

# Chairman's Statement





To all shareholders:

**Blessed by sound macro-economic environment in 2004, the Group continued to implement an outreaching investment strategy of expanding towards the Pearl River Delta region as well as other economically developed regions in China from our base in Shenzhen. Riding on opportunities presented by geared-up highway construction in local regions, we took a major stride forward in the area of project development, on top of solid growth in operating results. I would like to take this opportunity to express, on behalf of the Board, sincere gratitude to our shareholders and other members of the community for their longstanding care and support. Thanks are also due to our dedicated staff for their unceasing efforts and invaluable contributions during the Year.**

## Results and Dividends

I am pleased to report to the shareholders that the Group achieved positive overall results in 2004 with turnover and profit attributable to shareholders amounting to RMB483 million and RMB419 million respectively (2003: RMB422 million and RMB899 million). Earnings per share amounted to RMB0.192 (2003: RMB0.412). Excluding the effect of asset disposals in 2003, profit attributable to shareholders and earnings per share grew by 33.78%.

The Group is committed to securing sound rewards to shareholders by maintaining a consistently high dividend payout ratio. The Board recommended the payment of a final dividend of RMB0.11 per share in cash for the year 2004 at the Annual General Meeting to be held on 8 April 2005, representing a dividend payout ratio of 57%.

## Review

In 2004, the Company's management and staff worked diligently and aggressively in concerted efforts, under the core guiding principle of "Unwavering Corporate System Leadership". We adhere to a market-driven approach to attract more traffic flow. The Company achieved promising results in 2004 in terms of capturing new market share and building new income bases, in addition to a satisfactory growth in our existing business.

Traffic flow of the toll highways operated and invested by the Group increased rapidly to register an average growth rate topping 30% for the Year. The surging private vehicle ownership, business commuting and logistics flow and a growing travelling public provided the major driving forces of the Group's toll highway operations in the context of robust economic growth in the Pearl River Delta region and the gradual implementation of CEPA and the Pan Pearl River Delta Economic Zone.

Capitalising on opportunities presented by the divestiture of toll highway projects by the Guangdong Provincial Government, the Group participated actively in toll highway investment beyond Shenzhen in a bid to increase its market share in Guangdong Province and has made major inroads. During 2004, the Group signed up and announced a total of six investment projects covering a total mileage of over 200 km, involving total investments of approximately RMB1.3 billion. Among them, Yangmao Expressway and Guangwu Expressway commenced operations in November 2004 and December 2004, respectively, and other projects are scheduled for completion and operation within the next one or two years. These projects are set to contribute positively to the continued growth of the Company's profits in future.

In Shenzhen, the Group acquired rights for the construction and operation of the Nanguang Project by virtue of a concession agreement that provided the Group with first concession to develop expressway projects in Shenzhen. Moreover, we were appointed by the Shenzhen Municipal Government and the Shenzhen Longgang District Government as project administrator for Nanping Freeway and Hengping Highway, respectively, in recognition of our extensive experience in project construction management gained over the last decade. The construction management business with government invested public roads further utilises our project management expertise and enables the Company to create new value and expand beyond its principal business operations, thereby providing a new income base for the Company.

Entering 2005, the Company made further and major progress in investment activities. In February 2005, the Group entered into agreements for the proposed investment in the Qinglian project in Guangdong Province which is a strategically located major trunk highway between Hunan and Guangdong over 200 km. This project is set to add further strengths to the Company's principal business and will enhance shareholder return with its sound development potential.

### Opportunities and Challenges

Amidst China's continued economic growth, the Pearl River Delta region is a frontier of reforms and a window for foreign investment. Underpinned by a massive population of manufacturing bases and thriving flow of goods, the region has been one of the fastest-growing regions in China, as well as a passage connecting Hong Kong and Macau with other Mainland provinces and cities. In a move to facilitate the formation of the Pan Pearl River Delta Economic Zone, the Guangdong Provincial Government has recently put in the pipeline the construction of expressways with a total outreach of 4,000 km by 2008. Robust demand for traffic is expected as upbeat business and trade activities within a fast-integrating regional economy are set to contribute to economic growth and rapid development of the transport and logistics sectors.

China's urbanisation process is moving forward speedily, with the number of cities and townships increasing and their sizes growing. As a pilot region in the course of China's economic reforms, the Pearl River Delta region continues to top national levels in terms of urbanisation, individual income and vehicle ownership rate. The growing travelling needs and demand for quality road passage from road users will become a major driver for the development of the toll highway industry.

According to State plans and policies, China will add around 3,000 km per year to its expressway network up till 2010, translating into annual investments of approximately RMB140 billion to RMB150 billion. Given the existing situation of insufficient government resources and excessive bank lending, the highway industry will be looking at more diverse options in future in terms of structure of investment or financing. Tolls from highway users will remain to be a source of reward for investors and the industry is set to embrace new opportunities. Construction management for toll-free road projects invested by the government, on the other hand, will gradually be operated on a market-driven basis and "Entrusted Construction Management" will become a new form of policy adopted by the government.

The Company benefits from strategic opportunities for ongoing rapid development arising from sound macro-economic conditions and favourable government policies. On the other hand, we are fully conscious of the challenges ahead. With a gradually developed highway network, there will be less quality projects and the change in investment structure of toll road projects will further intensify competition among investors. Therefore, it is imperative that the Company rightly capture market opportunities to achieve ongoing growth and strengthen its position and influence in the industry by leveraging and continuously enhancing its competitive strengths.

## Objectives and Strategies

The Company is dedicated to becoming a public infrastructure developer and management service provider operating on a market-driven basis in accordance with prudent business principles, stringent corporate governance standards and strong competitiveness. We seek to provide the public with infrastructure services that are safe, convenient, comfortable and environment-friendly, to increase value for shareholders and the community at large, and to create a favourable working environment and career opportunities for our staff.

The Board will continue to develop businesses that are in line with the Company's development strategies on the basis of prudent evaluation of its core strengths, the strategic values of such projects and relevant risk factors. In this way, the Company can leverage fully its strengths in highway investment, construction, operation management and innovations to pursue prudent operations and avert various risks, thereby enhancing its profitability and resilience and rewarding its shareholders with better profitability and return.

Looking to the future, the Company will leverage every opportunity and rise to every challenge. Focusing on toll highway operation as its principal business, the Company will continue to build on its core competitive strengths while braving for ever-higher standards in corporate governance, with a view to achieving rapid but stable growth on all fronts and scoring new landmarks in its business development.

### **Chen Chao**

Chairman

Shenzhen, PRC, 18 February 2005