

# Report of the Directors





The Directors are pleased to present herewith their report and the audited accounts of the Group for the year ended 31 December 2004.

## 1 Details of the Company

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

## 2 Summary of the Report of the Board

During the year 2004, eight board meetings were held, at which the following issues were discussed:

- the report of the Board for the year 2003;
- the results report and the audited financial report, the financial statement report, and the proposal for profit distribution scheme for the year 2003 and the budget plan for the year 2004;
- Interim results report and the first and third quarterly reports for the year 2004;
- the emoluments of Directors and Supervisors for the year 2004;
- the repurchase of the Company's H Shares;
- the issuance, placing and handling of listing of the Company's additional H Shares;
- the management of Nanping Project and Hengping Project;
- the investment and acquisition of Yangmao Expressway, Jiangzhong Expressway, GZ W2 Expressway, Nanjing Third Bridge, Guangwu Expressway, Qinglian project and other expressway projects' shareholdings as well as the investment and construction of Nanguang Expressway;
- the alteration of the Company into Foreign Invested Joint Stock Company Limited;
- the amendments of the Articles of Association and Regulations on the Operation of the Board of Directors as well as the formulation of Rules Governing the Selection and Appointment of Independent Financial Advisers and Internal Control Systems;
- the Company's development strategy for the years 2005-2009;
- the establishment of Risk Management Committee under the Board;
- the re-appointment of Messrs. PricewaterhouseCoopers Certified Public Accountants as the international auditors and appointment of PricewaterhouseCoopers Zhong Tian CPAs Co., Ltd. as the statutory auditors of the Company, and the decision on their remuneration;
- the authorization to sign resolutions for bank loans;
- the assets impairment provision, the change in accounting policy for profits tax, and the confirmation of "Accounting Treatment of Construction Management Contract";
- the implementation of the controller supervisory system, the creation of the position of Administrative Controller, and the appointment of Administrative Controller; and
- the establishment of the project development department.

### 3 Summary of the General Meetings

In the year 2004, shareholders' meetings called by the Board included 2003 Annual General Meeting, 2004 Extraordinary General Meeting for Holders of Overseas-listed Foreign Shares, 2004 Extraordinary General Meeting for Holders of Domestic Shares and the 2004 First Extraordinary General Meeting, which are particularized as follows:-

#### (1) Passed the following resolutions as ordinary resolutions:-

- the report of the Board for the year 2003;
- the report of the Supervisory Committee for the year 2003;
- the audited financial report for the year 2003;
- the profit distribution scheme for the year 2003;
- the budget plan for the year 2004;
- the emoluments of Directors and Supervisors for the year 2004;
- re-appointment of international auditors and appointment of statutory auditors;
- acquisition of 25% shareholding of Yangmao Company; and
- acquisition of 25% shareholding of Jiangzhong Company.

#### (2) Passed the following resolutions as special resolutions:-

- amendments of the relevant articles of the Articles of Association;

- alteration of the Company to Foreign Invested Joint Stock Company Limited;
- authorization of the Board to repurchase H Shares of the Company; and
- authorization of the Board to allot more H Shares in relevant period.

### 4 Principal Activities

The principal activities of the Group are the investment, construction and operation management of toll highways and roads in the PRC. During the Year, there is no substantial change in respect of the Group's businesses.

An analysis of the Group's turnover and contribution to operating profit for the Year is set out on page 100.

The turnover and the operating profit contributed are not separately analysed in terms of different businesses and geographical areas as the turnover and results reported in the Year are principally derived from toll roads located in the PRC.

### 5 Financial Results

The results of the Group for the year ended 31 December 2004 are set out in the consolidated profit and loss account on page 85.

The financial positions of the Group and the Company as at 31 December 2004 are set out in the balance sheets of the accounts from pages 86 to 89.

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 2 to 4 of this report.

## 6 Dividends

### (1) Proposed dividend for the Year 2004

The Board recommended the payment of a dividend of RMB0.11 per share (tax included), totaling RMB239,877,000, for the year ended 31 December 2004 to shareholders whose names appear in the register of shareholders of H shares of the Company at the close of business on 8 March 2005. For payment of dividend to Domestic Shares, the registration date, payment procedures and date will be otherwise notified. Such dividend shall be subject to the approval by shareholders at the 2004 Annual General Meeting to be held on 8 April 2005 (Friday).

