

Annual Report 2001



Shenzhen Expressway Company Limited

(A joint stock limited company incorporated in the People's Republic of China with limited liability)

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CORPORATE INFORMATION

The Registered Chinese and English Names of the Company	深圳高速公路股份有限公司 Shenzhen Expressway Company Limited
Authorized Representatives	Chen Chao
Company Secretary	Zhang Rong Xing Email: johnson@sz-expressway.com
Registered Address of the Company	19/F., Tower A, United Plaza 5022 Binhe Road North Shenzhen 518026, PRC Tel: (86) 755-2910588 Fax: (86) 755-2910696
Company's Website	http://www.sz-expressway.com
Initial registration date and place	30 December, 1996 Shenzhen, Guangdong Province
Latest date of change of registration	19 December, 2001
Registration number of business license	4403011018527
Tax registration number	Shen Di Shui Deng Zi No. 440304279302515
Websites for publication of the annual report	http://www.hkex.com.hk http://www.sse.com.cn
Newspapers for Information Disclosure	Hong Kong: <i>Hong Kong Economic Times</i> <i>South China Morning Post</i> (English version) PRC: <i>Shanghai Securities News</i> <i>Securities Times</i>
Listing Exchange	H Shares: The Stock Exchange of Hong Kong Limited Stock Code: 0548 A Shares: The Shanghai Stock Exchange Stock Code: 600548

International Auditors:	PricewaterhouseCoopers Certified Public Accountants 22nd Floor, Prince's Building Central, Hong Kong
Statutory Auditors	PricewaterhouseCoopers Zhong Tian CPAs Co., Ltd 12/F., Rui'an Square No. 333, Huihai Zhong Road Shanghai
Hong Kong Legal Adviser	Loong & Yeung, Solicitors Rooms 907 & 907A, 9th Floor Wing On Centre 111 Connaught Road Central Hong Kong
PRC Legal Adviser	Shenzhen Harbor Law Firm 17/F., Security Building 5020 Binhe Road Shenzhen, PRC
Principal Place of Business in Hong Kong	Rooms 907 & 907A, 9th Floor Wing On Centre 111 Connaught Road Central Hong Kong Tel: (852) 2543 0633 Fax: (852) 2543 9996
Share Registrar and Transfer Office in Hong Kong	HKSCC Registrars Limited 2/F, Vicwood Plaza 199 Des Voeux Central Hong Kong
Share Registrar and Transfer Office in the PRC	Shanghai Securities Central Clearing and Registration Corporation No. 727, Pujian Road Pudong New District Shanghai



CORPORATE INFORMATION

Annual reports available at:

Hong Kong:

Rooms 907 & 907A

9th Floor, Wing On Centre

111 Connaught Road Central

Hong Kong

PRC:

19/F., Tower A, United Plaza

No. 5022 Binhe Road North

Shenzhen, PRC

Major banks

The Industrial and Commercial Bank of China,
Futian Subbranch

China Merchants Bank, Huanggang Subbranch

The Construction Bank of China, Huaqiaocheng
Subbranch



In this report, the following expressions have the meanings set out below unless the context requires otherwise:

A Shares	The Renminbi-denominated ordinary shares of the Company with a par value of RMB1.00 each, which were subscribed in Renminbi and listed on SSE
Airport-Heao	Shenzhen Airport-Heao Expressway (Eastern Section) Company Limited
The Board	The board of directors of the Company
Changsha Ring Road	Hunan Changsha Ring Road (Norwestern Section)
Changsha Ring Road Co.	Hunan Changsha Ring Road Construction and Development Co., Ltd
The Company	Shenzhen Expressway Company Limited
CSRC	China Securities Regulatory Commission
The directors	The directors of the Company
The Group, Group	The Company and its subsidiaries
Guangdong Roads and Bridges	Guangdong Roads and Bridges Development Company
H Shares	The overseas listed foreign capital shares of the Company with a par value of RMB1.00 each, which were subscribed in Hong Kong dollars and listed on HKEX
HKD or HK\$	Hong Kong dollars, the lawful currency of Hong Kong Special Administrative Region
HKEX	The Stock Exchange of Hong Kong Limited
Huajian	Huajian Transportation and Economic Development Centre
Jihe Expressway	Shenzhen Jihe Expressway comprising the eastern and western sections
Jihe East	Shenzhen Airport-Heao Expressway (Eastern Section)
Jihe West	Shenzhen Airport-Heao Expressway (Western Section)



DEFINITIONS

Listing Rules	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
Meiguan Expressway	Shenzhen Meiguan Expressway
Meiguan	Shenzhen Meiguan Expressway Company Limited
NH107	National Highway 107 (Shenzhen Section)
NH205	National Highway 205 (Shenzhen Section)
PRC	The People's Republic of China excluding, for the purpose of this report, Hong Kong, Macau and Taiwan
RMB	Renminbi, the lawful currency of the PRC
Shenchang	Changsha Shenchang Expressway Company Limited
Shenguanghui	Shenzhen Shenguanghui Highway Development Company
Shenzhen Freeway	Shenzhen Freeway Development Company Limited
SSE	The Shanghai Stock Exchange
WTO	World Trade Organization
Wutongling	Shenzhen Wutongling Cableway Company Limited
Yanba A	Shenzhen Yanba Expressway (Section A)
Yanba B	Shenzhen Yanba Expressway (Section B)
Yanba C	Shenzhen Yanba Expressway (Section C)
Yanba Expressway	Shenzhen Yanba Expressway
Zhengyi	Shenzhen Zhengyi Advertising Company Limited
Zhongyunjie	Zhongyunjie Transportation Development Company Limited



Shenzhen Expressway Company Limited and its subsidiaries are mainly engaged in the construction, operation and management of toll highways and expressways in the PRC.

The Company was established on 30 December, 1996 by Shenzhen Freeway Development Company Limited, Shenzhen Shengguanghui Highway Development Company and Guangdong Roads and Bridges Development Company by way of promotion, with a share capital of RMB1,268,200,000. In March, 1997, the Company issued 747,500,000 H Shares with the par value of RMB1.00 per share, which were listed on the Stock Exchange of Hong Kong Limited. The Company issued 165,000,000 A Shares in December, 2001, which were listed on the Shanghai Stock Exchange. Thus the total share capital of the Company was increased to RMB2,180,700,000 and has been kept unchanged till now.

Currently, the core business of the Group and its jointly controlled entities is to operate and manage its existing toll highways and expressways namely, National Highway 107 (Shenzhen Section), National Highway 205 (Shenzhen Section), Shenzhen Meiguan Expressway, Shenzhen Airport–Heao Expressway (Eastern Section), Shenzhen Jihe Expressway (Western

Section), Hunan Changsha Ring Road (Northwestern Section) and Yanba Expressway (Section A) and to construct Section B of Shenzhen Yanba Expressway.

The expressways and national highways in Shenzhen operated by the Company form a complete road network, which is connected to Shenzhen Bao'an International Airport, Shekou ports, Huanggang Immigration and Customs Control, Wenjindu Immigration and Customs Control, and Yantian Containers Terminal. This road network greatly facilitates the trading activities of Shenzhen which is the major gateway between Shenzhen and Hong Kong. Therefore, the Company plays a very important role in the formation of the road network in Shenzhen and Shenzhen's highway transportation.

The Company was granted the concession rights to operate its existing toll highways and expressways, and a right of first refusal to develop and operate new toll roads in Shenzhen. With solid experience in toll road management and good relationship with communications departments at all levels ranging from the state, provinces to cities, the Company will continue to develop and acquire high quality road projects in Shenzhen and other regions in the PRC.


FINANCIAL HIGHLIGHTS
Prepared in Accordance with the Hong Kong Accounting Standards (audited)
Results Highlights
For the year ended 31 December

	2001	2000	1999	1998	1997
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Turnover	489,813	420,455	342,069	241,416	182,475
Profit before taxation	424,605	365,598	339,035	306,912	211,800
Profit attributable to shareholders	421,336	363,074	337,704	306,912	211,800
Earnings per share (RMB)	0.208	0.180	0.168	0.152	0.118

Assets Highlights
As at 31 December

	2001	2000	1999	1998	1997
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Total assets	6,783,685	5,726,029	5,434,193	4,519,491	4,105,004
Total liabilities	1,420,293	1,186,531	1,137,727	439,287	256,623
Total net assets	5,363,392	4,539,498	4,296,466	4,080,204	3,848,381
Net assets per share (RMB)	2.459	2.252	2.132	2.024	1.909

FINANCIAL HIGHLIGHTS

Operation Highlights*For the year ended 31 December, 2001*

	Turnover (RMB'000)	Profit attributable to shareholders (RMB'000)
NH107	79,052	44,591
NH205	137,613	101,124
Meiguan Expressway	164,944	117,440
Jihe West	99,315	77,658
Yanba A	8,889	(2,163)
Jointly controlled entities		
Jihe East	—	56,574
Changsha Ring Road	—	(2,245)
Total toll income	<u>489,813</u>	<u>392,979</u>
Income from construction management services	—	63,131
Government subsidies	—	26,706
Realised income from other investments	—	11,142
Unrealised income from other investments	—	(24,220)
Net interest expenses	—	(15,991)
Other expenses	—	(32,411)
Total	<u><u>489,813</u></u>	<u><u>421,336</u></u>

Turnover represents toll revenue from operation of toll roads, net of relevant business tax and surcharges.


FINANCIAL HIGHLIGHTS
Prepared in Accordance with the PRC Accounting Standards (audited)

Principal accounting data and financial highlights for three years (RMB)

For the year ended 31 December

Indicators	2001	2000	1999
Principal operating income	604,518,644	515,395,592	450,805,447
Net profit	401,936,897	339,223,834	323,597,461
Total assets	6,995,999,210	5,931,176,373	5,393,891,421
Shareholders' fund			
(excluding minority interest)	5,070,546,337	4,282,241,353	4,143,687,519
Earnings per share (fully diluted)	0.18	0.17	0.16
Earnings per share (weighted average)	0.20	0.17	0.16
Earnings per share after extraordinary items	0.20	0.17	0.16
Net asset per share	2.33	2.12	2.06
Adjusted net asset per share	2.31	2.11	2.04
Net cash flows from operating activities per share	0.26	0.21	0.19
Return on net assets (fully diluted)	7.93%	7.92%	7.81%

Significant Differences Between Accounts
Prepared in accordance with HK GAAP and PRC GAAP (RMB'000)

	Net Profit		Net Assets	
	As at 31 December, 2001	2000	As at 31 December, 2001	As at 31 December, 2000
As per PRC Statutory Accounts	401,937	339,224	5,070,546	4,282,241
As per Hong Kong Accounts	421,336	363,074	5,363,392	4,539,498
Differences	(19,399)	(23,850)	(292,846)	(257,257)

Among:

Declaration of final dividend after the balance sheet date	—	—	(218,070)	(201,570)
Amortisation of land use rights	(13,654)	(26,297)	(70,488)	(56,834)
Realised and unrealised income from other investments	(4,080)	1,092	(4,288)	(208)
Pre-operating expenses written off	(1,355)	1,355	—	1,355
Others	(310)	—	—	—

CHANGE IN SHARE CAPITAL AND SHAREHOLDERS



Change in share capital

	At 31 December, 2000	Movements	At 31 December, 2001
1. Unlisted shares			
State-owned shares	745,780,000	-91,000,000 ⁽¹⁾	654,780,000
State-owned legal person shares	522,420,000	+91,000,000	613,420,000
Total of unlisted shares	<u>1,268,200,000</u>		<u>1,268,200,000</u>
2. Listed Shares			
Overseas listed foreign capital shares (H Shares)	747,500,000	—	747,500,000
Domestic ordinary shares (A Shares)	—	+165,000,000 ⁽²⁾	165,000,000
Total of listed Shares	<u>747,500,000</u>	<u>+165,000,000</u>	<u>851,979,000</u>
Total	<u><u>2,015,700,000</u></u>	<u><u>+165,000,000</u></u>	<u><u>2,180,700,000</u></u>

Notes:

- (1). Pursuant to the relevant approval by the Ministry of Finance, the Ministry of Communications and the State Asset Bureau of the PRC, Shenzhen Freeway entered into an agreement with Huajian on 2 November, 2000, under which the 91,000,000 state-owned shares held by Shenzhen Freeway on behalf of the Ministry of Communications were changed into state-owned legal person shares and transferred to Huajian which manages and holds such shares. The above transfer formalities were completed on 18 May, 2001.
- (2). Approved by CSRC, the Company issued 165,000,000 domestic ordinary shares (A Shares) in December, 2001, at the issue price of RMB3.66 per share, out of which 104,479,000 A Shares issued to the public investors commenced dealings on SSE on 25 December, 2001, and the remaining 60,521,000 A Shares issued to securities investment funds were subject to a lock-up period of 3 months from the listing date and commenced dealings on 25 March, 2002.



CHANGE IN SHARE CAPITAL AND SHAREHOLDERS

Shareholders

- As at 31 December, 2001, the number of the shareholders whose names appear on the registers of shareholders of the Company amounted to 41,661, out of which 4 were state-owned shareholders, 748 were H share holders, and the remaining 40,909 were A share holders.
- The top ten shareholders of the Company as at 31 December, 2001 are set out as follows:

Shareholders	Nature of shares	No. of Shares held	Percentage (%)
HKSCC NOMINEES LTD	H Shares	726,261,499	33.30
Shenzhen Freeway	State-owned shares	654,780,000	30.03
Shenguanghui	State-owned legal person shares	457,780,000	20.99
Huajian	State-owned legal person shares	91,000,000	4.17
Guangdong Roads and Bridges	State-owned legal person shares	64,640,000	2.96
Hua'an Chuangxin Fund	A Shares	8,592,364	0.39
Tongsheng Fund	A Shares	4,564,562	0.21
Southern Wenjian Fund	A Shares	4,549,885	0.21
Tongyi Fund	A Shares	3,652,489	0.17
Jingfu Fund	A Shares	3,564,426	0.16

Note: The top ten shareholders are not related to each other.

