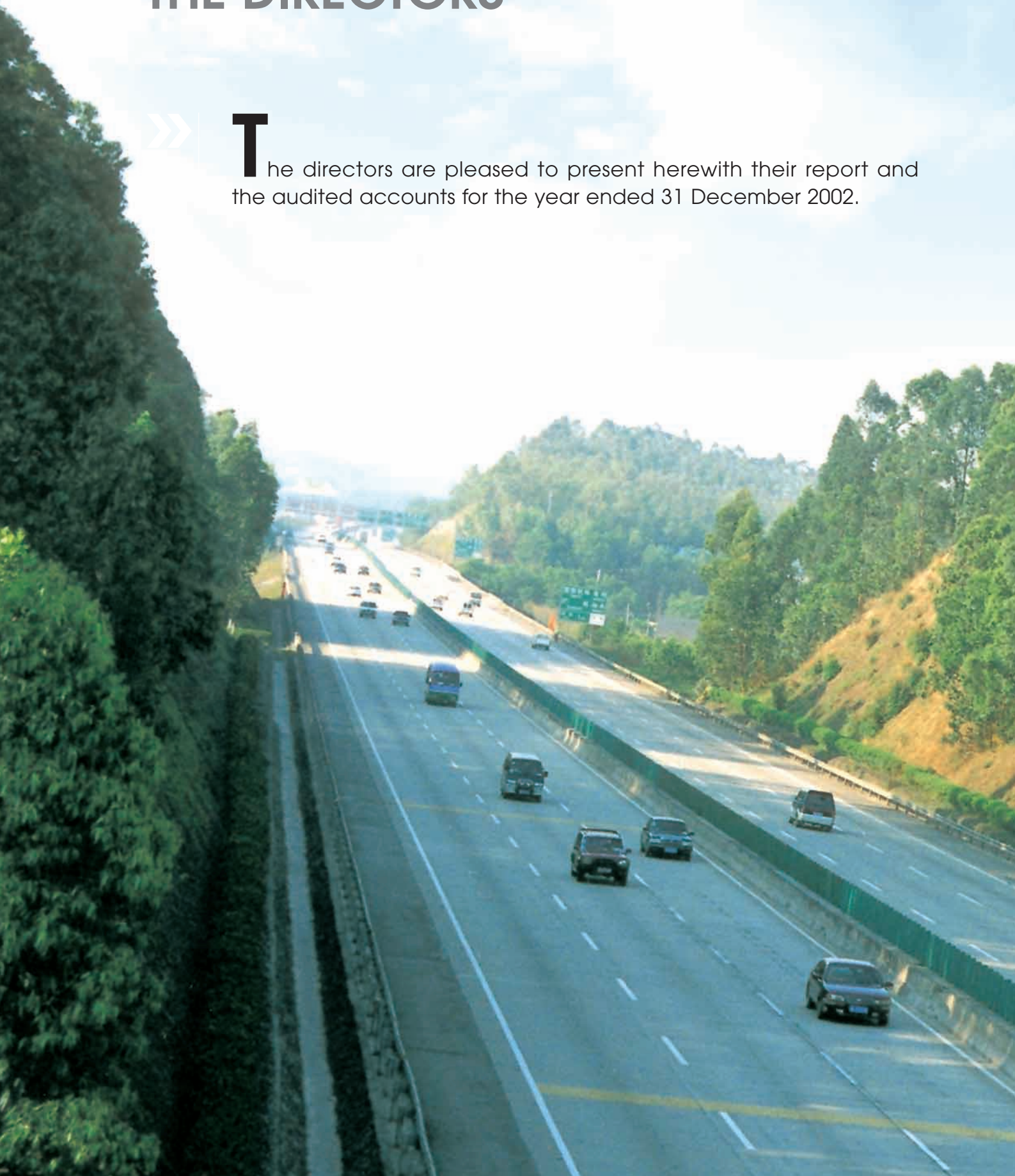


# REPORT OF THE DIRECTORS



**T**he directors are pleased to present herewith their report and the audited accounts for the year ended 31 December 2002.





