



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

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

(Stock Code: 0548)

THIRD QUARTERLY REPORT OF 2004

This report is published simultaneously in Hong Kong and Shanghai on 26 October 2004. This quarterly report is prepared in accordance with the China Securities Regulatory Commission regulations on Disclosure of Information in Quarterly Reports for Listed Companies. All financial information set out in this report has been prepared in accordance with the PRC Accounting Standards and has not been audited. Shareholders of the Company and public investors should exercise caution when trading in shares of the Company.

1. IMPORTANT NOTICE

- 1.1 The Board of Directors and the Directors of the Company confirm that the information in this report does not contain any false information, misleading statements or material omissions, and accept joint and several responsibilities for the truthfulness, accuracy and completeness of the content.
- 1.2 Mr. Zhang Rong Xin, director, Mr. Lin Xiang Ke, director and Mr. Poon Kai Leung, James, independent director, could not attend the Board Meeting, and have appointed Mr. Chen Chao, chairman, Mr. Wu Ya De, director, and Mr. Ho Pak Cho, Denis Morgie, independent director to attend the meeting on their behalf respectively.
- 1.3 The financial statements contained in this third quarterly report of the Company have not been audited.
- 1.4 Mr. Chen Chao, Chairman, Mr. Wu Ya De, General Manager, Ms. Gong Tao Tao, Financial Controller and Mr. Sun Bin, Finance Manager, undertake to guarantee the truthfulness and completeness of the financial statements contained in this quarterly report.

2. CORPORATE INFORMATION

2.1 Basic Information

Stock Abbreviation	Shenzhen Expressway (A Shares)	Shenzhen Expressway (H Shares)
Stock Code	600548 (A Shares)	0548 (H Shares)
	Company Secretary	
Name	Wu Qian	
Address	19/F., Tower A, United Plaza, No. 5022 Binhe Road North, Shenzhen, PRC	
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2.2 Financial Information

2.2.1 Principal accounting data and financial indices

Unit: RMB

	As at the end of the reporting period (30 Sep 2004)	As at the end of the pervious year (31 Dec 2003)	Increase (decrease) at the end of the reporting period as compared to the end of the previous year (%)
Total assets	7,468,047,433.21	7,105,308,870.56	5.11
Shareholders' funds (excluding minority interests)	5,834,554,628.66	5,952,865,584.17	-1.99
Net asset per share	2.68	2.73	-1.99
Adjusted net asset per share	2.67	2.73	-2.02

	The reporting period (Jul-Sep 2004)	Beginning of the year to end of the reporting period (Jan-Sep 2004)	Increase (decrease) of the reporting period as compared to the corresponding period of the previous year (%)
Net cash flows from operating activities		382,283,513.92	
Earnings per share	0.050	0.136	18.99
Return on equity (%)	1.86	5.07	0.31
Return on equity excluding non- recurring items (%)	1.80	4.70	0.25

Non-recurring item (Jan-Sep 2004)	Amount
Include: Net loss on disposal of fixed asset	-7,312,717.79
Subsidy income from Government	27,124,699.51
Fee received in respect of use of funds	1,048,310.23
Other non-operating income	31,390.50
Other non-operating expenses	-40,863.19
Impact of the income tax	940,579.54
Total	21,791,398.80

2.2.2 Income statement

Income Statement (1)

Unaudited

Unit: RMB

Item	The reporting period (Jul-Sep 2004)		Corresponding period of the previous year (Jul-Sep 2003)	
	Consolidated	The Company	Consolidated	The Company
1. Income from principal operations	192,189,063.48	68,723,824.64	152,792,049.23	56,911,095.17
Less: Costs for principal operations	38,188,987.11	15,557,459.72	34,350,394.37	15,167,039.50
Taxes and surcharges for principal operations	9,911,316.36	3,557,635.09	7,896,684.03	2,959,376.93
2. Profit from principal operations	144,088,760.01	49,608,729.83	110,544,970.83	38,784,678.74
Add: Other operating profit	12,359,608.39	11,195,275.34	1,854,780.28	738,172.75
Less: Administrative expenses	18,096,126.76	12,965,709.52	15,178,698.16	9,431,501.83
Finance costs	6,487,900.46	3,980,902.94	2,803,319.31	-303,947.07
3. Operating profit	131,864,341.18	43,857,392.71	94,417,733.64	30,395,296.73
Add: Investment income	-2,261,743.27	68,494,663.45	-710,733.28	56,819,091.00
Subsidy income	7,499,995.30	7,499,995.30	16,769,719.12	10,340,119.12
Non-operating income	70,751.90	70,400.00	—	—
Less: Non-operating expenses	6,117,549.68	3,687,311.73	65,332.18	59,000.00
4. Total profit	131,055,795.43	116,235,139.73	110,411,387.30	97,495,506.85
Less: Income tax	20,308,392.59	7,680,346.74	16,994,078.77	6,252,769.49
Minority interests	2,192,609.85	—	2,185,372.48	—
5. Net profit	108,554,792.99	108,554,792.99	91,231,936.05	91,242,737.36

