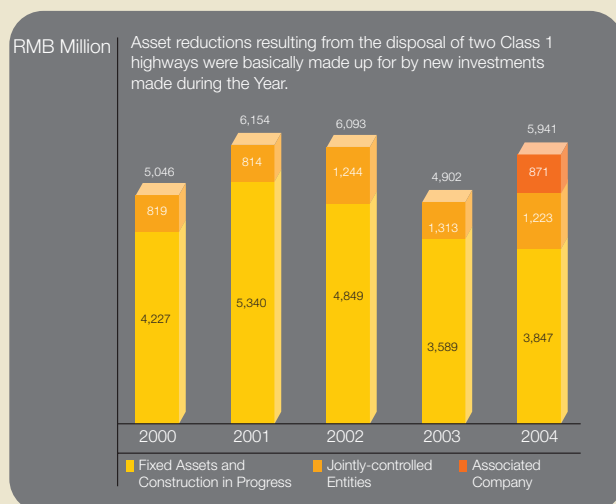
### Financial Position

#### Non-current Assets

The Group is principally engaged in the operation of toll roads and its non-current assets comprise mainly fixed asset investments and equity investments in high-grade toll roads. As at the year end date, the original costs of the Group’s non-current assets amounted to RMB5,941,749,000, representing an increase of 21.20% over the previous year. The net book value of the Group’s non-current assets at the end of the Year amounted to RMB5,676,056,000. The Group’s capital expenditure during the Year amounted to RMB1,164,413,000 (2003: RMB395,622,000). As at 31 December 2004, the Group’s capital commitment for the future five years was estimated at RMB7,147,356,000. Asset reductions resulting from the disposal of two Class 1 highways were basically made up for by new investments made during the Year, which will become a new source of revenue growth for the Group in the future.

Details of the new investments are set out in the section headed “Business Review”. Details of future capital expenditure are set out in the section below headed “Financing/Capital”.

## Long-term Asset Growth (at Cost)



## Current Assets and Liabilities

As at 31 December 2004, the Group's current assets amounted to RMB1,669,430,000 (2003: RMB1,944,490,000), including cash and cash equivalents of RMB1,203,239,000 (RMB1,133,014,000 and HK\$64,165,000), restricted cash of RMB55,988,000 and account receivable of RMB403,268,000. The cash and cash equivalents at the end of the Year were mainly cash received from the disposal of two Class 1 highways in the previous year. Such cash amounts will be used as investments for new projects.

The Group's cash is generally held in current account deposits or short-term fixed deposits with commercial banks in China and Hong Kong. No cash is deposited with non-bank institutions or is employed in any securities investments.

As at 31 December 2004, the Group's current liabilities amounted to RMB642,756,000 (2003: RMB357,133,000), including RMB156,538,000 as project costs payables and deposits, RMB55,988,000 as government funds for entrusted construction management projects and RMB360,000,000 as short-term bank loans. Increase in the Group's current liabilities was mainly attributable to the increase in short-term borrowings. In view of the current cash flow position and future cash flow requirements of the Group, it is expected that the Group will have sufficient funds for the repayment of these borrowings.

## Shareholders' Equity

As at 31 December 2004, shareholders' equity of the Group amounted to RMB6,086,606,000, an increase of RMB4,537,000 from 2003. The increase reflected mainly profit attributable to shareholders and retained earnings after dividend payment during the Year.

## Deferred Tax Liabilities

As at 31 December 2004, the Group's net deferred tax liabilities amounted to RMB50,383,000, comprising mainly deferred tax liabilities of RMB52,261,000 on timing difference arising from differences between the carrying amounts of assets and liabilities and their tax bases in respect of toll road depreciation and amortisation of land use rights, and deferred tax assets of RMB1,878,000 in respect of the provision for impairment loss for investment in the Wutongling Ropeway project.

## Deferred Income and Government Subsidies

As at 31 December 2004, the balance of the Group's deferred income amounted to RMB318,764,000. This deferred income represented the amount paid by the Shenzhen Government to subsidise insufficient traffic flow owing to the early completion of six driveways on the Group's Yanba Expressway. Income recognised by the Group amounted to RMB35,708,000. As at 31 December 2004, the Group's long-term liabilities included other long-term advance amounted to RMB54,000,000 which is an interest-free advances by the Ministry of Communications for the Yanba Expressway with no fixed repayment date.

## Borrowings and Solvency

As at 31 December 2004, the Group's total borrowings in respect of bank loans and government loans amounted to RMB493,901,000, an increase of RMB417,725,000 from 2003. The loans were mainly used for investment in new projects. Details of the Group's borrowings and capital are set out in the section below headed "Financing/Capital".



# Management Discussion and Analysis

## Financing/Capital

### Financing activities

While the Chinese government implemented macro-economic control measures during the Year, highway investments remained an encouraged industry and continued to enjoy enormous support from the capital market such as banks. At present, bank loans generally finance 65% of the total investment for highway projects in China. The repayment period is generally over 10 years and this provides adequate financial resources for highway projects. The Renminbi interest rate remained at historic lows despite a small upward adjustment in the second half of 2004 due to inflation and US interest rate hikes.

On the back of steady growth in cash flow, sound credit record and fine industry reputation, the Company was assigned an AAA credit rating in 2004 by an institution recognised by the People's Bank of China. Good credit rating is beneficial to the Company's financing activities and allows the Company to continue to qualify for prime rates under the interest rate policy of the People's Bank of China.

Due to a low borrowing level in 2004, the Group's bank loans were mainly short-term nature with maturity period of one to two years. The combined lending rate for the Year under review was 4.778%, slightly higher than 4.582% for the previous year, mainly as a result of the larger proportion of two-year loans compared to the previous year.

During the Year, the Company made proactive moves to capitalise on favourable conditions, both internal and external, to negotiate new financing facilities and agreements with banks. As of the date of this report, credit facilities granted to the Company amounted to RMB4,890,000,000, with an unutilised balance of RMB4,400,000,000. The Company also has plans to adjust its borrowing structure to increase the variety of loan types employed and to extend its maturity profiles, with a view to satisfying the capital expenditure requirements in future.

### Borrowing Structure (as at 31 December 2004):

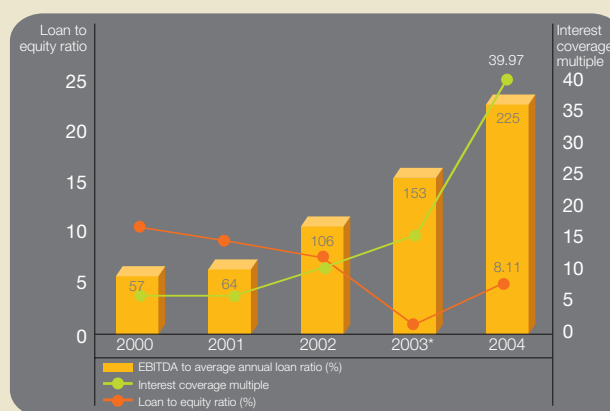


### Capital Structure

As at 31 December 2004, the Group's total debt to equity ratio was 19.86% (2003: 14.09%) and its loan to equity ratio was 8.11% (2003: 1.25%). Interest coverage for the Year was 39.97 times (2003: 28.63, excluding "gain on disposal of assets").

With steady growth of net operating cash flow and funds generated from the disposal of two Class 1 highways, the Group currently enjoys a high level of solvency that ensures greater flexibility for raising loans in the future.

### Debt Repayment Abilities (as at 31 December 2004):



\* Gain on disposal of assets was excluded from the 2003 net profit

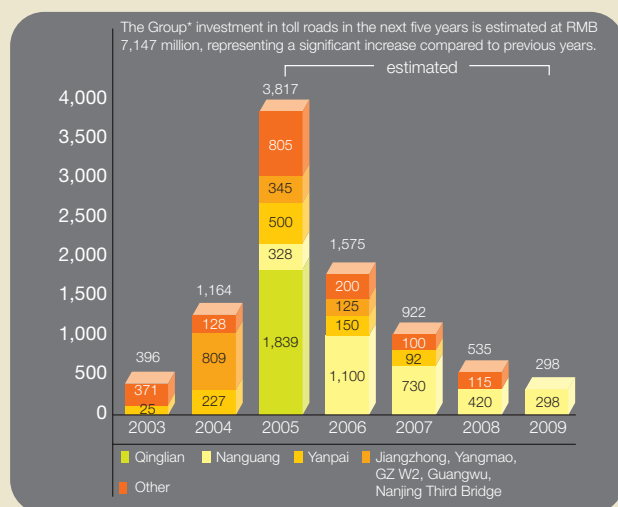
## Capital Commitment

As at 31 December 2004, the Group's capital expenditure projects mainly included the construction of Yanpai Expressway, Nanguang Expressway and Yanba C and investments in Qinglian Class I Highway, GZ W2 Expressway, Guangwu Expressway and Jiangzhong Expressway. Capital expenditure for the next five years is estimated at RMB7,147,356,000, representing a substantial increase compared to previous years.

The Company plans to fund the aforesaid amounts by internal resources and external borrowings and would be able to fulfill such capital expenditure given the Company's enriched financial resources and sound 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 RMB3,900,000,000 is expected to be satisfied by external borrowings by Qinglian Company.

The Company believes that the aforesaid new projects will significantly enhance the Group's profitability. The Company is fully aware of the financial and other risks associated with large-scale investments and effective measures will be adopted to control such risks. Please refer to the section headed "Risk Management" for details.

## Capital Expenditure Plans (RMB million)



## Cash flow of the Group

The growth in traffic volume and toll revenue ensures steady growth in the Group's operating cash flow. During the Year, net operating cash flow of the Group was RMB351,317,000 (2003: RMB295,006,000). Dividends and loan repayments received from jointly controlled entities amounted to RMB159,459,000 (2003: RMB168,255,000). Aggregate net cash flow resulted from the above two items amounted to RMB510,776,000 (2003: RMB463,261,000).

The installment payment and the tax-equivalent compensation payment in respect of the disposal of two Class 1 highways received during the Year amounted to RMB579,000,000 and RMB105,204,000, respectively. A cumulative amount of RMB1,649,204,000 has been received as at the year end date. According to the agreement, the balance of RMB386,000,000 is receivable in 2005.

Net increase in loans amounted to RMB417,725,000 during the Year.

During the Year, cash outflow comprised mainly capital expenditure for Yanpai Expressway, Yanba Expressway, Yangmao Expressway, Jiangzhong Expressway, Nanjing Third Bridge, Shuiguan Extension and GZ W2 Expressway and amounted to RMB1,164,413,000 in aggregate; payment of income tax amounting to RMB105,204,000 in respect of income received for the disposal of two Class 1 highways; and dividend payments amounting to RMB414,333,000.

As at 31 December 2004, the Group's cash and cash equivalents decreased by RMB1,579,000 as compared to the previous year.

# Management Discussion and Analysis

## 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 began in June 2001 and the section was opened to traffic for toll collection in June 2003.

An amount of RMB30.5 million was applied during the reporting period and the cumulative amount of proceeds applied was RMB414 million. As at 31 December 2004, proceeds in the amount of RMB190 million remained unutilised and were mainly held as short-term fixed deposits with banks in China 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 had been significantly enhanced with the formation of a local traffic network with Yanba A, details of which are set out in the section headed "Profit Analysis".

## Risk Management

It has always been a high priority for the Board and the management of the Company to deal with various risks facing the Group. Proactive reviews are conducted on an ongoing basis and relevant preventive measures have been adopted to procure effective implementation and realisation of the Group's strategies and goals.

## Financial Risks

### Cashflow risk

The highway business is a capital-intensive industry characterised by a relatively long period for investment return. For this reason, the Group has consistently adopted a prudent approach in financial management to prevent risks associated with cashflow problems, which is particularly important in the current stage of the Company's business development, underpinned by capital expenditure growth in a macro-economic environment threatened by inflationary pressure.

Over the years, the Company has developed an exacting model for financial forecasts and estimates to evaluate investments in new projects in light of the Company's financial resources. All investments of the Company are stringently evaluated and prioritised on the basis of intended levels of return on capital, turnover of cashflow and capital costs. Essential sensitivity analysis is conducted in respect of all important assumptions and parameters. Such principal assumptions of the model are reviewed in detail and updated as necessary on an annual basis.

Meanwhile, the Company has employed different types of financing tools and maintained a balanced debt portfolio, taking into account the repayment term, fixed/floating interest rates and foreign exchange risks, with a view to diversifying debt risks, maintaining sufficient financial facilities and lowering capital costs.

### *Risk of dependence on a single source of profit*

The Group's major operations are based in Shenzhen since its establishment. Given the limited geographical size of Shenzhen and the limited number of vehicles the city can accommodate, the Group will be exposed to risks associated with the coverage of a single market if it relies solely on toll roads in Shenzhen as its source of profit. Such risks include the adverse effects of falling demand for new projects, economic slowdown and policy changes.

Therefore, the Group is seeking to explore new toll road projects in other areas in Guangdong Province and the rest of China to increase profit contribution from markets beyond Shenzhen. Meanwhile, the Company has also identified "entrusted construction management" as a new source of income besides toll road operations by providing this service to government-owned infrastructure, fully leveraging our core capabilities and strengths in highway construction and management.

### **Interest rate risk**

The Group maintains a reasonable debt portfolio mainly based on a combination of fixed and floating interest rates. Interest rate swap contracts are also executed as appropriate, according to changes in the market, to control the risk of interest rate hikes. As at the end of 2004, the Group had no outstanding interest rate swap option contracts.

### **Foreign exchange risk**

All major operations of the Group are located in China and the operating income and expenses as well as capital expenditure of the Company, with the exception of dividend payment in respect of its H-Shares, are denominated in RMB. Therefore, the Group's loans are principally denominated in RMB. As at the end of 2004, the Group only recorded a minimal amount of foreign exchange loans and deposits and as a result, fluctuations in exchange rates did not have any material impact on the Company's results.

### **Contingent liabilities**

For details of the Group's contingent liabilities, please refer to Note 29 in the accounts.

## **Market and Policy Risks**

### **Fluctuation in toll rates**

In November 2004, the National Development and Reform Commission ("NDRC") and the Ministry of Communications recommended to provincial governments the reduction of toll rates for Category 4 and Category 5 vehicles as a means to alleviate the issue of vehicle overloading. In the event of implementation of this policy by the Guangdong Government, there will be a slight decrease in the Group's toll revenue. On the other hand, continued inflation in China in future will affect investment in and operating costs for highway operations, while corresponding adjustments to toll rates are subject to approval by local provincial governments.

Measures adopted by the Company: the application of more prudent assumptions for toll rate adjustments in the analysis of new project investments to build in stronger risk resilience; the ongoing adoption of cost reduction measures (including construction costs and operating costs) to ensure that profit for shareholders will grow even if toll rates remain at the same level; maintaining good working relationships and proactive communications with government authorities and fellow highway operators to foster accurate and pragmatic understanding of the business among parties concerned, so that more desirable toll rates will be determined.

### **Variations in traffic flow**

The growth of traffic flow on China's highways is assured by China's continued economic growth coupled with potential vehicle growth. However, situations vary with different projects and all toll roads are subject to a limited term of operation. The Company's profit might be adversely affected if the vehicle flow for a highway investment project fails to reach the projected level during the term of operation, or if existing highways are subject to significant diversions as a result of changes in the layout of China's highway network.

Measures adopted by the Company: the application of more prudent assumptions for the growth of vehicle flow at the stage of evaluation to increase the risk resilience of projects; the adoption of a more prudent approach in the evaluation of new projects to rule out investments in unfamiliar regions; acquiring timely knowledge of the distribution and flow of peripheral networks and making timely, appropriate investment decisions; maintaining good working relationships with government authorities and fellow highway operators to help realise optimal distribution and connection of regional highway networks in the region; and offering premium services to roadsters and strengthening the promotion and marketing of new highways to enhance the Company's market competitiveness.

# Management Discussion and Analysis

## ***Increasing market competition***

The highway sector saw increasing investments from non-specialised companies, private companies and foreign investors during the Year. Some of them were encouraged by incentives offered by the Chinese Government, while others were attracted by the steady cashflow available to this sector. This has resulted in more intense competition and may push up acquisition costs.

Measures adopted by the Company: direct acquisition of development projects for new toll roads in Shenzhen by virtue of the concession rights granted to the Company; developing and maintaining sound working relationships with the Guangdong Communications Bureau and GD Communications Group to build up confidence and trust; enhancing the Company's management and service standards and actively exploring innovative and value-added services so as to upgrade the Company's non-price related competitiveness.

## ***Tax rates***

The Group's assets are principally located in Shenzhen and the Group is currently entitled to preferential corporate income tax rates applicable in Shenzhen Special Economic Zone. The Company's profitability will be affected if preferential tax rates for Shenzhen are abolished in future. The Company has fully taken into account the effect of higher tax rates in its evaluation of new projects in Shenzhen. As for investment projects outside Shenzhen, the convergence of varying tax rates is not expected to bring any adverse impact.

## **Operational Risks**

### ***Construction Management***

The Group expects to take on large-scale highway construction projects in future, including new toll roads invested by the Company and highways to be constructed and managed on behalf of the government. These projects might face the risks of rising construction costs, delayed completion and compromised quality because of rising costs of raw materials, increasing difficulties in land requisitioning and resettlement of residents, changing construction plans, etc.

As most of these construction projects will be managed by the Company, its core expertise and extensive experience in highway construction and management will be an important cornerstone for managing such risks. By entering into construction outsource agreements with contractors, the Company has substantially transferred such risks to its contractors.

### ***Reliability of toll collection systems in operation***

For investors and general users of toll roads, risks associated with an unreliable or malfunctioning toll collection system that might cause traffic congestion, insecurity of revenue and inaccuracy of data relating to vehicle flow and toll revenue would be a major concern.

Ongoing improvement of the operating toll collection system has always been a matter of top priority for the Group, who has adopted a series of preventive measures such as multiple review and supervision at key junctions, emergency back-up plans, on-site simulation tests on a regular basis, ongoing research to improve system reliability and parallel testing prior to the implementation of new systems to ensure the reliability of system operation.

### ***Repair and maintenance of highways***

While the Group's highways are maintained in sound conditions at present and repair costs are relatively low as a percentage of operating costs, the scale and costs of repair works may rise as road surfaces are being subjected to more significant wear-and-tear with increasing vehicle flow, and traffic flow will also be affected while repair works are underway.

Measures adopted by the Company: arranging practicable work plans, such as road repair on a section-by-section or lane-by-lane basis or during night time, so as to maintain smooth traffic flow and keep the impact on peak-hour traffic to a minimum.



## Outlook

As discussed above, the Pearl River Delta region stands out with robust economic growth, against the backdrop of the rapid, stable and healthy development of the Chinese economy. Economic growth is set to create demand for transportation as individual travelling and business commuting become more frequent. Transportation is, in a certain sense, a decisive factor for development, and as such, the building of transportation infrastructure should be anticipatory of development. The State and local governments have formulated forward-looking plans for China's transportation network to meet the needs of economic development, and it has been separately confirmed by the Ministry of Communications and NDRC that highway construction will continue to be funded through a variety of sources including national tax income, treasury bonds, bank loans, domestic investments and foreign investments, and toll revenue shall remain a rightful source from which investors generate returns.

- > The State Council: China will add around 3,000 km each year to its highway network until 2010, translating into annual investments of approximately RMB140 billion.
- > Guangdong Province: Intra-provincial expressways to reach 4,000 km by 2008.
- > Shenzhen: Investment of RMB20 billion by 2013 to add 270 km to its expressway network.

Robust economic growth coupled with effective policy support has provided highway operators with a golden opportunity for development. Meanwhile, the Board and the management of the Company are fully aware of the risks confronting the Group in the financial, marketing and operational aspects. Proactive reviews are conducted on an ongoing basis and relevant preventive measures have been adopted in this regard. The Board and the management are confident that by constantly fostering and building upon its core competitive strengths, the Company will be able to reward its shareholders with better returns as it continues to identify new growth drivers and enhance its profitability as well as its ability to withstand risks.

# Basic Information of Toll Highways



## Basic Information of Toll Highways



The principal assets of the Group and its jointly controlled entities and associated companies are all toll highway projects, of which Meiguan Expressway, Jihe East, Jihe West, Yanba A & B in Shenzhen City, Yangmao Expressway and Guangwu Expressway in other areas of Guangdong Province, Changsha Ring Road in Hunan Province as well as Geputan Bridge in Hubei Province are in operations and Yanpai Expressway, Nanguang Expressway, Yanba C and Shuiguan

Extension in Shenzhen City, Jiangzhong Expressway and GZ W2 Expressway in other areas of Guangdong Province as well as Nanjing Third Bridge in Jiangsu Province are under construction or planning. Apart from investment, operation and management of toll highway projects, the Group has been entrusted by the government to be responsible for the construction and management of Nanping Project and Hengping Project.

Toll Highways	Location	Length (km)	Interests		No. of Lane(s)	Condition	Operation Period
			Held				
Meiguan Expressway	Shenzhen	19.30	95%		6/4	Operation	May 1995 – Mar 2027
Jihe East	Shenzhen	23.30	55%		6	Operation	Oct 1997 – Mar 2027
Jihe West	Shenzhen	21.00	100%		6	Operation	May 1999 – Mar 2027
Yanba A&B	Shenzhen	18.80	100%		6	Operation	Apr 2001 – Dec 2031
Shuiguan Expressway	Shenzhen	20.14	40%		6	Operation	Feb 2002 – Dec 2025
Yangmao Expressway	Guangdong	79.76	25%		4	Operation	Nov 2004 – Jul 2027
Guangwu Expressway*	Guangdong	36.50	30%		4	Operation	Dec 2004 – Nov 2027
Changsha Ring Road	Hunan	34.52	51%		4	Operation	Nov 1999 – Dec 2029
Geputan Bridge	Hubei	0.58	42%		4	Operation	Apr 2002 – Mar 2017
Yanpai Expressway	Shenzhen	15.20	100%		6	Construction	–
Nanguang Expressway	Shenzhen	31.20	100%		6	Planning	–
Yanba C	Shenzhen	9.80	100%		6	Planning	–
Shuiguan Extension	Shenzhen	5.25	40%		6	Construction	–
Jiangzhong Expressway	Guangdong	32.38	25%		4	Construction	–
GZ W2 Expressway	Guangdong	39.13	25%		6	Construction	–
Nanjing Third Bridge	Jiangsu	15.60	25%		6	Construction	–
Nanping Project	Shenzhen	19.13	Entrusted Construction Management Services		8	Construction	–
Hengping Project	Shenzhen	17.18	Entrusted Construction Management Services		4	Construction	–

\* The acquisition of Guangwu Expressway was approved by an ordinary resolution at the extraordinary general meeting of the Company held on 18 February 2005.

