

OTHER MATTERS

REPURCHASE OF H SHARES

The Company has obtained the approval of the China Securities Regulatory Commission to repurchase its H shares and has passed a resolution for the repurchase of H shares at a general meeting held on 30 May 2004.

The Company is well prepared for the repurchase pursuant to the relevant regulations and requirements. During the Reporting Period, there was no repurchase of shares by the Company.

USE OF PROCEEDS

The Company raised RMB604 million from the additional issuance of A shares. During the Reporting Period, the Company applied such proceeds for the construction of Yanba B in strict compliance with the undertakings as made in the prospectus. Yanba B commenced construction in June 2001 and toll collection on 12 June 2003.

During the Reporting Period, the Company has applied an amount of RMB22 million to the project, to which a total of RMB405,637,000 from the proceeds has been injected.

As at 30 June 2004, a balance of the raised proceeds at RMB198 million has not been applied. Such amount, largely entrusted with domestic banks as fixed deposits, will be applied to other upcoming works of the project.

After Yanba B came into operation, it formed a local transportation network with Yanba A. This in turn enhanced the traffic volume and toll revenue from Yanba Expressway.

MATERIAL CONTRACTS AND THEIR PERFORMANCE

As at 30 June 2004, the material contracts being performed by the Group included:

1. The Company entered into composite facility agreements with a few banks, with a consolidated credit facility of RMB4.09billion. During the Reporting Period, a facility limit of RMB460 million has been utilized.
2. **Pledge of assets**

Qinglong Company, a jointly controlled entity with 40% owned by the Group, has the following asset pledged to the bank:

Asset under pledge	Pledgee bank	Scope of security	Term of pledge
Toll collection rights of Shuiguan Expressway	Bank of China, Shenzhen Branch	550 million Principal and interests	up to full payment

In February 2004, Qinglong Company repaid in advance the loan obtained through the Communications Department of Guangzhou Province extended by the China Development Bank in the amount of RMB550 million with the pledge on the toll collection rights of Shuiguan Expressway as security. In February 2004, Qinglong Company entered into a loan agreement with the Bank of China, Shenzhen Branch, for a loan of RMB550 million with the pledge on the toll collection rights of Shuiguan Expressway as security. The term of loan was 12 months and the annual interest rate was 10% discount of the basis rate quoted by The People's Bank of China. The security was provided against the repayment of the principal and payment of interests with respect to the loan in the amount of RMB550 million, until such principal and interests were settled in full.

3. **Entrusted Construction Management**

During the Reporting Period, the Company entered into a project management agreement for the construction of Nanping Project with the Shenzhen Communications Bureau, where the Company was appointed as manager of the project.

During the Reporting Period, the Company entered into a project management agreement for part of the construction of Hengping Project with Longgang District Highway Office, where the Company was appointed as manager of the project.

CONNECTED TRANSACTIONS

On 5 March and 7 April 2004, the Company as purchaser entered into an acquisition agreement respectively with Guangdong Expressway Company Limited and Guangdong Province Highway Construction Company Limited, the associates of Guangdong Roads to acquire 25% equity interests each in Guangdong Yangmao Expressway Company Limited and Guangdong Jiangzhong Expressway Company Limited. The considerations were RMB271.68 million and RMB169.5 million respectively. As Guangdong Roads is the promoter of the Company, these agreements constituted connected transactions of the Company. The Company has issued a circular and the acquisition was approved at an extraordinary general meeting held on 14 June 2004 with Guangdong Roads having refrained from voting.

EMPLOYEES, REMUNERATION AND TRAINING

As at 30 June 2004, the Group had a total of 1,073 employees, of whom 256 were administrative and technical staff, 817 were toll collection staff.

In April 2004, the Company carried out the “Staff Remuneration and Benefits Administration Guide”. Remunerations for staff are to be determined on the basis of their positions and performance, and will follow a market-competitive principle. Results are determined under comprehensive performance assessments, comprising four components: monthly salary, annual performance bonus, statutory benefits and company benefits.

The Company places a lot of emphasis on staff training. During the Reporting Period, eight training courses covering seminars on corporate culture and human resources knowledge, performance administration, briefings on the “Construction Project Management Manual” and job training for new staff. A total of 688 attendees were benefited from the trainings. At the same time, many specific internal training sessions were carried out by various departments according to the annual training programme.

DISTRIBUTION OF PROFITS FOR YEAR 2003

Approved in the 2003 annual general meeting, the plan for the distribution of profit for 2003 was: Based on the capital structure of the Company at a total of 2,180,700,000 shares at the close of 2003, a final dividend of RMB0.19 per share was to be distributed to all shareholders, aggregate of which would amount to RMB414,333,000. The plan was implemented before 6 May 2004.

DISTRIBUTION OF PROFIT FOR THE INTERIM OF 2004

The board of directors of the Company does not recommend any interim dividend for the six months ending 30 June 2004 (2003: Nil), nor does it recommend any transfer to capital reserves.

