



## Management Discussion and Analysis

Traffic volume of and toll revenue from the Group's expressways sustained rapid growth. The Master Plan of Road Network of Shenzhen will further consolidate its existing expressway network. By 2015, Shenzhen is expected to have expressways and Class 1 highways with a total length of 1,065 kilometers and a coverage of 54.7 kilometers per 100 square kilometers. There is ample room for the future development of the Company in its business of investment, construction and operation of expressways.

## Management Discussion and Analysis

### Business Review

The Group is engaged in the investment, construction, operation and management of toll roads. During 2003, the Company's employees overcame the impact of SARS on the social economy and traffic volume, and capitalised on the recovery of goods and travelers flow. Remarkable results were achieved on various fronts. In 2003, the two principal operations of the Company, namely the operation of toll roads and construction of highways, either fulfilled or exceeded planned targets. We are well positioned to further expand in the market.

In 2003, the Group achieved a turnover of RMB421,531,000. Turnover from the operation of expressways amounted to RMB382,738,000, representing an increase of 19.94% when compared to the corresponding period of the previous year.

	RMB'000								
	Company and subsidiaries					Jointly controlled entities			
	Total	NH107 & NH205	Jihe West	Meiguan Expressway	Yanba Expressway	Jihe East	Shuiguan Expressway	Changsha Ring Road*	Yungang Transporation
Turnover	421,531	38,794	167,635	193,936	21,166	173,107	103,998	16,138	1,541
Other revenues	46,761	—	3,953	6,517	36,291	4,796	438	60	—
Operating expense	115,676	12,863	29,262	46,156	27,395	38,076	41,478	18,888	1,216
Operating profits	352,616	25,931	142,326	154,297	30,062	139,827	62,958	-2,690	325

\* Operating profit is stated before provision for impairment

### I Operation and Management

During 2003, the Group's core business was the operation and management of toll roads, namely, Meiguan Expressway, Jihe East, Jihe West, Yanba A, Yanba B, Shuiguan Expressway and Changsha Ring Road. In October 2003, the Company has acquired Mei Wah Industrial (Hong Kong) Limited and in turn, owns 42% equity interest of Geputan Bridge. The toll roads operated by the Group in Shenzhen have formed an interconnected network, linking the main logistics hubs within the region and connecting cities such as Guangzhou, Huizhou and Dongguan. This has created a network effect upon traffic flow. In 2003, traffic volume of and toll revenue from the Group's expressways sustained rapid growth.

# Management Discussion and Analysis

## 1 Management on toll collection

Toll Road	Average daily mixed traffic volume (vehicle)	Year-on-year (%)	Average daily toll revenue (RMB)	Year-on-year (%)
Meiguan Expressway	46,397	23.51	560,477	11.72
Jihe East	33,308	25.47	499,489	16.13
Jihe West	28,284	29.69	484,467	25.84
Yanba A	7,357	37.69	47,228	33.02
Yanba Expressway <sup>1</sup>	7,423	N/A	61,171	N/A
Shuiguan Expressway	30,397	33.54	300,079	27.83
Changsha Ring Road	3,454	34.07	46,836	29.38
Geputan Bridge	2,706	8.76	24,359	4.84
NH107 <sup>2</sup>	25,668	2.65	261,279	3.50
NH205 <sup>2</sup>	46,930	12.38	378,120	11.03

Notes: 1. Yanba Expressway comprised sections A and B. Yanba A and Yanba B were opened to traffic in April 2001 and June 2003, respectively.

2. Traffic volume and toll revenue of NH107 and NH205 were calculated up to 18 March 2003.

During the first half of 2003, the social economy as well as traffic flow on toll roads were affected by SARS, and consequently growth rates in toll revenue of the Company's various toll roads were four to five percentage points less than expected. As SARS had ended, traffic flow on expressways grew gradually, and the Company strengthened management to enhance the quality of its toll services. It also implemented measures to attract traffic so as to ensure that the Group's expressways continued to sustain high growth in traffic volume and toll revenue for year 2003.

Meiguan Expressway is closely related with the imports and exports concerning foreign trade. Following the expanded trade relations between Shenzhen and Hong Kong, traffic flow of container trucks between Shenzhen and Hong Kong increased significantly. On the other hand, owing to the adoption of a series of measures by the Shenzhen Government to improve traffic flow, traffic flow on Meiguan Expressway further increased. In 2003, average daily traffic flow of Meiguan Expressway increased by 23.51% over the previous year, whilst toll revenue increased by 11.72% over the previous year.



In 2003, passenger and goods traffic at Shenzhen airport increased drastically, bringing rapid growth in traffic flow on Jihe Expressway, especially Jihe West, with average daily traffic flow increasing by approximately 29.69% over the previous year. Of such increase, increases for Category 1 and Category 5 vehicles were the most outstanding, with growths of 26.8% and 105% over the previous year, respectively. Average daily traffic flow of Jihe East increased by 25.47% over the previous year.

Yanba B was formally opened to traffic on 12th June 2003. It was organically linked to the National Trunk and the highway networks of Shenzhen and Huizhou, thereby improving the highway network in eastern Shenzhen and gradually creating a network effect. Average traffic flow and toll revenue of the Yanba A increased by 37.69% and 33.03%, respectively. Currently, the traffic flow on Yanba Expressway is still seasonal and cyclical, and there is a less proportion of large vehicles. It is anticipated that following the simultaneous completion of Yanba C and Phase III of the Yantian Port, there will be a faster growth of overall traffic flow and toll revenue.

In the fourth quarter of 2003, Changsha Ring Road implemented a new toll tariff system, thereby enabling the actual toll of Changsha Ring Road to increase by approximately 10% from the original level. At the same time, the Changsha Government strengthened the management on urban road communications, which has promoted traffic flow and enabled Changsha Ring Road to grow its average daily toll revenue by 33.5% over the previous three quarters. In 2003, the average daily traffic flow of Changsha Ring Road attained a growth of 34.07%.

Shuiguan Expressway has entered its second year of operation since its opening to traffic, and its traffic growth rate has surpassed expectations. Although the removal of toll stations on NH205 by the Shenzhen Government has caused certain traffic diversion, owing to the expressway's unique geographical advantage, such impact subsided within three months. For 2003, average daily traffic flow of Shuiguan Expressway has increased by 33.54% over the previous year.

## 2 Impact of SARS

During the first half of 2003, the social economy as well as traffic flow on toll roads were affected by SARS. Growth rates in toll revenue of the Company's various toll roads were four to five percentage points less than expected. In the second half of 2003, both traffic flow and toll revenue of various toll roads increased. The Company capitalised on the opportunities arising, strengthened the management of toll stations, and improved the quality of its toll collection management services so as to provide speedy, smooth and convenient services to its customers. In addition, the Company co-operated jointly with communications administrative authorities to attract large goods vehicles to use expressways through better marketing and sales efforts, and obtained good results.

### 3 Repair and maintenance of highways

The maintenance and repair policies adopted by the Company for highways are preventive in nature, emphasising an integrated and comprehensive maintenance and repair programme so that highways and their facilities are maintained at superb working conditions. These policies also assure safe, smooth and comfortable driving for customers. The Company focuses on management of maintenance and repair techniques, while taking proactive and appropriate maintenance and repair measures to enhance the quality of highways and extend their operating life. The Company's performance quality on highway maintenance and repair has been maintained at an index of above 80 whilst adaptability of its bridges' loading reached 100%.

