

The Company focuses on toll highway operations as its core business and expands towards the Pearl River Delta region, as well as other economically developed regions in the PRC, through establishing a foothold in Shenzhen.



Report of the Directors

The Board is pleased to present herewith the Directors' report and the audited financial statements of the Company and the Group for the year ended 31 December 2005.

1 Details of the Company

The Company was established as a joint stock limited company in the PRC on 30 December 1996 and 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 2005, ten board meetings were held, details of which are set out on pages 39 to 40 in the Corporate Governance Report of this annual report.

3 Summary of the General Meetings

Details of the general meetings convened in the Reporting Period are as follows:

Session Number	Date Convened	Newspapers on which the resolutions disclosed
The First Extraordinary General Meeting 2005	18 February 2005	
The Annual General Meeting 2004, the Extraordinary General Meeting 2005 for Holders of Overseas-listed Foreign Shares and Extraordinary General Meeting 2005 for Holders of Domestic Shares	8 April 2005	Shanghai Securities News Securities Times
The Second Extraordinary General Meeting 2005	23 May 2005	Hong Kong
The Third Extraordinary General Meeting 2005	3 June 2005	Economic Times
The Fourth Extraordinary General Meeting 2005	26 August 2005	
The Fifth Extraordinary General Meeting 2005	10 October 2005	The Standard
The Sixth Extraordinary General Meeting 2005	28 December 2005	

The shareholders passed the following important matters in the above general meetings:

(1) Passed the following matters as ordinary resolutions:

- the report of the Directors, the report of the Supervisory Committee, the audited financial report and the profit distribution scheme for the year 2004
- the budget plan and the emoluments of Directors and Supervisors for the year 2005
- re-appointment of international auditors and statutory auditors
- election of new Directors and Supervisors
- acquisition of 30% interest of Guangwu Expressway
- acquisition of 56.28% interest of Qinglian Project
- acquisition of 55% interest of Wuhuang Expressway

(2) Passed the following matters as special resolutions:

- amendments to the Articles of Association
- authorization to the Board to repurchase H Shares of the Company
- issue of the short-term commercial papers

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 Reporting Period, there is no substantial change in respect of the Group's businesses.

An analysis of the Group's turnover and contributions to operating profit for the Year is set out on pages 23 to 26.

The turnover of and the operating profit contributed to the Group are not separately analysed in terms of different businesses and geographical areas as the turnover and results reported in the Reporting Period are principally derived from toll roads operated by the Group, which are located in the PRC.

5 Major Customers and Suppliers

No further disclosures with regard to the Group's major customers and suppliers are made since the Group's major customers are users of its toll highways while there is normally no major purchase in relation to its ordinary course of business.

6 Financial Results

The results of the Group for the year ended 31 December 2005 are set out in the consolidated income statement of the financial statements attached in this annual report on page 83.

The financial positions of the Group and the Company as at 31 December 2005 are set out in the balance sheets of the financial statements attached in this annual report on pages 79 to 82.

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 annual report.

7 Dividends

(1) Proposed dividend for the year 2005

The Board of the Company recommended the payment of a final dividend of RMB0.12 per share (tax included) to all shareholders, totaling RMB261,684,000, for the year ended 31 December 2005. Such dividend shall be subject to the approval by shareholders at the 2005 Annual General Meeting.

According to the Articles of Association, 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 HK\$ by reference to the average exchange rate for converting RMB into HK\$ quoted by the People's Bank of China for the five working days preceding the day on which the final dividend is declared.

(2) Dividend scheme of the year 2004 and its implementation

Pursuant to the approval on the 2004 Annual General Meeting, the Company paid a final dividend of RMB0.11 per share for the year 2004 to all shareholders on the basis of the total share capital comprising 2,180,700,000 shares as at the year end of 2004, totaling RMB 239,877,000. Such dividend distributions were completed in two months after the close of the general meeting.

8 Directors and Supervisors

(1) The details of the Directors and the Supervisors are set out on pages 71 to 75 of this annual report.