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

### (2) Dividend scheme of 2003 and its implementation

Pursuant to the approval from the 2003 Annual General Meeting, the Company paid a final dividend of RMB0.19 per share for the year 2003 (consisting of RMB0.09 per share as special dividend) on the basis of the total share capital comprising 2,180,700,000 shares as at the year end of 2003, totaling RMB414,333,000. Such dividend distributions were completed by 6 May 2004.

## 7 Directors and Supervisors

(1) The details of the Directors and the Supervisors are set out from page 78 to page 81.

### (2) Directors' service contracts

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 effective from 1 January 2003 to 31 December 2005 except the service contract with Mr. Poon Kai Leung, James, which is effective from 28 May 2003 to 31 December 2005. Save as the aforesaid, no service contracts that can be terminated within one year with compensation payable as a result (other than general statutory compensation) have been or proposed to be entered into between the Directors or the Supervisors and the Company.

### (3) Directors' and Supervisors' interests in contracts

As at 31 December 2004 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 the Directors or the Supervisors of the Company had a material interests, whether directly or indirectly, subsisted at the end of the Year or at any time during the Year (excluding Directors' service contracts).

### (4) Model Code for Securities Transactions by Directors and Supervisors

The Company has adopted Appendix 10 of the Listing Rules entitled "Model Code for Securities Transactions by Directors of Listed Issuers" as rules for securities transactions initiated by the Directors and the Supervisors. After specifically inquiring with all the Directors and the Supervisors, the Company confirms that its Directors' and Supervisors' securities transactions have been fully complied with the standard laid down in the said rules.

**(5) Number of Independent Non-executive Directors**

The Company has appointed sufficient Independent Non-executive Directors. From 2003, there have been four Directors appointed as Independent Non-executive Directors, representing one-third of the total Directors.

**(6) Independence of Independent Non-executive Directors**

The Board has obtained written confirmations from all Independent Non-executive Directors concerning their independence in accordance with rule 3.13 of the Listing Rules of HKEX. The Directors believe that the existing Independent Non-executive Directors are independent based on the guidelines set out in rule 3.13 of the Listing Rules of HKEX.

**(7)** During the Year, the Group has not provided loans to or guarantee to loans of the Directors, the Supervisors and senior management of the Company or its controlling shareholder(s) or their respective connected persons.

**8 Code of Best Practice**

The Directors of the Company believe that during the Year the Company had fully complied with the “Code of Best Practice” of Appendix 14 of Listing Rules of HKEX.

**9 Elections and Changes of the Directors, Supervisors and Senior Management**

**(1)** On 13 September 2004, Mr. Zhang Rong Xing, the then Company Secretary of the Company, resigned from office as he was selected by the Company to pursue a master’s degree in Business Administration in the United Kingdom. The Board appointed Ms. Wu Qian and Mr. Tse Yat Hong as Joint Company Secretary for a term of three years effective from 13 September 2004.

**(2)** On 25 October 2004, the Board discussed and approved the full implementation of controller supervisory system in the Company and the position of Deputy General Manager has been suspended. Meanwhile, the Board appointed Mr. Zhou Qing Ming as Administration Controller for a period of two years effective from 25 October 2004.

**10 Emoluments of the Directors, the Supervisors and Senior Management**

**(1)** Except as those disclosed in this annual report, the Group has not initiated any reward scheme and emolument adjustment plan throughout the Year. Directors’ and Supervisors’ emoluments are determined in accordance with relevant policies and regulations in the PRC with reference to the Company’s actual situation, subject to approval in general meeting.

**(2)** The Company had altogether 21 Directors, Supervisors and senior management in 2004, and all of them received salaries (including subsidies for meetings) from the Company totaling RMB5,808,000.

Distribution of such personnel in various ranges of remuneration is set out as follows:

RMB	Directors*	Supervisors	Senior
			Management**
0-100,000	5	2	0
100,000-500,000	5	1	2
500,000-1,000,000	2	0	4

\* Please refer to descriptions in note (4).

