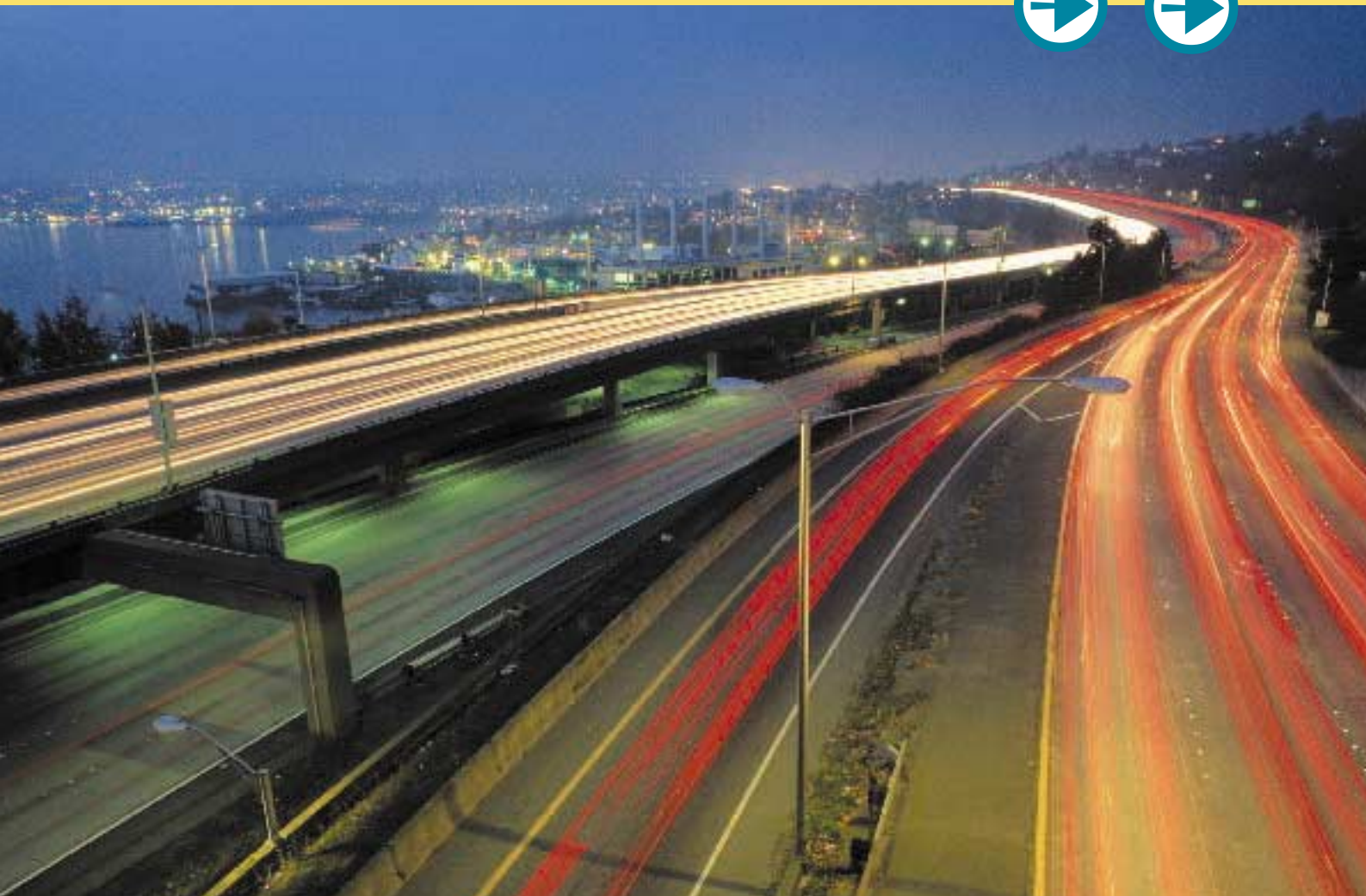


REPORT OF DIRECTORS

The directors are pleased to present herewith their report and the audited accounts for the year ended 31 December, 2001.





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 HKSE and SSE on 12 March, 1997 and 25 December, 2001, respectively.