Income Statement (2)*Unaudited**Unit: RMB*

Item	Beginning of the year to end of the reporting period (Jan-Sep 2004)		Corresponding period of the previous year (Jan-Sep 2003)	
	Consolidated	The Company	Consolidated	The Company
1. Income from principal operations	512,816,523.31	181,926,202.06	441,693,229.65	184,132,689.73
Less: Costs for principal operations	104,762,673.86	46,029,850.14	101,311,403.97	50,015,038.59
Taxes and surcharges for principal operations	26,492,476.82	9,461,233.70	22,835,611.66	9,574,831.26
2. Profit from principal operations	381,561,372.63	126,435,118.22	317,546,214.02	124,542,819.88
Add: Other operating profit	16,261,437.75	12,385,224.68	2,664,884.61	995,843.30
Less: Administrative expenses	46,208,926.76	27,718,045.43	40,343,629.09	23,787,588.32
Finance costs	7,001,270.10	-1,194,891.24	12,571,054.28	3,345,829.08
3. Operating profit	344,612,613.52	112,297,188.71	267,296,415.26	98,405,245.78
Add: Investment income	-6,160,281.83	181,643,524.26	3,603,721.39	146,369,101.53
Subsidy income	27,124,699.51	27,124,699.51	32,270,852.33	25,841,252.33
Non-operating income	589,555.00	485,375.00	646,338,323.37	646,332,354.30
Less: Non-operating expenses	7,911,745.48	3,734,208.33	483,361.13	458,108.16
4. Total profit	358,254,840.72	317,816,579.15	949,025,951.22	916,489,845.78
Less: Income tax	56,129,556.28	21,778,436.29	144,122,941.46	116,561,156.23
Minority interests	6,087,141.58	—	4,974,320.21	—
5. Net profit	296,038,142.86	296,038,142.86	799,928,689.55	799,928,689.55

2.3 Top Ten Holders of Shares in Circulation

Unit: Share

Total number of shareholders at the end of the reporting period	41,380 (Out of whom 4 were legal person shareholders holding non-circulating shares, 40,870 were holders of A share and the remaining 506 were holders of H share.)	
Top Ten Holders of Shares in Circulation		
Name of shareholder (full name)	Number of shares in circulation at the end of the reporting period	Class of shares (A, B, H or others)
HKSCC NOMINEES LIMITED <i>(Note)</i>	729,357,398	H Shares
HSBC NOMINEES (HONG KONG) LIMITED	3,832,000	H Shares
CHINA GALAXY SECURITIES CO., LTD.	3,612,781	A Shares
ARSENTON NOMINEES LIMITED	3,000,000	H Shares
RIGHT TIME HOLDINGS LTD	700,000	H Shares
COASIA LIMITED	628,000	H Shares
LAI KA CHEONG WALTER	600,000	H Shares
ICBC — HUA AN SEE 180 ENHANCED INDEX FUND	579,608	A Shares
LI DE LU	540,499	A Shares
FENG GEN CAI	527,476	A Shares

Note: In accordance with the register of members provided by HKSCC Nominees Limited, the H Shares are held by a large number of people, with no individual shareholder owing a shareholding that exceeds 5% of the total share capital of the Company.

3. MANAGEMENT DISCUSSION AND ANALYSIS

3.1 Brief analysis on the overall situation of the Company's operations during the reporting period

Overall situation of the Company's operations during the reporting period

The toll roads and bridges operated by the Company and its subsidiaries (the "Group") and joint ventures include Meiguan Expressway, Jihe Expressway (Eastern Section) ("Jihe East"), Jihe Expressway (Western Section) ("Jihe West"), Shuiguan Expressway and Yanba Expressway (Sections A and B) ("Yanba Expressway") in Shenzhen; Changsha Ring Road (Northwestern Section) ("Changsha Ring Road") in Hunan; and Yungang Geputan Bridge ("Geputan Bridge") in Hubei.