CHANGE IN SHARE CAPITAL AND SHAREHOLDERS

3. Change in shares held by the shareholders that hold 5% or more in the share capital of the Company as at 31 December, 2001

Name	As at		As at
	31 December, 2000	change	31 December, 2001
Shenzhen Freeway	745,780,000	-91,000,000	654,780,000
Shenguanghui	457,780,000	—	457,780,000

4. Shareholders that hold 5% or more in the share capital of the Company

Shenzhen Freeway Development Company Limited

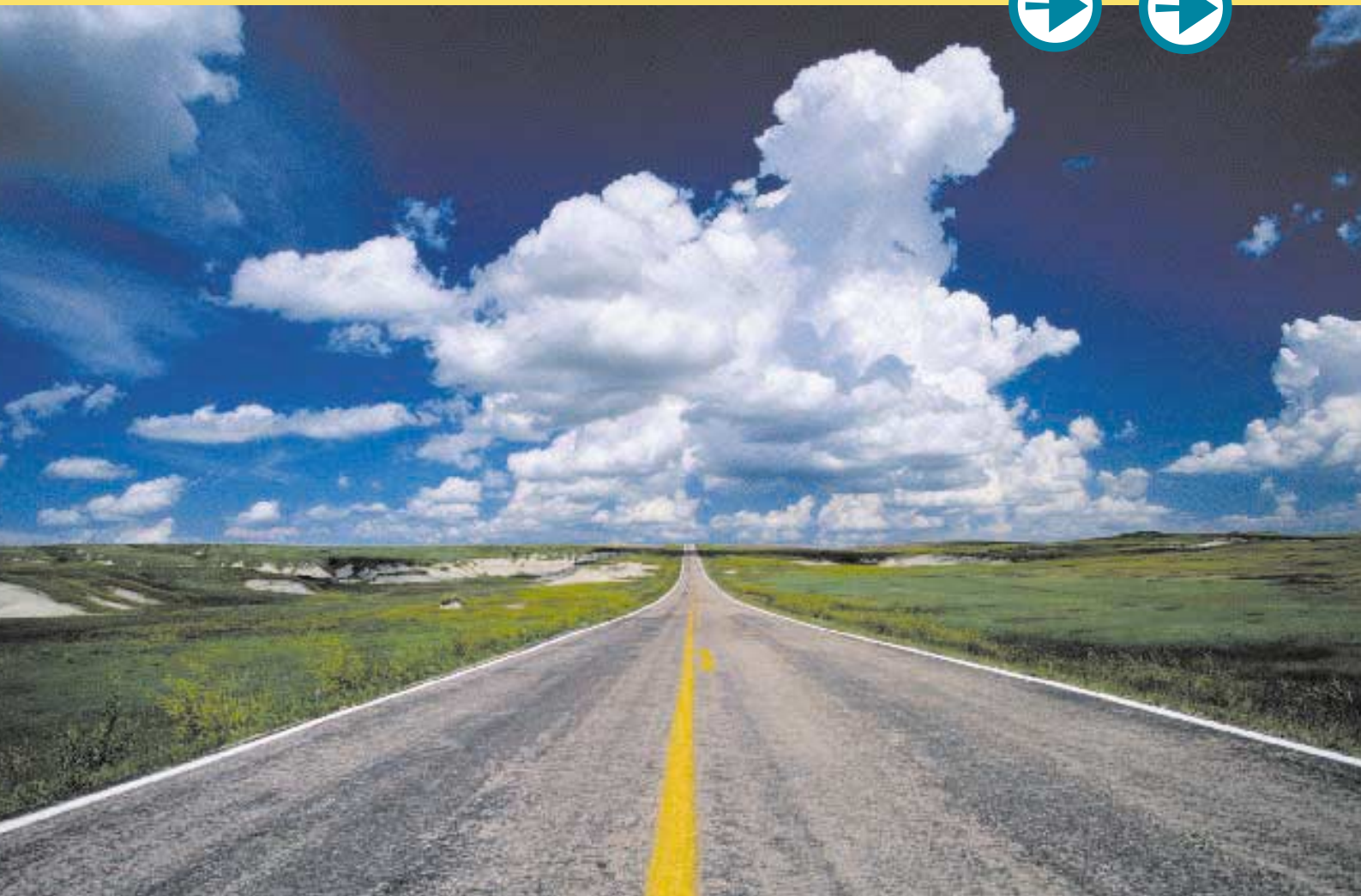
Shenzhen Freeway is one of the companies which established the Company by way of promotion and the relative controlling shareholder of the Company. The legal representative of Shenzhen Freeway is Mr. CHEN Chao. Shenzhen Freeway holds 654,780,000 shares of the Company, accounting for 30.03% of the issued capital of the Company. It is a municipal state-owned enterprise established in September, 1993 upon the approval of Shenzhen Municipal Government, the principal activities of which are development, operation and management of Shenzhen expressway network. The registered capital of Shenzhen Freeway was increased from RMB10 million upon establishment to RMB200 million in 2001. In 2001, Successful Plan Assets Limited, a wholly owned subsidiary of Shenzhen International Holdings Company Limited ("Shenzhen International"), entered into agreements with Shenzhen Investment Holding Corporation ("SIHC), pursuant to which Successful Plan Assets Limited acquired in three times the entire equity interests in Shenzhen Freeway held by SIHC and Shenzhen Freeway has become a wholly owned subsidiary of Successful Plan Assets Limited. Shenzhen International is a company incorporated in Bermuda, the shares of which are listed on the main board of HKEX. Shenzhen International is principally engaged in investment holding, and its subsidiaries and associated companies are principally engaged in the provision of total logistics and transportation ancillary services as well as investment, operation and management of related assets and projects.

Shenzhen Shenguanghui Highway Development Company

Shenguanghui is one of the companies which established the Company by way of promotion and the substantial shareholder of the Company, which holds 457,780,000 shares of the Company, representing 20.99% of the issued capital of the Company. Shenguanghui was established in July, 1996, with the registered capital of RMB5 million. The legal representative of Shenguanghui is Mr. Lin Xiang Ke. It is an enterprise of Shenzhen Roads Bureau, the principal activities of which are investment and construction of roads and bridges, supply and marketing of goods and materials.

CHAIRMAN'S STATEMENT

Year 2001 is the start of a new century. For the Group, the year witnessed the fifth year of the listing of our H shares on HKEX and the first year of the listing of our A shares on SSE. Thanks to the concern and support of the shareholders and friends of the Company, the Company keeps forging ahead and can attain business goals successfully. In a word, the Group made a good beginning for the first year of the 21 century.





RESULTS AND DIVIDENDS

The Board of directors of the Company is pleased to announce that the Group has achieved satisfactory results in the fiscal year of 2001. Its turnover for the year amounted to RMB489,813,000, up 16.50% above that of 2000. Profit attributable to shareholders, prepared in accordance with generally accepted accounting principles in Hong Kong, amounted to RMB421,336,000, representing an increase of 16.05% over 2000, and earnings per share was RMB0.208, an increase of 15.56% over 2000. In accordance with PRC accounting principles, profit after taxation was RMB401,936,897, representing an increase of 18.49%.

The Board recommends a RMB0.10 per share year-end dividend for the fiscal year of 2001, subject to the approval of the shareholders at the 2001 Annual General Meeting to be held on 31 May, 2002.

BUSINESS REVIEW

Core business increasing steadily

In the year 2001, the Group's core business kept performing well and growing steadily. This is the fifth year the Group has recorded a sustained growth of more than 10% since its establishment, with turnover of the Group at RMB489 million, an increase of 16.5% over that of 2000. During this year, Yanba A

was completed and received the distinction of being named the highest scoring quality project in Guangdong Province. Its opening on 16 April, 2001 increased the number of the Group's toll roads in Shenzhen to six. Yanba B commenced construction in June, 2001, as scheduled. The earnings from Meiguan Expressway and Jihe Expressway have achieved remarkable growth. With toll revenue increasing month by month, these two expressways have become the main sources of the Group's growth.

Financial strength enhanced

The financial position of the Group has always been sound and was further strengthened in this year. In December, 2001, the Company issued 165,000,000 A Shares in the PRC, at RMB3.66 per share, to raise necessary funds of RMB604,128,000 for the construction of Yanba B. This enhanced the Group's financial strength.

The successful issue of A Shares enabled the Group to be the sole company of Shenzhen that has accessed both the international capital market with the listing of H Shares on HKEX and the domestic capital market with the A Shares listing on SSE. It optimized the Group's shareholding structure and elevated the financial resources of the Group in the capital market.



CHAIRMAN'S STATEMENT

Corporate competitiveness further improved

Focusing on further promoting competitiveness and its ability to continuously expand business in the year of 2001, the Group strengthened its internal management by integrating its functional departments and streamlining the management, including setting up the Operation Management Center and the Project Management Department. On the other hand, the Group perfected its corporate governance through drafting and implementing *The Regulation for Shareholder's General Meeting*, *The Regulation of The Supervisory Committee*, *The Regulation of the Board of Directors* and *The Regulation of the General Manager*. In view of the fruitful work of The Audit Committee, the Group also established The Strategic Development & Investment Committee and The Human Resources & Remuneration Committee, which efficiently raised the Board's working efficiency and the decision-making accuracy.

PROSPECTS

Facing the new challenges and the various difficulties, predicted and unpredicted which lie ahead, with the spirit of solidarity and enterprise, the management of the Group firmly believes that it can give a satisfactory report to our shareholders.

In the year of 2002, the Group will speed up the study of medium and long-term development strategies and formulate feasible development strategies on the basis of objective conditions. With its extensive experience in the investment, construction and management of toll roads and the

support of Shenzhen Municipal Government, the Group will fully utilize its concession rights to develop highways and expressways in Shenzhen and continue expanding business in other regions of the PRC, and develop other value-added and extended business that are in line with the future development strategy, so as to further increase its competitive ability and upgrade its management quality.

As a listed company, we realize that good corporate governance, standardized operation and continuous growth are the foundations on which a listed company must depend for its long-term existence and healthy development in the international capital market. In the future, we will conscientiously fulfill the duty of information disclosure under the supervision of both HKEX and SSE and, will strive to be one of the most respected and compliant listed companies.

APPRECIATION

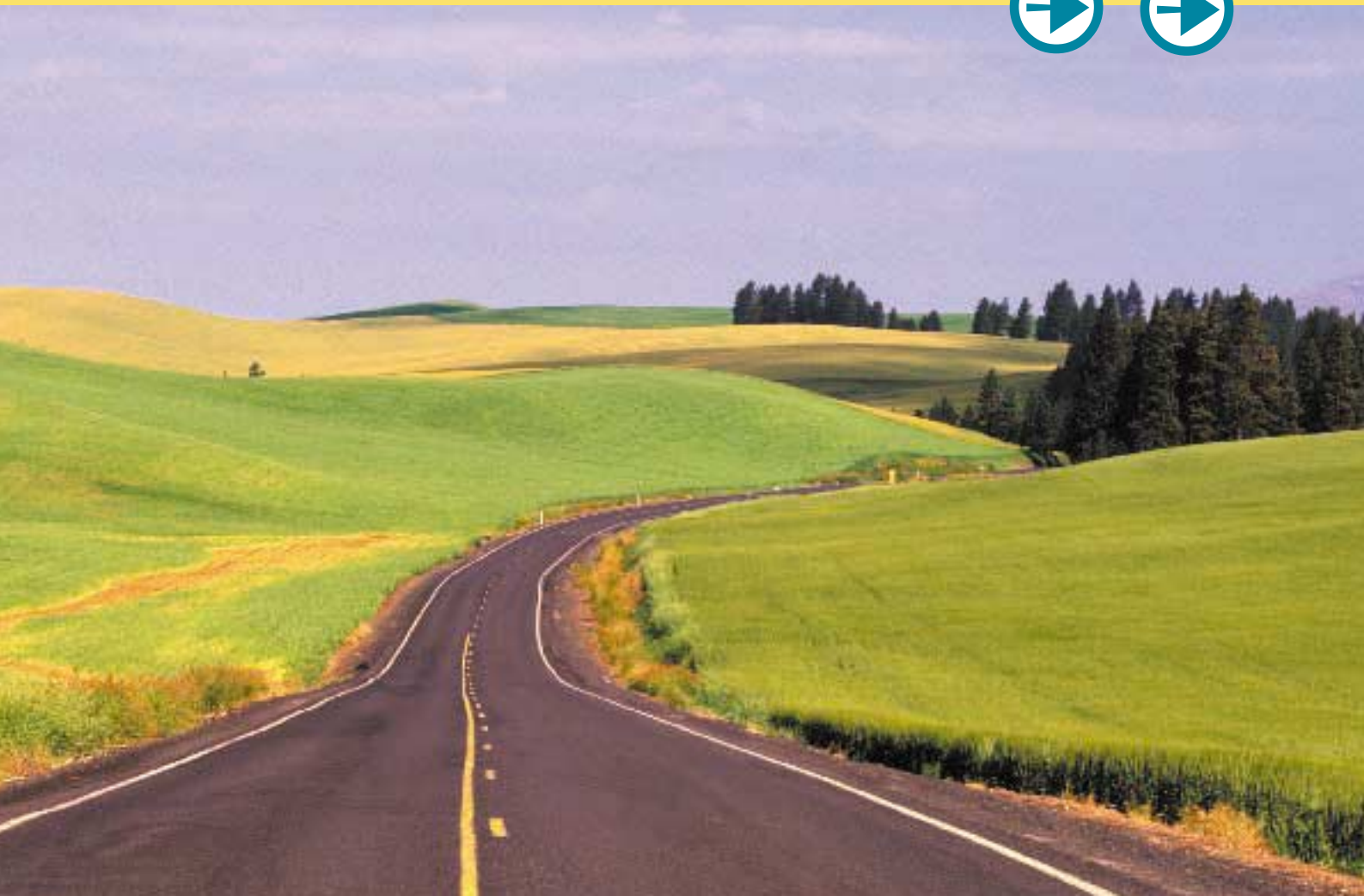
I, on behalf of the Board, would like to express my gratitude for the trust and support of all shareholders, to extend my thanks to the staff for their hard work in the past year, and to promise that we will, as always, adhere to the philosophy of the Company to maximize profits to our shareholders, and do our best to bring best returns for you all.

Chen Chao
Chairman

Shenzhen, the PRC, 12 April 2002

MANAGEMENT **DISCUSSION & ANALYSIS**

The year 2001 is the first year of the new millenium. Though affected by the downturn of the global economy, China economy sustained continuous and healthy development during the year. The Gross Domestic Product ("GDP") of the PRC amounted to RMB9,593.3 billion, with an increase of 7.3% over 2000. Its total volume of imports and exports increased by 7.5% to USD509.8 billion, as compared with that of 2000.





MANAGEMENT DISCUSSION AND ANALYSIS

Driven by the policies of expanding domestic demands and encouraging consumption, the number of private cars owned in the PRC increased substantially. In the wake of China's accession to the WTO in November 2001, the sharp tariff cuts in automobiles and other commodities has further stimulated automobile consumption in the PRC. The private car ownership of Shenzhen ranks highest in the PRC, with car ownership per 100 capita increasing by 7 cars to 14 cars.

The Shenzhen economy continued developing rapidly in 2001. The GDP of Shenzhen for 2001 amounted to RMB190.82 billion, about 13.2% up as compared with that of 2000. The volume of exports of Shenzhen has continuously topped the large and medium-size cities in the PRC for nine years, and reached USD37.48 billion, with an increase of 8.4% over that of 2000. The total volume of imports and exports of Shenzhen in 2001 amounted to USD68.62 billion, 7.3% up over that of 2000, with the volume of imports reaching USD31.14 billion.

After twenty years' development, Shenzhen has been built up to be one of the most dynamic cities in the PRC. Owing to its unique location, Shenzhen serves as the gateway between Mainland China and Hong Kong and even Southeast Asia. It is expected that

upon China's accession to WTO, the economic development of Shenzhen and the trade activities between Shenzhen and Hong Kong will be further stimulated and the manufacturing industry in the Pearl River Delta will further develop. This will in turn create an even more pressing need for highways. Favorable macro-economic environment has created a desirable investment and management environment for the stable development of the Company.

BUSINESS REVIEW

Operation Review

As at 31 December, 2001, the turnover of the Group reached RMB489,813,000, with an increase of 16.50% over that of 2000. Profit attributable to shareholders amounted to RMB421,336,000, 16.05% up over that of 2000. Earnings per share was RMB0.208, with an increase of 15.56% as compared with that of 2000.

Business Summary

The Company is mainly engaged in the development, construction, operation and management of toll roads. Currently, it operates five expressways and two Class 1 highways namely, Meiguan Expressway, Jihe East, Jihe West, Yanba A, Changsha Ring Road, NH107, and NH205, with a total length of approximately 176 kilometers.

