



Chairman's Statement

The Company is well positioned for the development of toll roads in Shenzhen, with unique advantages in its geographic location and superb corporate system ...

Meanwhile, the Shenzhen Municipal Government approved a new highway network plan in September 2003. In the coming ten years, RMB20 billion will be invested to construct 270 kilometers of new expressways ... Undoubtedly, the Company is now faced with development opportunities unprecedented in its history.

Chairman's Statement

To all shareholders:

The operational and financial performance of the Group in 2003 has been satisfactory. Despite the impact brought about by SARS to Guangdong and Hong Kong during the first half of 2003, the Company has strengthened its sales and marketing efforts, cooperated with transport administration authorities to attract traffic flow and to divert large goods vehicles to use our expressways, and obtained remarkable results therefrom. During the second half of the year, the Company capitalised on the opportunities arising from the economic recovery after SARS as well as significant growth in exports and imports for both the PRC and Shenzhen, and achieved rapid growth on the Company's expressway operation. On the other hand, leveraging the opportunities arising from the government's adjusted tariff policy regarding Class 1 highways, the Company has successfully reached an agreement with the Shenzhen Municipal Government to dispose of the assets of two Class 1 highways as a means of pursuing effective marketing strategies for the long-term development of the Company and the benefits of the shareholders. A good return on investment was achieved as a result.

Results

The Group recorded a turnover of RMB421,531,000 for year 2003. Turnover for the operation of expressways amounted to RMB382,738,000, representing an increase of 19.94% compared to the corresponding period of the previous year, whilst operating profit increased by 24.13%, compared to the corresponding period of the previous year. Turnover for Yanba Expressway, Jihe West and Meiguan Expressway operated by the Company increased by 72.29%, 25.84% and 11.72%, respectively when compared to the corresponding period of the previous year. For year 2003, profit attributable to shareholders was RMB899,372,000, representing an increase of 159.14%, compared to the corresponding period of the previous year, of which an after-tax profit of RMB586,272,000 was mainly attributable to the disposal of the assets of two Class 1 highways. Earnings per share was RMB0.412.

Dividends

The Company has made its best endeavours to maximise its corporate value in order to provide good return to shareholders. The board of directors will recommend a resolution in respect of the payment of a final dividend of RMB0.19 per share for year 2003 (2002: RMB0.12), including a special dividend of RMB0.09 per share, at the forthcoming Annual General Meeting. The payment of special dividends has taken into account the significant growth in profits arising from the disposal of assets and the abundant amount of cash in hand. Therefore the Company has increased the shareholders' return in 2003. The Company is confident that a steady dividend arising from the ordinary business will be maintained in future.

Chairman's Statement

Review

During 2003, the Company implemented various decisions made by the board of directors in a dutiful and practical manner. Guided by the core beliefs of "Leading with an Excellent Corporate System" and "Striving for the Best, not the Biggest", our employees of various levels shared the same values. In view of the impacts of policies, resources and the environment upon the principal operation, our employees turned the unfavourable factors around, took proactive measures and strove for the best. Remarkable results were achieved on various fronts.

The Company successfully disposed of the assets of two Class 1 highways to the Shenzhen Municipal Government in March 2003. The improved asset structure of the Company resulted therefrom will better facilitate its development in the long-run. In June 2003, the construction of Yanba B was completed for operation whereas the construction of Yanbai Expressway was commenced. On the operational front, the Company made changes to the management structure in 2003, which reduced the hierarchy, shortened the management chain and saved operating costs. As a result of the increased marketing and sales efforts on attracting the flow of vehicles, our expressways achieved significant growth in traffic volume as well as in income and profit margins. Meanwhile, the Company has proactively enhanced its scale of operation and its earnings ability through procuring investment projects of expressways in the Pearl River Delta region, Guangdong Province. In addition, as the Shenzhen Municipal Government put construction management of municipal projects to the market, the Company expanded the provision of its consultancy service on construction management to the government sector, and made breakthrough developments by securing the management contract for Phase 1 of Nanping Freeway in Shenzhen, a project involving construction investment at a value of RMB2,268 million.



