

ANNUAL REPORT 2002



## **Shenzhen Expressway Company Limited**

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



## contents

Corporate Information	2
Definitions	5
Company Profile	8
Financial Highlights	9
Share Capital Structure and Shareholders	12
Chairman's Statement	16
Management Discussion and Analysis	20
Report of the Directors	56
Report of the Supervisory Committee	75
Directors, Supervisors and Senior Management	77
Report of the International Auditors	82
Accounts Prepared in Accordance with Hong Kong Accounting Standards	83
Notice of the 2002 Annual General Meeting	126
Notice of the Extraordinary General Meeting for Overseas Listed Foreign Shares	131
Notice of the Extraordinary General Meeting for Domestic Shares	133
Notes to the Notice of the Shareholders' General Meetings	135



## 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

**Company Secretary**

Zhang Rong Xing  
Email: johnson@sz-expressway.com

**Registered Address of the Company**

19/F., Tower A, United Plaza  
5022 Binhe Road North  
Shenzhen 518026, PRC  
Tel: (86) 755-8294 5880  
Fax: (86) 755-8291 0696

**Company's Website**

<http://www.sz-expressway.com>

**Initial Registration Date and Place**

30 December, 1996  
Shenzhen, Guangdong Province, the PRC

**Latest Date of Change of Registration**

19 December 2001

**Registration Number of  
Business License**

4403011018527

**Tax Registration Number**

Shen Di Shui Deng Zi No. 440304279302515

**Websites for Publication of  
the Annual Report**

<http://www.hkex.com.hk>  
<http://www.sse.com.cn>  
<http://sz-expressway.com>

**Newspapers for Publication**

Hong Kong:  
*Hong Kong Economic Times*  
*The Standard*  
PRC:  
*Shanghai Securities News*  
*Securities times*

## CORPORATE INFORMATION

### Listing Exchanges

H Shares: The Stock Exchange of Hong Kong Limited  
 Stock Code: 0548  
 Abbreviation: Shenzhen Expressway  
 A Shares: The Shanghai Stock Exchange  
 Stock Code: 600548  
 Abbreviation: Shenzhen Expressway

### International Auditors

PricewaterhouseCoopers  
 22nd Floor, Prince's Building  
 Central, Hong Kong

### Statutory Auditors

Shenzhen Tianjian Xinde Certified Public Accountants  
 15th & 16th Floors, Securities Building  
 No. 5020 Binhe Road, Shenzhen, PRC

### Hong Kong Legal Adviser

Loong & Yeung, Solicitors  
 Rooms 907 & 907A, 9th Floor  
 Wing On Centre, 111 Connaught Road Central  
 Central, Hong Kong

### PRC Legal Adviser

Guangdong Harbor Law Firm  
 17/F., Securities Building  
 5020 Binhe Road  
 Shenzhen, PRC

### Principal Place of Business in Hong Kong

Rooms 907 & 907A, 9th Floor  
 Wing On Centre  
 111 Connaught Road Central  
 Central, Hong Kong  
 Tel: (852) 2543 0633  
 Fax: (852) 2543 9996

### Share Registrar and Transfer Office in Hong Kong

Hong Kong Registrars Limited  
 Rooms 1901-5, 19th Floor  
 Hopewell Center, 183 Queen's Road East  
 Hong Kong



## CORPORATE INFORMATION

**Share Registrar and Transfer Office  
in the PRC**

Shanghai Securities Central Clearing and  
Registration Corporation  
No. 727, Pujian Road, Pudong New District  
Shanghai, the PRC

**Annual reports available at:**

Hong Kong:  
Rooms 907A & 907A, 9th Floor  
Wing On Centre  
111 Connaught Road Central  
Central, Hong Kong

PRC:  
19/F, Tower A, United Plaza  
No. 5022 Binhe Road North  
Shenzhen, PRC

**Major banks**

The Industrial and Commercial Bank of China,  
Futian Sub-branch

China Merchants Bank, Huanggang Sub-branch

## DEFINITIONS

In this report, the following expressions have the meanings set out below unless the context requires otherwise:

The Company	Shenzhen Expressway Company Limited
The Group, Group	Shenzhen Expressway Company Limited and its subsidiaries
The year	The year ended 31 December 2002
CSRC	China Securities Regulatory Commission
SSE	The Shanghai Stock Exchange
HKEX	The Stock Exchange of Hong Kong Limited
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
H Shares	The 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
RMB	Renminbi, the lawful currency of the PRC
“HKD” or “HK\$”	Hong Kong dollars, the lawful currency of Hong Kong Special Administration Region
The Board	The Board of directors of the Company
The directors	The directors of the Company
NH107	National Highway 107 (Shenzhen Section)
NH205	National Highway 205 (Shenzhen Section)
Meiguan Company	Shenzhen Meiguan Expressway Company Limited



## DEFINITIONS

Meiguan Expressway	Shenzhen Meiguan Expressway
Airport-Heao Company	Shenzhen Airport-Heao Expressway (Eastern Section) Company Limited
Jihe Expressway	Shenzhen Jihe Expressway comprising the eastern and western sections
Jihe East	Shenzhen Jihe Expressway (Eastern Section)
Jihe West	Shenzhen Jihe Expressway (Western Section)
Yanba Expressway	Shenzhen Yantian-Bagang Expressway
Yanba A	Shenzhen Yanba Expressway (Section A)
Yanba B	Shenzhen Yanba Expressway (Section B)
Yanba C	Shenzhen Yanba Expressway (Section C)
Shenchang Company	Changsha Shenchang Expressway Company Limited
Changsha Ring Road	Hunan Changsha Ring Road (Northwestern Section)
Changsha Ring Road Co., Ltd	Hunan Changsha Ring Road Construction and Development Co., Ltd
The Advertising Company	Shenzhen Expressway Advertising Company Limited (formerly known as "Shenzhen Zhengyi Advertising Company Limited")
Shuiguan Expressway	The expressway from Shuijing Village in Buji Town to Longgang in Shenzhen (also referred to as "Longgang No.2 Passage")
Shenzhen Fountain	Shenzhen Fountain Infrastructure Corporation
Wutongling Company	Shenzhen Wutongling Ropeway Company Limited



## DEFINITIONS

Engineering Consulting Company	Shenzhen Expressway Engineering Consulting Company Limited
Xin Tong Chan Company	Xin Tong Chan Development (Shenzhen) Company Limited (formerly known as "Shenzhen Freeway Development Company Limited")
Shen Guang Hui Company	Shenzhen Shen Guang Hui Highway Development Company
Huajian Centre	Huajian Transportation and Economic Development Centre
Guangdong Roads and Bridges Company	Guangdong Roads and Bridges Development Company
PRC	The People's Republic of China excluding, for the purpose of this report, Hong Kong SAR, Macau SAR and Taiwan



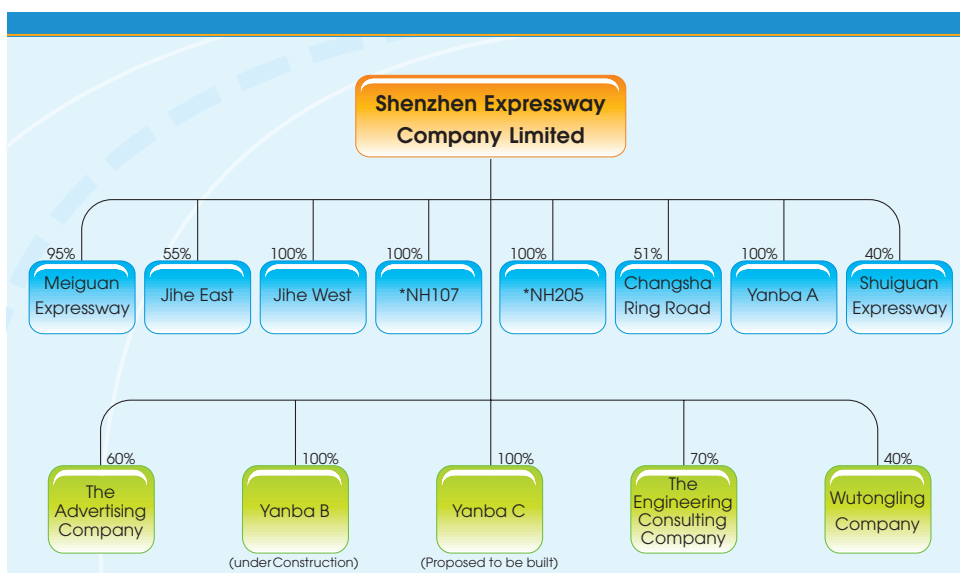


## COMPANY PROFILE

Shenzhen Expressway Company Limited was established on 30 December 1996 by Xin Tong Chan Company, Shenzhen Shen Guang Hui Company and Guangdong Roads and Bridges Company by way of promotion, with the total share capital of RMB1,268,200,000. In March 1997, the Company issued 747,500,000 foreign capital shares (H Shares), which were listed at HKEX on 12 March 1997 (code: 0548). It issued 165,000,000 Renminbi-denominated ordinary shares (A Shares) in December 2001, which were listed on SSE on 25 December 2001 (code: 600548). Total share capital of the Company is RMB2,180,700,000.

The Company is mainly engaged in the construction, operation and management of toll roads. It was granted the concession rights to operate its existing expressways, and a right of first refusal to develop and operate new expressways in Shenzhen. The toll roads in Shenzhen operated by the Company form a complete road network, which not only connects with the main ports, the airport, customs checkpoints and industrial zones in Shenzhen, but also forms the main component of the national and provincial road networks. This road network constitutes the major gateway between Shenzhen and Hong Kong and serves as the main passage to the Pearl River Delta Region. Therefore, it plays a very important role in Shenzhen's highway transportation.

### (The asset structure of the Company as at 31 December 2002)



\* Note: The Company entered an agreement with Shenzhen Communications Bureau on 18 March 2003, pursuant to which the Company transferred NH107 and NH205 to Shenzhen Communications Bureau which is under the supervision of the Shenzhen Municipal Government.

## FINANCIAL HIGHLIGHTS

Prepared in Accordance with the Hong Kong Accounting Standards

### Results Highlights (audited)

For the year ended 31 December

	<b>2002</b>	2001	2000	1999	1998
	<b>RMB'000</b>	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	<b>524,291</b>	489,813	420,455	342,069	241,416
Profit before taxation	<b>414,018</b>	424,605	365,598	339,035	306,912
Profit attributable to shareholders	<b>359,931</b>	421,336	363,074	337,704	306,912
Earnings per share (RMB)	<b>0.165</b>	0.208	0.180	0.168	0.152

### Assets Highlights (audited)

As at 31 December

	<b>2002</b>	2001	2000	1999	1998
	<b>RMB'000</b>	RMB'000	RMB'000	RMB'000	RMB'000
Total Assets	<b>6,724,526</b>	6,783,685	5,726,029	5,434,193	4,519,491
Total liabilities	<b>1,219,273</b>	1,420,293	1,186,531	1,137,727	439,287
Total net assets	<b>5,505,253</b>	5,363,392	4,539,498	4,296,466	4,080,204
Net assets per share (RMB)	<b>2.525</b>	2.459	2.252	2.132	2.024



## FINANCIAL HIGHLIGHTS

Prepared in Accordance with the PRC Accounting Standards

### Principal Accounting Data and Financial Indicators (audited):

(RMB)

Indicators	2002	2001	2000
Principal operating income	<b>646,127,966</b>	604,518,644	515,395,592
Net profit	<b>351,353,919</b>	401,936,897	339,223,834
Total assets	<b>6,922,502,651</b>	6,968,563,648	5,931,176,373
Shareholders' funds (excluding minority interests)	<b>5,160,312,772</b>	5,070,546,337	4,282,241,353
Earnings per share	<b>0.16</b>	0.18	0.17
Net asset per share	<b>2.37</b>	2.33	2.12
Adjusted net asset per share	<b>2.35</b>	2.31	2.11
Net cash flow from operating activities per share	<b>0.20</b>	0.26	0.21
Return on net assets (fully diluted)	<b>6.81%</b>	7.93%	7.92%
Return on net assets after extraordinary items (fully diluted)	<b>6.75%</b>	8.47%	8.29%
Return on net assets after extraordinary items (weighted average)	<b>6.81%</b>	9.58%	8.23%

## FINANCIAL HIGHLIGHTS

### Differences between Accounts Prepared in Accordance with Hong Kong Accounting Standards and the PRC Accounting Standards

	<b>Net profit for the year ended 31 December 2002</b>	<b>Net assets as at 31 December 2002</b>
	RMB'000	RMB'000
As per PRC statutory accounts	351,354	5,160,313
As per Hong Kong accounts	359,931	5,505,253
	<hr/>	<hr/>
Differences	<u>(8,577)</u>	<u>(344,940)</u>
Include:		
Declaration of final dividend after the balance sheet date	—	(261,684)
Amortization of land use rights and depreciation of fixed assets	(12,768)	(83,256)
Realized losses on other investments	4,288	—
Others	(97)	—
	<hr/>	<hr/>
	<u>(8,577)</u>	<u>(344,940)</u>



## SHARE CAPITAL STRUCTURE AND SHAREHOLDERS

## Share Capital Structure

(share)

	As at 31 December 2001	Movements	As at 31 December 2002
1. Unlisted shares			
Shares held by promoters	1,268,200,000	—	1,268,200,000
Include:			
State-owned shares	654,780,000	—	654,780,000
State-owned legal person shares	613,420,000	—	613,420,000
Total of unlisted shares	1,268,200,000		1,268,200,000
2. Listed Shares			
Renminbi-denominated ordinary shares	165,000,000	—	165,000,000
Foreign capital shares	747,500,000	—	747,500,000
Total of listed Shares	912,500,000	—	912,500,000
Total	<u>2,180,700,000</u>	<u>—</u>	<u>2,180,700,000</u>

## Shareholders

1. As at 31 December 2002, the number of the shareholders whose names appeared on the registers of shareholders of the Company amounted to 33,072, out of which 4 were state-owned share holders, 32,313 were A Share holders and the remaining 755 were H Share holders.

2. Shareholding

(1) Changes in shares held by the shareholders that hold 5% or above in the share capital of the Company as at 31 December 2002

Name	Shares held as at 1 Jan 2002	Changes during the year	Shares held as at 31 Dec 2002	No. of shares pledged or frozen
Xin Tong Chan Development (Shenzhen) Company Limited	654,780,000	None	654,780,000	None
Shenzhen Shen Guang Hui Highway Development Company	457,780,000	None	457,780,000	None

## SHARE CAPITAL STRUCTURE AND SHAREHOLDERS

(2) The top ten shareholders of the Company as at 31 December 2002

Shareholders	Nature of shares	No. of Shares held	Percentage
HKSCC Nominees Ltd	H Shares	723,961,498	33.20%
Xin Tong Chan Development (Shenzhen) Company Limited	State-owned shares	654,780,000	30.03%
Shenzhen Shen Guang Hui Highway Development Company	State-owned legal person shares	457,780,000	20.99%
Huajian Transportation and Economic Development Centre	State-owned legal person shares	91,000,000	4.17%
Guangdong Roads and Bridges Development Company	State-owned legal person shares	64,640,000	2.96%
China Galaxy Securities Co., Ltd	A Shares	7,281,286	0.33%
Beijing Rong An Tong Construction Consultating Company Limited	A Shares	3,052,850	0.14%
Arsenton Nominees Limited	H Shares	3,000,000	0.14%
China Development and Research Foundation	A Shares	2,452,010	0.11%
Han Wen Hua	A Shares	2,121,318	0.10%

*Note:* The state-owned share holder and the state-owned legal person share holders in the above chart are not related to each other, while the relationship among the rest share holders in the above chart is unable to determine.



## SHARE CAPITAL STRUCTURE AND SHAREHOLDERS

### 3. The major shareholder of the Company

During the year, the major shareholder of the Company remained unchanged.

<b>Name</b>	Xin Tong Chan Development (Shenzhen) Company Limited
<b>Legal representative</b>	Chen Chao
<b>Establishment date</b>	September 1993
<b>Registered capital</b>	RMB200 million
<b>Company category</b>	A limited company
<b>Shareholding structure</b>	A wholly-owned subsidiary of Shenzhen International Holdings Limited
<b>Business scope</b>	Transportation information consultation, development of transportation platform softwares, management of guest house, Chinese and western food, bowling, tennis, stores and sales of non-staple food and drinks

### 4. The ultimate controller of the Company's major shareholder

The controlling shareholder of Xin Tong Chan Development (Shenzhen) Company Limited (formerly known as "Shenzhen Freeway Development Company Limited"), the controlling shareholder of the Company, is a wholly owned subsidiary of Shenzhen International Holdings Limited ("Shenzhen International"). Shenzhen International is a company listed in Hong Kong, which is principally engaged in investment holding, and its subsidiaries and associated companies are principally engaged in the provision of total logistics and transportation ancillary services as well as investment, operation and management of related assets and projects.

Shenzhen Investment Holding Corporation ("Shenzhen Investment") is the controlling shareholder of Shenzhen International holding approximately 44.25% of its issued share capital. Shenzhen Investment is the largest investment holding institution empowered by the Shenzhen Municipal Government to own a portfolio of assets and operations such as infrastructure, energy, transportation, advanced and new technology, public utilities as well as finance and securities.



## SHARE CAPITAL STRUCTURE AND SHAREHOLDERS

5. Other legal person shareholders holding 5% or above of the share capital of the Company

Name	Percent of shares held	Legal representative	Establishment date	Registered capital	Principal business and products
Shenzhen Shen Guang Hui Highway Development Company	20.99%	Lin Xiang Ke	July 1996	RMB5 million	Construction and investment in roads and bridges, supply and marketing of goods and materials

Save as the aforesaid, the Company has not been aware of any shareholders whose names appeared on the registers of shareholders of the Company holding 5% or above of the registered share capital of the Company as at 31 December 2002.



# CHAIRMAN'S STATEMENT



**T**o extend our gratitude to all shareholders and all sectors of the community for their supports for the Group, I am pleased to present a review of the Group's business performance in 2002 and to forecast the future development of the Group.

## CHAIRMAN'S STATEMENT

### RESULTS AND DIVIDENDS

In accordance with generally accepted accounting principles in Hong Kong, the Group achieved a turnover of RMB524 million for the year 2002, with an increase of 7.04% over that of 2001. Owing to the termination of the preferential income tax treatments by which the Company, its subsidiary and a jointly controlled entity were previously exempted from PRC enterprise income tax for five years starting from the first year in which they first recorded assessable profits and a 50% reduction of the PRC enterprise income tax for the five consecutive years thereafter, the tax paid by the Company for the year 2002 increased. In addition, the construction management service income recorded a sharp decrease in 2002 as compared with 2001. As a result, profit attributable to shareholders of the Company declined by 14.57% as compared with the year 2001, amounting to RMB360 million, and its earnings per share were RMB0.165. In accordance with the PRC accounting standards, income of the Group's principal operating business for the year ended 31 December 2002 was RMB646 million, with a growth of 6.88% as compared with 2001. Its net profit amounted to RMB351 million, down by 12.58% as compared with that of 2001, and its earnings per share were RMB0.160.

In view of the Company's solid cash flow position and its long-term adherence to the principle to maximize the shareholders' interest, the Board recommended a final dividend of RMB0.12 per share for the fiscal year of 2002, subject to the approval of the shareholders in the 2002 Annual General Meeting to be held on 30 May 2003.

### Steady Increase of principal business

In 2002, the Company was affected by the material policy changes and uncertain factors. Certain adverse factors have posed certain pressure to the operation and management of the Group. The management of the Company positively embraced the severe tests and challenges posed by the market, seriously analyzed the market changes, took effective precautions against investment and operation risks, improved its management and actively studied its development strategy. With the joint efforts of the Company's employees, the Company still achieved satisfactory results during the year.

In 2002, although NH205 and Jihe East of the Company were affected by the traffic diversion brought by Shuiguan Expressway, other toll roads of the Company performed well and toll revenue kept growing steadily. Expressways operated by the Company have become the main sources of the Group's profit growth. Jihe West witnessed a remarkable growth, with its daily average mixed traffic volume and toll revenue growing by more than 30%, while other expressways and NH107 also achieved growth in various degrees.



## CHAIRMAN'S STATEMENT

### Acceleration of Business Development

The Company continues to invest in and develop toll expressway projects in Shenzhen, the Pearl River Delta and other regions in the PRC, with a view to perfecting the expressway network in Shenzhen and enhancing the income from its core business. In December 2002, the Company acquired 40% equity interest in the newly-opened Shenzhen Shuiguan Expressway, and will continue to develop the linkage section of Shuiguan Expressway, which will connect the downtown of Shenzhen. Thus, Shuiguan Expressway has great growth potential and a bright future.

In March 2003, the Company entered into a transfer agreement with Shenzhen Communications Bureau, pursuant to which the Company transferred the operating rights of its NH107 and NH205 to Shenzhen Communications Bureau at the consideration of RMB1.93 billion. With the above transfer, the Company had an opportunity to dispose of its non-expressway assets and improve the asset portfolio of the Company for long term development. On the other hand, the transfer will bring a substantial cash inflow to the Company, which will enable the Company to invest in other expressways with high growth potential in Shenzhen and other regions in the PRC with the sale proceeds.

### Enhancement of the Company's Strategic Study and Improvement of its Business up to a Higher Level

The Company has always focused on perfecting its medium and long-term development strategy. In 2002, the Strategic Development & Investment Committee of the Company further strengthened the study on the strategic development of the Company. It analyzed the development potential of the toll road sector and the Company's competitiveness and advantages, with a view to implementing its development strategy, which is aimed at improving the Company's overall profitability and competitiveness.

## CHAIRMAN'S STATEMENT

### Planning and Prospects

With the solid foundation laid down by the Company during the past few years, the Company has overcome the difficulties it confronted in 2002. Certain adverse factors also disappeared during the year. We believe that in 2003 and a couple of years thereafter, the Company will gradually enter a new phase of development.

"Without undergoing wind and rain, now can we see the rainbow?" The Company will actively improve its capability against risks and strengthen its risk control. It will continue to perfect its corporate governance and internal management system, adjust its capital structure, asset portfolio and finance structure, and constantly enhance its competitiveness. It will take up challenges and capitalize on opportunities. We are confident of the future of the Company. The Company will, as always, with the principle of being responsible for its shareholders, its staff and the society, exert its utmost efforts to bring better returns to its shareholders.