An analysis of the operation of the toll roads of the Company

Operating results of the toll roads of the Company in 2001

Toll roads	Average daily mixed traffic volume	Year on Year (%)	Annual toll income (RMB'000)	Year on Year (%)
Meiguan Expressway	33,634	42.16	173,992	43.11
Jihe West	16,134	26.17	104,764	23.87
Jihe East	25,103	16.2	153,454	15.13
Changsha Ring Road	1,373	5.49	6,734	2.03
NH107	23,214	4.77	83,388	1.09
NH205	45,408	8.44	145,164	-3.28
Yanba A	5,762	—	9,377	—

Diagram 1: The daily average traffic volume of each toll road of the Company (2001 Vs 2000)

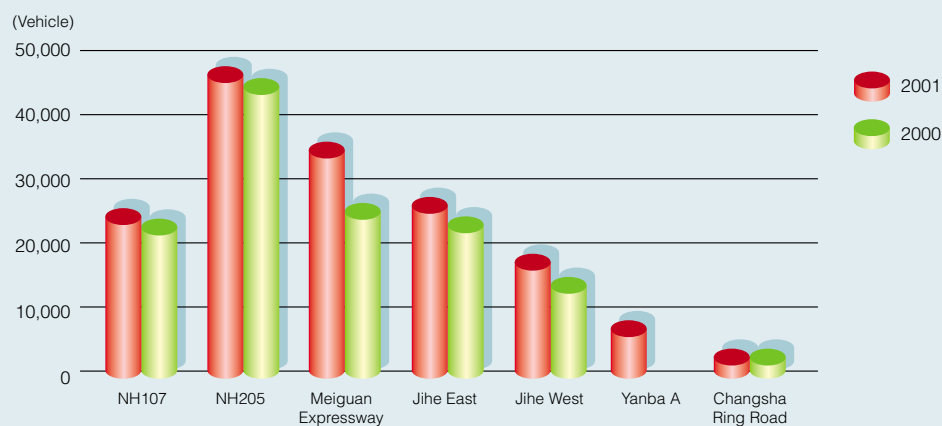
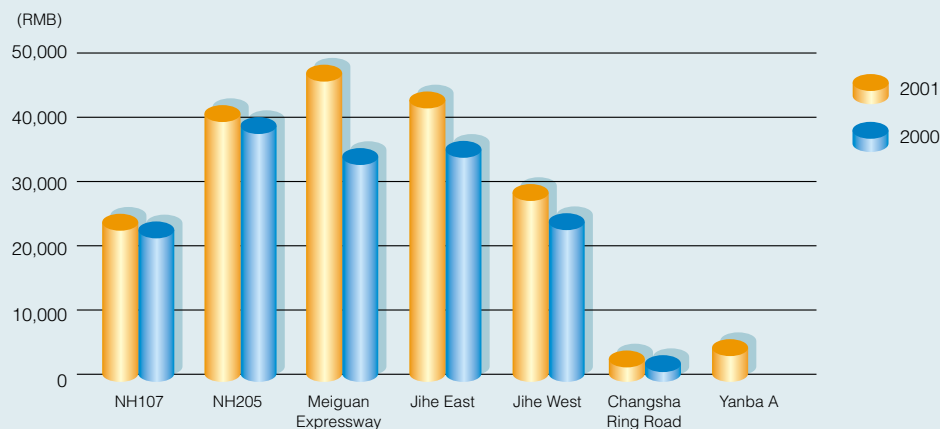


Diagram 2: The daily average toll income of each toll road of the Company (2001 Vs 2000)





MANAGEMENT DISCUSSION AND ANALYSIS

Toll policy

The setting of toll rates is always determined by Guangdong Provincial Government with reference to the following factors: traffic flow, construction costs, prospective pay-back periods of investment, repayment periods of any loans, local price levels and inflation rate, management, operation and maintenance costs of highways and users'

affordability. The Company may apply to Guangdong Provincial Government, at appropriate times, for toll rate adjustments by taking into consideration factors like the operating costs of its highways, the pay-back periods of investment and fluctuation of local price. Details of the toll rates of the existing toll roads of the Company are set out below:

Categorization of Vehicles and Toll Rates of NH107 and NH205

Class	Vehicle	Toll rate (RMB/vehicle)
1.	Motorcycles	2.00
2.	Passenger cars with 20 seats or below, lorries with a capacity of 2 tonnes or below, motor tricycles, motor cars, tractors	7.00
3.	Passenger cars with 21 to 50 seats, lorries with a capacity of 2 tonnes to 5 tonnes	15.00
4.	Passenger cars with 51 seats or above, lorries with a capacity of 5 tonnes to 15 tonnes	25.00
5.	Lorries of 15 tonnes or above and container lorries	30.00

Categorization of Vehicles and Toll Rates of Meiguan Expressway, Jihe Expressway and Yanba A

Class	Vehicle	Toll rate (RMB/km)	
		Meiguan Expressway and Jihe Expressway	Yanba A
1.	Vans, jeeps, small-size lorries, motorcycles	0.60	0.60
2.	Mini buses, station wagons, light vans, small passenger-cars	1.20	0.90
3.	Medium-size and large-size buses, medium-size lorries	1.80	1.20
4.	Large deluxe buses, large-size lorries, large tractors, vehicles towing 20-foot container	2.40	1.80
5.	Double-decker passenger cars, heavyweight lorries, heavyweight tractors, vehicles towing 40-foot container	3.60	2.40

Note: In accordance with the regulation of relevant authorities of Guangdong Province, the toll roads of the Company collect tolls from vehicles with Hong Kong licenses at the above standards in RMB with effect from 1 April, 2002.

Categorization of Vehicles and Toll Rates of Changsha Ring Road

Class	Vehicle	Toll rate (RMB/km)
1.	Lorries with a capacity of 2 tonnes or below, passenger cars with 12 seats or below	0.40
2.	Lorries with a capacity of 2 to 6 tonnes, passenger cars with 13 to 19 seats	0.70
3.	Lorries with a capacity of 6 to 11 tonnes, passenger cars with 20 to 49 seats	1.00
4.	Lorries with a capacity of 11 to 18 tonnes, passenger cars with 50 seats or above	1.30
5.	Lorries with a capacity of 18 to 25 tonnes	1.60
6.	Lorries with a capacity of 25 tonnes or above	1.90

Notes:

1. If the toll fee for vehicles passing Yue Liang Island Bridge is less than RMB10, then RMB10 will be collected;
2. The above toll rates were effective from May 2000, with an increase of RMB0.10 over the original basis.

Business Analysis

In 2001, China economy sustained a relative high growth, with its GDP increasing by 7.3% over that of 2000. As one of the main special economic zones in the PRC, the Shenzhen economy is among the fastest growing in the PRC, with a GDP growth of 13.2%. Though the global economic slowdown deteriorated following the September 11 incident of America and Guangdong imports and exports fluctuated greatly, the steady performance of the toll roads has provided steadily increasing cash flow for the Group during the year, which has laid a solid foundation for the Group's profit.

The Traffic Volume and Toll Revenue of Expressways Continued to Grow

In 2001, toll income from expressways has become the main source of the Group's profit growth. During the year, Meiguan Expressway and Jihe Expressway have achieved remarkable growth and they play an important role in the future development of the Company. Meiguan Expressway recorded a growth of 43.11% in annual toll income for the year 2001, while the toll incomes of Jihe East and Jihe West increased by 15.13% and 23.87%, respectively, as

compared with those of 2000.

Meiguan Expressway

Meiguan Expressway, 19.3 kilometers long, runs northwards from Shenzhen Meilin Checkpoint to the border between Shenzhen and Dongguan and connects with Guanshen Expressway running from Dongguan City to Shenzhen. It connects Huanggang Immigration and Customs Control, the largest land immigration and customs control in Asia, with Dongguan City, an export processing center in the Pearl River Delta Region. It intercepts Jihe Expressway and is the main route for transportation between Hong Kong and Mainland China. The Company owns a 95% interest in Meiguan Expressway.

In 2001, the traffic volume and toll income of Meiguan Expressway entered a new stage of growth. Its daily average mixed traffic volume amounted to 33,634, with an increase of 42.16%. The annual toll income of Meiguan Expressway reached RMB173,992,092, 43.11% up above 2000. The daily average traffic volume and toll income of Meiguan Expressway in September, 2001 hit historical records, amounting to 43,004 and RMB635,000, respectively.

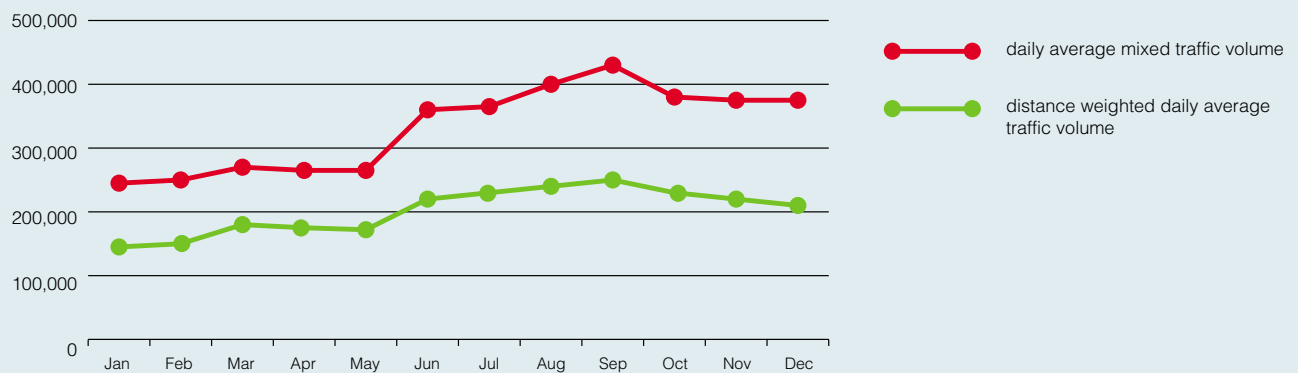


MANAGEMENT DISCUSSION AND ANALYSIS

The strong growth in traffic volume and toll income of Meiguan Expressway in 2001 is mainly attributable to the following: (1) since the opening of Guanshen Expressway in the second half of 2001, which connects with the northern end of Meiguan Expressway, Meiguan Expressway has witnessed remarkable growth both in traffic volume and toll income. The connection between Guanshen Expressway and Meiguan Expressway forms a partial road network, which has given rise to the spectacular growth in proportion of traffic using the whole section of Meiguan Expressway out of its total traffic. The weighted daily average traffic volume of Meiguan Expressway in 2001 reached 19,969, with an increase of 67.36% over that of 2000; (2) Positive factors for

the growth of toll income and traffic volume arose. The damage to a bridge in Fenggang in Dongguan City by flood in June, 2001 led much traffic to Meiguan Expressway, which further boosted the growth in traffic volume and toll income of Meiguan Expressway. The upgrading and renovation of the roads near Meiguan Expressway from June to September, 2001 caused certain traffic to use Meiguan Expressway. The above factors ceased in October, 2001; and (3) The commencement of operation of Huawei Toll Station in April, 2001 and the effective control of traffic diversion at Minle Interchange also contributed to the growth in traffic volume and toll income of Meiguan Expressway in 2001.

Diagram 3: The monthly traffic volume of Meiguan Expressway in 2001



Excluding the effects caused by the factors stated in (2), Meiguan Expressway still maintained a relatively strong growth in traffic volume and toll income. It is expected that Meiguan Expressway will sustain a high growth in traffic volume and toll income in the future.

Jihe Expressway

Jihe Expressway, composing of the eastern and western sections, is part of the coastal national trunk highway from Tongjiang in Helongjiang Province to Sanya in Hainan Province, which is one of the four national highways with two running from east to west and two running from north to south. It runs from west to east starting from Shenzhen Bao'an Airport along Hezhou, Shiyan, Longhua, and Pinghu to Heao at Henggang town, with a total length of 44.3 kilometers. It connects with Shenshan Expressway, Huiyan Expressway and NH205 in the east and links Guangshenzhu Expressway and NH107 in the west. The whole section of Jihe Expressway was divided into the eastern section and the west section for construction. In May, 1999, the whole section of Jihe Expressway was completed and commenced operation. The completion and operation of Jihe Expressway provides a direct outer ring road connecting the east and the west of Shenzhen, which alleviates the traffic pressure between the Pearl River Delta Region and the eastern part of Guangdong Province.

Though the toll income growth of Jihe East slowed after a high growth in 2000, it still maintained a favorable growth in 2001. The daily average mixed traffic volume of Jihe East was 25,103, up 16.20%, and its annual toll income grew by 15.13% to RMB153,453,633. Jihe West also witnessed relatively

strong natural growth in traffic volume and toll income. Its daily average mixed traffic volume was up by 26.17% to 16,134, as compared with that of 2000. The annual toll income of Jihe West amounted to RMB104,763,888, with an increase of 23.87% over that of 2000. Jihe East and Jihe West have become the main sources of the Company's profit growth.

The installation of non-stop toll collection systems in Jihe East and Jihe West was completed at the end of 2001, which has improved passage conditions and promoted passage efficiency and toll collection efficiency on the above expressways.

Passage Conditions of Class 1 Highways Improved, and Toll Income Restored NH107 and NH205

National Highway 107 (Shenzhen Section) starts from Nantou Checkpoint in Shenzhen and extends westwards to the border between Shenzhen and Dongguan. Linking up key industrial zones in Shenzhen such as Songgang, Shajing, Fuyong, Xixiang, and Xin'an, NH107 is the main passage from the western part of Shenzhen to other major cities in the Pearl River Delta Region such as Dongguan and Guangzhou, connecting with Nanshan Industrial Zone and Shekou Port. National Highway 205 (Shenzhen Section) runs eastwards from Buji Checkpoint in Shenzhen to the border between Shenzhen and Huizhou, linking up key industrial towns in Shenzhen such as Pingdi, Longgang and Henggang. It serves as the main passage connecting the eastern part of Shenzhen with Huizhou and Shantou and it connects to Wenjindu Immigration and Customs Control through main roads in the downtown of Shenzhen.



MANAGEMENT DISCUSSION AND ANALYSIS

In the first half of 2001, the non-stop toll collection systems of NH107 and NH205 were put into use, which has improved passage conditions and shortened toll collection time. In the meantime, the control of traffic diversion in certain sections of the above highways contributed to the restoration of toll income. In 2001, the daily average mixed traffic volume and toll income of NH107 recorded a slight increase. Its daily average mixed traffic volume grew by 4.77% to 23,214 and its annual toll income increased by 1.09% to RMB83,387,906. The daily average mixed traffic volume of NH205 in 2001 reached 45,408, up 8.44% over that of 2000. Its daily average toll income was RMB397,662, with a slight decrease of 3.02%.

Both NH107 and NH205 are open Class 1 highways. They have played relatively important roles in attracting traffic flow and channelling traffic. Following the constant improvement of the township streets in the surrounding areas, traffic diversion has appeared in certain sections of the above highways. At the end of December, 2001, the 20-kilometer long Shuiguan Expressway (referred to as "Longgang No. 2 Passage") running from Buji to Longgang, which commenced construction as early as in 1995, was opened. It runs almost parallel to NH205 and is expected to cause relatively great traffic diversion to NH205. The impact of Shuiguan Expressway on NH205 was evaluated appropriately in the Company's 1997 valuation report when it was listed.

In 2002, the Company will further strengthen its control on traffic diversion and improve the passage conditions of the above highways, so as to attract traffic flow and to maintain their traffic volume at current levels.

Changsha Ring Road and the Newly Opened Yanba A Need Improvement

Changsha Ring Road

Changsha Ring Road, with a total length of 35 kilometers (including a 2020-meter Xiangjiang Bridge) connects with Jingzhu Expressway, NH107 (Changsha Section), Changyi Expressway and National Highway 319 (Changsha Section).

Changsha Ring Road commenced operation in November, 1999. Its traffic volume and toll income have been at a low level since its opening owing to the non-completion of the surrounding road network and the local government's control on vehicles entering the downtown of Changsha City. In the second half of 2001, Changsha Ring Road Company Limited strengthened its internal management, and Changsha Ring Road recorded better results. The daily average mixed traffic volume and daily average toll income were 1,373 and RMB18,425 respectively, with respective increases of 5.49% and 2.03% as compared with those of 2000.

Yanba A

Yanba A is part of Yanba Expressway, starting from Yantian in the west to Xicong in the east, with a total length of 9.65 kilometers and dual-three lanes. It has three toll stations namely, Dameisha Toll Station, Xiaomeisha Toll Station and Xicong Toll Station. The total investment of Yanba A is approximately RMB900 million, out of which RMB300 million consists of government subsidies granted by Shenzhen Municipal Government.

Yanba A commenced operation on 16 April, 2001, and the whole section of Yanba A was opened on 1 June, 2001. The toll income of Yanba A is still at a low level because: (1) it is the first operational section of Yanba Expressway; (2) a road network has yet to be formed owing to its short length; (3) the area it runs along focuses on container transportation and tourism in the eastern coast; and (4) the surrounding area of Yanba A is still under development. The toll income of Yanba A for the 8 months since its operation amounted to RMB9,377,406. It is expected that the traffic volume and toll income of Yanba A will have relative high growth after the opening of Yanba B and the completion of Phase III of Yantian Ports.