(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 an Independent Director, Mr. Poon Kai Leung, James, which is effective from 28 May 2003 to 31 December 2005, the service contracts with Directors, Mr. Yang Hai, Mr. Li Jing Qi, Mr. Wang Ji Zhong, which are effective from 8 April 2005 to 31 December 2005, and the service contract of an Independent Director, Mr. Wong Kam Ling, which is effective from 3 June 2005 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 Company and the Directors or the Supervisors.

(3) Directors' and Supervisors' interests in contracts

As at the end of the Reporting Period or at any time during the Reporting Period, no material contract 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 interest, whether directly or indirectly, subsisted at the end of the Reporting Period or at any time during the Reporting Period (excluding service contracts).

(4) Independent Director and its independence

The Company has appointed sufficient Independent Directors. The Board has obtained written confirmations from all Independent Directors concerning their independence in accordance with rule 3.13 of the Listing Rules of HKEX and believes that the incumbent Independent Directors have complied with the relevant guidelines as stipulated in such rule and still been regarded as independent persons.

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

9 The Details of Election and Change of Directors, Supervisors and Senior Management

Name	Position	Time of Appointment	Time of Departure	Reasons of Departure
Chen Chao	Chairman	—	April 2005	Resignation
	Chairman of the Supervisory Committee	April 2005	—	—
Zhong Shan Qun	Director	—	April 2005	Resignation
Tao Hong	Director	—	April 2005	Resignation
Wang Ji Zhong	Chairman of the Supervisory Committee	—	April 2005	Resignation
	Director	April 2005	—	—
Ho Pak Cho, Denis Morgie	Independent Director	—	June 2005	Resignation
Yang Hai	Chairman	April 2005	—	—
Li Jing Qi	Director	April 2005	—	—
Wong Kam Ling	Independent Director	June 2005	—	—
Wang Xue Feng	Operations Controller	—	August 2005	Resignation
Li Jian	Operations Controller	August 2005	—	—
Ge Fei	Engineering Controller	August 2005	—	—
Fan Li Ping	Engineering Controller	—	August 2005	Internal transfer
	Technical Controller	August 2005	—	—
Wu Xian	Technical Controller	—	August 2005	Internal transfer
	Director and General Manager of Qinglian Company	August 2005	—	—

The terms of the third session of the Board and Supervisory Committee expired on 31 December 2005. At the extraordinary general meeting held on 28 December 2005, Mr. Yang Hai, Mr. Wu Ya De, Mr. Li Jing Qi, Mr. Wang Ji Zhong, Mr. Liu Jun, Mr. Lin Xiang Ke, Ms. Zhang Yang and Mr. Chiu Chi Cheong, Clifton were appointed as the directors of the fourth session of the Board; Mr. Li Zhi Zheng, Mr. Zhang Zhi Xue, Mr. Poon Kai Leung, James, and Mr. Wong Kam Ling were appointed as the Independent Directors of the fourth session of the Board; and Mr. Zhong Shan Qun and Mr. Zhang Yi Ping were appointed as the Supervisors of the fourth session of the Supervisory Committee. Additionally, Mr. Yi Ai Guo was elected as the Supervisor representing staff of the fourth session of the Supervisory Committee by the staff's representative meeting. In the Board meeting and the meeting of the Supervisory Committee held on 6 January 2006, Mr. Yang Hai and Mr. Zhong Shang Qun were elected as the chairman of the Board and the chairman of the Supervisory Committee respectively. The terms of appointment for all members of the Board and the Supervisory Committee are three years, starting from 1 January 2006 to 31 December 2008.

10 Emoluments of the Directors, the Supervisors and Senior Management

The emoluments of the Directors and Supervisors of the Company are determined in accordance with relevant policies and regulations in the PRC with reference to the Company's actual situation and prevailing market conditions, subject to approval in general meeting after separate deliberations by the Board and the Supervisory Committee. During the Reporting Period, the Remuneration Committee of the Board was responsible to formulate the proposal for the Directors' remunerations to the Board.

In the year 2005, four Independent Directors and Mr. Chiu Chi Cheong, Clifton, a Director not nominated by shareholders, received Directors' emoluments while other Directors and Supervisors did not obtain any Director's emoluments or Supervisor's emoluments. All Directors and Supervisors received meeting subsidies in accordance with relevant rules. The Directors (including the Chairman) and Supervisors who are employed by the Company received management remuneration in accordance with their specific management positions in the Company.