\*\* As Mr. Wu Ya De, the general manager, and Mr. Zhang Rong Xing, the then company secretary, are Directors, their remuneration are included in the column headed “Directors” and are not included in the column headed “Senior Management”.

- (3) In the year 2004, four Independent Non-executive Directors and Mr. Chiu Chi Cheong, Clifton, a Director not nominated by shareholders, received directors' emoluments while the other Directors and Supervisors (including Directors and Supervisors who are also employees of the Company) did not obtain any director's or supervisor's remuneration. All the Directors and Supervisors obtained subsidies for meeting in accordance with relevant regulations. All the Directors and the Supervisors who are employed by the Company obtained management remuneration in accordance with their management positions in the Company.
- (4) As at 31 December 2004, emoluments, subsidies and management remuneration paid to Directors and Supervisors are listed as follows:-

(Unit: RMB'000)

	Emoluments of Directors/ Supervisors	Subsidies for meetings	Management Remuneration			Total
			Salary	Bonus	Benefits	
<b>Directors:</b>						
Chen Chao*	—	*—	—	—	—	*0
Wu Ya De	—	13	502	133	28	676
Zhang Rong Xing**	—	8	380	67	71	**526
Zhong Shan Qun	—	10	—	—	—	10
Tao Hong	—	8	—	—	—	8
Lin Xiang Ke	—	8	—	—	—	8
Zhang Yang	—	9	—	—	—	9
Chiu Chi Cheong, Clifton	318	13	—	—	—	331
<b>Independent Non-executive Directors:</b>						
Ho Pak Cho, Denis Morgie	159	11	—	—	—	170
Li Zhi Zheng	150	12	—	—	—	162
Zhang Zhi Xue	150	12	—	—	—	162
Poon Kai Leung, James	159	11	—	—	—	170
<b>Supervisors:</b>						
Wang Ji Zhong	—	10	—	—	—	10
Yang Qin Hua	—	10	—	—	—	10
Yi Ai Guo	—	10	271	48	61	390
	<b>936</b>	<b>145</b>	<b>1,153</b>	<b>248</b>	<b>160</b>	<b>2,642</b>

\* The subsidies for meetings in the amount of RMB15,000 paid to Mr. Chen Chao, a director, had been fully refunded to the Company.

\*\* Mr. Zhang Rong Xing was selected by the Company to pursue a master's degree in Business Administration in the United Kingdom in September 2004. Apart from the aforesaid remuneration, the Company additionally paid him a total of RMB337,000 as tuition fee, allowance and other related expenses for the year 2004/2005, and reimbursed expenses on visa fees and roundtrip tickets actually incurred by him.

(5) Senior management of the Company refers to general manager, business controllers and secretary of the Board. Remuneration paid by the Company to the senior management is commensurate with market standards and work performance, comprising salary, performance bonus and benefits. The portion of salary is approximately 70% of the total remuneration. In order to attract and motivate quality staff, the performance bonus is mainly based on the tenure assessment and remuneration policy adopted by the Human Resources and Nomination Committee. The benefits paid to the management includes the statutory retirement benefits and other kinds of social security as well as subsidies for vehicles.

(6) In year 2004, the total remuneration paid to top three senior management amounted to RMB1,903,000.

## 11 Disclosure of Interests

(1) As at 31 December 2004, the interests of the Directors, Supervisors, senior management and their respective associates of the Company in the shares, underlying shares and debentures of the Company or any of its associated companies (within the meaning of SFO) which were recorded in the register required to be kept by the Company under Section 352, Part XV of SFO were as follows:

As at 31 December 2004, units in the share appreciation right scheme granted by the Company and collectively held by the management staff of the Company are 5,501,400. The following Directors and

Supervisor of the Company may be granted by the Company part of the incentive cash bonus from the exercise of such units, subject to the approval of the Human Resources and Nomination Committee of the Company:

Name	Number of units involved	Exercise Price
Wu Ya De (Director)	2,750,700 (Note c)	Note a
	2,750,700 (Note c)	Note b
Zhang Rong Xing (Director)	2,750,700 (Note c)	Note a
	2,750,700 (Note c)	Note b
Yi Ai Guo (Supervisor)	2,750,700 (Note c)	Note a
	2,750,700 (Note c)	Note b