The directors are pleased to present herewith their report and the audited accounts for the year ended 31 December 2002.

#### **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 the Hong Kong Stock Exchange Company Limited and the Shanghai Stock Exchange on 12 March 1997 and 25 December 2001, respectively.

#### **2. SUMMARY OF THE REPORT OF THE BOARD OF DIRECTORS**

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

- the appointment of Mr. Wu Ya De, a director, as the acting general manager of the Company till the appointment of the new general manager;
- the report of the Board of directors for the year 2001;
- the audited financial report for the year 2001;
- proposal for profit distribution scheme for the year 2001 and the profit distribution policy for the year 2002;



## REPORT OF DIRECTORS

- the budget plan for the year 2002;
- the emoluments of directors and supervisors for the year 2002;
- the re-appointment of Messrs. PricewaterhouseCoopers Certified Public Accountants and Shenzhen Tianjian Xinde Certified Public accountants as the international auditors and the statutory auditors of the Company, respectively;
- the disposal of the entrusted securities investments;
- the authorization of the signing on the banking facilities and the bank loans for the year 2002;
- the necessary amendments to the articles of association of the Company;
- the selection and appointment of the general manager and the chief financial officer of the Company;
- the first and third quarterly reports of the Company for the year 2002;
- the proposals to acquire part of the equity interests in Shenzhen Fountain Infrastructure Corporation (Shuiguan Expressway) and Shenzhen Zhengyi Advertising Company Limited;
- *the Self-checked Report on the Establishment of Modern Enterprise System;*
- 2002 Interim Results Report and the financial reports;
- the amendments to the relevant clauses of the Share Appreciation Right Scheme;
- the passing of the Information Disclosure Management System of the Company;
- the passing of the repurchase of its H Shares;
- the convening of 2002 Extraordinary General Meeting and 2002 class shareholders' meetings;

## REPORT OF DIRECTORS

- the study on the future development of the toll road sector and the Company's development strategy;
- the election of the nominated candidates of the third term of office of the Board of directors of the Company;
- the disposal of the interests and rights in NH107 and NH205 owned by the Company.

### 3. PRINCIPAL ACTIVITIES

The principal activities of the Group are the development, operation and management of toll highways and expressways in the PRC.

An analysis of the Group's turnover and contribution to the operating profits for the year is set out on page 31.

No analysis of the Group's turnover and contribution to the operating profits by geographical area was prepared as turnover and results of the Group during the year were principally derived from the operations of the Group's toll roads in the PRC.

### 4. FINANTIAL RESULTS

The results of the Group for the year ended 31 December 2002 are set out in the consolidated profit and loss accounts on page 84.

The financial positions of the Group and the Company as at 31 December 2002 are set out in the balance sheets on page 85 and page 86, respectively.

A summary of the results for the last five financial years, and of the assets and liabilities of the Group is set out on page 9 of this report.

### 5. DIVIDEND

The Board of directors recommended the payment of a dividend of RMB0.12 per share, totaling RMB261,684,000, for the year ended 31 December 2002 to shareholders whose names appear in the register of shareholders of the Company at the close of business on 29 April 2003 (The time of the declaration of dividends for holders of A Shares will be otherwise notified).



## REPORT OF DIRECTORS

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

### 6. GENERAL MEETINGS

The 2001 Annual General Meeting was held on 31 May 2002. All the resolutions passed at the 2001 Annual General Meeting were published on *Shanghai Securities News* and *Securities Times* in the PRC and on *Hong Kong Economic Times* and *The Standard* on 1 June 2002.