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

## Basic Information of Toll Highways

### Highways in Operation

#### Meiguan Expressway

Meiguan Expressway is a main trunk running from south to north in the central part of Shenzhen City. It connects with Huanggang Immigration and Customs Control, the largest immigration and customs control in Asia in the south and Guanshen Expressway running from Dongguan City to Shenzhen City in the north, whilst Dongguan is known as an exports processing centre in Guangdong Province and Pearl River Delta Region. Meiguan Expressway intercepts Jihe Expressway and is the main route for ground transportation between Hong Kong and Mainland. Meiguan Expressway which was completed and commenced operation in May 1995, is constructed by the Company.

#### Jihe Expressway

Jihe Expressway is an outer ring expressway connecting the east and west of Shenzhen, and is part of the coastal national trunk highway from Tongjiang, Heilongjiang Province to Sanya, Hainan Province. It connects with Shenshan Expressway, Shenhui Expressway and class 1 highway – NH 205 in the east and links Guangshen Expressway, class 1 highway – NH 107 and Shenzhen International Airport in the west. The whole section of Jihe Expressway was divided into the eastern section and the western section for construction and operation and were completed and commenced operation in October 1997 and May 1999 respectively.

#### Classification of Vehicles and Toll Rates of Meiguan Expressway and Jihe Expressway:

Class	Vehicles	Coefficient	Toll Rates (RMB/KM)
1	Vans, jeeps, small-size lorries, motorcycles	1	0.60
2	Mini buses, station wagons, light vans, small-sized passenger-cars	2	1.20
3	Medium-sized passenger-cars, large-sized passenger-cars, medium vans and large-sized luxury passenger-cars	3	1.80
4	Large-sized lorries, large-sized tractors and vehicles towing 20-foot container	4	2.40
5	Heavyweight lorries, heavy weight tractors and vehicles towing 40-foot container	6	3.60

#### Yanba Expressway

Yanba Expressway is a coastal expressway in the east of Shenzhen City. It connects Shenzhen Yantian Port and Shenzhen downtown in the west and links Pingxi Class 1 Highway in Dapeng, Huishen Coastal Expressway and Shenshan Expressway in the east. The

whole section of Yanba Expressway was constructed by the Company, which was divided into three phases of construction. Yanba A and Yanba B were commenced operation in March 2001 and June 2003 respectively. The Company is now engaging in the preliminary preparation work for construction of Yanba C.

### Shuiguan Expressway

Shuiguan Expressway is the only expressway that connects with Shenzhen downtown and the Longgang Industrial Zone, which is an important industrial zone in Shenzhen. It runs from southern west towards northern east and is the trunk expressway in the

direction from Longgang to its peripheral areas. It commenced operation in February 2002 and is operated by Qinglong Company. The Company acquired 40% equity interest in Qinglong Company in December 2002.

### Classification of Vehicles and Toll Rates of Yanba Expressway and Shuiguan Expressway:

Standard of Classification							
Class	Axle	Wheels	Head	Wheelbase	Vehicles	Coefficient	Toll Rates (RMB/KM)
			height (m)	(m)			
1	2	2-4	<1.3	<3.2	Vans, jeeps, small-size lorries, motorcycles	1	0.60
2	2	4	≥1.3	≥3.2	Mini buses, station wagons, light vans, small-sized passenger vehicles	1.5	0.90
3	2	6	≥1.3	≥3.2	Medium-sized passenger vehicles, large-sized passenger vehicles, medium-sized lorries, large-sized luxury passenger vehicles	2	1.20
4	3	6-10	≥1.3	≥3.2	Large-sized lorries, large-sized tractors, vehicles towing 20-foot container	3	1.80
5	>3	>10	≥1.3	≥3.2	Heavy-weight lorries, heavy-weight tractors, vehicles towing 40-foot container	4	2.40

### Yangmao Expressway

Yangmao Expressway is part of the Guangdong section of the coastal national trunk highway that begins from Tongjiang, Heilongjiang Province to Sanya, Hainan Province. It also forms part of an important passage linking Guangdong Province, Hainan Province and other provinces in southwestern part of the PRC. Yangmao Expressway commenced operation in November 2004, linking Kaiyang Expressway which commenced operation in 2003 and Maozhan Expressway which commenced operation in 2001.

### Guangwu Expressway

Guangwu Expressway is a part of national trunk highway from Shantou, Guangdong Province to Qingshuihe, Yunnan Province, linking Guangzhao Expressway which commenced operation in 2003 and the second phase of Guangwu Expressway which is under planning. Guangwu Expressway, which commenced operation in December 2004, is one of the major expressway projects planned under the "Tenth Five-Year Plan" (十五规划) of Guangdong Province. Total investment of Guangwu Expressway was estimated at RMB1,420 million.



## Basic Information of Toll Highways

### Classification of Vehicles and Toll Rates of Yangmao Expressway and Guangwu Expressway:

Standard of Classification							
Class	Axle	Wheels	Head	Wheelbase	Vehicles	Coefficient	Toll Rates (RMB/KM)
			height (m)	(m)			
1	2	2-4	<1.3	<3.2	Vans, jeeps, small-size lorries, motorcycles	1	0.45
2	2	4	≥1.3	≥3.2	Mini buses, station wagons, light vans, small-sized passenger vehicles	1.5	0.675
3	2	6	≥1.3	≥3.2	Medium-sized passenger vehicles, large-sized passenger vehicles, medium-sized lorries, large-sized luxury passenger vehicles	2	0.90
4	3	6-10	≥1.3	≥3.2	Large-sized lorries, large-sized tractors, vehicles towing 20-foot container	3	1.35
5	>3	>10	≥1.3	≥3.2	Heavy-weight lorries, heavy-weight tractors, vehicles towing 40-foot container	4	1.80

### Classification of Vehicles and Toll Rates of Changsha Ring Road:

Class	Vehicles	Toll Rates (RMB/KM)
1	Lorries with a capacity of 2 tonnes or below, passenger cars with 12 seats or below	0.40
2	Lorries with a capacity of 2 to 6 tonnes, passenger cars with 13 to 19 seats	0.70
3	Lorries with a capacity of 6 to 11 tonnes, passenger cars with 20 to 49 seats	1.00
4	Lorries with a capacity of 11 to 18 tonnes, passenger cars with 50 seats or above	1.30
5	Lorries with a capacity of 18 to 25 tonnes	1.60
6	Lorries with a capacity of 25 tonnes or above	1.90

### Changsha Ring Road

Changsha Ring Road is northwestern section of Hunan Changsha Ring Road, linking Jingzhu (Beijing-Zhuhai) Expressway, NH 107 (Changsha Section) in the northeast and Changyi (Changsha-Yiyang) Expressway, National Highway 319 (Changsha Section) and southwestern section of Hunan Changsha Ring Road in the west, serves as an important infrastructure facility of Changsha City.

### Geputan Bridge

Geputan Bridge, located at the cross-border between Yingcheng City and Yunmeng Town in Xiaogan City, Hubei Province, is a large bridge on the Fu River, a tributary of the Yangtze River, linking National Highway 316 and commenced operation in April 2002. It is constructed and operated by Yungang Company with a total investment of RMB43million. From November 2003, the Company owns 42% equity interest of Yungang Company through Mei Wah Company, a wholly-owned subsidiary of the Company.



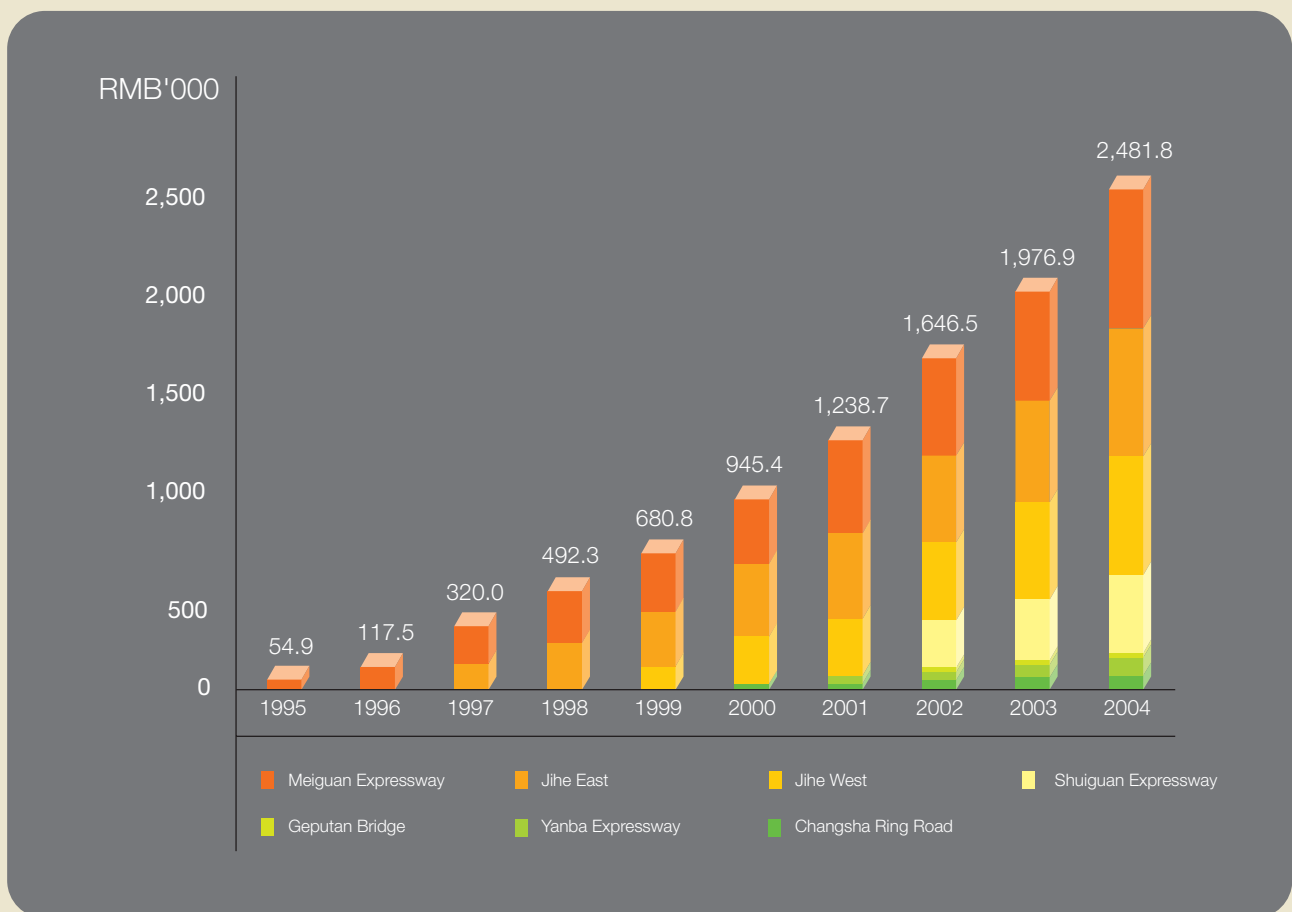
## Basic Information of Toll Highways

Summary of Daily Mixed Traffic Flow of Toll Highways

(Units: No./Day)

	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
Meiguan Expressway	64,199	46,397	37,566	33,634	23,659	22,760	18,736	12,938	7,522	3,016
Jihe East	44,446	33,308	26,547	25,103	21,602	16,799	13,598	6,152	—	—
Jihe West	35,257	28,284	21,809	16,134	12,787	10,028	—	—	—	—
Yanba A and B	9,427	7,357	5,343	5,762	—	—	—	—	—	—
Shuiguan Expressway	39,733	30,397	22,762	—	—	—	—	—	—	—
Changsha Ring Road	4,623	3,454	2,576	1,373	1,302	—	—	—	—	—
Geputan Bridge	2,888	2,706	2,488	—	—	—	—	—	—	—

Comparison of Daily Average Toll Income



## Basic Information of Toll Highways

### Road under Construction or Planning

#### Yanpai Expressway

Yanpai Expressway also known as the Yantian Port Feeder Road of Jihe Expressway starting from Yantian Port, after intersecting with NH 205 and Shuiguan Expressway, towards north through Paibang Interchange connecting with Jihe East and Boshen Expressway which is under planning. The estimated investment of Yanpai Expressway is RMB1,149 million, which construction has been commenced from 2003, which is expected to be completed by the end of 2005.

#### Nanguang Expressway

Nanguang Expressway is a radiating expressway of the outer-ring expressways of the Pearl River Delta region, starting from south in Nanshan District, Shenzhen City, towards south connecting with Shenzhen-Hong Kong Western Corridor, Tung Kok Tou Coastal Area under planning, Dachanwan Port and ports area in Shekou and towards north via Longda Expressway and Changhu Expressway linking with Guangshen Expressway, NH 107 and Guanshen Expressway. The investment of Nanguang Expressway is about RMB2,876 million that is expected to be commenced construction in first half of year 2005 and be completed in two and half years.

#### Yanba C

Yanba C is the last section of Yanba Expressway, which connects Yanba A, Yanba B and Huishen Coastal Expressway, with investment of RMB515 million. The Company is now engaging in the preliminary preparation work of Yanba C. Detailed information relating to Yanba C is set out on page 52 of this report.

#### Shuiguan Extension

Shuiguan Extension connects Bulong Interchange of Shuiguan Expressway and newly established Shenzhen Qingshuihe Special Zone Checkpoint and links with the two largest warehouse areas in Shenzhen downtown, i.e. Qingshuihe and Sungang. The capital investment of Shuiguan Extension is RMB510 million, which is expected to be commenced operation in mid-2005.

#### Jiangzhong Expressway

Jiangzhong Expressway includes construction of the expressway between Zhongshan and Jiangmen ("Zhongjiang Expressway") and Phase II of the expressway between Jiangmen and Heshan ("Jianghe Expressway"). Zhongjiang Expressway releases the heavy traffic running between Zhongshan City and Jiangmen City, optimizes the investment and construction environment of areas along as well as enhancing the economic activities between western Guangdong Province and Pearl River Delta. Jianghe Expressway links with Zhongjiang Expressway and Guangzhan Expressway. After completion, Jiangzhong Expressway will form as main trunk road network in southwest region of Guangdong Province together with Phase I of Jianghe Expressway, Jingzhu Expressway Guangzhu Section, Humen Bridge and the expressway between Changping and Humen. The construction of Zhongjiang Expressway and Phase II of Jianghe Expressway requires investment of RMB2,710 million and 464 million respectively, which are both expected to be fully completed by October 2005.

#### GZ W2 Expressway

GZ W2 Expressway is a section of Pearl River Delta Ring Expressway and a ring road surrounding Guangzhou City, which starts from the Guangsan Expressway in Nanhai District of Foshan City and ends at Baiyun District of Guangzhou City, linking Guangzhou Northern Second Ring Expressway. When GZ W2 Expressway commences operation, it will connect Guangzhou Northern Second Ring Expressway, Jingzhu Expressway, Guanghua Expressway, New Airport Expressway, Guangsan Expressway and National Highways 324, 321, 105, 106 and 107. It serves as the only passageway running from western region in Guangzhou to Huadu International Airport. The capital costs of GZ W2 Expressway are estimated to be approximately RMB3,003 million and its construction is expected to be completed by mid-2007.

### Nanjing Third Bridge

The main part of Nanjing Third Bridge is located at Dashengguan which is 19km upstream of Nanjing Yangtze River Bridge, connecting with Ninghe Expressway and Ninghuai Expressway (under construction) in the north as well as linking with Ningma Expressway in the south with Huning Expressway via Nanjing First Ring Expressway and with Ninghang Expressway and Ninggao Expressway through Nanjing Airport Expressway. The estimated capital investment of Nanjing Third Bridge is RMB3,301 million which is expected to commence operation in 2006.

### Entrusted Construction Project

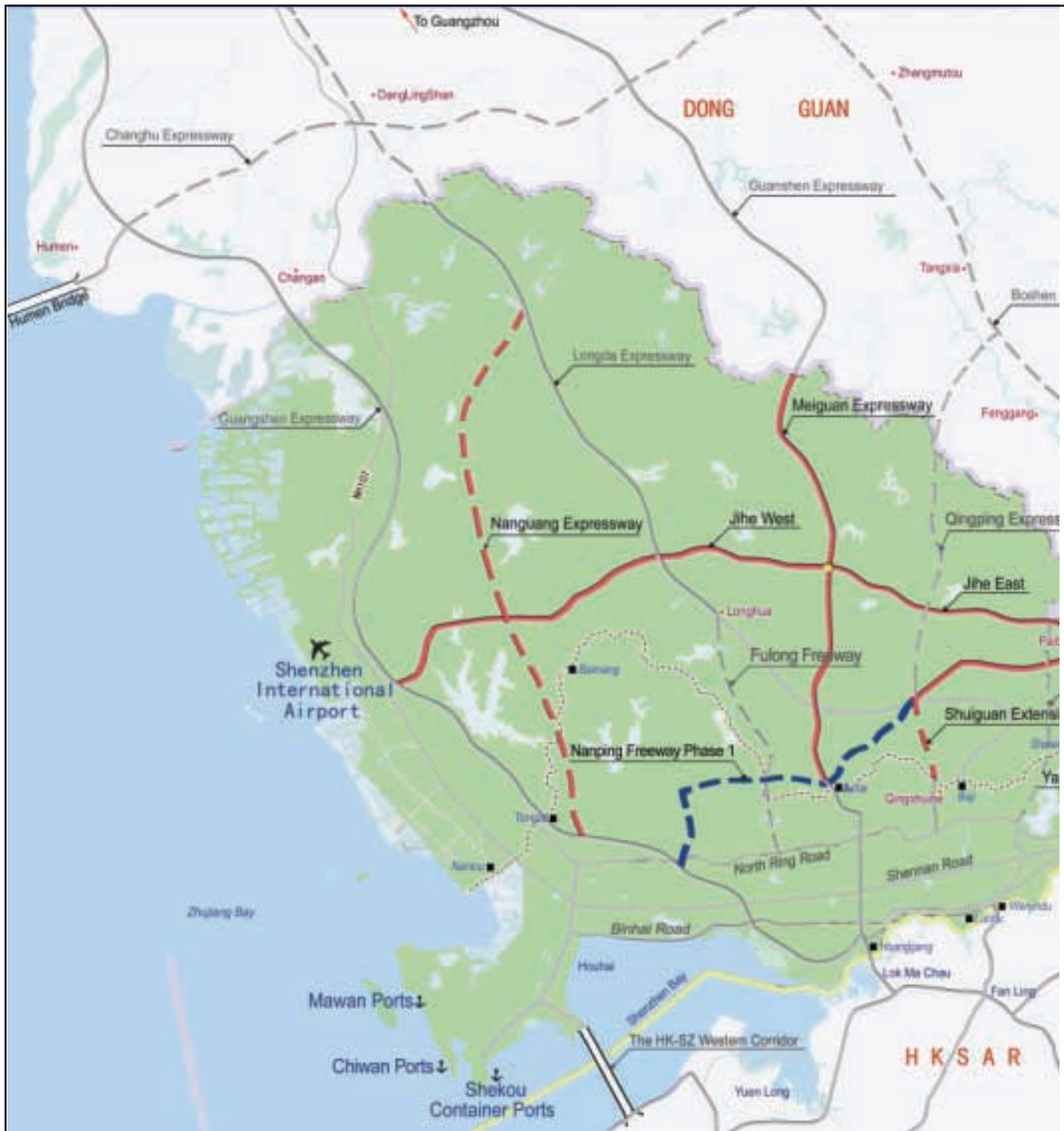
#### Nanping Project

Nanping Project is a key municipal construction project invested by the Shenzhen Municipal Government, which comprises a trunk expressway with a total length of 14.96 km. The trunk expressway begins from No.9 Daxuecheng Road, Tanglangshan and ends at Longjiing Interchange of Shuiguan Expressway with a feeder road of a total length of 4.17 km which begins from No.9 Daxuecheng Road, Tanglangshan to Interchange of Shenyun Road and Guangshen Expressway. The construction of the project has been started from 30th December 2003, and is expected to be completed in 12 months for the trunk expressway while 18 months for the feeder road. If the project cannot be completed as expected and such cause is not caused by the Company, then the term of the agreement will be accordingly extended.