Remuneration policy of the Company to the management is commensurate with market standards and work performance. The remuneration of the senior management comprises three parts, namely position salary, performance bonus and benefits. In order to attract and motivate quality staff, the performance bonus is mainly based on the performance assessment and the Remuneration Committee of the Board is responsible to make the tenure assessment and to propose or review the remuneration and bonus of the senior management. The benefits of the management include contributions to a retirement scheme (social retirement insurance), other kinds of social insurance and the supplemental retirement scheme, etc., that are paid by the Company according to the relevant rules.

At the end of the Reporting Period, the details of the remuneration received by the incumbent Directors, Supervisors and senior management in the year 2005 are as follows:

Unit: RMB'000 (before tax)

Name	Total remuneration received from the Company during the Reporting Period				Remarks	Whether receive remuneration from shareholder or other related entities
	Director's/ Supervisor's emolument	Meeting subsidies	Management remuneration (including insurance and fringe benefits)	Total (note)		
Executive Director:						
Yang Hai	—	14	756	770	Since April 2005	No
Wu Ya De	—	16	715	731		No
Zhang Rong Xing	—	4	443	447		No
Non-executive Director:						
Lin Xiang Ke	—	11.5	—	11.5		Yes
Zhang Yang	—	10	—	10		Yes
Li Jing Qi	—	8	—	8	Since April 2005	Yes
Wang Ji Zhong	—	9.5	—	9.5		Yes
Chiu Chi Cheong, Clifton	300 (HK\$)	14	—	326		No
Independent Director:						
Li Zhi Zheng	150	11	—	161		No
Zhang Zhi Xue	150	12	—	162		No
Poon Kai Leung, James	150 (HK\$)	15.5	—	172		No
Wong Kam Ling	86 (HK\$)	10.5	—	100	Since June 2005	No
Supervisor:						
Chen Chao	—	—	—	0	renounced the meeting subsidies receivables of RMB11,500 for the Year	Yes
Yang Qin Hua	—	11.5	—	11.5		Yes
Yi Ai Guo	—	13	357	370		No

Unit: RMB'000 (before tax)

Name	Total remuneration received from the Company during the Reporting Period				Total (note)	Remarks	Whether receive remuneration from shareholder or other related entities
	Director's/ Supervisor's emolument	Meeting subsidies	Management remuneration (including insurance and fringe benefits)				
Senior Management:							
Wu Xian	—	—	541	541		No	
Li Jian	—	—	161	161	Since September 2005	No	
Ge Fei	—	—	179	179	Since September 2005	No	
Fan Li Ping	—	—	563	563		No	
Gong Tao Tao	—	—	638	638		No	
Zhou Qing Ming	—	—	483	483		No	
Wu Qian	—	—	536	536		No	
Total				6,391			

Note:

- For the purpose of conversion, amount in HK\$ have been converted into RMB using an exchange rate of HK\$1=RMB1.04.
- According to relevant policy guidelines of Shenzhen Municipal Government, the Company adopts business vehicle reform plan. For the management staff who participate in the plan, the Company will pay certain monthly vehicle subsidies in lieu of providing or arranging business vehicles for them. Zhang Rong Xing, Yi Ai Guo, Wu Xian, Li Jian, Ge Fei, Fan Li Ping, Gong Tao Tao, Zhou Qing Ming participated in the above plan, and during the Reporting Period, the aforesaid persons also received vehicle subsidies of RMB45,600, 43,200, 51,000, 20,000, 20,000, 60,000, 60,000 and 60,000 respectively.

Since 2001, the share appreciation right scheme has been approved by the shareholders and amended by the extraordinary general meeting convened on 30 October 2003. According to the amended share appreciation right scheme, the Board has during the Reporting Period approved the Company to exercise the third session and fourth session of share appreciation rights totally 5,501,400 shares collectively held by senior management authorized by the general meeting, the proceeds of RMB4,412,000 from the exercise 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 Remuneration Committee of the Company. As at the end of the Reporting Period, the shares appreciation rights granted by the general meeting were exercised in full. The special incentive fund generated from the exercise of the rights during the Reporting Period has not yet been distributed.