At the present stage, maintenance and repair works of the Company mainly involve intermediate, minor repair and routine maintenance. Daily operation is administered in accordance with plans. Maintenance and repair service providers are selected through invitation for tenders such that expenses incurred are under reasonable control. In 2003, expenses on intermediate, minor repair and routine maintenance accounted for approximately 1.75% of the turnover.

The road surfaces of all the expressways operated by the Company have an operating life of 15 to 20 years. Based on the prevailing conditions of road surfaces, it is anticipated that major repair works of road surfaces will be incurred after fifteen years of use.

### 4 Monitoring on toll collection and toll collection intra-network

The Company's expressways adopt an advanced electronic system for toll collection management. The system integrates toll data, the monitoring on toll collection procedures and payment through banks by way of information technology, and ensures that information on toll collection is transmitted in a timely, accurate and secure manner.

The toll collection monitoring system of the Company is centrally operated and maintained by the operation center of the Group. The system collects toll from different sections of expressways and different investment entities on a unified basis, and re-allocate the income in a timely manner. The complete process on administering toll collection monitoring is a comprehensive internal system comprising four parts: recording of information by toll collection computers, real-time monitoring on toll collection procedures at the control room, monitoring of toll collection through on-site inspection, and income clearing and settlement verification. This will ensure that no toll receivable is missed. The Company has formulated a stringent "Code of Conduct on Toll Road Management" which regulates various toll collection operations and the conduct of toll collectors.

A non-stop electronic toll collection system (“ETC”) was introduced to the Company’s expressways since 2001. At present, 11 toll stations with 28 special lanes of the Group’s toll roads have provided non-stop toll collection. More than 8,000 units of vehicles have used the ETC system which shortens toll payment time and improves traffic conditions, so much so that the capacity and efficiency on the traffic flow at various toll stations are greatly enhanced. The system also facilitates the formation of AutoPass service in most areas of Shenzhen, which will play an active role in building customer loyalty and stabilising customer sources.

In 2003, Guangdong Province eliminated or minimised toll stations on trunk highways and proposed a reform plan for intra-province toll collection for the purpose of enhancing capacity of its road networks. The Company considers that intra-province toll collection is in the interests of the Company in the long term, and is in line with our aim to provide excellent services for customers. The Company is proactively participating in the design of the reform plan and in relevant equipment upgrade works with respect to intra-province toll collection, in accordance with the relevant requirements and in view of the characteristics of Shenzhen. It is expected that the plan will be completed by the end of 2004 with an investment of approximately RMB50 million.

### **5 Reform on operational system**

In order to strengthen the administration of toll stations, the Company adjusted the operational structure of its management entities. Pursuant to such adjustment, the system of operating one expressway by one company was changed. Project companies and their administration entities ceased to exist, which in turn reduced the hierarchy of management. Toll stations in all sections are now directly managed by the Group’s operation structure. The reform on the operational structure will enhance the responsiveness of the Company’s operation towards market changes so that operational management and sales and customer policies will be more effective.

### **6 Toll rates remained unchanged**

In 2002, Guangdong Province implemented intra-province toll collection. There was a new standard for toll rates which would be applicable to Meiguan Expressway and Jihe Expressway operated by the Company. The Company consulted, reviewed and commented on the policy, and pursued with the government to lobby for continuity and stability of toll standards applicable to the Company’s toll roads that would be affected. This was understood and supported by the Guangdong Provincial Government. In July 2003, the provision in respect of “new arrangements for new roads, and existing arrangements for existing roads” was enacted accordingly by the Guangdong Provincial Government, allowing the toll rates as approved in the past to remain unchanged. As a result, the risks on adjustment of toll standards have been eliminated.

### **7 To establish as a young and modern entity**

During its course of enhancing the efficiency of toll collection, the Company also put an emphasis on the provision of high-quality services to customers, Meiguan Company was awarded the national-grade “Young and Modern Entity” and “Modern Model Entity” of Shenzhen in the activities for promoting high-quality services. Jihe East Company and Yanba Company were awarded “Young and Modern Entity” of Guangzhou and Shenzhen respectively. These awards have enhanced the quality of our services and the brand effect.



### II Investment and Construction

All the expressways operated by the Company had their project construction managed by the Company. The Company has the concession right to operate expressways in Shenzhen as well as the right of first refusal on developing and operating expressways planned for Shenzhen. In May 1995, Meiguan Expressway, the first expressway constructed and invested by Shenzhen itself, was completed and commenced operation as planned. It was awarded a quality grade of 85 (out of 100) upon project completion, examination and inspection. On 31st October 1997, Jihe East was completed and commenced operation. It was awarded a quality grade of 88 upon completion examination and inspection which was the highest score ever attained by expressway projects in Guangdong Province at the time, and Jihe East was regarded as the “Best Expressway in Guangdong” in the market. Jihe West, Yanba A and Yanba B were completed and commenced operation in May 1999, April 2001 and June 2003, respectively.

#### 1 The investment and construction of Yanba B

In June 2003, the Company invested in and completed the construction of Yanba B with a length of 7.75 kilometers, linked with Yanba A which had been completed in April 2001. The total length of this expressway is 18.37 kilometers. Construction of Yanba B commenced in June 2001, with an approximate budget of RMB655 million which was mainly financed by net proceeds from the issue of A Shares by the Company amounting to RMB604 million. The water and soil of Yanba B is maintained in line with environmental management, and positive comments were received from the public in this regard. It was nominated by the Shenzhen Municipal Government to the “Model Project for Outstanding Preservation in Water and Soil” as conferred by the State.

Yanba Expressway starts from the Yantian Port in the west and ends at the border between Shenzhen and Huizhou in the east. It connects with Huizhou Class 1 Highway and links with Shenshan Expressway. The total length of Yanba Expressway is 28.92 kilometers, with a designed speed of 80km/hour. Yanba Expressway serves as the backbone of the network of high-class roads in Shenzhen, and is the main outreaching route for the eastern coastal area of Shenzhen. The construction of Yanba Expressway is of great significance to Shenzhen in terms of satisfying the increasing traffic demand in the eastern coastal area of Shenzhen and alleviating the bottleneck traffic of container transportation at the Yantian Port. It also serves to facilitate the economic and tourism development in eastern Shenzhen, the emergency evacuation of Daya Bay Nuclear Plant, the enhancement of the expressway network in East Guangdong as well as the southeast coastal areas of China, and a better linkage between Shenzhen and Hong Kong.



### 2 The investment and construction of Yanpai Expressway

Yanpai Expressway in Shenzhen runs from the Yantian Port via Henggang in the north to Paibang Interchange along Jihe East. It is a major trunk expressway facilitating the traffic flow around the Yantian Port. With a length of 15.2 kilometers, the expressway project involves an investment budget estimated to be RMB1.189 billion. The feasibility study report of the expressway project has been approved by the communications authorities of Guangdong Province. Construction commenced in June 2003 and is expected to be completed by December 2005, simultaneously with the completion of Phase 3 of the Yantian Port.