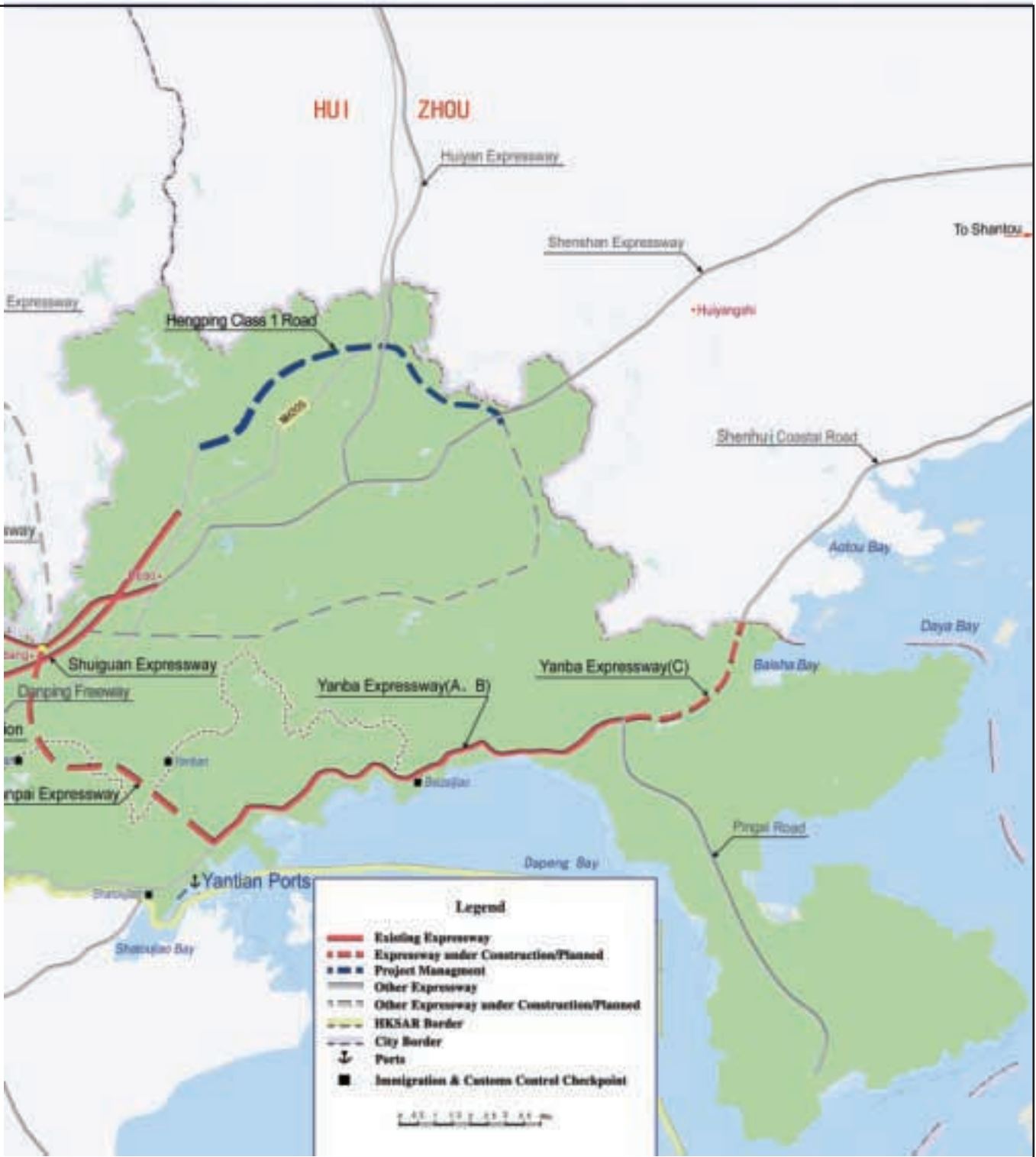
### Hengping Project

Hengping Project is a section of Hengping Highway's main trunk. The whole Hengping Highway starts from the Henggang exit of Shuiguan Expressway, runs westward until the outbound road of Longgang City, and connects with Huiyan Expressway in the southwest. It consists of a main trunk with a total length of 45.84 km, and a feeder road of approximately 4.55 km. The Company will be responsible for project administration for the construction of the section with a total length of 17.18 km. The construction period of the project starts from the date when all tenders with respect to road foundation and tunnel construction were completed and the notices of awards are issued to the winner. It will take 18 months to complete the construction of the main trunk. If the project cannot be completed as expected and such cause is not caused by the Company, then the term of the agreement will be accordingly extended.

# Road Networks (Shenzhen)



HUI ZHOU





# Road Networks (Pearl River Delta)







# Report of the Directors





The Directors are pleased to present herewith their report and the audited accounts of the Group for the year ended 31 December 2004.

## 1 Details of the Company

The Company was established as a joint stock limited company in the PRC on 30 December 1996. 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 2004, eight board meetings were held, at which the following issues were discussed:

- the report of the Board for the year 2003;
- the results report and the audited financial report, the financial statement report, and the proposal for profit distribution scheme for the year 2003 and the budget plan for the year 2004;
- Interim results report and the first and third quarterly reports for the year 2004;
- the emoluments of Directors and Supervisors for the year 2004;
- the repurchase of the Company's H Shares;
- the issuance, placing and handling of listing of the Company's additional H Shares;
- the management of Nanping Project and Hengping Project;
- the investment and acquisition of Yangmao Expressway, Jiangzhong Expressway, GZ W2 Expressway, Nanjing Third Bridge, Guangwu Expressway, Qinglian project and other expressway projects' shareholdings as well as the investment and construction of Nanguang Expressway;
- the alteration of the Company into Foreign Invested Joint Stock Company Limited;
- the amendments of the Articles of Association and Regulations on the Operation of the Board of Directors as well as the formulation of Rules Governing the Selection and Appointment of Independent Financial Advisers and Internal Control Systems;
- the Company's development strategy for the years 2005-2009;
- the establishment of Risk Management Committee under the Board;
- the re-appointment of Messrs. PricewaterhouseCoopers Certified Public Accountants as the international auditors and appointment of PricewaterhouseCoopers Zhong Tian CPAs Co., Ltd. as the statutory auditors of the Company, and the decision on their remuneration;
- the authorization to sign resolutions for bank loans;
- the assets impairment provision, the change in accounting policy for profits tax, and the confirmation of "Accounting Treatment of Construction Management Contract";
- the implementation of the controller supervisory system, the creation of the position of Administrative Controller, and the appointment of Administrative Controller; and
- the establishment of the project development department.

### 3 Summary of the General Meetings

In the year 2004, shareholders' meetings called by the Board included 2003 Annual General Meeting, 2004 Extraordinary General Meeting for Holders of Overseas-listed Foreign Shares, 2004 Extraordinary General Meeting for Holders of Domestic Shares and the 2004 First Extraordinary General Meeting, which are particularized as follows:-

#### (1) Passed the following resolutions as ordinary resolutions:-

- the report of the Board for the year 2003;
- the report of the Supervisory Committee for the year 2003;
- the audited financial report for the year 2003;
- the profit distribution scheme for the year 2003;
- the budget plan for the year 2004;
- the emoluments of Directors and Supervisors for the year 2004;
- re-appointment of international auditors and appointment of statutory auditors;
- acquisition of 25% shareholding of Yangmao Company; and
- acquisition of 25% shareholding of Jiangzhong Company.

#### (2) Passed the following resolutions as special resolutions:-

- amendments of the relevant articles of the Articles of Association;

- alteration of the Company to Foreign Invested Joint Stock Company Limited;
- authorization of the Board to repurchase H Shares of the Company; and
- authorization of the Board to allot more H Shares in relevant period.

### 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 Year, there is no substantial change in respect of the Group's businesses.

An analysis of the Group's turnover and contribution to operating profit for the Year is set out on page 100.

The turnover and the operating profit contributed are not separately analysed in terms of different businesses and geographical areas as the turnover and results reported in the Year are principally derived from toll roads located in the PRC.

### 5 Financial Results

The results of the Group for the year ended 31 December 2004 are set out in the consolidated profit and loss account on page 85.

The financial positions of the Group and the Company as at 31 December 2004 are set out in the balance sheets of the accounts from pages 86 to 89.

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 report.



## 6 Dividends

### (1) Proposed dividend for the Year 2004

The Board recommended the payment of a dividend of RMB0.11 per share (tax included), totaling RMB239,877,000, for the year ended 31 December 2004 to shareholders whose names appear in the register of shareholders of H shares of the Company at the close of business on 8 March 2005. For payment of dividend to Domestic Shares, the registration date, payment procedures and date will be otherwise notified. Such dividend shall be subject to the approval by shareholders at the 2004 Annual General Meeting to be held on 8 April 2005 (Friday).

According to the Articles of Association of the Company, 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 HKD by reference to the exchange rate, which is the average of the median exchange rate for converting RMB into HKD quoted by the People's Bank of China for five working days preceding the day on which the final dividend is declared.

### (2) Dividend scheme of 2003 and its implementation

Pursuant to the approval from the 2003 Annual General Meeting, the Company paid a final dividend of RMB0.19 per share for the year 2003 (consisting of RMB0.09 per share as special dividend) on the basis of the total share capital comprising 2,180,700,000 shares as at the year end of 2003, totaling RMB414,333,000. Such dividend distributions were completed by 6 May 2004.

## 7 Directors and Supervisors

(1) The details of the Directors and the Supervisors are set out from page 78 to page 81.

### (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 Mr. Poon Kai Leung, James, which is effective from 28 May 2003 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 Directors or the Supervisors and the Company.

### (3) Directors' and Supervisors' interests in contracts

As at 31 December 2004 or at any time during the Year, no contract of significance 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 interests, whether directly or indirectly, subsisted at the end of the Year or at any time during the Year (excluding Directors' service contracts).

### (4) Model Code for Securities Transactions by Directors and Supervisors

The Company has adopted Appendix 10 of the Listing Rules entitled "Model Code for Securities Transactions by Directors of Listed Issuers" as rules for securities transactions initiated by the Directors and the Supervisors. After specifically inquiring with all the Directors and the Supervisors, the Company confirms that its Directors' and Supervisors' securities transactions have been fully complied with the standard laid down in the said rules.

**(5) Number of Independent Non-executive Directors**

The Company has appointed sufficient Independent Non-executive Directors. From 2003, there have been four Directors appointed as Independent Non-executive Directors, representing one-third of the total Directors.

**(6) Independence of Independent Non-executive Directors**

The Board has obtained written confirmations from all Independent Non-executive Directors concerning their independence in accordance with rule 3.13 of the Listing Rules of HKEX. The Directors believe that the existing Independent Non-executive Directors are independent based on the guidelines set out in rule 3.13 of the Listing Rules of HKEX.

**(7)** During the Year, the Group has not provided loans to or guarantee to loans of the Directors, the Supervisors and senior management of the Company or its controlling shareholder(s) or their respective connected persons.

**8 Code of Best Practice**

The Directors of the Company believe that during the Year the Company had fully complied with the “Code of Best Practice” of Appendix 14 of Listing Rules of HKEX.

**9 Elections and Changes of the Directors, Supervisors and Senior Management**

**(1)** On 13 September 2004, Mr. Zhang Rong Xing, the then Company Secretary of the Company, resigned from office as he was selected by the Company to pursue a master’s degree in Business Administration in the United Kingdom. The Board appointed Ms. Wu Qian and Mr. Tse Yat Hong as Joint Company Secretary for a term of three years effective from 13 September 2004.

**(2)** On 25 October 2004, the Board discussed and approved the full implementation of controller supervisory system in the Company and the position of Deputy General Manager has been suspended. Meanwhile, the Board appointed Mr. Zhou Qing Ming as Administration Controller for a period of two years effective from 25 October 2004.

**10 Emoluments of the Directors, the Supervisors and Senior Management**

**(1)** Except as those disclosed in this annual report, the Group has not initiated any reward scheme and emolument adjustment plan throughout the Year. Directors’ and Supervisors’ emoluments are determined in accordance with relevant policies and regulations in the PRC with reference to the Company’s actual situation, subject to approval in general meeting.

**(2)** The Company had altogether 21 Directors, Supervisors and senior management in 2004, and all of them received salaries (including subsidies for meetings) from the Company totaling RMB5,808,000.

Distribution of such personnel in various ranges of remuneration is set out as follows:

RMB	Directors*	Supervisors	Senior
			Management**
0-100,000	5	2	0
100,000-500,000	5	1	2
500,000-1,000,000	2	0	4

\* Please refer to descriptions in note (4).

\*\* As Mr. Wu Ya De, the general manager, and Mr. Zhang Rong Xing, the then company secretary, are Directors, their remuneration are included in the column headed “Directors” and are not included in the column headed “Senior Management”.



- (3) In the year 2004, four Independent Non-executive Directors and Mr. Chiu Chi Cheong, Clifton, a Director not nominated by shareholders, received directors' emoluments while the other Directors and Supervisors (including Directors and Supervisors who are also employees of the Company) did not obtain any director's or supervisor's remuneration. All the Directors and Supervisors obtained subsidies for meeting in accordance with relevant regulations. All the Directors and the Supervisors who are employed by the Company obtained management remuneration in accordance with their management positions in the Company.
- (4) As at 31 December 2004, emoluments, subsidies and management remuneration paid to Directors and Supervisors are listed as follows:-

(Unit: RMB'000)

	Emoluments of Directors/ Supervisors	Subsidies for meetings	Management Remuneration			Total
			Salary	Bonus	Benefits	
<b>Directors:</b>						
Chen Chao*	—	*—	—	—	—	*0
Wu Ya De	—	13	502	133	28	676
Zhang Rong Xing**	—	8	380	67	71	**526
Zhong Shan Qun	—	10	—	—	—	10
Tao Hong	—	8	—	—	—	8
Lin Xiang Ke	—	8	—	—	—	8
Zhang Yang	—	9	—	—	—	9
Chiu Chi Cheong, Clifton	318	13	—	—	—	331
<b>Independent Non-executive Directors:</b>						
Ho Pak Cho, Denis Morgie	159	11	—	—	—	170
Li Zhi Zheng	150	12	—	—	—	162
Zhang Zhi Xue	150	12	—	—	—	162
Poon Kai Leung, James	159	11	—	—	—	170
<b>Supervisors:</b>						
Wang Ji Zhong	—	10	—	—	—	10
Yang Qin Hua	—	10	—	—	—	10
Yi Ai Guo	—	10	271	48	61	390
	<b>936</b>	<b>145</b>	<b>1,153</b>	<b>248</b>	<b>160</b>	<b>2,642</b>

\* The subsidies for meetings in the amount of RMB15,000 paid to Mr. Chen Chao, a director, had been fully refunded to the Company.

\*\* Mr. Zhang Rong Xing was selected by the Company to pursue a master's degree in Business Administration in the United Kingdom in September 2004. Apart from the aforesaid remuneration, the Company additionally paid him a total of RMB337,000 as tuition fee, allowance and other related expenses for the year 2004/2005, and reimbursed expenses on visa fees and roundtrip tickets actually incurred by him.

(5) Senior management of the Company refers to general manager, business controllers and secretary of the Board. Remuneration paid by the Company to the senior management is commensurate with market standards and work performance, comprising salary, performance bonus and benefits. The portion of salary is approximately 70% of the total remuneration. In order to attract and motivate quality staff, the performance bonus is mainly based on the tenure assessment and remuneration policy adopted by the Human Resources and Nomination Committee. The benefits paid to the management includes the statutory retirement benefits and other kinds of social security as well as subsidies for vehicles.

(6) In year 2004, the total remuneration paid to top three senior management amounted to RMB1,903,000.

## 11 Disclosure of Interests

(1) As at 31 December 2004, the interests of the Directors, Supervisors, senior management and their respective associates of the Company in the shares, underlying shares and debentures of the Company or any of its associated companies (within the meaning of SFO) which were recorded in the register required to be kept by the Company under Section 352, Part XV of SFO were as follows:

As at 31 December 2004, units in the share appreciation right scheme granted by the Company and collectively held by the management staff of the Company are 5,501,400. The following Directors and

Supervisor of the Company may be granted by the Company part of the incentive cash bonus from the exercise of such units, subject to the approval of the Human Resources and Nomination Committee of the Company:

Name	Number	Exercise Price
	of units involved	
Wu Ya De (Director)	2,750,700 (Note c)	Note a
	2,750,700 (Note c)	Note b
Zhang Rong Xing (Director)	2,750,700 (Note c)	Note a
	2,750,700 (Note c)	Note b
Yi Ai Guo (Supervisor)	2,750,700 (Note c)	Note a
	2,750,700 (Note c)	Note b

Notes:

- The cash bonus received from exercising each of the units represents the difference between RMB3.456 per unit and the arithmetic average of the closing price of the listed shares of the Company during the period from 16 March 2003 to 15 March 2004.
- The cash bonus received from exercising each of the units represents the difference between RMB3.456 per unit and the arithmetic average of the closing price of the listed shares of the Company during the period from 16 March 2004 to 15 March 2005.
- It represents the units collectively held by the management of the Company from the relevant time of exercise.

The aforesaid units were granted under the share appreciation right scheme approved by the shareholders on 6 March 2001 and amended by the shareholders on 30 October 2003. After the amendment, the units granted under such scheme are collectively held by the management staff of the Company instead of by individuals, the timing and the price of the exercise were also amended accordingly. The bonus cash received from exercise of the units shall be applied as a special incentive fund and distributed by the Company to the management staff, including the Directors and Supervisors of the Company as employees of the Company according to proposals put forward by the Human Resources and Nomination Committee of the Company. As at 31 December 2004, the senior management staff of the Company has not yet exercised any of the above-mentioned units.

(2) Save as disclosed herein:

- i. as at 31 December 2004, none of the Directors or Supervisors or senior management is interested in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of SFO) which require notification to the Company and the HKEX pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have been held by the Directors

under such provisions of the SFO) or which are required to be entered into the register maintained by the Company under section 352 of the SFO or which are required to be notified to the Company and HKEX, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

- ii. none of 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 22 to the accounts.

### 13 Profile of Shareholders

- (1) As at 31 December 2004, the Company has 39,290 shareholders in total, including 4 unlisted legal person shareholders, 38,796 A Shareholders and 490 H Shareholders.
- (2) As at 31 December 2004, so far as is known to the Directors, Supervisors and senior management of the Company, the interests of major shareholders, other than a Director, Supervisor or senior management of the Company, in the 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:

## Report of the Directors

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 (%)
Value Partners Limited	38,930,000 (note 5)	5.21%	1.79%
Cheah Cheng Hye	38,930,000 (note 6)	5.21%	1.79%
Sumitomo Mitsui Asset Management Company, Limited	61,814,000 (note 7)	8.27%	2.83%
Sumitomo Life Insurance Company	61,814,000 (note 8)	8.27%	2.83%
J.P. Morgan Chase & Co.	63,376,000 (note 9)	8.48%	2.91%

Notes:

- (1) Unlisted shares
- (2) XTC Company is a limited company incorporated under the laws of the PRC and is a wholly owned subsidiary of Shenzhen International Holdings Limited of which shares are listed on the main board of HKEX.
- (3) State-owned company incorporated under the laws of the PRC with limited liability.
- (4) Shares listed on the Main Board of HKEX.
- (5) These 38,930,000 H Shares were held by Value Partners Limited as investment manager.
- (6) These 38,930,000 H Shares were deemed corporate interests under the SFO indirectly held through Value Partners Limited, in which Cheah Cheng Hye had a controlling interest.
- (7) These 61,814,000 H Shares were held by Sumitomo Mitsui Asset Management Company, Limited as investment manager.
- (8) These 61,814,000 H Shares were deemed corporate interests under the SFO indirectly held through Sumitomo Mitsui Asset Management Company, Limited, in which Sumitomo Life Insurance Company had a controlling interest.
- (9) 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.

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 2004.

### (3) 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 date of this annual report.

### 14 Undertaking

The two major 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. The Board was in the opinion that the above two major shareholders had complied with the undertakings during the reporting period.

### 15 Purchase, Sale or Redemption of Shares

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

The application in relation to the repurchase of H Shares of the Company ("Repurchase of H Shares") has been granted approval from CSRC. On 23 April 2004, the shareholders of the Company in general meeting passed as special resolutions to authorize the Directors to execute the Repurchase of H Shares.

The Company has done all the requisite preparatory work for the Repurchase of H Shares in accordance with the relevant laws and regulations. Pursuant to the shareholders' authorization, the Board may repurchase H Shares in the open market operated by HKEX, but not more than 10% of the nominal value of the issued share capital of H Shares in the relevant period. The relevant period will end on 8 April

2005, the date when the 2004 Annual General Meeting will be held. During the Year, the Company has not yet repurchased any H Shares.

### 16 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.

### 17 Alteration of Company's Enterprise Type

The Company was established as a joint stock limited company in the PRC on 30 December 1996. On 23 April 2004, the Company convened the Annual General Meeting which approved the alteration of the Company to Foreign Invested Joint Stock Company Limited. The application for the proposed alteration has been submitted to the Ministry of Commerce of the PRC for approval.

### 18 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 Year.

### 19 Major Customers and Suppliers

No disclosures with regard to the Group's major customers and suppliers are made since the Group's customers are users of its toll highways while its major suppliers are contractors for the construction of toll highways and roads.

### 20 Reserves

The amounts and particulars of material transfers to and from reserves during the Year are set out in note 23 to the accounts.

### 21 Fixed Assets

The movements in fixed assets during the Year are set out in note 14 to the accounts.

### 22 Bank Loans and Other Borrowings

Details of bank loans and other borrowings of the Group and the Company as at 31 December 2004 are set out in note 25 and note 26 to the accounts.

### 23 Interest Capitalised

The amount of interest capitalized by the Group and the Company for the year ended 31 December 2004 are disclosed in note 8 to the accounts.

### 24 Income Tax Rate and Business Tax Rate

Commencing from 1 January 2002, the Company is required to pay PRC enterprise income tax at the rate of 15%, the preferential tax rate for enterprises established in the Shenzhen Special Economic Zone.

The Group is subject to PRC Business Tax at 5% of toll income.

### 25 Trust Deposits and Overdue Time Deposits

As at 31 December 2004, the Company did not have any trust deposit or overdue time deposit.

### 26 Subsidiaries and Jointly Controlled Entities

Details of the Company's subsidiaries and jointly controlled entities are set out in notes 16 and 17 to the accounts respectively.

### 27 Money Transfer Among Related Parties

The money transfers among the Company and other related parties (as defined under the relevant PRC regulations) mainly consist of receivables and payables of toll fees on someone's behalf in relation to toll highways and reimbursement of operation costs paid on someone's behalf as well as reimbursement of fees paid on behalf of Ropeway Company. The statutory auditors of the Company, PricewaterhouseCoopers Zhong Tian CPAs Co., Ltd. has already issued a specific report in this regard, which is in accordance with "Notice of Certain Matters on Administration of Fundflow Between Listed Company And Its Related Parties and Listed Company's External Guarantees" (Zhengjianfa no. 56 of (2003)) (證監發(2003)56號《關於規範上市公司與關聯方資金往來及上市公司對外擔保若干問題的通知》) issued by CSRC.

### 28 External Guarantee and Fulfillment

At the end of the Year, the Company or its subsidiaries or jointly controlled entities has not executed any guarantee in respect of any external parties. Each independent non-executive director has already delivered independent comments in accordance with "Notice of Certain Matters on Administration of Fundflow Between Listed Company And Its Related Parties and Listed Company's External Guarantees" (Zhengjianfa no. 56 of (2003)) (證監發(2003)56號《關於規範上市公司與關聯方資金往來及上市公司對外擔保若干問題的通知》) issued by CSRC.

### 29 Material Litigation and Arbitration

In 2004, no material litigation and arbitration subsisted in the Company or subsidiaries or jointly-controlled entities.



## 30 Connected Transactions

In 2004, 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 5 March 2004, the Company as purchaser entered into an acquisition agreement with an associate of GDRB Company namely, Guangdong Expressway Co., Ltd. (廣東省高速公路有限公司), which is together with GDRB Company controlled by GD Communications Group, for the acquisition of 25% shareholding of Yangmao Company at a consideration of RMB271,680,000. This acquisition is a connected transaction as GDRB Company is the promoter of the Company. The circular for the transaction had been dispatched to shareholders of the Company. This transaction was approved by shareholders of the Company in the Extraordinary General Meeting held on 14 June 2004, in which GDRB Company and its associates abstained from voting.
- (2) On 7 April 2004, the Company as purchaser entered into an acquisition agreement with an associate of GDRB Company namely, Guangdong Province Highway Construction Co., Ltd. (廣東省公路建設公司), which is together with GDRB Company controlled by GD Communications Group, for the acquisition of 25% shareholding of Jiangzhong Company at a consideration of RMB169,500,000. This acquisition is a connected transaction as GDRB Company is the promoter of the Company. The circular for the transaction had been dispatched to shareholders of the Company. This transaction was approved by shareholders of the Company in the Extraordinary General Meeting held on 14 June 2004, in which GDRB Company and its associates abstained from voting.

