



## Report of the Directors

The Company has made its best endeavours to maximise its corporate value and to provide long-term return to shareholders. Dividends form an important part of shareholders' investment return ...

The Group has sufficient funds and is optimistic about the future, and will continue to pursue a high pay-out rate and steady distribution of dividends.

# Report of the Directors

The directors are pleased to present herewith their report and the audited accounts for the year ended 31st December 2003.

## 1 Details of the Company

The Company was established as a joint stock limited company in the PRC on 30th December 1996. Its H Shares and A Shares were listed on the HKEX and the Shanghai Stock Exchange on 12th March 1997 and 25th December 2001, respectively.

## 2 Summary of the Report of the Board of Directors

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

- the report of the Board of directors for the year 2002;
- the audited financial report for the year 2002;
- proposal for profit distribution scheme for the year 2002 and the profit distribution policy for the year 2003;
- the budget plan for the year 2003;
- the emoluments of directors and supervisors for the year 2003;
- the re-appointment of Messrs. PricewaterhouseCoopers Certified Public Accountants and Shenzhen Tianjian Xinde Certified Public Accountants as the international auditors and the statutory auditors of the Company, respectively, and the authorisation of the Board of the Company to fix their remuneration;
- the authorisation of the signing on the banking facilities and the bank loans for the year 2003;
- the necessary amendments to the articles of association of the Company;
- the convening of the 2002 Annual General Meeting;
- the first and third quarterly reports of the Company for the year 2003;
- the disposal of the interests and rights in NH107 and NH205 owned by the Company;
- the proposal to invest and construct Yanpai Expressway (Yantian subsidiary road of Jihe Expressway);
- the proposals to acquire equity interests in several expressway projects;
- the project construction management agreement for Phase I of Nanping Freeway;



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- 2003 Interim Results Report and the financial reports;
- the proposals to suspend the operation of the Share Appreciation Right Scheme and to amend;
- the amendment to the *Regulation of the Board of Directors*; and approval of the *Basic Regulation of Financial system*;
- the passing of the repurchase of its H Shares;
- the convening of 2003 Extraordinary General Meeting to amend the Share Appreciation Right Scheme;
- the proposal to strengthen the investor relationship management and setting up the Department of Public Relationship.

### 3 Principal Activities

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

An analysis of the Group's turnover and contribution to operating profit for the year is set out on page 27.

No analysis of the Group's turnover and contribution to operating profit by geographical area were prepared as turnover and results of the Group during the year were principally derived from the operations of the Group's toll roads in the PRC.

### 4 Financial Results

The results of the Group for the year ended 31st December 2003 are set out in the consolidated profit and loss account on page 83.

The financial position of the Group and the Company as at 31st December 2003 are set out in the balance sheets on page 84 to page 87, respectively.

A summary of the results for the last five financial years, and of the assets and liabilities of the Group is set out on page 4 of this report.

### 5 Dividend

The Board of directors recommended the payment of a dividend of RMB0.19 per share, totaling RMB414,333,000, for the year ended 31st December 2003 to shareholders whose names appear in the register of shareholders of the Company at the close of business on 23rd March 2004 (the time of the declaration of dividends for holders of A Shares will be otherwise notified).

According to the articles of association of the Company, the dividend distributed to the shareholders of domestic shares and H Shares will be paid in RMB and HKD, respectively. The exchange rate for the final dividend is the average of the median exchange rate for converting RMB into HKD quoted by the People's Bank of China for the five working days preceding the day on which the final dividend was declared.

### 6 Election and Change of Directors, Supervisors and Senior Management

- (1) At the 1st board meeting of the Third Board of Directors of the Company held on 13th January 2003, Mr. Chen Chao was elected to be the chairman of the Company. At the 1st meeting of the Third Supervisory Committee of the Company held on 15th January 2003, Mr. Wang Ji Zhong was elected to be the chairman of the Supervisory Committee of the Company.
- (2) At the 2002 Annual General Meeting held on 28th May 2003, Mr. Poon Kai Leung, James, was elected to be the Independent Director of the Third Board of Directors of the Company, with a term of office from the date of appointment to 31st December 2005.
- (3) The nomination proposal of the senior management officers putting forward by Human Resources and Nomination Committee was considered and approved at the 5th board meeting held on 15th August 2003, that Mr. Wang Xue Feng and Mr. Fang Li Ping were appointed as the Deputy General Manager and Chief Operation Management Officer, Deputy General Manager and Chief Project Management Officer of the Company, respectively. Mr. Wu Xian was appointed as the Chief Engineering and Technology Officer of the Company, and was ceased to be the Deputy General Manager with effect from the aforesaid day. Their terms of office shall be two years from 15th August 2003. Mr. Xu Mei Sheng was ceased to be the Chief Engineering and Technology Officer of the Company due to his retirement.
- (4) The resignation of Mr. Li Zhi Zheng, independent director of the Company, from the position of member of Audit Committee was approved at the 5th board meeting of the Third Board of Directors due to his heavy workload resulting from his positions in the three special Committees of the Board of Directors.