### 3 The acquisition of the entire equity interests in Mei Wah Industrial (Hong Kong) Limited

In October 2003, the Company acquired the entire interests of Mei Wah Company held by Jin Teng Investment Company at a consideration of HK\$24.875 million. The sole asset of Mei Wah Company was the ownership of 42% in Hubei Yungang Transportation Development Company Limited. The registered capital of Mei Wah Company was HK\$17 million. It had total assets of HK\$17.336 million at the end of 2003.

Yungang Company Limited is a sino-foreign cooperative joint venture established under the approval of the Hubei Provincial Government with a registered capital of RMB43 million. Mei Wah Company was interested in 42% of Yungang Company by virtue of an equity contribution of RMB18 million and is a partner of this jointly controlled entity. This jointly controlled entity is principally engaged in construction and operation of Geputan Bridge (隔蒲潭大橋). The term of toll operation is 15 years commencing from 1st April 2002.

At the end of 2003, Yungang Company had assets of RMB41.385 million in total. Total revenue recorded for the full year was RMB8.768 million and net profit was RMB3.281 million.

Results of Mei Wah Company and Yungang Company have been included in the Group since 1st November 2003.

### 4 The investment in expressways in Shenzhen

Taking full advantage of its concession rights to operate expressways granted by the Shenzhen Municipal Government, the Company will put its priority on developing expressways planned for Shenzhen. In accordance with the Five Year Action Plan and the Ten Year Development Outline in respect of the Shenzhen highway network, the Company will pursue early-stage construction activities for Nanguang Expressway and Yanba C so as to lay the foundation for construction works of year 2004. Meanwhile, the Company is proactively studying the feasibility study report in respect of the project of Shenzhen's eastern border passage, and is involved in discussion and prospecting as well as design of a second passage for Yantian under the support of the relevant government departments.



### 5 The investment in expressways in other regions

By capitalising on the opportunities arising from the government's disposal of Class 1 highways, the Company will set its sight on the sale by Guangdong Province of shareholdings in expressways projects which are either already constructed, under construction or being planned, with an aim to invest and develop expressways planned for the Pearl River Delta region in Guangdong.

On 5th March 2004, the Company entered into an agreement with Guangdong Expressway Company Limited to acquire a 25% interest in Yangmao Expressway, located in Guangdong Province, at a consideration of RMB271,680,000. The Company was in negotiation with Guangdong Province Highway Construction Company Limited to enter into an agreement to acquire a 25% interest in Jiangzhong Expressway Company Limited at a consideration of RMB167,500,000. The effectiveness of the above mentioned agreements were subject to approval from shareholders' meeting of the Company.

### 6 Project construction management for Phase 1 of Nanping Freeway

#### *Project construction management*

Project construction management for the expressways operated by the Company was all carried out by the Company itself. Invitations for tenders and selection of project design consultants, project contractors and construction managers were carried out in accordance with international practices. Meiguan Expressway was completed in different phases in May 1995. Between October 1997 and May 1999, Jihe East and Jihe West were completed respectively. Section A and section B of Yanba Expressway were completed in April 2001 and June 2003, respectively. The Company entered into fixed-amount construction contracts with its contractors so as to ensure that project costs would be within budget. Therefore, actual construction costs were always lower than those prescribed by the communications authorities. The Company has fulfilled its objectives in terms of quality, construction time and construction costs, and was regarded by the Guangdong Communications Bureau as a model expressway operator renowned for achieving quality and cost efficiency.

#### *Entrusted with project management*

The Shenzhen Municipal Government has appointed the Company to undertake the construction management of Phase 1 of Nanping Freeway. Entrusted by the Shenzhen Municipal Government to manage this project, the Company is being recognised for its years' experience in project construction

management and for its management excellence. Such an engagement also demonstrates the affirmation on the Company with respect to equal treatment, fairness and openness and transparency during the course of project construction and management, as well as the excellent performance obtained from a standardised operation. In accordance with the project management agreement entered into between the Company and the Shenzhen Communications Bureau on behalf of the Shenzhen Municipal Government, the Company was appointed as the manager of the construction project. The Company will, on behalf of the Shenzhen Communications Bureau, directly enter into contracts with entities responsible for the construction of the project. The funding for the construction of the project is financed by the Shenzhen Municipal Government and shall be paid pursuant to the specific arrangement under the project management agreement. In accordance with the project management agreement entered into between the Company and the Shenzhen Communications Bureau on behalf of the Shenzhen Municipal Government, the Company would be responsible for the preparation of environmental assessment and reporting of the project, preparation of project agreements and subsequent tendering (including construction, monitoring, materials and equipment); management and coordination on actual construction as well as during defect warranty period of the project; cost control; and control over quality and materials usage by contractors as well as monitoring on their work progress. Upon the completion of the project, the Shenzhen Highway Bureau (a highway administration entity under the Shenzhen Municipal Government) will be responsible for the management of the expressway.

### *Nanping Freeway*

Nanping Freeway is an urban expressway connecting eastern and western Shenzhen. Pursuant to the construction specifications as laid down in the blueprint of Phase 1 of Nanping Freeway, Nanping Freeway starts from the western parts of Shenzhen, Nanshan in the west and ends at Longgang Industrial Area in the east, with a total length of 44.5 kilometers. It is an important two-way expressway intersecting with the second-tier ring of Shenzhen, Nanping Freeway was constructed in different stages upon the implementation of an one-off plan. Phase 1 works comprise a main trunk and a subsidiary road. The main trunk highway is a two-way eight-lane road with a total length of 13.9 kilometers, starting from No.9 Daxuecheng Road, Tanglangshan and ending at the intersection of the to-be-constructed Shuiguan Expressway and Shenping Expressway. The main trunk is scheduled to be completed and opened for traffic at the end of 2004. The subsidiary road starts from No. 9 Daxuecheng Road and ends at the intersection of Shenyun Road and Guangzhen Expressway with a length of approximately 4.17 kilometers. It is scheduled to be completed at the end of June 2005. Investment in the construction of Phase 1 of Nanping Freeway is estimated to be approximately RMB2.268 billion.



When Nanping Freeway commences operation, vehicles running in the urban area of Shenzhen will be further diverted to the expressway, which in turn will facilitate vehicles to make use of the expressways operated by the Company to travel to destinations outside Shenzhen. In addition, the main trunk of Nanping Freeway directly connects with Shuiguan Expressway, of which the Company holds 40% interests, which will significantly enhance the traffic volume on Shuiguan Expressway.

The Company has years of experience in project construction management with distinct competitive advantages. The project management agreement enables the Company to be engaged in the business of project management for urban highways invested by the government. It will also contribute project management revenue to the Company in 2004 and 2005.

### III Other Businesses

#### 1 The Advertising Company

The Company holds 95% equity interests in Shenzhen Expressway Advertising Company Limited which is engaged in the leasing of billboards utilising the land-use rights of the Company alongside the Company's toll roads or at their toll stations, the provision of design and production of advertising and related consulting services. In 2003, advertising revenue of RMB4.138 million and net profit of RMB1.037 million were respectively recorded for the year.

#### 2 Wutongling Company

The Company holds 40% equity interests in Shenzhen Wutongling Ropeway Company Limited ("Wutongling Company") which is principally engaged in the construction and management of Shenzhen Wutongling Ropeway. As there were disputes between the parties involved pending the government's renewed review, construction of the project was suspended. Taking into account the prevailing condition of the project, impairment losses on investment and loans were provided for by the Company.