- (3) On 8 December 2004, the Company as purchaser entered into an acquisition agreement with GDRB Company for an acquisition of 30% shareholding of Guangyun Company at a consideration of RMB179,180,000. This acquisition is a connected transaction as GDRB Company is the promoter of the Company. The circular for the transaction had been dispatched to shareholder of the Company. This transaction was approved by shareholders of the Company in the Extraordinary General Meeting held on 18 February 2005, in which GDRB Company and its associates abstained from voting.

The consideration of the three aforesaid connected transactions are determined through tender. The agreements were entered in accordance with normal commercial terms in the ordinary and usual course of business. These transactions enlarge the scale of assets and profit base of the Company, further enhancing the investment, construction and management of the toll highway projects participated in Shenzhen, Pearl River Delta and other areas in Guangdong Province.

## 31 Investment and Acquisition

Please refer to the section headed "Business Review" under "Management Discussion and Analysis" on pages 33 to 36 for the investment and acquisition of the Company in the reporting period.

## 32 Subsequent Event

On 3 February 2005, the Company and its wholly owned subsidiary, Mei Wah Company, entered into an agreement with other parties, so as to acquire an aggregate of 56.28% interest in Qinglian Company. The relevant transactions are subject to the approval by the shareholders in general meeting of the Company. The relevant details of the transactions are stated in the section headed "Business Review" of "Management Discussion and Analysis" on page 36 of this annual report and notes 33 to the accounts. For more information, please refer to the Company's announcement published on 15 February 2005.

### 33 Employees

As at 31 December 2004, the Company has 1270 employees, of which 301 of them are administrative and technical staff while 969 of them are toll collection staff.

### 34 Employee's Remuneration and Benefits

#### (1) Employee's remuneration

In April 2004, the Company passed the "Management Rules for Employee's Remuneration and Benefits" (《員工薪酬福利管理辦法》) to the effect that the employee's remuneration is divided into three parts, namely salary, year-end performance bonus as well as statutory and non-statutory benefits provided by the Company. The remuneration is determined in accordance with an overall assessment, of which salary and performance bonus are determined by their position and performance respectively so as to maintain the competitiveness of the Company.

#### (2) Employee's insurance scheme

Since the date of its incorporation, the Group has provided basic insurance package to its employees in accordance with the rules and regulations promulgated by Shenzhen Municipal Government, which costs are accounted for as employees expenses. Apart from the basic insurance package, the Group has also provided employee's compensation insurance, unemployment insurance and birth insurance to its employees.

#### (3) Employee's retirement scheme

The Group has participated in an employee's retirement scheme organized and independently managed by Shenzhen Labour and Social Security Administration Bureau ("Shenzhen Social Security Bureau"). According to relevant regulations, the Group is required to contribute certain amount of money to Shenzhen Social Security Bureau each month. Shenzhen Social Security Bureau will be

solely responsible for distributing pensions to retired employees as a result without imposing any liability on the Group in this regard. The particulars of the Group's employee's retirement scheme are stated in note 6(b) to the accounts.

#### (4) Employee Motivation Scheme

The Company has implemented a share appreciation right scheme as approved by the shareholders since 2001 and was amended by the extraordinary general meeting held on 30 October 2003. As at 31 December 2004, units in share appreciation right scheme granted by the Company and collectively held by the management were 5,501,400. The receipts from exercise of the units 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 Human Resources Nomination Committee of the Company. As at 31 December 2004, the management of the Company has not yet exercised any of the above-mentioned units. The details are provided in note 6(a) to the accounts.

### 35 Employee's Training

The Company values staff training and during the Year the Company had organized five group training workshops relating to corporate culture, human resources, results management, Enterprise Management Decisions Sand Table Exercise, time management and organization skills, domestic and Hong Kong accounting rules with a total of 786 attendees. Furthermore, individual departments organized 12 specific internal training programmes on its own according to annual training plan.

### 36 Results Review

The Audit Committee of the Company has reviewed and confirmed results announcement and report for the twelve-month period ended 31 December 2004.

## 37 Auditors

(1) The accounts in this annual report 2004 were prepared in accordance with accounting principles generally accepted in Hong Kong and the PRC accounting standards respectively and have been audited by PricewaterhouseCoopers (Certified Public Accountants, Hong Kong) ("PricewaterhouseCoopers") and PricewaterhouseCoopers Zhong Tian CPAs Co., Ltd. ("PricewaterhouseCoopers Zhong Tian").

(2) The appointment, resignation, termination or replacement of independent auditors is determined by the Audit Committee of the Board, which is responsible for assessing the auditors' performance and reasonableness of their service fees and then provide suggestions to the Board in this regard. The

(5) The remuneration of the auditors in the year 2004 is set out as follows:

appointment and replacement of auditors as well as auditors' service fees are proposed by the Board for approval in the shareholder's meetings.

(3) PricewaterhouseCoopers as the Company's international auditors has been providing audit services to the Company for nine consecutive years since 1996. In 2003, it changed the responsible partners and senior managers.

(4) To improve the effectiveness and efficiency of the audit, the Company appointed PricewaterhouseCoopers Zhong Tian as statutory auditor in 2004. Pan-China Schinda Certified Public Accountants, the then statutory auditor of the Company, had provided audit services for three consecutive years till 2003.

Auditors	2004		2003	
	Audit fees	Other fees	Audit fees	Other fees
	(Unit: RMB'000)			
PricewaterhouseCoopers	1,230	1,006	1,145	—
PricewaterhouseCoopers Zhong Tian	500	150	—	—
Pan-China Schinda Certified Public Accountants	—	288	710	270
Notes:				
a.	The above audit fees include audit and review service expenses for the auditors. Other fees represent specific audit fees and professional on due diligence review of the Company's investment provided by the auditors. The Company took no responsibility for the travel expenses of the auditors incurred for providing audit and review service, but it would pay for the travel expenses to specific audit and assessment service on due diligence review services.			
b.	As other fees are all about specific audit fees and assessment service fees on due diligence review of the Company's investment provided by the auditors, the Board believes this would not affect the independence of the auditors.			

### 38 Name of Directors

In the Year, the members of the Board had not been changed. The members of the Board include Mr. Chen Chao (Chairman of the Board); Mr. Wu Ya De (Director and General Manager); Mr. Zhang Rong Xing (Director); Mr. Zhong Shan Qun (Director); Ms. Tao Hong (Director); Mr. Lin Xiang Ke

(Director); Ms. Zhang Yang (Director); Mr. Chiu Chi Cheong, Clifton (Director); Mr. Ho Pak Cho, Denis Morgie (Independent Non-executive Director); Mr. Li Zhi Zheng (Independent Non-executive Director); Mr. Zhang Zhi Xue (Independent Non-executive Director) and Mr. Poon Kai Leung, James (Independent Non-executive Director).

By Order of the Board

**Chen Chao**

*Chairman*

Shenzhen, PRC, 18 February 2005

# Report of the Supervisory Committee

To the shareholders:

Strictly adhering to the Company Law of People's Republic of China, the Listing Rules, the articles of association of the Company and the Rules on Operation of the Supervisory Committee, the Supervisory Committee of the Company had faithfully discharged its duties with prudence and endeavours during the year 2004 for the purpose of safeguarding the lawful interests of the Company and its shareholders.

The Company has disposed a Secretary to the Supervisory Committee, as part of Company Secretariat, to manage the daily affairs of the Supervisory Committee and facilitate the communication between the Supervisory Committee and the Company's management. The Supervisory Committee had convened six meetings in 2004, all three members attended these meetings, except those required to be absent. Those meetings were held and resolved in accordance with legal procedures, with proper service of notice and quorum. During the meetings, the report of the Supervisory Committee for the year 2003 was considered and passed; the work plan for 2004 was formulated; and the financial report and distribution scheme for the year 2003, the budget plan for 2004, 2004 interim results report and the first and the third quarterly reports in 2003 were reviewed. Furthermore, the Supervisory Committee reviewed all the written resolutions signed by the Board and internal decision-making process for the Company's major issues in 2004.

During the Year, all members of the Supervisory Committee attended all eight Board meetings and presented the two general meetings, monitoring the procedures and legality of convening such Board meetings and general meetings as well as resolutions made in such meetings. We consider that the Board's activities in 2004 were carried out in strict compliance with the Company Law of the People's Republic of China, the Securities Laws of the People's Republic of China, the Listing Rules, the articles of association of the Company and other relevant laws and regulations. The Board approved the Internal Control System, which comprehensively introduces and describes the aim, contents, methodology and duties of the Company's internal control system, further enhancing

the internal control systems of the Company. Based on an existing and well-developed internal control system, the Risk Management Committee was established. The Audit Committee and the Internal Audit Department prudently and industriously discharge their duties. It considers that all Directors, general managers and other senior management have adhered to the principle of integrity with prudence when they performed their duties. They had also acted sincerely for the maximum interest of the Company without any violation of the laws and regulations. There have been no abuse of authority and no harmful act against the interests of the Company, its shareholders or employees.

The Supervisory Committee had also reviewed the accounts and other accounting information of the Group carefully. We consider that the accounts are clear, and the accounting and financial management is in line with relevant regulations. We do not notice anything that is in contravention of relevant laws and regulations. PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian CPAs Co., Ltd. have audited the financial reports of the Group for the year 2004 prepared in accordance with the Hong Kong accounting standards and PRC accounting standards, as well as issued unqualified audit reports. The Supervisory Committee considers that those audit reports have truly reflected the Group's financial position, operation results and cashflow, and they are fair, objective, accurate and reliable.

During the reporting period, there had been no disputes between any Supervisors on behalf of the Company and the Directors. Also, the Supervisors on behalf of the Company had never instituted any legal action against any of the Directors.

By Order of the Supervisory Committee

**Wang Ji Zhong**

*Chairman*

Shenzhen, PRC, 18 February 2005

# Directors, Supervisors and Senior Management



Mr. CHEN Chao

Mr. WU Ya De

Mr. ZHANG Rong Xing

## Directors

**Mr. CHEN Chao**, aged 49, senior economist and engineer, is the chairman of the Board, chairman of the Strategic Development & Investment Committee and a member of the Human Resources and Nomination Committee of the Company. Mr. Chen graduated from Wuhan University of Technology (武漢理工大學) and he served as the deputy director of the Highway Bureau and the secretary to the deputy minister of the Ministry of Communications. He then worked as the deputy general manager of Zhong Tong (Group) Industry & Trade Co., which was under the supervision of the Ministry of Communications. Mr. Chen has twenty years of experience in the management of road transportation. From the date of the Company's establishment, he had been the first general manager until January 2000 and has been the chairman of the Company. He is currently responsible for the overall management and strategic planning of the Company. From April 1993 to September 2000, Mr. Chen served as the general manager of XTC Company. Since September 2000, he has been the chairman of XTC Company. Since March 2000, he has been the vice-chairman and chief executive of HKEX listed company Shenzhen International Holdings Limited (Code: 0152). He is also a director of HKEX listed company Shenzhen High-Tech Holdings Limited (Code: 0106) and Shenzhen Venture Capital Company Limited, and the chairman of PRC listed company CSG Holding Co., Ltd. Mr. Chen is responsible for presiding over the Board and formulating development strategy for the Company, as well as other major duties.

**Mr. WU Ya De**, aged 41, is a director and the general manager of the Company and a member of the Strategic Development & Investment Committee of the Company. Mr. Wu graduated from the Administration Institute of Guangdong Province (廣東行政學院) in 1987 and obtained a postgraduate degree from Guangdong Province Social Science Institute (廣東省社會科學院) 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 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 1 November 2002. Mr. Wu is also the chairman of Qinglong Company and Huayu Company. Mr. Wu is responsible for the daily operations and management as well as executing the Board resolutions of the Company within the ambit of the authorisation of the Board.

**Mr. ZHANG Rong Xing**, aged 42, engineer, is a director of the Company. Mr. Zhang graduated from South China University of Technology (華南理工大學) and obtained a bachelor's degree and a master's degree in mechanical engineering in 1985 and 1988, respectively. He had worked in a large Sino-foreign joint venture and was responsible for technology, administration and management duties, thereby accumulating solid experience in enterprise management. From 1993 to 1996, he had worked in XTC Company and served as the chief of the human resources



## Directors, Supervisors and Senior Management



Mr. ZHONG Shan Qun



Ms. TAO Hong



Mr. LIN Xiang Ke



Ms. ZHANG Yang

department and deputy officer of the restructuring team of XTC Company. Since the establishment of the Company until September 2004, he had been the company secretary of the Company. He has been a director of the Company with effect from December 2000.

**Mr. ZHONG Shan Qun**, aged 41, engineer, is a director of the Company and a member of Risk Management Committee. Mr. Zhong graduated from Changsha Institute of Communications (長沙交通學院) 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 had worked in the Research Institute of the Highway System Engineering of Changsha Institute of Communications and Guangshenzhu Expressway Company Limited. He joined XTC Company in May 1993 and served in sequence as manager of the Engineering Department, assistant to general manager and deputy general manager of XTC Company. He is a director of XTC Company and has been the general manager of XTC Company since March 2003. Mr. Zhong is a vice president of HKEX listed company Shenzhen International Holdings Limited (Code: 0152) and Chairman of Shenzhen South-China International Logistics Co., Ltd.

**Ms. TAO Hong**, aged 43, senior accountant, is a director of the Company. She graduated from Xi'an University of Highways and Communications (西安公路交通學院) and obtained a bachelor's degree in finance and accounting in 1984 and a master's degree in

engineering. Ms. Tao has many years of experience in financial management. She had been the chief accountant of the Company from the date of its establishment to January 2000, being responsible for the financial management and planning of the Company. She had been the general manager of the Company from January 2000 to January 2002. She is the chief economist of XTC Company.

**Mr. LIN Xiang Ke**, aged 49, accountant, is a director of the Company. Mr. Lin has been working in various enterprises in the PRC for thirty years and has extensive experience in finance and management. Mr. Lin worked as 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 November 1999 and is currently the chairman and general manager of SGH Company.

**Ms. ZHANG Yang**, aged 41, political officer, is a director of the Company and a member of Risk Management Committee. 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 Center 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 Center. She is also the director of Xiamen Roads and Bridges Company Limited, Zhejiang Expressway Company Limited and Sichuan Expressway Company Limited.

## Directors, Supervisors and Senior Management



Mr. CHIU Chi Cheong, Clifton

Mr. HO Pak Cho, Denis Morgie

Mr. LI Zhi Zheng

Mr. ZHANG Zhi Xue

**Mr. CHIU Chi Cheong, Clifton**, aged 51, a registered accountant in the USA, is a director of the Company, members of the Audit Committee and the Strategic Development & Investment Committee. He graduated from the University of Southern California with a MBA degree in 1977. Mr. Chiu has extensive experience in international finance, securities and accounting. Mr. Chiu has been a member of Shenzhen Political Consultative Committee since March 1994. He has been vice chairman of the Takeovers and Mergers Panel of the Securities and Futures Commission since January 1996 and formerly the vice chairman of the Main Board and Growth Enterprise Market Listing Committee of HKEX. Mr. Chiu had been an independent non-executive director of the Company for six years. He is currently the managing director of Harvester (Hong Kong) Holdings Co. Ltd.

**Mr. HO Pak Cho, Denis Morgie**, aged 63, is an independent non-executive director and chairman of the Audit Committee of the Company. He graduated from the University of Melbourne with a Bachelor's degree in Commerce. He is a fellow of both the Institute of Chartered Accountants in Australia and the Hong Kong Institute of Certified Public Accountants. He served as a government appointed independent director of the Hong Kong Securities Clearing Company Limited and was also a member of the Listing Committee of HKEX between 1995 and 1999. After 35 years in the accounting profession, Mr. Ho retired as a senior partner of PricewaterhouseCoopers Hong Kong in 1999.

**Mr. LI Zhi Zheng**, aged 63, senior research engineer, is an independent non-executive director of the Company, chairman of the Human Resources & Nomination Committee and a member of the Strategic Development & Investment Committee of the Company. He has more than 35 years experience in technology, administration and operations management. He held senior administrative posts in the former Ministry of Aero-Space Industry for many years. He was the Chief Executive Officer of CATIC Shenzhen Group and was chairman of several PRC listed companies. Mr. Li is currently the chairman of Shenzhen Catic Investment Management Company Limited.

**Mr. ZHANG Zhi Xue**, aged 36, is an independent non-executive director and a member of the Human Resources & Nomination Committee of the Company. He 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 experience in human resources management and consultation. Mr. Zhang worked at Nanshan District Government of Shenzhen City and Shenzhen Huawei Technologies Co., Limited. Since September 1998, he has been the general manager of Zuo You Management Consultants Co. Ltd.

## Directors, Supervisors and Senior Management



Mr. POON Kai Leung, James



Mr. WANG Ji Zhong



Mr. YANG Qin Hua



Mr. YI Ai Guo

**Mr. POON Kai Leung, James**, aged 40, is an independent non-executive director, 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 concluded numerous capital market transactions. He is currently the director, Greater China of ING Bank Hong Kong.

### Supervisors

**Mr. WANG Ji Zhong**, aged 58, senior accountant, is the chairman of the Supervisory Committee 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 management experience. He had been the director of the finance department of Shenzhen Investment Holding Corporation. He joined XTC Company as the deputy general manager in October 1997. Mr. Wang is also a director of XTC Company.

**Mr. YANG Qin Hua**, aged 37, accountant, is the supervisor of the Company. Mr. Yang graduated from Administration Institute of Zhongshan University with a bachelor's degree in accounting. Since 1998, he had served as the assistant accountant and accountant of Guangdong Roads Bureau, deputy chief accountant of GDRB Company. Since March 2001, Mr. Yang has served as the deputy chief accountant and the manager of the Audit Department of GDRB Company. Mr. Yang is also the director of Guangdong Luda Expressway Co., Ltd. and Guangdong Yuefeng Estate Development Co., Ltd. as well as a supervisor of Guangdong Yuegan Expressway Co., Ltd, Guangdong Yuzhan Expressway Co., Ltd., Heyuan Helong Expressway Co. Ltd and Guangyun Company.

**Mr. YI Ai Guo**, aged 42, is a supervisor of the Company. He obtained a bachelor's degree and a master's degree in Transportation Engineering and Administration from Xinan University of Communications in 1984 and 1987, respectively. 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 and the chairman of the Labour Union of the Operations Center of the Company and director of Meiguan Company, Jihe East Company, Yangmao Company, Jiangzhong Company and Advertising Company.

## Directors, Supervisors and Senior Management



Mr. WANG Xue Feng



Mr. FAN Li Ping



MS. GONG Tao Tao



Mr. WU Xian

### Senior Management

**Mr. WANG Xue Feng**, aged 44, senior economist, is the Operations Controller and Chief of Operations Center of the Company, as well as Communist Party Secretary of the Company. Mr. Wang obtained a postgraduate degree in economics from Guangdong Province Social Science Institute. He worked in the local governmental departments in Hubei Province. Mr. Wang joined XTC Company in 1994 as the human resources manager. Mr. Wang has been responsible for the operations management of the toll roads of the Company since he joined the Company in 1996. He is also the chairman of Meiguan Company, director of Jihe East Company, director and deputy Communist Party Secretary of XTC Company.

**Mr. FAN Li Ping**, aged 42, senior engineer, Engineering Controller of the Company. Mr. Fan obtained a bachelor's degree in engineering from Chongqing Institute of Architecture and Engineering (重慶建築工程學院). He worked in the No.1 Highway Survey, Planning and Design Institute of the Ministry of Communications (交通部第一公路勘察設計院) and joined XTC Company in 1994 as senior engineer and manager of the Contracting Department of the Administration Office of Jihe East. Upon the establishment of the Company, he served as the deputy manager of the Department of Engineering, 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 deputy chairman of Consulting Company, etc. Mr. Fan is now mainly responsible for the construction management of expressway projects.

**Ms. GONG Tao Tao**, aged 32, certified public accountant and certified public valuer of China, is 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 manager of the Internal Audit Department of the Company. Ms. Gong is responsible for annual budgeting, financial control, executing business plans, devising internal control systems, etc. Ms. Gong is also a director of the Advertising Company and the Consulting Company.

**Mr. WU Xian**, aged 47, engineer, is the Technical Controller of the Company. Mr. Wu obtained a bachelor's degree in civil engineering from the Xi'an University of Highways and Communications (西安公路交通大學). He joined XTC Company in 1995 and had been the deputy general manager. He joined the Company in 1996 and is responsible for the Company's technology management, corporate communications and training. Mr. Wu is also a director of Ropeway Company.

## Directors, Supervisors and Senior Management



Mr. ZHOU Qing Ming



Ms. WU Qian



Mr. TSE Yat Hong

**Mr. ZHOU Qing Ming**, aged 48, university graduate, senior engineer, registered safety officer and 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. From 25 October 2004 onwards, he has been the Administrative Controller of the Company. Mr. Zhou is mainly responsible for information and culture development, crisis and public relations management as well as administrative duties of the Company. Mr. Zhou is also the chairman of labour union of the Company, chairman of Advertising Company, director of Ropeway Company and director of Shenchang Company.

**Ms. WU Qian**, aged 33, economist, is a PRC certified public accountant and joint company secretary of the Company. Ms. Wu obtained a bachelor's degree in economics from Shenzhen University in 1992. Ms. Wu had been employed by a number of foreign banks and enterprises. From October 1998 to September 2000, she had been the assistant secretary of the Board. From October 2000 to March 2003, she had worked as a senior associate of PricewaterhouseCoopers Zhong Tian CPAs Co., Limited. From March 2003 to September 2004, she had been the manager of the Internal Audit Department of the Company. From 13 September 2004 onwards, she has been appointed as the joint company secretary, responsible for co-ordinating the work of the Board, corporate governance, disclosure of information and investor relations management matters.