**Chen Chao**  
*Chairman*

Shenzhen, the PRC, 11 April 2003

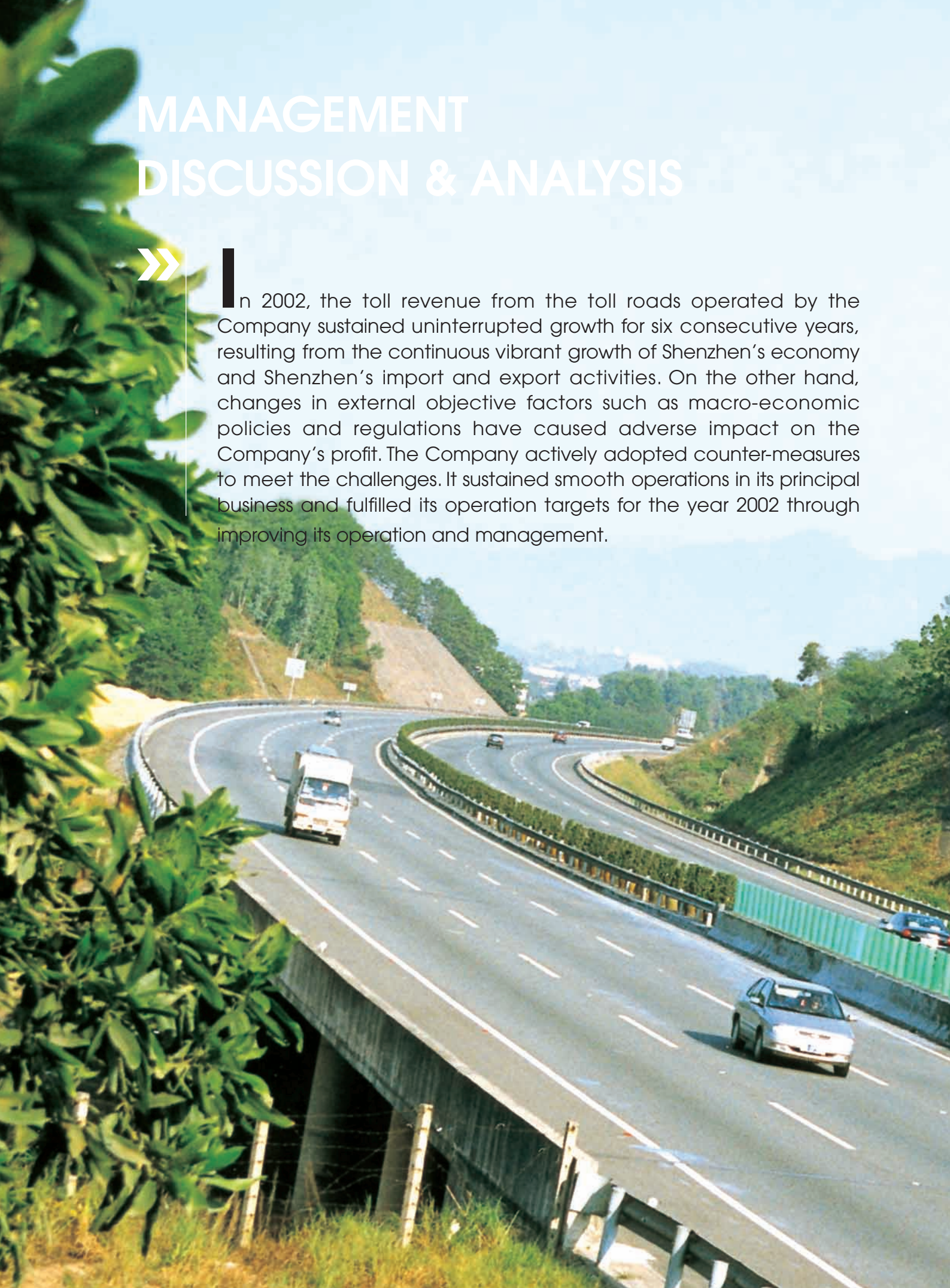




# MANAGEMENT DISCUSSION & ANALYSIS



In 2002, the toll revenue from the toll roads operated by the Company sustained uninterrupted growth for six consecutive years, resulting from the continuous vibrant growth of Shenzhen's economy and Shenzhen's import and export activities. On the other hand, changes in external objective factors such as macro-economic policies and regulations have caused adverse impact on the Company's profit. The Company actively adopted counter-measures to meet the challenges. It sustained smooth operations in its principal business and fulfilled its operation targets for the year 2002 through improving its operation and management.







Shenzhen's economy has sustained a continuous and rapid growth. In 2002, the Gross Domestic Product of Shenzhen City amounted to RMB224 billion, with a growth of 15% as compared with 2001. Its foreign trade volume has topped the large and medium-size cities in the PRC for the consecutive ten years, amounting to USD46.6 billion, with an increase of 24.2% over that of 2001.

After more than twenty years' development, Shenzhen has been built up to be one of the most dynamic cities in the PRC. Owing to its unique location, Shenzhen has become a hub linking Hong Kong and even the Southeast Asia with the Mainland China. In 2002, Shenzhen realized a revenue of RMB30.4 billion, with an increase of 20.4% as compared with 2001, ranking the third among the large cities in the PRC. The development of Shenzhen's economy, the increasing purchasing power of cars in Shenzhen, the frequent trade activities between Shenzhen and Hong Kong together with the further development of the manufacturing industry in the Pearl River Delta Region will in turn pose an even pressing need for highway transportation. Favorable macro-economic environment and the flexible economic system of Shenzhen Special Economic Zone have secured the steady and continuous development of the Company.





## MANAGEMENT DISCUSSION & ANALYSIS

### BUSINESS REVIEW

#### Operation Review

As at 31 December 2002, the turnover of the Group reached RMB524,291,000, with an increase of 7.04% over that of 2001 ("YOY"). Due to the termination of the preferential PRC enterprise income tax treatments by which the Company, its subsidiary and a jointly controlled entity were previously exempted from and the decrease of the construction management service income, profit attributable to shareholders of the Company for the year 2002 recorded a decrease of 14.57% as compared with the year 2001, amounting to RMB359,931,000. The earnings per share were RMB0.165.

#### Business Summary

In 2002, the Company was mainly engaged in the operation and management of seven toll roads, namely NH107, NH205, Meiguan Expressway, Jihe East, Jihe West, Yanba A and Changsha Ring Road, and the construction of Yanba B. It acquired 40% equity interest in Shuiguan Expressway at the end of 2002, resulting that the total length of the toll roads owned by the Group rose to about 200 kilometers.

## MANAGEMENT DISCUSSION & ANALYSIS

Operating results of the toll roads of the Company in 2002

Toll roads	Average daily mixed traffic volume			Average daily toll revenue (RMB)		
	2002	2001	Year on year	2002	2001	Year on year
Meiguan Expressway	<b>37,566</b>	33,634	11.69%	<b>501,695</b>	476,682	5.25%
Jihe East	<b>26,547</b>	25,103	5.75%	<b>430,094</b>	420,421	2.30%
Jihe West	<b>21,809</b>	16,134	35.17%	<b>384,991</b>	287,024	34.13%
Changsha Ring Road	<b>2,576</b>	1,373	87.64%	<b>36,199</b>	18,449	96.21%
Yanba A	<b>5,343</b>	5,762	-7.27%	<b>35,505</b>	36,132	-1.74%
NH107	<b>25,005</b>	23,214	7.72%	<b>252,441</b>	228,460	10.50%
NH205	<b>41,760</b>	45,408	-8.03%	<b>340,569</b>	397,708	-14.37%

DIAGRAM 1:

The average daily mixed traffic volume of each toll road of the Company (2002 Vs 2001)

2002  
2001

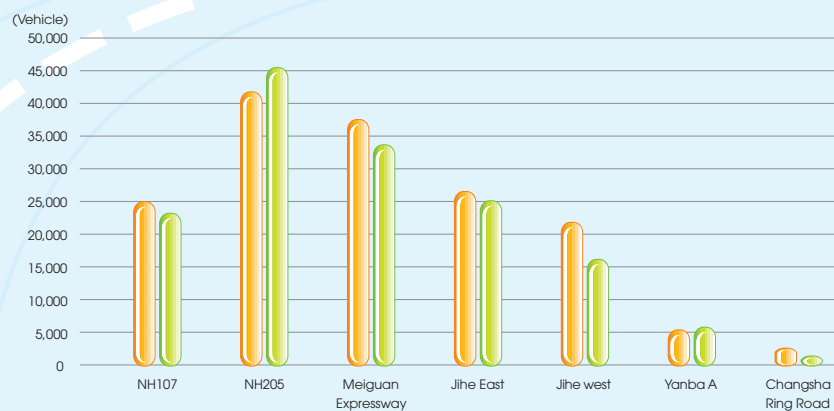
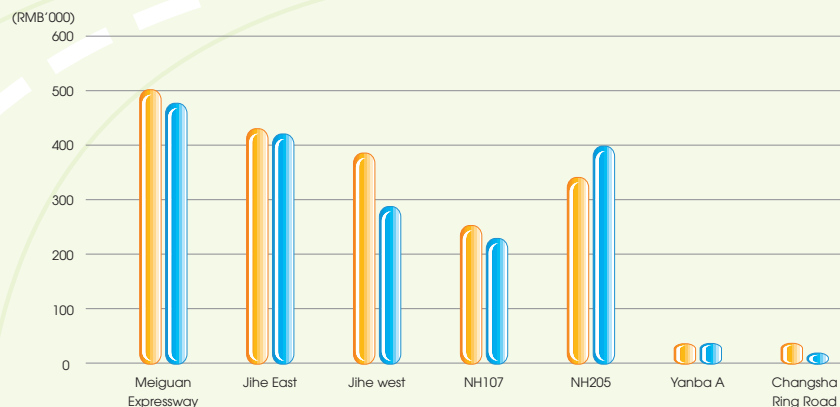


DIAGRAM 2:

The daily average toll revenue of each toll road of the Company (2002 Vs 2001)

2002  
2001





## MANAGEMENT DISCUSSION & ANALYSIS

### Toll Policy

The toll rates are determined by the Guangdong Provincial Government with reference to factors like: traffic flow, construction costs, estimated pay-back periods of investment, loan repayment periods, domestic price levels and inflation rate, management, operation and maintenance costs of the highways and users' affordability.

In March 2002, the Guangdong Provincial Government issued a notice pursuant to which classifications of vehicles using expressways of Guangdong Province and their applicable toll rates shall be unified with effect from 1 January 2003, with a view to adjusting the classification criteria of vehicles and to adopting a unified toll collection system within Guangdong Province. On 23 December 2002, the Company received a notice from Guangdong Price Bureau and Guangdong Provincial Communications Bureau that expressways with toll rates charged in accordance with the head height of the motor vehicles and the number of wheel axis implemented before 31 July 2001 shall maintain the existing toll rates until 31 July 2006. From 1 August 2006, Guangdong Province shall implement a unification system for vehicles classification and toll rates for tolls of all the expressways in the province.

According to such notice, the existing classification of vehicles and toll rates for Jihe Expressway and Meiguan Expressway of the Company remain unchanged until 31 July 2006 and the existing classifications of vehicles and toll rates for Yanba Expressway and Shuiguan Expressway, which were acquired by the Company in December 2002, are the same as the new standards promulgated in such notice. As such, the tolls from expressways and profit for the Company during the period before 31 July 2006 will not be affected by the unification of classification of vehicles and toll rates in Guangdong Province.

## MANAGEMENT DISCUSSION & ANALYSIS

Details of the existing toll rates of the Company's toll roads are set out below:

### *Classification of Vehicles and Toll Rates of NH107 and NH205*

<b>Class</b>	<b>Vehicles</b>	<b>Toll rates</b> (RMB/vehicle)
1	Motorcycles	2.00
2	Passenger cars with 20 seats or below, lorries with a capacity of 2 tonnes or below, motor tricycles, motor cars, various types of tractors	7.00
3	Passenger cars with 21 to 50 seats, lorries with a capacity of 2 tonnes to 5 tonnes	15.00
4	Passenger cars with 51 seats or above, lorries with a capacity over 5 tonnes to 15 tonnes	25.00
5	Lorries over 15 tonnes and container lorries	30.00

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

<b>Class</b>	<b>Vehicles</b>	<b>Toll rates</b> (RMB/km)
1	Vans, jeeps, small-size lorries, motorcycles	0.60
2	Mini buses, station wagons, light vans, small passenger-cars	1.20
3	Medium-size and large-size buses, medium-size lorries	1.80
4	Large deluxe buses, large-size lorries, large tractors, 20 feet container lorries	2.40
5	Double-decker passenger cars, heavyweight lorries, heavyweight tractors, 40 feet container lorries	3.60

## MANAGEMENT DISCUSSION &amp; ANALYSIS

*Classification of Vehicles and Toll Rates of Yanba A and Shuiguan Expressway*

Standard of classification						Coefficient	Toll rates (RMB/km)
Class	Axle	Wheels	Head height (m)	Wheelbase (m)	Vehicles		
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 passenger vehicles	1.5	0.90
3	2	6	≥1.3	≥3.2	Medium-size and large-size buses, medium-size lorries	2	1.20
4	3	6~10	≥1.3	≥3.2	Large deluxe buses, double-decker passenger vehicles, large-size lorries, large tractors, 20 feet container lorries	3	1.80
5	>3	>10	≥1.3	≥3.2	Heavyweight lorries, heavyweight tractors, vehicles towing 40 feet container lorries	4	2.40

## MANAGEMENT DISCUSSION & ANALYSIS

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

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

*Notes:*

1. If the toll fee for vehicles passing Yue Liang Island Bridge is less than RMB10, then RMB10 will be collected;
2. The above toll rates were effective from May 2000, with an increase of RMB0.10 over the original basis.

### Business Analysis

The toll roads operated by the Group in Shenzhen have formed a complete road network, linking the main logistics hubs within the region and connecting with the cities like Guangzhou, Huizhou and Dongguan. In 2002, the traffic volume and toll revenue of the Group's expressways sustained continuous growth.





## MANAGEMENT DISCUSSION & ANALYSIS

### 1. *The Traffic Volume and Toll Revenue of Expressways Continued to Grow*

The Group has continued to focus on the development and operation of expressways. During the year, the toll expressways of the Group witnessed continuous growth. Jihe West and Meiguan Expressway have become the key contributors of the Group's steady operation results. The proportion of the toll revenue from expressways of the Company keeps increasing year by year, amounting to 66.15% of the total toll revenue from the Company's toll roads in Shenzhen.

The performance of Meiguan Expressway is closely related with the foreign trade activities of Shenzhen. Toll revenue collected from vehicles with Hong Kong licenses constituted about 45% of its total toll revenue. Following the 24-hour border crossing at Huanggang Immigration and Customs Control between Shenzhen and Hong Kong and the improved inspection and passage efficiency, foreign trade of Shenzhen is anticipated to sustain its benign growth trend. In 2002, Meiguan Expressway outperformed other toll roads of the Company in terms of toll revenue, with an increase of 5.25% as compared with year 2001.

Jihe Expressway, an outer ring road linking the east and the west parts of Shenzhen, connects with Shenshan Expressway, Huiyan Expressway and NH205 in the east and Guangshenzhu Expressway and NH107 in the west. In 2002, the distance weighted average daily traffic volume of Jihe Expressway increased 33%, out of which the volume of long-distance passenger buses (Class 4 vehicles) grew fastest. The traffic volume and toll revenue of Jihe West for 2002 witnessed a relatively strong organic growth. It was the fastest growing section in terms of natural traffic volume among the toll roads of the Company during the year. The traffic diversion caused by the opening of Shuiguan Expressway has limited the new traffic flow of Jihe East, resulting in a relatively slower growth in toll revenue of Jihe East, with a mere growth of 2.41% as compared with 2001.

The toll revenue of Yanba A is still at a low level because: 1) it is the first operational section of Yanba Expressway; 2) the strong seasonal and periodical features in its toll revenue; 3) the small proportion of large vehicles out of its total traffic flow. Its toll revenue from April to December 2002 grew by only 2.5% as compared with the same period of 2001. Yanba B is expected to be completed and commenced operation in July 2002. It will link the national and provincial trunk highways with the road network in Shenzhen and Huizhou as a whole, and the road networking effect will be fully realized. It is expected that the traffic volume and toll revenue of Yanba A will have a rapid growth after the operation of Yanba B and the completion of Phase III of Yantian Ports.



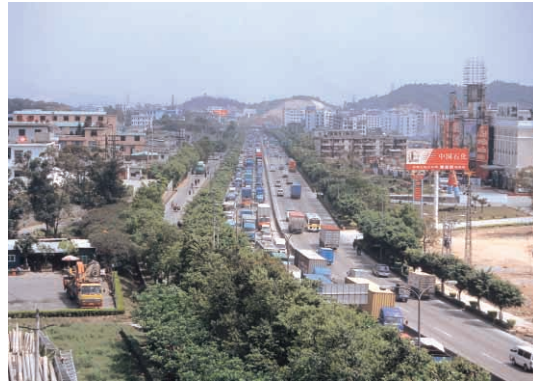
## MANAGEMENT DISCUSSION & ANALYSIS

### 2. *The Performance of National Highways Varied*

The Company owned two class 1 highways, namely National Highway 107 (Shenzhen Section) between Guangzhou and Shenzhen and National Highway 205 (Shenzhen Section) between Shenzhen and Huizhou.

NH107 starts from Nantou Checkpoint in Shenzhen and extends westwards to the border between Shenzhen and Dongguan. Linking up key industrial zones in Shenzhen such as Songgang, Shajing, Fuyong, Xixiang,

and Xin'an, NH107 is the main passage from the western part of Shenzhen to other major cities in the Pearl River Delta Region such as Dongguan and Guangzhou. The Company strengthened its control over the traffic diversion to NH107 through adopting various measures, which resulted in a 10.5% growth in its toll revenue in 2002 as compared with 2001.



NH205 runs eastwards from Buji Checkpoint in Shenzhen to the border between Shenzhen and Huizhou, linking up key industrial towns in Shenzhen such as Buji, Henggang, Longgang and Pingdi. It serves as the main passage connecting the eastern part of Shenzhen with Huizhou and Shantou. As Shuiguan Expressway runs almost in parallel with NH205, it has caused traffic diversion to NH205. In addition, constructions on certain sections of NH205 in 2002 also diverted certain traffic from NH205. Therefore, NH205 recorded a drop of 14.36% and 8.03% in toll revenue and traffic volume, respectively, as compared with 2001.

On 18 March 2002, the Company entered into a transfer agreement with Shenzhen Communications Bureau, pursuant to which the Company transferred all its interests and rights in NH107 and NH205 to Shenzhen Communications Bureau. Shenzhen Communications Bureau took over the above highways on 19 March 2002, details of which are set out in the section headed ("Investment and Acquisition").

## MANAGEMENT DISCUSSION & ANALYSIS

### 3. *Changsha Ring Road Achieved a Remarkable Growth*

The toll revenue of Changsha Ring Road from May to October 2002 doubled as compared with the same period of 2001, which is mainly attributable to the re-opening of Huang Hua Tang Toll Station and Xin An Si Toll Station of Changsha Ring Road in early 2002 and the traffic control exercised by the local transportation authority over certain sections in the downtown as a result of the constructions at Wujialing Interchange, which attracted more cross-border traffic to Changsha Ring Road.

### 4. *Non-stop Toll Collection System has Improved Efficiency and Toll Revenue*

The non-stop toll collection system ("ETC"), jointly developed by the Company and the commercial banks in Shenzhen, is regarded as a relatively advanced electronic toll collection system in Guangdong Province and even in the PRC. Currently, the non-stop toll collection system has been installed in 11 toll stations and 28 special lanes of the Group's toll roads. More than 5,000 vehicles have been equipped with the electronic toll payment system. The ETC has shortened the toll payment time and improved passage conditions and passage efficiency in those toll roads. The non-stop toll collection system facilitates the formation of AutoPass service in most area of Shenzhen, which will play an active part in the development of loyal clients and the stabilisation of client sources. Since the second half of 2002, the respective average daily toll revenue collected from ETC in Meiguan Expressway and Jihe Expressway has witnessed a modest growth and stood at over RMB100,000. In the meantime, key clients of ETC, because of their own business needs, actively promote the application of ETC, playing an active role in enhancing toll revenue of the Company's toll roads.



## MANAGEMENT DISCUSSION & ANALYSIS

### 5. Problems Arising in the Operation and the Solutions

In 2002, varying traffic diversions were seen in the toll roads operated by the Company, which were mainly due to Shenzhen's relatively developed economy, well-developed township roads and streets and highly dense roads and municipal roads. In addition, traffic congestions were sometimes happened in NH107 and NH205, because the above two highways had adopted open toll collection systems and are close to saturation. Furthermore, they run across several crowded towns and villages, which has caused certain difficulty to the Company's management and maintenance of these highways. The reform on the roads and tunnels implemented by the Shenzhen Municipal Government also involves the two toll stations of NH107 and NH205 of the Company.

To tackle the above problems, the Group, on the one hand, attracted traffic flow through such measures as conducting surveys, enhancing marketing and improving service quality. On the other hand, it adopted various measures to control traffic diversion caused to its toll roads. On 18 March 2003, the Company and Shenzhen Communications Bureau entered into an agreement, pursuant to which the Company transferred all its interests and rights in NH107 and NH205 to Shenzhen Communications Bureau, with a view to realizing its investment by disposing of its non-expressway road assets and focusing on toll expressway operation. The Company will closely monitor the traffic changes which will be brought by the relocation of non-expressway toll stations in Shenzhen and take respective countermeasures.

### 6. The Operating Results of the Company's Toll Roads in 2002 (RMB'000)

	Total	The Company and its subsidiaries					Jointly controlled entities	
		NH107	NH205	Jihe West	Meiguan Expressway	Yanba A	Jihe East	Changsha Ring Road
Turnover	<b>524,291</b>	87,350	117,844	133,215	173,597	12,285	149,056	12,473
Operating costs	<b>158,139</b>	36,102	32,710	27,964	42,294	19,069	32,868	16,456
Operating profit	<b>366,152</b>	51,248	85,134	105,251	131,303	-6,784	116,188	-3,983

Note: In the above chart, the turnover, operating costs and operating profits of the jointly controlled entities are displayed at the proportion of 100% owned.

## MANAGEMENT DISCUSSION & ANALYSIS

### Other Ancillary Business

#### *Shenzhen Expressway Advertising Company Limited*

The Advertising Company, formerly known as Shenzhen Zhengyi Advertising Company Limited, with a registered capital of RMB2,000,000, is principally engaged in renting out billboards at the toll stations of the Company's toll roads or at the adjacent land along the toll roads, the provision of design and production of advertisements and consulting services. The Company owned 60% equity interest in the Advertising Company, and the remaining 40% equity interest was held by Shenzhen Airport Company Limited ("Shenzhen Airport"). The total assets of the Advertising Company as at the year end of 2002 amounted to RMB6,782,562, and its annual advertising revenue was RMB2,945,781. It recorded a net profit of RMB732,695 in 2002.



The Company entered into an agreement with Shenzhen Airport on 20 November 2002, pursuant to which the Company and Meiguan Company acquired 35% and 5% equity interest in the Advertising Company held by Shenzhen Airport, respectively. The above transaction was completed on 18 February 2003.

#### *Shenzhen Wutongling Ropeway Company Limited*

The registered capital of Wutongling Company is RMB5,000,000, and its total assets as at 31 December 2002 amounted to RMB49,896,438. Wutongling Company is principally engaged in the construction and management of Shenzhen Wutongling Ropeway. The Company owned 40% equity interest in Wutongling Company while Shenzhen Zhongmin Service Company ("Zhongmin Company") and Shenzhen Fairy Lake Botanical Garden Administrative Office hold 55% and 5% equity interest in Wutongling Company, respectively. The Company provided guarantee for the bank credits of Wutongling Company, while Zhongmin Company provided a counter guarantee for such

## MANAGEMENT DISCUSSION & ANALYSIS

bank credits of Wutongling Company. The installation of equipment of Wutongling Ropeway started in July 1999. Approximately ninety percent of the installation has been completed up till now. However, owing to the distinctive difference in management and specific technical problems between the main partners of the project which has affected the normal operation of the project, Wutongling Ropeway was not put into use in 2001 as scheduled. The project is currently being held up.