During the reporting period, the operations of various major operating highways were satisfactory, with traffic volumes and toll income continuing to grow. The Group has realised an income from principal operations of RMB192,189,063, an increase of 25.78% over the corresponding period of the previous year, and a net profit of RMB108,554,793, an increase of 18.99% over the corresponding period of the previous year.

During the reporting period, the Group's principal operations achieved a strong growth. Its momentum came mainly from the sustained stable growth of the PRC economy and the overall development of the Pan-Pearl River Delta Economic Circle. Driven by the favorable external environment, the economy and imports and exports of Shenzhen City and its neighboring districts have been sustaining strong growing trends. Commercial exchange, goods transportation, airport passenger flow and people's travelling continued to boost demand for quality and efficient toll road services, which has caused rapid growth in the Group's toll business.

During the reporting period, an overview of the toll roads and bridge in operation was as follows:

Toll road/bridge	Average daily mixed traffic flow (Jul-Sep 2004)	Change compared to the corresponding period last year	Change compared to first half of 2004	Average daily toll revenue (Jul-Sep 2004)	Change compared to the corresponding period last year	Change compared to first half of 2004
	No. of vehicles	%	%	RMB	%	%
Meiguan Expressway	69,596	38.0	19.5	767,486	26.7	19.0
Jihe West	37,954	21.8	17.2	643,783	22.3	19.0
Jihe East	47,408	33.2	17.2	679,293	29.1	18.1
Yanba Expressway	11,301	7.2	30.4	103,215	12.0	27.7
Shuiguan Expressway	42,845	35.2	18.9	412,598	33.2	16.6
Changsha Ring Road	4,689	32.0	9.5	51,235	12.6	-4.2
Geputan Bridge	2,865	N/A*	3.5	23,206	N/A*	5.2

* Geputan Bridge has been consolidated to the Group's assets since 1 November 2003

Analysis and explanations on other affecting factors

In 2001, the Company took over the construction management project of the connecting section of Yanba Expressway from the Shenzhen Communications Bureau, and during the reporting period, the Company has completed all the settlement procedure in respect of this project with the Shenzhen Municipal Government. A difference of RMB11,017,830 resulting from setting off the accumulated recognized project management service income of the project against the total revenue of the project's final accounts has been booked as other operating profit for the current reporting period.

Non-operating expenses recorded during the reporting period were mainly write-off losses from obsolete toll systems and software. The Group plans to fully participate in the provincial toll system implemented in Guangdong Province this year, and as a result, new toll systems have been installed in the expressways which the Group operated in accordance with unified standards. Write-off losses from obsolete toll systems and software recognized for the reporting period amounted to RMB6,103,927.

Subsidy income recognized during the reporting period amounted to RMB7,499,995, a decrease of 55.3% over the corresponding period of the previous year, which was mainly due to a financial subsidy totalling RMB12,048,600 granted by the Shenzhen Municipal Government during the corresponding period of the previous year as a result of the termination of preferential taxation to the Group.

Investment losses during the reporting period mainly reflected the amortisation of the premium of the equity investments in Meiguan Company, etc.

Changes in the operating results in the first three quarters

In the first three quarters of 2004, the Group recorded an aggregate net profit of RMB296,038,143, a reduction of 63.0% over the corresponding period of the previous year. However, excluding the net gain from the transfer of ownership of two Class 1 highways, NH107 and NH205 recognized in the first half-year of the previous year plus the net operating profits prior to the transfer, the actual increase of the Group's net profit in the first three quarters of 2004 would be 29.1%.