11 Disclosure of Interests

- (1) As at 31 December 2005, none of the Directors, Supervisors or senior management had interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be entered into the register maintained by the Company under Section 352 of the SFO (including deemed interests and short positions under such provisions of the SFO) or which were required to be notified to the Company and HKEX pursuant to Model Code for Securities Transactions by Directors of Listed Issuers.
- (2) None of the 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 15 to the financial statements.

13 Profile of Shareholders

- (1) As at 31 December 2005, the Company had 33,483 shareholders in total, including 4 non-circulating shareholders, 464 H shareholders and 33,015 A shareholders.
- (2) As at 31 December 2005, so far as is known to the Directors, Supervisors and senior management of the Company, the interests or short positions of shareholders, other than a Director, Supervisor or senior management of the Company, in the shares and underlying 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:

	Number of domestic shares (note 1)	Approximate percentage of total issued domestic share capital	Approximate percentage of total issued capital
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:

	Number of H Shares (note 4)	Approximate percentage of total issued H share capital	Approximate percentage of total issued capital
Sumitomo Mitsui Asset Management Company, Limited	67,036,000 (note 5)	8.97%	3.07%
J.P. Morgan Chase & Co.	63,376,000 (note 6)	8.48%	2.91%
Sumitomo Life Insurance Company	59,674,000 (note 7)	7.98%	2.73%

Notes:

- (1) Unlisted shares.

The Share Segregation Reform Proposal ("Proposal") was approved by relevant general meeting of the A shareholders held on 23 January 2006, pursuant to which, all holders of non-circulating shares of the Company would transfer 3.2 shares to A shareholders for every 10 A Shares held by such A Shares shareholder on the registration date of the implementation of the Proposal (i.e. 24 February 2006), so as to obtain the circulation rights of the non-circulating shares on the A shares stock market. The Proposal was successfully implemented on 27 February 2006 after obtaining approval from the governing authorities and the A Shares of the Company resumed trading on 28 February 2006. After the implementation of the Proposal, the original non-circulating shares held by the holders of non-circulating shares of the Company were changed to restricted circulating shares.

Change of shareholding of shareholders subject to selling restriction as follows:

Non-circulating Shares Shareholders	Before Implementation of the Proposal		shares paid according to the Proposal (shares)	After Implementation of Proposal	
	shareholding (shares)	% of total issued capital		shareholding (shares)	% of total issued capital
XTC Company	654,780,000	30.03%	—	654,780,000	30.03%
SGH Company	457,780,000	20.99%	46,320,113	411,459,887	18.86%
Huajian Centre	91,000,000	4.17%	3,788,677	87,211,323	4.00%
GDRB Company	64,640,000	2.96%	2,691,210	61,948,790	2.84%
Total	1,268,200,000	58.15%	52,800,000	1,215,400,000	55.73%

- (2) XTC Company is a limited company incorporated under the laws of the PRC and is a wholly owned subsidiary of Shenzhen International which shares are listed on the main board of HKEX.
- (3) State-owned enterprise incorporated under the laws of the PRC.
- (4) Shares listed on the main board of HKEX.
- (5) These 67,036,000 H Shares were held by Sumitomo Mitsui Asset Management Company, Limited as investment manager.
- (6) 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.
- (7) These 59,674,000 H Shares were held through Sumitomo Mitsui Asset Management Company, Limited, in which Sumitomo Life Insurance Company had a controlling interest.

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 2005.

- (3) As at 31 December 2005, the top ten holders of shares in circulation of the Company based on the shareholders' registers supplied by the share registrars and the transfer offices of Hong Kong and the PRC were as follows:

Name of Shareholders	Number of shares held at the end of the period	Type of Shares
HKSCC Nominees Limited (Note)	728,587,398	H Shares
Xing He Securities Investment Fund	16,341,584	A Shares
Yu Long Securities Investment Fund	4,712,850	A Shares
HSBC Nominees (Hong Kong) Limited	3,872,000	H Shares
China Merchants Bank Limited – CITIC Classics Portfolio Securities Investment Fund	3,232,310	A Shares
ARSENTON Nominees Limited	3,000,000	H Shares
China Galaxy Securities Company Limited	2,973,371	A Shares
China Merchants Securities – Chartered – ING Bank N.V.	2,340,776	A Shares
Guotai Junan – CCB – The Hongkong and Shanghai Banking Corporation Limited	1,673,925	A Shares
Shenyin Wanguo – HSBC – Merrill Lynch International	1,340,998	A Shares

Note: The H Shares held by HKSCC Nominees Limited were held on behalf of various clients.