To protect the interests of the Company, the Company filed a writ to Shenzhen Intermediate People’s Court (details of the case are set out in the section headed “Litigation and Arbitration”) in May 2002, requesting Wutongling Company to make a compensation to the Company. A judgment in favour of the Company was given by Shenzhen Intermediate People’s Court. The Company is making preparations for the continuing construction and operation of the project.

### *Shenzhen Expressway Engineering Consulting Company Limited*

The Engineering Consulting Company was established in August 2002, with the registered capital of RMB3,000,000. The Company holds 70% equity interest in it. The principal business of Engineering Consulting Company includes the provision of project management consultation, information consultation and engineering consultation, and the engagement in such business as construction materials, equipments and softwares, imports and exports.

The purpose of setting up the Engineering Consulting Company is to capitalize on the Company’s expertise in project management and its human resources, and to undertake such business as engineering consultation and project management, so as to broaden the profit base of the Group. The consultation for an expressway project in Henan Province has been progressing smoothly. The Company believes that project management will have great potential in Shenzhen and other regions in the PRC, and will become a key source of the Company’s profit growth.







## MANAGEMENT DISCUSSION & ANALYSIS

### INVESTMENT AND ACQUISITION

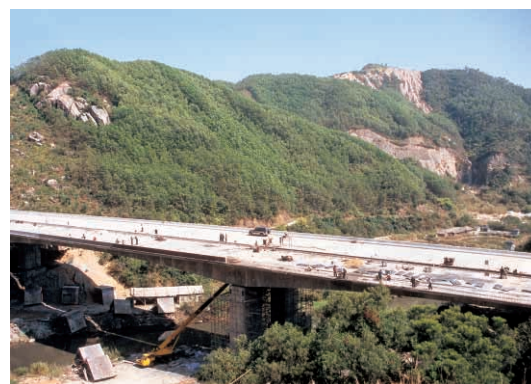
#### The Investment and Construction of Yanba B



Yanba Expressway shall start from Yantian Ports in the west and end at Shenzhen-Huizhou Border. It will connect with the class I highway in Huizhou and links with Shenshan Expressway. The total length of Yanba Expressway is 28.92 kilometers, with the designed speed of 80km/hour. Yanba A (from Yantian Ports to Xicong) is 9.65 kilometers long. Yanba B (from Xicong to Kuicong) and Yanba C (from Kuicong to Bagang) will be 9.19 kilometers and 10.08 kilometers, respectively. According to the Master Plan of the Road Network of Shenzhen, Yanba Expressway will

serve as the backbone of the network of high class roads in Shenzhen, and it is the main passage between the coastal area in the east of Shenzhen and other areas. The construction of Yanba Expressway is of great significance to cater the increasing traffic demand in the eastern coast of Shenzhen and alleviate the traffic pressure of Yantian Ports, and to improve the development of the tourism and economy in the east of Shenzhen. It is also significant for the development of the economy and tourism in the eastern coastal area of Shenzhen, the consolidation of the coastal defense, the evacuation of Daya Bay Nuclear Plant on emergency, the perfection of the expressway network in the east of Guangdong Province and the coastal areas of southeast part of China, and a better connection between Shenzhen and Hong Kong.

Yanba A was completed and put into use in April 2001, while Yanba B commenced construction in June 2001. The total investment for Yanba B is approximately RMB655 million, which is mainly funded by the net proceeds of RMB604 million raised from the issue of 165,000,000 A Shares in December 2002. As at 31 December 2002, approximately RMB244 million has been injected in to the project, all of which is from the net proceeds from the issue of A Shares. The construction of Yanba B has progressed smoothly, with good quality and tight cost control. Yanba B is expected to be completed in July 2003.



## MANAGEMENT DISCUSSION & ANALYSIS

### INVESTMENT AND ACQUISITION



#### The Acquisition of 40% Equity Interest in Shenzhen Fountain and the Provision of Shareholder's Loan

The Company, on 18 December 2002, entered into an agreement with Shenzhen Huayu Investment Company Limited ("Shenzhen Huayu") and Fameluxe Investment Company Limited ("Fameluxe") pursuant to which the Company agreed to purchase from Shenzhen Huayu and Fameluxe 10% and 30% equity interests respectively in Shenzhen Fountain, at the consideration of RMB10,000,000 and RMB30,000,000 respectively. To repay the amount due and owing by Shenzhen Fountain for the construction of Shuiguan Expressway and other liabilities, the shareholders of Shenzhen Fountain agreed to provide shareholders' loans for Shenzhen Fountain. Accordingly, the Company shall provide an aggregate shareholder's loan of RMB330,000,000 to Shenzhen Fountain.

As at 31 December 2002, the Company has paid the consideration of RMB40,000,000 for the acquisition and granted shareholder's loan of RMB140,000,000 to Shenzhen Fountain. The remaining amount of the shareholder's loan will be paid to Shenzhen Fountain by the Company in 2003. In accordance with the agreement, the Company received the repayment of such shareholder's loan of RMB30,000,000 in 2002. With effect from 2003, the Company will be subject to a preferential distribution of Shenzhen Fountain's distributable reserves at the rate of 71.74% until all the shareholder's loan granted by the Company to Shenzhen Fountain is repaid and subject to profit distribution according to the proportion of the interests it holds in Shenzhen Fountain thereafter.

Shenzhen Fountain is a Sino-foreign co-operative joint venture company, with a term of operation of 31 years and a registered capital is RMB100,000,000. Shenzhen Fountain is principally engaged in the development, operation and management of Shuiguan Expressway. As at 31 December 2002, the audited total assets of Shenzhen Fountain was RMB1,092,053,130, with its net assets amounting to RMB66,716,782. Shuiguan Expressway starts from Shuijing Village in Buji Town in the west,



## MANAGEMENT DISCUSSION & ANALYSIS

connecting Bulong Road and ends at Guanjingtou in Longgang Town in the east, linking Longxiang Avenue. It serves as a southwest-northeast expressway outside the Shenzhen Special Economic Zone, alleviating the cross-border traffic from Longhua Town to Longgang Town, Shantou and Huizhou, and is the trunk expressway in the direction from Buji Town, Pinghu Town and Henggang Town to the east and the west of Shenzhen. Shuiguan Expressway has a total length of 20.14 kilometers, with a designed speed of 80km/hour and dual-three lanes. It has 4 interchanges along the whole section, with two main toll stations and three sideway toll stations. Shuiguan Expressway commenced construction in 1996, and commenced toll collection on 8 February 2002.

Upon the completion of the acquisition, the Company, Shenzhen Huayu and Fameluxe hold 40%, 30% and 30% equity interest in Shenzhen Fountain, respectively. Shenzhen Fountain completed the relevant business registration formalities on 13 January 2003.

The acquisition and the provision of the shareholder's loan are in the interest of the Company and its shareholders as a whole. It is in line with the business direction of the Group in managing and operating toll roads and will provide synergies with the existing interests of the Group in the toll road business and good investment returns for the Group.

### Acquisition of Equity Interests in the Advertising Company

The Company, Shenzhen Airport, the Advertising Company and Meiguan Company entered into an equity transfer agreement and a supplemental agreement on 20 November 2002, pursuant to which the Company acquired 35% equity interest in the Advertising Company held by Shenzhen Airport at a consideration of RMB2,753,277 and Meiguan Company acquired 5% equity interest in the Advertising Company held by Shenzhen Airport at a consideration of RMB393,325. The above acquisition was completed on 18 February 2002, and the relevant business registration formalities were completed on 27 March 2003.

The acquisition of the equity interests in the Advertising Company will be beneficial to the Advertising Company to further develop and operate the advertising business along its toll roads and capitalize the effect of synergies from the operation of restructured resources, so as to further improve the Company's overall operating results.



## MANAGEMENT DISCUSSION & ANALYSIS

### The Transfer of the Rights in NH107 and NH205

The Shenzhen Municipal Government's Reform on toll roads and tunnels in Shenzhen focuses on reducing toll stations within municipal confines and relocating toll stations to municipal boundaries in order to reduce the cost of investment in Shenzhen.

On 18 March 2003, the Company and Shenzhen Communications Bureau entered into the Agreement on the Transfer of the Rights of Guangshen Branch Company and Huishen Branch Company of Shenzhen Expressway Company Limited, pursuant to which the Company transferred all its interests and rights in NH107 and NH205 to Shenzhen Communications Bureau at a consideration of RMB1.93 billion.

Shenzhen Communications Bureau took over NH107 and NH205 on 19 March 2003. It is responsible for the arrangement of jobs of the employees of the Company engaged in the operation of NH107 and NH205.

NH107 and NH205 were transferred to the Company by the promoters in 1996 comprising a toll concession period for 30 years from 1997. The sole source of income derived from these two highways has been toll income, but traffic congestion has limited the potential business growth of these two highways. The Company had now an opportunity to realized its investment by selling its interests and rights in the above two highways and using the sale proceeds to invest in other expressways with high growth potential in Shenzhen and other regions of China, with a view to improving the asset portfolio of the Company for its long term development.

Details of the above transaction were set out on the announcements of the Company which were published on *Shanghai Securities News* and *Securities Times* on 19 March 2003 and on *Hong Kong Economic Times* and *The Standard* on 20 March 2003, respectively.

## MANAGEMENT DISCUSSION & ANALYSIS

### Strategy and Planning



The strategy of the Company is to focus on the development of toll roads in Shenzhen, and to acquire road projects with high quality and returns in other regions in the PRC. Currently, the Company is conducting the preparatory works of Yanpai Expressway. Yanpai Expressway starts from Yantian Ports, running northwards across Henggang, and ends at the Paipang Interchange at Jihe East. It will serve as a main expressway for traffic flow in Yantian Ports. Yanpai Expressway will have a length of 15.2 kilometers, with an estimated investment of RMB1.189 billion. Its feasibility study has been appraised by Guangdong Provincial Communications Department. It is expected to commence construction in the first half of 2003, and will be completed at the same time as Phase III of Yantian Ports, in 2005.

The Company will, in accordance with the *Master Plan of the Road Network of Shenzhen*, invest and construct in other planned expressways in Shenzhen.

In addition, the Company is actively seeking new road projects in the Pearl River Delta Region and other regions in the PRC. It endeavors to enhance its profitability and to maintain its continuous growth through acquiring existing expressway projects with quality projects and high returns.

### ANALYSIS ON THE OPERATION RESULTS AND FINANCIAL POSITION OF THE COMPANY

During the year, the Group's turnover increased by 7.04% as compared with 2001. Due to the termination of the enterprise income tax preferential treatments enjoyed by the Group and the reduction in construction management services, profit attributable to shareholders of the Company for 2002 declined by 14.57% as compared with 2001, amounting to RMB360 million.

During the year, the financial position of the Company remained sound, with sufficient financial resources.

## MANAGEMENT DISCUSSION & ANALYSIS

### Analysis on the Operation Results of the Company

	2002 RMB'000	2001 RMB'000	Change
Turnover	524,291	489,813	7.04%
Other revenues	66,536	129,765	-48.73%
Total operating costs	213,755	211,311	1.16%
Operating profits	377,072	408,267	-7.64%
Profit of jointly controlled entities	61,873	57,985	6.71%
Finance costs	24,927	41,647	-40.15%
Taxation	48,141	140	N/A
Profit attributable to shareholders	359,931	421,336	-14.57%
Transfer to reserves	123,690	121,779	1.57%
Earnings per share (RMB)	0.165	0.208	-20.67%
Dividend per share (RMB)	0.12	0.1	20%

#### 1. Turnover

	2002 RMB'000	2001 RMB'000	Change
Revenue from toll roads	553,048	516,684	7.04%
Less: business tax and surcharge	28,757	26,871	7.02%
Turnover	524,291	489,813	7.04%

Turnover comprises turnover from wholly-owned toll roads namely NH107, NH205, Jihe West, Yanba A and the 95% held Meiguan Expressway. The Company's turnover increased by 7.04% as compared with 2001, which was mainly attributable to the growth in traffic volume from Jihe West and Meiguan Expressway.

## MANAGEMENT DISCUSSION & ANALYSIS

### 2. Other revenues

	2002 RMB'000	2001 RMB'000	Change
Interest income	25,322	25,656	-1.30%
Income from construction management services	2,413	63,131	-96.18%
Government subsidies	32,982	26,706	23.50%
Income from other investments	—	11,142	—
Others	5,819	3,130	85.91%
Total	<u>66,536</u>	<u>129,765</u>	<u>-48.73%</u>

Income from construction management services represents income from the construction management services provided by the Company for the linkage project from Yantian Ports Section along Shenzhen Eastern Highway to Yanba Expressway, which is owned and developed by Shenzhen Municipal Government. The main part of the project has been completed and the Company was responsible for its ancillary project during the year. Therefore, income from construction management services during the year decreased sharply.

Government subsidies represent government grants provided to the Company in relation to subsidies for compensation of toll revenue for Yanba A, as a result of the anticipated insufficient traffic volume caused by the early construction of the expressway as requested by the Shenzhen Municipal Government to fulfill its overall town planning requirements. Such government grants are recognised in the profit and loss account according to the Company's accounting policies over the period for which the Company is granted the right to operate the expressway. The operation period of Yanba A in 2002 was 12 months, while its operation period in 2001 was only 8.5 months. Accordingly, the government subsidies recognised during the year increased as compared with 2001.

The decrease in income from other investment is mainly because the Company terminated all its entrusted investment during the year.

## MANAGEMENT DISCUSSION & ANALYSIS

### 3. *Operating costs*

	<b>2002</b>	2001	Change
	<b>RMB'000</b>	RMB'000	
Depreciation and amortisation	<b>100,674</b>	88,150	14.21%
Staff costs	<b>45,950</b>	39,853	15.30%
Road maintenance expenses	<b>16,561</b>	18,496	-10.46%
Other costs	<b>50,570</b>	64,812	-21.97%
	<hr/>	<hr/>	<hr/>
Total	<b>213,755</b>	211,311	1.16%
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

During the year, operating costs of the Company increased as compared with the year 2001, including:

The depreciation and amortisation of the Group increased during the year 2002 because the traffic volume of each of the Group's toll roads grew, which increased the depreciation of its toll roads, and that the depreciation of Yanba A was calculated on the basis of the whole year, which is longer than that of 2001.

The increase in staff costs is mainly due to the payment under the Share Appreciation Rights Scheme in 2002.

Other costs decreased because no losses on unrealized investments were recorded during the year 2002 while in 2001 losses on other investments were recorded.

### 4. *Finance costs*

Finance costs during the year decreased mainly because the Company's bank borrowings reduced and at the same time, the Company adjusted the structure of its long-term and short-term bank borrowings during the year. Its bank borrowings were mainly long-term bank borrowings in 2001, but were all adjusted to short-term bank borrowings during the year. This resulted in the declined interest rates of its bank borrowings and the decreased interests paid by the Company during the year.



## MANAGEMENT DISCUSSION & ANALYSIS

### 5. *Taxation*

The taxation of the Company during the year amounted to RMB48,141,000.

The preferential enterprise income tax treatments (i.e. five years full exemption and 50% reduction for the five years thereafter) previously enjoyed by the Company, its subsidiary namely Meiguan Company and a jointly controlled entity namely Airport-Heao Company, were terminated with effect from 2002. Commencing from 1 January 2002, the aforementioned entities are required to pay PRC enterprise income tax at the rate of 15%, the standard tax rate for enterprises established in the Shenzhen Special Economic zone, while in 2001 the aforesaid entities were all within the full exemption period. Therefore, the taxation of the Company for 2002 recorded sharp increase as compared with the same period last year.

### 6. *Reserves*

During the year, RMB123,690,000 from the profit attributable to shareholders of the Group for 2002 was transferred to reserves, which will mainly be utilized for the future development of the Company.

### 7. *Results and dividend*

Earnings per share of the Company for 2002 were RMB0.165. Based on the Company's sound financial position and sufficient financial resources, the Board of the Company recommended a final dividend distribution of RMB0.12 per share, representing 72.73% of the earnings per share of the Company for 2002.

## **Financial Position and Analysis**

The Company has adopted prudent financial policies and exercised tight risk management control over its investment, financing and cash. Its capital structure has always remained sound and solid. The Company will adjust its investment, financing and capital structure from time to time in accordance with its continuous development demand and internal resources, with a view to maximizing the shareholders' value.



## MANAGEMENT DISCUSSION & ANALYSIS

### 1. Liquidity

	2002	2001
Current ratio	1.30	3.13
Quick ratio	1.29	3.12

The Company is principally engaged in the operation and management of toll roads, and has a strong and stable cash inflow from its daily operations. Though the liquidity indicators as at 31 December 2002 dropped as compared with 2001 due to the adjustment in the structure of its bank borrowing, which resulted in the increase in its short-term bank borrowings and current liabilities, the Company's liquidity still remained good.

### 2. Financial resources

	As at 31 December 2002 RMB'000	As at 31 December 2001 RMB'000
Bank balances and cash	962,736	962,088
Include:		
Cash on hand	193	87
Bank deposits		
— Fixed deposits in RMB with a term of 3 months or above	202,000	61,275
— Current deposits and deposit with a term of 3 months or less in RMB	663,597	748,507
— Deposits in HKD	89,231	143,741
— Deposits in USD	1,715	31
Capital in other currencies	6,000	8,447
Short-term investments	—	369,637
Subtotal	<u>962,736</u>	<u>1,331,725</u>
Borrowings		
— Short-term bank borrowings	610,000	220,000
— Long-term borrowings	24,419	549,060
Subtotal	<u>634,419</u>	<u>769,060</u>



## MANAGEMENT DISCUSSION & ANALYSIS

### (1) Bank balances and cash

The cash of the Company includes proceeds from the issue of A shares and other working capital. In strict compliance with the undertakings stated in the Prospectus of A Shares, the proceeds raised from the issue of A shares are under specific management and will be used for the specific project. The unused fund of the Company is mainly deposited in PRC commercial banks.

The banks deposits of the Company mainly include the specific deposits of the proceeds from the issue of A shares and the fund for possible investments.

### (2) Short-term investments

The Company has terminated all entrusted investment arrangements during the year and has withdrawn the entrusted investments of RMB290 million. As at 31 December 2002, the Company has not had any new entrusted investment arrangements.

Since the Company terminated its entrusted investments in Huarong Trade (Group) Company and managed the securities on its own, it has sold out and realized, basing on the principle of "To sell only and not to buy", all the securities as at 31 December 2002,

### (3) Bank borrowings

The Company strictly keeps its liabilities at a reasonable level, and makes reasonable arrangements as to the terms of its bank borrowings with reference to its medium and long-term financial plans, capital liquidity and flexibility as well as interest rates. Owing to its sound credit worthiness, the Company manages to obtain preferential interest rates for its bank borrowings.

As at 31 December 2002, the Company's bank borrowings amounted to RMB634 million. During the year, the Company was granted with an aggregate of RMB1.1 billion banking facilities, out of which RMB500 million was granted by Shangbu Sub-branch, Shenzhen Branch of China Everbright Bank and the remaining RMB600 was granted by Shenzhen Branch of China Minsheng Banking Corporation Limited. As at 31 December 2002, RMB970 million out of the above banking facilities remained available as standby credit.

## MANAGEMENT DISCUSSION & ANALYSIS

### (4) Government advances

The Shenzhen Municipal Government plans to provide the Company with an aggregate of RMB150 million government advances for the construction of Yanba B. During the year, the Company received an aggregate of RMB30 million government advances. As at 31 December 2002, the Company has received RMB70 million of government advances in total.

### (5) Impact on the financial resources by the transfer of NH107 and NH205

According to the transfer agreement in relation to the transfer of NH107 and NH205, the Company will receive a consideration of approximately RMB1.93 billion, which will be paid to the Company within three years. In addition, the security created over the operating rights of NH107 and NH205 in respect of the RMB1.9 billion banking facilities granted by the PRC banks to the Company were released on 11 April 2003.

### 3. Capital commitments

The Company's capital commitments are mainly for the constructions of expressways and the investments in equity interests of expressways, including Yanba B, Yanba C, Shuiguan Expressway and Yanpai Expressway, details of which are set out below:

	RMB'000
Contracted but not provided for	442,630
Authorized but not contracted for as at 31 December 2002	496,000
Authorized but not contracted for from 31 December 2002 up to the date of this report	<u>1,225,970</u>
Total	<u><u>2,164,600</u></u>

The Company's current financial resources are sufficient to cover the above capital commitments.

## MANAGEMENT DISCUSSION & ANALYSIS

### 4. *Foreign exchange risks management*

The Company has always exercised a tight control over its foreign capital. Its foreign currency payment is mainly for the payment of the dividends of its H shares. As at 31 December 2002, it had foreign currency bank deposits of HKD84,799,000 and USD207,000 respectively, and bank borrowings of USD2,949,000. During the year, the exchange rates for converting USD and HKD to RMB remained relatively stable, which did not have any significant impact on the Company's results. Owing to the stable exchange rates and the small amount of the foreign settlement of the Company, the foreign exchange rate fluctuation will not have any material impact on the Company's future results.

### Cash Inflow and Outflow

Items	2002 RMB'000
Net cash inflow from operating activities	334,248
Dividends and repayments received from jointly controlled entities	94,189
Realisations of short-term investments	358,300
Government advances	30,000
Capital expenditure for purchase of fixed assets	(304,010)
Acquisition of and loans advanced to a jointly controlled entities	(180,000)
Net cash outflow of bank borrowings	(134,641)
Net increase in fixed bank deposits with a term of 3 months or above	(140,725)
Dividends paid	(218,070)
Other incomes net of other expenses	20,632

As at 31 December 2002, the Company's cash and cash equivalents decreased by RMB140,077,000.

### 1. *Net cash inflow from operating activities*

The Company's net cash inflow from operating activities mainly comes from the toll revenue of its toll roads, which is largely received in cash on daily basis.

## MANAGEMENT DISCUSSION & ANALYSIS

### 2. Cash flow from investing activities

The Company's cash inflow from investing activities during the year mainly represents the realisation of RMB358 million short-term investments. Its cash outflow from investing activities mainly represents the RMB304 million of capital expenditure paid for the constructions of Yanba A and Yanba B, and the consideration for the acquisition of 40% in Shenzhen Fountain and the granting of shareholder's loan to Shenzhen Fountain amounting to RMB180 million.

### 3. Cash flow from financing

During the year, the Company reduced its bank borrowings by RMB135 million and received RMB30 million of government advances provided by the Shenzhen Municipal Government for the construction of Yanba B.