### 7 Service Contracts for Directors

Each of the directors has entered into a service contract with the Company. Contents of such contracts are the same in all material respects. All such service contracts are from 1st January 2003 to 31st December 2005 except that the service contract with Mr. Poon Kai Leung, is all for 3 years from 28th May 2003 till 31st December 2005. Save as the aforesaid, no service contracts that can be terminated within one year with compensation (other than general statutory compensation) have been or proposed to be entered into between the directors or supervisors and the Company.

### 8 Emoluments of the Directors, Supervisors and Senior Management

- (1) The emoluments of the directors and supervisors is considered and approved at the Annual General Meeting. Apart from 4 independent directors and Mr. CHIU Chi Cheong, the director who was not recommended by shareholders, directors (including those who hold management position in the Company) do not receive any emoluments from the Company. Directors who hold management position in the Company receive management remuneration according to their respective position in the Company.

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- (2) The total remuneration of directors, supervisors and senior management in 2003 amounted to approximately RMB6,372,000.
- (3) In 2003, remuneration for all of the independent directors is RMB552,000. The subsidies for the four independent directors for the year amounted to RMB40,000. As a result, the total amount of the emoluments for the four independent directors for the year 2003 amounted to RMB592,000.
- (4) The total amount of the highest paid directors amounted to RMB1,970,000.
- (5) The total amount of the highest paid senior management amounted to RMB1,783,000.
- (6) The Company has altogether 19 directors, supervisors and senior management, and each of them obtained remuneration from the Company. Distribution of the range of remuneration in each category of personnel (including bonus from exercising share options and subsidies from the meeting) is set out as follows:

(RMB)

	0~100,000	100,000~500,000	500,000~1,000,000
Directors	3	6	3
Supervisors	2	1	0
Senior Management	0	0	4

### 9 Directors' and Supervisors' Interests in Contracts

As at 31st December 2003 or at any time during the year, no contract of significance in relation to the Company's business to which the Company, its subsidiaries or its jointly controlled entities was a party and in which a director or supervisor of the Company had a material interest, whether directly or indirectly, subsisted at the end of the Year or at any time during the Year.

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### 10 Disclosure of Interests

As at 31st December 2003, the interests and short positions of the directors or supervisors of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance) as recorded in the register required to be kept by the Company under section 352 of Part XV of the Securities and Futures Ordinance, are set out as follows:

Name	Number of units involved	Exercise price	Time of Exercise
Chen Chao	771,188	Note 1	16th March 2003
Wu Ya De	1,595,925	Note 4	16th March 2003
	2,750,700	Note 5	16th March 2004
	2,750,700	Note 5	16th March 2005
Zhang Rong Xing	1,628,363	Note 4	16th March 2003
	2,750,700	Note 5	16th March 2004
	2,750,700	Note 5	16th March 2005
Zhong Shan Qun	65,625	Note 1	16th March 2003
Tao Hong	194,625	Note 1	16th March 2003
Lin Xiang Ke	155,700	Note 1	16th March 2003
Zhang Yang	155,700	Note 1	16th March 2003
Chiu Chi Cheong Clifton	155,700	Note 1	16th March 2003
Yi Ai Guo	1,608,900	Note 4	16th March 2003
	2,750,700	Note 5	16th March 2004
	2,750,700	Note 5	16th March 2005

Notes:

1. Unit holders is entitled to cash in the difference between the exercise price of RMB3.456 and the reference price which is calculated by reference to the aggregate of 60% and 40% of the average closing prices of the H Shares and A Shares respectively for the five trading days commencing on the sixth trading day after the date of making application for cashing in the relevant units under the share appreciation right scheme.
2. The receipts from exercise of the units represent the difference between RMB3.456 per unit and the arithmetic average of the closing price of the listed shares of the Company during the period of 16th March 2003 to 15th March 2004.
3. The receipts from exercise of the units represent the difference between RMB3.456 per unit and the arithmetic average of the closing price of the listed shares of the Company during the period of 16th March 2004 to 15th March 2005.