#### 3 Expressway Engineering Consulting

Shenzhen Expressway Engineering Consulting Company Limited is principally engaged in the provision of project management consultancy to external parties; information technology consultancy; engineering consultancy; sales and distribution of engineering and construction materials, equipment and software; and imports and exports. The Company holds 70% of equity interests in this company. It intends to reduce its shareholding to 30% by transferring the same to staff who are engineers and technicians. In 2003, an income of RMB1.243 million and a net loss of RMB218,000 were respectively recorded for the company.

### IV Disposal of Assets

#### **NH107 and NH205**

NH107 (Shenzhen section) commences at Nantou checkpoint in Shenzhen and extends to the intersection between Shenzhen and Dongguan in the west. It is a major passage in Shenzhen which links towards the west to such regions as Dongguan and Guangzhou in the Pearl River Delta region. NH205 (Shenzhen section) commences at Buji checkpoint in Shenzhen and extends to the intersection between Shenzhen and Huizhou in the east. It is a major passage in Shenzhen which links towards the east to Shantou, Huizhou. Both NH107 and NH205 are open-system Class 1 toll highways. Vehicles passing through the Songgang toll station of NH107 (Shenzhen section) and Henggang toll station of NH205 (Shenzhen section) shall pay a one-off toll fee.

Benefiting from the important position of Shenzhen in respect of the road networks formed historically as well as the extensive industrial areas in the neighbourhood, NH107 and NH205 remain the major trunk highways and play an important role in respect of communications and transportation. However, the terms of operation of these national highways are relatively long, and their traffic volumes have been very high, making it difficult to carry out highway maintenance or widening of road surface. Traffic congestion on these two highways has not only hindered the development of cities and towns and industrial areas along the highways, but has also deterred any further increase in traffic volume.

#### **Transfer**

In order to improve the transport environment in Shenzhen, the Shenzhen Municipal Government reviewed its toll policies for non-expressways in Shenzhen and decided to cancel or relocate toll stations within Shenzhen City proper. Such policies led to the transfer of NH107 and NH205 operated by the Company. Assets of both national highways were valued by independent valuers within and outside the PRC. On 18th March 2003, the Company entered into a transfer agreement with the Shenzhen Communications Bureau on behalf of the Shenzhen Municipal Government, pursuant to which the Company's interests in NH107 (Shenzhen section) and NH205 (Shenzhen section) were transferred to the Shenzhen Communications Bureau at a consideration of RMB1.93 billion. On 19th March 2003, the Shenzhen Communications Bureau assumed its rights over the assets of the aforementioned national highways as well as the employment of all staff concerned.

In 2003, the Company received 50% of the consideration (i.e. RMB965 million) from the Shenzhen Municipal Government pursuant to the agreement. In accordance with the provisions of the agreement, the Shenzhen Municipal Government shall pay 30% of the consideration for the transfer by 31st December 2004 whilst the remaining shall be fully paid by 31st December 2005.

## Management Discussion and Analysis

### Impact on the Company's development

NH107 and NH 205 were transferred to the Company by the promoters in 1996 for a toll concession period of 30 years starting from 1997. The only source of income derived from these two highways has been toll revenues. In 2002, turnover for these two national highways was RMB205,194,000 and operating profit was RMB136,382,000, which accounted for 39.14% and 37.25%, respectively, of the total turnover and operating profits of the Company's expressways. The disposal of titles in these two highways by the Company allowed the Company to realise its investment and apply the proceeds to invest in other expressways with high growth potential in Shenzhen and other regions of China, with a view to improving the asset structure as a whole for the Company's long term development. However, in the years to come, a major challenge for the Company's management will be to recuperate its turnover and operating profits to the same levels as those generated under the former operating scale.

### Financial Analysis

#### I Analysis on Operating Results

During the Year, the Group's turnover from expressways increased by 19.94% when compared to the corresponding period of the previous year, of which turnover from Yanba Expressway, Jihe West and Meiguan Expressway increased by 72.29%, 25.84% and 11.72% respectively. The days included in the toll collection period for NH107 and NH205 were less than the corresponding period of the previous year by 288 days due to the transfer of these highways on 18th March 2003. Therefore, the Group's turnover decreased by 19.6% when compared to the corresponding period of the previous year.

During the Year, profit attributable to shareholders was RMB899.372 million, representing an increase of 159.14% as compared with that in the previous year, which was mainly attributable to the after-tax contribution of RMB586.272 million from the transfer of titles in Class 1 highways.

	2003 (RMB'000)	As restated 2002 (RMB'000)	% change
Turnover	<b>421,531</b>	524,291	-19.60%
of which: turnover attributable to expressways	<b>382,738</b>	319,097	19.94%
Gain from disposal of assets	<b>691,416</b>	—	N/A
Other revenue	<b>79,510</b>	66,536	19.50%
Total operating costs	<b>(183,881)</b>	(213,755)	-13.98%
Operating profits	<b>1,008,576</b>	377,072	167.48%
Share of profits less losses of jointly controlled entities	<b>59,094</b>	61,873	-4.49%
Finance costs	<b>(13,140)</b>	(24,927)	-47.29%
Profit before taxation	<b>1,054,530</b>	414,018	154.71%
Taxation	<b>(148,641)</b>	(61,085)	143.33%
Profit attributable to shareholders	<b>899,372</b>	347,064	159.14%
Earnings per share (RMB)	<b>0.412</b>	0.159	159.12%
Dividends per share (RMB)	<b>0.19</b>	0.12	58.33%

## Management Discussion and Analysis

### 1 Gains from disposal of assets

NH107 and NH205 were transferred by the Company during the year, and the gain from the disposal of interests was as follows:

	2003 (RMB'000)	2004 (RMB'000)	2005 (RMB'000)
Total consideration under the transfer agreement	1,930,000	—	—
Additional subsidy upon the transfer	106,169	—	—
Interest as discounted from the portion of installment payment	(48,833)	35,779	13,054
	<u>1,987,276</u>		
Stamp duty arising from the transfer of titles	(965)		
Book value of the interests transferred	(1,294,895)		
Profit before taxation arising from the transfer of interests	691,416		
Provision for income tax arising from the proceeds of the interests transferred	(105,144)		
	<u>586,276</u>	<u>35,779</u>	<u>13,054</u>
Net gain from the disposal of assets	<u>586,276</u>	<u>35,779</u>	<u>13,054</u>

During the year, profit after taxation arising from the transfer of interests was RMB586.272 million, accounting for 65.19% of the Company's profit attributable to shareholders.