### Capital Structure

The Company's capital structure is mainly composed of shareholders' funds and liabilities. As at 31 December 2002, the Company's shareholders' funds amounted to RMB5,505,253,000, and its liabilities were RMB1,219,273. Its gearing ratio at 31 December 2002 (total liabilities as at the balance sheet date to its shareholders' funds as at the balance sheet date) was 22.15% (At 31 December 2001: 26.48%).

During the year, the Company's financial position remained sound, with its interest cover of 17.61 times, while its interest cover for 2001 was 11.20 times.

*The capital structure of the Company classified in terms of capital liquidity*

	31 December 2002		31 December 2001	
	Amount RMB'000	Percentage	Amount RMB'000	Percentage
Current liabilities	760,047	11.30%	430,715	6.35%
Long-term liabilities	407,938	6.07%	940,235	13.86%
Shareholders' funds	5,505,253	81.87%	5,363,392	79.06%
Minority interests	51,288	0.76%	49,343	0.73%
Total	<b>6,724,526</b>	<b>100%</b>	<b>6,783,685</b>	<b>100%</b>

## MANAGEMENT DISCUSSION & ANALYSIS

The Company's current liabilities increased by 76.46% as compared with 2001, while its long-term liabilities decreased by 56.61% as compared with 2001 as a result of the adjustments in the structure of the Company's long-term and short-term liabilities during the year.

*The capital structure of the Company classified in terms of interest rates*

	As at 31 December 2002		As at 31 December 2001	
	Amount RMB'000	Percentage	Amount RMB'000	Percentage
Fixed rate liabilities	<b>634,419</b>	<b>9.44%</b>	239,060	3.53%
Floating rate liabilities	—	—	530,000	7.81%
Interest-free liabilities	<b>533,566</b>	<b>7.93%</b>	601,890	8.87%
Shareholders' funds	<b>5,505,253</b>	<b>81.87%</b>	5,363,392	79.06%
Minority interests	<b>51,288</b>	<b>0.76%</b>	49,343	0.73%
Total	<b><u>6,724,526</u></b>	<b><u>100%</u></b>	<b><u>6,783,685</u></b>	<b><u>100%</u></b>

During the year, the Company's bank borrowings in the PRC were all short-term bank borrowings, while in 2001 they were mainly long-term bank borrowings. Owing to the shortened loan periods of its bank borrowings during the year, interest rates of the Company's bank borrowings lowered as compared with those of 2001. The Company's PRC short-term borrowings were fixed rate liabilities, while its PRC long-term borrowings were floating rate liabilities. The Company's PRC short-term bank borrowings amounted to RMB610 million, with the annual interest rate of about 4.536%. Its foreign long-term liabilities represent the long-term Spanish Governmental fixed rate loans of USD2,949,235.82 (equivalent to RMB24,419,000), out of which at an interest rate of USD1,474,617.91 is at an interest rate of 1.8% per annum and the remaining USD1,474,617.91 is at an interest rate of 7.17% per annum. The Company's current bank borrowings are all fixed rate liabilities. Fluctuation in interest rates will not have any material impact on the Company's operating results.

The Company's interest-free liabilities represent the general payables and the deferred income.

The Company's overall liabilities are at a low level, with a sound and solid capital structure. Therefore, it has relatively strong risk defense capability and relatively great potential for financing.



## MANAGEMENT DISCUSSION & ANALYSIS

### USE OF THE PROCEEDS FROM THE ISSUE OF A SHARES

The Company raised RMB604 million from the issue of A Shares. During the year, the Company applies the net proceeds to the construction of Yanba B in strict compliance with the undertakings stated in the Prospectus of A Shares. The total investment of Yanba B is estimated to be RMB655 million. Yanba B commenced construction in June 2001 as scheduled and is expected to be completed in July 2003. Currently, the construction of Yanba B has progressed smoothly, with a tight quality and cost control. As at 31 December 2002, approximately 70% of the project has been completed.

During the year, approximately RMB207 million of the proceeds from the issue of A Shares has been injected into the project. Up till now, an aggregate of RMB244 million has been invested into the construction of Yanba B.

As at 31 December 2002, the unused proceeds from the issue of A Shares of the Company amounted to RMB360 million, which are kept as fixed deposits in domestic commercial banks. Because Yanba B is still under construction, no investment return has been recorded up till now.

### MATERIAL INVESTMENTS NOT USING THE PROCEEDS FROM THE ISSUE OF A SHARES

The Company's material investments not using the proceeds from the issue of A shares during the year represent the investment in Shuiguan Expressway. Details of the above transaction were set out in the section headed "Investment and Acquisition".

### CHARGES ON THE GROUP'S ASSETS

To obtain bank loans or banking facilities, the Company pledged the following operating rights of its toll roads to banks:

Secured assets	Banks	Maximum amount secured	Validity
Operating rights of NH107	The Industrial and Commercial Bank of China	RMB900 million	9 Feb, 1999–9 Feb, 2004
Operating rights of NH205	China Merchants Bank	RMB1,000 million	11 Feb, 1999–11 Feb, 2004

Note: The above pledges of the operating rights were released on 11 April 2003.



## MANAGEMENT DISCUSSION & ANALYSIS

### PERFORMANCE OF GUARANTEE OBLIGATION

In January 2002, the Company repaid the principal of bank loans of RMB25 million and the accrued interest of RMB195,450, to fulfill its guarantee obligation for Wutongling Company.

### LITIGATION AND ARBITRATION

#### Litigation

The Company has disclosed in details in its 2001 Annual Report and 2002 Interim Report, the writ against Shenzhen Wutongling Ropeway Company Limited (“Wutongling Company”) for enforcement of the recovery of RMB43,000,000 plus interests accrued thereon, representing settlement of bank loans on behalf of Wutongling Company and the writ against Shenzhen Zhongmin Investment Service Company (“Zhongmin Company”) in relation to a claim of 55% of the bank loans of RMB18,000,000 (equivalent to RMB9,900,000) of Wutongling Company plus interests accrued thereon, that was guaranteed by Zhongmin Company, but was repaid by the Company.

The hearings of the above case in Shenzhen Intermediate People’s Court were commenced on 12 August 2002 and were completed on 8 October 2002. Under Orders 235 and 266 of 2002 delivered by the court, the court supported the Company’s requests and has now ordered that Wutongling Company shall pay to the Company the secured credit of RMB25,195,450 which has been paid by the Company and the interest accrued thereon starting from 29 January 2002 till the repayment date; that Wutongling Company shall pay to the Company RMB18,000,000 which has been paid by the Company and the interest accrued thereon starting from 30 July 1997, and that out of the said RMB18,000,000 Zhongmin Company shall have joint liability with Wutongling Company to the Company for RMB9,900,000 and the interest accrued thereon (starting from 30 July 1997 till the repayment date). The above interests are calculated on the basis of the interest rates with the same loan term borrowings promulgated by the People’s Bank of China. The court fees and asset protection fees before the writs in relation with the above case shall be borne by Wutongling Company.

Zhongmin Company has made an appeal against such orders. As at the date of this report the Company has made a bad debt provision in respect of this loan in the amount of RMB18,153,000.

## MANAGEMENT DISCUSSION & ANALYSIS

### Arbitration

The Company has made a detailed and continuous disclosure in relation to its investments entrusted in Huarong Trade (Group) Company Limited ("Huarong Trade") in its 2001 Annual Report, 2002 Interim Report, and its 2002 1st and 3rd quarterly reports. The Company submitted the dispute with Huarong as to the losses in such entrusted investments caused to the Company by Huarong to arbitration at the Shenzhen Arbitration Commission, claiming from Huarong losses in the amount of RMB39,365,591 and that Anshan Securities Company, as the guarantor of such entrusted investments in Huarong Trade and supervisor of the execution of the contracts, shall have joint liability in such losses. Shenzhen Arbitration Commission has accepted the Company's application on 10 October 2002.

As at the date of this report, the above arbitration is still proceeding.

### MATERIAL CONNECTED TRANSACTIONS

During the year, the Company had not entered into any material connected transactions.

### MATERIAL CONTRACTS AND THEIR PERFORMANCE

#### Guarantee

In January 2002, the Company repaid the principal of bank loans of RMB25 million and the interest of RMB195,000 accrued thereon to Funan Branch of Citic Industrial Bank, to fulfill its guarantee obligation for Wutongling Company.

#### Entrusted Investments

The Group has terminated all entrusted investment arrangements and principal and investment income were fully received during the year.

As at 31 December 2002, the Company has not had any new entrusted investment arrangements.



## MANAGEMENT DISCUSSION & ANALYSIS

### Banking Facilities Contracts

On 28 August 2002, Shenzhen Branch of China Minsheng Banking Corporation Ltd and the Company entered into a Banking Facilities Contract, pursuant to which the former granted the Company with the banking facilities of RMB600 million, with a term from 28 August 2002 to 28 August 2004. As at 31 December 2002, the Company has obtained an aggregate of RMB100 million bank borrowings from Shenzhen Branch of China Minsheng Bank Corporation Ltd.

On 1 July 2002, Shangbu Sub-branch, Shenzhen Branch of China Everbright Bank and the Company entered into a Banking Facilities Contract, pursuant to which the former granted the Company with the banking facilities of RMB500 million, with a term from 1 July 2002 to 1 July 2005. As at 31 December 2002, the Company has obtained an aggregate of RMB30 million bank borrowings from Shangbu Sub-branch, Shenzhen Branch of China Everbright Bank.

### GUARANTEED EVENTS

The shareholders of the Company which hold 5% or above of the issued share capital of the Company namely Xin Tong Chan Development (Shenzhen) Company Limited and Shenzhen Shen Guang Hui Highway Development Company agreed in *The Agreement of Promoters on the Establishment of the Company* that they will not in any way be engaged in any sectors or activities which will pose competition to the Company in a direct or indirect way. The Directors consider that the above shareholders are in strict compliance with such promise during the year.

The Company raised net proceeds of RMB604,128,000 from the issue of A Shares in December 2001, which are expected to be applied to the construction of Yanba B. Such net proceeds are being injected into the project according to its construction progress, as stated in the Prospectus of the Issue of A Share.

### TRAINING AND REMUNERATION

As at 31 December 2002, the Group had 1,173 employees, out of whom 96 were administrative staff, 26 were financial staff, 132 were technical staff and the remaining 926 were toll collection staff. The staff with various professional qualifications of the Company amounted to 162, about 13.8% of the total staff. 55.8% of the Company's staff were graduate students from specialized schools, colleges or above, and all the toll collection staff were graduates from senior middle schools or above. As at 31 December 2002, the Company has not any retirees.

## MANAGEMENT DISCUSSION & ANALYSIS

The Company emphasizes on the staff training. The staff training system has been established and specific training programs have been carried out according to the development and management of the Company. During the year, 32 training courses aiming at different departments and staff at all level were carried out, and 540 staff attended such training courses, representing 432 training hours, which has produced desirable results.

The incentive for the Company's senior management is a combination of long-term incentives with short and medium terms incentives. Centering on the feature of the toll road sector and its annual operation results, the Company also implemented the Share Appreciation Right Scheme and improved medical insurance and retirement insurance on the basis of salaries and annual bonus.

### The implementation of the Share Appreciation Right Scheme

The Group implemented the Share Appreciation Right Scheme in 2001. It was approved by the Annual General Meeting held on 6 March 2001. The total units of the rights under the scheme amounted to 60,471,000. The grant price and the exercise price of the rights will be determined by reference to both the H Share price and the A Share price of the Company. The Company has granted an aggregate of 18,405,000 units of rights to its directors and management staff, which are not allowed to be exercised in the first year after the share appreciation rights were granted namely the year 2001 to 2002, while the exercisable units for the year 2002 to 2003 amounted to 4,601,250. As at 31 December 2002, 27 grantees have exercised 2,827,800 units, with the cash payment of RMB3,289,461.

During the year, the Board of the Company further perfected the implementation of the Share Appreciation Right Scheme by finetuning the time and price limits in relation to the exercise of the units and the prohibited non-exercisable events thereunder.

## MANAGEMENT DISCUSSION &amp; ANALYSIS

## The Share Appreciation Right Scheme (“Scheme”)

	No. of rights	Grantees	Cash payment paid (RMB)
As at 1 January 2002	18,405,000	40	
Rights granted during the year	—		
Rights decreased during the year	(661,725)	3	
Rights exercised during the year	<u>(2,827,800)</u>	<u>27</u>	<u>3,289,461</u>
As at 31 December 2002	<u>14,915,475</u>	<u>37</u>	

In accordance with the resolution of the Board of the Company, before any rights were exercised by any grantee, the Company adjusted the number of the units granted in 2001 to 18,405,000 units. The decrease in units is because some grantees left the Group during the year.

As at the balance sheet date, the Company has 14,915,475 units of rights which were granted but not exercised. Unless they are revoked or revised otherwise, they shall be exercisable from the exercise date till 15 March 2006.

As at 31 December 2002, details of the rights which are not exercised are set out below:

No. of the rights which are not exercised	Provision for the year (RMB)	Exercisable date
1,773,450	1,580,744	16 March 2002
4,380,675	—	16 March 2003
4,380,675	—	16 March 2004
4,380,675	—	16 March 2005
<u>14,915,475</u>	<u>1,580,744</u>	

## MANAGEMENT DISCUSSION & ANALYSIS

### IMPACT ON THE COMPANY BY CHANGES IN FUTURE MICRO ENVIRONMENT

In accordance with *the Master Plan of Road Network in Shenzhen*, Shenzhen plans to invest RMB20 billion in the construction of a total length of 270 kilometers expressways within the next 10 years, with a view to intensifying its existing expressway network. In 2015, Shenzhen is expected to have a total length of 1,750 kilometers expressways and class I highways, with the density of 86 kilometer per 100 square kilometers. This development plan will provide ample room for the future development of the Company's principal business.

In 2002, Shenzhen's foreign trade continued to grow. The trade activities between Shenzhen and Hong Kong remained frequent. The container transportation business and ports business in Shenzhen thrived. The sales and production of cars kept prosperous. Private cars in the Pearl River Delta Region increased at a fast pace. The car ownership in Shenzhen ranked first in China, which has provided a steady traffic flow for the Company's toll roads. Shenzhen Municipal Government decided to greatly stimulate the development of modern e-commerce business and logistics, which has posed an even pressing demand for highway transportation and provided a benign operation environment for the Company's toll roads.

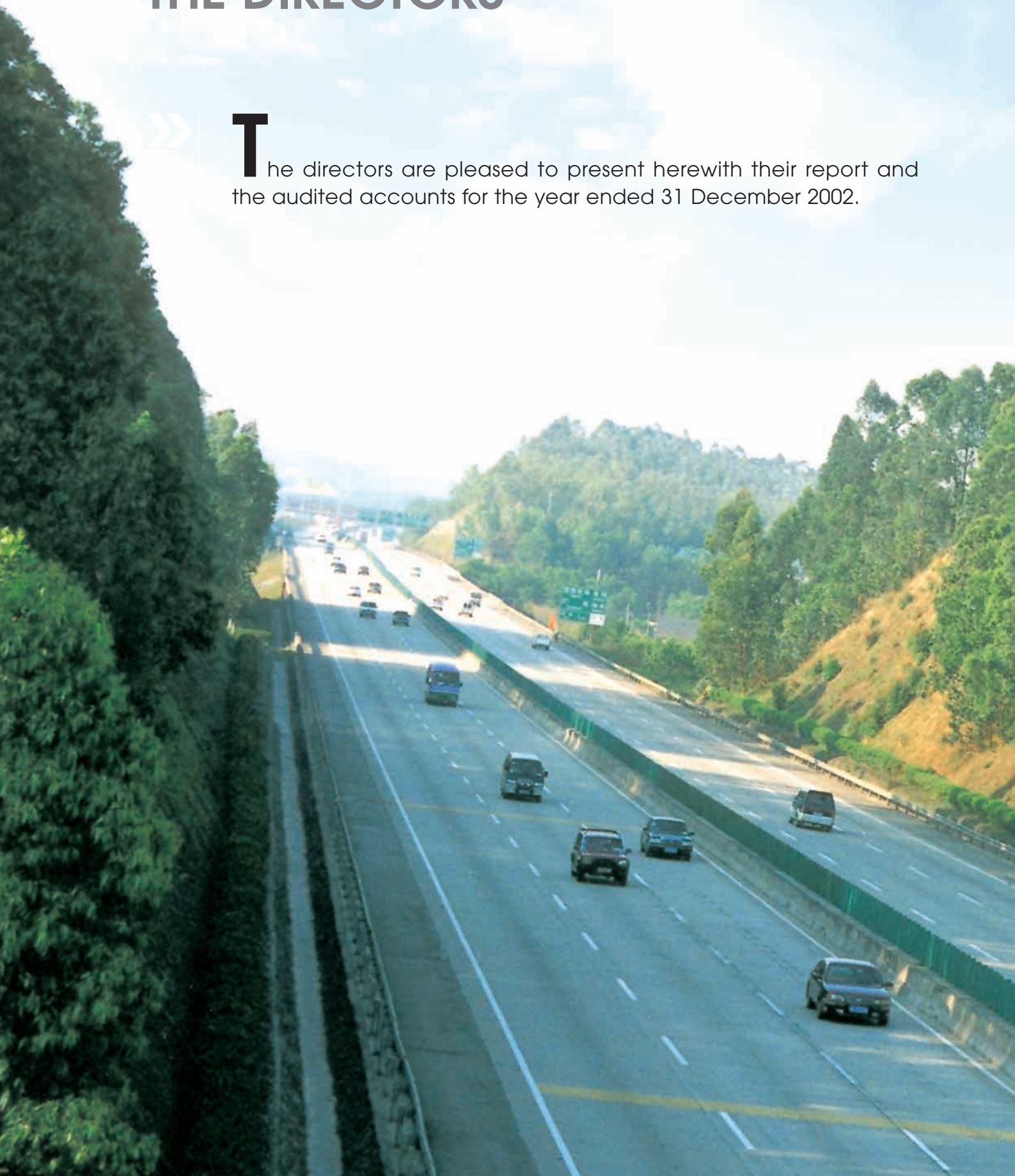
Shenzhen Municipal Government adjusted its policy as to the toll roads other than expressways. According to its *Implementation Plan for the Reform of the Return on Investment in Shenzhen Road and Tunnel Projects and the Funds for Development Projects* (《深圳市路隧項目償還及發展專項資金改革實施方案》), 12 of the existing non-expressway toll stations will be dismantled and 9 new toll stations will be set up at the boundaries between Shenzhen and its surrounding cities. The Company's two toll stations namely the toll stations of NH107 and NH205 were involved in the reform. The reform is expected to reduce vehicles' operating costs and stimulate the growth in highway transportation and cars.



# REPORT OF THE DIRECTORS



**T**he directors are pleased to present herewith their report and the audited accounts for the year ended 31 December 2002.





The directors are pleased to present herewith their report and the audited accounts for the year ended 31 December 2002.

#### **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 the Hong Kong Stock Exchange Company Limited and the Shanghai Stock Exchange on 12 March 1997 and 25 December 2001, respectively.

#### **2. SUMMARY OF THE REPORT OF THE BOARD OF DIRECTORS**

During the year, nine board meetings were held, at which the following issues were discussed:

- the appointment of Mr. Wu Ya De, a director, as the acting general manager of the Company till the appointment of the new general manager;
- the report of the Board of directors for the year 2001;
- the audited financial report for the year 2001;
- proposal for profit distribution scheme for the year 2001 and the profit distribution policy for the year 2002;



## REPORT OF DIRECTORS

- the budget plan for the year 2002;
- the emoluments of directors and supervisors for the year 2002;
- the re-appointment of Messrs. PricewaterhouseCoopers Certified Public Accountants and Shenzhen Tianjian Xinde Certified Public accountants as the international auditors and the statutory auditors of the Company, respectively;
- the disposal of the entrusted securities investments;
- the authorization of the signing on the banking facilities and the bank loans for the year 2002;
- the necessary amendments to the articles of association of the Company;
- the selection and appointment of the general manager and the chief financial officer of the Company;
- the first and third quarterly reports of the Company for the year 2002;
- the proposals to acquire part of the equity interests in Shenzhen Fountain Infrastructure Corporation (Shuiguan Expressway) and Shenzhen Zhengyi Advertising Company Limited;
- *the Self-checked Report on the Establishment of Modern Enterprise System;*
- 2002 Interim Results Report and the financial reports;
- the amendments to the relevant clauses of the Share Appreciation Right Scheme;
- the passing of the Information Disclosure Management System of the Company;
- the passing of the repurchase of its H Shares;
- the convening of 2002 Extraordinary General Meeting and 2002 class shareholders' meetings;



## REPORT OF DIRECTORS

- the study on the future development of the toll road sector and the Company's development strategy;
- the election of the nominated candidates of the third term of office of the Board of directors of the Company;
- the disposal of the interests and rights in NH107 and NH205 owned by the Company.

### 3. PRINCIPAL ACTIVITIES

The principal activities of the Group are the development, operation and management of toll highways and expressways in the PRC.

An analysis of the Group's turnover and contribution to the operating profits for the year is set out on page 31.

No analysis of the Group's turnover and contribution to the operating profits by geographical area was prepared as turnover and results of the Group during the year were principally derived from the operations of the Group's toll roads in the PRC.

### 4. FINANTIAL RESULTS

The results of the Group for the year ended 31 December 2002 are set out in the consolidated profit and loss accounts on page 84.

The financial positions of the Group and the Company as at 31 December 2002 are set out in the balance sheets on page 85 and page 86, respectively.

A summary of the results for the last five financial years, and of the assets and liabilities of the Group is set out on page 9 of this report.

### 5. DIVIDEND

The Board of directors recommended the payment of a dividend of RMB0.12 per share, totaling RMB261,684,000, for the year ended 31 December 2002 to shareholders whose names appear in the register of shareholders of the Company at the close of business on 29 April 2003 (The time of the declaration of dividends for holders of A Shares will be otherwise notified).

## REPORT OF DIRECTORS

According to the articles of association of the Company, the dividend distributed to the shareholders of domestic shares and H Shares will be paid in RMB and HKD, respectively. The exchange rate for the final dividend is the average of the median exchange rate for converting RMB into HKD quoted by the People's Bank of China for the five working days preceding the day on which the final dividend was declared.

### 6. GENERAL MEETINGS

The 2001 Annual General Meeting was held on 31 May 2002. All the resolutions passed at the 2001 Annual General Meeting were published on *Shanghai Securities News* and *Securities Times* in the PRC and on *Hong Kong Economic Times* and *The Standard* on 1 June 2002.

The Company convened 2002 Extraordinary General Meeting and 2002 class shareholders' meetings on 30 December 2002. The resolutions passed at the 2002 Extraordinary General Meeting and the 2002 Domestic Shareholders' Extraordinary General Meeting were published on *Shanghai Securities News* and *Securities Times* in the PRC and on *Hong Kong Economic Times* and *The Standard* on 31 December 2002, respectively. However, the number of H shares vested with voting rights held by those shareholders who attended the H Shareholders' Extraordinary General Meeting is less than one half of the total number of H shares of the Company. According to Article 87 of the articles of association of the Company, the H Shareholders' Extraordinary General Meeting could not be held.