2. SUMMARY OF THE REPORT OF THE BOARD OF DIRECTORS

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

- 2000 annual report and proposal for profit distribution;
- the report of the Board for the year 2000;
- the financial settlement report and the audited accounts for the year 2000 and the budget proposal for the year 2001;
- the emoluments of directors and supervisors for the year 2001;
- the implementation of the Share Appreciation Rights Scheme;
- the reappointment of Messrs. PricewaterhouseCoopers and Zhongtianqin Certified Public accountants as the international auditors and the statutory auditors of the Company, respectively;
- the resignation of Mr. Chao Min Qian as the director of the Company, and the appointment of Ms. Zhang Yang as the director of the Company;
- the necessary amendments to the articles of association of the Company in relation to the change of the shares held by the shareholders of the Company;
- the relevant regulations concerning the corporate governance of the Company and their amendments;
- the transfer of 5% equity interest of Meiguan held by Airport-Heao;
- the proposals to invest in Southwestern Securities, Shenzhen Venture Capital Co., Ltd, Shenzhen Mawan Ports, Guangzhou-Zhuhai Expressway (Eastern Section) and Guangdong Jiangmen-Zhongshan Expressway;
- the proposal to acquire the interest in Airport-Heao held by its co-partner;
- 2001 interim accounts and interim report;
- the reports to establish the Strategic Development & Investment Committee, and the Human Resources & Remuneration Committee of the Board;
- the proposal to acquire equity interest in Shantou Haiwan Bridge project;



REPORT OF DIRECTORS

- the application of the issue of A Shares of the Company and other related matters; and
- the audit report concerning the human resources situation of the Company prepared by the Audit Committee.

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 operating profit for the year is set out on page 9.

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 31 December, 2001 are set out in the consolidated profit and loss account on page 55.

The financial position of the Group and the Company as at 31 December, 2001 are set out in the balance sheet on page 56 and page 57, 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 8 of this report.

5. DIVIDEND

The Board of directors recommends the payment of a dividend of RMB0.10 per share, totaling RMB218,070,000, for the year ended 31 December, 2001 to shareholders whose names appear in the register of shareholders of the Company at the close of business on 30 April, 2002.

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. 2000 ANNUAL GENERAL MEETING

In 2001, altogether one shareholders' meeting was held. The 2000 Annual General Meeting was held on 6 March, 2001 at the conference room of the Company, at which all the proposals set out in *Notice of 2000 Annual General Meeting published in Hong Kong Economic Times and South China Morning Post* (English version) on 19 January, 2001 were considered and passed. All the resolutions passed at the 2000 Annual General Meeting were published in *Hong Kong Economic Times* and *South China Morning Post* (English version) on 17 March, 2002.

7. ELECTION AND CHANGE OF DIRECTORS AND SUPERVISORS

In 2001, the second Board of directors and supervisors were within their term of office. Mr. Chao Ming Qiang resigned as a director of the Company on 18 January, 2001, and Ms. Zhang Yang was appointed as director of the second Board of directors at the 2000 Annual General Meeting on 6 March, 2001, with a term of office from the date of appointment till 31 December, 2002.

8. 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.

9. SHARE CAPITAL

The Company issued 165,000,000 A Shares with the par value of RMB1.00 per share in the PRC on 6-7 December, 2001. Thus the issued capital of the Company was increased to RMB2,180,700,000.

10. RESERVES

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

11. FIXED ASSETS

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

12. BANK LOANS AND OTHER BORROWINGS

Details of bank loans and other borrowings of the Group and the Company as at 31 December, 2001 are set out in note 20 and note 21 to the accounts.

13. INTEREST CAPITALIZED

The amount of interest capitalized by the Group and the Company for the year ended 31 December, 2001 are disclosed in note 5 to the accounts.

14. 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 H Shares initial public offering were approximately RMB1,685,000,000, which has been used up in full as at 31 December, 1999. Such net proceeds were effectively utilized, as specified in the prospectus of the Company.



15. 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 (approximately HKD3.45 per share). The net proceeds from the A Shares issue were approximately RMB604,128,000, which is and will be used for the construction of Yanba B. As at 31 December, 2001, RMB37,400,000 from the net proceeds from the A Share Issue has been put into the construction of Yanba B, and the remaining RMB566,728,000 remained unused, which is kept in bank deposits.