INVESTMENT AND CONSTRUCTION

Yanba Expressway

Yanba Expressway shall start from Yantian Ports in the west and end at Shenzhen – Huizhou Border. It will connect with the Class 1 highway in Huizhou and Shenshan Expressway. The total length of Yanba Expressway is 28.92 kilometers, with the designed speed of 80km/hour. Yanba A (from Yantian Ports to Xicong) is 9.65 kilometers long. Yanba B (from Xicong to Kuicong) and Yanba C (from Kuicong to Bagang)

will be 9.19 kilometers and 10.08 kilometers, respectively.

Yanba A was completed in April, 2001. Yanba B commenced construction in June, 2001 and is expected to be completed in October, 2003. The construction of Yanba B will be mainly funded by the proceeds raised from the issue of A Shares. The Company issued an aggregate of 165,000,000 A Shares in December, 2001. The net proceeds raised from the A Share Issue amounted to RMB604,128,000, which will ensure the smooth construction of Yanba B.

According to *the Master Plan of the Road Network of Shenzhen*, Yanba Expressway will serve as the backbone of the network of high class roads in Shenzhen, and it is the main passage between the coastal area in the east of Shenzhen and other areas. The construction of Yanba Expressway is of great significance to cater the increasing traffic demand in the eastern coast of Shenzhen and alleviate the traffic pressure of Yantian Ports, and to improve the development of the tourism and economy in the east of Shenzhen. It is also significant for the development of the economy and tourism in the eastern coastal





MANAGEMENT DISCUSSION AND ANALYSIS

area of Shenzhen, the consolidation of coastal defence, the evacuation of Daya Bay Nuclear Plant in case of emergency, the perfection of the expressway network in the east of Guangdong Province and the coastal areas of southeast China, and securing a better connection between Shenzhen and Hong Kong.

Investment Strategy and Planning

The strategy of the Company is to focus on toll road investment and management in Shenzhen, and to develop and acquire road projects with high quality and returns in other regions outside Shenzhen in the PRC.

Currently, the Company is carrying out the feasibility studies of Yantian – Paibang Expressway (“Yanpai Expressway”) and other expressways planned or being planned in Shenzhen. The feasibility study of Yanpai Expressway has been appraised by Guangdong Provincial Communications Department. The Company will raise funds for the construction of the proposed projects through bank loans and issue of convertible bonds.

The Company is actively seeking high-quality road projects in regions outside Shenzhen. The Company endeavors to enhance its profitability and to bring better returns to its shareholders through acquiring more quality projects with high returns.

OTHER ANCILLARY BUSINESSES

Wutongling

The Company has injected RMB11 million in Shenzhen Wutongling Cableway Company Limited and acquired 40% interest in it. The installation of equipment for Wutongling cableway started in July, 1999. Approximately ninety percent of the installation has been completed up till now. However, the distinct

difference in management concept between the two partners of the project affected the normal operation of Wutongling.

Zhengyi

The Company has invested RMB1.2 million and the advertising resources of NH107, NH205, Jihe West and Yanba Expressway in Shenzhen Zhengyi Advertising Company Limited, accounting for 60% of its equity interest. The principal business of Zhengyi is to rent out billboards at the toll stations of the Company’s toll roads or on the adjacent land along the toll roads. During the year, Zhengyi’s profit amounted to RMB757,054.

Zhongyunjie

The Company injected RMB600,000 into Zhongyunjie Transportation Development Company in 1999, representing 20% of its equity. Zhongyunjie is mainly engaged in transportation services such as highway construction and planning consultation, project supervision, traffic flow investigation, and transportation service. Because the business of Zhongyunjie has been worse than expected, the Company transferred the 20% interest of Zhongyunjie it held to Shenzhen Transportation Service Company at a consideration of RMB618,000 in March, 2002.

OPERATION RESULTS AND FINANCIAL POSITION

Adhering to principles of long-term stability and continuous development, the Group has adopted prudent financial policies and endeavored to establish sound and rational capital structure, with a view to maximizing returns for its shareholders. During the year, the Group’s financial position remained sound and the Group achieved satisfactory results.

MANAGEMENT DISCUSSION AND ANALYSIS

Operation Results

	2001 (RMB'000)	2000 (RMB'000)	Change (%)
Turnover	489,813	420,455	16.50
Other revenues	129,765	45,612	184.50
Total operation costs	(211,311)	(124,690)	69.47
Operating profits	408,267	341,377	19.59
Share of profits less losses of jointly controlled entities	57,985	58,416	-0.74
Finance costs	(41,647)	(34,195)	21.79
Profit before taxation	424,605	365,598	16.14

Turnover

	2001 (RMB'000)	2000 (RMB'000)	Change (%)
Income from toll roads	516,684	438,723	17.77
Less: business tax and surcharge	(26,871)	(18,268)	47.09
Turnover	489,813	420,455	16.50

Turnover comprises turnover from wholly-owned toll roads namely NH107, NH205, Jihe West, Yanba A and the 95% held Meiguan Expressway. The turnover of jointly controlled entities is included in the (loss)/

gain of jointly controlled entities. The increase in toll income is mainly attributable to the growth in traffic volume from Meiguan Expressway and Jihe Expressway.



MANAGEMENT DISCUSSION AND ANALYSIS

Other revenues

	2001 (RMB'000)	2000 (RMB'000)
Other revenues		
Interest income from bank deposits	6,389	12,891
Interest income from a long-term loan	19,267	19,321
Income from construction management services	63,131	—
Government subsidies	26,706	—
Investment income from other investments	11,142	10,726
Others	3,130	2,674
	<u>129,765</u>	<u>45,612</u>
Total		

Income from construction management services represents income from the construction management services provided by the Company for the linkage project from Yantian Ports Section along Shenzhen Eastern Highway to Yanba Expressway, which is owned and developed by Shenzhen Municipal Government. The main part of the project has been completed. Construction management services income is recognised using the percentage of completion method by reference to the stage of completion of the construction, which increases the Company's profit for the year.

The relatively sharp decrease in interest income is mainly due to the slash in bank deposits of the Company and the drop in interest rates in 2001. Interest from a long-term loan represents interest charged at over five years' loan interest rate quoted by the People's Bank of China on the long-term loan

of RMB306,000,000 advanced through a financial institution to Changsha Ring Road Construction and Development Co., Ltd., the joint venture partner of Shenchang. The interest charged from the long-term loan amounting to RMB19,267,000 in 2001 has been fully received.

Government subsidies represents government grants provided to the Company in relation to subsidies for compensation of toll revenue for Yanba A, as a result of the anticipated insufficient traffic volume caused by the early construction of the expressway as requested by the Shenzhen Municipal Government to fulfil its overall town planning requirements. Such government grants is recognised in the profit and loss account according to the Group's accounting policies over the period for which the Company is granted the right to operate the expressway.

Operating costs

	2001 (RMB'000)	2000 (RMB'000)	Change (%)
Depreciation and amortisation	88,150	58,697	50.18
Unrealised losses on other investments	24,220	—	N/A
Road maintenance expenses	18,496	12,963	42.68
Other costs	80,445	53,030	51.70
Total	211,311	124,690	69.47

The relatively high increase in operating costs is because:

- (1) According to the Group's policy to review regularly the projected total traffic volume throughout the operating periods of respective toll roads, the Group has appointed an independent professional institution to conduct studies to revise the projected traffic volume of respective toll roads in the Group for the remaining operating periods. Appropriate adjustments to the projected traffic volume have been made. The depreciation of toll roads and the amortisation of land use rights of the Group for the year has been calculated based on the adjusted projected traffic volume. This is a change in accounting estimate and has been applied prospectively. This change has resulted in an increase in depreciation and amortisation charge of toll roads and land use rights of RMB15,408,000 and RMB2,298,000 respectively.
- (2) Please refer to Other Investments set out below for details of unrealised losses in other investments.
- (3) The Company increased expenses for road maintenance and forestation during the year, with a view to improving the road and passage conditions of its toll roads.
- (4) The opening of Yanba A increased RMB7,255,738 in depreciation and amortisation and RMB3,931,637 in other operation costs.

The above change in accounting estimate also resulted in an increase in depreciation and amortisation charge of toll roads and land use rights of the Group's jointly controlled entities, Airport-Heao and Shenchang. Accordingly, share of results of jointly controlled entities decreased by RMB5,387,000.



MANAGEMENT DISCUSSION AND ANALYSIS

Finance costs

Finance costs during the year rose by 21.79%, which is mainly due to the fact that the interest from the funds borrowed and used for the construction of Yanba A was recognised as finance costs after its operation in April, 2001.

Financial Position

Liquidity

	2001	2000
Current ratio	3.13	2.28
Quick ratio	3.12	2.26

The repayment ability of the Company remains strong, with assets of good liquidity. As at 31 December, 2001, the Group's current assets amounted to RMB1,349 million, out of which RMB962 million was cash and bank deposits, accounting for 71.33% of the current assets of the Group. Current liabilities represent short-term bank borrowings and repayables, amounting to RMB431 million.

Financial resources

Financial resources of the Group are derived from toll income from its operations, bank loans, retained earnings and government subsidies.

As at 31 December, 2001, the Group had bank borrowings amounting to RMB769 million. All the borrowings payable during the year were repaid when due. The Group's borrowing requirements are generally in compliance with the construction progress of its projects, which are easy to arrange for according to plans.

The Group has been granted an aggregate of RMB2.1 billion banking facilities, out of which RMB1.9 billion is secured while the remaining RMB200 million is unsecured. The Group has utilized altogether RMB750 million banking facilities, with the remaining RMB1.35 billion in banking facilities available as a standby.

During the year, the Group enhanced its financial strength as a result of the proceeds raised from the issue of 165,000,000 A Shares.

The Shenzhen Municipal Government has provided financial subsidies for the construction of Yanba A and Yanba B. As at 31 December, 2001, the financial subsidies provided by the Shenzhen Municipal Government for the construction of Yanba A of RMB300 million have been fully received. In addition, the Shenzhen Municipal Government has also agreed to provide a financial advance of RMB150 million for the construction of Yanba B, out of which RMB40 million has been received during the year.

Capital structure

The capital structure of the Group classified in terms of capital liquidity

	2001		2000	
	Amount (RMB'000)	Percentage (%)	Amount (RMB'000)	Percentage (%)
Current liabilities	430,715	6.35	225,123	3.93
Long-term liabilities	940,235	13.86	911,881	15.93
Shareholders' funds	5,363,392	79.06	4,539,498	79.28
Minority interests	49,343	0.73	49,527	0.86
Total	6,783,685	100	5,726,029	100

The Group's capital structure has remained sound, with its equity-debt ratio of 20%, which is in conformity with the specific features of toll roads sector, i.e., substantial amount of investment with a long period of recovery.

The capital structure of the Group classified in terms of capital costs

	2001		2000	
	Amount (RMB'000)	Percentage (%)	Amount (RMB'000)	Percentage (%)
Fixed rate liabilities	19,060	0.28	—	—
Floating rate liabilities	750,000	11.06	750,000	13.10
Interest-free liabilities	601,890	8.87	387,004	6.76
Shareholders' funds	5,363,392	79.06	4,539,498	79.28
Minority interests	49,343	0.73	49,527	0.86
Total	6,783,685	100	5,726,029	100



MANAGEMENT DISCUSSION AND ANALYSIS

Fixed rate liabilities represent the loans of USD2,302,000 from the Spanish Government, out of which the interest rate of USD1,151,000 is 1.8% per annum and interest rate of the remaining USD1,151,000 is 7.17% per annum. Floating rate liabilities are all loans denominated in Renminbi, with the interest rate of 5.02%~6.03% which may be adjusted as per the adjustment of the loan interest rate made by the People's Bank of China. Interest-free liabilities are mainly advances from the PRC government and other general payables.

Funding and treasury policies

The Group's funding during the year is mainly from net cash inflow from operating activities, issue of A Shares and government subsidies, which has been or will be used for the construction of expressways and daily operation of the Group.

Net cash inflow from operating activities

Net cash inflow from operating activities amounted to RMB536 million, with an increase of RMB190 million, as compared with 2000. The increase was primarily attributable to the increase in cash inflow from toll road operation and construction management services income of the Company from Yanba Expressway linkage project.

Financing

The Group raised approximately RMB604 million through the issue of 165,000,000 Renminbi-denominated ordinary shares (A Shares).

Capital expenditure

The Group's capital expenditure for road construction for the year amounted to RMB265 million, out of which RMB226 million was used for the construction of Yanba A and Yanba B.

Cash inflow and outflow

(RMB'000)

Net cash inflow from operating activities	535,845
Net increase in bank borrowings and other long-term advances	125,060
Net cash inflow from dividends, other incomes received from jointly controlled entities and other income received	92,989
Issue of A Shares	604,128
Dividends paid	(201,570)
Purchase of fixed assets and payment for construction	(264,643)
Increase in other investments	(233,649)
Other expenses net of other incomes	(81,487)
	<hr/>
Increase in cash and cash equivalents for the year ended 31 December, 2001	<u><u>576,673</u></u>

Gearing Ratio

At the balance sheet date, the gearing ratio (total liabilities at the balance sheet date / shareholders' funds at the balance sheet date) was 25.56%, which shows that the Group has ample capability for further fund raising owing to its strong capital base and rational gearing ratio.

Cash management

At the balance sheet date, the Group had cash and bank deposits of RMB819 million and HK\$135 million, the total amount of which was RMB962 million. RMB567 million out of the bank deposits denominated in Renminbi is from proceeds raised from the issue of A Shares, which is kept in fixed deposits in domestic commercial banks with different terms pursuant to the utilization plans of the proceeds.

As at 31 December, 2001, the Group did not have any hedging instruments.

Future capital commitments

The Group's future capital expenditure is mainly for the construction of Yanba B and Yanba C. The total investment of Yanba B is estimated to be RMB655 million. Approximately RMB321 million will be injected into the project in 2002, and the remaining of the proceeds will be utilized in 2003. Shortfall of funds for the construction of the project will be funded by the Company from operations. The total investment of Yanba C is estimated to be RMB388 million. The construction of Yanba C is planned to commence in July of 2003.

Foreign exchange rate risk management

As at 31 December, 2001, the Group had HK\$135 million in bank deposits and loans of USD2.302 million. Foreign currencies are translated into Renminbi at exchange rates quoted by the People's Bank of China at the transaction dates. During the year, the exchange rates for converting HK\$ or USD to RMB remained relatively stable. The exchange rate between HK\$ and RMB ranged from 1: 1.0606 to 1: 1.0638, which did not have any significant impact on the Group's annual results.

Other investments

As at the date of this report, details of other investments of the Company are set out below:

- (1) In September, 2001, the contract under which the Company entrusted RMB50,000,000 with China Eagle Securities Co., Ltd ("China Eagle Securities") for investment management expired. The principal together with an investment income of RMB4,750,000 was received by the Company;
- (2) In March, 2001, the Company entrusted RMB40,000,000 with China Eagle Securities for investment management with a term of one year. The Company received the principal and an investment income of RMB3,944,444 in March, 2002;



MANAGEMENT DISCUSSION AND ANALYSIS

- (3) In October, 2001, the Company entrusted RMB50,000,000 with China Eagle Securities for investment management with a term of one year from October, 2001 till October, 2002. The annual return rate of the investment under the agreement is 2% above the coupon rate of 3.28% of the 9905 Government Bonds, i.e., 5.28% per annum. If the actual annual return rate exceeds 5.28%, then China Eagle Securities is entitled to 3.5% of the net assets in the securities accounts at the expiry date as its asset management fees. If the annual return rate of the investment exceeds 8%, then 50% of the excess will go to the Company and the remaining part of the excess will be received by China Eagle Securities as its asset management fees.
- (4) The Company entrusted RMB200,000,000 with Guoxin Securities Co., Ltd ("Guoxin Securities") for investment management, with a term from January, 2001 to January, 2002. The Company received the principal in March, 2002 and got an investment income of RMB8,800,000;
- (5) In December, 1999 and September, 2000, the Company entrusted respectively RMB50,000,000 and RMB60,000,000 with Huarong Trade (Group) Company ("Beijing Huarong") for investment management, with a term of 2 years. Pursuant to the contracts signed, the return rate of the investments per annum will not be lower than 5.28%. Beijing Huarong had, in breach of the terms of its contracts, exceeded the investment scope
- confided by the Group to it in carrying out dealings in shares and caused damage, so that upon expiration of its mandate it breached its obligation under the contracts to pay over the Company the principal and income from the investments. With effect from February, 2002, the Company has taken over the management and control of the relevant securities accounts, the market value of securities in such accounts being approximately RMB75,348,801, creating an unrealised loss of RMB24,220,000 for the Company's other investments.
- In accordance with the decision of the Board of directors, the Group has already terminated all such management arrangements, and investments entrusted in China Eagle Securities and Guoxin Securities of RMB240,000,000 have been withdrawn. The Company will, based on the principle of "to sell but not to buy", realise as soon as possible the entrusted investments. The Board of directors has also decided that the management shall seek redress for Beijing Huarong's breach of obligations through legal action.