3.1.1 Principal sectors or products representing 10% or more of the total income or total profit from principal operations

Applicable Not applicable

(Unaudited)

Unit: RMB

By sector or product (Jul-Sep 2004)	Income from principal operations	Cost for principal operations	Gross profit margin(%)
Toll road sector:	192,189,063.48	38,188,987.11	80.13%
of which: Meiguan Expressway	70,608,745.46	11,455,267.92	83.78%
Jihe East	34,372,247.93	4,348,410.40	87.35%
Jihe West	59,228,077.72	7,602,121.38	87.16%

3.1.2 The seasonal or cyclical features in the Company's operations

Applicable Not applicable

3.1.3 The Company's profit components during the reporting period (circumstances and reasons for significant changes in the proportions of profit from principal operations, profit from other operations, expenses for the reporting period, investment income, subsidy income or net amount from non-operating activities out of the total profit as compared to last reporting period)

Applicable Not applicable

3.1.4 Circumstances and reasons for significant changes in principal business or its structure as compared to last reporting period

Applicable Not applicable

3.1.5 Circumstances and reasons for significant changes and reasons in the profitability (gross profit margin) of the principal operations of the Company as compared to last reporting period

Applicable Not applicable

3.2 Analysis on the impact of major events and their solutions

Applicable Not applicable

Investment Project

Project (RMB'000)	Total investment	Amount paid during the reporting period	Total amount paid as at the end of the reporting period	Note
Yangmao Expressway	271,680	0	271,680	(1)
Jiangzhong Expressway	308,270	35,590	205,090	(2)
Nanjing Third Bridge	270,000	108,000	189,000	(3)
GZ Western Second Ring Expressway	250,000	0	62,500	(4)
Shuiguan Extension	60,000	40,000	60,000	(5)

(1) For details of the Company's acquisition of the 25% equity interests in Guangdong Yangmao Expressway Company Limited ("Yangmao Expressway") on 5 March 2004, please refer to the relevant announcements published on 9 March 2004 and 8 April 2004 respectively as well as the related contents disclosed in the 2004 Interim Report dated 9 August 2004. As at the end of the reporting period, the expressway has been basically completed, and is scheduled to be open to traffic by the end of 2004. (The relevant announcements have been published in Hong Kong Economic Times, The Standard, Shanghai Securities News and Securities Times, same hereinafter.)

- (2) For details of the Company's acquisition of the 25% equity interests in Guangdong Jiangzhong Expressway Company Limited ("Jiangzhong Expressway") on 7 April 2004, please refer to the relevant announcements published on 9 March 2004 and 8 April 2004 respectively as well as the related contents disclosed in the 2004 Interim Report. As at the end of the reporting period, road foundation works were basically completed, and the project is currently in the stage of road surface construction. The project is anticipated to be fully completed and opened to traffic by mid-2005.
- (3) For details of the Company's investment of 25% equity interests in Nanjing-Yangtze Third Bridge Company Limited ("Nanjing Third Bridge") on 8 June 2004, please refer to the related contents in the 2004 Interim Report. Construction investments completed during the reporting period amounting to approximately RMB270 million, with aggregated investments totalling approximately RMB1.4 billion, representing 45% of the total investment budget.
- (4) For details of the Company's investment of 25% equity interests in Guangzhou Western Second Ring Expressway Company Limited ("GZ Western Second Ring Expressway") on 24 May 2004, please refer to the related contents in the 2004 Interim Report. Currently, the project is now under pre-construction preparation work, and is scheduled to be completed and opened to traffic by the end of September 2007.
- (5) For details of the Company's acquisition of 40% equity interests in Shenzhen Huayu Expressway Investment Limited ("Huayu Expressway"), please refer to the related contents in the 2004 Interim Report. The principal operations of Huayu Expressway is the construction and operation of Shuiguan Expressway Extension ("Shuiguan Extension") in Shenzhen. As at the end of the reporting period, the main construction works of Shuiguan Extension is near completion, and the section will become operational in 2005.

Project Construction

- (6) For details of the Company's investment in the construction of Yanpai Expressway in Shenzhen, please refer to the related contents in the 2004 Interim Report. The total investment of Yanpai Expressway amounted to RMB1,149 million, with capital investments injected during the reporting period being RMB58.80 million. Total investments injected as at the end of the reporting period amounted to RMB172.91 million. Currently, about 30% of the main construction project has been completed.
- (7) For details of the appointment of the Company as project administrator for Nanping Freeway (Phase I) in Shenzhen by the Shenzhen Communications Bureau on 11 February 2004, please refer to the relevant announcements published by the Company on 12 February 2004 and the related contents in the 2004 Interim Report. As at the end of the reporting period, the Company has received government grants in respect of construction expense of RMB400 million, out of which approximately RMB218 million has been paid for construction costs.