### 2 Operating profits

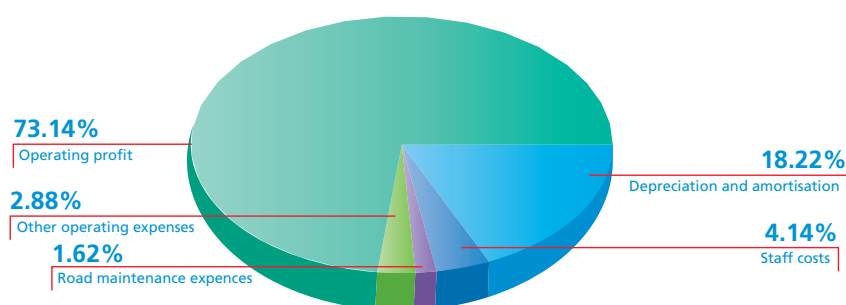
Item	2003 (RMB'000)	2002 (RMB'000)	% change
Expressways	326,273	262,853	+24.13%
Class 1 highways	25,931	136,382	-80.99%
	<u>352,204</u>	<u>399,235</u>	-11.78%
Sub-total	352,204	399,235	-11.78%
Gain on disposal of assets	691,416	—	N/A
Other expenses	(35,044)	(22,163)	58.12%
	<u>1,008,576</u>	<u>377,072</u>	<u>+167.48%</u>
Total operating profits	<u>1,008,576</u>	<u>377,072</u>	<u>+167.48%</u>



## Management Discussion and Analysis

During the reporting period, the Group's toll expressway operation continued to perform well. Operating profits from expressways increased by 24.13% over 2002. Jihe West demonstrated strong growth, with an increase in operating profit for the year by 29.84% when compared to 2002. Operating profits from Meiguan Expressways also increased by 14.69%. The Group's operating profits increased by 167.48% as compared to 2002, which was mainly attributable to the transfer of interests in NH107 and NH205 during the Year.

The following chart demonstrated the percentage of various operating costs for the expressways to the turnover of the expressways:



### Percentage of various costs of the expressways to turnover

### 3 Share of profits less losses of jointly controlled entities

Item	2003 (RMB'000)	2002 (RMB'000)	% Change
Jihe East Company	76,896	63,904	+20.33%
Shenchang Company	(1,372)	(2,031)	-32.45%
Qinglong Company	12,348	—	N/A
Yungang Company	196	—	N/A
Sub-total	88,068	61,873	42.34%
Provision for impairment loss on Shenchang Company	(77,000)	—	N/A
Early receipt of interests in special borrowings on entrustment	50,026	—	
Impairment of the Ropeway	(2,000)	—	
Share of profits less losses of jointly controlled entities	59,094	61,873	-4.49%

During the reporting period, the Company has added two new jointly controlled entities, namely Shenzhen Qinglong Expressway Company Limited (“Qinglong Company”) and Hubei Yungang Transportation Development Company Limited (“Yungang Company”). Meanwhile, as a result of growth of profits generated by Jihe East, share of profits of jointly controlled entities increased by 42.34% before the deduction of provisions for impairment losses on Shenchang Company and Wutongling Company. After deducting the provisions for impairment losses, share of profits of jointly controlled entities dropped slightly.

#### 4 Finance costs

Finance costs during the year decreased, which was mainly attributable to the decrease in bank borrowings of the Company that reduced expenses on interest payment.

#### 5 Provisions for impairment losses on assets

*Provision for impairment loss on the fixed assets of Shenchang Company*

The traffic volume and operating profits of Changsha Ring Road as operated by Changsha Shenchang Expressway Company Limited (“Shenchang Company”), a jointly controlled entity of the Company, failed to satisfy the Company’s investment objectives, and loss had been incurred since its commencement of operation in November 1999.

In 2003, directors of the Company engaged a professional transport consultancy company to forecast the traffic volume of Changsha Ring Road for the remaining operating term, and also engaged an asset appraisal firm with qualification in the securities industry to assess the valuation of the toll road on the basis of traffic volume forecasted. In accordance with the assets appraisal report, Shenchang Company made for the Year a provision for impairment loss in the amount of RMB150,981,000 in respect of highway fixed assets, and recognised deferred taxation asset of RMB49,824,000. As a result, the Company’s share of profits from jointly controlled entity was reduced by RMB77,000,000, which in turn reduced deferred income tax by RMB25,410,000, and in effect reduced profit attributable to shareholders by RMB51,590,000. In the event that there is any significant change in the external business environment and estimates, the Company will regularly revalue the amounts concerned for the purpose of adjustment or reversal of impairment provision.

In December 2003, the Company entered into agreement with Ring Road Co., whereby Ring Road Co., paid early interest payment for the entrusted loan due 31 October 2007. Since it is necessary to make a provision for impairment on the toll roads of Shenchang Company in the Year, an amount of RMB50,026,000 representing the early receipt of interests less tax payable was used to set off the Company’s provision for impairment loss attributable to Shenchang Company, in order to reflect the financial impact for the Company in respect of such investment and transaction. After setting off the provision for impairment loss attributable to Shenchang Company by the early receipt of interests, profit attributable to shareholders for the Year was reduced by RMB1,564,000, which will not have any significant impact on the Company’s profit.

## Management Discussion and Analysis

### *A review on the return of the Company's investment in Changsha Ring Road*

The Company invested in Shenchang Company jointly with Ring Road Co. in 1999, wherein the Company contributed RMB408,000,000 (RMB102,000,000 in the form of registered capital and RMB306,000,000 in the form of entrusted loan). Pursuant to the joint venture agreement of Shenchang Company, the Company's gain from investment shall mainly be derived from two sources, being interest income from the entrusted loan of RMB306,000,000, which will be payable by the Ring Road Co. to the Company for eight years before the operation of Changsa Ring Road on the basis of interest rates for Renminbi loans of over five years as announced by the People's Bank of China, and gain in shared operating income from Shenchang Company in accordance with the 51% equity held by the Company.

Between 1999 and 2003, the Company received from Ring Road Co. interests (including early receipt of interests as referred to above) amounting to RMB132,376,000, equivalent to after-tax profits amounting to RMB123,378,000. The Company received a distribution of operating cash from Shenchang Company as capital refund in the amount of RMB9,390,000. Share of operating loss in Shenchang Company by the Company amounted to RMB18,479,000, and the Company's share of provision on impairment losses attributable to Shenchang Company amounted to RMB515,900,000. Therefore, as at 31st December 2003, the aggregate cash inflow received by the Company from the Changsa Ring Road investment project amounted to RMB141,766,000, and RMB53,309,000 in total was recognised as net income (net of provisions and taxation).

### *Provision for impairment loss on Wutongling Company*

As at the end of the Year, the relevant government authorities have not yet granted approval in respect of reconstruction of Wutongling Ropeway. Taking into account the long suspension of the construction project and the uncertainty as to resumption of construction, the Company made provisions on impairment loss for the investment costs and the carrying amount of advances outstanding. The original value of the Company's equity investment and its loans to Wutongling Company amounted to RMB57,524,000 in aggregate. Based on provisions for impairment losses in value of RMB27,213,000 made in previous years, the Company made further provisions of RMB2,000,000 for the investment costs (under share of profit from jointly controlled entities) and RMB28,311,000 for the carrying amount of advances outstanding (under other operating expenses), respectively. After deducting deferred taxation, the provisions effectively reduced the Company's profit attributable to shareholders by RMB28,433,000 for the Year.

At present, the Company is proactively pursuing a resumption on the construction and operation of Wutongling Ropeway. In case the project is revoked by the relevant government authorities, the Company will use its best endeavours to claim for damages from the authorities concerned.

### 6 The change of income tax accounting policies and its effect

In the current year, the Group adopted the Statement of Standard Accounting Practice ("SSAP") 12 (revised) - "Income taxes", issued by the Hong Kong Society of Accountants, which is effective from 1st January 2003.

