

REPORT OF THE DIRECTORS (Cont'd)

Substantial shareholders

As at December 31, 2000, the following shareholders held 10% or more of the share capital of the Company according to the register of interests in shares required to be kept by the Company pursuant to Section 16(1) of the Securities (Disclosure of Interest) Ordinance (Chapter 396 of the Law of Hong Kong) ("SDI Ordinance"):

	Number of shares	Percentage
Provincial Investment Co	2,909,260,000	66.99%
(domestic shares)		
HKSCC Nominees Limited	1,397,795,499	32.18%
(H Shares)		

Purchase, sale or redemption of the listed securities of the Company

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

Bank loans and other loans

Particulars of the bank loans and other loans of the Company and the Group are set out in note 25 to the financial statements.

Trust deposits

As at December 31, 2000, except for a trust deposit of Rmb150,000,000 with Huaxia Bank, Hangzhou Branch, the Company does not have any trust deposit, nor any time deposit with any other financial institution in the PRC. All of the Company's deposits have been placed with commercial banks in the PRC and financial institutions in Hong Kong. The Company has not encountered any difficulty in the withdrawal of funds.

Use of IPO proceeds from the issue of H Shares

The net IPO proceeds of the Company in 1997 amounted to approximately Rmb3,524 million. Details of the applications of such proceeds as at December 31, 2000 are set out below:

- Approximately Rmb534.45 million was applied as capital contribution to Jiaying Co for completing construction works of the Jiaying Section of the Shanghai-Hangzhou-Ningbo Expressway;
- Approximately Rmb5.34 million was used in relation to Contract No.8 of the Hangzhou-Ningbo Expressway;
- Approximately Rmb637.48 million was used towards repayment of loans and payment of interest;
- Approximately Rmb29.4 million was used to purchase approximately 2.44 per cent of the registered capital of Jiaying Co;
- At the time of the Company's listing, approximately Rmb900 million was reserved for the potential investment in the Huzhou Section of the Hangzhou-Nanjing Expressway. However, in November 1999, the Company, with the approval from its shareholders, applied this portion of the IPO proceeds to pay for the consideration for the acquisition of an approximately 30.748 per cent interest in the capital of Jiaying Co (the "Acquisition"). The total consideration in relation to the Acquisition was approximately Rmb914.7 million, and was funded entirely by the IPO proceeds;
- Approximately Rmb1,224 million was used as capital contribution to Shangsang Co;
- Approximately Rmb38 million was used as capital contribution to Petroleum Co;

As at December 31, 2000, the Company used approximately Rmb3,383 million, or approximately 96% of its IPO proceeds. The balance of approximately Rmb141 million was deposited in commercial banks in the PRC and invested in marketable securities.

REPORT OF THE DIRECTORS (Cont'd)

Directors

The Directors during the year were:

Executive Directors

Mr. Geng Xiaoping

Mr. Fang Yunti

Mr. Zhang Jingzhong

Mr. Xuan Daoguang

As an important part and basis of improving its corporate governance, the second session of the Board and Supervisory Committee increased the number of non-executive and independent members. We believe that the increase in these non-executive and independent members will help us to make wiser strategic decisions and to build a company with improved corporate governance.

Non-executive Directors

Mr. Xia Linzhang

Ms. Zhang Chunming

Independent non-executive Directors

Dr. Hu Hung Lick, Henry

Mr. Tung Chee Chen

Mr. Zhang Junsheng

All of the Directors were appointed on February 28, 2000. In accordance with the Company's articles of association, all the Directors continue in office.

Directors and senior management biographies

Biographical details of the Board and the senior management of the Group are set out under the Management Profile section of this report from pages 34 to 39 .

Directors' and Supervisors' service contracts

Each of the Executive Directors and one of the Supervisors have entered into a service agreement with the Company, with effect from 28 February 2000, for an initial term of three years.

Save as disclosed above, none of the Directors and Supervisors has entered into any service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

Directors' and Supervisors' interests in contracts

None of the Directors or Supervisors had any material interest, whether direct or indirect, in any contract of significance to which the Company, or any of its subsidiaries, fellow subsidiaries or its holding company was a party, at the end of the year or at any time during the year.