16. INCOME TAX RATE AND BUSINESS TAX RATE

As affected by the new tax policy promulgated by the State Council in 1999, the business tax refund that the Group was granted was terminated with effect from 1 January, 2000. Affected by the new tax policy, the business tax refund that the Group was granted was terminated. The Group is subject to PRC Business Tax at 5% on toll income.

The Company, a subsidiary (Meiguan) and a jointly controlled entity (Airport-Heao), 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 tax exemptions are not affected by the above change of tax policy because the preferential tax treatment does not relate to tax refund.

17. DESIGNATED DEPOSIT AND DUE FIXED DEPOSIT

As at 31 December, 2001, 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.

18. 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.

19. MATERIAL LITIGATION AND ARBITRATION

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

20. ACQUISITION, MERGER AND ASSETS RESTRUCTURING

During the year, the Company had no acquisitions, mergers or assets restructuring.

21. CONNECTED TRANCTIONS

On 14 December, 2001, Airport-Heao, a 55% jointly controlled entity of the Company, entered into an agreement (the "Agreement") with Shenzhen Freeway, the controlling shareholder of the Company. Under the Agreement, Airport-Heao transferred 5% equity interest it held in Meiguan to Shenzhen Freeway at a consideration of RMB75,062,000. Upon the completion of the transaction, the Company and Shenzhen Freeway hold 95% and 5% equity interest in Meiguan, respectively.

The above mentioned transaction has been reviewed by the independent directors of the Company who had confirmed that the transaction was entered into on normal commercial terms and are fair and reasonable so far as the shareholders of the Company are concerned.

22. 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

Wu Ya De

Zhong Shan Qun

Shi Da Qing

Lin Xiang Ke

Zhang Yang (appointed on 6 March, 2001)

Chao Min Qiang (resigned on 18 January, 2001)

*Ho Chung Tai Raymond MBE, JP

*Chiu Chi Cheong Clifton

*Li Kwok Wing Meocre

(* independent directors)

23. 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

24. 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. Details are as follows:

- a. The service contracts with Chen Chao and Tao Hong are all for 3 years from 1 January, 2000 till 31 December, 2002;
- b. The service contract with Zhang Rong Xing is from 12 November, 2000 till 31 December, 2002;
- c. The service contracts with 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 1 January, 2000 till 31 December, 2002;
- d. The service contract with Mr. Li Kwok Wing Meocre, the independent director, is 3 years from 10 June, 1999 till 9 June, 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.



REPORT OF DIRECTORS

25. EMOLUMENTS OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

- (1) The emoluments of the directors and supervisors for the year 2001 was considered and approved at the 2000 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 remuneration according to their respective position in the Company.
- (2) The total remuneration of directors, supervisors and senior management (including basic salaries, bonuses, welfares, subsidies, housing allowance and other subsidies) amounted to approximately RMB3,000,000.
- (3) In 2001, the total emoluments for the three independent directors is HKD300,000, and their subsidies amounted to RMB50,000. As a result, the total amount of the emoluments for the three independent directors for the year 2001 amounted to RMB368,000.
- (4) The total amount of remuneration of the three highest paid directors amounted to RMB1,165,000.
- (5) The total amount of remuneration of the three highest paid senior management amounted to RMB1,090,000.
- (6) The Company has altogether 18 directors, supervisors and senior management, eight of whom received salaries from the Company. Details of the payment of directors, supervisors and senior management are set out in the following chart.
- (7) There are 10 directors, supervisors and senior management who did not receive salaries from the Company: Mr. Raymond Ho Chung Tai, Mr. Clifton Chiu Chi Cheong, Mr. Meocre Li Kwok Wing, Mr. Lin Xiang Ke, Mr. Zhong Shan Qun, Mr. Shi Da Qing, Ms. Zhang Yang, Mr. Wang Ji Zhong, Mr. Wang Shan and Mr. Wu Ya De.

(RMB)

	0-200,000	200,000-400,000	400,000-600,000
Directors	0	2	1
Supervisors	0	1	0
Senior management	0	4	0

26. DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

As at 31 December, 2001 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.

27. DIRECTORS' AND SUPERVISORS' INTERESTS IN SECURITIES AND RIGHTS TO ACQUIRE SECURITIES

As at 31 December, 2001, 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.