### 7. ELECTION AND CHANGE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

- (1) Ms Tao Hong's term of office as the general manager of the Company expired on 24 January 2002. The Board of directors of the Company resolved at its 11th board meeting to appoint Mr. Wu Ya De, a director, as the acting general manager with a term from 24 January 2002 till the appointment of the new general manager.
- (2) Mr. Li Kwok Wing, Meocre's term of office as the independent director of the Company expired on 9 June 2002. Commencing from 10 June 2002, Mr. Li Kwok Wing has ceased to be an independent director of the Company.
- (3) At the 16th board meeting of the second term of office of the Board of directors of the Company held on 30 October 2002 Mr. Wu Ya De was appointed as the general manager of the Company, with a term of office of 3 years and Ms. Gong Tao Tao was appointed as the chief financial officer of the Company with a term of office of 3 years.

## REPORT OF DIRECTORS

- (4) On 5 December 2002, Mr. Yi Ai Guo was elected to be the staff representative supervisor of the third term of office of the Supervisory Committee of the Company. Mr. Li Jian ceased to be the staff representative supervisor of the Company.
- (5) The terms of all the directors of the second term of office of the Board of directors and all the supervisors of the second term of office of the Supervisory Committee of the Company expired on 31 December 2002. At the 2002 Extraordinary General Meeting of the Company held on 30 December 2002, Mr. Chen Chao, Mr. Wu Ya De, Mr. Zhang Rong Xing, Mr. Zhang Rong Xing, Mr. Zhang Shan Qun, Ms. Tao Hong, Mr. Lin Xiang Ke, Ms. Zhang Yang and Mr. Chiu Chi Cheong, Clifton were elected as the non-independent directors of the third term of office of the Board of directors of the Company, Mr. Ho Pak Cho, Denis Morgie, Mr. Li Zhi Zheng and Mr. Zhang Zhi Xue were elected as the independent directors of the third term of office of the Board of directors of the Company and Mr. Wang Ji Zhong and Mr. Yang Qin Hua were elected as the supervisors of the third term of office of the Supervisory Committee of the Company. Members of the third term of office of the Board of directors and the Supervisory Committee of the Company shall have a term of office of 3 years from 1 January 2003 to 31 December 2005.
- (6) At the 1st board meeting of the third term of office of the Board of directors of the Company held on 13 January 2003, Mr. Chen Chao was elected as chairman of the Company. At the 1st meeting of the third term of office of the Supervisory Committee of the Company held on 15 January 2003, Mr. Wang Ji Zhong was elected as chairman of the Supervisory Committee of the Company.

### 8. SERVICE CONTRACTS FOR DIRECTORS

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 from 1 January 2003 to 31 December 2005 and no service contracts that can be terminated within one year with compensation (other than general statutory compensation) have been or proposed to be entered into between the directors or supervisors and the Company.



## REPORT OF DIRECTORS

### 9. EMOLUMENTS OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

- (1) The emoluments of the directors and supervisors for the year 2002 was considered and approved at the 2001 Annual General Meeting. Apart from independent directors, directors (including those who hold posts in the Company) do not receive any emoluments from the Company. Directors who hold posts in the Company receive management remuneration according to their respective position in the Company.
- (2) The total remuneration of directors, supervisors and senior management for the year 2002 amounted to approximately RMB3,919,000.
- (3) In 2002, remuneration for each of the independent directors is HKD150,000. The subsidies for the three independent directors for the year amounted to RMB33,000. As a result, the total amount of the emoluments for the three independent directors for the year 2002 amounted to RMB510,000.
- (4) The total amount of the three highest paid directors amounted to RMB1,061,800.
- (5) The total amount of the three highest paid senior management amounted to RMB1,190,600.
- (6) In 2002, the Company has altogether 19 directors, supervisors and senior management, 10 out of whom received salaries from the Company. Details of the payment of directors, supervisors and senior management are set out as follows:

(RMB)	0-200,000	200,000-400,000	400,000-600,000
Directors	2	0	2
Supervisors	0	1	0
Senior Management	0	3	2



## REPORT OF DIRECTORS

(7) Directors and supervisors who did not receive salaries from the Company are set out below:

	<b>Name</b>	<b>Received salaries from</b>	<b>Remarks</b>
Directors	Chen Chao	Xin Tong Chan Company	Received salaries from the Company for the period from January to June 2002
	Zhong Shan Qun	Xin Tong Chan Company	
	Lin Xiang Ke	Shen Guang Hui Company	Received salaries from the Company for January 2002
	Tao Hong	Xin Tong Chan Company	
	Shi Da Qing	Guangdong Roads and Bridges Company	
Zhang Yang	Huajian Centre		
Supervisors	Wang Ji Zhong	Xin Tong Chan Company	
	Wang Shan	Shen Guang Hui Company	

*Note:* In 2002, the directors and supervisors stated in the above chart received subsidies from the Company.

### 10. DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

As at 31 December 2002 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 a director or supervisor 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.

### 11. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests of the Directors, supervisors, chief executives or their associates of the Company in the share capital of the Company or any of its associated corporations as defined in the Part XV of the SFO which require notification to the Company



## REPORT OF DIRECTORS

and HKEX pursuant to Section 341 of the SFO or which are required, pursuant to the Model Code for Securities Transaction by Directors of Listed Companies of the Hong Kong Stock Exchange to be notified to the Company and the HKEX were as follows:

<b>Name of Director</b>	<b>Number of units</b>	<b>Exercise price</b>	<b>Exercisable date</b>
Chen Chao	1,028,250	RMB3.456	16 March 2003
	514,125		16 March 2004
	514,125		16 March 2005
	Sub-Total: 2,056,500		
Wu Ya De	103,800	RMB3.456	16 March 2003
	103,800		16 March 2004
	103,800		16 March 2005
	Sub-Total: 311,400		
Zhang Rong Xing	168,675	RMB3.456	16 March 2003
	168,675		16 March 2004
	168,675		16 March 2005
	Sub-Total: 506,025		
Zhong Shan Qun	130,500	RMB3.456	16 March 2003
	129,750		16 March 2004
	129,750		16 March 2005
	Sub-Total: 390,000		
Tao Hong	259,500	RMB3.456	16 March 2003
	129,750		16 March 2004
	129,750		16 March 2005
	Sub-Total: 519,000		

## REPORT OF DIRECTORS

Name of Director	Number of units	Exercise price	Exercisable date
Lin Xiang Ke	207,600	RMB3.456	16 March 2003
	103,800		16 March 2004
	103,800		16 March 2005
	Sub-Total:		415,200
Zhang Yang	207,600	RMB3.456	16 March 2003
	103,800		16 March 2004
	103,800		16 March 2005
	Sub-Total:		415,200
Chiu Chi Cheong Clifton	207,600	RMB3.456	16 March 2003
	103,800		16 March 2004
	103,800		16 March 2005
	Sub-Total:		415,200

The number of units were granted pursuant to the share appreciation right scheme approved by the Shareholders on 6 March 2001. Such scheme entitles unit holders to cash in the difference between the exercise price and the reference price which is calculated by reference to the aggregate of 60% and 40% of the average closing prices of the H Shares and A Shares respectively for the five trading days commencing on the sixth trading day after the date of making application for cashing in the relevant rights under the share appreciation right scheme.

### 12. 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 roads while its major suppliers are contractors for the construction of toll roads.

### 13. SHARE CAPITAL

The total capital of the Company was RMB2,180,700,000.



## REPORT OF DIRECTORS

### 14. RESERVES

The amounts and particulars of material transfers to and from reserves during the year are set out in note 19 to the accounts.

### 15. FIXED ASSETS

The movements in fixed assets during the year are set out in note 12 to the accounts.

### 16. BANK LOANS AND OTHER BORROWINGS

Details of bank loans and other borrowings of the Group and the Company as at 31 December 2002 are set out in note 20 and note 21 to the accounts.

### 17. INTEREST CAPITALIZED

The amount of interest capitalized by the Group and the Company for the year ended 31 December 2002 are disclosed in note 6 to the accounts.

### 18. USE OF PROCEEDS FROM ISSUE OF A SHARES

The Company issued an aggregate of 165,000,000 A shares in December 2001, with the issue price of RMB3.66 per share (equivalent to HKD3.45). The net proceeds from the A Shares issue were approximately RMB604 million, which is and will be used for the construction of Yanba B. As at 31 December 2002, RMB244 million from the net proceeds from the A Share Issue has been used for the construction of Yanba B, and the remaining RMB360,000,000 remained unused, which is kept in bank deposits.

### 19. INCOME TAX RATE AND BUSINESS TAX RATE

Due to the State's tightened control on various preferential tax treatments granted by local governments, the preferential enterprise income tax treatments (ie five years full exemption and 50% reduction for the five years thereafter) previously enjoyed by the Company, its subsidiary (Meiguan Company) and a jointly controlled entity (Airport-Heao Company) were terminated with effect from 2002. Commencing from 1 January 2002, the aforementioned entities are required to pay PRC enterprise income tax at the rate of 15%, the preferential tax

## REPORT OF DIRECTORS

rate for enterprises established in the Shenzhen Special Economic Zone, while in 2001 the aforesaid entities were all within the full exemption period. Therefore, the taxation of the Company for 2002 recorded a sharp increase as compared with the same period of last year.

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

### 20. DESIGNATED DEPOSITS AND DUE FIXED DEPOSITS

As at 31 December 2002, the Company had no designated deposits that are placed with financial institutions in the PRC. All the Company's cash deposits are placed with commercial banks in the PRC and are in compliance with the applicable laws and regulations. The Company has not experienced any incident of not being able to withdraw bank deposits when due.

### 21. PURCHASE, SALE OR REDEMPTION OF SHARES

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

### 22. LITIGATION AND ARBITRATION

Please refer to Management Discussion and Analysis on page 50 of this report.

### 23. INVESTMENT AND ACQUISITION

Please refer to Management Discussion and Analysis on pages 34 to 37 of this report.

### 24. MATERIAL CONNECTED TRANCTIONS

During the year, the Company had not entered into any material connected transactions.

### 25. SUBSIDIARIES AND JOINTLY CONTROLLED ENTITIES

Details of the Company's subsidiaries and jointly controlled entities are set out in notes 13 and 14 to the accounts respectively.



## REPORT OF DIRECTORS

### 26. 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.

### 27. RETIREMENT SCHEME FOR EMPLOYEES

Details of the retirement scheme for employees of the Group are set out in note 4.

### 28. HOUSING SCHEME FOR EMPLOYEES

The Company has no further obligations and has not entered into any arrangement whereby quarters are to be sold to staff at preferential prices.

### 29. EMPLOYEES' BASIC MEDICAL INSURANCE SCHEME

The Shenzhen Municipal Government promulgated the *Provisional Regulations on Basic Medical Insurance Scheme of Shenzhen* (《深圳市基本醫療保險暫行規定》) (“Provisional Regulations”) on 2 May 1996. Since its establishment in December 1996, the Company has participated in the basic medical insurance scheme for its employees in accordance with the Provisional Regulations. For an employee with Shenzhen permanent residence, 9% of their monthly salaries is contributed to the basic medical insurance, out of which 7% is borne by the Company and the other 2% is borne by the staff. As for an employee with Shenzhen temporary residence, 2% of Shenzhen’s average monthly salary for the previous year is contributed to the hospitalization medical insurance, which is fully paid by the Company. The medical expenses for employees of the Company is included in the staff costs of the Company. In 2002, the amount contributed to the medical expenses of the employees of the Company amounted to approximately RMB1 million. The implementation of such medical insurance scheme has not and will not have any significant impact on its consolidated income statement and consolidated balance sheet.

### 30. COMPLIANCE WITH THE CODE OF BEST PRACTICE

Throughout the year, the Company was in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities of HKEX.

## REPORT OF DIRECTORS

### 31. AUDIT COMMITTEE

Pursuant to the Listing Rules, the Board of the Company established an audit committee on 20 August 1999, with a view to reviewing and supervising the Group's financial reporting process and internal controls.

The first term of office of Audit Committee was chaired by Mr. Chiu Chi Cheong, Clifton, an independent director. It included Mr. Li Kwok Wing, Meocre, an independent director, Mr. Lin Xiang Ke and Mr. Shi Da Qing, non-executive directors. The terms of office of the members of the first term of office of the Audit Committee expired on 31 December 2002.

Since the establishment of the first term of office of the Audit Committee, 11 meetings, chaired by Mr. Chiu Chi Cheong, Clifton, have been convened. All the members presented at five of the meetings, 3 members were available at four of the meetings and two members were present at the remaining two meetings. The members of the Audit Committee carried out their work actively and have made great efforts and contributions to the enhancement of the efficiency and transparency of the Board, and the improvement of the Company's information disclosure and internal control. The work of the first term of office of Audit Committee included:

- to consider the appointment of the Company's external auditors, to discuss the strategy, contents and procedure of annual audits, to review the Company's annual and interim financial reports and results reports on a regular basis so as to ensure the objectivity and truthfulness of the Company's information disclosure;
- to conduct careful audits on the Company's investment, human resources, cash and information communication and their management procedure through the Company's internal audit department and to make relevant recommendations on improvements, and to ensure the appropriateness of the Company's internal control and the effective execution of relevant measures; and
- to provide professional opinions on the Company's material accounting policies and accounting events.

Approved by the Board of directors of the Company in January 2003, the second term of office of the Audit Committee was established, with Mr. Ho Pak Cho, Denis Morgie, an independent director, acting as the chairman and Mr. Li Zhi Zheng, an independent director, and Mr. Chiu Chi Cheong, Clifton, a non-executive director, as members. Members of the second term of office of the Audit Committee shall have a term of office of 3 years from their date of appointment to 31 December 2005.





## REPORT OF DIRECTORS

As at the date of this report, the Audit Committee has convened two meetings, chaired by Mr. Ho Pak Cho, Denis Morgie and all the members were present at the meetings. At such meetings, the external auditing for the year 2002 was discussed and the financial report and results report of the Company for the year 2002 were reviewed.

### 32. THE STRATEGIC DEVELOPMENT & INVESTMENT COMMITTEE

On 19 November 2001, the Board of the Company established the Strategic Development & Investment Committee (the "Strategic Committee"). In 2002, the Strategic Committee convened two meetings, at which the thoughts on the Company's development strategy were explored and discussed, and the Planning and Research Institute of the Ministry of Communications was appointed to carry out the analysis on the toll road industry. It has played a part in the provision of advice or suggestions on decision-making of development strategy and material investments of the Company.

A new term of office of the Strategic Committee was established at the 1st board meeting of the third term of office of the Board of the Company on 20 January 2003. It is chaired by Mr. Chen Chao, the chairman of the Company, and its members include Mr. Chiu Chi Cheong, Clifton, and Mr. Wu Ya De, the directors, Mr. Li Zhi Zheng, an independent director and an outside professional. All members of the new Strategic Committee shall have a term of office of 3 years from their date of appointment to 31 December 2005.

### 33. THE HUMAN RESOURCES & NOMINATION COMMITTEE

The Board of the Company established the Human Resources & Remuneration Committee (the "HR Committee") on 19 November 2001. In 2002, the HR Committee convened three meetings. It set up an evaluation team and completed the evaluation on the performance of the ex-general manager during the term of office, selected a headhunter and completed the selection of the general manager and the chief financial officer of the Company, revised and perfected the Share Appreciation Right Scheme and its implementation. It has played an important role in the provision of professional advices on the evaluation, appointment and removal, nomination and remuneration management for the Board of the Company.

## REPORT OF DIRECTORS

The third term of office of the Board of the Company set up a new HR Committee on 20 January 2003 and changed its name as Human Resources & Nomination Committee (the "Nomination Committee"). The Nomination Committee is chaired by Mr. Li Zhi Zheng, an independent director, and its members include Mr. Chen Chao, the chairman of the Company, Mr. Zhang Zhi Xue, an independent director and an outside professional. All the members of the Nomination Committee shall have a term of office from their date of appointment to 31 December 2005.

### 34. AUDITORS

The accounts in this annual report were prepared in accordance with accounting principles generally accepted in Hong Kong and the PRC accounting standards, respectively, and have been audited by PricewaterhouseCoopers and Shenzhen Tjian Xide Certified Public Accountant, respectively.

The appointment of PricewaterhouseCoopers (Hong Kong certified public accountants) and Shenzhen Tianjian Xinde Certified Public Accounts as the international auditors and the statutory auditors of the Company for the year 2002, respectively was proposed by the Audit Committee. After the proposals of such appointments were considered and passed by the Board of directors of the Company, it was submitted to the 2001 Annual General Meeting held on 31 May 2002 for consideration and approval, at which the Board of the Company was authorized to fix the remuneration of such auditors.

## REPORT OF DIRECTORS

The remuneration of the auditors is set out as follows:  
(RMB)

Auditors	2002		2001		Continuous services Terms
	Audit fees	Other fees	Audit fees	Other fees	
PricewaterhouseCoopers	1,220,300	—	1,110,000		With effect from 1996
PricewaterhouseCoopers	—	167,554	265,000	78,000	2001
Zhong Tian CPAs Co., Ltd					
Shenzhen Greatwall Certified Public Accountants	—	3,000	—	—	—
Zhong Tian Qin Certified Public Accountants	—	—	733,500	20,000	1999~2000
Shenzhen Tianjian Xinde Certified Public Accountants	640,000	84,000	480,000		the audit for the A Share Issue in 2001 and the audit for 2002
Southern Minhe Certified Accountants	—	6,000	—	20,000	—

*Note:* The above audit fees, other than that of Shenzhen Tianjian Xinde Certified Public Accounts, include disbursements for the auditors. Other fees represent consulting fees, capital verification fees and annual foreign currency examination fees. The Board of the Company considered that other fees did not affect the independence of the auditors.

A resolution will be proposed at the forthcoming annual general meeting to be held on 30 May 2003 re-appoint PricewaterhouseCoopers and Shenzhen Tianjian Xide Certified Public Accountants as the international auditors and the statutory auditors of the Company, respectively.

## 35. CORPORATE GOVERNANCE

The Company has always devoted a lot of efforts to perfect its corporate governance structure, to establish modern enterprise system and to standardize its operation, in strict compliance with the Companies Law, Securities Law, the Listing Rules and the relevant requirements of laws and regulations promulgated by CSRC. It has compiled *The Regulation of the Shareholders' General Meeting*, *The Regulation of the Board of Directors*, *The Regulation of*

## REPORT OF DIRECTORS

*the Supervisory Committee, The Regulation of the General Manager and every description of functions and powers of the Audit Committee, the Strategic Development & Investment Committee, and the Human Resources & Nomination Committee, which were incorporated into The Corporate Governance Regulations of the Company.*

The Company has ensured that all shareholders, major and minority shareholders alike are ranked *pari passu* with each other and that all shareholders could fully exercise their own rights.

The conducts of the controlling shareholder of the Company were in compliance with the relevant laws and regulations. No intervention by the controlling shareholder in the Company's decision-making has been found. The Company is separate from its controlling shareholder in such aspects as employees, assets, finance, organisation and business.

The number and the composition of the Board of the Company are in line with the requirements of the relevant laws and regulations. During the year, all directors of the Company have attended the board meetings and shareholders' meetings with serious and responsible attitudes, actively participated in the relevant training and learning sessions of relevant laws and regulations, and understood the rights, duties and responsibilities as directors.

The Company has appointed two independent directors of the Board as early as in 1997. In 1999, the number of the independent directors of the Board was increased to 3. The number of independent directors of the third term of office of the Board will be increased to 4. The independent directors of the Company are professionals in accounting, finance, enterprise management and human resources from Hong Kong or the PRC, and they are playing more and more important roles in the Board of the Company. They are well aware of their rights and duties as directors of a listed company. They have attended board meetings and shareholders' meetings with serious and responsible attitudes and have given their independent opinions or suggestions as to the Company's material events and connected transactions. They are also members of the three committees under the Board of the Company, playing active roles in regulating the operation of the Board of the Company.

The number and the composition of the Supervisory Committee of the Company are in line with the requirements of the relevant laws and regulations. The supervisors of the Company have discharged their duties with serious and responsible attitudes. They have monitored the Company's finance, and the Company's directors, managers and other senior management in performing their duties on behalf of the shareholders in compliance with relevant legal and regulatory requirements.



## REPORT OF DIRECTORS

The Company has fully respected and protected the legal interests of related banks, its employees, consumers and other beneficiaries. It has concerned about such issues of environmental protection and utilities and bolstered the continuous and healthy development of the Company.

The Company has fulfilled its information disclosure obligations in strict compliance with the listing rules of HKEX and SSE. It has assigned the Secretariat to the Board of directors to be responsible for information disclosure, reception of company visits and consultation. It also releases relevant information of the Company by holding press conferences, analysts' conferences, roadshows inside and outside the PRC, inviting investors to visit the Company and through the Company's website. It issued *the Notice on Strengthening Information Disclosure and the Notice on Establishing a Spokesman and Reception System in sequence, and its Board passed The Information Disclosure System* on 30 October 2002.

Shenzhen Securities Regulatory Office of the China Securities Regulatory Commission (the "SSRO") conducted an inspection on the Company, which was selected on a random basis, during the period between on the Company 22 July and 26 July 2002 and issued a *Notice for Rectification of Shenzhen Expressway Company Limited within a Limited Period* (the "Notice") (Shen Zheng Ban Fa Zhi (2002) No. 122). The Notice, on the one hand, affirmed the Company's relatively regulated operations and initiative to perfect its corporate governance. On the other hand, it pointed out certain weaknesses of the Company, which are subject to further improvements. The Company published its rectification report on *Shanghai Securities News, Securities Times, Hong Kong Economic Times* and *The Standard* on 25 September 2002, and has taken measures to address and rectify the weaknesses stated in the Notice. It adjusted the units of the rights granted to its staff under the Share Appreciation Right Scheme on 13 August 2002, passed the Information Disclosure System of Shenzhen Expressway Company Limited on 30 October 2002 and made necessary amendments to the articles of association of the Company in accordance with the *Guidelines for Articles of Association of Listed Companies and Corporate Regulations of Listed Companies* on 13 November 2002.

During the year, none of the Company, the Board of the Company or its existing directors has been punished by any regulatory authorities.

By Order of the Board

**Chen Chao**

Chairman

## REPORT OF THE SUPERVISORY COMMITTEE

### To the shareholders:

Pursuant to the Company Law of the People's Republic of China, the Listing Rules of HKEX, Listing Rules of SSE, and the articles of association of the Company, the Supervisory Committee of Shenzhen Expressway Company Limited (the "Company") has faithfully performed its duties as prescribed by the articles of association of the Company during the year ended 31 December 2002. By adhering to the principle of good faith, we have contributed our efforts in our work with prudent and active endeavors to safeguard the interests of the Company and the shareholders.

During the year, the Supervisory Committee convened five meetings, at which the work plan for 2002 was defined, the report of the Supervisory Committee for the year 2001, the report of the site visit to Shenchang Company and the amendments to the Share Appreciation Right Scheme were considered and passed, the financial report for the year 2001, the financial report for the six months ended 30 June 2002, the first and the third quarterly reports in 2002 were reviewed, the report on the short-term investments of the Company was discussed and the incentive scheme for supervisors was studied.