**Mr. TSE Yat Hong**, aged 35, is 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. Mr. Tse had worked in an international accounting firm for many years. From 2000 onwards, he has been the financial controller and the company secretary of Shenzhen International Holdings Limited. He is responsible for the financial management and planning, as well as coordinating major transactions and corporate governance matters. Mr. Tse has over thirteen years of 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. On 13 September 2004, Mr. Tse was appointed by the Company as the joint company secretary, assisting Ms. Wu Qian in discharging her duties as company secretary.

# Report of the International Auditors



羅兵咸永道會計師事務所

**PricewaterhouseCoopers**  
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## TO THE SHAREHOLDERS OF SHENZHEN EXPRESSWAY COMPANY LIMITED

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

We have audited the accounts on pages 85 to 133 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 accounts which give a true and fair view. In preparing accounts 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 accounts and to report our opinion to you, 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 Statements of Auditing Standards 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 accounts. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Company and of 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 accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

### Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2004 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, 18 February 2005



# Consolidated Profit and Loss Account

For the year ended 31 December 2004

	Note	2004 RMB'000	2003 RMB'000
Turnover	3	482,540	421,531
Other revenues	3	110,609	79,510
Gain on disposal of assets	4	—	691,416
Depreciation		(89,651)	(82,188)
Staff costs	6	(40,337)	(36,646)
Road maintenance expenses		(8,912)	(7,369)
Other operating expenses		(57,114)	(57,678)
Operating profit	5	397,135	1,008,576
Finance costs	8	(12,922)	(13,140)
Share of profits less losses of			
- jointly controlled entities		120,032	59,094
- associated companies		(706)	—
Profit before taxation		503,539	1,054,530
Taxation	9	(76,821)	(148,641)
Profit after taxation		426,718	905,889
Minority interests		(7,848)	(6,517)
Profit attributable to shareholders	10	418,870	899,372
Dividends	11	239,877	414,333
Earnings per share - basic	12	RMB0.192	RMB0.412

# Consolidated Balance Sheet

As at 31 December 2004

	Note	2004 RMB'000	2003 RMB'000
<b>Non-current assets</b>			
Goodwill	13	5,179	5,614
Fixed assets	14	3,254,672	3,306,899
Construction in progress	15	283,604	39,849
Interests in jointly controlled entities	17	1,261,903	1,319,175
Interests in associated companies	18	870,698	—
Long-term receivables	19	—	372,946
		<b>5,676,056</b>	<b>5,044,483</b>
<b>Current assets</b>			
Inventories		6,935	6,131
Amounts due from jointly controlled entities	21	3,123	637
Current portion of long-term receivables	19	372,946	649,330
Other receivables, prepayments and deposits	20	27,199	13,574
Restricted cash	20	55,988	—
Bank balances and cash		1,203,239	1,274,818
		<b>1,669,430</b>	<b>1,944,490</b>
<b>Current liabilities</b>			
Other payables and accrued expenses	20	266,114	192,760
Taxation payable		13,560	121,291
Current portion of long term liabilities	25	3,082	3,082
Short-term bank loans, unsecured	26	360,000	40,000
		<b>642,756</b>	<b>357,133</b>
Net current assets		<b>1,026,674</b>	<b>1,587,357</b>
Total assets less current liabilities		<b>6,702,730</b>	<b>6,631,840</b>

# Consolidated Balance Sheet

As at 31 December 2004

	Note	2004 RMB'000	2003 RMB'000
Financed by:			
Share capital	22	2,180,700	2,180,700
Reserves	23	3,247,852	3,127,484
Proposed final dividend	23	239,877	414,333
Retained earnings	23	418,177	359,552
		<b>6,086,606</b>	6,082,069
Minority interests		50,066	49,967
Non-current liabilities			
Long-term liabilities	25	196,911	102,389
Deferred tax liabilities	24	50,383	42,943
Deferred income	27	318,764	354,472
		<b>6,702,730</b>	6,631,840

**Chen Chao**  
Director

**Wu Ya De**  
Director

# Balance sheet

As at 31 December 2004

	Note	2004 RMB'000	2003 RMB'000
<b>Non-current assets</b>			
Fixed assets	14	2,282,627	2,315,064
Construction in progress	15	280,242	39,540
Investments in subsidiaries	16	808,974	873,333
Interests in jointly controlled entities	17	1,207,483	1,294,874
Interests in associated companies	18	871,404	—
Long-term receivables	19	—	372,946
		<b>5,450,730</b>	<b>4,895,757</b>
<b>Current assets</b>			
Inventories		6,292	5,479
Amounts due from jointly controlled entities	21	3,123	2,340
Current portion of long-term receivables	19	372,946	649,330
Other receivables, prepayments and deposits	20	37,278	10,610
Restricted cash	20	55,988	—
Bank balances and cash		1,163,284	1,241,688
		<b>1,638,911</b>	<b>1,909,447</b>
<b>Current liabilities</b>			
Other payables and accrued expenses	20	245,748	185,998
Taxation payables		6,150	115,092
Current portion of long-term liabilities	25	3,082	3,082
Short-term bank loans, unsecured	26	360,000	40,000
		<b>614,980</b>	<b>344,172</b>
Net current assets		<b>1,023,931</b>	<b>1,565,275</b>
Total assets less current liabilities		<b>6,474,661</b>	<b>6,461,032</b>

## Balance sheet

As at 31 December 2004

	Note	2004 RMB'000	2003 RMB'000
Financed by:			
Share capital	22	2,180,700	2,180,700
Reserves	23	3,152,408	3,055,496
Proposed final dividends	23	239,877	414,333
Retained earnings	23	369,616	347,406
		<b>5,942,601</b>	5,997,935
Non-current liabilities			
Long-term liabilities	25	184,819	87,095
Deferred tax liabilities	24	28,477	21,530
Deferred income	27	318,764	354,472
		<b>6,474,661</b>	6,461,032

**Chen Chao**  
Director

**Wu Ya De**  
Director

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2004

	Note	2004 RMB'000	2003 RMB'000
Total equity as at 1 January		6,082,069	5,445,281
Profit for the year		418,870	899,372
Dividends	23	(414,333)	(261,684)
Others		—	(900)
Total equity as at 31 December		<b>6,086,606</b>	6,082,069



# Consolidated Cash Flow Statement

For the year ended 31 December 2004

	Note	2004 RMB'000	2003 RMB'000
<b>Operating activities</b>			
Cash received from toll income		482,540	445,140
Cash received from road construction management services		17,351	—
Cash received from road construction projects		32,445	—
Cash paid to suppliers		(40,481)	(17,963)
Cash paid to employees		(40,645)	(39,744)
Other cash payments		(32,904)	(52,478)
Net cash inflow generated from operations	28(a)	418,306	334,955
Interest paid		(12,960)	(13,812)
PRC taxation paid		(54,029)	(36,320)
Government subsidies received		—	10,183
Net cash inflow from operating activities		351,317	295,006
<b>Investing activities</b>			
Purchase of fixed assets and payments for construction in progress		(296,143)	(177,264)
Proceeds from sales of major fixed assets		684,204	965,000
Tax paid for sales of major fixed assets		(105,204)	—
Proceeds from sales of other fixed assets		160	463
Interest received		11,938	28,179
Equity investment in a subsidiary, net of cash acquired	28(c)	(929)	(24,318)
Equity investments in associated companies		(868,270)	—
Prepayment for acquisition of an associated company		—	(1,000)
Disposal of a subsidiary, net of cash disposed	28(d)	(1,468)	—
Dividends received from jointly controlled entities		69,467	113,861
Return of investment from jointly controlled entities		2,601	—
Decrease in fixed bank deposits		70,000	132,000
Loans to jointly controlled entities		—	(193,040)
Repayment of loans from jointly controlled entities		87,391	54,394
Net cash inflow/(outflow) from investing activities		(346,253)	898,275
Net cash inflow before financing		5,064	1,193,281

# Consolidated Cash Flow Statement

For the year ended 31 December 2004

	Note	2004 RMB'000	2003 RMB'000
Financing activities	28(b)		
New bank loans borrowed		660,000	366,758
Repayment of bank loans borrowed		(243,082)	(925,000)
Other long-term advance received		—	80,000
Other loans borrowed		807	—
Repayment of advance from a minority shareholder of a subsidiary		(3,145)	(3,913)
Dividends paid		(414,333)	(261,684)
Dividends paid to minority shareholders		(6,890)	(5,360)
Net cash outflow from financing activities		(6,643)	(749,199)
Increase/(decrease) in cash and cash equivalents		(1,579)	444,082
Cash and cash equivalents at 1 January		1,204,818	760,736
Cash and cash equivalents at 31 December		1,203,239	1,204,818
Analysis of balances of cash and cash equivalents:			
Bank balances and cash		1,203,239	1,274,818
Fixed bank deposits		—	(70,000)
		1,203,239	1,204,818

# Notes to the Accounts

## 1 General

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

## 2 Principal accounting policies

The principal accounting policies adopted in the preparation of these accounts are set out below:

### (a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards (“HK GAAP”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). This basis of accounting differs in certain respects from that used in the preparation of the Group’s statutory accounts in the PRC. The PRC statutory accounts of the Group have been prepared in accordance with accounting principles and financial regulations applicable to the Group in the PRC. Appropriate restatements have been made to the PRC statutory accounts to conform with HK GAAP. Differences arising from the restatements are not incorporated in the Group’s accounting records.

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“new HKFRSs”) which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the accounts for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

The accounts have been prepared under the historical cost convention.

# Notes to the Accounts

## 2 Principal accounting policies (Continued)

### (b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 December. Subsidiaries are those entities in which the Company, directly or indirectly, controls the composition of the board of directors, controls more than half of the voting power or holds more than half of the issued share capital or paid-in capital.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sales and the Group's share of its net assets together with any unamortised goodwill or negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

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 dividends received and receivable.

### (c) Jointly controlled entities

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

The consolidated profit and loss account includes the Group's share of the results of jointly controlled entities for the year, and the consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entities and goodwill/negative goodwill (net of accumulated amortisation) on acquisition.

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 dividends received and receivable.

## 2 Principal accounting policies (Continued)

### (d) Associated companies

An associated company is a company, not being a subsidiary or a jointly controlled entity, in which an equity interest between 20% to 50% is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the results of the associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies and goodwill/negative goodwill (net of accumulated amortisation) on acquisition.

If the Group's share of losses of an associated company equals or exceeds the carrying amount of an investment, the investment is reported at nil value, the Group discontinued accounting for investments in associate under equity method. Additional losses are provided for to the extent that the Group has incurred obligations or the Group has guaranteed on the associated company's obligations.

Unrealised gains on transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated companies; unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

In the Company's balance sheet, the investments in associated companies are stated at cost less provision for impairment losses. The results of associated companies are accounted for by the Company on the basis of dividends received and receivable.

### (e) Goodwill

Goodwill, which represents the excess of the cost of an acquisition over the fair values of the Group's share of the net assets of the acquired subsidiaries, jointly controlled entities or associated companies at the date of acquisition, is recognised as an asset and is amortised using the straight-line method over its estimated useful life or 20 years, whichever is shorter. Any unamortised goodwill is charged to the profit and loss account upon disposal of the subsidiaries, jointly controlled entities or associated companies.

Where an indication of impairment exists, the carrying amount of goodwill is assessed and written down immediately to its recoverable amount.

## 2 Principal accounting policies (Continued)

### (f) Fixed assets

Fixed assets are stated at cost less accumulated depreciation/amortisation and accumulated impairment losses.

Depreciation of toll roads and amortisation of land use rights in relation to toll roads are calculated to write off their costs on an units-of-usage basis whereby depreciation and amortisation are 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 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 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 are shorter. The principal annual depreciation rates are 3% to 7%.

Other tangible fixed assets are depreciated at rates sufficient to write off their costs over their estimated useful lives on a straight-line basis, taking into account their estimated residual values. The principal annual depreciation rates are as follows:

Equipment	
- traffic related	10%
- electronic and others	20%
Motor vehicles	17%

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements and major costs incurred in restoring fixed assets to their normal working condition to allow continued use of the overall assets are capitalised and depreciated in accordance with the aforementioned depreciation policy of the Group.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

### (g) Construction in progress

Construction in progress is stated at cost which includes development expenditure and other direct costs, including interest costs on the related borrowed funds during the construction period, attributable to the development of toll roads, buildings and structures for the Group's own use. Costs are transferred to fixed assets upon completion.



## 2 Principal accounting policies (Continued)

### (h) Inventories

Inventories mainly represent 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.

### (i) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that the outflow becomes probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

### (j) Provision

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

### (k) Deferred taxation

Deferred taxation 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 accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred 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 taxation is provided on temporary differences arising on investments in subsidiaries and jointly controlled entities, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

# Notes to the Accounts

## 2 Principal accounting policies (Continued)

### (l) Other receivables

Provision is made against other receivables to the extent they are considered to be doubtful. Other receivables in the balance sheet are stated net of such provision.

### (m) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and deposits held at call with banks.

### (n) Translation of foreign currencies

Transactions in foreign currencies are translated into Renminbi at exchange rates quoted by the People's Bank of China at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated into Renminbi at rates of exchange quoted by the People's Bank of China at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

### (o) Revenue recognition

Toll revenue from operation of toll roads, net of business tax and surcharge, is recognised on a receipt basis.

Construction management services income represents the cost savings (the "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 budgeted 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.

Interest income on bank deposits and other loans is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Investment income and dividend income are recognised when the right to receive the payment is established.

Government grants in relation to subsidise toll revenues are recognised as income over the intended beneficial periods in accordance with the policy as stated in note 2(p).

## 2 Principal accounting policies (Continued)

### (p) Deferred income – government grants

A government grant is initially recognised as deferred income, when there is reasonable assurance that the grant will be received.

Government grants provided to the Group to subsidise toll revenues of a specific toll road are deferred and amortised over the period during which the Group is granted the rights to operate such toll road. The subsidies recognised in the profit and loss account of a year is the attributable portion of the total government grants, which is computed based on the actual traffic volume of a year over the total projected traffic volume throughout the period during which the Group is granted the rights to operate such toll road.

It is a Group policy to review regularly the projected total traffic volume throughout the operating periods of the respective toll roads. If it is considered appropriate, independent professional traffic studies will be performed. Appropriate adjustment is made should there be a material change.

### (q) Employee benefits

#### (i) *Employee leave entitlements*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

#### (ii) *Bonus plans*

The expected cost of bonus payments is recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Under a Share Appreciation Right Scheme (the “Scheme”) operated by the Group, rights (“Rights”) are granted to key management staff to obtain benefits from the appreciation of the share price of the Company. The Rights 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 Rights at the date of grant. The amounts paid and payable under the Scheme are expensed in the profit and loss account as staff costs at the year the Rights are exercised.

#### (iii) *Pension obligations*

The Group contributes to a defined contributions retirement scheme which is applicable for all employees. Contributions to the scheme by the Group and employees are calculated as a percentage of employees’ basic salaries. The retirement benefit scheme expenses charged to the profit and loss account represent contributions paid/payable by the Group to the scheme.

The assets of the scheme are held separately from those of the Group by government authorities. Details of the Group’s retirement benefits are set out in note 6(b).

## Notes to the Accounts

### 2 Principal accounting policies (Continued)

#### (r) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

### 3 Turnover and revenue

Revenues recognised during the year are as follows:

	Note	2004 RMB'000	2003 RMB'000
Turnover			
Income from toll roads		509,008	444,653
Less: taxes related to toll income	(a)	(26,468)	(23,122)
		<b>482,540</b>	<b>421,531</b>
Other revenues			
Interest income from bank deposits		11,938	9,616
Interest income from long-term loan		—	18,563
Interest income from discounting of long-term receivables	4	35,779	—
Income from construction management services	(b)	17,351	—
Government subsidy income	27	35,708	35,840
Subsidies from local governments	(c)	—	10,183
Others		9,833	5,308
		<b>110,609</b>	<b>79,510</b>
Total revenues		<b>593,149</b>	<b>501,041</b>

(a) Taxes related to toll income comprise:

- PRC Business Tax at 5% of toll income
- City Development Tax at 1% of PRC Business Tax
- Education Supplementary Tax at 3% of PRC Business Tax

### 3 Turnover and revenue (Continued)

- (b) This represents income from provision of construction management services engaged by various government, details are as below:
- (i) The Company was engaged by the Shenzhen Municipal Government (the "SZMG") to manage the construction of a project in the eastern Shenzhen area by linking up the Yantian container terminals with the Yanba Expressway. The project was principally completed in 2001. During the year, the cost of the project was finalised and the Company received the final contract payment of RMB11,018,000 from SZMG. The amount was recognised as revenue for the year.
  - (ii) During the reporting period, the Company entered into a project construction management agreement with the SZMG (represented by the Shenzhen Communications Bureau). The Company was appointed as the project manager for the construction project of Nanping Freeway (Phase I) ("Nanping Project") and it also undertakes to enter into construction contracts on behalf of the SZMG with the contractors who are directly responsible for the construction of the project. As at 31 December 2004, as the outcome of the construction management services could not be estimated reliably, the Company recognised revenue of RMB6,333,000 to the extent of the probable recoverable project management expenses incurred by it.
  - (iii) During the reporting period, the Company entered into another project construction management agreement with the Shenzhen Longgang Government (represented by Shenzhen Longgang Highway Bureau). The Company was appointed as the project manager for the construction of the Western Section of Hengping Class 1 Highway ("Hengping Project") and it undertakes to enter into construction contracts on behalf of the government with the contractors who are directly responsible for the construction of the project. As at 31 December 2004, the project was still at its preliminary stage of planning and construction, no revenues had been recognised during the reporting period.
- (c) This represents government subsidies granted by the SZMG in prior year in relation to the cancellation of certain preferential policies on the PRC enterprise income tax of the Group. No such subsidies were granted in current year.
- (d) No segment information is presented as all turnover of the Group is toll income earned in the PRC.

### 4 Gain on disposal of assets

Pursuant to a transfer agreement (the "Transfer Agreement") signed between the Company and the Shenzhen Communications Bureau on 18 March 2003, the Company transferred all its rights and interests in National Highway No. 107 (Shenzhen Section) and National Highway No. 205 (Shenzhen Section) to the Shenzhen Communications Bureau at a consideration of RMB1,930,000,000 (the "Consideration"), resulting in a gain of RMB691,416,000.

The Consideration and a related assets disposal extra compensation (the "Compensation") were recognised as a long-term receivable balance in the accounts. As certain portions of the Consideration and the Compensation will be settled by installments, the Company calculated the net present value of such long-term receivables using a discount rate of 3.5%, being the prevailing interest rate for bonds with same maturity period issued by domestic companies in the PRC with similar credit ratings. Interest income from the discounting is recognised as other revenues over the installment settlement period.

## Notes to the Accounts

### 5 Operating profit

Operating profit is stated after crediting and charging the following:

	2004 RMB'000	2003 RMB'000
<b>Crediting</b>		
Net exchange gain	—	286
<b>Charging</b>		
International auditors' remuneration		
Annual audit	1,230	1,145
Other audit services	1,006	—
Statutory auditors' remuneration		
Annual audit	500	710
Other audit services	150	270
Net exchange loss	354	—
Loss on disposal of fixed assets	5,697	69
Provision for doubtful debts arising from loans made to a jointly controlled entity	—	28,311
Impairment of goodwill	945	—
Amortisation of goodwill	435	153



## 6 Staff costs

Staff costs, including directors' and supervisors' remuneration, are as follow:

	Note	2004 RMB'000	2003 RMB'000
Wages, salaries and bonus		<b>31,447</b>	25,267
Bonus – the Share Appreciation Right Scheme (the “Scheme”)	(a)	—	4,284
Pension costs – defined contribution plans	(b)	<b>1,811</b>	1,344
Other staff welfare benefits		<b>7,079</b>	5,751
		<b>40,337</b>	36,646

(a) It mainly represents bonus payments in relation to the Scheme. Movements in the number of Rights granted under the Scheme during the year are as follows:

	2004	2003
Number of Rights not exercised as at 1 January	<b>5,501,400</b>	10,477,238
Number of Rights exercised during the year	—	(4,975,838)
Number of Rights not yet exercised as at 31 December	<b>5,501,400</b>	5,501,400
Number of Rights not exercised represents:		
Exercisable during the period from 16 March 2004 to 15 March 2005 (Phase III)	<b>2,750,700</b>	2,750,700
Exercisable during the period from 16 March 2005 to 15 March 2006 (Phase IV)	<b>2,750,700</b>	2,750,700
	<b>5,501,400</b>	5,501,400

- (i) Pursuant to a shareholders' meeting held on 30 October 2003, a resolution was passed to revise the Scheme that the Rights so granted are no longer borne by individual grantees but collectively by a group of senior management and management staff of the Company. The exercisable period and the exercise price of the Rights were also revised. Proceeds to be received from exercising the Rights will be maintained as a special bonus fund. The Company shall appropriate such fund to senior management and management staff according to relevant policies enacted.
- (ii) Pursuant to the Scheme, the Rights are not exercisable when the current year's profit decreases by more than 20% from the prior year. Accordingly, no Rights had been exercised during the year.
- (iii) The exercise price of the Rights under Phase III and Phase IV of the Scheme is the weighted average of the closing trading prices of the shares of the Company traded on the stock exchanges during the period of the pervious phase. The bonus amount attached with each Right is the difference between the exercise price and RMB3.456.
- (b) The Group participates in the Shenzhen Municipal Retirement Scheme managed by the Shenzhen Social Security Administration Bureau. Pursuant to the relevant provisions, the Group is required to make a monthly contribution equivalent to 8% to 9% (2003: 8% to 9%) of the monthly salary of the employees. The Bureau is responsible for making the pension payments to the retired employees of the Group and the Group has no further obligations.

## Notes to the Accounts

### 7 Directors', supervisors' and senior management's emoluments

#### (a) Directors' and supervisors' remuneration

The aggregate amounts of emoluments payable to directors during the year are as follows:

	2004 RMB'000	2003 RMB'000
As directors and supervisors		
- executive		
- allowances	32	48
- non-executive		
- remuneration	936	872
- allowances	114	82
- bonus – the Scheme	—	690
For management		
- basic salaries and allowances	1,251	648
- bonuses	248	319
- contributions to the retirement scheme	40	22
- bonus – the Scheme	—	927
- other benefits	21	7
	<b>2,642</b>	<b>3,615</b>

The emoluments for all directors and supervisors of the Company (executive and non-executive) fell within the band of nil to RMB1,060,000 (HK\$1,000,000) during the years ended 31 December 2004 and 2003.

No directors and supervisors waived any emoluments during the years ended 31 December 2004 and 2003.

During the years ended 31 December 2004 and 2003, no emoluments had been paid by the Group to the directors and supervisors as an inducement to join or upon joining the Group or as a compensation for loss of office.