Contingent liabilities

The Company has issued a corporate guarantee to secure the credit facilities granted to Wutongling. As at 31 December, 2001, these facilities had been utilised by Wutongling to the extent of RMB25,000,000. The facilities were fully repaid by the Company subsequent to the balance sheet date.

Save the aforesaid, the Group has no other material contingent liabilities.

Charges on the Group's assets and guarantees

To obtain bank loans or banking facilities, the Company has pledged the following assets to banks:

Secured assets	Banks	Maximum amount secured	Validity
Operating rights of NH 107	The Industrial and Commercial Bank of China	RMB900 million	9 Feb, 1999 - 9 Feb, 2004
Operating rights of NH205	China Merchants Bank	RMB1000 million	11 Feb, 1999 - 11 Feb, 2004

Guarantees represent the guarantees provided for the credit facilities granted to Wutongling, details of which are included in *Contingent Liabilities* as set out above.

Project Management and Prospects for New Business

The Company is responsible for the development, construction and maintenance of its toll roads. The Company selects contractors through a tendering system for the construction of Yanba B.

The Company has accumulated extensive experience in project management, with a favorable track record of project quality management, tight cost control and good reputation in the toll road sector. To capitalise on the Company's expertise in management and to meet the needs of the development of new activities, the Company proposes to invest RMB2,700,000 to

establish Shenzhen Expressway Engineering Consulting Company Limited (the "Engineering Consulting Company") with Meiguan, representing 90% interest of the Engineering Consulting Company. The principal activity of the Engineering Consulting Company will be to provide consultation in project management. Through the establishment of the Engineering Consulting Company, the Company intends to make full use of its experience and human resources in road project management and expand into fields such as engineering consultation and project management, so as to broaden the profit base of the Group. Currently, the relevant formalities of the Engineering Consulting Company are being carried out.

It is expected that the project management business will become a new source of the Company's profit.



MANAGEMENT DISCUSSION AND ANALYSIS



THE ISSUE AND LISTING OF A SHARES

As approved by CSRC on 29 November, 2001, the Company issued 165,000,000 Renminbi-denominated ordinary shares (A Shares) in the PRC with the par value of RMB1.00 in December, 2001. The issue price of A Shares was RMB3.66 per share. The net proceeds raised from the issue of A Shares amounted to RMB604,128,000, which will be used for the construction of Yanba B. The 104,479,000 A Shares held by public investors commenced dealings on the Shanghai Stock Exchange on 25 December, 2001 and the remaining 60,521,000 A Shares issued to securities investment funds was subject to a lock-up period of 3 months from the listing date and commenced dealings on the Shanghai Stock Exchange on 25 March, 2002.

SALARIES OF EMPLOYEES AND THE INCENTIVE SCHEME

The Company's personnel is its most valuable asset. Upon the establishment of the Company, a team of competent and professional personnel was formed. As at 31 December, 2001, the Company had 1,121 employees, out of whom 96 are administrative staff, 27 are finance staff, 136 are technical staff and the rest 957 are toll collection staff. The number of the personnel with professional qualifications amounted

to 167, representing 10.40% of the total number of the employees of the Company. Employees with college, post-secondary education or above education levels accounted for 55.60% of the Company's employees. All the toll collection staff are graduates with secondary school education or above. As at 31 December, 2001, the Company had no retirees.

Salaries and annual bonuses are determined according to positions and performance of the staff.

During the year, the Company appointed a renowned professional consulting firm to consult on the human resources of the Company, with a view to design and establish a set of evaluation and incentive mechanisms applicable to various levels of staff, after comprehensively considering the staff's quality, competence and wish for future development.

Training

The Company puts much emphasis on employee training. The training system has been established and specific training programs have been carried out according to the development of the Company. The Company carried out a training program of MBA core courses aiming at the medium and senior management in the first half of 2001. In the second

half of the year, training programs for staff at all levels from different departments were carried out, which has enhanced the business level and quality of the staff.

The Share Appreciation Right Scheme

The Share Appreciation Right (“Rights”) Scheme (the “Scheme”) was approved at the 2000 Annual General Meeting and was implemented. The Scheme aims at linking the benefits of its staff with the interests of shareholders, the Company’s performance and its share price, so as to encourage its staff to commit to the long-term success of the Company and to enhance the Company’s value and the shareholders’ value. The Scheme is managed by the Board of directors of the Company and is carried out by the Human Resources & Remuneration Committee of the Board of the Company.

The total number of rights under the Scheme is 60,471,000 shares, with a validity of 10 years. All the rights have an exercise period of 5 years. A grantee is not allowed to exercise his or her rights in the first year after the date of granting the rights. In each of the second, third, and fourth year after the date of grant, the rights exercised will not in aggregate exceed 25%, 50% and 75%, respectively, of the total rights granted to him or her. The grant price and the exercise price of the rights will be determined by reference to both the H Share price and the A Share price of the Company, which is mainly determined by H Share price (representing 60%) with reference to A Share price (accounting for 40%) of the Company. The grant price of the rights is 90% of the average close price of the Company’s stocks for the five trading days preceding the date of granting the rights. The exercise price of rights granted is the average close price of the

Company’s stocks for the five trading days counting from the sixth day since the date of the application by grantees. Upon the exercise of the rights, the grantee will receive cash payment, subject to any withholding tax, equal to the number of the rights exercised multiplied by the difference of exercise price and grant price at the time of exercise. The grant price and the exercise price of the rights are calculated by adding the H Share price and the A Share price, and the difference of exercise price and grant price will not be above RMB1.50 per share. If the exercise of the rights is postponed by every one year, the maximum amount of the difference of the exercise price and the grant price will increase by every 15%. The Company’s management can make their applications for the exercise of their rights within 2 months counting from the third trading day after the annual results, interim results or the quarterly results are announced. The Scheme also states that, if the Company’s annual results or interim results are down by 20% or above, then the exercise of the rights supposed to be exercised in that year will not be allowed while the rights which have not been exercised in the previous years will be allowed to be exercised in that year.

PROSPECTS AND OUTLOOK

To China, the year 2002 is a year full of opportunities and challenges. The PRC became member of the WTO in November, 2001. The Government of PRC will continue to implement active financial policies and stable monetary policies. Beijing won the bid for the host of 2008 Olympics during the year. The strategy to open up the West of the PRC is being implemented. The above factors will further expand domestic demands, improve infrastructure facilities, and to improve foreign trade. It is expected that China economy will continue to grow rapidly and steadily in 2002.



MANAGEMENT DISCUSSION AND ANALYSIS

China's accession to the WTO will further boost the economic development of China. Trade activities will become more and more active, and imports and exports will grow at an even higher pace. That will in turn create pressing demand for highway transportation. Since January, 2001, Shenzhen's vehicles have increased by 15%, and its private cars have increased by thousands on monthly basis. The above has provided a steady demand for the toll road operations of the Company.

Opportunities and Challenges

1. The unique location of the Company means that the traffic volume and toll income of its toll roads greatly depend on the economic development and the imports and exports of Shenzhen and Hong Kong. It is expected that China's accession to the WTO will greatly stimulate the traffic demands related to the foreign trade of the PRC. Beijing's successful bid for the host of 2008 Olympics will expand the demands for transportation facilities which will further increase the traffic volume and toll income of the Company's toll roads.
2. Upon China's accession to the WTO, the active financial policies adopted by the PRC Government will further boost the development of commercial vehicles. Domestic commercial vehicles in the PRC are expected to grow at more than 10% in 2002. In addition, the severe tariff cuts for automobiles and other commodities will lead to a new round of price cuts in auto sales, further stimulating consumption with respect to private cars. The above will provide a steady demand for the toll road operations of the Company.
3. The PRC is expected to implement fuel taxes in 2002. The introduction of fuel tax will increase the costs of vehicles, which will lead to the increase in charges by vehicles, weakening the competitiveness of highway versus railway, waterway and airlight. That will bring a certain impact on the traffic volume and toll income of the Company's existing toll roads. On the other hand, the replacement of road maintenance fees by fuel tax will prompt more and more vehicles to use expressways. In the long run, the implementation of fuel tax will bring positive impacts on the Company's results.
4. The existing toll highways and expressways of the Company have formed a road network, therefore, many short-haul passenger vehicles and freight vehicles choose to use the toll roads of the Company, as means of transportation with high efficiency, flexibility and swiftness. Highway transportation in Shenzhen accounted for 80% of its freight volume, which far exceeded the freight volumes moved by railway, waterway and airlight.
5. In 2001, the utilization of non-stop toll collection systems in NH107, NH205, Meiguan Expressway and Jihe Expressway promoted the passage efficiency and attracted traffic flow, to some extent. However, following the constant improvement of the township roads in the surrounding areas, traffic diversion has appeared in certain sections of the Company's toll roads. The Company will strengthen control of traffic diversion to alleviate the impact of traffic diversion on the traffic volume and toll income of the Company's toll roads.

MANAGEMENT DISCUSSION AND ANALYSIS

6. For the five years commencing from 2002, the Company and Meiguan are subject to a 50% reduction in PRC income tax rate, i.e., at the tax rate of 7.5% which will have a certain effect on Company's profits.
7. In the second half of 2001, the Ministry of Communications and the State Planning Commission jointly promulgated *The views on providing preferential treatments on toll fees to vehicles towing containers* and issued a consultation paper on the matter. According to the document, the average toll fees collected from vehicles towing containers will drop. Though the decrease in toll fees collected from vehicles towing containers will have an adverse impact on the Company's toll income, it will also attract more vehicles towing containers to use expressways, which in turn will increase the traffic volume of the Company's toll roads. The above policy has yet to be implemented. As a result, its impact on the Company cannot yet be measured.
8. The Guangdong Provincial Government has approved that, with effect from 1 January, 2003, classification of vehicles of expressways for Guangdong Province shall be unified and applicable toll rates shall be adopted. If the ultimate toll rates are less than the present standard toll rates of the Company, this will have a substantial adverse effect on the Company's toll road operations and future profits. Based on the Company's toll income for the year 2001, it is estimated that toll income of expressways may record a drop of 15~20% in 2003 under the new proposed classification of vehicles and applicable toll rates. It is expected that the profits of the Company may also decrease accordingly.
9. Guangdong relevant authorities recently promulgated a new regulation requiring the expressways in Guangdong Province should collect toll fees from vehicles with foreign licenses in RMB with effect from 1 April, 2002. Pursuant to the above regulation, the toll roads of the Company collect toll fees from vehicles with Hong Kong licenses in RMB at PRC standards. The implementation of the new regulation will also have certain effects on the toll income of the Company's expressways.

Outlook

Faced with the ever changing domestic and global economic environment and the opportunities and challenges upon China's accession to WTO, the Company will, on the basis of sound operation, further strengthen its internal management and enhance its corporate governance structure so as to enhance the Company's competitiveness. It will take up challenges and capitalize on opportunities. In the meantime, the Company will strengthen its financial management and cost control, actively develop road projects with high returns, optimize investment portfolio, achieve better results and produce higher economic and social results.



MANAGEMENT DISCUSSION AND ANALYSIS

MAJOR EVENTS

2001 Profit Distribution Scheme

The net profit of the Company for 2001 determined in accordance with the PRC accounting standards amounted to RMB401,936,897. The net profit of the Company for 2001 determined in accordance with the Hong Kong accounting standards amounted to RMB 421,336,000. Pursuant to the relevant laws and regulations of PRC the articles of association of the Company, profit distributable to shareholders shall be the lower of the distributable profits determined according to PRC accounting standards and the distributable profits adjusted according to HK GAAP. As a result, profit distributable to shareholders for 2001 amounted to 280,158,000, which is determined according to the PRC accounting standards.

The Board of directors of the Company recommend the payment of a final dividend of RMB0.10 per share for the year ended 31 December, 2001, subject to the approval of the shareholders at the 2001 Annual General Meeting to be held on 31 May, 2002.

The Proposed Profit Distribution Policy in 2002

The Company will distribute its profit in accordance with the profit distribution policy stated by relevant laws and regulations and in its articles of association. A final distribution of profit in cash will be expected for the year 2002. No less than 20% of the respective 2002 net profit for distribution and 2001 undistributed profit will be distributed in 2002, with no current plans for any transfer of capital reserves to share capital.

The Profit Forecast for 2001

The profit forecast of the Company for the year 2001 stated in the prospectus of the A Share Issue in November, 2001, prepared in accordance with the PRC accounting standards, is RMB401,880,000. The actual net profit of the Company for 2001 is RMB401,940,000.

Material Litigation and Arbitration

During the year, the Company had no material litigation, arbitration or administrative punishments. As at 31 December, 2001, the Company had no material litigation, arbitration or administrative punishments that were not settled or were foreseeable.

Material Acquisition, Asset Disposal and Merger

During the year, the Company had no material acquisitions, mergers, asset disposals or restructuring.