During the year, the Supervisory Committee has monitored the procedure, resolutions of the Board and the general meeting and the Board's execution of the resolutions of the general meetings. It considers that the Board's activities in 2002 were carried out in strict compliance with the Company Law of the People's Republic of China, the Securities Laws the Listing Rules of HKEX, the Listing Rules of SSE, and the articles of association of the Company, and the Board has established good internal control system. It considers that the directors, general managers and other senior management have adhered to the principle of good faith in a prudent manner when they performed their duties. They have also acted sincerely for the benefits of the Company without violation of any laws and regulations. There have been no abuse of authority and no harmful act against the benefits of the Company or the interests of the shareholders and staff.

The members of the Supervisory Committee have also carefully reviewed the accounts and other accounting information of the Company. They consider that the accounts are clear, and the auditing and financial management is in line with relevant regulations. They do not notice anything that is in contravention of relevant laws and regulations. PricewaterhouseCoopers and Shenzhen Tianjian Xinde Certified Public Accountants have audited the financial reports of the Company for the year 2002 prepared in accordance with the Hong Kong accounting standards and PRC accounting standards, respectively and issued unqualified audit reports. The Supervisory Committee considers that those audit reports have reflected the Company's financial position and operation results on a true basis, and they are fair, objective, true and reliable.



## REPORT OF THE SUPERVISORY COMMITTEE

The Company issued 165,000,000 A Shares on 6 December 2001 and raised net proceeds of RMB604,128,000, which is being invested, in accordance with The Prospectus of A Shares, into the construction of Yanba B. Yanba B commenced construction in June 2001. The proceeds from the issue of A shares is being injected as scheduled. Currently, the construction of Yanba B is progressing smoothly. As at 31 December 2002, RMB244 million has been injected into the project, all of which are from proceeds of the A shares issue. The actual investment is in line with that proposed in the Prospectus of A Shares.

The acquisitions and disposal of assets of the Company during 2002 include: (1) the acquisition of 35% equity interest in Shenzhen Zhengyi Advertising Company Limited held by Shenzhen Airport Company Limited; (2) the acquisition of 40% equity interest in Shenzhen Fountain. The Supervisor Committee considers that the terms of the above acquisitions and transfers are fair and reasonable, and do not notice any insiders transactions or asset losses they have caused or any harmful act against the interests of the shareholders and the Company.

During the year, the Company has not had any material connected transactions.

In 2002, the supervisors attended all the board meetings and general meetings, and visited the Company's investment projects. They expressed their concern to the Board on the risks they were aware. They have monitored various decisions made by the Board to ensure such decisions are in compliance with the laws and regulations of the State, the articles of association of the Company, and the resolutions of shareholders' general meetings, and are in the interests of the shareholders. The Supervisory Committee considers that the Board implemented the resolutions the shareholders' general meetings with a serious attitude. During the year, there have been neither disputes between any Supervisors representing the Company and any of the directors nor litigation instituted against any of the directors.

The Supervisory Committee consents to the report of the Board of Directors for the year 2002 and has confidence in the future prospects of the Company.

By Order of the Committee

**Wang Ji Zhong**

*Chairman of the Supervisory Committee*

Shenzhen, the PRC, 11 April 2003



## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

### Directors

**Mr. CHEN Chao**, aged 47, senior economist and engineer, is the chairman of the Board, chairman of the Strategic Development & Investment Committee and the Human Resources & Nomination Committee of the Company. Mr. Chen graduated from Wuhan University of Technology (武漢理工大學) and obtained a bachelor's degree in engineering. Then he served as the deputy director of the Highway Bureau and the secretary to the deputy minister of the Ministry of Communications. Then, he 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 more than twenty years of experience in the transportation industry. He was the first general manager of the Company since the establishment of the Company till January 2000 and 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 Xin Tong Chan Company. Since September 2000, he has been the chairman and secretary to the Party Committee of Xin Tong Chan Company. Since March 2000, he has been the vice-Chairman and chief executive of Hong Kong listed Shenzhen International Holdings Limited (0152). He is also the Vice Chairman of Hong Kong listed Shenzhen Hi-Tech Holdings Limited, a director of Shenzhen Venture Capital Company Limited and the chairman of CSG Technology Holdings Co., Limited. He is also the chairman of the Engineering Consulting Company.

**Mr. WU Ya De**, aged 39, is a director, the general manager and 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. He served as the chief of the administration department of Shenzhen Roads Bureau, manager of a toll road company, the general manager and chairman of Shengguanghui and chairman of the Labour Union of Shenzhen Roads Bureau. Since January 2002 to October 2002, Mr. Wu was the acting general manager of the Company and he was appointed as the general manager of the Company on 1 November 2002. Mr. Wu is also the chairman of Shenzhen Fountain and a director of the Engineering Consulting Company.

**Mr. ZHANG Rong Xing**, aged 40, engineer, is the director and company secretary 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 worked in large Chinese-foreign joint ventures and was responsible for technology, administration and management before he joined Xin Tong Chan Company in 1993 and served as chief of the Personnel Department and deputy director of the office for the restructuring of Xin Tong Chan Company. Since the establishment of the Company, he has been the company secretary of the Company. He has been a director of the Company with effect from December 2002. Mr. Zhang is mainly responsible for the planning, supervision, coordination and investor relations.



## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

**Mr. ZHONG Shan Qun**, aged 39, engineer, is the director of the Company. 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 worked in the Research Institute of the Highway System Engineering of Changsha Institute of Communications and Guangshenzhu Expressway Company Limited. He joined Xin Tong Chan Company in May 1993 and served in sequence as manager of the Engineering Department, assistant to general manager and deputy general manager of Xin Tong Chan Company. He has been the general manager of Xin Tong Chan Company with effect from March 2003.

**Ms. TAO Hong**, aged 41, senior accountant, is the director of the Strategic Development & Investment Committee of the Company. She graduated from Xi'an University of Highways and Communications (西安公路交通大學) and obtained a bachelor's degree and a master's degree in finance and accounting in 1984 and 1990, respectively. Ms. Tao has many years of experience in financial management. She had been the chief accountant of the Company, being responsible for the financial management and planning of the Company. She was the general manager of the Company from January, 2000 to 31 December, 2001. She is the general economist of Xin Tong Chan Company.

**Mr. LIN Xiang Ke**, aged 47, accountant, is a director of the Company. Mr. Lin has been working in various enterprises in the PRC 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. He is currently the chairman of Shen Guang Hui.

**Ms. ZHANG Yang**, aged 39, political officer, is a director of the Company. Ms. Zhang graduated from Lanzhou University and obtained a bachelor's degree in economics in 1987. She received a master education in economics from the Department of Economic Management of the Central Party School. She worked at the Ministry of Aviation and joined Huajian Transportation and Economic Development Center in 1994, working as project manager and 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

**Mr. CHIU Chi Cheong**, Clifton, aged 49, a public accountant in the USA, is the director, member of the Audit Committee and the Strategic Development & Investment Committee of the Company. He graduated from the University of Southern California with an MBA degree. Mr. Chiu has extensive experience in finance, securities and accounting. Mr. Chiu has been member of Shenzhen Political

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Consultative Committee since March 1994. He has been vice chairman of Takeovers and Mergers Panel of the Securities and Futures Commission since January, 1996 and the vice chairman of the Growth Enterprise Market Listing Committee of the Stock Exchange of Hong Kong Limited since August, 1999. Mr. Chiu had been an independent director of the Company for six years. He is currently the managing director of Harvester (Holdings) Co. Ltd.

**Mr. HO Pak Cho**, Denis Morggie, aged 61, is an independent director and chairman of the Audit Committee of the Company. He graduated from the University of Melbourne with a Bachelor of Commerce Degree. He is a Fellow of both the Institute of Chartered Accountants in Australia and the Hong Kong Society of 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 the Hong Kong Stock Exchange 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 61, senior research engineer, is an independent director, chairman of Human Resources & Nomination Committee, member of the Audit Committee and the Strategic Development & Investment Committee. He held senior administrative posts in the former Ministry of Aero-Space Industry for many years. He was Chief Executive Officer of CATIC Shenzhen holdings (limited) and was chairman of several listed companies. Mr. Li is currently the chairman of Shenzhen CATIC Investment Management Company Limited.

**Mr. ZHANG Zhi Xue**, aged 34, is an independent director and member of the Human Resources & Nomination Committee of the Company. He graduated from the Institute of Labour and Personnel of Renmin University of China in 1991 and graduated from the Institute of Economics of Jinan University in 1996 with a master's degree in economics. Mr. Zhang worked at the Nanshan District Government of Shenzhen City and at Shenzhen Huawei Technologies Co., Ltd as the HR manager. He is currently the general manager of Zuo You Management Consultants Company.

### Supervisors

**Mr. WANG Ji Zhong**, aged 56, senior accountant, is the chairman of the Supervisory Committee of the Company. Mr. Wang graduated from the Institute of Industrial Management in Guizhou Province. He has worked in various enterprises for more than thirty years, and has extensive work experience. Mr. Wang worked in Shenzhen Investment and Management Co., and was the deputy director of Industry and Transportation Department and director of the Finance Department. Mr. Wang has been the deputy general manager of Xin Tong Chan Company since he joined Xin Tong Chan Company in October, 1997.



## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

**Mr. YANG Qin Hua**, aged 35, accountant, is the supervisor of the Company. Mr. Yang graduated from the Economics Department of Guangzhou University, majoring in Business Administration Accounting in July 1992. He served as the accounting clerk, assistant accountant of Guangdong Roads Bureau, accountant of the Finance Department and deputy chief accountant of Guangdong Roads and Bridges. Since March 2001, Mr. Yang has served as the deputy chief accountant and manager of the Audit Department of Guangdong Roads and Bridges Company.

**Mr. YI Ai Guo**, aged 40, economist, is the supervisor of the Company. He obtained a bachelor's degree and a master's degree in Transportation Administration from Xinan University of Communications in 1980 and 1987, respectively. He served as the deputy section chief and section chief of the Administrative Office of Guangzhou Railway Group, Company Secretary of Guangshen Railway Company Limited. Mr. Yi joined the Company in October 1998 as the manager of the Operation Department. He is currently the manager of the Operation Department under the Operation Center and the chairman of the labour branch of the Operation Center of the Company, director of Meiguan Company, Airport-Heao Company, Shengchang Company and the Advertising Company.

### Senior Management

**Mr. WU Xian**, aged 45, engineer, is the deputy general manager 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 Xin Tong Chan Company in 1995 and was a deputy general manager. He has served as the deputy general manager of the Company since its establishment, mainly responsible for the communications and training of the Company. Mr. Wu is also director of Wutongling Company and chief engineer of the Engineering Consulting Company.

**Mr. WANG Xue Feng**, aged 42, senior economist, is the deputy general manager and chief operation management officer of the Company. Mr. Wang obtained a bachelor's degree in mechanical engineering and economics from Central China University of Agriculture (華中農業大學). He worked in the local governmental departments in Hubei Province. Mr. Wang joined Xin Tong Chan Company in 1995 and was the manager of the Personnel Department. Mr. Wang is now responsible for the operational management of the toll roads of the Company. He is the chairman of Meiguan Company and Airport-Heao Company and vice-chairman of Shenchang Company.

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

**Mr. FAN Li Ping**, aged 40, senior engineer, is the deputy general manager and chief project management officer 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 Xin Tong Chan Company in 1994 as engineer, 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 Development Department of the Project Administration Office of Jihe West, the deputy general manager of the Project Administration Office of Jihe West, the general manager of the Project Administration Office of Yanba A. and Chairman of the Engineering Consulting Company. Mr. Fan is now mainly responsible for the construction management of Yanba Expressway.

**Mr. XU Mei Sheng**, aged 61, senior engineer, is the chief engineering and technology officer of the Company. Mr. Xu obtained a bachelor's degree of civil engineering from Hunan University. He served as the senior engineer of Shenzhen Highway Administration Department and the head of Shenzhen Highway Administration Office. In December 1993, Mr. Xu joined Xin Tong Chan Company as the chief engineer. Mr. Xu is currently responsible for the technical development and management of the expressway projects of the Company.

**MS. GONG Tao Tao**, aged 30, certified public accountant and certified public valuer of China, is the chief 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 of 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 Audit Department of the company. Ms. Gong is also the director of the Advertising Company and the Engineering Consulting Company.

REPORT OF THE INTERNATIONAL AUDITORS



羅兵咸永道會計師事務所

PricewaterhouseCoopers  
22nd Floor, Prince's Building  
Central, Hong Kong  
Telephone (852) 2289 8888  
Facsimile (852) 2810 9888

**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 83 to 124 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.

**Basis of opinion**

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of 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 judgements 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 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 the Group as at 31st December 2002 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, 11th April 2003

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31st December 2002

	Note	2002 RMB'000	2001 RMB'000
Turnover	3	524,291	489,813
Other revenues	3	66,536	129,765
Depreciation and amortisation		(100,674)	(88,150)
Staff costs	4	(45,950)	(39,853)
Road maintenance expenses		(16,561)	(18,496)
Other operating expenses		(50,570)	(64,812)
Operating profit	5	377,072	408,267
Finance costs	6	(24,927)	(41,647)
Share of profits less losses of jointly controlled entities		61,873	57,985
Profit before taxation		414,018	424,605
Taxation	7	(48,141)	(140)
Profit after taxation		365,877	424,465
Minority interests		(5,946)	(3,129)
Profit attributable to shareholders	8	359,931	421,336
Transfer to reserves	19	(123,690)	(121,779)
Profit retained for the year		236,241	299,557
Dividends	9	261,684	218,070
Earnings per share	10	RMB0.165	RMB0.208



## CONSOLIDATED BALANCE SHEET

As at 31st December 2002

	Note	2002 RMB'000	2001 RMB'000
Non-current assets			
Fixed assets	12	4,205,215	4,231,541
Interests in jointly controlled entities	14	958,234	833,149
Long-term loan	14	306,000	306,000
Construction in progress	15	269,146	64,175
Current assets			
Inventories		5,892	5,815
Amount due from a jointly controlled entity	16	1,124	—
Other receivables, prepayments and deposits		16,179	11,280
Other investments	17	—	369,637
Bank balances and cash		962,736	962,088
		985,931	1,348,820
Current liabilities			
Amount due to a jointly controlled entity	16	—	1,964
Other payables and accrued charges		145,484	208,717
Taxation payable		4,563	34
Current portion of long-term bank loans	20	—	120,000
Short-term bank loans, secured		480,000	100,000
Short-term bank loans, unsecured		130,000	—
		760,047	430,715
Net current assets		225,884	918,105
Total assets less current liabilities		5,964,479	6,352,970
Financed by:			
Share capital	18	2,180,700	2,180,700
Reserves	19	2,951,138	2,827,448
Proposed final dividend	19	261,684	218,070
Retained earnings	19	111,731	137,174
Shareholders' funds		5,505,253	5,363,392
Minority interests		51,288	49,343
Non-current liabilities			
Long-term liabilities	20	167,626	666,941
Deferred income	22	240,312	273,294
		5,964,479	6,352,970

Chen Chao

Director

Wu Ya De

Director

## BALANCE SHEET

As at 31st December 2002

	Note	2002 RMB'000	2001 RMB'000
<b>Non-current assets</b>			
Fixed assets	12	3,188,397	3,187,630
Investments in subsidiaries	13	915,509	1,037,870
Investments in jointly controlled entities	14	937,645	814,290
Long-term loan	14	306,000	306,000
Construction in progress	15	268,692	64,066
<b>Current assets</b>			
Inventories		5,609	5,244
Amount due from a jointly controlled entity	16	2,360	1,324
Other receivables, prepayments and deposits		16,793	11,088
Other investments	17	—	369,637
Bank balances and cash		900,817	854,960
		<b>925,579</b>	<b>1,242,253</b>
<b>Current liabilities</b>			
Other payables and accrued charges		137,239	194,796
Taxation payable		1,135	—
Current portion of long-term bank loans	20	—	120,000
Short-term bank loans, secured		480,000	100,000
Short-term bank loans, unsecured		130,000	—
		<b>748,374</b>	<b>414,796</b>
Net current assets		<b>177,205</b>	<b>827,457</b>
Total assets less current liabilities		<b>5,793,448</b>	<b>6,237,313</b>
<b>Financed by:</b>			
Share capital	18	2,180,700	2,180,700
Reserves	19	2,896,818	2,826,548
Proposed final dividend	19	261,684	218,070
Retained earnings	19	65,515	95,641
Shareholders' funds		<b>5,404,717</b>	<b>5,320,959</b>
<b>Non-current liabilities</b>			
Long-term liabilities	20	148,419	643,060
Deferred income	22	240,312	273,294
		<b>5,793,448</b>	<b>6,237,313</b>

Chen Chao

Director

Wu Ya De

Director

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

For the year ended 31st December 2002

	Note	2002 RMB'000	2001 RMB'000
Total equity as at 1st January		5,363,392	4,539,498
Profit for the year	19	359,931	421,336
Dividends	19	(218,070)	(201,570)
Issue of shares		—	165,000
Premium on issue of shares		—	439,128
Total equity as at 31st December		<u>5,505,253</u>	<u>5,363,392</u>

## CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December 2002

	Note	2002 RMB'000	2001 RMB'000
Operating activities			
Cash received from toll income		553,925	521,405
Cash received from construction management services		—	92,597
Cash payments to suppliers		(47,091)	(29,226)
Cash paid to and on behalf of employees		(42,159)	(35,767)
Other cash payments		(68,315)	(13,164)
Net cash inflow generated from operations	23(a)	396,360	535,845
Interest paid		(25,962)	(49,207)
PRC taxation paid		(36,150)	(157)
Net cash inflow from operating activities		334,248	486,481
Investing activities			
Purchase of fixed assets and payment for construction in progress		(304,010)	(264,643)
Proceeds from sale of fixed assets		100	416
Interest received		25,938	25,656
Purchase of a jointly controlled entity		(40,000)	—
Sale of a jointly controlled entity		618	—
Dividends received from investments		7,862	11,142
Dividends received from jointly controlled entities		52,663	56,191
Increase in fixed bank deposits		(140,725)	(61,275)
Decrease/(increase) in other investments		358,300	(233,649)
Loan to a jointly controlled entity		(140,000)	(25,252)
Repayment of loans receivable from jointly controlled entities		41,526	55,858
Net cash outflow from investing activities		(137,728)	(435,556)
Net cash inflow before financing		196,520	50,925
Financing activities	23(b)		
Issue of shares		—	604,128
New bank loans borrowed		1,255,359	559,060
Repayment of bank loans borrowed		(1,390,000)	(540,000)
Other long-term advances granted		30,000	106,000
Capital contribution from a minority shareholder of a subsidiary		900	—
Repayment of advance from a minority shareholder		(4,674)	—
Dividends paid		(218,070)	(201,570)
Dividends paid to minority shareholders		(10,112)	(1,870)
Net cash (outflow)/inflow from financing activities		(336,597)	525,748
(Decrease)/increase in cash and cash equivalents		(140,077)	576,673
Cash and cash equivalents at 1st January		900,813	484,348
Cash equivalents reclassified as other investments		—	(160,208)
Cash and cash equivalents at 31st December		760,736	900,813
Analysis of balances of cash and cash equivalents:			
Bank balances and cash		962,736	962,088
Fixed bank deposits with maturity over 3 months		(202,000)	(61,275)
		760,736	900,813

## 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 30th December 1996. The principal activities of the Company and its subsidiaries (collectively the “Group”) and its jointly controlled entities 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 issued by the Hong Kong Society of Accountants (“HK GAAP”). This basis of accounting differs in certain material 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 joint stock limited companies 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 accounts are prepared under the historical cost convention except that, as disclosed in note 2(g) below, other investments are stated at fair value.

In the current year, the Group adopted the following Statements of Standard Accounting Practice (“SSAPs”) issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1st January 2002:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 11 (revised)	:	Foreign currency translation
SSAP 15 (revised)	:	Cash flow statements
SSAP 33	:	Discontinuing operations
SSAP 34 (revised)	:	Employee benefits
SSAP 35	:	Government grants and disclosure of government assistance

There is no significant financial effect arising from the adoption of these new/revised standards.

## 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 31st December. Subsidiaries are those entities in which the Company, directly or indirectly, controls the composition of the board of directors, controls more than half 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 sale 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) Joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties 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.

## NOTES TO THE ACCOUNTS

### 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

#### (d) 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 or jointly controlled entities 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 or jointly controlled entities.

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

#### (e) 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 cost on an units-of-usage basis whereby depreciation and amortisation are provided based on the share of actual traffic volume for a particular period over the projected total traffic volume throughout the periods for which the Group is granted the rights to operate those roads. It is a Group policy to review regularly the projected total traffic volume throughout the operating periods of respective toll roads. If it is considered appropriate, independent professional traffic studies will be obtained. Appropriate adjustment will be made should there be a material change.

Depreciation of buildings, structures and leasehold improvements is calculated to write off their cost on a straight-line basis over the unexpired periods of the leases or the unexpired periods of the rights to operate relevant roads or their expected useful lives, whichever is shorter. The principal annual rates are 3% to 7%.

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

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



## NOTES TO THE ACCOUNTS

### 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

#### (e) Fixed assets (Continued)

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 except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

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.

#### (f) Construction in progress

Construction in progress is stated at cost which includes development expenditure and other direct costs, including interest cost 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.

#### (g) Other investments

Other investments are carried at fair value, which is calculated by reference to the respective stock exchanges quoted selling prices at the close of business on the balance sheet date. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of other investments are recognised in the profit and loss account. Profits or losses on disposal of other investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

## NOTES TO THE ACCOUNTS

### 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 is 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) Deferred taxation

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

## NOTES TO THE ACCOUNTS

### 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

#### (k) 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.

#### (l) 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.

#### (m) 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.

#### (n) 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 is recognised using the percentage of completion method by reference to the stage of completion of the construction. The stage of completion is measured by reference to the construction costs incurred to date as a percentage of total estimated costs.

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

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

Government grants in relation to subsidies for compensation of toll revenue are recognised as income over the periods for which they are intended to subsidise in accordance with the policy as stated in note 2(o).

## NOTES TO THE ACCOUNTS

### 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

#### (o) 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 in relation to subsidies for compensation of toll revenue of a specific toll road are deferred and amortised over a period for which the Group is granted the rights to operate such road.

The subsidies recognised in the profit and loss account for the year is calculated based on the attributable share of the total amount of the government grants intended to be compensated for the year with reference to actual traffic volume for the year and the projected total traffic volume throughout the period for which the Group is granted the rights to operate the road.

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

#### (p) 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.

## NOTES TO THE ACCOUNTS

### 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

#### (p) Employee benefits (Continued)

##### (ii) *Bonus plans*

The expected cost of bonus payments are 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. Liabilities for bonus in relation to the unexercised rights under the Share Appreciation Right Scheme but not exercised are accrued by reference to the Company's share price as at the balance sheet date.

##### (iii) *Pension obligations*

The Group contributes to a defined contributions retirement scheme which is available to all employees. Contributions to the scheme by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to the profit and loss account represents contributions payable by the Group to the fund.

The Group's contributions to the defined contributions retirement scheme are expensed as incurred. The assets of the scheme are held separately from those of the Group in an independently administered fund. Details of the Group's retirement benefits are set out in note 4(b).