(4) **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 printing of this annual report.

14 Purchase, Sale or Redemption of Shares

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

With the main purposes to protect shareholders' and investors' interests and to enhance the confidence of investors, the Company had formulated a plan since 2002 to seek authorization and approval from the shareholders and regulatory authorities in respect of the repurchase of H shares of the Company ("Repurchase of H Shares").

The application in relation to the Repurchase of H Shares has been approved by the CSRC. On 8 April 2005, a special resolution was passed by the shareholders of the Company to authorise once again the Directors to execute the Repurchase of H Shares. Pursuant to the authorization of the shareholders, the Board may repurchase H shares in the open market traded on HKEX, of not more than 10% of the nominal value of the issued H Shares of the Company in the relevant period. The relevant period will end on the date when the 2005 Annual General Meeting held.

The Company has completed all the requisite preparatory work for the Repurchase of H Shares in accordance with the relevant laws and regulations. Up to the date of this report, the Company has not yet repurchased any H shares after throughout consideration of a composite of factors such as the price of H shares and the capital expenditure of the Company.

15 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.

16 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 Reporting Period.

17 Reserves

The amounts and particulars of material transfer to and from reserves of the Company during the Reporting Period are set out in note 16 to the financial statements.

18 Fixed Assets

The movements in fixed assets of the Company during the Reporting Period are set out in note 5 to the financial statements.

19 Bank Loans and Other Borrowings

Details of bank loans and other borrowings of the Group and the Company as at the end of the Reporting Period are set out in note 17 to the financial statements.

20 Interest Capitalised

The amount of interest capitalised by the Group and the Company during the Reporting Period are disclosed in note 25 to the financial statements.

21 Income Tax Rate and Business Tax Rate

In the year 2005, the applicable PRC enterprise income tax of the Company was 15%, which was the preferential tax rate for enterprises established in the Shenzhen Special Economic Zone, while the standard income tax rate is 33%.

During the Reporting Period, the turnover of the Group was subject to the PRC business tax at 3% or 5% of toll income. Before 31 May 2005, the toll income derived from expressways of the Group was subject to PRC business tax at 5%. Pursuant to the relevant tax regulations, effective from 1 June 2005, PRC business tax of the toll income from expressways is charged at 3%.

22 Trust Deposits and Overdue Time Deposits

During the Reporting Period, the Company did not have any trust deposit or overdue time deposit.

23 Subsidiaries and Jointly Controlled Entities

Details of the Company's subsidiaries and jointly controlled entities are set out in notes 9 and 10 to the financial statements respectively.

24 Material Litigation and Arbitration

In 2005, no material litigation and arbitration subsisted in the Company or its subsidiaries or its jointly controlled entities.

