

Report of the Directors

The Directors are pleased to present herewith their report and the audited accounts for the year ended 31st December 2000.

1. Details of the Company

The Company was established as a joint stock limited company in the PRC on 30th December 1996 and its H Shares were listed on the Hong Kong Stock Exchange on 12th March 1997.

2. Summary of the Report of the Board of Directors

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

- Mr. Chen Chao was elected as Chairman of the second Board of Directors. Ms. Tao Hong and Mr. Fan Li Ping were appointed as the general manager and the deputy general manager of the Company, respectively;
- 1999 annual report and proposal for profit distribution;
- the diagnosis brought forth by the financial and management consultants appointed by the Company in respect of the organisation structure, development strategy and financial management of the Company;
- 2000 interim report;
- the repurchase of H Shares of the Company;
- the application of the issue of A Shares of the Company and other related matters;
- the convention of the first Extraordinary General Meeting in 2000 of the Company;
- Mr. Zhang Rong Xing was additionally appointed as executive director of the Company;
- the amendment of Article 2 of Chapter 1 of the articles of association of the Company in relation to the change of the registered address of the Company.

3. Principal Activities

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

An analysis of the Group's turnover and contribution to operating profit for the year is set out on page 5.

No analysis of the Group's turnover and contribution to operating profit by geographical areas were 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. Financial Results

The results of the Group for the year ended 31st December 2000 are set out in the consolidated profit and loss account on page 38.

The financial position of the Group and the Company as at 31st December 2000 are set out in the balance sheet on page 39 and page 40, 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 4 of this report.

5. Dividend

The Board of Directors recommends the payment of a dividend of RMB0.10 per share totalling RMB201,570,000, for the year ended 31st December 2000 to shareholders whose names appear in the register of shareholders of the Company at the close of business on 2nd February 2001.

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 dividend was declared.

6. Major Customers and Suppliers

No disclosures with regard to the Group's major customers and suppliers are made since the aggregate percentage of toll incomes and purchases attributable to the Group's five largest customers and suppliers is less than 30% of the Group's total toll incomes and purchases during the year, respectively.

7. Share Capital

There are no movements in share capital of the Company during the year.

8. Reserves

The amounts and movements in reserves during the year are set out in note 19 to the accounts.

9. Fixed Assets

The movements in fixed assets during the year are set out in note 11 to the accounts.

10. Bank Loans and Other Borrowings

Details of bank loans and other borrowings of the Group and the Company as at 31st December 2000 are set out in notes 20 and 21 to the accounts.

11. Interest Capitalised

The amount of interest capitalised by the Group and the Company for the year ended 31st December 2000 are disclosed in note 5 to the accounts.

12. Use of Proceeds From Issue of H Shares

In 1997 the Company issued an aggregate of 747,500,000 H Shares with the issue price of HKD2.20 per share (approximately RMB2.35). The net proceeds from the initial public offering of the H Shares were approximately RMB1,685,000,000, which has been used up in full as at 31st December 1999. Such net proceeds were effectively utilised, as specified in the prospectus of the Company.

13. Income Tax Rate and Abolishment of Tax Rebate by Regional Governments

The State Council issued a directive in 1999, requiring the execution of the tax refund policies adopted by local governments be terminated with effect from 1st January 2000. As affected by the new tax policy, the business tax refund that the Group was granted was terminated with effect from 1st January 2000 and the business tax paid by the Group in 2000 was no longer refundable, which resulted in an increase in business tax charge of approximately RMB19,800,000 for the year.

The Company, a subsidiary (Meiguan Company) and a jointly controlled entity (Airport-Heao Company), are entitled to full exemption of PRC enterprise income tax for the first five years in which they record assessable profits and a 50% reduction in tax rate for the five consecutive years thereafter. These preferential tax treatments are not affected by the above change of tax refund policy.

14. Designated Deposit and Due Fixed Deposit

As at 31st December 2000, the Group 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 Group has not experienced any incident of not being able to withdraw bank deposits when due.

15. Purchase, Sale or Redemption of Shares

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

16. Directors

The Directors who held office during the year and up to the date of this report were as follows:

Chen Chao (*Chairman*)

Tao Hong

Zhang Rong Xing (appointed on 28th December 2000)

Wu Ya De

Zhong Shan Qun

Shi Da Qing

Lin Xiang Ke

Chao Min Qiang (resigned on 18th January 2001)

*Ho Chung Tai, Raymond MBE, JP

*Chiu Chi Cheong, Clifton

*Li Kwok Wing, Meocre

(* *independent Directors*)

According to the articles of association, the terms of office of the directors shall be 3 years from the date of appointment or re-election. They are eligible for further appointment or re-election upon expiration.

17. Supervisors

The supervisors who held office during the year and up to the date of this report were as follows:

Wang Ji Zhong (*Chairman*)

Wang Shan

Li Jian (elected on 1st September 2000)

Huang Jian Jun (resigned on 31st August 2000)

18. Service Contracts for Directors and Supervisors

Each of the directors has entered into a service contract with the Company. Contents of such contracts are the same in all material respects.

- a. The service contracts with Chen Chao and Tao Hong, executive directors, are all for 3 years from 1st January 2000 till 31st December 2002.
- b. The service contract with Zhang Rong Xing, executive director, is from 28th December 2000 till 31st December 2002;
- c. The service contracts with non-executive directors namely Mr. Wu Ya De, Zhong Shan Qun, Mr. Shi Da Qing, Mr. Lin Xiang Ke, and independent directors namely Dr. Ho Chung Tai, Raymond, and Mr. Chiu Chi Cheong, Clifton are 3 years from 1st January 2000 till 31st December 2002.
- d. The service contract with Mr. Li Kwok Wing, Meocre, the independent director, is 3 years from 10th June 1999 till 9th June 2002.
- e. The service contracts with Mr. Wang Ji Zhong and Mr. Wang Shan, the supervisors, are 3 years from 1st January 2000 till 31st December 2002.
- f. The service contract with Mr. Li Jian, the supervisor, is from 1st September 2000 till 31st December 2002.