#### (q) **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.

## NOTES TO THE ACCOUNTS

## 3. TURNOVER AND REVENUE

Revenues recognised during the year are as follows:

	Note	2002 RMB'000	2001 RMB'000
Turnover			
Income from toll roads		553,048	516,684
Less: taxes related to toll income	(a)	(28,757)	(26,871)
		<u>524,291</u>	<u>489,813</u>
Other revenues			
Interest income from bank deposits		12,312	6,389
Interest income from a long-term loan		13,010	19,267
Income from construction management services		2,413	63,131
Government subsidies (note 22)		32,982	26,706
Income from other investments		—	11,142
Others		5,819	3,130
		<u>66,536</u>	<u>129,765</u>
Total revenues		<u>590,827</u>	<u>619,578</u>

(a) Taxes related to toll income comprise:

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

(b) No segment information is presented as all turnover of the Group is toll income derived from the PRC.

## NOTES TO THE ACCOUNTS

### 4. STAFF COSTS

Staff costs, including directors' remuneration, are as follows:

	Note	2002 RMB'000	2001 RMB'000
Wages and salaries		30,244	29,442
Bonus — Share Appreciation Right Scheme	(a)	4,870	—
Pension costs — defined contribution plans	(b)	2,226	2,662
Less: Pension costs capitalised in construction in progress		(79)	(135)
Other staff welfare benefits		8,689	7,884
		<u>45,950</u>	<u>39,853</u>

#### (a) Share Appreciation Right Scheme

At the 2001 Annual General Meeting of the Company held on 6th March 2001, the Share Appreciation Right Scheme (the "Scheme") was approved and adopted. Total number of rights (the "Rights") available under the Scheme is 60,471,000. Rights are granted to directors and key management staff. Rights can be exercised one year after the date of grant and before the respective expiry date. Under the Scheme, the grantees are benefited by way of exercising their Rights to the extent of the higher of share price over the pre-determined exercise price of the Rights and receiving a bonus reward in the form of cash from the Company. The amounts payable to the grantees under the Scheme are expensed in the profit and loss account as staff costs.



## NOTES TO THE ACCOUNTS

## 4. STAFF COSTS (Continued)

## (a) Share Appreciation Right Scheme (Continued)

(i) Movements in the number of Rights during the year are as follows:

		Directors	Management staff	Total
Number of Rights exercisable during the year	(ii)	1,668,900	2,932,350	4,601,250
Number of Rights exercised during the year		<u>(505,275)</u>	<u>(2,322,525)</u>	<u>(2,827,800)</u>
Number of Rights not exercised at the end of the year		<u>1,163,625</u>	<u>609,825</u>	<u>1,773,450</u>

(ii) Bonus amount paid and payable for such exercisable Rights during the year totalling RMB4,870,000 was charged as staff costs for the year. Of the amount, bonus in relation to those Rights exercised by directors and management staff of the Company during the year amounted to RMB218,000 and RMB3,071,000 respectively.

(b) The Group participates in the Shenzhen Municipal Retirement Scheme managed by Shenzhen Social Security Bureau. Pursuant to relevant provisions, the Group is required to make a monthly contribution equivalent to 12% and 7% respectively (2001: 12% and 7% respectively) of the monthly salary in respect of its full-time and temporary employees. The Bureau is responsible for pension payments to the retired employees of the Group and the Group has no further obligations. For the year ended 31st December 2002, total contributions made in this connection amounted to RMB2,226,000 (2001: RMB2,662,000).

## NOTES TO THE ACCOUNTS

### 4. STAFF COSTS (Continued)

(c) As at 31 December 2002, details of the rights which are not exercised are set out below:

No. of the rights which are not exercised	Provision for the year (RMB)	Exercisable date
1,773,450	1,580,744	16 March 2002
4,380,675	—	16 March 2003
4,380,675	—	16 March 2004
4,380,675	—	16 March 2005
<u>14,915,475</u>	<u>1,580,744</u>	

### 5. OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	2002 RMB'000	2001 RMB'000
<b>Crediting</b>		
Realised gains on other investments	—	11,142
Net exchange gain	—	181
	<u>—</u>	<u>11,323</u>
<b>Charging</b>		
Realised losses on other investments	3,475	—
Unrealised losses on other investments	—	24,220
Auditors' remuneration	1,220	1,110
Net exchange loss	297	—
Impairment of goodwill	—	9,060
Loss on disposal of interest in a subsidiary	—	1,035
Loss on disposal of fixed assets	39	3,206
Provision for doubtful debts		
— Other receivables	131	63
— Loans to a jointly controlled entity (note 14(e))	14,519	3,634
	<u>14,519</u>	<u>3,634</u>

## NOTES TO THE ACCOUNTS

## 6. FINANCE COSTS

	2002 RMB'000	2001 RMB'000
Interest on bank loans and other loans	25,962	49,207
Less: interest capitalised in construction in progress	(1,035)	(7,560)
	<u>24,927</u>	<u>41,647</u>

The capitalisation rate applied to funds borrowed and used for the development of construction in progress ranged between 1.8% and 7.17% (2001: 5.427% and 6.03%) per annum.

## 7. TAXATION

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

	2002 RMB'000	2001 RMB'000
PRC enterprise income tax	40,679	140
Share of taxation attributable to a jointly controlled entity	7,462	—
	<u>48,141</u>	<u>140</u>

- (a) The Company is subject to PRC enterprise income tax rate of 15%, the preferential tax rate for enterprises established in the Shenzhen Special Economic Zone, as compared with the standard rate of 33%. Pursuant to the approvals granted by relevant authorities, the Company, one of its subsidiaries and one of its jointly controlled entities are originally to be exempted from PRC enterprise income tax for the first five years in which they record assessable profits and a 50% reduction of the PRC enterprise income tax for the five consecutive years thereafter. Pursuant to the new regulations issued by the relevant authorities in August 2002, effective from 1st January 2002, the preferential policies for PRC enterprise income tax of these companies are ceased and these companies are subject to the PRC enterprise income tax at 15% from 1st January 2002 onwards.

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

## NOTES TO THE ACCOUNTS

### 7. TAXATION (Continued)

- (b) No provision for Hong Kong profits tax has been made in the accounts as the Group has no income assessable to Hong Kong profits tax.
- (c) No provision for deferred taxation has been made in the accounts as the effect of timing differences is not material to the Group.

### 8. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of RMB301,828,000 (2001: RMB415,653,000).

### 9. DIVIDENDS

	2002 RMB'000	2001 RMB'000
Final, proposed, of RMB0.12 (2001: RMB0.10) per ordinary share	<u>261,684</u>	<u>218,070</u>

At a meeting held on 11th April 2003 the directors declared a final dividend of RMB0.12 per ordinary share. This proposed dividend is not reflected as a dividend payable in the accounts of 2002, but reflected as an appropriation of retained earnings for the year ending 31st December 2003.

### 10. EARNINGS PER SHARE

The calculation of earnings per share are based on the Group's profit attributable to shareholders of RMB359,931,000 (2001: RMB421,336,000) and the weighted average number of 2,180,700,000 (2001: 2,024,867,000) 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

## 11. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

## (a) Directors' remuneration

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

	2002 RMB'000	2001 RMB'000
As directors		
— executive	—	—
— non-executive		
— remuneration	477	318
— allowances	116	—
— bonus from Share Appreciation Right Scheme	129	—
As supervisors	—	—
For management		
— basic salaries and allowances	723	756
— bonuses	250	403
— contributions to the retirement scheme	18	30
— bonus from Share Appreciation Right Scheme	89	—
	<b>1,802</b>	<b>1,507</b>

During the year, 1,668,900 Rights were exercisable by the directors under the Share Appreciation Right Scheme approved by the shareholders at the 2001 Annual General Meeting on 6th March 2001. Bonus payable to directors in relation to the Rights exercised by them during the year amounted to RMB218,000. Refer to note 4(a) to the accounts for details of Rights exercisable and exercised during the year.

The emoluments for all the directors (executive and non-executive) fell within the band of RMB nil to RMB1,060,000 (HK\$1,000,000) during the years ended 31st December 2002 and 2001.

No directors waived emoluments in respect of the years ended 31st December 2002 and 2001.

During the years ended 31st December 2002 and 2001, no emoluments had been paid by the Group to the directors as an inducement to join or upon joining the Group or as a compensation for loss of office.

## NOTES TO THE ACCOUNTS

### 11. 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 two (2001: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2001: two) individuals during the year are as follows:

	2002 RMB'000	2001 RMB'000
Basic salaries and allowances	828	530
Bonuses	255	184
Contributions to the retirement scheme	30	20
Bonus from Share Appreciation Right Scheme	108	—
	<u>1,221</u>	<u>734</u>

The emoluments for all senior management fell within the band of RMB nil to RMB1,060,000 (HK\$1,000,000) during the years ended 31st December 2002 and 2001.

## NOTES TO THE ACCOUNTS

## 12. FIXED ASSETS — GROUP

	Toll roads	Land use rights	Buildings, structures and leasehold improvements	Equipment	Motor vehicles	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost						
At 1st January 2002	3,673,769	493,681	207,727	118,365	13,050	4,506,592
Additions	2,732	39,888	267	2,345	4,407	49,639
Transfer from construction in progress (note 15)	4,564	—	—	20,284	—	24,848
Reclassification	(52,536)	—	14,201	39,106	(771)	—
Disposals	—	—	—	(657)	(540)	(1,197)
<b>At 31st December 2002</b>	<b>3,628,529</b>	<b>533,569</b>	<b>222,195</b>	<b>179,443</b>	<b>16,146</b>	<b>4,579,882</b>
Accumulated depreciation						
At 1st January 2002	177,835	28,581	23,152	35,159	10,324	275,051
Charge for the year	62,116	10,260	9,001	17,107	2,190	100,674
Reclassification	(436)	—	771	333	(668)	—
Disposals	—	—	—	(544)	(514)	(1,058)
<b>At 31st December 2002</b>	<b>239,515</b>	<b>38,841</b>	<b>32,924</b>	<b>52,055</b>	<b>11,332</b>	<b>374,667</b>
Net book value						
<b>At 31st December 2002</b>	<b>3,389,014</b>	<b>494,728</b>	<b>189,271</b>	<b>127,388</b>	<b>4,814</b>	<b>4,205,215</b>
At 31st December 2001	3,495,934	465,100	184,575	83,206	2,726	4,231,541



## NOTES TO THE ACCOUNTS

### 12. FIXED ASSETS — COMPANY

	Toll roads	Land use rights	Buildings, structures and leasehold improvements	Equipment	Motor vehicles	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost						
At 1st January 2002	2,875,721	254,098	174,004	76,490	10,533	3,390,846
Additions	2,732	39,888	267	708	4,407	48,002
Transfer from construction in progress (note 15)	4,564	—	—	19,078	—	23,642
Reclassification	(52,536)	—	14,201	39,106	(771)	—
Disposals	—	—	—	(370)	(540)	(910)
<b>At 31st December 2002</b>	<b>2,830,481</b>	<b>293,986</b>	<b>188,472</b>	<b>135,012</b>	<b>13,629</b>	<b>3,461,580</b>
Accumulated depreciation						
At 1st January 2002	144,930	18,725	17,022	13,641	8,898	203,216
Charge for the year	44,345	5,080	7,228	12,204	1,896	70,753
Reclassification	(436)	—	771	333	(668)	—
Disposals	—	—	—	(272)	(514)	(786)
<b>At 31st December 2002</b>	<b>188,839</b>	<b>23,805</b>	<b>25,021</b>	<b>25,906</b>	<b>9,612</b>	<b>273,183</b>
Net book value						
<b>At 31st December 2002</b>	<b>2,641,642</b>	<b>270,181</b>	<b>163,451</b>	<b>109,106</b>	<b>4,017</b>	<b>3,188,397</b>
At 31st December 2001	2,730,791	235,373	156,982	62,849	1,635	3,187,630

- (a) The toll roads and buildings of the Group are located in the PRC. The Group has the right to use the land on which the respective toll roads and buildings are erected for a period of 30 years from the date of establishment of the Company.

## NOTES TO THE ACCOUNTS

## 13. INVESTMENTS IN SUBSIDIARIES

	Note	Company	
		2002 RMB'000	2001 RMB'000
Unlisted investments, at cost		721,050	718,950
Advance to a subsidiary	(c)	194,459	318,920
		<u>915,509</u>	<u>1,037,870</u>

(a) The following is a list of all subsidiaries as at 31st December 2002:

Name	Place of incorporation and nature of legal entity	Principal activities and place of operation	Direct interest held
Shenzhen Meiguan Highway Company Limited ("Meiguan")	PRC limited liability company	Construction, operation and management of Meiguan Expressway in Shenzhen	95%
Shenzhen Expressway Advertising Company Limited (formerly known as Shenzhen Zhengyi Advertising Company Limited)	PRC limited liability company	Advertising agency	60%
Shenzhen Expressway Engineering Consulting Company Limited ("Engineering Consulting Company")	PRC limited liability company	Project management consulting, construction consulting and selling of construction materials	70%

(b) During the year, the Company contributed RMB2,100,000 to establish the Engineering Consulting Company with equity interest of 70%.

(c) The advance of RMB194,459,000 (2001: RMB318,920,000) was made to Meiguan and is unsecured, non-interest bearing and is repayable out of the funds to be generated from its toll road project.

## NOTES TO THE ACCOUNTS

### 14. INTERESTS IN JOINTLY CONTROLLED ENTITIES/LONG-TERM LOAN

	Note	Group		Company	
		2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Unlisted investments, at cost		—	—	395,060	355,660
Provision for impairment		—	—	(9,060)	(9,060)
		—	—	386,000	346,600
Share of net assets other than goodwill		406,589	365,459	—	—
Goodwill on acquisition of a jointly controlled entity less amortisation		9,060	9,060	—	—
Provision for impairment	(e)	(9,060)	(9,060)	—	—
		406,589	365,459	386,000	346,600
Advances to jointly controlled entities	(c)	526,374	427,900	526,374	427,900
Loans to a jointly controlled entity	(d)	43,424	43,424	43,424	43,424
Provision for doubtful loans	(e)	(18,153)	(3,634)	(18,153)	(3,634)
Interests in jointly controlled entities		958,234	833,149	937,645	814,290
Long-term loan	(g)	306,000	306,000	306,000	306,000

## NOTES TO THE ACCOUNTS

## 14. INTERESTS IN JOINTLY CONTROLLED ENTITIES/LONG-TERM LOAN (Continued)

(a) The following is a list of all jointly controlled entities as at 31st December 2002:

Name	Place of incorporation	Principal activities and place of operation	Percentage of interest in ownership/ voting power/ profit sharing
Shenzhen Airport-Heao Expressway (Eastern Section) Company Limited ("Airport-Heao")	PRC	Construction, operation and management of Jihe Expressway (East) in Shenzhen	*55%
Changsha Shenchang Expressway Company Limited ("Shenchang")	PRC	Construction, operation and management of Changsha Ring Road (Northwestern) in Changsha	*51%
Shenzhen Wutongling Ropeway Company Limited ("Wutongling")	PRC	Construction and management of a cable car project in Shenzhen	*40%
Shenzhen Fountain Infrastructure Corporation ("Shenzhen Fountain") (note (b))	PRC	Construction, operation and management of Shuiguan Expressway in Shenzhen	*40%

\* Interests held directly by the Company

(b) In late December 2002, the Company acquired 40% equity interest of Shenzhen Fountain from a third party at a consideration of RMB40,000,000. The Group's share of the post-acquisition results of this jointly controlled entity was insignificant and thus has not been included in the consolidated profit and loss account of the Group for the year. In addition, the Company made an advance of RMB140,000,000 to this jointly controlled entity, of which RMB30,000,000 has been repaid during the year.

(c) This represents advances made to Airport-Heao of RMB416,374,000 (2001: RMB427,900,000) and Shenzhen Fountain of RMB110,000,000 (2001: Nil). The advances are unsecured, non-interest bearing and are repayable out of the funds to be generated from the respective toll road projects.

## NOTES TO THE ACCOUNTS

### 14. INTERESTS IN JOINTLY CONTROLLED ENTITIES/LONG-TERM LOAN (Continued)

- (d) The loans were advanced to Wutongling, including an amount of RMB25,000,000 in respect of the repayment of bank loans guaranteed by the Company made by the Company on behalf of Wutongling, and are secured by the 55% equity interest in Wutongling held by its majority shareholder and various equipment and operating facilities of Wutongling. The loans are interest bearing at bank loan interest rate prevailing in the PRC and have no fixed terms of repayment.
- (e) In previous year, provision for impairment was made against goodwill on acquisition of Wutongling of RMB9,060,000, and provision for doubtful loans of RMB3,634,000 was provided in respect of loans previously advanced to it.

As at 31st December 2002, Wutongling has not yet commenced operations as planned. In May 2002, the Company filed a writ to Shenzhen Intermediate People's Court (the "Court") against Wutongling for enforcement of the recovery of RMB43,000,000 and related interests accrued thereon, representing the repayment of bank loans on behalf of Wutongling for which the Company has provided guarantee to banks. The Company also filed a writ to the Court against Shenzhen Zhongmin Investment Service Company ("Zhongmin Company"), the joint venture partner of Wutongling, in relation to a claim of RMB9,900,000 and interests accrued thereon, representing the portion of bank loans of Wutongling that was guaranteed by Zhongmin Company, but was repaid by the Company on its behalf. Pursuant to the Court's decision in October 2002, a judgement was given in favour of the Company that Wutongling should repay all the amounts paid by the Company on behalf of Wutongling, and Zhongmin Company should repay the Company that portion of Wutongling's bank loans which was guaranteed by Zhongmin Company. As at 31st December 2002, the amounts recoverable from Wutongling and Zhongmin Company were not yet received.

Zhongmin Company was not satisfied with the judgement and appealed to the Court in January 2003. As at the date of approval of these accounts, the Court has not yet accepted such appeal.

The directors have carefully considered and evaluated the above circumstances and have appointed an independent professional valuer to perform a valuation on the Company's investment in Wutongling. A further provision for doubtful loans of RMB14,519,000 was provided for the loans to Wutongling during the year.

## NOTES TO THE ACCOUNTS

## 14. INTERESTS IN JOINTLY CONTROLLED ENTITIES/LONG-TERM LOAN (Continued)

(f) Information on material jointly controlled entities

Financial information of Airport-Heao and Shenchang as at and for the year ended 31st December 2002 prepared under HK GAAP over which the Company has joint control is as follows:

	Airport-Heao		Shenchang	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Profit and loss account				
Turnover	<u>149,056</u>	<u>145,704</u>	<u>12,473</u>	<u>6,357</u>
Operating profit/(loss) before taxation				
	116,188	112,219	(3,983)	(3,387)
Taxation	<u>(13,568)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Profit/(loss) after taxation	<u>102,620</u>	<u>112,219</u>	<u>(3,983)</u>	<u>(3,387)</u>
Net assets				
Fixed assets	1,211,521	1,252,153	781,884	794,225
Other long-term assets	26	43	—	49
Current assets	23,758	19,362	14,396	5,662
Current liabilities	(9,892)	(9,159)	(3,650)	(3,323)
Net current assets	<u>13,866</u>	<u>10,203</u>	<u>10,746</u>	<u>2,339</u>
Amounts due to owners	<u>(609,385)</u>	<u>(646,303)</u>	<u>(600,000)</u>	<u>(600,000)</u>
Net assets	<u>616,028</u>	<u>616,096</u>	<u>192,630</u>	<u>196,613</u>

## NOTES TO THE ACCOUNTS

### 14. INTERESTS IN JOINTLY CONTROLLED ENTITIES/LONG-TERM LOAN (Continued)

#### (g) Long-term loan

This represents long-term loan made to Changsha Ring Road Construction and Development Co., Ltd. ("Ring Road Co."), the joint venture partner of Shenchang. The background and terms of the loan are summarised below.

On 22nd July 1998, the Company entered into an agreement (the "Agreement") with Ring Road Co., an independent third party in the PRC, to establish Shenchang to construct, manage and operate a highway, Changsha Ring Road. The total investment of Shenchang is RMB800 million, out of which the registered capital is RMB200 million. The Company and Ring Road Co. are responsible to contribute RMB102 million and RMB98 million, representing 51% and 49% respectively of the registered capital of Shenchang. The difference between the total investment and the registered capital of Shenchang of RMB600 million was entirely advanced by Ring Road Co.

Pursuant to the Agreement, a long-term loan of RMB306,000,000 was required to be advanced by the Company to Ring Road Co. The purpose of the loan was to assist Ring Road Co. to finance part of its advance to Shenchang for construction of the underlying road project. The loan is unsecured and bearing interest at over five years' loan interest rate quoted by the People's Bank of China from time to time. Ring Road Co. has pledged its 49% equity interest in Shenchang to the Company to secure its payment obligations of the interest of the loan. The loan is repayable in one lump sum by setting off against the Company's commitment to contribute the same loan amount to Shenchang in 2007.

### 15. CONSTRUCTION IN PROGRESS

	Group		Company	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
At 1st January	64,175	663,913	64,066	660,730
Additions	229,819	342,593	228,268	340,731
Transfer to fixed assets (note 12)	(24,848)	(942,331)	(23,642)	(937,395)
At 31st December	<u>269,146</u>	<u>64,175</u>	<u>268,692</u>	<u>64,066</u>

Construction in progress mainly comprises expenditures incurred on construction of toll roads not yet completed as at 31st December 2002.

## NOTES TO THE ACCOUNTS

### 16. AMOUNT DUE FROM/TO A JOINTLY CONTROLLED ENTITY — GROUP AND COMPANY

The amount mainly represents toll income collected by the Group on behalf of Airport-Heao, a jointly controlled entity, net of toll income collected by the 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 the jointly controlled entity amounted to RMB61,594,000 (2001: RMB64,313,000), and toll income collected by the jointly controlled entity on behalf of the Group amounted to RMB63,094,000 (2001: RMB53,537,000). All toll income collected is wholly paid over to each other on a monthly basis without any handling charges.

### 17. OTHER INVESTMENTS — GROUP AND COMPANY

	2002 RMB'000	2001 RMB'000
Other investments, at fair value	—	369,637

Other investments as at 31st December 2001 mainly represented investments entrusted in securities companies in the PRC. The entrusted investments mainly comprised government bonds and equity securities listed on the Shanghai Stock Exchange and the Shenzhen Stock Exchange of the PRC. All such investments were disposed of during the year.

### 18. SHARE CAPITAL

#### Registered, issued and fully paid

	Shares held by the State	Shares held by legal persons	PRC listed		Total
			Renminbi ordinary shares (“A shares”)	Hong Kong listed foreign shares (“H shares”)	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31st December					
2002 and 2001	654,780	613,420	165,000	747,500	2,180,700

Pursuant to the Company's articles of association, all shares are of nominal value of RMB1 each and are all registered ordinary shares carrying equal rights.