25 Connected Transactions

In 2005, 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 8 December 2004, the Company entered into an agreement with GDRB Company to acquire a 30% equity interest in Guangyun Company (which operates Guangwu Expressway) at a consideration of RMB179 million. As GDRB Company is one of the promoters of the Company, holding 2.96% shareholding of the Company, the transaction constituted a connected transaction of the Company in accordance with the Listing Rules of HKEX. On 18 February 2005, such acquisition was approved by shareholders at the extraordinary general meeting of the Company, in which GDRB Company and its associates abstained from voting.
- (2) On 3 February 2005, the Company together with Mei Wah Company entered into agreements with Mr. Chung Chi Fai, Spring Sun International Limited, Guangdong Yingjun Investment Holding Co., Ltd. (“Great Eagle Company”), Maxprofit Gain Limited and Zhuhai New Chang Jiang Construction Investment Co., Ltd. to acquire a 56.28% interest in Qinglian Company at a consideration of RMB1,839.2 million. As Sun Yue Traffic Development Limited (“Sun Yue Company”) is an associate of GDRB Company (a promoter of the Company holding 2.96% shareholding of the Company) and holds interests in Qinglian Company, and there was close relationship between the acquisition of the interests of Sun Yue Company in Qinglian Company by Great Eagle Company and the Great Eagle Acquisition (the Great Eagle Acquisition, which is the acquisition of the interests of Great Eagle Company in Qinglian Company by the Company, constituted parts of the acquisitions of 56.28% interests in Qinglian Company. For details, please refer to the Company’s announcement dated 15 February 2005 and the circular dated 6 April 2005), the Great Eagle Acquisition constituted a connected transaction of the Company in accordance with the Listing Rules of HKEX. On 23 May 2005, such acquisition was approved by shareholders at the extraordinary general meeting of the Company, in which GDRB Company and its associates abstained from voting. On 29 December 2005, Mei Wah Company has issued a confirmation letter to the vendors, agreeing to extend the deadline for fulfilling the conditions precedent for acquiring 25% interest in Qinglian Company from 31 December 2005 to 30 June 2006.
- (3) On 19 March 2005, the Company together with Mei Wah Company entered into an agreement with Flywheel Investments Limited, Hubei Investment Limited, Wong Chik Lim Holdings (H.K.) Limited, Sabagaya Sendirian Berhad and JEL Company. The Group and Flywheel Investments Limited would together acquire 100% interests in Magerk Company (holding operating rights of Wuhuang Expressway) at a consideration of RMB1,188.4 million, of which 55% interests will be acquired by the Group at a consideration of RMB653.6 million. As Flywheel Investments Limited is a wholly-owned subsidiary of Shenzhen International (the holding company of XTC Company, which is the promoter and substantial shareholder of the Company, and indirectly holding 30.03% shares of the Company); the transaction constituted a connected transaction of the Company in accordance with the Listing Rules of HKEX and SSE. On 3 June 2005, such acquisition was approved by shareholders at the extraordinary general meeting of the Company, in which XTC Company and its associates abstained from voting. To facilitate a successful completion of the acquisition, the Company and Mei Wah Company entered into a supplemental agreement with other parties concerned on 12 July 2005. Pursuant to the supplemental agreement, Mei Wah Company directly acquired the 55% interest in JEL Company (the sole business of which is to own and operate Magerk Company) and the consideration for the acquisition was paid as well as the relevant transfer procedures was completed in August 2005.

The relevant considerations of the aforesaid transactions were determined through tender or after arm’s length negotiation. The relevant agreements were entered in accordance with normal commercial terms in the ordinary course of business, which are fair and reasonable to the Company and all shareholders and in the interest of the Company and shareholders as a whole. The above acquisitions would strengthen the Group’s asset size and profit base, and are consistent with the overall business strategy of the Group in the investment of toll highways.

26 Investment and Acquisition

Please refer to the section headed “Business Review and Analysis” under “Management Discussion and Analysis” from page 21 for the investments and acquisitions of the Company in the Reporting Period.

27 Fund Flow between Related Parties

The fund flow between the Company and related parties (as defined under the relevant PRC regulations) is mainly the payment of fees on behalf of Ropeway Company. The statutory auditors of the Company have made specific explanation in respect of the table prepared by the Company in a format compiling situations of the appropriation of funds by the controlling shareholder and other related parties as required by “The Notice of Certain Matters on Administration of Fund Flow between Listed Company and its Related Parties and Listed Company’s External Guarantees” (Zhengjianfa no.56 of (2003))《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通知》(證發監(2003) 56 號) and “No. 5 Memorandum of the Work Report for Year 2005” (《2005 年年度報告工作備忘錄第五號》) issued by SSE.

28 Major Contracts and Fulfillment

In addition to those contracts related to the acquisitions as stated in this annual report, the Group also signed the following material contracts during the Reporting Period:

- (1) the Company pledged its 95% shareholding in Meiguan Company in favour of China Development Bank for a credit line of RMB1.4 billion. Such matter has been considered and approved by the Board of the Company and the pledge was effective from 25 June 2005. As at the date of this report, the said pledge has been released since the relevant loan was repaid.
- (2) Mei Wah Company pledged all its shares in JEL Company totaling 154,000,000 shares in favour of Industrial and Commercial Bank of China (Asia) Limited (“ICBC Asia”) for a credit facility of HK\$680 million. The said pledge was effective from 5 August 2005. Additionally, the Company applied to Shenzhen branch of the Industrial and Commercial Bank of China (“ICBC”) for issuing a standby letter of credit in favour of Mei Wah Company as a guarantee for Mei Wah Company’s application for the loan of HK\$680 million with a counter-guarantee provided by the Company to Shenzhen branch of ICBC for the issuance of such letter of credit. Such matters were considered and approved by the Board of the Company. Up to the end of the Reporting Period, the said pledge and counter-guarantee had not been released.