## 7 Directors' and senior management's emoluments (Continued)

### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include one (2003: three) director whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining four (2003: two) individuals during the year are as follows:

	2004 RMB'000	2003 RMB'000
Basic salaries and allowances	1,831	592
Bonuses	440	285
Contributions to the retirement scheme	56	24
Bonus – the Scheme	—	286
Other benefits	28	8
	<b>2,355</b>	<b>1,195</b>

The emoluments for all the above senior management fell within the band of nil to RMB1,060,000 (HK\$1,000,000) during the years ended 31 December 2004 and 2003.

## 8 Finance costs

	2004 RMB'000	2003 RMB'000
Interest on bank loans	11,411	12,250
Interest on other loans		
- repayable within 5 years	1,072	846
- repayable over 5 years	477	716
Less: interest capitalised in construction in progress	(38)	(672)
	<b>12,922</b>	<b>13,140</b>

The capitalisation rate applied to funds borrowed and used for the development of construction in progress is 5.02% (2003: ranged between 1.80% and 7.17%) per annum.

## Notes to the Accounts

### 9 Taxation

The amount of taxation charged to the consolidated profit and loss account represents:

	Note	2004 RMB'000	2003 RMB'000
Current taxation			
- PRC enterprise income tax		51,502	47,904
- PRC enterprise income tax on disposal of assets		—	105,144
Deferred taxation	24	7,440	6,189
		<b>58,942</b>	159,237
Share of taxation of jointly controlled entities		17,879	(10,596)
		<b>76,821</b>	148,641

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate enacted in the location of the Company as follows:

	2004 RMB'000	2003 RMB'000
Profit before tax	503,539	1,054,530
Calculated at a taxation rate of 15% (2003: 15%)	75,531	158,180
Effect of different taxation rates in other locations	60	(12,487)
Income not subject to taxation	(10,723)	(23,100)
Expenses not deductible for taxation purposes	1,207	20,433
Unrecognised tax losses	13,855	6,457
Share of preferential tax benefits of jointly controlled entities	(2,848)	(842)
Share of preferential tax benefits of associated companies	(261)	—
Taxation charge	76,821	148,641

## 9 Taxation (Continued)

- (a) In 2004, the Company is subject to PRC enterprise income tax rate of 15% (2003: 15%), the preferential tax rate for enterprises established in the Shenzhen Special Economic Zone, as compared with the standard rate of 33% (2003: 33%).
- (b) Pursuant to the approvals of the relevant authorities, two jointly controlled entities of the Company, Shenzhen Qinglong Expressway Company Limited ("Qinglong Company") and Hubei Yungang Transportation Development Company Limited ("Yungang Company"), are exempt from PRC enterprise income taxes for the first two profit-making years and are entitled to a 50% reduction of their PRC enterprise income taxes for the three consecutive years thereafter. It is the second profit making year for Qinglong Company and the third profit making year for Yungang Company, as a result, Qinglong Company is exempt from PRC enterprise income taxes and Yungang Company is entitled to a 50% reduction of its PRC enterprise income taxes in 2004.

The PRC enterprise income taxes charged to the consolidated profit and loss account have been calculated based on the assessable profits of the Company, its subsidiaries, associated companies and other jointly controlled entities of the year at rates of taxation applicable to the respective companies.

- (c) The applicable tax rate to Mei Wah Industrial (Hong Kong) Limited ("Mei Wah Company"), a subsidiary of the Company incorporated in Hong Kong is 17.5%. No provision for Hong Kong profits tax has been made in the accounts as Mei Wah has no income assessable under Hong Kong profits tax.

## 10 Profit attributable to shareholders

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of RMB 358,999,000 (2003: RMB 871,532,000).

## 11 Dividends

	2004 RMB'000	2003 RMB'000
Final, proposed, of RMB0.11 (2003: RMB0.19) per share	<b>239,877</b>	414,333

At a meeting held on 18 February 2005, the directors declared a final dividend of RMB0.11 per share. This proposed dividend had not been reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2005.

## 12 Earnings per share

The calculation of earnings per share is based on the Group's profit attributable to shareholders of RMB418,870,000 (2003: RMB899,372,000) and 2,180,700,000 (2003: 2,180,700,000 shares) ordinary shares in issue during the year.

No fully diluted earnings per share is presented as the Company has no dilutive potential shares.

## Notes to the Accounts

### 13 Goodwill – the Group

	Note	2004 RMB'000	2003 RMB'000
Beginning net book value		5,614	—
Acquisition of a subsidiary	(a)	945	5,689
Provision for impairment	(a)	(945)	—
Amortisation		(435)	(75)
Closing net book value		5,179	5,614
As at 31 December 2004			
Cost		6,634	5,689
Accumulated amortisation		(510)	(75)
Provision for impairment	(a)	(945)	—
Net book value		5,179	5,614

(a) The addition to goodwill of RMB945,000 was in relation to the acquisition of additional 55% equity interests in Shenzhen Wutongling Ropeway Company Limited (“Ropeway Company”) (see Note 16 (b)(ii)). Provision for impairment has been made for such goodwill balance recognised in current year.

### 14 Fixed assets

#### The Group

	Toll roads RMB'000	Land use rights of toll roads RMB'000	Buildings and structures RMB'000	Equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
Cost						
At 1 January 2004	2,834,513	332,190	180,666	192,511	9,131	3,549,011
Additions	—	—	—	368	2,490	2,858
Transfer from construction in progress (note 15)	—	—	7,512	32,458	—	39,970
Disposal of subsidiaries	—	—	—	(183)	(133)	(316)
Other disposals	—	—	(247)	(23,170)	(4,584)	(28,001)
<b>At 31 December 2004</b>	<b>2,834,513</b>	<b>332,190</b>	<b>187,931</b>	<b>201,984</b>	<b>6,904</b>	<b>3,563,522</b>
Accumulated depreciation						
At 1 January 2004	122,218	25,133	21,640	67,105	6,016	242,112
Charge for the year	52,305	9,282	7,060	19,230	1,774	89,651
Disposal of subsidiaries	—	—	—	(52)	(2)	(54)
Other disposals	—	—	(147)	(18,567)	(4,145)	(22,859)
<b>At 31 December 2004</b>	<b>174,523</b>	<b>34,415</b>	<b>28,553</b>	<b>67,716</b>	<b>3,643</b>	<b>308,850</b>
Net book value						
<b>At 31 December 2004</b>	<b>2,659,990</b>	<b>297,775</b>	<b>159,378</b>	<b>134,268</b>	<b>3,261</b>	<b>3,254,672</b>
At 31 December 2003	2,712,295	307,057	159,026	125,406	3,115	3,306,899

## 14 Fixed assets (Continued)

## The Company

	Toll roads RMB'000	Land use rights of toll roads RMB'000	Buildings, structures and leasehold improvements RMB'000	Equipment RMB'000	Motor Vehicles RMB'000	Total RMB'000
Cost						
At 1 January 2004	2,036,465	92,607	144,260	143,786	6,499	2,423,617
Additions	—	—	—	—	2,490	2,490
Transfer from construction in progress (note 15)	—	—	—	17,692	—	17,692
Disposals	—	—	—	(7,492)	(3,716)	(11,208)
<b>At 31 December 2004</b>	<b>2,036,465</b>	<b>92,607</b>	<b>144,260</b>	<b>153,986</b>	<b>5,273</b>	<b>2,432,591</b>
Accumulated depreciation						
At 1 January 2004	52,053	4,691	11,964	35,806	4,039	108,553
Charge for the year	26,868	2,015	4,648	14,139	1,290	48,960
Disposals	—	—	—	(4,143)	(3,406)	(7,549)
<b>At 31 December 2004</b>	<b>78,921</b>	<b>6,706</b>	<b>16,612</b>	<b>45,802</b>	<b>1,923</b>	<b>149,964</b>
Net book value						
<b>At 31 December 2004</b>	<b>1,957,544</b>	<b>85,901</b>	<b>127,648</b>	<b>108,184</b>	<b>3,350</b>	<b>2,282,627</b>
At 31 December 2003	1,984,412	87,916	132,296	107,980	2,460	2,315,064

The toll roads and related land use rights and buildings of the Group are all located in the PRC.

## 15 Construction in progress

	The Group		The Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
At 1 January	39,849	269,146	39,540	268,692
Additions	281,181	236,758	258,394	230,987
Additions from acquisition of a subsidiary	2,544	—	—	—
Transfer to fixed assets (Note 14)	(39,970)	(466,055)	(17,692)	(460,139)
<b>At 31 December</b>	<b>283,604</b>	<b>39,849</b>	<b>280,242</b>	<b>39,540</b>

Construction in progress mainly represents construction costs incurred for toll roads not completed at 31 December 2004.



## Notes to the Accounts

### 16 Investments in subsidiaries - the Company

	Note	2004 RMB'000	2003 RMB'000
Unlisted investments, at cost		759,945	750,040
Provision for impairment	(b)(ii)	(12,005)	—
		747,940	750,040
Loans to a subsidiary	(b)(iii)	46,084	—
Provision for impairment	(b)(iii)	(46,084)	—
		—	—
Advance to a subsidiary	(c)	61,034	123,293
		808,974	873,333

## 16 Investments in subsidiaries (Continued)

(a) As at 31 December 2004, details of all the subsidiaries held by the Company are listed below:

Name	Place of incorporation and nature of legal entity	Principal activities and place of operation	Interest held	
			Direct	Indirect
Shenzhen Meiguan Expressway Company Limited ("Meiguan Company")	the PRC, limited liability company	Construction, operations and management of expressway	95%	—
Shenzhen Expressway Advertising Company Limited ("Advertising Company")	the PRC, limited liability company	Advertising agency	95%	4.75%
Mei Wah Industrial (Hong Kong) Limited ("Mei Wah Company")	Hong Kong, limited liability company	Investment holding	100%	—
Shenzhen Wutongling Ropeway Company Limited ("Ropeway Company") (Note (b)(i))	PRC, limited liability company	Construction and management of a ropeway	95%	—

(b) (i) The Company previously held 40% equity interest in Ropeway Company, a jointly controlled entity.

The Company has fully assumed its joint liability for a guarantee provided to a bank for a loan of RMB18,000,000 drawn down by Ropeway Company from that bank. The joint venture partner, Shenzhen Zhongmin Investment Servicing Company Limited ("Zhongmin"), holding 55% equity interest in Ropeway Company, is responsible to bear its joint liability for such guarantee in proportion to its equity interests held and the Company has the right to claim Zhongmin. In November 2003, the Company applied to the People's Court (the "Court") for selling the 55% equity interests of Ropeway Company held by Zhongmin through an auction in order to force Zhongmin to honor its obligations. The Court made an judgement that the application of the Company was accepted. On 2 August 2004, the Company acquired the 55% equity interest of Ropeway Company for RMB900,000 in an auction and paid an auction handling commission of RMB45,000. The total costs incurred for the acquisition of 55% of Ropeway equity interests were RMB945,000. Accordingly, the Company began to hold 95% of the equity interests of Ropeway Company and it became no longer a jointly controlled entity but a subsidiary of the Company.

### 16 Investments in subsidiaries (Continued)

- (ii) As Ropeway Company failed to commence its business operations as scheduled, the Company had made provision for impairment loss on the related goodwill of RMB11,060,000 arising from the acquisition of Ropeway Company in 2001. As at 31 December 2004, the construction of the underlying project of Ropeway Company remained under suspension and therefore, the Company made a further impairment provision for the additional equity interest acquired during the year amounting to RMB945,000. Accordingly, the Company had made provision for impairment in full for its investment in Ropeway Company amounting to RMB12,005,000 as at the end of 2004.
- (iii) As at 31 December 2003, the Company had granted loans of RMB46,464,000 to Ropeway Company which are secured by certain operating facilities and equipment of Ropeway Company. These loans bear interests at prevailing loan borrowing rates charged by banks in the PRC and have no fixed repayment dates. They were subject to full impairment loss provision made by the Company. As Ropeway Company became a subsidiary of the Company during the year, the loans and the related impairment provision were transferred from the interests in jointly controlled entities account to the investments in subsidiaries account. In 2004, the Court determined that RMB855,000 out of the auction proceeds had to be paid to the Company and the Company thereby wrote back the related impairment provision to the extent of the amount received. However, the Company had to make additional impairment loss provision against the amount advanced by it to Ropeway Company during the year amounting to RMB475,000. As at 31 December 2004, the Company had made impairment provision in full for loans advanced to Ropeway totalling RMB46,084,000.
- (c) Amount represents advance made to Meiguan Company, which is unsecured, interest-free and will be repayable out of the funds to be generated from the operations of the toll roads of Meiguan Company. In the opinion of the directors, there is no recoverability problem associated with such advance.
- (d) As at 31 December 2003, the Company held 70% equity interest in Shenzhen Expressway Engineering Consulting Company Limited (“Consulting Company”). During the year, the Consulting Company increased its registered capital while the Company did not subscribe for it in proportion to its original interests held. As a result, the Company’s equity interests in Consulting Company decreased from 70% to 30% and it no longer has controlling power over the company. Accordingly, Consulting Company began to be reported as an associated company of the Company.

## 17 Interests in jointly controlled entities

	Note	The Group		The Company	
		2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Unlisted investments, at cost		—	—	<b>384,000</b>	395,060
Provision for impairment of investment costs	(g)	—	—	<b>(51,590)</b>	(62,650)
		—	—	<b>332,410</b>	332,410
Share of net assets other than goodwill		<b>385,194</b>	354,998	—	—
Goodwill on acquisition of jointly controlled entities less accumulated amortization	(b)	<b>1,636</b>	10,773	—	—
Provision for impairment of goodwill	(c)	—	(9,060)	—	—
		<b>386,830</b>	356,711	<b>332,410</b>	332,410
Advance to jointly controlled entities	(d)	<b>875,073</b>	962,464	<b>875,073</b>	962,464
Loans to a jointly controlled entity	(e)	—	46,464	—	46,464
Provision for doubtful loans	(e)	—	(46,464)	—	(46,464)
		<b>875,073</b>	962,464	<b>875,073</b>	962,464
Total		<b>1,261,903</b>	1,319,175	<b>1,207,483</b>	1,294,874

## Notes to the Accounts

### 17 Interests in jointly controlled entities (Continued)

(a) Details of all jointly controlled entities as at 31 December 2004 are as follows:

Name	Place of incorporation and nature of legal entity	Principal activities and place of operation	Interest held
Shenzhen Airport-Heao Expressway (Eastern Section) Company Limited ("Airport-Heao")	the PRC, Sino-foreign cooperative enterprise	Construction, operations and management of expressways	*55%
Shenzhen Qinglong Expressway Company Limited ("Qinglong Company")	the PRC, Sino-foreign cooperative enterprise	Construction, operations and management of expressways	*40%
Hunan Changsha Shenchang Expressway Company Limited ("Shenchang Company")	the PRC, limited liability company	Construction, operations and management of a ring road	*51%
Hubei Yungang Transportation Development Company Limited ("Yungang Company")	the PRC, Sino-foreign cooperative enterprise	Construction, operations and management of a bridge	#42%

\* Interests held directly by the Company

# Up to 1 March 2006, the Company is entitled to 90% share of the profit of Yungang Company.

- (b) The amount relates to goodwill arising on acquisition of Qinglong Company in December 2002 amounting to RMB1,791,000. The amortisation charge during the year was RMB77,000 and the accumulated amortisation as at 31 December 2004 was RMB155,000.
- (c) This represents goodwill arising on acquisition of Ropeway Company, which became a subsidiary of the Company during the year (Note 16(b)(i)).
- (d) Amounts represent advance made to Airport-Heao of RMB380,764,000 (2003: RMB401,453,000), Qinglong of RMB205,599,000 (2003: RMB264,401,000) and Shenchang of RMB288,710,000 (2003: RMB296,610,000), respectively. The advance is unsecured, non-interest bearing and is repayable out of the funds generated from the operations of the respective toll road projects. In the opinion of the directors, there is no recoverability problem associated with the advance.
- (e) This represents loans made to Ropeway Company, against which full provision has been made. During the year, Ropeway Company became a subsidiary of the Company and these loans were reclassified to investments in subsidiaries accordingly (Note 16(b)(iii)).

## 17 Interests in jointly controlled entities (Continued)

## (f) Information of major jointly controlled entities

The financial information of major jointly controlled entities for the year ended 31 December 2004 prepared under HK GAAP is as follows:

	Airport-Heao		Qinglong Company		Shenchang Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Profit and loss accounts						
Turnover	<b>219,320</b>	173,107	<b>132,853</b>	103,998	<b>19,061</b>	16,138
Operating profit/(loss) before taxation	<b>172,558</b>	139,810	<b>56,302</b>	30,870	<b>653</b>	(153,671)
Taxation	<b>(25,884)</b>	(20,462)	<b>(1,767)</b>	(2,609)	<b>(5,412)</b>	44,888
Profit/(loss) after taxation	<b>146,674</b>	119,348	<b>54,535</b>	28,261	<b>(4,759)</b>	(108,783)
Net assets						
Fixed assets	<b>1,186,651</b>	1,207,197	<b>911,760</b>	942,796	<b>604,894</b>	617,079
Construction in progress	<b>4,894</b>	—	<b>723</b>	—	—	—
Deferred tax assets	—	—	—	—	<b>49,097</b>	49,824
Current assets	<b>50,812</b>	53,801	<b>49,921</b>	46,969	<b>5,574</b>	8,025
Current liabilities	<b>(23,536)</b>	(10,378)	<b>(562,739)</b>	(9,775)	<b>(4,758)</b>	(4,387)
Amounts due to owners	<b>(699,912)</b>	(760,326)	<b>(213,453)</b>	(292,072)	<b>(566,098)</b>	(581,758)
Long-term loans	—	—	—	(558,008)	—	—
Deferred tax liabilities	<b>(30,819)</b>	(28,105)	<b>(7,893)</b>	(6,126)	<b>(30,523)</b>	(25,838)
Net assets	<b>488,090</b>	462,189	<b>178,319</b>	123,784	<b>58,186</b>	62,945
Capital commitments	—	—	—	—	—	—
Contingent liabilities	—	—	—	—	—	—

## Notes to the Accounts

### 17 Interests in jointly controlled entities (Continued)

(g) Provision for impairment of investment costs

	Note	The Company	
		2004 RMB'000	2003 RMB'000
As at 1 January		62,650	9,060
Additional impairment provision for Ropeway Company		—	2,000
Provision for impairment of Shenchang Company		—	51,590
Provision for Ropeway Company transferred out	16(b)	(11,060)	—
As at 31 December		51,590	62,650

### 18 Interests in associated companies

	Note	The Group		The Company	
		2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Unlisted investments, at cost		—	—	871,404	—
Share of net assets other than goodwill		795,398	—	—	—
Goodwill on acquisition of associates less accumulated amortisation	(b)	75,300	—	—	—
Total		870,698	—	871,404	—



### 18 Interests in associated companies (Continued)

- (a) All associated companies are limited liability companies incorporated in the PRC, details of these associated companies as at 31 December 2004 are as below:

Name	Principal activities	Directly held interests
Guangdong Jiangzhong Expressway Company Limited ("Jiangzhong Company")	Development, operations and management of expressways and related facilities	25%
Guangzhou Western Second Ring Expressway Company Limited ("GZ W2 Company")	Development, operations and management of expressways	25%
Shenzhen Huayu Expressway Investment Company Limited ("Huayu Company")	Development, investment, operations and management of expressways	40%
Shenzhen Expressway Engineering Consulting Company Limited ("Consulting Company") (Note 16(d))	Project management consulting, construction consulting and selling of construction materials	30%
Nanjing Yangtz River Third Bridge Company Limited ("Nanjing Company")	Development, operations and management of bridges	25%
Guangdong Yangmao Expressway Company Limited ("Yangmao Company")	Development, operations and management of expressways	25%

All associated companies were established or acquired during the year. Except for Consulting Company and Yangmao Company, all associated companies had not yet commenced commercial operations as 31 December 2004.

- (b) During the year, goodwill arising from acquisitions of associated companies, Jiangzhong Company and Yangmao Company, amounted to RMB30,680,000 and RMB46,165,000, respectively. The amortisation charge for the year and the accumulated amortisation as at 31 December 2004 of the above goodwill balances were RMB1,545,000.

## Notes to the Accounts

### 18 Interests in associated companies (Continued)

#### (c) Information of major associated companies

The financial information of major associated companies for the year ended 31 December 2004 prepared under HK GAAP is as follows:

	Yangmao		Jiangzhong		Nanjing		GZ W2 Company		Huayu	
	Company		Company		Company		(Note (a))		Company	
	2004	2003	2004	2003	2004	2003	2004	2004	2003	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Profit and loss accounts										
Turnover	13,418	—	—	—	—	—	—	—	—	—
Operating profit/(loss) before taxation	(2,325)	—	—	—	—	—	—	—	—	—
Taxation	—	—	—	—	—	—	—	—	—	—
Profit/(loss) after taxation	(2,325)	—	—	—	—	—	—	—	—	—
Net assets										
Fixed assets	2,208,342	2,937	1,663	1,968	4,433	4,142	—	306	398	
Construction in progress	—	1,004,713	2,098,933	1,548,621	2,209,610	852,347	274,295	481,981	362,163	
Current assets	253,613	40,782	32,187	104,915	76,147	24,511	41,628	2,138	47,866	
Current liabilities	(510,260)	(78,432)	(135,143)	(62,224)	(170,000)	(320,000)	(65,923)	(425)	(20,427)	
Long-term payables	(1,132,000)	(733,000)	(1,299,990)	(1,038,000)	(1,040,190)	(520,000)	—	(334,000)	(340,000)	
Net assets	819,695	237,000	697,650	555,280	1,080,000	41,000	250,000	150,000	50,000	
Capital commitments										
Contracted but not provided for	—	1,027,000	592,000	859,000	253,000	232,000	1,060,000	8,000	128,000	
Authorised but not contracted for	—	178,000	370,000	653,000	838,877	2,216,970	1,678,000	—	—	
	—	1,205,000	962,000	1,512,000	1,091,877	2,448,970	2,738,000	8,000	128,000	
Contingent liabilities	—	—	—	—	—	—	—	—	—	

Note (a) GZ W2 Company was established in 2004 and accordingly no comparative figures were presented.

**19 Long-term receivables – the Group and the Company**

This represents the discounted balance of the Consideration and Compensation receivable pursuant to the Transfer Agreement as described in Note 4. The remaining balance of RMB372,946,000 will be received by the end of 2005 and was included in the balance sheet as a current asset as at 31 December 2004.

