

Directors' Report

The directors present their first report and the audited financial statements of the Company for the period from 21st June, 2001 (date of incorporation) to 31st December, 2001 and of the Group for the year ended 31st December, 2001.

REORGANISATION AND LISTING ON THE STOCK EXCHANGE OF HONG KONG LIMITED

The Company was incorporated and registered as an exempted company in the Cayman Islands under the Companies Law of the Cayman Islands on 21st June, 2001.

Pursuant to a group reorganisation (the "Group Reorganisation") to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company has since 12th November, 2001 become the holding company of the companies now comprising the Group.

Details of the Group Reorganisation are set out in the prospectus issued by the Company dated 19th November, 2001 (the "Prospectus").

The shares of the Company were listed on the Stock Exchange with effect from 29th November, 2001.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of the Company's principal subsidiaries are the management and operation of highways in the People's Republic of China.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2001 are set out in the consolidated income statement on page 24.

During the year, certain subsidiaries of the Company declared dividends with an aggregate amount of RMB44,239,000 to their then shareholders, prior to the Group Reorganisation. The portion of dividends deemed attributable to the Company was RMB41,982,000.

The directors do not recommend the payment of a dividend and propose that the profit for the year be retained.

PROPERTY, PLANT AND EQUIPMENT

Details of movements during the year in the property, plant and equipment of the Group are set out in note 12 to the financial statements.

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 22 to the financial statements.

RESERVES

Details of movements during the year in the reserves of the Company and of the Group are set out in note 24 to the financial statements.

The Company's reserves available for distributions represent the share premium, contributed surplus and accumulated loss with an aggregate amount of RMB245,997,000.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Mr. Hu You Lin (<i>Chairman</i>)	(appointed on 13th July, 2001)
Mr. Shi Jun (<i>Managing Director</i>)	(appointed on 13th July, 2001)
Mr. Liu Bing (<i>Deputy Managing Director</i>)	(appointed on 12th November, 2001)
Mr. Lu Wei Dong, David	(appointed on 12th November, 2001)
Mr. Dong Li Yong	(appointed on 12th November, 2001)
Mr. Neil T. Cox	(appointed on 21st June, 2001 and resigned on 13th July, 2001)

Non-executive director:

Mr. Yao Hong	(appointed on 12th November, 2001)
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Independent non-executive directors:

Mr. Cai Chuan Bing	(appointed on 12th November, 2001)
Ms. Yu Chor Woon, Carol	(appointed on 12th November, 2001)

In accordance with Article 108(A) of the Company's Articles of Association, Mr. Hu You Lin, being the chairman of the Company and Mr. Shi Jun, being the managing director of the Company, are not required to retire by rotation and Mr. Lu Wei Dong, David and Mr. Yao Hong retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The terms of office of each of the non-executive director and independent non-executive directors is the period up to his/her retirement by rotation as required by the Company's Articles of Association.

Each of the executive directors has entered into a service contract with the Company for an initial term of three years, commencing on 1st November, 2001, which will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other, which notice shall not expire until after the fixed term.

Other than as disclosed above, none of the directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN SHARES

At 31st December, 2001, none of the directors had any personal, family, corporate or other interests in any securities of the Company or any of its associated corporations as defined in the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance").



Directors' Report

SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was adopted by a written resolution passed on 12th November, 2001 for the purpose of providing incentives or rewards to selected participants for their contribution to the Group and will expire on 11th November, 2011. Under the Scheme, the directors may, at their discretion, invite any person belonging to any of the following classes of participants, to take up options to subscribe for shares of the Company:

- (i) any employee or proposed employee (whether full time or part time) of the Company, any of its subsidiaries or any entity ("Invested Entity") in which the Group holds an equity interest, including any executive director of the Company, any of such subsidiaries or any Invested Entity;
- (ii) any non-executive directors (including independent non-executive directors) of the Company, any of its subsidiaries or any Invested Entity;
- (iii) any supplier of goods or services to any member of the Group or any Invested Entity;
- (iv) any customer of the Group or any Invested Entity;
- (v) any person or entity that provides research, development or other technological support to the Group or any Invested Entity;
- (vi) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity; and
- (vii) any other group or classes of participants from time to time determined by the directors as having contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of the Group,

and, for the purposes of the Scheme, the options may be granted to any company wholly owned by one or more persons belonging to any of the above classes of participants. For the avoidance of doubt, the grant of any options by the Company for the subscription of shares of the Company or other securities of the Group to any person who fall within any of the above classes of participants shall not, by itself, unless the directors otherwise determined, be construed as a grant of option under the Scheme.

The basis of eligibility of any of the above class as of participants to the grant of any options shall be determined by the directors from time to time.

An option may be accepted by a participant upon payment of HK\$1 per option and within such time as may be specified in the offer for grant of the option, which shall not be later than 21 days of the date of the offer. An option may be exercised in accordance with the terms of the Scheme at any time during a period to be determined and notified by the directors at the time of such grant to each grantee, which period may commence on the date of acceptance of the offer for the grant of option but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination thereof. The subscription price for shares under the Scheme shall be a price determined by the directors, but shall not be less than the higher of (i) the closing price of shares as stated in the Stock Exchange's daily quotations on the date of the offer for grant; (ii) the average closing price of shares as stated in the Stock Exchange's daily quotations for the five business days immediately preceding the date of the offer of grant; and (iii) the nominal value of the shares.

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option scheme of the Group must not in aggregate exceed 30% of the relevant class of securities of the Company (or any of its subsidiaries) in issue from time to time. The total number of shares in respect of which options may be granted under the Scheme

and any other share option scheme of the Group is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any participant in any 12-month period is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to directors, chief executives or substantial shareholders of the Company or any of their respective associates (as defined under the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules")) must be approved by independent non-executive directors of the Company (excluding any independent non-executive director who is the grantee of the options). Options granted to substantial shareholders or independent non-executive directors or any of their respective associates in the 12-month period up to and including the date of such grant in excess of 0.1% of the shares of the Company in issue and with a value in excess of HK\$5 million must be approved in advance by the Company's shareholders.

No option has been granted under the Scheme since its adoption.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than as disclosed above, at no time during the year was the Company, its subsidiaries, its holding company or any subsidiaries of its holding company a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2001, the register of substantial shareholders maintained by the Company under Section 16(1) of the SDI Ordinance showed that, the following persons had an interest of 10% or more in the share capital of the Company:


Name	Number of shares	Percentage of shareholding
Yue Da Group (H.K.) Co., Limited	140,000,000	70%
Jiangsu Yue Da Group Company Limited (Note)	140,000,000	70%

Note: Jiangsu Yue Da Group Company Limited beneficially owns 100% of Yue Da Group (H.K.) Co., Limited and is accordingly deemed by the SDI Ordinance to be interested in the shares of the Company beneficially owned by Yue Da Group (H.K.) Co., Limited.

Other than as disclosed above, the Company has not been notified of any other interests representing 10% or more of the Company's issued share capital as at 31st December, 2001.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance, to which the Company, its subsidiaries, its holding company or any subsidiaries of its holding company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.



Directors' Report

CONNECTED TRANSACTIONS

During the year, certain transactions that have been entered into by the Group became discloseable connected transactions under the Listing Rules. Details of these transactions for the year and balances with them as at 31st December, 2001 are set out as below and in the section headed "Connected transactions" in the Prospectus.