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4. It represents the units including 1,544,025 units collectively held by the management and management staff of the Company on or before 31st December 2003.
5. It represents the units collectively held by the management and the management staff of the Company from the relevant time of exercise.

The aforesaid units were granted under the share appreciation right scheme approved by the shareholders on 6th March 2001 and amended by the shareholders on 30th October 2003. After the amendment, the units granted under such scheme are held by the senior management and management staff of the Company instead of holding by individual. The time and the price of the exercise are amended to that the receipts from exercise of the units represent the difference between issued price and the arithmetic average of the closing price of the listed shares of the Company during the period of exercise. And the receipts from exercise of the units shall be applied as special incentive fund and distributed by the Company according to the proposal putting forward by Human Resources and Nomination Committee.

All the units not exercised on or before 31st December 2003 in the share appreciation right scheme held by the Directors individually have been cancelled after 31st December 2003. Subsequent to the cancellation, units in the share appreciation right scheme granted by the Company and collectively held by the senior management and management staff of the Company are 5,501,400. Mr. Wu Ya De, Mr. Zhang Rong Xing (Directors) and Yi Ai Guo (Supervisor) may or may not be granted by the Company part of the receipts from the exercise of such as inventive, subject to the approval of Human Resources and Nomination Committee.

### 11 Major Customers and Suppliers

No disclosures with regard to the Group's major customers and suppliers are made since the Group's customers are users of its toll roads while its major suppliers are contractors for the construction of toll roads.

### 12 Interest of Directors in Competing Business

During the Year and up to the date of this report, none of the directors or management shareholders has any interest in business which competes or may compete with the business of the Group under the Rules Governing the Listing of Securities on HKEX.

### 13 Management Contracts

No contract concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the Year.

### 14 Share Capital

The total capital of the Company was RMB2,180,700,000. For details, please refer to note 20 to the accounts.

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### 15 Substantial Shareholders' Shareholdings

As at 31st December 2003, the interests or short positions of substantial shareholders, other than a director, supervisor or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of Part XV of the Securities and Futures Ordinance are as follows:

Long position in the shares of the Company:

Name of Shareholder	Class of Shares	Number of Shares held	Capacity	Percentage of the relevant class of share capital	Percentage of total issued share capital
J.P. Morgan Chase & Co. (note 1)	H Shares	53,508,000(L)	Interest of a controlled corporation	7.16%(L)	2.45%(L)
		52,906,000(P)		7.08%(P)	2.43%(L)
Xin Tong Chan	Legal Person Shares (State owned)	654,780,000(L)	Beneficial owner	45.68%(L)	30.03%(L)
Shen Guang Hui	Legal Person Shares	457,780,000(L)	Beneficial owner	31.94%(L)	20.99%(L)
Huajian Transportation and Economic Development Centre	Legal Person Shares	91,000,000(L)	Beneficial owner	6.35%(L)	4.17%(L)

(L) - Long Position (P) - Lending Pool

#### Notes

- J.P. Morgan Chase & Co and its associates were holding 53,508,000 H Shares, representing approximately 7.16% of H Shares, of which 380,000 H Shares were held by J.P. Morgan Chase & Co and its associates as beneficial owner, 222,000 H Shares as investment manager, and 52,906,000 H Share shares as custodian corporation/ approved lending agent.

Save as disclosed above, the register required to be kept under section 336 of Part XV of the Securities and Futures Ordinance showed that the Company had not been notified of any interests or short positions in the shares and underlying shares of the Company as at 31st December, 2003.

### 16 Reserves

The amounts and particulars of material transfers to and from reserves during the Year are set out in note 21 to the accounts.

### 17 Fixed Assets

The movements in fixed assets during the Year are set out in note 14 to the accounts.



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### 18 Bank Loans and Other Borrowings

Details of bank loans and other borrowings of the Group and the Company as at 31st December 2003 are set out in note 23 and note 24 to the accounts.

### 19 Interest Capitalized

The amount of interest capitalized by the Group and the Company for the year ended 31st December 2003 are disclosed in note 8 to the accounts.

### 20 Use of Proceeds from Issue of A Shares

The Company issued an aggregate of 165,000,000 A shares in December 2001, with the issue price of RMB3.66 per share (equivalent to HKD3.45). The net proceeds from the A Shares issue were approximately RMB604 million, which is used for the construction of Yanba B. As at 31st December 2003, RMB383.5million from the net proceeds has been invested into it, all of which are from proceeds of the A shares issue. The remaining RMB220million is kept as bank deposits.