The Company convened 2002 Extraordinary General Meeting and 2002 class shareholders' meetings on 30 December 2002. The resolutions passed at the 2002 Extraordinary General Meeting and the 2002 Domestic Shareholders' Extraordinary General Meeting were published on *Shanghai Securities News* and *Securities Times* in the PRC and on *Hong Kong Economic Times* and *The Standard* on 31 December 2002, respectively. However, the number of H shares vested with voting rights held by those shareholders who attended the H Shareholders' Extraordinary General Meeting is less than one half of the total number of H shares of the Company. According to Article 87 of the articles of association of the Company, the H Shareholders' Extraordinary General Meeting could not be held.

### 7. ELECTION AND CHANGE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

- (1) Ms Tao Hong's term of office as the general manager of the Company expired on 24 January 2002. The Board of directors of the Company resolved at its 11th board meeting to appoint Mr. Wu Ya De, a director, as the acting general manager with a term from 24 January 2002 till the appointment of the new general manager.
- (2) Mr. Li Kwok Wing, Meocre's term of office as the independent director of the Company expired on 9 June 2002. Commencing from 10 June 2002, Mr. Li Kwok Wing has ceased to be an independent director of the Company.
- (3) At the 16th board meeting of the second term of office of the Board of directors of the Company held on 30 October 2002 Mr. Wu Ya De was appointed as the general manager of the Company, with a term of office of 3 years and Ms. Gong Tao Tao was appointed as the chief financial officer of the Company with a term of office of 3 years.

## REPORT OF DIRECTORS

- (4) On 5 December 2002, Mr. Yi Ai Guo was elected to be the staff representative supervisor of the third term of office of the Supervisory Committee of the Company. Mr. Li Jian ceased to be the staff representative supervisor of the Company.
- (5) The terms of all the directors of the second term of office of the Board of directors and all the supervisors of the second term of office of the Supervisory Committee of the Company expired on 31 December 2002. At the 2002 Extraordinary General Meeting of the Company held on 30 December 2002, Mr. Chen Chao, Mr. Wu Ya De, Mr. Zhang Rong Xing, Mr. Zhang Rong Xing, Mr. Zhang Shan Qun, Ms. Tao Hong, Mr. Lin Xiang Ke, Ms. Zhang Yang and Mr. Chiu Chi Cheong, Clifton were elected as the non-independent directors of the third term of office of the Board of directors of the Company, Mr. Ho Pak Cho, Denis Morgie, Mr. Li Zhi Zheng and Mr. Zhang Zhi Xue were elected as the independent directors of the third term of office of the Board of directors of the Company and Mr. Wang Ji Zhong and Mr. Yang Qin Hua were elected as the supervisors of the third term of office of the Supervisory Committee of the Company. Members of the third term of office of the Board of directors and the Supervisory Committee of the Company shall have a term of office of 3 years from 1 January 2003 to 31 December 2005.
- (6) At the 1st board meeting of the third term of office of the Board of directors of the Company held on 13 January 2003, Mr. Chen Chao was elected as chairman of the Company. At the 1st meeting of the third term of office of the Supervisory Committee of the Company held on 15 January 2003, Mr. Wang Ji Zhong was elected as chairman of the Supervisory Committee of the Company.

### 8. SERVICE CONTRACTS FOR DIRECTORS

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 from 1 January 2003 to 31 December 2005 and no service contracts that can be terminated within one year with compensation (other than general statutory compensation) have been or proposed to be entered into between the directors or supervisors and the Company.



## REPORT OF DIRECTORS

### 9. EMOLUMENTS OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

- (1) The emoluments of the directors and supervisors for the year 2002 was considered and approved at the 2001 Annual General Meeting. Apart from independent directors, directors (including those who hold posts in the Company) do not receive any emoluments from the Company. Directors who hold posts in the Company receive management remuneration according to their respective position in the Company.
- (2) The total remuneration of directors, supervisors and senior management for the year 2002 amounted to approximately RMB3,919,000.
- (3) In 2002, remuneration for each of the independent directors is HKD150,000. The subsidies for the three independent directors for the year amounted to RMB33,000. As a result, the total amount of the emoluments for the three independent directors for the year 2002 amounted to RMB510,000.
- (4) The total amount of the three highest paid directors amounted to RMB1,061,800.
- (5) The total amount of the three highest paid senior management amounted to RMB1,190,600.
- (6) In 2002, the Company has altogether 19 directors, supervisors and senior management, 10 out of whom received salaries from the Company. Details of the payment of directors, supervisors and senior management are set out as follows:

(RMB)	0-200,000	200,000-400,000	400,000-600,000
Directors	2	0	2
Supervisors	0	1	0
Senior Management	0	3	2

## REPORT OF DIRECTORS

(7) Directors and supervisors who did not receive salaries from the Company are set out below:

	<b>Name</b>	<b>Received salaries from</b>	<b>Remarks</b>
Directors	Chen Chao	Xin Tong Chan Company	Received salaries from the Company for the period from January to June 2002
	Zhong Shan Qun	Xin Tong Chan Company	
	Lin Xiang Ke	Shen Guang Hui Company	Received salaries from the Company for January 2002
	Tao Hong	Xin Tong Chan Company	
	Shi Da Qing	Guangdong Roads and Bridges Company	
Zhang Yang	Huajian Centre		
Supervisors	Wang Ji Zhong	Xin Tong Chan Company	
	Wang Shan	Shen Guang Hui Company	

*Note:* In 2002, the directors and supervisors stated in the above chart received subsidies from the Company.

### 10. DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

As at 31 December 2002 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 a director or supervisor 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.

### 11. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests of the Directors, supervisors, chief executives or their associates of the Company in the share capital of the Company or any of its associated corporations as defined in the Part XV of the SFO which require notification to the Company





## REPORT OF DIRECTORS

and HKEX pursuant to Section 341 of the SFO or which are required, pursuant to the Model Code for Securities Transaction by Directors of Listed Companies of the Hong Kong Stock Exchange to be notified to the Company and the HKEX were as follows:

<b>Name of Director</b>	<b>Number of units</b>	<b>Exercise price</b>	<b>Exercisable date</b>
Chen Chao	1,028,250	RMB3.456	16 March 2003
	514,125		16 March 2004
	514,125		16 March 2005
	Sub-Total: 2,056,500		
Wu Ya De	103,800	RMB3.456	16 March 2003
	103,800		16 March 2004
	103,800		16 March 2005
	Sub-Total: 311,400		
Zhang Rong Xing	168,675	RMB3.456	16 March 2003
	168,675		16 March 2004
	168,675		16 March 2005
	Sub-Total: 506,025		
Zhong Shan Qun	130,500	RMB3.456	16 March 2003
	129,750		16 March 2004
	129,750		16 March 2005
	Sub-Total: 390,000		
Tao Hong	259,500	RMB3.456	16 March 2003
	129,750		16 March 2004
	129,750		16 March 2005
	Sub-Total: 519,000		

## REPORT OF DIRECTORS

Name of Director	Number of units	Exercise price	Exercisable date
Lin Xiang Ke	207,600	RMB3.456	16 March 2003
	103,800		16 March 2004
	103,800		16 March 2005
	Sub-Total:		415,200
Zhang Yang	207,600	RMB3.456	16 March 2003
	103,800		16 March 2004
	103,800		16 March 2005
	Sub-Total:		415,200
Chiu Chi Cheong Clifton	207,600	RMB3.456	16 March 2003
	103,800		16 March 2004
	103,800		16 March 2005
	Sub-Total:		415,200

The number of units were granted pursuant to the share appreciation right scheme approved by the Shareholders on 6 March 2001. Such scheme entitles unit holders to cash in the difference between the exercise price and the reference price which is calculated by reference to the aggregate of 60% and 40% of the average closing prices of the H Shares and A Shares respectively for the five trading days commencing on the sixth trading day after the date of making application for cashing in the relevant rights under the share appreciation right scheme.