The effect of change in accounting policy arising from the adoption of the revised standard by the Group is set out as follows:

The retrospective adjustments, representing the unprovided deferred tax liabilities on temporary differences arising from different basis of depreciation of toll roads and amortisation of land use rights leading to differences in accounting and the tax bases, the decrease in the Group's share of profits of jointly controlled entities due to the provision of deferred taxation made by the jointly controlled entities following the change in accounting policy; and the corresponding reversal of appropriations made to reserves have resulted in an increase in deferred tax liabilities as at 31st December 2002 by RMB36,754,000, a decrease in interests in jointly controlled entities by RMB24,224,000, a decrease in minority interests by RMB1,006,000 and a decrease in reserves by RMB12,398,000 (Adjustment in reserves is made according to relevant PRC rules and regulations). The profit and amount transferred to equity for the year ended 31st December 2002 have been reduced by RMB12,867,000 and RMB59,972,000, respectively. Opening retained earnings at 1st January 2002 and 2003 have been reduced by RMB37,647,000 and RMB47,574,000, respectively.

### 7 Results and dividend

In accordance with HK GAAP, the Group reported a turnover of RMB421,531,000 for the year ended 31st December 2003, representing a decrease of 19.6% as compared to the corresponding period of the previous year. The decrease in turnover was mainly due to the disposal of NH107 and NH205 on 18th March 2003 which resulted in a decrease of 288 days in the toll collection period during the reporting period. Turnover from expressways was RMB382,738,000, an increase of 19.94% as compared to the corresponding period of the previous year. Operating profit from expressways increased by 24.13% as compared to the corresponding period of the previous year. As the Company has realised an after-tax profit of RMB586,272,000 from the disposal of two Class 1 highways, profit attributable to shareholders for the Year amounted to RMB899,372,000, an increase of 159.14% as compared to the corresponding period of the previous year. Earnings per share was RMB0.412.

The board of directors has recommended a final dividend of RMB0.19 per share (2002: RMB0.12) including a special dividend of RMB0.09 to H-share holders whose names appear on the registers of shareholders of the Company at the close of business on Tuesday 23rd March 2004. The payment of the special dividend has taken into account the significant growth in profits arising from the disposal of assets. The board of directors has also prudently considered the fund requirement for its current and future business development, as well as the will to increase shareholders' return. However, such declaration of special dividend should not be regarded as a regular payment and should be subject to the approval by shareholders at the 2003 Annual General Meeting to be held on Friday, 23rd April 2004. The registration date, dividend payment procedures and payment date for A-share holders will be announced separately.

# Management Discussion and Analysis

## II Financial Position and Analysis

The Company has adopted prudent financial policies and a risks control system has been set up in respect of investment, financing and cash management. As a result, a solid, healthy capital structure has been maintained. The Company also adjusts its financial policies in respect of investment, financing and capital structure in response to changes in the external policy environment and in its internal resources capability.

### 1 Capital liquidity

	<b>2003</b>	2002
Current ratio	<b>5.44</b>	1.30
Liquidity ratio	<b>5.43</b>	1.29

The Company's current assets comprise mainly cash and the consideration receivable for the transfer of NH107 and NH205 before 31st December 2004 pursuant to the terms as provided in respective contracts. As at the end of the reporting period, the ratio of cash to total current assets is 65.56%. The Company is principally engaged in the operation and management of toll roads, and has a strong and stable cash inflow from its daily operations. During the reporting period, the Company made use of its strong cash resources to repay bank borrowings, and as such various liquidity indicators were significantly enhanced as compared with those of the previous year.

### 2 Financial resources

	<b>As at 31st December 2003 RMB'000</b>	As at 31st December 2002 RMB'000
Cash and cash equivalents:		
Cash on hand	<b>150</b>	193
Bank deposits		
- Fixed deposits in RMB with a term of over 3 months	<b>70,000</b>	202,000
- Current deposits and deposits with a term of 3 months or less in RMB	<b>1,133,493</b>	663,597
- Deposits in HKD	<b>64,572</b>	89,231
- Deposits in USD	<b>603</b>	1,715
Capital in other currencies	<b>6,000</b>	6,000
	<b>1,274,818</b>	962,736
Subtotal	<b>1,274,818</b>	962,736
Bank borrowings		
- Short-term borrowings	<b>40,000</b>	610,000
- Long-term borrowings	<b>36,177</b>	24,419
	<b>76,177</b>	634,419
Subtotal	<b>76,177</b>	634,419

### 3 Cash and cash equivalents

Cash held by the Company includes proceeds from share issuance and other working capital. The Company has applied the proceeds raised from share issuance in strict compliance with the representations made in the Prospectus and the funds for different applications are managed separately. The proceeds pending utilisation are deposited in various commercial banks in the PRC.

### 4 Bank borrowings

The Company strictly maintains its liabilities at reasonable levels, and makes reasonable arrangements as to terms of its bank borrowings with reference to its medium and long-term financial plans, capital liquidity and flexibility as well as prevailing interest rates. Owing to its sound credit worthiness, the Company manages to obtain preferential interest rates for its bank borrowings.

As at the end of the reporting period, the Company's bank borrowings amounted to RMB76,177,000. During the reporting period, the Company was granted bank borrowing facilities of an aggregate amount of RMB2.99 billion. As at the end of the reporting period, total bank borrowing facilities amounted to RMB4.09 billion, with RMB4.05 billion remaining available.

### 5 Government subsidies

The Shenzhen Municipal Government planned to provide the Company with an aggregate of RMB150 million as financial subsidies for Yanba B. During the reporting period, the Company received subsidies amounting to RMB80 million. As such, all subsidies given by the Shenzhen Municipal Government for the Yanba B have been received.

### 6 Impact on financial resources by transfer of National Highway No.107 and No.205

Pursuant to the asset transfer agreement, the Company will receive a consideration of approximately RMB1.93 billion. As at 31st December 2003, the Company has received a sum of RMB965 million. The remaining balance will be received in two lump sums by 31st December 2005. The consideration for the transfer of assets has provided considerable financial resources for the Company's future investments in expressway development. In addition, the collaterals created upon the operating rights of NH107 and NH205 in respect of the RMB1.9 billion credit facilities granted by PRC banks to the Company were released on 11th April 2003.

### 7 Capital commitments

The Company's capital commitments are mainly for the construction of expressways and equity investments in expressway projects, including Yanba Expressway and Yanba C. The amounts of capital commitments are set out below:

	RMB'000
Contracted but not provided for	328,000
Authorised by the board of director but not contracted	1,808,000
Total	<u>2,136,000</u>

The Company's current financial resources are able to meet the expenditure for the above-said capital commitments.



## Management Discussion and Analysis

### 8 Management of foreign exchange risks

The Company's deposits and loans in foreign currencies are minimal. Its payment in foreign currencies during its usual course of business comprises mainly the payment of dividends for its H shares. During the Year, the exchange rates concerned remained relatively stable, which did not have any material effect on the Company's results for the reporting period.

### 9 Cash inflow and outflow

Item	2003 RMB'000
Net cash flow from operating activities	294,006
Net cash flow from investment activities	899,275
Net cash flow from financing activities	(749,199)
	<u>444,082</u>

During the reporting period, net increase in cash was RMB444,082,000.

### 10 Net cash flow from operating activities

The Company's net cash inflow from operating activities comes mainly from toll revenues of its toll roads, and cash can be received on the day of transacting the business operation.