Directors' and Supervisors' interests in shares

As at December 31, 2000, none of the Directors, Supervisors or their associates had any personal, family, corporate or other interests in any equity or debt securities of the Company or any associated corporations (as defined in the SDI Ordinance) as recorded in the register maintained by the Company pursuant to section 29 of the SDI Ordinance or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transaction by Directors of Listed Companies.

Directors' and Supervisors' rights to subscribe for shares or debentures

At no time during the year was the Company or any of its subsidiaries, jointly-controlled entities, associates or fellow subsidiaries or its holding company a party to any arrangement enabling any Directors or Supervisors or the spouses or children under the age of 18 of any such Directors or Supervisors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate. No rights to subscribe for shares in, or debentures of the Company have been granted by the Company to, nor have any such rights been exercised by, any person during the year and up to the date of this report.

REPORT OF THE DIRECTORS (Cont'd)

Directors' and Supervisors' remuneration

Rmb'000

Fees	—
Basic salaries, other allowances and benefits in kind	1,440
Pension scheme contributions	—
Bonuses paid and payable	477
	<hr/> 1,917 <hr/>

The amount disclosed above included remuneration of HK\$145,000 payable to each of the two independent non-executive Directors (1999: HK\$120,000), and Rmb5,000 payable to another independent non-executive Director (1999: Nil). There was no arrangement under which any of the Directors or Supervisors waived or agreed to waive any remuneration.

Highest paid individuals

The five highest paid individuals of the Company were all Directors. The aggregate amount paid/payable to them for the year was approximately Rmb1,674,600 (1999: Rmb762,000). None of them received remuneration in excess of HK\$1 million.

Retirement scheme

As required by the state regulations of the PRC, the Group participates in a defined contribution retirement scheme. All employees are entitled to an annual pension equal to a fixed proportion of the average basic salary amount within the geographical area of their last employment at their retirement date. The Group is required to make contributions to registered insurance companies at rates ranging from 20% to 21% of the average basic salaries of the previous year within the geographical area where the employees are under employment with the Group. The Group has no obligation for the payment of pension benefits beyond such annual contributions to the registered insurance companies. When an employee leaves the scheme, the Company is not entitled to forfeit any amount of the contributions that it has previously made. Hence, no forfeited contribution was used by the Company to reduce the level of its contributions during the year. During the year, contributions to registered insurance companies made by the Group under the defined contribution retirement scheme amounted to Rmb4,358,000 (1999: Rmb3,052,000).

Pre-emptive rights

There is no provision for pre-emptive rights in the Company's articles of association or the laws of the PRC, which would require the Company to offer new shares on a pro rata basis to existing shareholders.

Accommodation benefits for employees

According to the relevant rules and regulations in the PRC, the Group and its employees are each required to make contributions to an accommodation fund, which are in proportion to the salaries and wages of the employees at an average rate of 7%. There are no further obligations beyond the contribution to the accommodation fund. In 1998, in addition to the contribution made to the accommodation fund as required, the Company purchased apartments for the sum of Rmb19 million and made a provision of Rmb15.3 million in that year for the estimated loss on their disposal. In 2000, the Company sold most of the purchased apartments amounting to Rmb15.5 million to certain eligible employees of the Company; the aggregate proceeds received as at December 31, 2000 amounted to Rmb2.6 million.

Save as disclosed above, the Company did not own any staff quarters and did not dispose of any staff quarters during the year.

On September 6, 2000, the Ministry of Finance issued a directive (the "Directive") numbered Caiqi [2000] 295 in respect of accounting policies in relation to the national enterprises housing reform. The Directors have examined the relevant issue, and has concluded that the Directive does not have any significant impact on the results and financial standing of the Group for the year.

Compliance with the Code of Best Practice

In the opinion of the Directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

Auditors

Ernst & Young will retire and a resolution for their reappointment as international auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Geng Xiaoping

Chairman

Hangzhou, Zhejiang Province, the PRC
March 5, 2001