RMB'000

Yue Da Enterprise Group (H.K.) Company Limited, a fellow subsidiary of the Company

Interest charges to the Group (note a) 3,326

Yancheng Haiyue Hotel, an associate of ultimate holding company

Rentals paid on land and buildings by the Group (note b) 500

Other payable by the Group (note e) 125

Langfang Transport and Highway Engineering Company Limited, a joint venture partner of a subsidiary

Interest charges to the Group (note a) 5,339

Other payable by the Group (note e) 1,289

Long term advance to the Group (note g) 9,528

Unsecured long-term borrowings to the Group (note f) 43,698

Langfang Municipal Communications Bureau, an affiliated company of Langfang Transport and Highway Engineering Company Limited

Repair and maintenance charges paid by the Group (note c) 4,592

Yancheng Xinfu Highway Company Limited, a joint venture partner of a subsidiary

Maintenance charges paid by the Group (note d) 1,327

Other payable by the Group (note e) 724

Unsecured long-term borrowings to the Group (note g) 43,560

Langfang Tongda Highway Co., Ltd., a non-wholly owned subsidiary of the Company

Interest charged by another member of the Group (note a) 2,231

Other payable by another member of the Group (note e) 2,284

Unsecured long-term borrowings from another member of the Group (note f) 45,354

Yancheng Tongda Highway Co., Ltd., a non-wholly owned subsidiary of the Company

Other payable by another member of the Group (note e) 5,486

Guarantees given by the Company (note h) 15,000

Notes:

- (a) The interest was charged at 11.7% per annum on the outstanding principal.
- (b) The rentals were charged in accordance with the relevant tenancy agreement.
- (c) For the six months ended 30th June, 2001, the repair and maintenance charges in respect of the relevant toll highways were charged at 15% of the total amount of gross toll collected. Commencing 1st July, 2001, the repair and maintenance charges were at 8% of the total amount of gross toll collected.
- (d) The maintenance charges in respect of the relevant toll highways were RMB20,000 per kilometre each year starting from 1997, with annual increment of RMB2,000 per kilometre.
- (e) The amount was unsecured, interest-free and has no fixed repayment terms.
- (f) The loan was unsecured, carried interest at 11.7% and was repayable in accordance with the terms of the relevant agreement.
- (g) The loan was unsecured, interest-free and was repayable in accordance with the terms of the relevant agreement.
- (h) As at 31st December, 2001, the Company had given guarantees amounting to RMB15 million to certain banks in respect of bank loans granted to Yancheng Tongda Highway Co., Ltd., which is 66.67% indirectly owned by the Company.

In the opinion of the independent non-executive directors, these transactions entered into by the Group were:

- (i) in the ordinary and usual course of business of the Group;
- (ii) either on normal commercial terms, or if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms not less favourable to the Group than terms available to or from (as the case may be) independent third parties;
- (iii) in accordance with the terms of the agreements for the transactions or if there are not such agreements, on terms that are fair and reasonable so far as the shareholders of the Company are concerned;
- (iv) within the relevant annual cap amounts as agreed with the Stock Exchange; and
- (v) that the terms of repayment of the principal amount under, and the payment of interest arising from, the relevant financial assistance arrangements were not varied or breached by the relevant members of the Group or the connected persons of the Company.

Other than as disclosed above, there were no other transactions which need to be disclosed as connected transactions in accordance with the requirements of the Listing Rules.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, less than 30% of the Group's sales and purchases were attributable to the Group's five largest customers and suppliers.

RETIREMENT BENEFITS SCHEME

Information on the retirement benefits scheme of the Group is set out in notes 5 and 29 to the financial statements.



Directors' Report

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

CORPORATE GOVERNANCE

The Company has complied, since the listing of its shares on the Stock Exchange to 31st December, 2001, with the Code of Best Practice as established in Appendix 14 of the Listing Rules. On 12th November, 2001, the Company established an audit committee comprising Messrs. Cai Chuan Bing and Yu Chor Woon, Carol, both being independent non-executive directors. The terms of reference of the audit committee have been established with regard to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Society of Accountants in December 1997.

AUDITORS

Messrs. Deloitte Touche Tohmatsu have acted as auditors of the Company since its incorporation on 21st June, 2001. A resolution will be submitted to the annual general meeting of the Company to re-appoint them as auditors of the Company.

On behalf of the Board
Hu You Lin
CHAIRMAN

Hong Kong, 15th April, 2002