### 21 Income Tax Rate and Business Tax Rate

Commencing from 1st January 2002, the Company is required to pay PRC enterprise income tax at the rate of 15%, the preferential tax rate for enterprises established in the Shenzhen Special Economic zone.

The Group is subject to PRC Business Tax at 5% of toll income.

### 22 Trust Deposits and Overdue Time Deposits

As at 31st December 2003, the Company did not have any trust deposit or overdue time deposit.

### 23 Purchase, Sale or Redemption of Shares

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

### 24 Undertaking

The two major shareholders of the Company, Xin Tong Chan Company and Shen Guang Hui Company, each of which has more than 5% shareholding, have given undertaking in the promoters' agreement that they will not engage in Shenzhen in any industry or business in any form, directly or indirectly, which competes with the Company. The board of directors of the Company was in the opinion that the above two major shareholders have strictly complied with the undertaking during the reporting period.

### 25 Material Litigation and Arbitration

Please refer to the section headed Arbitration of Litigation and arbitration under Management Discussion and Analysis for the litigations and arbitration matters of the Company in 2003.

### 26 Investment and Acquisition

Please refer to the section headed Investment and Construction under Management Discussion and Analysis for the investment and acquisition matters of the Company in 2003.

### 27 Material Connected Transactions

Please refer to the section headed Material connected transaction-Implementation of entrusted loan agreement entered into with Ring Road Company under Management Discussion and Analysis for matters regarding material connected transactions of the Company in 2003.

### 28 Subsidiaries and Jointly Controlled Entities

Details of the Company's subsidiaries and jointly controlled entities are set out in notes 15 and 16 to the accounts respectively.

### 29 Pre-emptive Rights

According to the articles of association of the Company and the laws of the PRC, there are no provisions for pre-emptive rights requiring the Company to offer new shares to the existing shareholders in proportion to their shareholdings.

### 30 Employees' basic medical insurance scheme

Since its establishment, the Company has participated in the basic medical insurance scheme for its employees in accordance with the Provisional Regulations on the Basic Medical Insurance Scheme of Shenzhen promulgated by the Shenzhen Municipal Government in May 1996. The medical expenses for employees are included under staff costs. In addition, the Group provides social retirement insurance, labour insurance and unemployment insurance benefits for its staff.

### 31 Retirement Scheme for Employees

Details of the retirement scheme for employees of the Group are set out in note 6(c).

### 32 Subsequent Events

On 11th February 2004, the Company and Shenzhen Communication Bureau on behalf of the Shenzhen Municipal Government, entered into a project management agreement in relation to construction of Phase I of Nanping Freeway as project manager.

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.

### 33 Compliance with the Code of Best Practice

Throughout the year, the Company was in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities of HKEX.

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### 34 Audit Committee

The audit committee of the Company has reviewed and confirmed the final results announcement and the final report for the twelve months ended 31st December 2003.

### 35 Auditors

The accounts in this annual report were prepared in accordance with accounting principles generally accepted in Hong Kong and the PRC accounting standards, respectively, and have been audited by PricewaterhouseCoopers Certified Public Accountants and Shenzhen Tianjian Xinde Certified Public Accountant, respectively.

The remuneration of the auditors in the year 2003 is set out as follows:

	2003	2003	2002	2002
	Audit fees	Other fees	Audit fees	Other fees
PricewaterhouseCoopers				
Certified Public Accountants	<b>RMB 1,145,000</b>	—	RMB 1,150,000	—
Shenzhen Tianjian Xinde				
Certified Public Accountants	<b>RMB 710,000</b>	<b>RMB 270,000</b>	RMB 640,000	RMB 84,000

Note: The above audit fees include audit and review service expenses for the auditors. Other fees represent specific audit fees and service assessment fees on the due diligence review of the Company's investment provided by the auditors. The Company took no responsibility for the travel expenses of PricewaterhouseCoopers Certified Public Accountants, but it would pay for the travel expenses for Shenzhen Tianjian Xinde Certified Public Accountants on providing audit services.

### Terms for auditors

PricewaterhouseCoopers Certified Public Accountants has been the Company's auditors for eight consecutive years since 1996, while Shenzhen Tianjian Xinde Certified Public Accountants has been providing audit services to the Company for three consecutive years, including auditing the Company's A-share issue since August 2001 and providing audit services in 2002 and 2003.

**Chen Chao**

*Chairman*

Shenzhen, the PRC, 5th March 2004