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 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 31 December, 2001 and up to the date of this report.

28. 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.

29. 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.

30. RETIREMENT SCHEME FOR EMPLOYEES

Details of the retirement scheme for employees of the Group are set out in note 27.

31. HOUSING SCHEME FOR EMPLOYEES

The Company has not entered into any arrangement whereby quarters are to be sold to staff at preferential prices and has no other obligations in respect of employees' housing scheme.

The Ministry of Finance of the PRC issued a notice numbered Caiqi[2000]295 on 6 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.

32. 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.



33. AUDIT COMMITTEE

Pursuant to the Listing Rules, the Board of the Company established an audit committee (the "Committee") on 20 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 four meetings in all, at which the Committee considered the interim accounts and discussed the contents and procedure of the 2001 auditing with the Board of directors and the international auditors of the Company, to ensure the smooth auditing of the Company for 2001.

34. THE STRATEGIC DEVELOPMENT AND INVESTMENT COMMITTEE

On 19 November, 2001, the Board of the Company established the Strategic Development & Investment Committee (the "Strategic Committee"), the principal activities of which are to define strategies and review investment projects for the Company, and to provide the Board with advice or suggestions on decision-making of development strategy and material investments. The Strategic Committee is composed of a director, an independent director and a social professional.

During the year, the Strategic Committee convened two meetings, reviewing the proposed investments and discussing the future investment strategy of the Company.

35. THE HUMAN RESOURCES AND REMUNERATION COMMITTEE

The Board of the Company established the Human Resources & Remuneration Committee (the "HR Committee"), to provide advice on the appointment and evaluation of senior management, the nomination of directors, and remuneration management of the Company. The HR Committee is composed of a director, an independent director and a social professional.

During the year, the HR Committee convened two meetings, at which the human resources policy of the Company was reviewed and the performance of the late general manager during the term of office was evaluated.

36. AUDITORS

The accounts in this annual report were prepared in accordance with generally accepted accounting principles 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 appoint Tianjian Xinde Certified Public Accountants as statutory auditors of the Company will be proposed at the forthcoming annual general meeting.

37. CORPORATE GOVERNANCE

To comply strictly with the *Companies Law*, *Securities Law* and the relevant requirements of laws and regulations promulgated by CSRC,

the Company has devoted a lot of efforts to perfecting the corporate governance structure of the Company, and to standardizing the Company's operation. The Company has fulfilled its information disclosure obligations in strict compliance with relevant requirements of HKEX and SSE and ensured the truth, accuracy and completeness of the information disclosed. The Company has compiled *The Regulation of the Shareholder's General Meeting*, *The Regulation of the Board of Directors*, *The Regulation of the Supervisory Committee*, *The Regulation of the General Manager*, and each description of functions and powers of the Audit Committee, the Strategy Development & Investment Committee and the Human Resources & Remuneration Committee, which were incorporated into *The Corporate Governance Regulations of the Company*.

The Company has ensured that all shareholders, especially major and minority shareholders 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 relevant laws and regulations, and no interventions in the Company's decision-making and operations by the controlling shareholder have been found.

During the year under review, all directors of the Company have attended the board meetings and shareholders' general meetings in a serious and responsible manner, actively participated in training, learned the relevant laws and regulations, and understood the rights, duties and responsibilities as a director.

The supervisors of the Company has performed their duties in a serious manner. They have supervised the Company's financial conditions, and the Company's senior management during performing their duties on behalf of the shareholders in terms of legality and compliance.

The Company has fulfilled its information disclosure obligations in strict compliance with the Listing Rules of HKEX. It has assigned the Secretarial 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 and analysts' conferences, inviting investors to visit the Company and through the Company's website.

The three independent directors have played an important role in the Board. Each of the independent directors is familiar with the conditions of the Company's business and operations and have attended board meetings and shareholders' general meetings in a serious and responsible manner. They are also a member of the Audit Committee, the Strategic Development & Investment Committee, and the Human Resources & Remuneration Committee. In compliance with the relevant requirements of HKEX, the connected transactions of the Company have been reviewed and confirmed by independent directors, who has given independent opinion to the shareholders of the Company.

By Order of the Board

Chen Chao

Chairman

Shenzhen, the PRC, 12 April, 2002