## NOTES TO THE ACCOUNTS

### 19. RESERVES

	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Discretionary surplus reserve RMB'000	Total RMB'000	Retained earnings RMB'000
<b>Group</b>						
At 1st January 2002	2,060,909	156,574	156,574	453,391	2,827,448	355,244
Profit for the year	—	—	—	—	—	359,931
Transfer from/(to) other reserves	—	70,729	52,961	—	123,690	(123,690)
2001 final dividend paid	—	—	—	—	—	(218,070)
<b>At 31st December 2002</b>	<b>2,060,909</b>	<b>227,303</b>	<b>209,535</b>	<b>453,391</b>	<b>2,951,138</b>	<b>373,415</b>
Representing:						
2002 final dividend proposed						261,684
Retained earnings						111,731
<b>Retained earnings as at 31st December 2002</b>						<b>373,415</b>
Company and subsidiaries	2,060,909	227,303	209,535	453,391	2,951,138	349,922
Jointly controlled entities	—	—	—	—	—	23,493
<b>At 31st December 2002</b>	<b>2,060,909</b>	<b>227,303</b>	<b>209,535</b>	<b>453,391</b>	<b>2,951,138</b>	<b>373,415</b>

## NOTES TO THE ACCOUNTS

## 19. RESERVES (Continued)

	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Discretionary surplus reserve RMB'000	Total RMB'000	Retained earnings RMB'000
<b>Group</b>						
At 1st January 2001	1,621,781	116,380	116,380	412,000	2,266,541	257,257
Premium on issue of A shares	439,128	—	—	—	439,128	—
Profit for the year	—	—	—	—	—	421,336
Transfer from/(to) other reserves	—	40,194	40,194	41,391	121,779	(121,779)
2000 final dividend paid	—	—	—	—	—	(201,570)
<b>At 31st December 2001</b>	<b>2,060,909</b>	<b>156,574</b>	<b>156,574</b>	<b>453,391</b>	<b>2,827,448</b>	<b>355,244</b>
Representing:						
2001 final dividend proposed						218,070
Retained earnings						137,174
<b>Retained earnings as at 31st December 2001</b>						<b>355,244</b>
Company and subsidiaries	2,060,909	156,574	156,574	453,391	2,827,448	336,385
Jointly controlled entities	—	—	—	—	—	18,859
<b>At 31st December 2001</b>	<b>2,060,909</b>	<b>156,574</b>	<b>156,574</b>	<b>453,391</b>	<b>2,827,448</b>	<b>355,244</b>



## NOTES TO THE ACCOUNTS

### 19. RESERVES (Continued)

- (a) Pursuant to relevant PRC regulations and the articles of association of the Company, profit after taxation shall be appropriated in 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 may be approved by the shareholders in annual general meeting;
  - (v) distribute dividends to shareholders.

The amounts of transfer to the statutory surplus reserve and statutory public welfare fund shall be based on profit after taxation in the statutory accounts of the Company prepared in accordance with PRC accounting standards.

#### (b) Capital reserve

Capital reserve mainly represents premium on issue of shares net of issuing expenses. According to relevant PRC regulations, capital reserve can only be used to increase 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 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 for employees welfare facilities. The statutory public welfare fund is not available for distribution to shareholders except on liquidation.

## NOTES TO THE ACCOUNTS

### 19. RESERVES (Continued)

#### (e) Profit distributable to shareholders

Pursuant to 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 according to HK GAAP. In the PRC statutory accounts as at 31st December 2002, profit distributable to shareholders of the Company, after the final dividend declared of RMB261,684,000 for the year, amounted to RMB28,068,000 (2001: RMB62,088,000).

### 20. LONG-TERM LIABILITIES — GROUP AND COMPANY

	Group		Company	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Bank loans, secured	—	650,000	—	650,000
Current portion of long-term bank loans	—	(120,000)	—	(120,000)
	—	530,000	—	530,000
Other loans, secured (note (a))	24,419	19,060	24,419	19,060
Other long-term advances (note (b))	124,000	94,000	124,000	94,000
Advance from a minority shareholder of a subsidiary (note (c))	19,207	23,881	—	—
	<u>167,626</u>	<u>666,941</u>	<u>148,419</u>	<u>643,060</u>

(a) Other loans totalling USD2,950,000 were borrowed from the Spanish Government through the China Construction Bank. The loans comprised of two portions. Loan amount of USD1,475,000 is bearing interest at 1.8% per annum, and the remaining amount of USD1,475,000 is bearing interest at 7.17% per annum. The loans are not wholly repayable within five years and are guaranteed by Xin Tong Chan Development (Shenzhen) Company Limited (formerly known as Shenzhen Freeway Development Company Limited), the major shareholder of the Company.

## NOTES TO THE ACCOUNTS

## 20. LONG-TERM LIABILITIES — GROUP AND COMPANY (Continued)

- (b) Other long-term advances were obtained from local government authorities as an inducement for the Company to participate in a toll road project. The advances are unsecured, non-interest bearing and have no fixed terms of repayment. In the opinion of the directors, these advances are not repayable within five years.
- (c) The advance was granted to Meiguan, a subsidiary of the Company, by the minority shareholder of Meiguan. The advance is unsecured, non-interest bearing and is repayable out of the funds to be generated from Meiguan's toll road project.

The analysis of long-term liabilities is as follows:

	Group		Company	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Bank loans wholly repayable within five years	—	650,000	—	650,000
Other loans not wholly repayable within five years	24,419	19,060	24,419	19,060
Other long-term advances not wholly repayable within five years	124,000	94,000	124,000	94,000
Advances from a minority shareholder not wholly repayable within five years	19,207	23,881	—	—
	<u>167,626</u>	<u>786,941</u>	<u>148,419</u>	<u>763,060</u>
Current portion of long-term bank loans	—	(120,000)	—	(120,000)
	<u>167,626</u>	<u>666,941</u>	<u>148,419</u>	<u>643,060</u>

## NOTES TO THE ACCOUNTS

### 21. BORROWINGS

At 31st December 2002, the Group's bank loans and other borrowings were repayable as follows:

	Bank loans and other loans		Other long-term advances and advances from a minority shareholder	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Within one year	610,000	220,000	—	—
In the second to fifth year	—	530,000	—	—
After the fifth year	24,419	19,060	143,207	117,881
<b>Total</b>	<b>634,419</b>	<b>769,060</b>	<b>143,207</b>	<b>117,881</b>

As at 31st December 2002, total banking facilities available to the Group amounted to RMB3,000,000,000 (2001: RMB2,100,000,000) of which the Group had utilised to the extent of bank loans of RMB610,000,000 (2001: RMB750,000,000). The banking facilities to the extent of RMB1,900,000,000 are secured by the operating rights for collecting toll income from National Highway No. 107 (Shenzhen Section) and National Highway No. 205 (Shenzhen Section).

Subsequent to the balance sheet date, the Company entered into a transfer agreement to transfer all its assets in and its operating rights for collecting toll income from National Highway No. 107 (Shenzhen Section) and National Highway No. 205 (Shenzhen Section) to the Shenzhen Communications Bureau (see note 26). The banking facilities of RMB1,900,000,000 secured by the operating rights for collecting toll income from these toll roads will be cancelled within 6 months from the effective date of the assets transfer transaction.

## NOTES TO THE ACCOUNTS

## 22. DEFERRED INCOME — GROUP AND COMPANY

	Group and Company	
	2002 RMB'000	2001 RMB'000
At 1st January	273,294	—
Transfer from other long-term advances	—	300,000
Government subsidy income recognised for the year	(32,982)	(26,706)
At 31st December	240,312	273,294

Deferred income represents government grants provided to the Company in relation to subsidies for compensation of toll revenue of the Yanba Expressway Section A (the "Expressway"), as a result of the anticipated insufficient traffic volume caused by the early construction of the Expressway as requested by the Shenzhen Municipal Government to fulfil its overall town planning requirements. Pursuant to a circular Shenjitouzi (2001) No. 764 issued by the Shenzhen Municipal Government dated 21st November 2001, Shenzhen Municipal Government approved the non-repayment of long-term advances totalling RMB300,000,000 previously provided to the Company, and the conversion of these advances to subsidies for compensation of toll revenue to the Company. Such government grants are recognised in the profit and loss account according to the Group's accounting policies as shown in note 2(o) over the period for which the Company is granted the right to operate the Expressway.



## NOTES TO THE ACCOUNTS

### 23. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2002 RMB'000	2001 RMB'000
Operating profit	377,072	408,267
Depreciation and amortisation	100,674	88,150
Impairment of goodwill	—	9,060
Provision for doubtful debts of other receivables	131	63
Provision for doubtful debts of loans to a jointly controlled entity	14,519	3,634
Loss on disposal of fixed assets	39	3,206
Increase in inventories	(77)	(659)
(Increase)/decrease in other receivables, prepayments and deposits	(5,646)	12,746
Decrease in amount due to a jointly controlled entity	(3,088)	(9,962)
(Decrease)/increase in other payables and accrued charges	(32,435)	60,624
Interest income from bank deposits	(12,312)	(6,389)
Interest income from a long-term loan	(13,010)	(19,267)
Investment losses from other investments	3,475	13,078
Government subsidies	(32,982)	(26,706)
	<hr/>	<hr/>
Net cash inflow generated from operations	<b>396,360</b>	<b>535,845</b>

## NOTES TO THE ACCOUNTS

## 23. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

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

	Share capital and capital reserve		Minority interests		Bank loans and other long-term advances	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
At 1st January	4,241,609	3,637,481	49,343	49,527	886,941	1,061,881
Issue of shares	—	604,128	—	—	—	—
Capital contribution from a minority shareholder of a subsidiary	—	—	900	—	—	—
Minority interests in share of profits	—	—	5,946	3,129	—	—
Dividend paid/payable to minority shareholders of subsidiaries	—	—	(4,901)	(3,313)	—	—
New loans granted	—	—	—	—	1,255,359	559,060
New advances granted	—	—	—	—	30,000	106,000
Repayment of advance from the minority shareholder of a subsidiary	—	—	—	—	(4,674)	—
Repayments of loans borrowed	—	—	—	—	(1,390,000)	(540,000)
Transfer from other long-term advances to deferred income	—	—	—	—	—	(300,000)
<b>At 31st December</b>	<b>4,241,609</b>	<b>4,241,609</b>	<b>51,288</b>	<b>49,343</b>	<b>777,626</b>	<b>886,941</b>

## NOTES TO THE ACCOUNTS

### 24. COMMITMENTS

#### Capital commitments

As at 31st December 2002, the Group and the Company had the following capital commitments for construction of expressways:

	2002 RMB'000	2001 RMB'000
Contracted but not provided for	252,630	311,509
Authorised but not contracted for	496,000	722,666
	<u>748,630</u>	<u>1,034,175</u>

The jointly controlled entities had no capital commitments as at 31st December 2002 (2001: Nil).

#### Finance commitments

As at 31st December 2002, the Group and the Company had finance commitments in respect of the advance to be made to a jointly controlled entity of RMB190,000,000 (2001: Nil).

### 25. RELATED PARTY TRANSACTIONS

Save as disclosed in the notes to the accounts, the Group had not entered into any other material transactions with related parties during the year.

## NOTES TO THE ACCOUNTS

### 26. SUBSEQUENT EVENT

On 18th March 2003, the Company entered into a transfer agreement (the "Transfer Agreement") with the Shenzhen Communications Bureau, an authorised representative of the Shenzhen Municipal Government, in respect of the Company's transfer of all its assets and interests in National Highway No. 107 (Shenzhen Section) and National Highway No. 205 (Shenzhen Section), including the related land use rights, constructions, facilities and the operating rights therein to the Shenzhen Communications Bureau. The consideration was determined preliminary at RMB1,930 million, which will be subsequently adjusted with reference to the valuation reports to be issued by two independent valuers appointed by the Company and the Shenzhen Communications Bureau respectively. The consideration of the above assets transfer will be satisfied in cash in the following manner:

- (i) 25% of the initial consideration of RMB1,930 million will be paid within 10 days after the signing of the Transfer Agreement;
- (ii) 25% of the consideration will be paid before 31st December 2003;
- (iii) 30% of the consideration will be paid before 31st December 2004; and
- (iv) the balance of the consideration will be paid before 31st December 2005.

On 28th March 2003, the Shenzhen Communications Bureau paid to the Company the initial consideration of RMB482.5 million.

In addition, according to the Transfer Agreement, the Shenzhen Communications Bureau will also pay an amount to the Company in 2004 which is equivalent to the tax payments to be made by the Company to relevant tax authorities arising from this transaction.

### 27. COMPARATIVE FIGURES

As further explained in note 2(a) to the accounts, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the accounts have been revised to comply with the new requirements. Accordingly, certain comparative figures have been reclassified to conform with the current year's presentation.

### 28. APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 11th April 2003.

## SUPPLEMENTARY INFORMATION

For the year ended 31st December 2002

### RECONCILIATION OF ACCOUNTS

The Group has prepared a separate set of accounts for the year ended 31st December 2002 in accordance with PRC accounting standards. The major differences between the accounts prepared under PRC and HK accounting standards are summarised as follows:

	<b>Profit attributable to shareholders for year ended 31st December 2002</b>	<b>Net assets as at 31st December 2002</b>
	RMB'000	RMB'000
As per PRC statutory accounts	351,354	5,160,313
Impact of HK GAAP adjustments:		
Amortisation of land use rights and depreciation of fixed assets	12,768	83,256
Realised losses on other investments	(4,288)	—
Reversal of dividend declared for 2002 after the balance sheet date	—	261,684
Others	97	—
	<hr/>	<hr/>
Net amount of adjustments	8,577	344,940
	<hr/>	<hr/>
As restated after HK GAAP adjustments	<u>359,931</u>	<u>5,505,253</u>

## NOTICE OF ANNUAL GENERAL MEETING

**Notice is hereby given** that the 2002 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 30 May 2003 (Friday) at 10:00 a. m. for the following purposes:

1. To consider and approve the report of the Directors for the year 2002;
2. To consider and approve the report of the Supervisory Committee for the year 2002;
3. To consider and approve the audited accounts for the year 2002;
4. To consider and approve the proposed distribution scheme of profits for the year 2002 (including declaration of the final dividend);
5. To consider and approve the budget plan for the year 2003;
6. To consider and approve the emoluments of the directors and supervisors for the year 2003;
7. To consider and approve the re-appointment of Messrs. PricewaterhouseCoopers (Certified Public Accountants, Hong Kong) as the international auditors and Shenzhen Tianjian Xinde Certified Public Accountants as the statutory auditors of the Company, respectively, and to authorise the Board of directors of the Company to fix their remuneration;
8. To consider and approve the immediate appointment of Mr. James K. L. Poon as the independent director of the Company, with a term of office from the date of appointment to 31 December 2005.
9. To consider and approve the following resolution as an ordinary resolution:

“**THAT** the conditional sale and purchase agreement dated 18 March 2003 entered into between the Company as vendor and Shenzhen Communications Bureau as purchaser, under which the Company has agreed to sell and Shenzhen Communications Bureau has agreed to purchase all the interests and rights National Highway 107 (Shenzhen Section) and National Highway 205 (Shenzhen Section) owned by the Company, as more particularly specified in the valuation reports prepared by Sallmanns (Far East) Ltd and Shenzhen De Zheng Xin Asset Valuation Co., Limited regarding the value of such assets as at 28 February 2003, and all transactions contemplated under such agreements, be and are hereby approved, confirmed and ratified and that any one director of the Company be and is hereby authorized to do all things and acts and to sign all documents which he considers to be necessary, desirable or

## NOTICE OF ANNUAL GENERAL MEETING

expedient in connection with such agreements or transactions, including for the purpose of amending the agreements in such manner as he may consider to be necessary, desirable or expedient.”

10. To consider and approve the amendment to the articles of association of the Company in relation to the business scope of the Company as a special resolution.

That Article 12 of the articles of association of the Company is replaced in their entirety with the following:

“Article 12 The business scope includes: design, construction, operation, repair and maintenance of the toll road projects; imports and exports business (in compliance with the qualification certificate).”

11. 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 per cent. 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 authorised to be repurchased pursuant to the approval in paragraph (a) above during the Relevant Period shall not exceed 10 per cent. 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 sub-paragraph (c)(i)) at (aa) the extraordinary general meeting for holders of oversea listed foreign shares of the Company to be held on 30 May 2003 (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 30 May 2003 (or on such adjourned date as may be applicable);

## NOTICE OF ANNUAL GENERAL MEETING

- (ii) the approvals of the China Securities Regulatory Commission and any other regulatory authorities as 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;
- (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 be hereby authorised to:
- (i) make such amendments to the articles of association 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."
12. To consider and approve the following resolutions as special resolutions:
- (a) subject to paragraphs c and d, pursuant to the Rules Governing the Listing of SEHK ("Listing Rules") (as amended from time to time) and the Company Law of the PRC, the exercise by the Board of directors of the Company with all the powers of the Company to allot or issue or otherwise deal with new shares, either separately or concurrently during the Relevant



## NOTICE OF ANNUAL GENERAL MEETING

Period and the exercise of powers by the Board of directors to determine the terms and conditions for the allotment or issue or otherwise dealing with new shares including the following terms are hereby generally and unconditionally approved:

- (1) class and quantity of the new shares to be issued;
  - (2) issue price of new shares;
  - (3) the starting and closing time for the allotment or issue or otherwise dealing with the new share;
  - (4) class and quantity of the new shares to be issued to existing shareholders; and
  - (5) to make or grant offers, agreements and options when the exercise of such powers might be required;
- (b) according to the approval in paragraph a, the Board of directors of the Company shall be authorized during the Relevant Period to make or grant offers, agreements and options which would or might be exercised after the end of the Relevant Period;
- (c) the aggregate nominal amount of overseas listed foreign capital shares allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the board of directors of the Company pursuant to the approval in paragraph a, otherwise than pursuant to issue of shares by conversion of the surplus reserve into capital in accordance with the Company Law of the PRC and the articles of association of the Company, shall not exceed twenty percent (20%) of the issued overseas listed foreign capital shares of the Company as of the date of this resolution;
- (d) the board of directors of the Company have (1) to comply with the relevant Laws and Regulations of the PRC and the Listing Rules (as amended from time to time), (2) to obtain approvals from the China Securities Regulatory Commission and other relevant authorities of the PRC upon the exercise of the powers pursuant to paragraph a above;
- (e) for the purpose of this resolution: "Relevant Period" means the period from the passing of this Resolution until whichever is the earlier of:
- (1) the conclusion of the next annual general meeting of the Company following the passing of the special resolution;

## NOTICE OF ANNUAL GENERAL MEETING

- (2) the expiration of a period of twelve months following the passing of this special resolutions, or
- (3) the date on which the authority set out in this special resolution of the members of the Company in any general meeting;
- (f) the board of directors of the Company shall be authorised to increase the registered share capital of the Company to the respective amount upon the exercise of the powers pursuant to paragraph a above, but the registered share capital shall not exceed RMB2,330,200,000;
- (g) subject to the approval of the listing of and permission to deal with the H shares in the share capital of the Company, which are intended to be issued by the Company, by the Listing Committee of SEHK and the approval of China Securities Regulatory Commission to issue the said shares, the Board of directors shall be authorised to make the appropriate and necessary amendments to Articles 18 and 21 of the articles of association of the Company to reflect the alteration of the share capital of the Company.

*Biography of the candidate of independent director:*

**Mr. James K. L. Poon**, aged 38, holds a Master Degree of Business Administration and a Ph.D. Degree in Finance from the Chinese University of Hong Kong and is the Fellow Member of the Society of Registered Financial Planner (FRFP) in Hong Kong. He is currently the Director and Head of Corporate Financial Services of ING Bank N.V., Shanghai Branch and was previously the General Manager of the bank in Shenzhen. Over the past five years, Mr. Poon has been actively involved in arranging syndication and project financing for Chinese and multinational corporations in China. He is also a non-executive director of ING Beijing Investment Co., Ltd on the Hong Kong Stock Exchange and was the Chairman of the Association of Shenzhen Foreign Financial Institutions in 2000 and 2001, Vice-Chairman of the Shenzhen Information Industry Association and Director of Hong Kong Chamber of Commerce in China-Guangdong in 2001.

By Order of the Board  
**Zhang Rong Xing**  
*Director & Company Secretary*

Shenzhen, the PRC, 11 April 2003

## NOTICE OF EXTRAORDINARY GENERAL MEETING FOR HOLDERS OF OVERSEAS LISTED FOREIGN SHARES

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting for holders of overseas listed foreign shares (or H Shares) (the "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, the People's Republic of China on 30 May 2003 (Friday), at 11.00 a.m. for the conduct of the following businesses:

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 per cent. 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 authorised to be repurchased pursuant to the approval in paragraph (a) above during the Relevant Period shall not exceed 10 per cent. 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 sub-paragraph (c)(i)) at (aa) the 2002 Annual General Meeting of the Company to be held on 30 May 2003 (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 30 May 2003 (or on such adjourned date as may be applicable);
  - (ii) the approvals of the China Securities Regulatory Commission and any other regulatory authorities as required by the laws, rules and regulations of the PRC being obtained by the Company if appropriate; and

## NOTICE OF EXTRAORDINARY GENERAL MEETING FOR HOLDERS OF OVERSEAS LISTED FOREIGN SHARES

- (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;
- (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 be hereby authorised to:
  - (i) make such amendments to the articles of association 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 Order of the Board  
**Zhang Rong Xing**  
*Director & Company Secretary*

Shenzhen, the PRC, 11 April 2003

## NOTICE OF EXTRAORDINARY GENERAL MEETING FOR HOLDERS OF DOMESTIC SHARES

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting for holders of the Domestic Shares of the Company (the "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, the People's Republic of China on 30 May 2003 (Friday), at 11:30 a.m. for the conduct of the following businesses:

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 per cent. 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 authorised to be repurchased pursuant to the approval in paragraph (a) above during the Relevant Period shall not exceed 10 per cent. 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 sub-paragraph (c)(i)) at (aa) the 2002 Annual General Meeting of the Company to be held on 30 May 2003 (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 30 May 2003 (or on such adjourned date as may be applicable);
  - (ii) the approvals of the China Securities Regulatory Commission and any other regulatory authorities as required by the laws, rules and regulations of the PRC being obtained by the Company if appropriate; and



**NOTICE OF EXTRAORDINARY GENERAL MEETING  
FOR HOLDERS OF DOMESTIC SHARES**

- (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;
- (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 be hereby authorised to:
  - (i) make such amendments to the articles of association 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 Order of the Board  
**Zhang Rong Xing**  
*Director & Company Secretary*

Shenzhen, the PRC, 11 April 2003

## NOTES TO THE SHAREHOLDERS' GENERAL MEETINGS

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

Shareholders of the Company whose names appear on the registers of shareholders of the Company at the close of business on 29 April 2003 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 the 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 10 May 2003, 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 30 April 2003 to 30 May 2003 (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 the 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 29 April 2003.

### 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 shareholders of domestic capital 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 shareholders 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 identify proof when attending the above meetings.

**4. Other businesses**

- i. Registration date of equity interest, method and time of the declaration of dividends for holders of A 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:

Rooms 1901-5, 19th 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, 518026 PRC  
Telephone: (86) 755-82945880  
Facsimile: (86) 755-82910496/82910696