PROFIT FORECAST

With the economic development and the increase in the rate of possession of motor vehicles in Shenzhen, it is estimated that the toll collection business of the expressways operated by the Company will grow further steadily. However, in accordance with the accounting standards of Hong Kong and the PRC, the profit generated from the transfer of two national highways has been recorded in the accounts of 2003. Therefore, it is estimated that the profit of the Group for the first three quarters of 2004 will be significantly less than that for the corresponding period of 2003.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

The Directors of the Company consider that during the Period, the Company has been in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities of Hong Kong Stock Exchange.

COMPLIANCE WITH MODEL CODE

The Company has adopted the Model Code and the required standard regarding directors' securities transactions set out in Appendix 10 of the Listing Rules as the code of conduct governing securities transactions. During the Reporting Period, all directors and supervisors of the Company have complied with the Model Code.

The Company has appointed an adequate number of independent non-executive directors. There were four independent non-executive directors, representing one-third of the total number of directors since 2003.

AUDIT COMMITTEE

In line with good corporate governance practice, an Audit Committee has been established since August 1999, primarily responsible for the monitoring and reviewing of the Group's financial reporting quality and procedures, reliability of the internal control systems and effectiveness of the external audit process.

The current Audit Committee comprises experienced accounting, securities or financial professionals, whereas the majority of them also serve as the independent non-executive directors of the Company. The chairman of the Audit Committee, an independent director, is a fellow of both the Institute of Chartered Accountants in Australia and the Hong Kong Society of Accountants. He has 35 years of experience in the accounting profession.

At the date of this report, the Audit Committee has held four formal meetings principally to deal with, inter alia, the appointment of external auditors; the review of 2003 annual report, 2004 first quarter and interim reports and the performance of the Internal Audit Department.

The Audit Committee has formally met the external auditors without management on several occasions, to discuss matters relating to its remit and any issues arising from the audit, including their independence.

PURCHASE, SALE OR REDEMPTION OF SHARES

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

DISCLOSURE OF INTERESTS AND SHORT POSITIONS OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

- (a) As at 30 June 2004, the interests and short positions (including deemed interest within the meaning of the Securities and Futures Ordinance) 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) which are required to be notified to the Company and the Hong Kong Stock Exchange pursuant to divisions 7 and 8 of Part XV of the Securities and Futures Ordinance, or which are required to be entered into the register kept by the Company under section 352 of the Securities and Futures Ordinance, or are required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code regarding directors' securities transactions, are set out as follows:

Number of units in the share appreciation right scheme collectively held by the senior management and management staff of the Company is 5,501,400. Subject to the approval of Human Resources and Nomination Committee of the Company, the following directors and supervisors may be granted part of the receipts from the exercise of such rights as incentives:

Name	Number of Units Involved	Exercise Price	Exercisable Date
Wu Ya De	2,750,700 (Note 3)	Note 1	16 March 2004
(Director)	2,750,700 (Note 3)	Note 2	16 March 2005
Zhang Rong Xing	2,750,700 (Note 3)	Note 1	16 March 2004
(Director)	2,750,700 (Note 3)	Note 2	16 March 2005
Yi Ai Guo	2,750,700 (Note 3)	Note 1	16 March 2004
(Supervisor)	2,750,700 (Note 3)	Note 2	16 March 2005

Notes:

- 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 16 March 2003 to 15 March 2004.
- 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 16 March 2004 to 15 March 2005.
- Number of units collectively held by the senior management and the management staff of the Company from the relevant date of exercise.

The aforesaid units collectively held by the senior management and the management staff of the Company from the relevant date of exercise were granted under the share appreciation right scheme approved by the shareholders on 6 March 2001 and amended by the shareholders on 30 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 timing and the price of the exercise are amended to that the receipts from the 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.

- (b) Apart from those disclosed above:
- (i) As at 30 June 2004, there is no interests and short positions (including deemed interest within the meaning of the Securities and Futures Ordinance) 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) which are required to be notified to the Company and the Hong Kong Stock Exchange under divisions 7 and 8 of Part XV of the Securities and Futures Ordinance, or which are required to be entered into the register kept by the Company pursuant to section 352 of the Securities and Futures Ordinance, or are required to be notified to the Company and the Hong Kong Stock Exchange.
 - (ii) No director has any direct or indirect interests in any assets purchased by or sold or leased to the Company or any of its member companies or proposed to be purchased by or sold or leased to the Company or any of its member companies from 31 December 2003 (the date of the latest audited accounts of the Group).
 - (iii) None of the directors has any material interests in any contracts or arrangements entered into by any member companies of the Group which as at the date of the report are still binding to and have material impacts on the business of the Group.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE SHARES AND UNDERLYING SHARES

As at 30 June 2004, shareholders directly or indirectly interested in 5% or more of the issued share capital of the Company as recorded in the register required to be kept by the Company under section 336 of the Securities and Futures Ordinance are as follows:

Name of substantial shareholder	Class of shares	Number of shares held	Percentage of the total issued share capital
Xin Tong Chan Development (Shenzhen) Company Limited	Legal Person shares	654,780,000	30.03%
Shenzhen Shen Guang Hui Highway Development Company	Legal Person shares	457,780,000	20.99%

Save as disclosed above, the register required to be kept under section 336 of the Securities and Futures Ordinance showed that the Company had not been notified of any interest or short positions in the shares and underlying shares of the Company.

By Order of the Board
Chen Chao
Chairman

Shenzhen, the PRC, 6 August 2004