### 12. 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 roads while its major suppliers are contractors for the construction of toll roads.

### 13. SHARE CAPITAL

The total capital of the Company was RMB2,180,700,000.



## REPORT OF DIRECTORS

### 14. RESERVES

The amounts and particulars of material transfers to and from reserves during the year are set out in note 19 to the accounts.

### 15. FIXED ASSETS

The movements in fixed assets during the year are set out in note 12 to the accounts.

### 16. BANK LOANS AND OTHER BORROWINGS

Details of bank loans and other borrowings of the Group and the Company as at 31 December 2002 are set out in note 20 and note 21 to the accounts.

### 17. INTEREST CAPITALIZED

The amount of interest capitalized by the Group and the Company for the year ended 31 December 2002 are disclosed in note 6 to the accounts.

### 18. USE OF PROCEEDS FROM ISSUE OF A SHARES

The Company issued an aggregate of 165,000,000 A shares in December 2001, with the issue price of RMB3.66 per share (equivalent to HKD3.45). The net proceeds from the A Shares issue were approximately RMB604 million, which is and will be used for the construction of Yanba B. As at 31 December 2002, RMB244 million from the net proceeds from the A Share Issue has been used for the construction of Yanba B, and the remaining RMB360,000,000 remained unused, which is kept in bank deposits.

### 19. INCOME TAX RATE AND BUSINESS TAX RATE

Due to the State's tightened control on various preferential tax treatments granted by local governments, the preferential enterprise income tax treatments (ie five years full exemption and 50% reduction for the five years thereafter) previously enjoyed by the Company, its subsidiary (Meiguan Company) and a jointly controlled entity (Airport-Heao Company) were terminated with effect from 2002. Commencing from 1 January 2002, the aforementioned entities are required to pay PRC enterprise income tax at the rate of 15%, the preferential tax

## REPORT OF DIRECTORS

rate for enterprises established in the Shenzhen Special Economic Zone, while in 2001 the aforesaid entities were all within the full exemption period. Therefore, the taxation of the Company for 2002 recorded a sharp increase as compared with the same period of last year.

The Group is subject to PRC Business Tax at 5% of toll income.

### 20. DESIGNATED DEPOSITS AND DUE FIXED DEPOSITS

As at 31 December 2002, the Company had no designated deposits that are placed with financial institutions in the PRC. All the Company's cash deposits are placed with commercial banks in the PRC and are in compliance with the applicable laws and regulations. The Company has not experienced any incident of not being able to withdraw bank deposits when due.

### 21. PURCHASE, SALE OR REDEMPTION OF SHARES

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

### 22. LITIGATION AND ARBITRATION

Please refer to Management Discussion and Analysis on page 50 of this report.

### 23. INVESTMENT AND ACQUISITION

Please refer to Management Discussion and Analysis on pages 34 to 37 of this report.

### 24. MATERIAL CONNECTED TRANCTIONS

During the year, the Company had not entered into any material connected transactions.

### 25. SUBSIDIARIES AND JOINTLY CONTROLLED ENTITIES

Details of the Company's subsidiaries and jointly controlled entities are set out in notes 13 and 14 to the accounts respectively.



## REPORT OF DIRECTORS

### 26. 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.

### 27. RETIREMENT SCHEME FOR EMPLOYEES

Details of the retirement scheme for employees of the Group are set out in note 4.

### 28. HOUSING SCHEME FOR EMPLOYEES

The Company has no further obligations and has not entered into any arrangement whereby quarters are to be sold to staff at preferential prices.