Save as the aforesaid, 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.

19. Emoluments of the Directors, Supervisors and Senior Management

The emoluments of the directors, supervisors and senior management are set out in note 10 to the accounts.

20. Directors' and Supervisors' Interests in Contracts

As at 31st December 2000 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.

21. Directors' and Supervisors' Interests in Securities and Rights to Acquire Securities

As at 31st December 2000, none of the directors, supervisors, chief executives or their associates had any beneficial interests in the share capital of the Company or any of its associated corporations as defined in the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") and to be recorded in the register required to be maintained pursuant to Section 29 thereof or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transaction by Directors of Listed Companies of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited ("Listing Rules").

At no time during the year was the Company, its subsidiaries and its jointly controlled entities a party to any arrangements to enable the directors, supervisors, chief executives or their associates to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate. No rights to subscribe for equity or debt securities of the Company has been granted by the Company to, nor have any such rights been exercised by, any person during the year ended 31st December 2000 and up to the date of this report.

22. Connected Transactions

In year 2000, the Group had not entered into any material transactions with related parties.

23. Substantial Shareholders

As at 31st December 2000, the following substantial shareholders that hold 10% or more in the share capital of the Company under section 16(1) of the SDI Ordinance of Hong Kong are recorded in the register of members.

Name of shareholder	Class	Number of shares held	Percentage(%)
Shenzhen Freeway Development Company	Domestic Capital Shares	745,780,000	37.00
Shen Guang Hui Highway Development Company	Domestic Capital Shares	457,780,000	22.71

Save as the aforesaid, as at 31st December 2000, the Company is not aware of any other registered shareholders who hold 10% or more in the issued share capital of the Company.

Pursuant to the relevant approvals by the Ministry of Finance, the Ministry of Communications and the State Asset Bureau of the PRC, Shenzhen Freeway Development Company (“Shenzhen Freeway”) entered into an agreement with Huajian Transportation and Economic Development Centre (“Huajian”) on 2nd November 2000, a state-owned enterprise established in the PRC, under which the 91,000,000 state-owned shares held by Shenzhen Freeway on behalf of the Ministry of Communications were changed into state-owned legal person shares and were transferred to Huajian which manages and holds such shares. Currently, the relevant formalities in relation to the above transfer are being carried out.

Upon the completion of the above transfer, the shareholding structure of the Company is as follows:

Shareholder	Nature of shares	Class	No. of shares held	Percentage (%)
Shenzhen Freeway Development Company	Domestic capital shares	State-owned shares	654,780,000	32.49
Shenzhen Shen Guang Hui Highway Development Company	Domestic capital shares	State-owned legal person shares	457,780,000	22.71
Hua Jian Transportation and Economic Development Centre	Domestic capital shares	State-owned legal person shares	91,000,000	4.51
Guangdong Roads and Bridges Development Company	Domestic capital shares	State-owned legal person shares	64,640,000	3.21
Foreign Public Shareholders	Foreign shares	Foreign H shares	747,500,000	37.08
Total			2,015,700,000	100.00

24. Subsidiaries and Jointly Controlled Entities

Details of the Company's subsidiaries and jointly controlled entities are set out in notes 12 and 13 to the accounts respectively.

25. 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.

26. Retirement Scheme for employees

Details of the retirement scheme for employees of the Group are set out in note 26 to the accounts.

27. Housing Scheme for Employees

The Group is required to contribute 13% of the basic wages of staff to the accommodation fund in accordance with the social insurance scheme. The fund will be released to member of staff upon purchase or lease of accommodation by the Group directly. As at 31st December 2000, contribution made by the Company in this respect amounted to RMB1,434,000 (1999:RMB1,250,000), which is paid to the employees together with their salaries. Apart from the above, the Group has no further obligations and has not entered into any arrangement whereby quarters are to be sold to staff at preferential prices.

The Ministry of Finance of the PRC issued a notice numbered Caiqi[2000]295 on 6th September 2000 regarding certain financial treatments in respect of the housing reform with effect from the date of issuance. After reviewing the above notice, the Board of the Company concluded that the Group does not involve in any financial issues in relation to the housing reform of the PRC, and the relevant policies adopted by the Ministry of Finance will not have any significant impact on the Group.

28. Material Litigation and Arbitration

During the year, the Group had no material litigation or arbitration.

29. 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 Listing Rules.

30. Audit Committee

Pursuant to the Listing Rules, the Board of the Company has established an audit committee (the “Committee”) on 20th August 1999. The principal activities of the Committee include the review and supervision of the Group’s financial reporting process and internal controls. During the year, the Committee convened two meetings and reviewed the 1999 annual accounts and 2000 interim accounts.

31. Auditors

The accounts in this annual report were prepared in accordance with accounting principles generally accepted in Hong Kong and have been audited by PricewaterhouseCoopers.

A resolution will be proposed at the forthcoming annual general meeting to re-appoint PricewaterhouseCoopers as the International Auditors of the Company.

A resolution to re-appoint Zhong Tianqin Certified Public Accountants (formerly known as Tianqin Certified Public Accountants) as statutory auditors of the Company will be proposed at the forthcoming annual general meeting.

By Order of the Board

Chen Chao

Chairman

Shenzhen, the PRC, 18th January 2001