Notes:

- The cash bonus received from exercising each of the units represents 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 from 16 March 2003 to 15 March 2004.
- The cash bonus received from exercising each of the units represents 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 from 16 March 2004 to 15 March 2005.
- It represents the units collectively held by the management 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 6 March 2001 and amended by the shareholders on 30 October 2003. After the amendment, the units granted under such scheme are collectively held by the management staff of the Company instead of by individuals, the timing and the price of the exercise were also amended accordingly. The bonus cash received from exercise of the units shall be applied as a special incentive fund and distributed by the Company to the management staff, including the Directors and Supervisors of the Company as employees of the Company according to proposals put forward by the Human Resources and Nomination Committee of the Company. As at 31 December 2004, the senior management staff of the Company has not yet exercised any of the above-mentioned units.

(2) Save as disclosed herein:

i. as at 31 December 2004, none of the Directors or Supervisors or senior management is interested in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of SFO) which require notification to the Company and the HKEX pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have been held by the Directors

under such provisions of the SFO) or which are required to be entered into the register maintained by the Company under section 352 of the SFO or which are required to be notified to the Company and HKEX, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

ii. none of Directors, Supervisors or senior management is materially interested in any contract or arrangement entered into by any member of the Group which contract or arrangement is subsisting at the date of this annual report and which is significant in relation to the business of the Group.

## 12 Share Capital

The total capital of the Company was RMB2,180,700,000 with details set out in note 22 to the accounts.

## 13 Profile of Shareholders

(1) As at 31 December 2004, the Company has 39,290 shareholders in total, including 4 unlisted legal person shareholders, 38,796 A Shareholders and 490 H Shareholders.

(2) As at 31 December 2004, so far as is known to the Directors, Supervisors and senior management of the Company, the interests of major shareholders, other than a Director, Supervisor or senior management of the Company, in the shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO were as follows:



Long positions in the domestic shares of the Company:

	<b>Number of domestic shares (note 1)</b>	<b>Approximate percentage of total issued domestic share capital (%)</b>	<b>Approximate percentage of total issued capital (%)</b>
XTC Company (note 2)	654,780,000	45.68%	30.03%
SGH Company (note 3)	457,780,000	31.94%	20.99%
Huajian Centre (note 3)	91,000,000	6.35%	4.17%

Long Positions in the H shares of the Company:

	<b>Number of H shares (note 4)</b>	<b>Approximate percentage of total issued H share capital (%)</b>	<b>Approximate percentage of total issued capital (%)</b>
Value Partners Limited	38,930,000 (note 5)	5.21%	1.79%
Cheah Cheng Hye	38,930,000 (note 6)	5.21%	1.79%
Sumitomo Mitsui Asset Management Company, Limited	61,814,000 (note 7)	8.27%	2.83%
Sumitomo Life Insurance Company	61,814,000 (note 8)	8.27%	2.83%
J.P. Morgan Chase & Co.	63,376,000 (note 9)	8.48%	2.91%

Notes:

- (1) Unlisted shares
- (2) XTC Company is a limited company incorporated under the laws of the PRC and is a wholly owned subsidiary of Shenzhen International Holdings Limited of which shares are listed on the main board of HKEX.
- (3) State-owned company incorporated under the laws of the PRC with limited liability.
- (4) Shares listed on the Main Board of HKEX.
- (5) These 38,930,000 H Shares were held by Value Partners Limited as investment manager.
- (6) These 38,930,000 H Shares were deemed corporate interests under the SFO indirectly held through Value Partners Limited, in which Cheah Cheng Hye had a controlling interest.
- (7) These 61,814,000 H Shares were held by Sumitomo Mitsui Asset Management Company, Limited as investment manager.
- (8) These 61,814,000 H Shares were deemed corporate interests under the SFO indirectly held through Sumitomo Mitsui Asset Management Company, Limited, in which Sumitomo Life Insurance Company had a controlling interest.
- (9) The capacity of J.P. Morgan Chase & Co. and its associates in holding the 63,376,000 H Shares was, as to 70,000 H Shares, as beneficial owner, as to 28,858,000 H Shares, as investment manager and as to 34,448,000 H Shares, as approved lending agent.