### 29. EMPLOYEES' BASIC MEDICAL INSURANCE SCHEME

The Shenzhen Municipal Government promulgated the *Provisional Regulations on Basic Medical Insurance Scheme of Shenzhen* (《深圳市基本醫療保險暫行規定》) (“Provisional Regulations”) on 2 May 1996. Since its establishment in December 1996, the Company has participated in the basic medical insurance scheme for its employees in accordance with the Provisional Regulations. For an employee with Shenzhen permanent residence, 9% of their monthly salaries is contributed to the basic medical insurance, out of which 7% is borne by the Company and the other 2% is borne by the staff. As for an employee with Shenzhen temporary residence, 2% of Shenzhen’s average monthly salary for the previous year is contributed to the hospitalization medical insurance, which is fully paid by the Company. The medical expenses for employees of the Company is included in the staff costs of the Company. In 2002, the amount contributed to the medical expenses of the employees of the Company amounted to approximately RMB1 million. The implementation of such medical insurance scheme has not and will not have any significant impact on its consolidated income statement and consolidated balance sheet.

### 30. COMPLIANCE WITH THE CODE OF BEST PRACTICE

Throughout the year, the Company was in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities of HKEX.

## REPORT OF DIRECTORS

### 31. AUDIT COMMITTEE

Pursuant to the Listing Rules, the Board of the Company established an audit committee on 20 August 1999, with a view to reviewing and supervising the Group's financial reporting process and internal controls.

The first term of office of Audit Committee was chaired by Mr. Chiu Chi Cheong, Clifton, an independent director. It included Mr. Li Kwok Wing, Meocre, an independent director, Mr. Lin Xiang Ke and Mr. Shi Da Qing, non-executive directors. The terms of office of the members of the first term of office of the Audit Committee expired on 31 December 2002.

Since the establishment of the first term of office of the Audit Committee, 11 meetings, chaired by Mr. Chiu Chi Cheong, Clifton, have been convened. All the members presented at five of the meetings, 3 members were available at four of the meetings and two members were present at the remaining two meetings. The members of the Audit Committee carried out their work actively and have made great efforts and contributions to the enhancement of the efficiency and transparency of the Board, and the improvement of the Company's information disclosure and internal control. The work of the first term of office of Audit Committee included:

- to consider the appointment of the Company's external auditors, to discuss the strategy, contents and procedure of annual audits, to review the Company's annual and interim financial reports and results reports on a regular basis so as to ensure the objectivity and truthfulness of the Company's information disclosure;
- to conduct careful audits on the Company's investment, human resources, cash and information communication and their management procedure through the Company's internal audit department and to make relevant recommendations on improvements, and to ensure the appropriateness of the Company's internal control and the effective execution of relevant measures; and
- to provide professional opinions on the Company's material accounting policies and accounting events.

Approved by the Board of directors of the Company in January 2003, the second term of office of the Audit Committee was established, with Mr. Ho Pak Cho, Denis Morgie, an independent director, acting as the chairman and Mr. Li Zhi Zheng, an independent director, and Mr. Chiu Chi Cheong, Clifton, a non-executive director, as members. Members of the second term of office of the Audit Committee shall have a term of office of 3 years from their date of appointment to 31 December 2005.



## REPORT OF DIRECTORS

As at the date of this report, the Audit Committee has convened two meetings, chaired by Mr. Ho Pak Cho, Denis Morgie and all the members were present at the meetings. At such meetings, the external auditing for the year 2002 was discussed and the financial report and results report of the Company for the year 2002 were reviewed.

### 32. THE STRATEGIC DEVELOPMENT & INVESTMENT COMMITTEE

On 19 November 2001, the Board of the Company established the Strategic Development & Investment Committee (the "Strategic Committee"). In 2002, the Strategic Committee convened two meetings, at which the thoughts on the Company's development strategy were explored and discussed, and the Planning and Research Institute of the Ministry of Communications was appointed to carry out the analysis on the toll road industry. It has played a part in the provision of advice or suggestions on decision-making of development strategy and material investments of the Company.

A new term of office of the Strategic Committee was established at the 1st board meeting of the third term of office of the Board of the Company on 20 January 2003. It is chaired by Mr. Chen Chao, the chairman of the Company, and its members include Mr. Chiu Chi Cheong, Clifton, and Mr. Wu Ya De, the directors, Mr. Li Zhi Zheng, an independent director and an outside professional. All members of the new Strategic Committee shall have a term of office of 3 years from their date of appointment to 31 December 2005.