- (8) For details of the appointment of the Company as project administrator for the western section of Hengping Class I Highway in Shenzhen Longgang District by the Shenzhen Longgang District Highway Office on 12 March 2004, please refer to the relevant announcements published by the Company on 15 March 2004 and the related contents in the 2004 Interim Report. As at the end of the reporting period, construction of road foundation and bridge culverts of the project is proceeding at full speed. The Company has received government grants in respect of construction expense of RMB20 million, of which approximately RMB6.16 million has been paid for construction costs.

Change of Senior Management

- (9) Selected by the Company to pursue studies for an MBA degree in the UK, Mr. Zhang Rong Xing has ceased to be the Company Secretary of the Company since 13 September 2004. The Board has appointed Ms. Wu Qian to be the domestic Company Secretary of the Company and Ms. Wu Qian and Mr. Tse Yat Hong as joint Company Secretaries of the Company in Hong Kong with effect from 13 September 2004. For details, please refer to the relevant announcements published by the Company on 14 September 2004.
- (10) In accordance with the Board's intention to upgrade the corporate structure and strengthen accountability management, and upon the approval by the 15th Meeting of the Third Session of the Board of Directors held on 25 October 2004, the Company is fully implementing a controller supervisory system. In addition to the existing positions of Operations Controller, Construction Controller, Engineering Controller and Financial Controller, the Company has set up an additional position of Administration Controller. Pursuant to the nomination by the General Manager of the Company, the Board has agreed to appoint Mr. Zhou Qing Ming as the Administration Controller of the Company for a term of two years from 25 October 2004.

Others

- (11) On 2 August 2004, the Company acquired 55% equity interests in Shenzhen Wutongling Ropeway Company Limited ("Ropeway Company") held by Shenzhen Zhongmin Investment Service Company (深圳市中民投資服務公司) at a price of RMB945,000 by way of auction. On 26 August 2004, Ropeway Company completed the registration change of its Corporate Business License. Accordingly, the Company holds a total of 95% interest in Ropeway Company. As at the end of the reporting period, the Wutongling Ropeway Project, for which Ropeway Company is in charge of construction and management, was still in the state of suspension. The Company is actively seeking appropriate solutions.

3.3 Circumstances and reasons for changes in accounting policies, accounting estimates, scope of consolidation and significant accounting errors during the reporting period

Applicable Not applicable

At the end of 2003, the Group decided to change the accounting policy on income tax from the Tax Payable Method to Tax Impact Accounting Method — Liability Method with effect from 1 January 2003. Therefore, during the reporting period, retrospective adjustments have been made to the income tax in the first three quarters in 2003. During the reporting period, a matching upward adjustment has been made to the income tax in the combined income statement reconciliation (Jul-Sep 2003) for an amount of RMB2,691,459.77, and a downward adjustment of RMB2,682,514.95 was made to net profit. From the beginning of the year up to the reporting period, the matching upward adjustment in the consolidated income statement reconciliation (Jan-Sep 2003) made to income tax amounted to RMB1,475,763.46, and the downward adjustment made to net profit amounted to RMB1,439,018.45, and adjustment was made to the financial index of the corresponding period of the previous year accordingly.

As at May 2004, the interests in Shenzhen Expressway Project Consulting Company Limited (“Consulting Company”) held by the Company decreased from 70% to 30%, and at such the Consulting Company was no longer included in the combined financial statements of the Company.

3.4 Statement made by the Board and the Supervisory Committee on the “qualified opinion” in respect of audited financial statements

Applicable Not applicable

3.5 Profit warning with reasons on a possible reversal to losses of the accumulated net profit from the beginning of the year to the end of the next reporting period or on a substantial change when compared to the corresponding period in the previous year

Applicable Not applicable

3.6 Ongoing adjustments by the Company on announced annual business plan or budget

Applicable Not applicable

As at the date of this announcement, the directors of the Company are: Mr. Chen Chao (Chairman of the Board); Mr. Wu Ya De (Director and General Manager); Mr. Zhang Rong Xing (Director); Mr. Zhong Shan Qun (Director); Ms. Tao Hong (Director); Mr. Lin Xiang Ke (Director); Ms. Zhang Yang (Director); Mr. Chiu Chi Cheong, Clifton (Director); Mr. Ho Pak Cho, Denis Morgie (Independent Director); Mr. Li Zhi Zheng (Independent Director); Mr. Zhang Zhi Xue (Independent Director) and Mr. Poon Kai Leung, James (Independent Director).

By Order of the Board
Chen Chao
Chairman

Shenzhen, the PRC, 25 October 2004

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