Save as disclosed above, the register required to be kept under section 336 of Part XV of the SFO 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 31 December 2004.

(3) Public Float

Based on the publicly available information and to the best knowledge of the Directors, the Company has maintained sufficient public float as at the latest practicable date prior to the date of this annual report.

**14 Undertaking**

The two major shareholders of the Company, XTC Company and SGH Company, each of which has more than 5% shareholding, have given undertakings in the promoter's 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 was in the opinion that the above two major shareholders had complied with the undertakings during the reporting period.

**15 Purchase, Sale or Redemption of Shares**

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

The application in relation to the repurchase of H Shares of the Company ("Repurchase of H Shares") has been granted approval from CSRC. On 23 April 2004, the shareholders of the Company in general meeting passed as special resolutions to authorize the Directors to execute the Repurchase of H Shares.

The Company has done all the requisite preparatory work for the Repurchase of H Shares in accordance with the relevant laws and regulations. Pursuant to the shareholders' authorization, the Board may repurchase H Shares in the open market operated by HKEX, but not more than 10% of the nominal value of the issued share capital of H Shares in the relevant period. The relevant period will end on 8 April

2005, the date when the 2004 Annual General Meeting will be held. During the Year, the Company has not yet repurchased any H Shares.

**16 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 if new shares are issued.

**17 Alteration of Company's Enterprise Type**

The Company was established as a joint stock limited company in the PRC on 30 December 1996. On 23 April 2004, the Company convened the Annual General Meeting which approved the alteration of the Company to Foreign Invested Joint Stock Company Limited. The application for the proposed alteration has been submitted to the Ministry of Commerce of the PRC for approval.

**18 Management Contracts**

No contracts 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.

**19 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 highways while its major suppliers are contractors for the construction of toll highways and roads.

**20 Reserves**

The amounts and particulars of material transfers to and from reserves during the Year are set out in note 23 to the accounts.

## 21 Fixed Assets

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

## 22 Bank Loans and Other Borrowings

Details of bank loans and other borrowings of the Group and the Company as at 31 December 2004 are set out in note 25 and note 26 to the accounts.

## 23 Interest Capitalised

The amount of interest capitalized by the Group and the Company for the year ended 31 December 2004 are disclosed in note 8 to the accounts.

## 24 Income Tax Rate and Business Tax Rate

Commencing from 1 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.

## 25 Trust Deposits and Overdue Time Deposits

As at 31 December 2004, the Company did not have any trust deposit or overdue time deposit.

## 26 Subsidiaries and Jointly Controlled Entities

Details of the Company's subsidiaries and jointly controlled entities are set out in notes 16 and 17 to the accounts respectively.

## 27 Money Transfer Among Related Parties

The money transfers among the Company and other related parties (as defined under the relevant PRC regulations) mainly consist of receivables and payables of toll fees on someone's behalf in relation to toll highways and reimbursement of operation costs paid on someone's behalf as well as reimbursement of fees paid on behalf of Ropeway Company. The statutory auditors of the Company, PricewaterhouseCoopers Zhong Tian CPAs Co., Ltd. has already issued a specific report in this regard, which is in accordance with "Notice of Certain Matters on Administration of Fundflow Between Listed Company And Its Related Parties and Listed Company's External Guarantees" (Zhengjianfa no. 56 of (2003)) (證監發(2003)56號《關於規範上市公司與關聯方資金往來及上市公司對外擔保若干問題的通知》) issued by CSRC.

## 28 External Guarantee and Fulfillment

At the end of the Year, the Company or its subsidiaries or jointly controlled entities has not executed any guarantee in respect of any external parties. Each independent non-executive director has already delivered independent comments in accordance with "Notice of Certain Matters on Administration of Fundflow Between Listed Company And Its Related Parties and Listed Company's External Guarantees" (Zhengjianfa no. 56 of (2003)) (證監發(2003)56號《關於規範上市公司與關聯方資金往來及上市公司對外擔保若干問題的通知》) issued by CSRC.

## 29 Material Litigation and Arbitration

In 2004, no material litigation and arbitration subsisted in the Company or subsidiaries or jointly-controlled entities.