### 33. THE HUMAN RESOURCES & NOMINATION COMMITTEE

The Board of the Company established the Human Resources & Remuneration Committee (the "HR Committee") on 19 November 2001. In 2002, the HR Committee convened three meetings. It set up an evaluation team and completed the evaluation on the performance of the ex-general manager during the term of office, selected a headhunter and completed the selection of the general manager and the chief financial officer of the Company, revised and perfected the Share Appreciation Right Scheme and its implementation. It has played an important role in the provision of professional advices on the evaluation, appointment and removal, nomination and remuneration management for the Board of the Company.

## REPORT OF DIRECTORS

The third term of office of the Board of the Company set up a new HR Committee on 20 January 2003 and changed its name as Human Resources & Nomination Committee (the "Nomination Committee"). The Nomination Committee is chaired by Mr. Li Zhi Zheng, an independent director, and its members include Mr. Chen Chao, the chairman of the Company, Mr. Zhang Zhi Xue, an independent director and an outside professional. All the members of the Nomination Committee shall have a term of office from their date of appointment to 31 December 2005.

### 34. AUDITORS

The accounts in this annual report were prepared in accordance with accounting principles generally accepted in Hong Kong and the PRC accounting standards, respectively, and have been audited by PricewaterhouseCoopers and Shenzhen Tjian Xide Certified Public Accountant, respectively.

The appointment of PricewaterhouseCoopers (Hong Kong certified public accountants) and Shenzhen Tianjian Xinde Certified Public Accounts as the international auditors and the statutory auditors of the Company for the year 2002, respectively was proposed by the Audit Committee. After the proposals of such appointments were considered and passed by the Board of directors of the Company, it was submitted to the 2001 Annual General Meeting held on 31 May 2002 for consideration and approval, at which the Board of the Company was authorized to fix the remuneration of such auditors.



## REPORT OF DIRECTORS

The remuneration of the auditors is set out as follows:  
(RMB)

Auditors	2002		2001		Continuous services Terms
	Audit fees	Other fees	Audit fees	Other fees	
PricewaterhouseCoopers	1,220,300	—	1,110,000		With effect from 1996
PricewaterhouseCoopers	—	167,554	265,000	78,000	2001
Zhong Tian CPAs Co., Ltd					
Shenzhen Greatwall Certified Public Accountants	—	3,000	—	—	—
Zhong Tian Qin Certified Public Accountants	—	—	733,500	20,000	1999~2000
Shenzhen Tianjian Xinde Certified Public Accountants	640,000	84,000	480,000		the audit for the A Share Issue in 2001 and the audit for 2002
Southern Minhe Certified Accountants	—	6,000	—	20,000	—

*Note:* The above audit fees, other than that of Shenzhen Tianjian Xinde Certified Public Accounts, include disbursements for the auditors. Other fees represent consulting fees, capital verification fees and annual foreign currency examination fees. The Board of the Company considered that other fees did not affect the independence of the auditors.

A resolution will be proposed at the forthcoming annual general meeting to be held on 30 May 2003 re-appoint PricewaterhouseCoopers and Shenzhen Tianjian Xide Certified Public Accountants as the international auditors and the statutory auditors of the Company, respectively.

## 35. CORPORATE GOVERNANCE

The Company has always devoted a lot of efforts to perfect its corporate governance structure, to establish modern enterprise system and to standardize its operation, in strict compliance with the Companies Law, Securities Law, the Listing Rules and the relevant requirements of laws and regulations promulgated by CSRC. It has compiled *The Regulation of the Shareholders' General Meeting*, *The Regulation of the Board of Directors*, *The Regulation of*

## REPORT OF DIRECTORS

*the Supervisory Committee, The Regulation of the General Manager and every description of functions and powers of the Audit Committee, the Strategic Development & Investment Committee, and the Human Resources & Nomination Committee, which were incorporated into The Corporate Governance Regulations of the Company.*

The Company has ensured that all shareholders, major and minority shareholders alike are ranked *pari passu* with each other and that all shareholders could fully exercise their own rights.