Appointment of Auditors

It was approved at the 2000 Annual General Meeting held on 6 March, 2001 that the Company re-appoint Messrs. PricewaterhouseCoopers (Certified Public Accountants, Hong Kong) and Zhongtianqin Certified Public Accountants (formerly known as Tianqin Certified Public Accountants) (Certified Public Accountants, the PRC) as the international auditors and the statutory auditors of the Company, respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

Zhongtianqin Certified Public Accountants was examined by CSRC and the Ministry of Finance owing to its serious violation of relevant laws and regulations in audits for other listed companies, and it resigned as the Company's statutory auditors on 25 September, 2001. The Board of directors approved its resignation and appointed Tianjian Xinde Certified Public Accountants to be the auditors for the Company's A Share Issue. The remuneration of the auditors is set out as follows:

(RMB)

Auditors	2001		2000	
	Audit fees	Other fees	Audit fees	Other fees
PricewaterhouseCoopers	1,110,000	—	1,000,000	—
PricewaterhouseCoopers Zhong Tian CPAs Co., Ltd	265,000	78,000	—	—
Zhongtianqin Certified Public Accountants	733,500	20,000	400,000	4,000
Tianjian Xinde Certified Public Accountants	48,000	—	—	—
Southern Minhe Certified Accountants	—	20,000	—	—

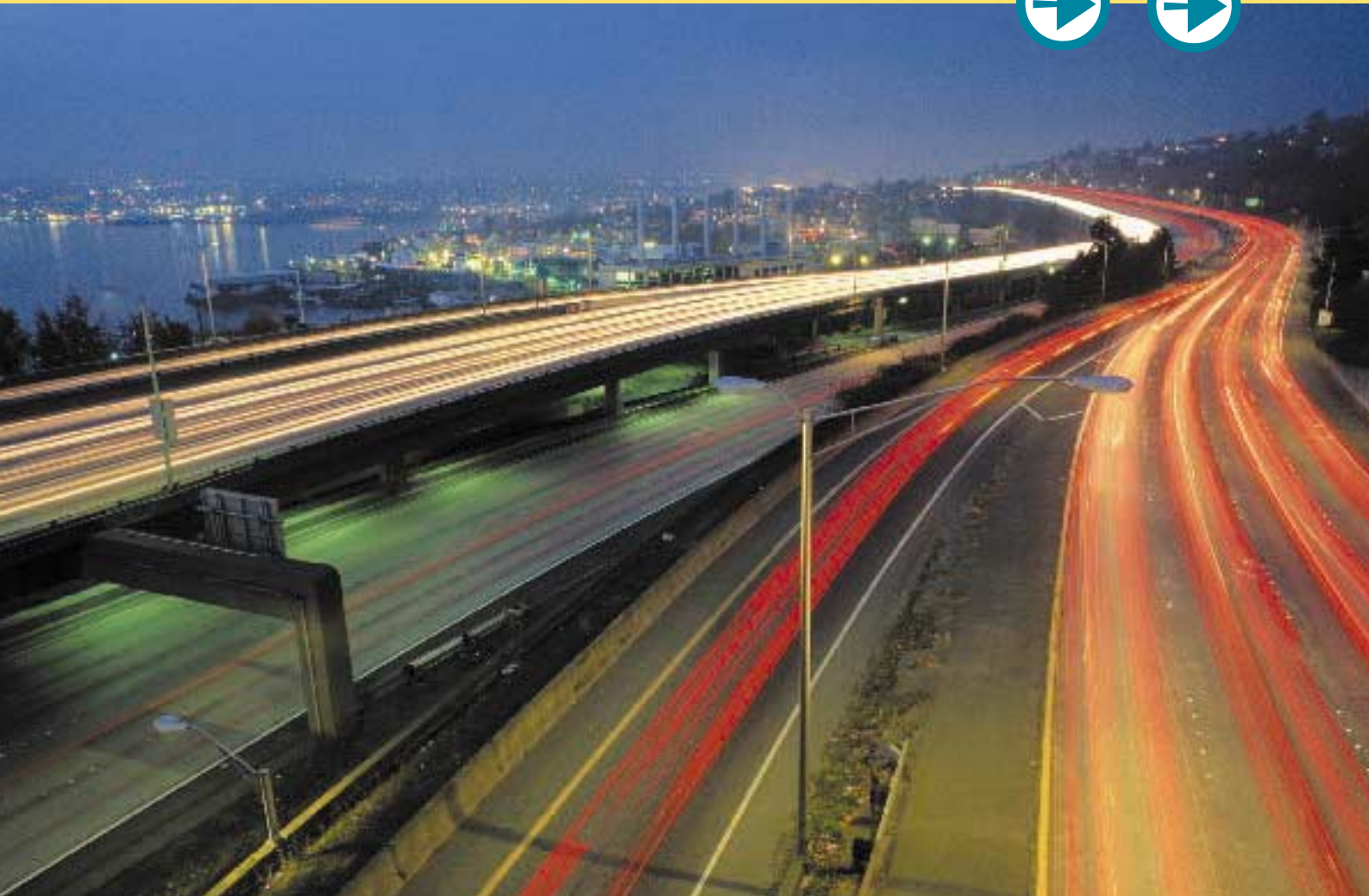
Note: The above audit fees include disbursements for the auditors. Other fees represent consulting fees and capital verification fees. The Board of the Company considered that other fees did not affect the independence of the auditors.

Other Major Events

During the year, the Company, the Board of directors and directors had no punishments from regulators.

REPORT OF DIRECTORS

The directors are pleased to present herewith their report and the audited accounts for the year ended 31 December, 2001.





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 HKSE and SSE on 12 March, 1997 and 25 December, 2001, respectively.

2. SUMMARY OF THE REPORT OF THE BOARD OF DIRECTORS

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

- 2000 annual report and proposal for profit distribution;
- the report of the Board for the year 2000;
- the financial settlement report and the audited accounts for the year 2000 and the budget proposal for the year 2001;
- the emoluments of directors and supervisors for the year 2001;
- the implementation of the Share Appreciation Rights Scheme;
- the reappointment of Messrs. PricewaterhouseCoopers and Zhongtianqin Certified Public accountants as the international auditors and the statutory auditors of the Company, respectively;
- the resignation of Mr. Chao Min Qian as the director of the Company, and the appointment of Ms. Zhang Yang as the director of the Company;
- the necessary amendments to the articles of association of the Company in relation to the change of the shares held by the shareholders of the Company;
- the relevant regulations concerning the corporate governance of the Company and their amendments;
- the transfer of 5% equity interest of Meiguan held by Airport-Heao;
- the proposals to invest in Southwestern Securities, Shenzhen Venture Capital Co., Ltd, Shenzhen Mawan Ports, Guangzhou-Zhuhai Expressway (Eastern Section) and Guangdong Jiangmen-Zhongshan Expressway;
- the proposal to acquire the interest in Airport-Heao held by its co-partner;
- 2001 interim accounts and interim report;
- the reports to establish the Strategic Development & Investment Committee, and the Human Resources & Remuneration Committee of the Board;
- the proposal to acquire equity interest in Shantou Haiwan Bridge project;



REPORT OF DIRECTORS

- the application of the issue of A Shares of the Company and other related matters; and
- the audit report concerning the human resources situation of the Company prepared by the Audit Committee.

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 operating profit for the year is set out on page 9.

No analysis of the Group's turnover and contribution to operating profit by geographical areas were 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. FINANCIAL RESULTS

The results of the Group for the year ended 31 December, 2001 are set out in the consolidated profit and loss account on page 55.

The financial position of the Group and the Company as at 31 December, 2001 are set out in the balance sheet on page 56 and page 57, 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 8 of this report.

5. DIVIDEND

The Board of directors recommends the payment of a dividend of RMB0.10 per share, totaling RMB218,070,000, for the year ended 31 December, 2001 to shareholders whose names appear in the register of shareholders of the Company at the close of business on 30 April, 2002.

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. 2000 ANNUAL GENERAL MEETING

In 2001, altogether one shareholders' meeting was held. The 2000 Annual General Meeting was held on 6 March, 2001 at the conference room of the Company, at which all the proposals set out in *Notice of 2000 Annual General Meeting published in Hong Kong Economic Times and South China Morning Post* (English version) on 19 January, 2001 were considered and passed. All the resolutions passed at the 2000 Annual General Meeting were published in *Hong Kong Economic Times* and *South China Morning Post* (English version) on 17 March, 2002.

7. ELECTION AND CHANGE OF DIRECTORS AND SUPERVISORS

In 2001, the second Board of directors and supervisors were within their term of office. Mr. Chao Ming Qiang resigned as a director of the Company on 18 January, 2001, and Ms. Zhang Yang was appointed as director of the second Board of directors at the 2000 Annual General Meeting on 6 March, 2001, with a term of office from the date of appointment till 31 December, 2002.

8. 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.

9. SHARE CAPITAL

The Company issued 165,000,000 A Shares with the par value of RMB1.00 per share in the PRC on 6-7 December, 2001. Thus the issued capital of the Company was increased to RMB2,180,700,000.

10. RESERVES

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

11. FIXED ASSETS

The movements in fixed assets during the year are set out in note 11 to the accounts.

12. BANK LOANS AND OTHER BORROWINGS

Details of bank loans and other borrowings of the Group and the Company as at 31 December, 2001 are set out in note 20 and note 21 to the accounts.

13. INTEREST CAPITALIZED

The amount of interest capitalized by the Group and the Company for the year ended 31 December, 2001 are disclosed in note 5 to the accounts.

14. USE OF PROCEEDS FROM ISSUE OF H SHARES

In 1997, the Company issued an aggregate of 747,500,000 H Shares with the issue price of HKD2.20 per share (approximately RMB2.35). The net proceeds from the H Shares initial public offering were approximately RMB1,685,000,000, which has been used up in full as at 31 December, 1999. Such net proceeds were effectively utilized, as specified in the prospectus of the Company.



15. 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 (approximately HKD3.45 per share). The net proceeds from the A Shares issue were approximately RMB604,128,000, which is and will be used for the construction of Yanba B. As at 31 December, 2001, RMB37,400,000 from the net proceeds from the A Share Issue has been put into the construction of Yanba B, and the remaining RMB566,728,000 remained unused, which is kept in bank deposits.

16. INCOME TAX RATE AND BUSINESS TAX RATE

As affected by the new tax policy promulgated by the State Council in 1999, the business tax refund that the Group was granted was terminated with effect from 1 January, 2000. Affected by the new tax policy, the business tax refund that the Group was granted was terminated. The Group is subject to PRC Business Tax at 5% on toll income.

The Company, a subsidiary (Meiguan) and a jointly controlled entity (Airport-Heao), are entitled to full exemption of PRC enterprise income tax for the first five years in which they record assessable profits and a 50% reduction in tax rate for the five consecutive years thereafter. These tax exemptions are not affected by the above change of tax policy because the preferential tax treatment does not relate to tax refund.

17. DESIGNATED DEPOSIT AND DUE FIXED DEPOSIT

As at 31 December, 2001, 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.

18. 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.

19. MATERIAL LITIGATION AND ARBITRATION

During the year, the Company had no material litigation or arbitration.

20. ACQUISITION, MERGER AND ASSETS RESTRUCTURING

During the year, the Company had no acquisitions, mergers or assets restructuring.

21. CONNECTED TRANCTIONS

On 14 December, 2001, Airport-Heao, a 55% jointly controlled entity of the Company, entered into an agreement (the "Agreement") with Shenzhen Freeway, the controlling shareholder of the Company. Under the Agreement, Airport-Heao transferred 5% equity interest it held in Meiguan to Shenzhen Freeway at a consideration of RMB75,062,000. Upon the completion of the transaction, the Company and Shenzhen Freeway hold 95% and 5% equity interest in Meiguan, respectively.

The above mentioned transaction has been reviewed by the independent directors of the Company who had confirmed that the transaction was entered into on normal commercial terms and are fair and reasonable so far as the shareholders of the Company are concerned.

22. DIRECTORS

The directors who held office during the year and up to the date of this report were as follows:

Chen Chao (*Chairman*)

Tao Hong

Zhang Rong Xing

Wu Ya De

Zhong Shan Qun

Shi Da Qing

Lin Xiang Ke

Zhang Yang (appointed on 6 March, 2001)

Chao Min Qiang (resigned on 18 January, 2001)

*Ho Chung Tai Raymond MBE, JP

*Chiu Chi Cheong Clifton

*Li Kwok Wing Meocre

(* independent directors)

23. SUPERVISORS

The supervisors who held office during the year and up to the date of this report were as follows:

Wang Ji Zhong (*Chairman*)

Wang Shan

Li Jian

24. 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. Details are as follows:

- a. The service contracts with Chen Chao and Tao Hong are all for 3 years from 1 January, 2000 till 31 December, 2002;
- b. The service contract with Zhang Rong Xing is from 12 November, 2000 till 31 December, 2002;
- c. The service contracts with Mr. Wu Ya De, Zhong Shan Qun, Mr. Shi Da Qing, Mr. Lin Xiang Ke, and independent directors namely Dr. Ho Chung Tai Raymond, and Mr. Chiu Chi Cheong Clifton are 3 years from 1 January, 2000 till 31 December, 2002;
- d. The service contract with Mr. Li Kwok Wing Meocre, the independent director, is 3 years from 10 June, 1999 till 9 June, 2002.

Save as the aforesaid, 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

25. EMOLUMENTS OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

- (1) The emoluments of the directors and supervisors for the year 2001 was considered and approved at the 2000 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 remuneration according to their respective position in the Company.
- (2) The total remuneration of directors, supervisors and senior management (including basic salaries, bonuses, welfares, subsidies, housing allowance and other subsidies) amounted to approximately RMB3,000,000.
- (3) In 2001, the total emoluments for the three independent directors is HKD300,000, and their subsidies amounted to RMB50,000. As a result, the total amount of the emoluments for the three independent directors for the year 2001 amounted to RMB368,000.
- (4) The total amount of remuneration of the three highest paid directors amounted to RMB1,165,000.
- (5) The total amount of remuneration of the three highest paid senior management amounted to RMB1,090,000.
- (6) The Company has altogether 18 directors, supervisors and senior management, eight of whom received salaries from the Company. Details of the payment of directors, supervisors and senior management are set out in the following chart.
- (7) There are 10 directors, supervisors and senior management who did not receive salaries from the Company: Mr. Raymond Ho Chung Tai, Mr. Clifton Chiu Chi Cheong, Mr. Meocre Li Kwok Wing, Mr. Lin Xiang Ke, Mr. Zhong Shan Qun, Mr. Shi Da Qing, Ms. Zhang Yang, Mr. Wang Ji Zhong, Mr. Wang Shan and Mr. Wu Ya De.

(RMB)

	0-200,000	200,000-400,000	400,000-600,000
Directors	0	2	1
Supervisors	0	1	0
Senior management	0	4	0

26. DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

As at 31 December, 2001 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.

27. DIRECTORS' AND SUPERVISORS' INTERESTS IN SECURITIES AND RIGHTS TO ACQUIRE SECURITIES

As at 31 December, 2001, none of the directors, supervisors, chief executives or their associates had any beneficial interests in the share capital of the Company or any of its associated corporations as defined in the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") and to be recorded in the register required to be maintained pursuant to Section 29 thereof 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.

At no time during the year was the Company, its subsidiaries and its jointly controlled entities a party to any arrangements to enable the Directors, supervisors, chief executives or their associates to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate. No rights to subscribe for equity or debt securities of the Company has been granted by the Company to, nor have any such rights been exercised by, any person during the year ended 31 December, 2001 and up to the date of this report.

28. SUBSIDIARIES AND JOINTLY CONTROLLED ENTITIES

Details of the Company's subsidiaries and jointly controlled entities are set out in notes 12 and 13 to the accounts respectively.

29. 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.

30. RETIREMENT SCHEME FOR EMPLOYEES

Details of the retirement scheme for employees of the Group are set out in note 27.

31. HOUSING SCHEME FOR EMPLOYEES

The Company has not entered into any arrangement whereby quarters are to be sold to staff at preferential prices and has no other obligations in respect of employees' housing scheme.

The Ministry of Finance of the PRC issued a notice numbered Caiqi[2000]295 on 6 September, 2000 regarding certain financial treatments in respect of the housing reform with effect from the date of issuance. After reviewing the above notice, the Board of the Company concluded that the Group does not involve in any financial issues in relation to the housing reform of the PRC, and the relevant policies adopted by the Ministry of Finance will not have any significant impact on the Group.

32. 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 Listing Rules.



REPORT OF DIRECTORS

33. AUDIT COMMITTEE

Pursuant to the Listing Rules, the Board of the Company established an audit committee (the "Committee") on 20 August, 1999. The principal activities of the Committee include the review and supervision of the Group's financial reporting process and internal controls.

During the year, the Committee convened four meetings in all, at which the Committee considered the interim accounts and discussed the contents and procedure of the 2001 auditing with the Board of directors and the international auditors of the Company, to ensure the smooth auditing of the Company for 2001.

34. THE STRATEGIC DEVELOPMENT AND INVESTMENT COMMITTEE

On 19 November, 2001, the Board of the Company established the Strategic Development & Investment Committee (the "Strategic Committee"), the principal activities of which are to define strategies and review investment projects for the Company, and to provide the Board with advice or suggestions on decision-making of development strategy and material investments. The Strategic Committee is composed of a director, an independent director and a social professional.

During the year, the Strategic Committee convened two meetings, reviewing the proposed investments and discussing the future investment strategy of the Company.

35. THE HUMAN RESOURCES AND REMUNERATION COMMITTEE

The Board of the Company established the Human Resources & Remuneration Committee (the "HR Committee"), to provide advice on the appointment and evaluation of senior management, the nomination of directors, and remuneration management of the Company. The HR Committee is composed of a director, an independent director and a social professional.

During the year, the HR Committee convened two meetings, at which the human resources policy of the Company was reviewed and the performance of the late general manager during the term of office was evaluated.