## 30 Connected Transactions

In 2004, the Group had made the following disclosures in relation to connected transactions, in accordance with Chapter 14A of the Listing Rules of HKEX:

- (1) On 5 March 2004, the Company as purchaser entered into an acquisition agreement with an associate of GDRB Company namely, Guangdong Expressway Co., Ltd. (廣東省高速公路有限公司), which is together with GDRB Company controlled by GD Communications Group, for the acquisition of 25% shareholding of Yangmao Company at a consideration of RMB271,680,000. This acquisition is a connected transaction as GDRB Company is the promoter of the Company. The circular for the transaction had been dispatched to shareholders of the Company. This transaction was approved by shareholders of the Company in the Extraordinary General Meeting held on 14 June 2004, in which GDRB Company and its associates abstained from voting.
- (2) On 7 April 2004, the Company as purchaser entered into an acquisition agreement with an associate of GDRB Company namely, Guangdong Province Highway Construction Co., Ltd. (廣東省公路建設公司), which is together with GDRB Company controlled by GD Communications Group, for the acquisition of 25% shareholding of Jiangzhong Company at a consideration of RMB169,500,000. This acquisition is a connected transaction as GDRB Company is the promoter of the Company. The circular for the transaction had been dispatched to shareholders of the Company. This transaction was approved by shareholders of the Company in the Extraordinary General Meeting held on 14 June 2004, in which GDRB Company and its associates abstained from voting.

- (3) On 8 December 2004, the Company as purchaser entered into an acquisition agreement with GDRB Company for an acquisition of 30% shareholding of Guangyun Company at a consideration of RMB179,180,000. This acquisition is a connected transaction as GDRB Company is the promoter of the Company. The circular for the transaction had been dispatched to shareholder of the Company. This transaction was approved by shareholders of the Company in the Extraordinary General Meeting held on 18 February 2005, in which GDRB Company and its associates abstained from voting.

The consideration of the three aforesaid connected transactions are determined through tender. The agreements were entered in accordance with normal commercial terms in the ordinary and usual course of business. These transactions enlarge the scale of assets and profit base of the Company, further enhancing the investment, construction and management of the toll highway projects participated in Shenzhen, Pearl River Delta and other areas in Guangdong Province.

## 31 Investment and Acquisition

Please refer to the section headed “Business Review” under “Management Discussion and Analysis” on pages 33 to 36 for the investment and acquisition of the Company in the reporting period.

## 32 Subsequent Event

On 3 February 2005, the Company and its wholly owned subsidiary, Mei Wah Company, entered into an agreement with other parties, so as to acquire an aggregate of 56.28% interest in Qinglian Company. The relevant transactions are subject to the approval by the shareholders in general meeting of the Company. The relevant details of the transactions are stated in the section headed “Business Review” of “Management Discussion and Analysis” on page 36 of this annual report and notes 33 to the accounts. For more information, please refer to the Company’s announcement published on 15 February 2005.

## 33 Employees

As at 31 December 2004, the Company has 1270 employees, of which 301 of them are administrative and technical staff while 969 of them are toll collection staff.

## 34 Employee's Remuneration and Benefits

### (1) Employee's remuneration

In April 2004, the Company passed the "Management Rules for Employee's Remuneration and Benefits" (《員工薪酬福利管理辦法》) to the effect that the employee's remuneration is divided into three parts, namely salary, year-end performance bonus as well as statutory and non-statutory benefits provided by the Company. The remuneration is determined in accordance with an overall assessment, of which salary and performance bonus are determined by their position and performance respectively so as to maintain the competitiveness of the Company.

### (2) Employee's insurance scheme

Since the date of its incorporation, the Group has provided basic insurance package to its employees in accordance with the rules and regulations promulgated by Shenzhen Municipal Government, which costs are accounted for as employees expenses. Apart from the basic insurance package, the Group has also provided employee's compensation insurance, unemployment insurance and birth insurance to its employees.