**20 Construction management service - the Group and the Company**

As detailed in Note 3(b), the Company entered into two highway construction project management contracts with two government departments during the year that it undertakes to enter into the underlying construction contracts on behalf of these government departments with constructors directly responsible for the construction of these projects. Financial information on these projects is summarised as follows:

	<b>Nanping Project 2004 RMB'000</b>	<b>Hengping Project 2004 RMB'000</b>	<b>Total 2004 RMB'000</b>
Management expenses incurred during the year plus attributable profit less losses	6,333	—	6,333
Less: progress payments received/recievable	(6,333)	—	(6,333)
Project management fees receivable/(payable)	—	—	—
Project funds received from the government departments during the year	400,000	30,000	430,000
Construction costs paid on their behalf during the year	(349,234)	(18,445)	(367,679)
Progress payments made to the Company	(6,333)	—	(6,333)
Balance of project funds advanced to the Company	44,433	11,555	55,988

The project funds received are deposited in bank accounts jointly supervised by the Company and the relevant government departments. Such amounts are presented as restricted cash in the consolidated accounts, and the corresponding liability of RMB55,988,000 has been included in the other payables and accrued expenses in the consolidated accounts of the Group and the accounts of the Company.

In addition, as at 31 December 2004, a guarantee deposit of RMB15,000,000 (2003: Nil) for Hengping Project had been paid by the Company and it was included in other receivables of the accounts.

## Notes to the Accounts

### 21 Amounts due from jointly controlled entities – the Group and the Company

The amount mainly represents the net balance of toll income collected by the Group on behalf of Airport-Heao, a jointly controlled entity; and toll income collected by that jointly controlled entity on behalf of the Group. The amount is unsecured, interest-free and settled on a monthly basis.

During the year, toll income collected by the Group on behalf of that jointly controlled entity was RMB92,721,000 (2003: RMB72,295,000), and toll income collected by that jointly controlled entity on behalf of the Group was RMB98,733,000 (2003: RMB79,256,000). All toll income collected is paid back to the counter party on a monthly basis without charging any handling fees.

### 22 Share capital – the Group and the Company

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				
2004 and 2003	654,780	613,420	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. Save for the liquidity restrictions and the currency used for distribution of dividends, all shares rank pari passu against each other.

## 23 Reserves and retained earnings

The Group	Share premium RMB'000	Statutory surplus reserve RMB'000	Reserves		Total RMB'000	Retained earnings RMB'000
			Statutory public welfare fund RMB'000	Discretionary surplus reserve RMB'000		
At 1 January 2004	2,060,009	319,020	295,064	453,391	3,127,484	773,885
Profit for the year	—	—	—	—	—	418,870
Transfers	—	64,093	56,275	—	120,368	(120,368)
2003 final dividend paid	—	—	—	—	—	(414,333)
<b>At 31 December 2004</b>	<b>2,060,009</b>	<b>383,113</b>	<b>351,339</b>	<b>453,391</b>	<b>3,247,852</b>	<b>658,054</b>
Representing:						
2004 final dividend proposed						239,877
Others						418,177
<b>Retained earnings as at 31 December 2004</b>						<b>658,054</b>
Company and subsidiaries	2,060,009	383,113	351,339	453,391	3,247,852	620,668
Jointly controlled entities	—	—	—	—	—	36,513
Associated companies	—	—	—	—	—	873
<b>As 31 December 2004</b>	<b>2,060,009</b>	<b>383,113</b>	<b>351,339</b>	<b>453,391</b>	<b>3,247,852</b>	<b>658,054</b>
At 1 January 2003	2,060,909	220,992	203,448	453,391	2,938,740	325,841
Profit for the year	—	—	—	—	—	899,372
Transfers	—	98,028	91,616	—	189,644	(189,644)
2002 final dividend paid	—	—	—	—	—	(261,684)
Others	(900)	—	—	—	(900)	—
<b>At 31 December 2003</b>	<b>2,060,009</b>	<b>319,020</b>	<b>295,064</b>	<b>453,391</b>	<b>3,127,484</b>	<b>773,885</b>
Representing:						
2003 final dividend proposed						414,333
Others						359,552
<b>Retained earnings at 31 December 2003</b>						<b>773,885</b>
Company and subsidiaries	2,060,009	319,020	295,064	453,391	3,127,484	755,659
Jointly controlled entities	—	—	—	—	—	18,226
<b>At 31 December 2003</b>	<b>2,060,009</b>	<b>319,020</b>	<b>295,064</b>	<b>453,391</b>	<b>3,127,484</b>	<b>773,885</b>

## Notes to the Accounts

### 23 Reserves and retained earnings (Continued)

	Reserves				Total	Retained earnings
	Share premium	Statutory surplus reserve	Statutory public welfare fund	Discretionary surplus reserve		
The Company	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2004	2,060,009	271,048	271,048	453,391	3,055,496	761,739
Profit for the year	—	—	—	—	—	358,999
Transfers	—	48,456	48,456	—	96,912	(96,912)
2003 final dividend paid	—	—	—	—	—	(414,333)
<b>At 31 December 2004</b>	<b>2,060,009</b>	<b>319,504</b>	<b>319,504</b>	<b>453,391</b>	<b>3,152,408</b>	<b>609,493</b>
Representing:						
2004 final dividend proposed						239,877
Others						369,616
<b>Retained earnings as at 31 December 2004</b>						<b>609,493</b>
At 1 January 2003	2,060,009	185,844	185,844	453,391	2,885,088	322,299
Profit for the year	—	—	—	—	—	871,532
Transfers	—	85,204	85,204	—	170,408	(170,408)
2002 final dividend paid	—	—	—	—	—	(261,684)
<b>At 31 December 2003</b>	<b>2,060,009</b>	<b>271,048</b>	<b>271,048</b>	<b>453,391</b>	<b>3,055,496</b>	<b>761,739</b>
Representing:						
2003 final dividend proposed						414,333
Others						347,406
<b>Retained earnings at 31 December 2003</b>						<b>761,739</b>

**23 Reserves and retained earnings (Continued)**

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

- (i) make up accumulated losses;
- (ii) transfer 10% of the profit after taxation 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 taxation 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 taxation in the statutory accounts of the Company prepared in accordance with the PRC accounting standards.

(b) **Share premium**

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

(c) **Statutory surplus reserve and discretionary surplus reserve**

According to 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 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 PRC accounting standards as stated in the PRC statutory accounts and the accumulated distributable profits adjusted based on HK GAAP.



## Notes to the Accounts

### 24 Deferred taxation

Deferred taxation are provided in full on temporary differences under the liability method, using a principal taxation rate of 15% (2003 : 15%).

The movement of the deferred tax liabilities account is as follows:

	The Group		The Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
At 1 January	42,943	36,754	21,530	16,630
Charged to profit and loss account (Note 9)	7,440	6,189	6,947	4,900
At 31 December	50,383	42,943	28,477	21,530

The movement of deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year is as follows:

Deferred tax assets

	The Group		The Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
At 1 January	(1,878)	—	(1,878)	—
Charged to profit and loss account	—	(1,878)	—	(1,878)
At 31 December	(1,878)	(1,878)	(1,878)	(1,878)

The deferred tax asset represents the deferred tax recognised for the impairment provision made against the investment in Ropeway.

**24 Deferred taxation (Continued)**

## Deferred tax liabilities

	The Group		The Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
At 1 January	44,821	36,754	23,408	16,630
Charged to profit and loss account	7,440	8,067	6,947	6,778
At 31 December	<b>52,261</b>	44,821	<b>30,355</b>	23,408

Deferred tax liabilities of the Group and the Company represent the deferred tax on temporary differences arising from the different basis adopted for depreciation of toll roads and amortisation of land use rights which lead to differences in the accounting and tax bases.

Deferred tax assets and liabilities are offset against each other when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes are related to the same company and same tax authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

	The Group		The Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Deferred taxation assets	(1,878)	(1,878)	(1,878)	(1,878)
Deferred taxation liabilities	52,261	44,821	30,355	23,408
	<b>50,383</b>	42,943	<b>28,477</b>	21,530

## Notes to the Accounts

### 25 Long-term liabilities

	Note	The Group		The Company	
		2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Long-term bank loans		<b>100,000</b>	—	<b>100,000</b>	—
Other loans – secured	(a)	<b>33,901</b>	36,177	<b>33,901</b>	36,177
Other long-term advance	(b)	<b>54,000</b>	54,000	<b>54,000</b>	54,000
Advance from a minority shareholder of a subsidiary	(c)	<b>12,092</b>	15,294	—	—
		<b>199,993</b>	105,471	<b>187,901</b>	90,177
Current portion of other loans	(a)	<b>(3,082)</b>	(3,082)	<b>(3,082)</b>	(3,082)
		<b>196,911</b>	102,389	<b>184,819</b>	87,095

- (a) Other loans totalling USD4,096,034 were borrowed from 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 instalments from November 2006 to May 2011; while the remaining balance of USD1,861,834 is interest bearing at 7.17% per annum, and it is repayable by instalments from February 2004 to August 2009. These loans are guaranteed by Xin Tong Chan Development (Shenzhen) Company Limited, a substantial shareholder of the Company.
- (b) Other long-term advance was obtained from local government authorities as an inducement of the Company to participate in a toll road project. The advance is unsecured, non-interest bearing and has no fixed terms of repayment. In the opinion of the directors, the advance is not repayable within the coming five years.
- (c) The advance was granted to Meiguan Company, a subsidiary of the Company, by a minority shareholder of Meiguan Company. The advance is unsecured, non-interest bearing and is repayable out of the funds to be generated from the toll road project operated by Meiguan Company.

## 26 Borrowings

At 31 December 2004, the Group's bank loans and other borrowings were repayable as follows:

### The Group

	Bank loans		Other borrowings		Total	
	2004	2003	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	<b>360,000</b>	40,000	<b>3,082</b>	3,082	<b>363,082</b>	43,082
In the second to fifth year	<b>100,000</b>	—	<b>25,272</b>	19,401	<b>125,272</b>	19,401
After the fifth year	—	—	<b>71,639</b>	82,988	<b>71,639</b>	82,988
Total	<b>460,000</b>	40,000	<b>99,993</b>	105,471	<b>559,993</b>	145,471

### The Company

	Bank loans		Other borrowings		Total	
	2004	2003	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	<b>360,000</b>	40,000	<b>3,082</b>	3,082	<b>363,082</b>	43,082
In the second to fifth year	<b>100,000</b>	—	<b>26,710</b>	19,401	<b>126,710</b>	19,401
After the fifth year	—	—	<b>58,109</b>	67,694	<b>58,109</b>	67,694
Total	<b>460,000</b>	40,000	<b>87,901</b>	90,177	<b>547,901</b>	130,177

As at 31 December 2004, total banking facilities available to the Group amounted to RMB4,890,000,000 (2003: RMB4,090,000,000).

All bank loans are unsecured.

## Notes to the Accounts

### 27 Deferred income – the Group and the Company

	2004 RMB'000	2003 RMB'000
At 1 January	354,472	240,312
Transfer from other long-term advance	—	150,000
Government subsidy income recognised for the year	(35,708)	(35,840)
At 31 December	<b>318,764</b>	354,472

Deferred income represents government grants provided to the Company to subsidise the toll revenue of Sections A and B of the Yanba Expressway (the “Yanba Expressway”). The subsidy was granted based on anticipated insufficient traffic volume achieved as a result of the construction of the Yanba Expressway at an early stage in response to the overall township planning requirements of the SZMG. Pursuant to two circulars, Shenjitouzi [2001] No. 764 issued in 2001 and Shenjitouzi [2003] No. 213 issued in 2003, by the SZMG, the government approved a waiver of a long-term advance totalling RMB450,000,000 previously paid to the Company, and the conversion of such advance to a government grant for subsidising the toll revenue of the Company. These government grants are treated as a deferred income and are recognised in the profit and loss account according to the Group’s accounting policies as shown in Note 2(o) and Note 2(p) throughout the period when the Company is granted the right to operate the related expressway.

## 28 Notes to the consolidated cash flow statement

## (a) Reconciliation of operating profit to net cash inflow from operating activities

	2004 RMB'000	2003 RMB'000
Operating profit	397,135	1,008,576
Depreciation and amortisation	89,651	82,188
Amortisation of goodwill	435	153
Provision for impairment of goodwill	945	—
Provision for doubtful loans to a jointly controlled entity	—	28,311
Gain on disposal of major fixed assets	—	(691,416)
Loss on disposals of other fixed assets	5,697	69
Increase in inventories	(804)	(239)
Increase in other receivables, prepayments and deposits	(13,625)	(1,950)
Increase in amount due from jointly controlled entity	(2,486)	487
Increase (decrease) in other payables and accrued expenses	24,783	(17,022)
Interest income from bank deposits	(11,938)	(9,616)
Interest income from long-term loan	—	(18,563)
Interest income from discounting of long-term receivables	(35,779)	—
Government subsidy income	(35,708)	(35,840)
Subsidies from local government	—	(10,183)
Net cash inflow generated from operations	<b>418,306</b>	334,955

## Notes to the Accounts

### 28 Notes to the consolidated cash flow statement (Continued)

#### (b) Analysis of changes in financing during the year

	Share capital and Share premium		Minority interests		Bank loans, other loans and other long-term advance	
	2004	2003	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January	<b>4,240,709</b>	4,241,609	<b>49,967</b>	50,282	<b>145,471</b>	777,626
Minority interests in share of profits	—	—	<b>7,848</b>	6,517	—	—
Dividend paid/payable to minority shareholders of subsidiaries	—	—	<b>(6,890)</b>	(5,360)	—	—
New bank loans granted	—	—	—	—	<b>660,000</b>	366,758
New other borrowings	—	—	—	—	<b>807</b>	—
New advance granted	—	—	—	—	—	80,000
Repayment of advance from a minority shareholder of a subsidiary	—	—	—	—	<b>(3,145)</b>	(3,913)
Repayments of loans borrowed	—	—	—	—	<b>(243,082)</b>	(925,000)
Transfer from other long-term advance to deferred income	—	—	—	—	—	(150,000)
Others	—	(900)	<b>(859)</b>	(1,472)	<b>(58)</b>	—
<b>At 31 December</b>	<b>4,240,709</b>	4,240,709	<b>50,066</b>	49,967	<b>559,993</b>	145,471



**28 Notes to the consolidated cash flow statement (Continued)****(c) Analysis of the net outflow in respect of the purchase of a subsidiary:**

	2004 RMB'000
Net assets acquired	
Construction in progress	3,873
Bank balances and cash	16
Other payables and accrued expenses	(3,889)
	—
Goodwill	945
Consideration paid	945
Satisfied by cash consideration	945
Cash consideration	945
Bank balances and cash acquired	(16)
Net cash outflow in respect of the purchase of the subsidiary	929

During the year, the Company acquired interests in Ropeway Company (for details, refer to Note 16(b)(i)).

**(d) Disposal of a subsidiary**

	2004 RMB'000
Disposal of net assets	
Fixed assets	262
Bank balances and cash	1,468
Other receivables	1,597
Other payable and accrued expenses	(278)
Minority interest	(915)
	2,134
Cash received from disposal of a subsidiary	—
Decrease in cash balance of the Group from the disposal	1,468

For details of the disposal, please refer to Note 16(d).

### 29 Contingent liabilities

Pursuant to the provisions of the two construction management contracts described in Note 3(b), the Company undertakes to bear any costs overruns for the two projects. For the Hengping Project of total investment of RMB 450,000,000, the Company is obliged to bear all the cost overruns in construction as compared to the original budget. For the Nanping Project of a total investment of about RMB 2,268,000,000, the Company is obliged to bear solely all the cost overruns 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 respective government department will share the overruns jointly with the Company if the overrun exceeds 2.5% of the total budgeted contract costs.

Pursuant to the terms of these two contracts, the Company was requested to average banks to issue irrevocable performance guarantees on its behalf to the Shenzhen Longgang Highway Bureau and Shenzhen Communication Bureau in the amounts of RMB30,000,000 and RMB100,000,000, respectively. The Company also paid a deposit of RMB 15,000,000 to Shenzhen Longgang Highway Bureau as a guarantee deposit for assuring the progress, quality and safety standards for the construction of these two projects.

### 30 Commitments

As at 31 December 2004, the Group and the Company had the following commitments for construction of expressways and making equity investments:

	2004 RMB'000	2003 RMB'000
Capital commitments:		
- Contracted but not provided for	310,500	328,000
- Authorised but not contracted for	3,822,500	1,197,000
	<b>4,133,000</b>	1,525,000
Investment commitments:		
- Contracted but not provided for	469,860	—
- Authorised but not contracted for	2,544,496	611,000
	<b>3,014,356</b>	611,000
	<b>7,147,356</b>	2,136,000

The jointly controlled entities had no significant capital or investment commitments as at 31 December 2004.

For capital and investment commitments of associated companies of the Company, please refer to Note 18(c).

In the opinion of the directors, the above commitments, including the financing for the acquisition described in Note 33, could be fulfilled by internal financial resources and banking facilities made available to the Group.

### **31 Related party transactions**

Save as already disclosed in other notes to the accounts, no other significant related party transactions were entered into by the Group during the year.

### **32 Ultimate holding company**

The Company's directors consider that the Company has no ultimate holding company.

### **33 Subsequent events**

On 3 February 2005, the Company and Mei Wah Company (a subsidiary of the Company) jointly entered into a set of framework agreements with five independent parties to acquire equity interests held by these parties in Guangdong Qinglian Highway Development Company Limited ("Qinglian Company") for a total consideration of RMB1,839,200,000 (the "Acquisition").

The Acquisition consists of a series of transactions among the parties concerned. Upon completion of the Acquisition, the Company will hold 56.28% equity interests in Qinglian Company. The Acquisition is subject to the approval of the shareholders in the coming general meeting.

### **34 Approval of accounts**

The accounts were approved by the board of directors on 18 February 2005.

# Notice of 2004 Annual General Meeting

**Notice is hereby given** that the 2004 Annual General Meeting (the “AGM”) of Shenzhen Expressway Company Limited (the “Company”) will be held at the conference room of the Company at 19/F, Tower A, United Plaza, No. 5022 Binhe Road North, Shenzhen, on 8 April 2005 (Friday) at 10:00 a.m. for approving the following resolutions:

1. To consider and approve the report of the directors for the year 2004;
2. To consider and approve the report of the Supervisory Committee for the year 2004;
3. To consider and approve the audited accounts for the year 2004;
4. To consider and approve the proposed distribution scheme of profits for the year 2004 (including declaration of final dividend);
5. To consider and approve the budget plan for the year 2005;
6. To consider and approve the emoluments of the directors and supervisors for the year 2005;
7. To consider and approve the re-appointment of Messrs. PricewaterhouseCoopers (Certified Public Accountants, Hong Kong) as the international auditors and PricewaterhouseCoopers Zhong Tian CPAs Co., Ltd. as the statutory auditors of the Company, respectively, and to authorize the board of directors of the Company to fix their remuneration.
8. To consider and approve the immediate appointment of Mr. Li Jing Qi, Mr. Wang Ji Zhong and Mr. Yang Hai as the directors of the Company and Mr. Chen Chao as the supervisor of the Company, with a term starting from the date of appointment till 31 December 2005 (with their resumes attached below).
9. To consider and approve the following proposal for amendment to the Articles of Association of the Company (“Articles”) by way of special resolution and to authorise the board of directors of the Company to file the amended Articles with the relevant government authorities with details as follows:

(1) Article 1

Article 1 of the Articles be amended by deleting the reference to the registration number of the Company and the business licence number of the promoters of the Company and in view of the name change of the promoters of the Company from Shenzhen Freeway Development Company to Xin Tong Chan Development (Shenzhen) Company Limited and from Guangdong Roads & Bridges Construction Development Company to Guangdong Roads & Bridges Construction Development Company Limited.

(2) Article 2

the postal code of the Company in Article 2 of the Articles be amended from 518026 to 518033.

(3) Article 12

the following sentence be added to the beginning of Article 12 of the Articles:

“The business scope of the Company shall be the items as approved by the registration authority of the Company.”

(4) Articles 39

the following sentence be added to the end of Article 39 of the Articles:

“The Company shall maintain and manage the register of domestic shareholders in accordance with the relevant requirements of the China Securities Regulatory Commission, Shanghai Stock Exchange and the Shanghai Branch of China Securities Depository & Clearing Corporation Limited.”

(5) Article 69

the following sentence be added to the end of Article 69 of the Articles:

“The board of directors of the Company, independent directors and shareholder(s) who singly or jointly hold(s) 10% or more of the voting rights of the Company are entitled to request and collect from shareholders of the Company their voting rights in general meeting of the Company. The request and collection of the voting rights shall be conducted on a nil consideration basis with full disclosure of information to the person being summoned.”

(6) Article 76

Article 76 of the Articles be amended by:

deleting the words “Shareholders or the Supervisory Committee” in the first line of Article 76 of the Articles and replacing by “Shareholders, the Supervisory Committee or independent directors”;

deleting the words “Shareholders or the Supervisory Committee” in the first line of the first sub-paragraph of Article 76 of the Articles and replacing by “Shareholders, the Supervisory Committee or half of the independent directors”;

adding the words “and independent directors” after the words “the Supervisory Committee” in the first line of the second sub-paragraph of Article 76 of the Articles.

## Notice of 2004 Annual General Meeting

(7) Article 95

by adding the following sentence to the beginning of Article 95 of the Articles:

“The board of directors shall not decide on the matters which are required to be approved by the general meeting under the laws and regulations, including but not limited to:

(8) Article 97

the minimum number of meetings to be held by the board of directors each year be amended to 4 and the period for the directors to be notified be amended to 14 days prior to the meeting.

(9) Article 98

the last paragraph of Article 98 of the Articles be deleted and replaced by the following paragraph:

“The meeting of the board of directors may be held on a communication basis, including but not limited to through telephone, facsimile or other similar communication facilities. During the meeting held on a communication basis, so long as the directors participating in the meeting can clearly hear or understand the opinions of other directors and communicate with each other, all such directors shall be deemed to be present in person at the meeting.”

(10) Article 103

by adding the following paragraph to the end of Article 103 of the Articles:

“Upon the resolutions of the board of directors become effective, the Company shall notify all directors and dispatch a copy of the same to the Supervisory Committee.