36. AUDITORS

The accounts in this annual report were prepared in accordance with generally accepted accounting principles in Hong Kong and have been audited by PricewaterhouseCoopers.

A resolution will be proposed at the forthcoming annual general meeting to re-appoint PricewaterhouseCoopers as the International Auditors of the Company.

A resolution to appoint Tianjian Xinde Certified Public Accountants as statutory auditors of the Company will be proposed at the forthcoming annual general meeting.

37. CORPORATE GOVERNANCE

To comply strictly with the *Companies Law*, *Securities Law* and the relevant requirements of laws and regulations promulgated by CSRC,

the Company has devoted a lot of efforts to perfecting the corporate governance structure of the Company, and to standardizing the Company's operation. The Company has fulfilled its information disclosure obligations in strict compliance with relevant requirements of HKEX and SSE and ensured the truth, accuracy and completeness of the information disclosed. The Company has compiled *The Regulation of the Shareholder's General Meeting*, *The Regulation of the Board of Directors*, *The Regulation of the Supervisory Committee*, *The Regulation of the General Manager*, and each description of functions and powers of the Audit Committee, the Strategy Development & Investment Committee and the Human Resources & Remuneration Committee, which were incorporated into *The Corporate Governance Regulations of the Company*.

The Company has ensured that all shareholders, especially major and minority shareholders 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 relevant laws and regulations, and no interventions in the Company's decision-making and operations by the controlling shareholder have been found.

During the year under review, all directors of the Company have attended the board meetings and shareholders' general meetings in a serious and responsible manner, actively participated in training, learned the relevant laws and regulations, and understood the rights, duties and responsibilities as a director.

The supervisors of the Company has performed their duties in a serious manner. They have supervised the Company's financial conditions, and the Company's senior management during performing their duties on behalf of the shareholders in terms of legality and compliance.

The Company has fulfilled its information disclosure obligations in strict compliance with the Listing Rules of HKEX. It has assigned the Secretarial 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 and analysts' conferences, inviting investors to visit the Company and through the Company's website.

The three independent directors have played an important role in the Board. Each of the independent directors is familiar with the conditions of the Company's business and operations and have attended board meetings and shareholders' general meetings in a serious and responsible manner. They are also a member of the Audit Committee, the Strategic Development & Investment Committee, and the Human Resources & Remuneration Committee. In compliance with the relevant requirements of HKEX, the connected transactions of the Company have been reviewed and confirmed by independent directors, who has given independent opinion to the shareholders of the Company.

By Order of the Board

Chen Chao

Chairman

Shenzhen, the PRC, 12 April, 2002



To the shareholders:

Pursuant to the Company Law of the People's Republic of China, the Listing Rules of the Stock Exchange of Hong Kong Limited ("Listing Rules") and the articles of association of the Company, the Supervisory Committee of Shenzhen Expressway Company Limited (the "Company") has performed faithfully its duties as prescribed by the articles of association of the Company during the year ended 31 December, 2001 (the "Year"). By adhering to the principle of good faith, we have contributed our efforts in our work with prudent and active endeavor to safeguard the interests of the Company and the shareholders.

During the year, the Supervisory Committee has convened two meetings, at which the report of the Supervisory Committee for the year 2000 was considered and passed, the financial statements for the year 2000 were reviewed, the reason for the decrease in toll income and traffic volume of NH107 and NH205 was discussed, and Articles 4, 9, 10 and 13 of the passed Regulation of the Supervisory Committee were revised. The Supervisory Committee has attended all the Board meetings and the general meeting, monitoring the procedure, resolutions of the Board and the general meeting and the Board's execution of the resolutions of the general meeting. It has visited the investment projects of the Company, participated in material activities of the Company, and put forward recommendations to the Board in respect of the operation, management and investment of the Company. It has monitored effectively various decisions made by the Board of Directors to ensure such decisions are in compliance with the laws and regulations of the State and the articles of association, the resolutions of annual general meeting of the Company, and are in the interests of the shareholders.

The members have also reviewed the accounts and other accounting information of the Company on time, and do not notice anything that is in contravention of relevant laws and regulations.

The Company issued 165,000,000 A Shares to the domestic investors on 6 December, 2001. The proceeds raised from the A Share issue is being invested, according to the construction progress, into Section B of Shenzhen Yanba Expressway which commenced construction in June, 2001. In the view of the Supervisory Committee, the actual investment project is in line with the proposed project in the Prospectus of the A Share issue.

During the Year, the Company transferred its 20% equity interest in Zhongyunjie Transportation Development to Shenzhen Transportation Service Company. In addition, Shenzhen Airport-Heao Expressway (Eastern Section) Company Limited, a 55% owned subsidiary of the Company, transferred 5% equity interest it held of Shenzhen Meiguan Expressway Company Limited to Shenzhen Freeway Development Company Limited. The supervisors consider that the terms of the above asset disposal or connected transaction are fair and reasonable, and do not notice any insiders transactions or asset losses they have caused or any harmful act against the interests of the shareholders and the Company.

During the Year, the Company was not involved in any material litigation of proceedings. There have been neither disputes between any Supervisors representing the Company and any of the Directors nor litigation instituted against any of the Directors during 2001. All the business activities were conducted in its ordinary and normal operations, and the terms of which were fair and reasonable to the shareholders.

The Supervisory Committee has examined the Directors' Report, 2001 accounts and the profit distribution scheme to be proposed in the 2001 Annual General Meeting. In our opinion, these reports have reflected the 2001 results and the assets position of the Company on a true and fair basis. We also consider that the directors, general managers and other senior management have adhered to the articles of association of the Company, Listing Rules and the principle of good faith in a prudent manner when they performed their duties. They have also acted sincerely for the benefit of the Company without any violation of the law and regulations. There have been no abuse of authority and no harmful act against the benefit of the Company or the interests of the shareholders and staff.

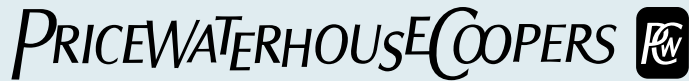
The Supervisory Committee consents with the report of the Board for the year 2001 and has confidence in the future prospects of the Company.

By Order of the Committee

Wang Ji Zhong

Chairman of the Supervisory Committee

Shenzhen, the PRC, 12 April, 2002



羅兵咸永道會計師事務所

PricewaterhouseCoopers

22nd Floor Prince's Building
Central Hong Kong
Telephone (852) 2289 8888
Facsimile (852) 2810 9888

TO THE SHAREHOLDERS OF SHENZHEN EXPRESSWAY COMPANY LIMITED

(a joint stock limited company incorporated in the People's Republic of China)

We have audited the accounts on pages 55 to 92 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The directors are responsible for the preparation of accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company and the Group as at 31st December 2001 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 12th April 2002

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31st December 2001



		2001	As restated 2000
	<i>Note</i>	RMB'000	RMB'000
Turnover	3	489,813	420,455
Other revenues	3	129,765	45,612
Depreciation and amortisation		(88,150)	(58,697)
Staff costs		(23,620)	(21,442)
Road maintenance expenses		(18,496)	(12,963)
Other operating expenses		(81,045)	(31,588)
		<hr/>	<hr/>
Operating profit	4	408,267	341,377
Finance costs	5	(41,647)	(34,195)
Share of profits less losses of jointly controlled entities		57,985	58,416
		<hr/>	<hr/>
Profit before taxation		424,605	365,598
Taxation	6	(140)	(219)
		<hr/>	<hr/>
Profit after taxation		424,465	365,379
Minority interests		(3,129)	(2,305)
		<hr/>	<hr/>
Profit attributable to shareholders	7	421,336	363,074
Transfer to reserves	19	(121,779)	(137,654)
		<hr/>	<hr/>
Profit retained for the year		299,557	225,420
		<hr/>	<hr/>
Dividends	8	218,070	201,570
		<hr/>	<hr/>
Earnings per share	9	RMB0.208	RMB0.180
		<hr/>	<hr/>

There are no other recognised gains or losses in the year other than those included above.



CONSOLIDATED BALANCE SHEET

As at 31st December 2001

		2001	As restated 2000
	Note	RMB'000	RMB'000
Fixed assets	11	4,231,541	3,367,868
Interests in jointly controlled entities	13	833,149	874,655
Construction in progress	14	64,175	663,913
Long-term loan	15	306,000	306,000
Current assets			
Inventories		5,815	5,156
Other receivables, prepayments and deposits		11,280	24,089
Other investments	16	369,637	160,208
Bank balances and cash		962,088	324,140
		1,348,820	513,593
Current liabilities			
Amount due to a jointly controlled entity	17	1,964	11,926
Other payables and accrued charges		208,717	63,146
Taxation payable		34	51
Current portion of long-term bank loans	20	120,000	—
Short-term bank loans, secured		100,000	150,000
		430,715	225,123
Net current assets		918,105	288,470
Total assets less current liabilities		6,352,970	5,500,906
Financed by:			
Share capital	18	2,180,700	2,015,700
Reserves	19	2,827,448	2,266,541
Retained earnings	19	137,174	55,687
Proposed final dividend	19	218,070	201,570
Shareholders' funds		5,363,392	4,539,498
Minority interests		49,343	49,527
Long-term liabilities	20	666,941	911,881
Deferred income	22	273,294	—
		6,352,970	5,500,906

Chen Chao

Director

Wu Yade

Director

BALANCE SHEET

As at 31st December 2001



		As restated
	2001	2000
	RMB'000	RMB'000
	<i>Note</i>	
Fixed assets	11	3,187,630
Investments in subsidiaries	12	1,037,870
Investments in jointly controlled entities	13	814,290
Construction in progress	14	64,066
Long-term loan	15	306,000
Current assets		
Inventories		5,244
Amount due from a jointly controlled entity	17	1,324
Other receivables, prepayments and deposits		11,088
Other investments	16	369,637
Bank balances and cash		854,960
		1,242,253
Current liabilities		
Amount due to a jointly controlled entity	17	—
Other payables and accrued charges		194,796
Current portion of long-term bank loans	20	120,000
Short-term bank loans, secured		100,000
		414,796
Net current assets		827,457
Total assets less current liabilities		6,237,313
Financed by:		
Share capital	18	2,180,700
Reserves	19	2,826,548
Retained earnings	19	95,641
Proposed final dividend	19	218,070
Shareholders' funds		5,320,959
Long-term liabilities	20	643,060
Deferred income	22	273,294
		6,237,313

Chen Chao

Director

Wu Yade

Director



CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December 2001

	Note	2001 RMB'000	2000 RMB 000
Net cash inflow from operating activities	23(a)	<u>535,845</u>	<u>345,909</u>
Returns on investments and servicing of finance			
Interest received		25,656	32,212
Interest paid		(49,207)	(51,627)
Dividends received from jointly controlled entities		56,191	52,822
Investment income received		11,142	10,518
Dividends paid		(201,570)	(124,820)
Dividends paid to minority shareholders in subsidiaries		(1,870)	(842)
Net cash outflow from returns on investments and servicing of finance		<u>(159,658)</u>	<u>(81,737)</u>
Taxation			
PRC taxation paid		<u>(157)</u>	<u>(117)</u>
Investing activities			
Purchase of fixed assets and payment for construction in progress		(264,643)	(295,233)
Increase in other investments		(233,649)	—
Loan to a jointly controlled entity		(25,252)	—
Increase in fixed bank deposits		(61,275)	—
Repayment of loans receivable from jointly controlled entities		55,858	13,706
Proceeds from sale of fixed assets		416	68
Net cash outflow from investing activities		<u>(528,545)</u>	<u>(281,459)</u>
Net cash outflow before financing		<u>(152,515)</u>	<u>(17,404)</u>
Financing	23(b)		
Issue of shares		604,128	—
New bank loans borrowed		559,060	650,000
Repayment of bank loans borrowed		(540,000)	(800,000)
Other long-term advances granted		106,000	168,000
Capital contribution from a minority shareholder of a subsidiary		—	1,500
Net cash inflow from financing		<u>729,188</u>	<u>19,500</u>
Increase in cash and cash equivalents		576,673	2,096
Cash and cash equivalents at 1st January		484,348	482,252
Cash equivalents reclassified as other investments		(160,208)	—
Cash and cash equivalents at 31st December		<u>900,813</u>	<u>484,348</u>
Analysis of balances of cash and cash equivalents:			
Bank balances and cash		962,088	324,140
Other investments		—	160,208
Fixed bank deposits with maturity over 3 months		(61,275)	—
		<u>900,813</u>	<u>484,348</u>



1. General

Shenzhen Expressway Company Limited (the “Company”) was established as a joint stock limited company in the People’s Republic of China (the “PRC”) on 30th December 1996. The principal activities of the Company and its subsidiaries (collectively the “Group”) and its jointly controlled entities are the development, operation and management of toll highways and expressways in the PRC.

2. Principal accounting policies

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants (“HK GAAP”). This basis of accounting differs in certain material respects from that used in the preparation of the Group’s statutory accounts in the PRC. The PRC statutory accounts of the Group have been prepared in accordance with accounting principles and financial regulations applicable to joint stock limited companies in the PRC. Appropriate restatements have been made to the PRC statutory accounts to conform with HK GAAP. Differences arising from the restatements are not incorporated in the Group’s accounting records.

The accounts are prepared under the historical cost convention except that, as disclosed in note 2(g) below, other investments are stated at fair value.

In the current year, the Group adopted the following Statements of Standard Accounting Practice (“SSAPs”) issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1st January 2001:

SSAP 9 (revised):	Events after the balance sheet date
SSAP 28:	Provisions, contingent liabilities and contingent assets
SSAP 29:	Intangible assets
SSAP 31:	Impairment of assets
SSAP 32:	Consolidated financial statements and accounting for investments in subsidiaries

The effect of adopting these new standards is set out in the accounting policies below.



2. Principal accounting policies (Continued)

(b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December. Subsidiaries are those entities in which the Group controls the composition of the board of directors, controls more than half the voting power or holds more than half of the issued share capital or paid-in capital.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill or goodwill/negative goodwill taken to reserve and which was not previously charged or recognised in the consolidated profit and loss account.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(c) Joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

The consolidated profit and loss account includes the Group's share of the results of jointly controlled entities for the year, and the consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entities and goodwill/negative goodwill (net of accumulated amortisation) on acquisition.

In the Company's balance sheet, the investments in jointly controlled entities are stated at cost less provision for impairment losses. The results of jointly controlled entities are accounted for by the Company on the basis of dividends received and receivable.

2. Principal accounting policies (Continued)

(d) Goodwill

Goodwill, which represents the excess of the cost of an acquisition over the fair values of the Group's share of the net assets of the acquired subsidiaries or jointly controlled entities at the date of acquisition, is recognised as an asset and is amortised using the straight-line method over its estimated useful life or 20 years, whichever is shorter. Any unamortised goodwill is charged to the profit and loss account upon disposal of the subsidiaries or jointly controlled entities.

Where an indication of impairment exists, the carrying amount of goodwill is assessed and written down immediately to its recoverable amount.

(e) Fixed assets

Fixed assets are stated at cost less accumulated depreciation/amortisation and accumulated impairment losses.

Depreciation of toll roads and amortisation of land use rights in relation to toll roads are calculated to write off their cost on an units-of-usage basis whereby depreciation and amortisation are provided based on the share of actual traffic volume for a particular period over the projected total traffic volume throughout the periods for which the Group is granted the rights to operate those roads. It is a Group policy to review regularly the projected total traffic volume throughout the operating periods of respective toll roads. If it is considered appropriate, independent professional traffic studies will be obtained. Appropriate adjustment will be made should there be a material change.

Depreciation of buildings, structures and leasehold improvements is calculated to write off their cost on a straight line basis over the unexpired periods of the leases or the unexpired periods of the rights to operate relevant roads or their expected useful lives, whichever is shorter. The principal annual rates are 3% to 7%.