### (3) Employee's retirement scheme

The Group has participated in an employee's retirement scheme organized and independently managed by Shenzhen Labour and Social Security Administration Bureau ("Shenzhen Social Security Bureau"). According to relevant regulations, the Group is required to contribute certain amount of money to Shenzhen Social Security Bureau each month. Shenzhen Social Security Bureau will be

solely responsible for distributing pensions to retired employees as a result without imposing any liability on the Group in this regard. The particulars of the Group's employee's retirement scheme are stated in note 6(b) to the accounts.

### (4) Employee Motivation Scheme

The Company has implemented a share appreciation right scheme as approved by the shareholders since 2001 and was amended by the extraordinary general meeting held on 30 October 2003. As at 31 December 2004, units in share appreciation right scheme granted by the Company and collectively held by the management were 5,501,400. The receipts from exercise of the units shall be applied as a special incentive fund and distributed by the Company in accordance with the proposal put forward by the general manager and the Human Resources Nomination Committee of the Company. As at 31 December 2004, the management of the Company has not yet exercised any of the above-mentioned units. The details are provided in note 6(a) to the accounts.

## 35 Employee's Training

The Company values staff training and during the Year the Company had organized five group training workshops relating to corporate culture, human resources, results management, Enterprise Management Decisions Sand Table Exercise, time management and organization skills, domestic and Hong Kong accounting rules with a total of 786 attendees. Furthermore, individual departments organized 12 specific internal training programmes on its own according to annual training plan.

## 36 Results Review

The Audit Committee of the Company has reviewed and confirmed results announcement and report for the twelve-month period ended 31 December 2004.

## 37 Auditors

(1) The accounts in this annual report 2004 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, Hong Kong) (“PricewaterhouseCoopers”) and PricewaterhouseCoopers Zhong Tian CPAs Co., Ltd. (“PricewaterhouseCoopers Zhong Tian”).

(2) The appointment, resignation, termination or replacement of independent auditors is determined by the Audit Committee of the Board, which is responsible for assessing the auditors’ performance and reasonableness of their service fees and then provide suggestions to the Board in this regard. The

(5) The remuneration of the auditors in the year 2004 is set out as follows:

appointment and replacement of auditors as well as auditors’ service fees are proposed by the Board for approval in the shareholder’s meetings.

(3) PricewaterhouseCoopers as the Company’s international auditors has been providing audit services to the Company for nine consecutive years since 1996. In 2003, it changed the responsible partners and senior managers.

(4) To improve the effectiveness and efficiency of the audit, the Company appointed PricewaterhouseCoopers Zhong Tian as statutory auditor in 2004. Pan-China Schinda Certified Public Accountants, the then statutory auditor of the Company, had provided audit services for three consecutive years till 2003.

Auditors	2004		(Unit: RMB'000)	
			2003	
	Audit fees	Other fees	Audit fees	Other fees
PricewaterhouseCoopers	1,230	1,006	1,145	—
PricewaterhouseCoopers Zhong Tian	500	150	—	—
Pan-China Schinda Certified Public Accountants	—	288	710	270

Notes:

a. The above audit fees include audit and review service expenses for the auditors. Other fees represent specific audit fees and professional on due diligence review of the Company’s investment provided by the auditors. The Company took no responsibility for the travel expenses of the auditors incurred for providing audit and review service, but it would pay for the travel expenses to specific audit and assessment service on due diligence review services.

b. As other fees are all about specific audit fees and assessment service fees on due diligence review of the Company’s investment provided by the auditors, the Board believes this would not affect the independence of the auditors.

## 38 Name of Directors

In the Year, the members of the Board had not been changed. The members of the Board include Mr. Chen Chao (Chairman of the Board); Mr. Wu Ya De (Director and General Manager); Mr. Zhang Rong Xing (Director); Mr. Zhong Shan Qun (Director); Ms. Tao Hong (Director); Mr. Lin Xiang Ke

(Director); Ms. Zhang Yang (Director); Mr. Chiu Chi Cheong, Clifton (Director); Mr. Ho Pak Cho, Denis Morgie (Independent Non-executive Director); Mr. Li Zhi Zheng (Independent Non-executive Director); Mr. Zhang Zhi Xue (Independent Non-executive Director) and Mr. Poon Kai Leung, James (Independent Non-executive Director).

By Order of the Board

**Chen Chao**

*Chairman*

Shenzhen, PRC, 18 February 2005