The conducts of the controlling shareholder of the Company were in compliance with the relevant laws and regulations. No intervention by the controlling shareholder in the Company's decision-making has been found. The Company is separate from its controlling shareholder in such aspects as employees, assets, finance, organisation and business.

The number and the composition of the Board of the Company are in line with the requirements of the relevant laws and regulations. During the year, all directors of the Company have attended the board meetings and shareholders' meetings with serious and responsible attitudes, actively participated in the relevant training and learning sessions of relevant laws and regulations, and understood the rights, duties and responsibilities as directors.

The Company has appointed two independent directors of the Board as early as in 1997. In 1999, the number of the independent directors of the Board was increased to 3. The number of independent directors of the third term of office of the Board will be increased to 4. The independent directors of the Company are professionals in accounting, finance, enterprise management and human resources from Hong Kong or the PRC, and they are playing more and more important roles in the Board of the Company. They are well aware of their rights and duties as directors of a listed company. They have attended board meetings and shareholders' meetings with serious and responsible attitudes and have given their independent opinions or suggestions as to the Company's material events and connected transactions. They are also members of the three committees under the Board of the Company, playing active roles in regulating the operation of the Board of the Company.

The number and the composition of the Supervisory Committee of the Company are in line with the requirements of the relevant laws and regulations. The supervisors of the Company have discharged their duties with serious and responsible attitudes. They have monitored the Company's finance, and the Company's directors, managers and other senior management in performing their duties on behalf of the shareholders in compliance with relevant legal and regulatory requirements.



## REPORT OF DIRECTORS

The Company has fully respected and protected the legal interests of related banks, its employees, consumers and other beneficiaries. It has concerned about such issues of environmental protection and utilities and bolstered the continuous and healthy development of the Company.

The Company has fulfilled its information disclosure obligations in strict compliance with the listing rules of HKEX and SSE. It has assigned the Secretariat to the Board of directors to be responsible for information disclosure, reception of company visits and consultation. It also releases relevant information of the Company by holding press conferences, analysts' conferences, roadshows inside and outside the PRC, inviting investors to visit the Company and through the Company's website. It issued *the Notice on Strengthening Information Disclosure and the Notice on Establishing a Spokesman and Reception System in sequence, and its Board passed The Information Disclosure System* on 30 October 2002.

Shenzhen Securities Regulatory Office of the China Securities Regulatory Commission (the "SSRO") conducted an inspection on the Company, which was selected on a random basis, during the period between on the Company 22 July and 26 July 2002 and issued a *Notice for Rectification of Shenzhen Expressway Company Limited within a Limited Period* (the "Notice") (Shen Zheng Ban Fa Zhi (2002) No. 122). The Notice, on the one hand, affirmed the Company's relatively regulated operations and initiative to perfect its corporate governance. On the other hand, it pointed out certain weaknesses of the Company, which are subject to further improvements. The Company published its rectification report on *Shanghai Securities News, Securities Times, Hong Kong Economic Times* and *The Standard* on 25 September 2002, and has taken measures to address and rectify the weaknesses stated in the Notice. It adjusted the units of the rights granted to its staff under the Share Appreciation Right Scheme on 13 August 2002, passed the Information Disclosure System of Shenzhen Expressway Company Limited on 30 October 2002 and made necessary amendments to the articles of association of the Company in accordance with the *Guidelines for Articles of Association of Listed Companies and Corporate Regulations of Listed Companies* on 13 November 2002.

During the year, none of the Company, the Board of the Company or its existing directors has been punished by any regulatory authorities.

By Order of the Board

**Chen Chao**

Chairman