Business Opportunities

It is essential at this moment for the Company to sustain its development in a stable, healthy and rapid manner by way of capitalising on the business opportunities available. The Company is well positioned for the development of toll roads in Shenzhen, with unique advantages in its geographic location and superb corporate system. Growth of the Shenzhen economy has ranked among the first in the PRC for many years. Shenzhen has ranked first in the nation for 11 consecutive years in terms of exports and imports which exceeded the US\$100 billion benchmark in 2003. In 2003, 120,000 new vehicles were registered in Shenzhen whereas total vehicle ownership exceeded 700,000. In terms of per capita ownership of small private vehicles, Shenzhen ranked among the highest in the PRC. In 2003, throughput of goods and containers at the ports of Shenzhen were 112,400,000 tonnes and 10,650,000 TEU respectively, which were increases of 28.2% and 40% respectively when compared to the corresponding period of the previous year. There were 10,840,000 passengers travelling through Shenzhen, representing an increase of 16% when compared to the corresponding period of the previous year. It is anticipated that the throughput capacity of Shenzhen for containers will be increased by 10,000,000 TEU in the coming ten years. All in all, the grand economic picture resulted from CEPA, the formation of the Pan Pearl River Delta economy, and the development of manufacturing, sales, transportation and logistics industries as promoted by the government's implementation of "zero" tariff have brought greater demand on road transport. All these will produce direct, most stimulating effects on toll road traffic.

Transport is fundamental to the development of an economy. Recently, a development plan has been implemented in Guangdong Province which is based on the transport infrastructure as a development platform, aiming at the construction of expressways connecting adjacent provinces and regions. By 2007, Guangdong Province has to complete construction of ten expressways connecting major cities in the region. The expressways in Guangdong Province will have a total length of 4,000 kilometers. Meanwhile, the Shenzhen Municipal Government approved a new highway network plan in September 2003. In the coming ten years, RMB20 billion will be invested to construct 270 kilometers of new expressways so as to develop an expressway network matrix. Undoubtedly, the Company is now faced with development opportunities unprecedented in its history.

Chairman's Statement

Subsequent to the closer economic partnership arrangement (CEPA) established between mainland China and Hong Kong, the Company is poised for a stable, healthy and rapid development. In this regard, the economic developments in Shenzhen and the Pearl River Delta will play an indispensable role. The GDP of Guangdong Province has ranked first in the PRC for many years. Meanwhile, Guangdong has become one of the largest manufacturing bases for consumer goods not only in the PRC but also in the world. The IT manufacturing industry of Guangdong Province occupies an important position in the world. Meanwhile, Shenzhen is a major city in southern China, a major regional economy as well as a hub for finance and logistics. In terms of overall competitiveness, Shenzhen ranks second in the PRC with obvious development advantages.

Outlook

In order to capitalise on the above-mentioned unprecedented development opportunities, the Company adopts certain strategies to adapt to the environment. These include focusing on investing, constructing and operating toll roads as its principal operation; speeding up the market-oriented transformation of the Company's corporate governance; striving to establish a first-rate brand name as a public utilities operator; and providing premier and efficient services to the public and the government at reasonable costs. Leveraging its concession rights, the Company enjoys the first-mover advantage, and will take Shenzhen as a foothold for its further investment in cooperative ventures for expressway projects in the more economically developed regions, in particular the Pearl River Delta region, so as to improve returns on investment and on net asset. It is expected that growth in the Company will take a faster and healthier route as a result of the economic recovery in the PRC and in particular the South China region.

With nearly ten years of experience in project construction management, the Company is equipped with clear competitive advantages in the field. The Company was engaged to manage the construction of Phase 1 of Nanping Freeway which is invested by the government. The Company will be engaged in more construction management projects of this kind. This project signifies the Company's first successful step in "exporting" its services on expressway construction management, and was a major reward for the Company's past emphasis on acquiring experience from project construction management. Such segment of business is expected to become a new income base for the Company in future.

Chairman's Statement

Through further realignment and explications of its development strategies, on-going research on its strategic development, and analysis on the prospects of the toll road business and the competitive advantages of the Company, the Company will enhance its profitability by leveraging its competitive edges. The Company will actively participate in the investment and construction of expressway networks in the Pearl River Delta region in accordance with the planning and development requirements on expressway networks in Shenzhen, Guangdong and other regions, and establish the Company as an operator that provides total solutions to its clients on operation and project construction management of transport infrastructure facilities.

Looking ahead, traffic volume on the toll roads operated by the Company will continue to increase. The Five Year Action Plan and the Ten Year Development Outline for the construction of highway network in Shenzhen have provided ample room for the Company's development. The prospects of acquiring expressway projects in Guangdong and other regions will rapidly expand the Company's scale of operation and improve its profitability. The Company will continue to leverage its competitive advantages in expressway management and further enhance the standard of its corporate governance so as to facilitate an all-rounded and rapid development of the Company.

CHEN CHAO

Chairman

Shenzhen, the PRC, 5th March 2004