### 11 Cash flow from investment activities

The Company's cash inflow from investment activities comprised mainly the consideration from the transfer of NH107 and NH205 amounting to RMB965,000,000, interest received amounting to RMB28,179,000, and dividend from jointly controlled entities and shareholders' loan amounting to RMB168,255,000.

The cash outflow from investment activities comprised mainly capital expenditure paid for the construction of Yanba A and Yanba B amounting to RMB177,264,000, the consideration for the acquisition of the entire share capital of Mei Hua Company amounting to RMB26,574,000, and the shareholders' loan provided to Qinglong Company, a jointly controlled entity, amounting to RMB190,000,000.

### 12 Cash flow from financing activities

During the reporting period, the Company reduced its bank borrowings by RMB558,242,000, and received RMB80 million of government advances provided by the Shenzhen Municipal Government for the construction of Yanba B. An amount of RMB261,684,000 was distributed as dividends.

## Management Discussion and Analysis

### 13 Capital structure

The Company's capital structure comprised mainly shareholders' funds and liabilities. As at 31st December 2003, the Company's shareholders' funds amounted to RMB6,082,069,000, and its liabilities were RMB856,937,000. As at 31st December 2003, its gearing ratio (ratio of total liabilities to shareholders' funds as at the balance sheet date) was 14.09% (31st December 2002: 22.12%).

The Group's indebtedness as a whole has been relatively low and its capital structure remained sound. It has strong risk tolerance and great flexibility in debt financing.

The Group's profit before interests and tax and interest cover:

	2003	2002
Profit before interests, depreciation, amortisation and tax (RMB'000)	<b>1,149,858</b>	539,619
Profit before interests and tax (RMB'000)	<b>1,067,670</b>	438,945
Interest cover	<b>81.25 times</b>	17.61 times

The above indicators increased remarkably as compared to the corresponding period of the previous year, owing to a substantial increase in operating profits as a result of the sale of NH107 and NH205 during the reporting period.

Set out below is the capital structure of the Company analysed in terms of capital liquidity:

	2003		2002	
	Amount (RMB'000)	Percentage	Amount (RMB'000)	Percentage
Current liabilities	<b>357,133</b>	<b>5.11%</b>	760,047	11.34%
Long-term liabilities	<b>499,804</b>	<b>7.15%</b>	444,692	6.64%
Shareholders' funds	<b>6,082,069</b>	<b>87.02%</b>	5,445,281	81.27%
Minority interests	<b>49,967</b>	<b>0.72%</b>	50,282	0.75%
<b>Total</b>	<b><u>6,988,973</u></b>	<b><u>100.00%</u></b>	<b><u>6,700,302</u></b>	<b><u>100.00%</u></b>

Current liabilities decreased by 53.01%, which was mainly attributable to the repayment of bank borrowings, whilst its long-term liabilities increased by 12.39%, which was mainly attributable to the increase of deferred income and deferred tax.

## Management Discussion and Analysis

Set out below is the capital structure of the Company analysed in terms of interest rates:

	As at 31st December 2003		As at 31st December 2002	
	Amount (RMB'000)	Percentage	Amount (RMB'000)	Percentage
Fixed rate liabilities	<b>76,177</b>	<b>1.09%</b>	634,419	9.47%
Interest-free liabilities	<b>780,760</b>	<b>11.17%</b>	570,320	8.51%
Shareholders' funds	<b>6,082,069</b>	<b>87.02%</b>	5,445,281	81.27%
Minority interests	<b>49,967</b>	<b>0.72%</b>	50,282	0.75%
Total	<b><u>6,988,973</u></b>	<b><u>100.00%</u></b>	<b><u>6,700,302</u></b>	<b><u>100.00%</u></b>

During the reporting period, the Company's bank borrowings in the PRC were all short-term bank borrowings, amounting to RMB40 million in total, with a fixed interest rate of 4.536% per annum. Foreign borrowings comprised long-term fixed rate loans from the Spanish Government of USD4,371,000 (equivalent to RMB36,177,000), of which USD2,234,000 was at an interest rate of 7.17% per annum and the remaining USD2,137,000 at an interest rate of 1.8% per annum. As all the Company's current bank borrowings are subject to fixed interest rates, fluctuations in interest rates will not have any material effect on the Company's operating results.

The Company's interest-free liabilities represent current account payables and deferred income.

### Other Matters

#### 1 Use of proceeds

The Company raised RMB604 million from the issue of RMB denominated ordinary A shares. During the reporting period, the Company applied such net proceeds in the construction of Yanba B in strict compliance with the representations as made in the Prospectus. The project was completed and the expressway commenced toll collection on 12th June 2003. As at 31st December 2003, RMB383,507,000 of the proceeds has been injected into the project. The balance of the proceeds amounted to RMB220 million.

### 2 Repurchase of H Shares

The Company's shareholders approved the special resolution on 30th May 2003 in respect of authorising the board of directors to repurchase the Company's H Shares up to 10% of the nominal value of total H shares in issue during the reporting period. The Company has completed the relevant procedures with the CSRC pursuant to the requirements of relevant laws and regulations of the PRC and has obtained the CSRC's approval in February 2004.

Pursuant to the authority given by the shareholders, the Company's board of directors may repurchase H shares on HKEX during the relevant period, whilst the relevant period will expire on 23rd April 2004 when the 2003 annual general meeting of the Company is concluded. To date, there is no H share repurchased by the Company.

### 3 Provision and performance of guarantees to external parties

As at the end of the reporting period, the Company, its subsidiaries and associated companies have not provided any guarantee to any external party.

### 4 Charges on the Group's assets

As at the end of the reporting period, the jointly controlled entity of the Company, Qinglong Company, pledged the following assets to the banks as collateral for the provision of bank loans and banking facilities:

Secured assets	Bank	Maximum amount secured	Validity
Toll collection rights of Shuiguan Expressway	China Development Bank	RMB550 million of loan principal and interest	28th April 2013



## Management Discussion and Analysis

### 5 Material contracts and their performance

At 31st December 2003, the material contracts of the Group included:

*Banking facilities contracts:*

Bank	Banking facilities	Term	Bank borrowings obtained during the reporting period
Shenzhen Branch, China Minsheng Banking Corporation Limited	RMB600 million	From 28th August 2002 to 28th August 2004	
Shangbu Sub-branch, Shenzhen Branch, China Everbright Bank	RMB500 million	From 1st July 2002 to 1st July 2005	RMB20 million
Shenzhen Huanggang Sub-branch, China Merchants Bank	RMB550 million	From 10th June 2003 to 10th June 2004	
Futian Sub-branch, Shenzhen Branch, Industrial and Commercial Bank of China	RMB700 million	From 27th September 2003 to 26th September 2004	RMB20 million
Futian Sub-branch, Shenzhen Branch, Industrial and Commercial Bank of China*	RMB740 million	From 20th October 2003 to 20th October 2015	
Shangbu Road Sub-branch, Shenzhen Branch, Guangdong Development Bank	RMB300 million	From 1st November 2003 to 1st November 2006	
Shangbu Sub-branch, Shenzhen branch, China Construction Bank	RMB300 million	From 5th November 2003 to 5th November 2006	
Dongmen Sub-branch, Shenzhen Branch, Citic Industrial Bank	RMB400 million	From 26th November 2003 to 25th November 2008	

\* Concerning the pledge of toll collection rights of Yanpai Expressway for the provision of banking facilities at an amount of RMB740 million, the Company had been granted facilities in the form of credit before Yanpai Expressway commenced toll collection and such facilities were changed to the pledge of toll collection rights after Yanpai Expressway commenced toll collection.

