

# Investors' Q&A



- 1. The Company has recently begun to expand its highway operations beyond Shenzhen. What is the Company's competitive edge in this regard and what challenges does the Company foresee in such expansion?**



Mr. Pierre Lau  
ABN AMRO Bank N.V.

The Company is backed by strong cashflow and extensive experience in project construction and operational management generated in the past 10 years. Because of our ability to control construction costs, operating costs and financing costs, we believe we are well positioned to make profit from these projects. Moreover, the Company is more market-driven than its competitors, while a high level of corporate governance represents another competitive edge.

We believe the biggest challenge comes from our relative lack of knowledge of other regional markets. As we have focused on highway operations in Shenzhen in the past, we may not be as familiar with highway operations in other regions as our competitors in those regions. However, we have already made full preparations by, among other things, appointing experienced traffic consultants and other intermediaries to work with our own professionals for a detailed evaluation of the risks and prospects of each new project. In terms of project management and collaboration with local governments of other regions, we can rely on our local partners, who are more familiar with local markets and operations. In Guangdong, the Company is actively pursuing a mutually beneficial business partnership with GD Communications Group, who owns close to 90% of the highways in the province. The "local edge" of our partners will complement with Shenzhen Expressway's "system edge" to create more competitive investment portfolios.



**2. What role do you envisage for the Company in the context of the Pan Pearl River Delta Economic Zone? Has the Company come up with any specific strategies to leverage this development?**

Ms. Rachel Tsang  
Daiwa Institute of Research (H.K.) Ltd.

As a major highway operator in Shenzhen, we will leverage our experience in the industry to play our part in facilitating logistics and trade activities within the Pan Pearl River Delta region by providing the region with highway facilities that are safe, convenient, comfortable and environment-friendly and assisting the region to build and develop economically efficient highway networks.

In view of the development prospects in the Pan Pearl River Delta region, the Company will fully leverage opportunities presented by Guangdong and other regions' disposal of shareholdings in toll highway projects, so as to expand the Company's market share of the region's trunk toll roads. Meanwhile, the Company will endeavour to foster a close working relationship with the Guangdong Provincial Government and to achieve good performance on the Guangdong highway projects that we have acquired, so as to build the Company's track record and image as an excellent highway operator, helping us to secure more business opportunities in Guangdong Province and the Pan Pearl River Delta region in the future.

**3. To what extent will the Company be affected by toll rate reductions for trucks proposed by the Ministry of Communications?**



Mr. Alan Lam  
Guotai Junan Securities  
(Hong Kong) Limited

Toll rate reductions for trucks is a policy proposed by the Ministry of Communications which requires the formulation of implementation plans at provincial levels by relevant communications and pricing authorities and the approval of provincial governments. As of now, the Company has not received any policy documents from the Guangdong Provincial Government in connection with toll rate adjustments. Therefore, we are not in a position to give any meaningful estimates of the impact of the policy on the Company's results.

Nonetheless, as Category 4 and Category 5 vehicles respectively accounted for 3% and 12% of the Group's toll revenue, the policy should not have any significant impact on the Group's overall operating income. Moreover, traffic flow on highways is likely to increase as a result of reduced toll rates, so the impact should not be perceived as being entirely negative.

4. **Will toll highway operations remain the principal business of the Company in future or will the Company make a strategic shift to entrusted construction management (such as the Nanping Project)?**



Mr. Gary Zhang  
Sun Hung Kai Research Ltd.

Strategically speaking, we will continue to focus on toll highway operations. The Company will seek to consolidate its position in Shenzhen and continue to operate and develop its toll highway business there. Meanwhile, we will also seek to identify opportunities in other prosperous regions outside Shenzhen, so that we can expand our market share of the toll highway business.

On the other hand, as we have generated extensive experience in construction management, we believe that participation in the business of entrusted construction management on the back of our experience will channel new opportunities for profit growth at relatively low costs. Provided costs are effectively controlled, the entrusted construction management business is promising in terms of profitability, and could represent a desirable channel to increase income.

Therefore, while we are committed to improving our toll highway operations, we will also actively look for opportunities in the entrusted construction management business that offer synergies, with a view to expanding our income source and base.

5. **Will the Company increase its risk exposure by way of participating in the entrusted construction management business?**



Mr. Jim Wong  
BNP Paribas  
Peregrine Securities  
Limited

The Company has taken appropriate measures to contain risks in relation to its participation in the entrusted construction management business. Take the Nanping Project for example, pricing risks are controlled within an acceptable range pursuant to the terms of the agreement between the Company and the Shenzhen Communications Bureau, which stipulates that the Company and the Shenzhen Communications Bureau shall share or absorb on an equal basis any surplus or deficit in excess of 2.5% by which the final cost of the project falls short of or exceeds its budget estimates. Moreover, such budget estimates will be prepared by the Company and approved by the Shenzhen Audit Bureau. As such, risks facing the Company in undertaking entrusted construction management projects should be rather limited.

In fact, with our experience in highway construction, we are confident that we will be able to control project expenditure within a reasonable range so that substantial surplus will be resulted. The Company has formulated a series of management rules and risk control measures to counter possible adverse impact associated with raw materials, volatility in workers' wages, schedule delays and insufficient management resources, and so forth. In fact, the Company managed to reduce its construction costs in 2004 leveraging lower raw material prices as a result of macro-economic controls. We believe that participation in the entrusted construction management business will provide the Company with a new income base at relatively high cost efficiency.

**6. Does the Company have plans to improve operating efficiency and enhance cost controls?**



Mr. Michael Chan  
BOCI Research Limited

The Company has been installing electronic toll collection systems at its 11 toll stations and 28 exclusive passages since 2001. This system, allowing toll payment without vehicle stopping, has shortened toll payment time, improved passage conditions, and enhanced overall passage capacity and efficiency. The Group also installed intra-provincial network IC card toll collection systems at Yanba Expressway, Meiguan Expressway and Jihe Expressway in November 2004 which has been in operation. The system can improve passage capacity and efficiency of the entire highway network and lower operating costs for certain mainline toll collection stations in the combined highway network, as well as facilitating more convenient and direct auditing and control over toll collection.

The Company has employed diligent cost-control efforts to lower its operating costs. We have developed a comprehensive budget regime that provides for defined targets and plans for the Company's income and expenditure. Through controls, analyses, appraisals and the provision of incentives in respect of budget implementation, management efficiency and effectiveness have been enhanced. The Company has formulated relevant management systems and processes for its investments,

operations and construction works to ensure that all expenses and charges are reasonably incurred and effectively controlled. For example, the Company outsources the daily maintenance of its highways to independent service providers selected through planned management and market tenders, as a means to ensure that maintenance and repair expenses are controlled within a reasonable range. The Company's construction costs in 2004 were generally lower than their original estimates as it fully capitalised on opportunities presented by falling raw material prices as a result of macro-economic controls.