As at the end of the Reporting Period, the details of the assets of the Group mortgaged or pledged are as follows:

Asset	Type	Bank	Scale of Guarantee	Period
95% equity interest in Meiguan company	Pledge	China Development Bank	The credit line of RMB1.4 billion	Until repayment of all debts by the Company under loan agreement
Toll collection right of Shuiguan Expressway	Pledge*	China Merchants Bank	The principal and interests of RMB650 million bank loan	Until repayment of all debts by Qinglong Company under the loan agreement
154 million shares of JEL Company	Mortgage**	ICBC Asia	The principal and interests of HK\$680 million bank loan	Until repayment of all debts by Mei Wah Company under the loan agreement
Toll collection right of Wuhuang Expressway	Pledge***	ICBC	The principal and interests of RMB200 million bank loan	Until repayment of all debts by Magerk Company under the loan agreement

* Pledged by Qinglong Company, a jointly controlled entity of the Company.

** Mortgaged by Mei Wah Company, a wholly-owned subsidiary of the Company.

*** Pledged by Magerk Company, a jointly controlled entity of the Company.

Save as disclosed above, the Company did not sign any material contract in relation to any other major entrustment, subcontracting, leasing, guarantee or cash assets management during the Reporting Period. Furthermore, the Company had no such major contracts signed in previous period and subsisted during the Reporting Period.

The Independent Directors have, in accordance with the relevant regulations of the CSRC, delivered specific explanations and independent opinions in relation to the external guarantees of the Company.

29 Continuing Disclosure Obligations under the Listing Rules

(1) Pursuant to rule 13.16 of the Listing Rules:

During the Reporting Period, the Group acquired 56.28% interest in Qinglian Company. The Group has also undertaken, in proportion to its equity interests acquired, the loans and the related accrued but unpaid interests of Qinglian Company from the original equity holders for a total amount of RMB958,883,000, which is reflected in the interests in associates. As Qinglian Class I Highway held by Qinglian Company is to be reconstructed into an expressway, the Directors have committed to capitalise such loans as additional capital to Qinglian Company. The relevant procedure is pending the approvals by the relevant PRC government authorities.

(2) Pursuant to rule 13.22 of the Listing Rules:

Set out below is the condensed balance sheet of Qinglian Company as at 31 December 2005 prepared in accordance with the HKFRS:

	31 December 2005
	RMB'000
Assets	
Non-current assets	2,725,845
Current assets	93,164
Total assets	2,819,009
Liabilities	
Non-current liabilities	602,124
Current liabilities	1,748,720
Total liabilities	2,350,844
Net assets	468,165

30 Undertaking

The 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. During the Reporting Period, the Company did not notice that the above two major shareholders had violated such undertaking.

31 Subsequent Events

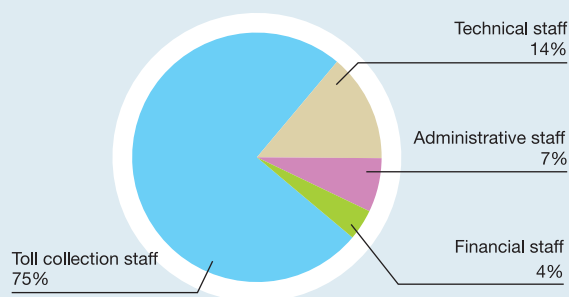
- (1) In January 2006, the Company issued short-term commercial papers with a total amount of RMB1 billion, having maturity of nine months and bearing interest at 3.07% per annum.
- (2) On 14 January 2006, the Company entered into an entrusted management contract of construction projects with the Shenzhen Communications Bureau for the projects of the Wutong Mountain Avenue (Supplementary Road) and the Jihe Expressway Yantian Subsidiary Road Special Economic Zone Checkpoint Stations.
- (3) On 8 February 2006, the Company entered into an agreement with the liquidation committee of Qingyuan City Yueqing Public Road Construction and Development Co., Ltd. for the acquisition of 20.09% equity interest in Qinglian Company at a consideration of RMB484 million.