The board of directors in considering the following matters, shall not be entitled to use the method of written resolutions instead of holding a meeting of the board of directors:

- (1) the increase or decrease of registered capital of the Company;
- (2) issue of debentures of the Company;
- (3) the division, merger, dissolution or winding up of the Company;
- (4) the amendment of the Articles of the Company;
- (5) the profit distribution plan and recovery of losses plan ;

- (6) the appointment and removal of the members of the board of directors and determination of their remuneration;
- (7) change of the use of the proceeds raised in capital issue;
- (8) connected transactions that require public disclosure;
- (9) acquisition or disposal of assets that require public disclosure;
- (10) the appointment or change of auditors and the determination of their remuneration;
- (11) other matters with material effects on the operations of Company.”

(11) Article 107

the secretary of the board of directors be amended to be responsible to the Company as well as the board of directors.

(12) Article 130

the following paragraph be added after the 2nd paragraph of Article 130 of the Articles and becomes the new 3rd paragraph of Article 130 of the Articles:

“The directors (including independent directors) shall not be removed before expiry of their term without a cause, except being prohibited to be qualified as directors under the Company Law of PRC and China Securities Regulatory Commission.”

The following paragraph be added after the 3rd paragraph of Article 130 of the Articles:

“If the ratio of the independent directors in the board of directors of the Company falls below the minimum statutory requirement as a result of the resignation of an independent director, the resignation of such independent director shall only be effective upon his vacancy be filled by the newly appointed independent director.”

(13) Article 144

the following words be added to the beginning of the second paragraph of Article 144 of the Articles:

“In respect of overseas-listed foreign shareholders,”;

the following words be added to the end of the second paragraph of Article 144 of the Articles:

“In respect of domestic shareholders, the Company shall place the aforesaid documents in their designated website(s) for inspection by domestic shareholders within the period required by the regulations of China Securities Regulatory Commission and Shanghai Stock Exchange.”

## Notice of 2004 Annual General Meeting

10. To consider and, if thought fit, pass the following special resolution to authorize the board of directors to repurchase H Shares of the Company up to a maximum of 10 percent of the aggregate nominal value of the H Shares in issue of the Company:

“THAT:

- (a) subject to paragraphs (b) and (c) below, the Relevant Period (as defined in paragraph (d) below) during which the board of directors may exercise all the powers of the Company to repurchase H Shares in issue of the Company on The Stock Exchange of Hong Kong Limited (“SEHK”), subject to and in accordance with all applicable laws, rules and regulations and/or requirements of the governmental or regulatory body of securities in the PRC, the SEHK or of any other governmental or regulatory body be and is hereby approved;
- (b) the aggregate nominal value of H Shares authorized to be repurchased pursuant to the approval in paragraph (a) above during the Relevant Period shall not exceed 10 percent of the aggregate nominal value of H Shares in issue of the Company as at the date of the passing of this resolution;
- (c) the approval in paragraph (a) above shall be conditional upon:
  - (i) the passing of a special resolution in the same terms as the resolution set out in this paragraph (except for this subparagraph (c)(i)) at (aa) the extraordinary general meeting for holders of overseas listed foreign shares of the Company to be held on 8 April 2005 (or on such adjourned date as may be applicable); and (bb) the extraordinary general meeting for holders of domestic shares of the Company to be held on 8 April 2005 (or on such adjourned date as may be applicable);
  - (ii) the approval of the China Securities Regulatory Commission and any other regulatory authorities as may be required by the laws, rules and regulations of the PRC being obtained by the Company if appropriate; and
  - (iii) the Company not being required by any of its creditors to repay or to provide guarantee in respect of any amount due to any of them (or if the Company is so required by any of its creditors, the Company having, in its absolute discretion, repaid or provided guarantee in respect of such amount) pursuant to the notification procedure set out in Article 25 of the Articles of the Company;
- (d) for the purpose of this special resolution, “Relevant Period” means the period from the passing of this special resolution until whichever is the earlier of:
  - (i) the conclusion of the next annual general meeting following the passing of this special resolution;
  - (ii) the expiration of a period of twelve months following the passing of this special resolution; or
  - (iii) the date on which the authority set out in this special resolution is revoked or varied by a special resolution of the members of the Company in any general meeting; and



- (e) subject to approval of all relevant governmental authorities in the PRC for the repurchase of such H Shares being granted, the board of directors be hereby authorized to:
- (i) make such amendments to the Articles of the Company accordingly as it thinks fit so as to reduce the registered share capital of the Company and to reflect the new capital structure of the Company upon the repurchase of H Shares of the Company as contemplated in paragraph (a) above; and
  - (ii) file the amended Articles of the Company with the relevant governmental authorities of the PRC.”

By the Order of the Board

**Wu Qian**

*Joint Company Secretary*

Shenzhen, PRC, 18 February 2005

### **Attachment: resumes of candidates for directors and supervisors**

#### **Directors**

**Mr. LI Jing Qi**, aged 49, graduated from Shanghai Foreign Language University (上海外國語大學). Mr. Li had been in sequence the supervisor and assistant department head of Anhui Branch, Bank of China; manager and senior manager of business development of Hong Kong and Macau Office, Bank of China; deputy general manager of foreign exchange centre of Hong Kong, Bank of China; head of foreign exchange department of Shenzhen Branch, Bank of China; branch manager of Sha Tou Kok Sub-branch, Bank of China and assistant to chief executive officer of Shenzhen Investment Holding Corporation (深圳市投資管理公司). He has over twenty years experience in international banking, foreign exchange business and risks management. Mr. Li is currently an executive director and vice president of Shenzhen International Holdings Limited, responsible for overseeing their financial and corporate structure as well as planning and formulating major transactions. Mr. Li is also the director of Xin Tong Chan Development (Shenzhen) Co., Ltd..

**Mr. WANG Ji Zhong**, aged 58, senior accountant. 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 management experience. He had been the director of the finance department of Shenzhen Investment Holding Corporation and then has joined Xin Tong Chan Development (Shenzhen) Co., Ltd. as deputy general manager since October 1997. Mr. Wang is also a director of Xin Tong Chan Development (Shenzhen) Co., Ltd. Mr. Wang had been the chairman of 2nd and 3rd Supervisory Committee of the Company. He tendered his resignation to the Supervisory Committee of the Company in February 2005, effective from the date of appointing new supervisor at the coming annual general meeting to be held on 8 April 2005.

**Mr. YANG Hai**, aged 44, senior engineer, graduated from the Department of Roads and Bridges of Chongqing Architecture University (重慶建築大學道橋系) in 1982. From 1982 to 1997, he had been in sequence the section head, department head and assistant to the head of the Second Road Engineering Bureau of Ministry of Communications (交通部第二公路工程局). From 1997 to 2000, he had been the deputy general manager of the Company. From March 2000 onwards, he has been the director and general manager of Yiwang Industry Development (Shenzhen) Co., Ltd. From March 2001 onwards, he has been the director of Xin Tong Chan Development (Shenzhen) Co., Ltd. With effect from September 2004, he has been the vice president of Shenzhen International Holdings Limited.

#### **Supervisor**

**Mr. CHEN Chao**, aged 49, senior economist and engineer, graduated from Wuhan University of Technology (武漢理工大學) and he served as the deputy director of the Highway Bureau and the secretary to the deputy minister of the Ministry of Communications. He then worked as the deputy general manager of Zhong Tong (Group) Industry & Trade Co., which was supervised by the Ministry of Communications. Mr. Chen has twenty years of experience in the management of road transportation. From the date of the Company's establishment, he had been the first general manager until January 2000 and has been the Chairman of the Company. Mr. Chen has tendered his resignation to the board of directors of the Company in February 2005, effective from the date of appointing new director at the coming annual general meeting to be held on 8 April 2005. Prior to the effective date, Mr. Chen is responsible for presiding over the Board and formulating development strategies for the Company, as well as other important duties. From April 1993 to September 2000, Mr. Chen served as the general manager of Xin Tong Chan Development (Shenzhen) Co., Ltd. Since September 2000, he has been the chairman of Xin Tong Chan Development (Shenzhen) Co., Ltd. Since March 2000, he has been the vice-chairman and chief executive of Shenzhen International Holdings Limited. He is also a director of Shenzhen High-Tech Holdings Limited and Shenzhen Venture Capital Company Limited, and the chairman of CSG Holding Co., Limited.

# Notice of 2005 Extraordinary General Meeting for Holders of Overseas-listed Foreign Shares

**Notice is hereby given** that the 2005 extraordinary general meeting for holders of overseas-listed foreign shares (“H Shares”) (“H Shareholders EGM”) of Shenzhen Expressway Company Limited (the “Company”) will be held at the conference room of the Company at 19/F, Tower A, United Plaza, No. 5022 Binhe Road North, Shenzhen, on 8 April 2005 (Friday) at 11:00 a.m.

To consider and, if thought fit, pass the following special resolutions:

to authorize the board of directors to repurchase H Shares of the Company up to a maximum of 10 percent of the aggregate nominal value of H Shares in issue of the Company:

“THAT:

- (a) subject to paragraphs (b) and (c) below, the Relevant Period (as defined in paragraph (d) below) during which the board of directors may exercise all the powers of the Company to repurchase H Shares in issue of the Company on The Stock Exchange of Hong Kong Limited (“SEHK”), subject to and in accordance with all applicable laws, rules and regulations and/or requirements of the governmental or regulatory body of securities in the PRC, the SEHK or of any other governmental or regulatory body be and is hereby approved;
- (b) the aggregate nominal value of H Shares authorized to be repurchased pursuant to the approval in paragraph (a) above during the Relevant Period shall not exceed 10 percent of the aggregate nominal value of H Shares in issue of the Company as at the date of the passing of this resolution;
- (c) the approval in paragraph (a) above shall be conditional upon:
  - (i) the passing of a special resolution in the same terms as the resolutions set out in this paragraph (except for this subparagraph (c)(i)) at (aa) annual general meeting of the Company to be held on 8 April 2005 (or on such adjourned date as may be applicable); and (bb) the extraordinary general meeting for holders of domestic shares of the Company to be held on 8 April 2005 (or on such adjourned date as may be applicable);
  - (ii) the approval of the China Securities Regulatory Commission and any other regulatory authorities as may be required by the laws, rules and regulations of the PRC being obtained by the Company if appropriate; and
  - (iii) the Company not being required by any of its creditors to repay or to provide guarantee in respect of any amount due to any of them (or if the Company is so required by any of its creditors, the Company having, in its absolute discretion, repaid or provided guarantee in respect of such amount) pursuant to the notification procedure set out in Article 25 of the Articles of Association of the Company;

## Notice of 2005 Extraordinary General Meeting for Holders of Overseas-listed Foreign Shares

- (d) for the purpose of this special resolution, “Relevant Period” means the period from the passing of this special resolution until whichever is the earlier of:
- (i) the conclusion of the next annual general meeting following the passing of this special resolution;
  - (ii) the expiration of a period of twelve months following the passing of this special resolution; or
  - (iii) the date on which the authority set out in this special resolution is revoked or varied by a special resolution of the members of the Company in any general meeting; and
- (e) subject to approval of all relevant governmental authorities in the PRC for the repurchase of such H Shares being granted, the Board of Directors be hereby authorized to:
- (i) make such amendments to the Articles of Association of the Company accordingly as it thinks fit so as to reduce the registered share capital of the Company and to reflect the new capital structure of the Company upon the repurchase of H Shares of the Company as contemplated in paragraph (a) above; and
  - (ii) file the amended Articles of Association of the Company with the relevant governmental authorities of the PRC.”

By the Order of the Board

**Wu Qian**

*Joint Company Secretary*

Shenzhen, PRC, 18 February 2005

# Notice of 2005 Extraordinary General Meeting for Holders of Domestic Shares

**Notice is hereby given** that the 2005 extraordinary general meeting for holders of domestic shares (“Domestic Shareholders EGM”) of Shenzhen Expressway Company Limited (the “Company”) will be held at the conference room of the Company at 19/F, Tower A, United Plaza, No. 5022 Binhe Road North, Shenzhen, on 8 April 2005 (Friday) at 11:30 a.m.

To consider and, if thought fit, pass the following special resolutions:

to authorize the board of directors to repurchase H Shares of the Company up to a maximum of 10 percent of the aggregate nominal value of H Shares in issue of the Company:

“THAT:

- (a) subject to paragraphs (b) and (c) below, the Relevant Period (as defined in paragraph (d) below) during which the board of directors may exercise all the powers of the Company to repurchase H Shares in issue of the Company on The Stock Exchange of Hong Kong Limited (“SEHK”), subject to and in accordance with all applicable laws, rules and regulations and/or requirements of the governmental or regulatory body of securities in the PRC, the SEHK or of any other governmental or regulatory body be and is hereby approved;
- (b) the aggregate nominal value of H Shares authorized to be repurchased pursuant to the approval in paragraph (a) above during the Relevant Period shall not exceed 10 percent of the aggregate nominal value of H Shares in issue of the Company as at the date of the passing of this resolution;
- (c) the approval in paragraph (a) above shall be conditional upon:
  - (i) the passing of a special resolution in the same terms as the resolutions set out in this paragraph (except for this subparagraph (c)(i)) at (aa) the annual general meeting of the Company to be held on 8 April 2005 (or on such adjourned date as may be applicable); and (bb) the extraordinary general meeting for holders of overseas listed foreign shares of the Company to be held on 8 April 2005 (or on such adjourned date as may be applicable);
  - (ii) the approval of the China Securities Regulatory Commission and any other regulatory authorities as may required by the laws, rules and regulations of the PRC being obtained by the Company if appropriate; and
  - (iii) the Company not being required by any of its creditors to repay or to provide guarantee in respect of any amount due to any of them (or if the Company is so required by any of its creditors, the Company having, in its absolute discretion, repaid or provided guarantee in respect of such amount) pursuant to the notification procedure set out in Article 25 of the Articles of Association of the Company;

## Notice of 2005 Extraordinary General Meeting for Holders of Domestic Shares

- (d) for the purpose of this special resolution, “Relevant Period” means the period from the passing of this special resolution until whichever is the earlier of:
  - (i) the conclusion of the next annual general meeting following the passing of this special resolution;
  - (ii) the expiration of a period of twelve months following the passing of this special resolution; or
  - (iii) the date on which the authority set out in this special resolution is revoked or varied by a special resolution of the members of the Company in any general meeting; and
- (e) subject to approval of all relevant governmental authorities in the PRC for the repurchase of such H Shares being granted, the Board of Directors be hereby authorized to:
  - (i) make such amendments to the Articles of Association of the Company accordingly as it thinks fit so as to reduce the registered share capital of the Company and to reflect the new capital structure of the Company upon the repurchase of H Shares of the Company as contemplated in paragraph (a) above; and
  - (ii) file the amended Articles of Association of the Company with the relevant governmental authorities of the PRC.”

By the Order of the Board

**Wu Qian**

*Joint Company Secretary*

Shenzhen, PRC, 18 February 2005

# Notes to General Meetings

Notes:

## 1. Eligibility for Attending the AGM, H Shareholders EGM and Domestic Shareholders EGM

Shareholders of the Company whose names appear on the registers of shareholders of the Company at the close of business on 8 March 2005 shall have the right to attend the AGM after complying with the necessary registration procedures. Holders of H Shares of the Company whose names appear on the registers of the shareholders of the Company on the same date shall have the right to attend the H Shareholders EGM while the holders of the Domestic Shares of the Company whose names appear on the registers of the shareholders of the Company on the same date shall have the right to attend the Domestic Shareholders EGM.

## 2. Registration Procedures for Attending the AGM, H Shareholders EGM and Domestic Shareholders EGM

- i. Shareholders intending to attend the AGM, H Shareholders EGM and Domestic Shareholders EGM should deliver to the Company, on or before 18 March 2005, either in person, by post or by fax, the reply slip (together with any required registration documents) for attending the AGM, H Shareholders EGM and Domestic Shareholders EGM.
- ii. Register of H Share holders of the Company will be closed from 9 March 2005 to 8 April 2005 (both days inclusive), during which period no transfer of H Shares will be registered. Holders of H Shares of the Company who intend to attend the AGM and H Shareholders EGM must deliver their instruments of transfer together with the relevant share certificates to Hong Kong Registrars Limited ("Hong Kong Registrars"), the registrar of H Shares of the Company, at or before 4:00 p.m. on 8 March 2005.

## 3. Proxy

- i. Shareholders entitled to attend the above meetings are entitled to appoint, in written form, one or more proxies to attend and vote on behalf of him. A proxy needs not be a shareholder of the Company.
- ii. A proxy should be appointed by written instrument signed by the appointor or his attorney. If the written instrument is signed by the attorney of the appointor, the written authorization or other authorization documents of such attorney should be notarized. In order to be valid, for holders of Domestic Shares, the written authorization or authorization documents which have been notarized together with the completed proxy form must be delivered to the Company 24 hours before the time of the holding of the above meetings. In order to be valid, for holders of H Shares, the above documents must be delivered to Hong Kong Registrars within the same period.
- iii. If a shareholder appoints one or more proxies, the proxies shall not have the right to vote individually on a show of hands.
- iv. Shareholder or his proxy should produce identity proof when attending the above meetings.

#### 4. Other Businesses

- i. Registration date equity interest, method and time of the declaration of dividends for holders of Domestic Shares will be otherwise notified.
- ii. The duration of the above meetings is expected not to exceed one day. Shareholders who attend the above meetings shall arrange for food and accommodation at their own cost.
- iii. Address of Hong Kong Registrars Limited:  
46th Floor  
Hopewell Centre  
183 Queen's Road East  
Wanchai, Hong Kong
- iv. Address of the Company:  
19/F, Tower A, United Plaza  
No.5022 Binhe Road North  
Shenzhen, 518033 PRC  
Telephone: (86) 755-82945638  
Facsimile: (86) 755-82910496

# 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	深圳高速廣告公司 (Shenzhen Expressway Advertising Company Limited)
Board	The board of directors of the Company
CEPA	Closer Economic Partnership Arrangement, signed between Hong Kong Special Administrative Region and PRC
Changsha Ring Road	Hunan Changcha Ring Road (Northwestern Section), located in Changsha City of Hunan Province
Company	Shenzhen Expressway Company Limited
Consulting Company	深圳高速工程顧問有限公司 (Shenzhen Expressway Engineering Consulting Company Limited)
CSRC	China Securities Regulatory Commission
Director(s)	The director(s) of the Company
GD Communications Group	廣東省交通集團有限公司 (Guangdong Communications Group 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 Yungang City of Hubei Province
Group	the Company and its subsidiaries
Guangwu Expressway	The expressway from Guangzhou City(Guangdong) to Wuzhou City(Guangxi) (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 Company	廣州西二環高速公路有限公司 (Guangzhou Western Second Ring Expressway Company Limited), which owns GZ W2 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
HKD, HK\$	Hong Kong dollars, the lawful currency of Hong Kong Special Administration Region
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
Jihe East	Jihe Expressway (Eastern Section)
Jihe East Company	深圳機荷高速公路東段有限公司 (Shenzhen Airport-Heao Expressway (Eastern Section) Company Limited), which owns Jihe East
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 the HKEX and/or the Rules Governing the Listing of Stocks on the SSE
Mei Wah Company	美華實業 (香港) 有限公司 (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

## Definitions

Nanjing Company	南京長江第三大橋有限責任公司(Nanjing Yangtz 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
NH107	National Highway 107 (Shenzhen Section)
NH205	National Highway 205 (Shenzhen Section)
PRC	The People's Republic of China excluding, for the purpose of this report, Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan
Qinglian Class 1 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 Class 1 Highway
Qinglong Company	深圳清龍高速公路有限公司 (Shenzhen Qinglong Expressway Company Limited), which owns Shuiguan Expressway
Ring Road Company	湖南長沙環路建設開發有限公司 (Hunan Changsha Ring Road Construction and Development Company Limited)
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)
Shenchang Company	湖南長沙市深長快速干道有限公司 (Hunan Changsha Shenchang Expressway Company Limited), which owns Changsha Ring Road
Shuiguan Expressway	Shenzhen Shuiguan Expressway, also referred to as the "No. 2 Longgang Passage"
Shuiguan Extension	An extension to the Shuiguan Expressway, located in Shenzhen City

SSE	The Shanghai Stock Exchange
The Year, The reporting period	For the year ended 31 December 2004
XTC Company	新通產實業開發（深圳）有限公司 (Xin Tong Chan Development (Shenzhen) Company Limited)
Yanba Expressway	Shenzhen Yantian-Bagang Expressway, comprising Yanba A, Yanba B and Yanba C
Yangmao Company	廣東陽茂高速公路有限公司 (Guangdong Yangmao Exoressway 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
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

The Registered Names of the Company	深圳高速公路股份有限公司 Shenzhen Expressway Company Limited
Legal Representative	Chen Chao
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
Principal Place of Business	19/F, Tower A, United Plaza, No.5022 Binhe Road North, Shenzhen, PRC
Postal Code	518033
E-mail	secretary@sz-expressway.com
Telephone	(86) 755-8294 5880
Investor Hotline	(86) 755-8294 5618/8294 5638
Fax	(86) 755-8291 0696
Website	<a href="http://www.sz-expressway.com">http://www.sz-expressway.com</a>
Initial Registration Date and Address	30 December 1996 / Shenzhen City, Guangdong Province
Last Updated Registration Date	29 March 2004
Registration Number of Business License	4403011018527
Tax Registration Number	440304279302515

Listing Exchanges	H Share:	The Stock Exchange of Hong Kong Limited
	Stock Code:	0548
	Abbreviation:	Shenzhen Expressway
	A Share:	The Shanghai Stock Exchange
	Stock Code:	600548
	Abbreviation:	Shenzhen Expressway
Designated Publication Newspaper	Hong Kong:	Hong Kong Economic Times The Standard
	PRC:	Shanghai Securities News Securities Times
Designated Publication Website		<a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> <a href="http://www.sse.com.cn">http://www.sse.com.cn</a> <a href="http://www.sz-expressway.com">http://www.sz-expressway.com</a>
Available Place at:	Hong Kong:	Suites 2911-2912, 29th Floor, 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 22nd Floor, 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, 29th floor, 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, PRC

## Corporate Information

Place of Business in Hong Kong	Suites 2911-2912, 29th floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong Tel: (852) 2543 0633 Fax: (852) 2543 9996
Share Registrar and Transfer Office in Hong Kong	Hong Kong Registrars Limited 46/F, Hopewell Centre, 183 Queen's Road East, Hong Kong
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 Room 1211, Tower A, United Plaza, No.5022 Binhe Road North, Shenzhen
Principal Bankers	Industrial and Commercial Bank of China, Futian Sub-branch China Merchants Bank, Huanggang Sub-branch