### 6 Litigation and arbitration

#### *Arbitration*

With respect to the dispute between the Company and Huarong Trade (Group) Company Limited (“Huarong Trade”) which has incurred economic losses to the Company in such entrusted investments, the Company submitted the dispute to arbitration at the Shenzhen Arbitration Commission in 2003. The arbitration award made by the Shenzhen Arbitration Commission on 15th September 2003 was as follows: Huarong Trade (Group) Company Limited shall repay to the Company the entrusted investments of RMB34,804,000 and the interest loss of RMB1,648,000. The liquidation committee of Anshan Securities Company shall be responsible for settling one-third of the entrusted Investments and the loss of interest which is payable but unable to be settled by Huarong Trade (Group) Company Limited. The Company is proactively demanding the payment of such damages. As at the end of the reporting period, the Company has not yet recovered the damages. The Company has recorded the related economic losses in the accounts in 2001.

### 7 Material connected transactions - Implementation of entrusted loan agreement entered into with Ring Road Company

On 23rd December 2003, the Company entered into an agreement with Changsha Ring Road Construction and Development Co. Ltd. (“Ring Road Company”) and Shenzhen International Trust and Investment Company (“SITIC”), whereby the aggregate loan interest of RMB80,702,000 to be payable by Ring Road Company to the Company from 23rd December 2003 to 31st October 2007 would be settled by Ring Road Company in advance in a one-off lump-sum payment of RMB66,800,000. Concurrently, the principal of the loan concerned would be treated as an interest-free shareholder’s loan made to Changsha Shenchang Expressway Co. Ltd. (“Shenchang Company”) by the Company. As an incentive for such one-off lump-sum interest payment, the Company and SITIC agreed to receive from Ring Road Company RMB66,800,000 as the final settlement in place of RMB80,702,000 due, and waived the right of demanding for payment of the interest balance of RMB13,902,000.

Ring Road Company settled the interests on the remaining period for the entrusted loan of RMB306 million on 26th December 2003. Pursuant to the Agreement and the relevant resolutions passed by the board of directors and shareholders’ meetings of Shenchang Company, out of the shareholders’ loan of RMB600 million originally made by Ring Road Company to Shengchang Company, an amount of RMB306 million was changed into the form of a shareholders’ loan by the Company to Shengchang Company.

On 25th December 2003, the Company entered into an agreement with a PRC bank (the “Bank”) whereby the Bank would grant a facility of RMB70,000,000 to Ring Road Company with dedicated purpose, and procure Ring Road Company to remit to the Company an amount of RMB66,800,000 out of the facility to settle on an one-off basis the damages due from Ring Road Company to the Company for the interests on the above-mentioned loan. In return, the Company agreed to take a controlling interest in the investment, borrowings, distribution of income and pledge of toll collection rights of Shenchang Company, and to impose restrictions on any transfer of its 51% equity interest in Shenchang Company.



If the Company is in breach of the commitments as referred to above and Ring Road Company fails to repay its banking facilities due, and where by way of auction the Bank fails to solicit any party who will assume the interests pledged in favour of the Bank in accordance with the loan agreement and pledge agreement entered into with Ring Road Company or the bidding price resulted thereon is less than RMB70,000,000, the Company has undertaken to acquire such interests pledged at an amount of RMB70,000,000.

The above-said agreement has been entered into by the Company as part of the arrangement for early interest repayment of RMB66,800,000 by Ring Road Company and would enable the Company to obtain capital resources from Ring Road Company through the Bank, which is in the interest of the Company. The Company does not foresee that it would be in breach of such agreement resulting in the Company to purchase the interests pledged. The Company also expects that the interests pledged will be worth more than RMB70,000,000 throughout the term of the agreement and that the Company will not incur a loss therefrom. As the agreement does not affect the usual course of operation of Shenchang Company, the Company does not consider that the agreement will have any significant impact on the operation of Shenchang Company or the Group.

### Strategies and Future Prospects

#### 1 Investment strategies

The investment strategies of the Company are to develop toll expressways in Shenzhen on the one hand, and to acquire toll road projects of quality and high return in other regions in the PRC on the other hand. The Company will invest in the construction of other expressways as envisaged in the Master Plan of Road Network of Shenzhen. In addition, the Company is now exploring new projects in the Pearl River Delta region and other regions in the PRC with an aim to invest and acquire equity interests in expressways that have commenced operation. Through acquiring projects of quality and high return, the Company aims to further enhance its profitability and to ensure a prosperous, sustainable development of the Company.

#### 2 The development of a corporate culture

Through ten years development, the Company has developed its core values of "Leading with an Excellent Corporate System", "Striving for the Best, not the Biggest" and "Integrity and Diligence". Emphasis has been placed on contribution to the society, devotion to the enterprise and attainment of public interests. The Company will proactively carry out the establishment of a corporate culture, cultivate a superb work environment, develop an excellent team of employees, achieve first-rate results and create a superior brand name.

#### 3 Staff and training

As at 31st December 2003, the Group had 1,029 employees, among whom 91 were administrative staff, 32 were finance staff, 141 were technical staff and the remaining 765 were toll collection staff. There were 156 staff in the Company with various professional qualifications, accounting for 15.2% of the total number of staff; 44.9% of the Company's staff were graduates from universities and post-secondary institutes; and toll collection staff were graduates from high schools or above.

The Group provides social retirement insurance, social medical insurance, labour insurance and unemployment insurance benefits for its staff. As at 31st December 2003, two staff of the Group retired and have completed retirement procedures at the Shenzhen Social Security Bureau.

The Company placed a lot of emphasis on staff training. In 2003, the Company expanded its staff training programmes to enhance staff's knowledge and skills in accordance with the Company's development and management needs. In 2003, 34 training courses for different operations and staff levels were carried out with a total of 352 training hours completed. Such training activities were well organised and have improved the performance of our staff, departments concerned and the Company itself. The Company will continue to provide training to enhance staff's quality, knowledge and abilities in accordance with the Company's medium and long-term development plans and with reference to actual circumstances.

#### **4 Future plans and prospects**

In accordance with the Master Plan of Road Network of Shenzhen, Shenzhen plans to invest RMB20 billion in the construction of expressways with a total length of 270 kilometers within the next 10 years, with a view to consolidating its existing expressway network. By 2015, Shenzhen is expected to have expressways and Class 1 highways with a total length of 1,065 kilometers, covering 54.7 kilometers per 100 square kilometers. This development plan will provide ample room for the future development of the Company's principal business.

In the coming years, Shenzhen's foreign trade will continue to grow. Trade activities between Shenzhen and Hong Kong will remain frequent. Container and ports transportation business in Shenzhen will continue to enjoy robust growth. Sales and production of vehicles will remain prosperous. Private cars in the Pearl River Delta region will increase at a rapid pace. Car ownership in Shenzhen has ranked first in the PRC, which has provided a steady traffic flow for the Company's toll roads. The Shenzhen Municipal Government has decided to devote more efforts to the development of modern e-commerce business and logistics, which will also lead to even greater demand for highway transportation and has set a benign operating environment for the Company's toll roads.