The relevant matters and details of the above transactions are stated in “Management Discussion and Analysis” of pages 15 to 35 and note 35 to audited financial statements.

32 Employees, Remuneration and Training

(1) Staff

As at 31 December 2005, the Company has 1,303 employees, out of which 318 are management and professional staff while the remaining 985 are toll collection staff. 31% of the Company's staff holds tertiary or above qualifications and 83% of the administrative, financial and technical staff holds tertiary or above qualifications.



(2) Employee's Remuneration

Pursuant to the “Management Rules for Employee's Remuneration and Benefits” (《員工薪酬福利管理辦法》) adopted by the Company in 2004, the employee's remuneration comprises of three parts, namely monthly salary, annual performance bonus as well as statutory and company fringe benefits and is determined in accordance with the results of the overall performance assessment by reference to the principles of salary determined by positions, bonus determined by performance and maintaining the competitiveness of the Company.

(3) Employee's insurance scheme

The Group has provided basic medical insurance package to its employees which costs are accounted for as employees expenses. Apart from the medical insurance, the Group has also provided industrial injury insurance and unemployment insurance for its employees.

(4) Employee's retirement scheme

The Group has participated in an employee's retirement scheme which is organised by the local government authorities. According to the relevant regulations, the Group should pay fixed contributions to the local social security administration bureau and the Group has no legal or presumed obligations to pay further contributions if the bureau does not have sufficient assets to pay all employees benefits relating to the services provided by the employees in the current and previous periods. Up to 31 December 2005, the Company had two retired staff who had completed the retirement procedures with Shenzhen's social security administration bureau.

(5) Employee's Training

The Company values staff training. During the Reporting Period, the Company had organized seven centralized training, including workshop on the Company's development strategies, specialized training for assigned management staff, orientation training for new staff, continuing professional education for financial staff, and training courses for filing practice, team building and advanced techniques for problem-solving, etc, with a total of 1,182 participants. Furthermore, the individual professional departments also held various kinds of training courses according to the specific requirements, such as courses for operation safety, contract management, tunnel construction management, operation of the network for toll collection and civilised services, etc.

(6) Development Plan for Human Resources

For the coming 5 years, the Company would commence the following tasks on human resources to accommodate the needs of the Company's expansion:

- strengthen the training of the overall management techniques of senior management;
- strengthen the execution capability of the manager and staff;
- recruit and train up certain new middle rank management and professional staff to support the enhancement of the overall performance of key position;
- perfect the performance assessment system, provide more incentive to staff participating in important projects and matters;
- optimise the internal organization structure, simplify the management system and enhance the work effectiveness.

33 Results Review

The Audit Committee of the Company has reviewed and confirmed the results announcement and report of the twelve month ended 31 December 2005.

34 Auditors

The details of the appointment and remuneration of auditors are stated in the Corporate Governance Report on page 47 of this annual report.

35 Name of Directors

The composition and change of the members of the Board during the Reporting Period are set out in the Corporate Governance Report on page 38 of this annual report.

As at the date of this report, the Directors of the Company are Mr. Yang Hai (Chairman of the Board), Mr. Wu Ya De (Director and General Manager), Mr. Li Jing Qi (Non-executive Director), Mr. Wang Ji Zhong (Non-executive Director), Mr. Liu Jun (Non-executive Director), Mr. Lin Xiang Ke (Non-executive Director), Ms. Zhang Yang (Non-executive Director), Mr. Chiu Chi Cheong, Clifton (Non-executive Director), Mr. Li Zhi Zheng (Independent Director), Mr. Zhang Zhi Xue (Independent Director), Mr. Poon Kai Leung, James (Independent Director) and Mr. Wong Kam Ling (Independent Director).

By Order of the Board

Yang Hai

Chairman

Shenzhen, PRC, 31 March 2006