2. Principal accounting policies (Continued)

(e) Fixed assets (Continued)

Other tangible fixed assets are depreciated at rates sufficient to write off their cost over their estimated useful lives on a straight-line basis taking into account its estimated residual value. The principal annual rates are as follows:

Equipment	
— traffic related	10%
— electronic and others	20%
Motor vehicles	17%

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements and major costs incurred in restoring fixed assets to their normal working condition to allow continued use of the overall assets are capitalised and depreciated in accordance with the aforementioned depreciation policy of the Group.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

(f) Construction in progress

Construction in progress is stated at cost which includes development expenditure and other direct costs, including interest cost on the related borrowed funds during the construction period, attributable to the development of toll roads, buildings and structures for the Group's own use. Costs are transferred to fixed assets upon completion.

2. Principal accounting policies (Continued)

(g) Other investments

Other investments are carried at fair value, which is calculated by reference to the respective stock exchanges quoted selling prices at the close of business on the balance sheet date. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of other investments are recognised in the profit and loss account. Profits or losses on disposal of other investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

(h) Inventories

Inventories mainly represent materials and spare parts for the repair and maintenance of expressways, and are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, represents the actual cost of purchase.

(i) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.



2. Principal accounting policies (Continued)

(j) Deferred taxation

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

(k) Other receivables

Provision is made against other receivables to the extent they are considered to be doubtful. Other receivables in the balance sheet are stated net of such provision.

(l) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and deposits held at call with banks.

(m) Translation of foreign currencies

Transactions in foreign currencies are translated into Renminbi at exchange rates quoted by the People's Bank of China at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated into Renminbi at rates of exchange quoted by the People's Bank of China at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

(n) Revenue recognition

Toll revenue from operation of toll roads, net of business tax and surcharge, is recognised on a receipt basis.

Construction management services income is recognised using the percentage of completion method by reference to the stage of completion of the construction. The stage of completion is measured by reference to the construction costs incurred to date as a percentage of total estimated costs.

2. Principal accounting policies (Continued)

(n) Revenue recognition (Continued)

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Investment income and dividend income is recognised when the right to receive the payment is established.

Government grants in relation to subsidies for compensation of toll revenue are recognised as income over the periods for which they are intended to subsidise in accordance with the policy as stated in note 2(o).

(o) Deferred income

Government grants provided to the Group in relation to subsidies for compensation of toll revenue of a specific toll road are deferred and amortised over a period for which the Group is granted the rights to operate such road.

The subsidies recognised in the profit and loss account for the year is calculated based on the attributable share of the total amount of the government grants intended to be compensated for the year with reference to actual traffic volume for the year and the projected total traffic volume throughout the period for which the Group is granted the rights to operate the road.

It is a Group policy to review regularly the projected total traffic volume throughout the operating periods of respective toll roads. If it is considered appropriate, independent professional traffic studies will be obtained. Appropriate adjustment will be made should there be a material change.

(p) Retirement benefit costs

The Group contributes to a defined contribution retirement scheme which is available to all employees. Contributions to the scheme by the Group and employees are calculated as a percentage of employee's basic salaries. The retirement benefit scheme cost charged to the profit and loss account represents contributions payable by the Group to the fund.

The Group's contributions to the defined contributions retirement scheme are expensed as incurred. The assets of the scheme are held separately from those of the Group in an independently administered fund. Details of the Group's retirement benefits are set out in note 27.



2. Principal accounting policies (Continued)

(q) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(r) Dividend

In accordance with the revised SSAP 9, the Group no longer recognises dividends proposed or declared after the balance sheet date as a liability at the balance sheet date. This change in accounting policy has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

As detailed in note 19, this change has resulted in an increase in opening retained earnings at 1st January 2001 by RMB201,570,000 (1st January 2000: RMB120,942,000) which is the reversal of the provision for 2000 (2000: provision for 1999) proposed final dividend previously recorded as a liability as at 31st December 2000 (2000: as at 31st December 1999) although not declared until after the balance sheet date.

3. Turnover and revenue

Revenues recognised during the year are as follows:

	2001	2000
	RMB'000	RMB'000
Turnover		
Income from toll roads	516,684	438,723
Less: taxes related to toll income	(26,871)	(18,268)
	489,813	420,455
Other revenues		
Interest income from bank deposits	6,389	12,891
Interest income from a long-term loan	19,267	19,321
Income from construction management services	63,131	—
Government subsidies (note 22)	26,706	—
Investment income from other investments	11,142	10,726
Others	3,130	2,674
	129,765	45,612
Total revenues	619,578	466,067

(a) Taxes related to toll income comprise:

- PRC Business Tax at 5% on toll income
- City Development Tax at 1% of PRC Business Tax
- Education Supplementary Tax at 3% of PRC Business Tax

(b) No segment information is presented as all turnover of the Group is toll income derived from the PRC.



NOTES TO THE ACCOUNTS

4. Operating profit

Operating profit is stated after crediting and charging the following:

	2001 RMB'000	2000 RMB'000
Crediting		
Realised gains on other investments	11,142	10,518
Unrealised gains on other investments	—	208
Net exchange gain	<u>181</u>	<u>—</u>
Charging		
Unrealised losses on other investments	24,220	—
Provision for staff welfare and bonus	7,246	5,317
Auditors' remuneration	1,110	1,000
Net exchange loss	—	648
Impairment of goodwill	9,060	—
Loss on disposal of interest in a subsidiary	1,035	—
Loss on disposal of fixed assets	3,206	22
Provision for doubtful debts		
— Other receivables	63	—
— Loans to a jointly controlled entity	<u>3,634</u>	<u>—</u>

5. Finance costs

	2001 RMB'000	2000 RMB'000
Interest on bank loans and other loans	49,207	51,627
Less: interest capitalised in construction in progress	<u>(7,560)</u>	<u>(17,432)</u>
	<u>41,647</u>	<u>34,195</u>

The capitalisation rate applied to funds borrowed and used for the development of construction in progress ranged between 5.427% and 6.03% (2000: 5.427% and 7.587%) per annum.

6. Taxation

The amount of taxation charged to the consolidated profit and loss account represents:

	2001	2000
	RMB'000	RMB'000
PRC enterprise income tax	140	93
Share of taxation attributable to a jointly controlled entity	<u>—</u>	<u>126</u>
	<u>140</u>	<u>219</u>

- (a) The Company is subject to PRC enterprise income tax rate of 15%, the preferential tax rate for enterprises established in the Shenzhen Special Economic Zone, as compared with the standard rate of 33%. Pursuant to the approvals granted by relevant authorities, the Company, one of its subsidiaries and one of its jointly controlled entities are exempted from PRC enterprise income taxes for the first five years in which they record assessable profits and a 50% reduction of the PRC enterprise income taxes for the five consecutive years thereafter. As the aforementioned companies are still within the full PRC enterprise income tax exemption period, no provision for PRC enterprise income tax has been made in the accounts in respect of these entities.

The PRC enterprise income taxes charged to the consolidated profit and loss account have been calculated on the assessable profits of the other subsidiary and jointly controlled entities for the year at the rate of taxation applicable to these companies.

- (b) No provision for Hong Kong profits tax has been made in the accounts as the Group has no income assessable to Hong Kong profits tax.
- (c) No provision for deferred taxation has been made in the accounts as the effect of timing differences is not material to the Group.

7. Profit attributable to shareholders

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of RMB415,653,000 (2000: RMB351,323,000).



8. Dividend

	2001	2000
	RMB'000	RMB'000
Final, proposed, of RMB0.10 (2000: RMB0.10) per ordinary share	<u>218,070</u>	<u>201,570</u>

- (a) The previously recorded final dividends proposed and declared after the balance sheet date but accrued in the accounts for year ended 31st December 1999 and 2000 were RMB120,942,000 and RMB201,570,000 respectively. Under the Group's new accounting policy as described in note 2(r), these have been written back against opening retained earnings as at 1st January 2000 and 2001 and are now charged in the period in which they were proposed.
- (b) At a meeting held on 12th April 2002 the directors declared a final dividend of RMB0.10 per ordinary share. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31st December 2002.

9. Earnings per share

The calculation of earnings per share is based on the Group's profit attributable to shareholders of RMB421,336,000 (2000: RMB363,074,000) and the weighted average number of 2,024,867,000 (2000: 2,015,700,000) ordinary shares in issue during the year.

No fully diluted earnings per share is presented as the Company has no dilutive potential shares.

10. Directors', supervisors' and senior management's emoluments

(a) Directors' remuneration

The aggregate amounts of emoluments payable to directors, supervisors and senior management during the year are as follows:

	2001	2000
	RMB'000	RMB'000
As directors		
— executive	—	—
— non-executive	318	318
As supervisors	—	—
For management		
— basic salaries and allowances	1,911	1,384
— bonuses	700	302
— contributions to the retirement scheme	71	50
	<u>3,000</u>	<u>2,054</u>

The emoluments for all the directors (executive and non-executive) and supervisors fell within the band of RMB nil to RMB1,060,000 (HK\$1,000,000) during the years ended 31st December 2001 and 2000.

No directors or supervisors waived emoluments in respect of the years ended 31st December 2001 and 2000.

During the years ended 31st December 2001 and 2000, no emoluments had been paid by the Group, either to the directors or supervisors, as an inducement to join or upon joining the Group or as a compensation for loss of office.

**10. Directors', supervisors' and senior management's emoluments (Continued)****(b) Five highest paid individuals**

The individuals whose emoluments were the highest in the Group for both years were either directors or supervisors, and their emoluments are reflected in the analysis presented above.

(c) Share Appreciation Right Scheme

The Share Appreciation Right Scheme was approved at the 2000 Annual General Meeting of the Company held on 6th March 2001. The total number of rights available under the Scheme is 60,471,000. Under the Scheme, the grantees are benefited by way of exercising their rights to the extent of the higher of share price over the pre-determined exercise price of the rights and receiving a reward in the form of cash from the Company. The amounts payable to the grantees under the Scheme are expensed in the profit and loss account as staff costs.

During the year, 38,832,500 rights were granted to the directors and senior management of the Company. Such rights are exercisable after 16th March 2002 and accordingly, no provision for the related expenses were required to be made in the accounts for the current year.

11. Fixed assets — Group

	Toll roads	Land use rights	Buildings, structures and leasehold improvements	Equipment	Motor vehicles	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost						
At 1st January 2001	2,817,509	493,681	141,790	97,812	12,646	3,563,438
Additions	5,395	—	4,509	1,701	1,509	13,114
Transfer from construction inprogress (note 14)	850,865	—	64,210	27,256	—	942,331
Disposals	—	—	(2,782)	(8,404)	(1,105)	(12,291)
At 31st December 2001	<u>3,673,769</u>	<u>493,681</u>	<u>207,727</u>	<u>118,365</u>	<u>13,050</u>	<u>4,506,592</u>
Accumulated depreciation						
At 1st January 2001	121,442	19,703	16,137	29,486	8,802	195,570
Charge for the year	56,393	8,878	8,035	12,360	2,484	88,150
Disposals	—	—	(1,020)	(6,687)	(962)	(8,669)
At 31st December 2001	<u>177,835</u>	<u>28,581</u>	<u>23,152</u>	<u>35,159</u>	<u>10,324</u>	<u>275,051</u>
Net book value						
At 31st December 2001	<u>3,495,934</u>	<u>465,100</u>	<u>184,575</u>	<u>83,206</u>	<u>2,726</u>	<u>4,231,541</u>
At 31st December 2000	<u>2,696,067</u>	<u>473,978</u>	<u>125,653</u>	<u>68,326</u>	<u>3,844</u>	<u>3,367,868</u>



11. Fixed assets — Company

	Toll roads	Land use rights	Buildings, structures and leasehold improvements	Equipment	Motor vehicles	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost						
At 1st January 2001	2,019,461	254,098	112,027	56,941	10,711	2,453,238
Additions	5,395	—	3,759	1,488	927	11,569
Transfer from construction inprogress (note 14)	850,865	—	61,000	25,530	—	937,395
Disposals	—	—	(2,782)	(7,469)	(1,105)	(11,356)
At 31st December 2001	2,875,721	254,098	174,004	76,490	10,533	3,390,846
Accumulated depreciation						
At 1st January 2001	104,822	14,010	11,817	11,841	7,853	150,343
Charge for the year	40,108	4,715	6,225	7,613	2,007	60,668
Disposals	—	—	(1,020)	(5,813)	(962)	(7,795)
At 31st December 2001	144,930	18,725	17,022	13,641	8,898	203,216
Net book value						
At 31st December 2001	2,730,791	235,373	156,982	62,849	1,635	3,187,630
At 31st December 2000	1,914,639	240,088	100,210	45,100	2,858	2,302,895

- (a) The toll roads and buildings of the Group are located in the PRC. The Group has the right to use the land on which the respective toll roads and buildings are erected for a period of 30 years from the date of establishment of the Company.

11. Fixed assets — Company (Continued)

- (b) According to the Group's policy to review regularly the projected total traffic volume throughout the operating periods of respective toll roads, the Group has appointed an independent professional institution to conduct studies to revise the projected traffic volume of of respective toll roads in the Group for the remaining operating periods. Appropriate adjustments to the projected traffic volume have been made. The depreciation of toll roads and the amortisation of land use rights of the Group for the year have been calculated based on the adjusted projected traffic volume. This is a change in accounting estimate and has been applied prospectively. This change has resulted in an increase in depreciation and amortisation charge of toll roads and land use rights for the year of RMB15,408,000 and RMB2,298,000 respectively and a decrease in profit for the year of RMB17,706,000 accordingly.

12. Investments in subsidiaries

	Company	
	2001	2000
	RMB'000	RMB'000
Unlisted investments, at cost	718,950	718,950
Advance to a subsidiary	318,920	310,316
	<u>1,037,870</u>	<u>1,029,266</u>

- (a) The following is a list of all subsidiaries as at 31st December 2001:

Name	Place of incorporation and nature of legal entity	Principal activities and place of operation	Interest held
Shenzhen Meiguan Highway Company Limited ("Meiguan")	PRC limited liability company	Construction, operation and management of Meiguan Expressway in Shenzhen, the PRC	*95%
Shenzhen Zhengyi Advertising Company Limited ("Zhengyi")	PRC limited liability company	Advertising agency	*60%

* Interests held directly by the Company



NOTES TO THE ACCOUNTS

12. Investments in subsidiaries (Continued)

- (b) Meiguan was previously 95% and 5% owned respectively by the Company and by Shenzhen Airport-Heao (Eastern Section) Expressway Company Limited (“Airport-Heao”), a 55% owned jointly controlled entity of the Company. During the year, Airport-Heao disposed of its 5% equity interest in Meiguan to Shenzhen Freeway Company Limited, the major shareholder of the Company, at a consideration of RMB75,062,000. Since then, Meiguan is a 95% directly owned subsidiary of the Company.
- (c) The advance of RMB318,920,000 (2000: RMB310,316,000) was made to Meiguan and is unsecured, non-interest bearing and is repayable out of the funds to be generated from its toll road project.

13. Interests in jointly controlled entities

	Note	Group		Company	
		2001 RMB'000	2000 RMB'000	2001 RMB'000	2000 RMB'000
Unlisted investments, at cost		—	—	355,660	355,660
Provision for impairment	(d)	—	—	(9,060)	—
		—	—	346,600	355,660
Share of net assets other than goodwill		365,459	363,665	—	—
Goodwill on acquisition of a jointly controlled entity less amortisation		9,060	9,060	—	—
Provision for impairment	(d)	(9,060)	—	—	—
		365,459	372,725	346,600	355,660
Advance to a jointly controlled entity	(b)	427,900	483,758	427,900	483,758
Loans to a jointly controlled entity	(c)	43,424	18,172	43,424	18,172
Provision for doubtful debts	(d)	(3,634)	—	(3,634)	—
		833,149	874,655	814,290	857,590

13. Interests in jointly controlled entities (Continued)

- (a) The following is a list of the principal jointly controlled entities as at 31st December 2001:

Name	Place of incorporation	Principal activities and place of operation	Percentage of interest in ownership/ voting power/ profit sharing
Shenzhen Airport-Heao Expressway (Eastern Section) Company Limited ("Airport-Heao")	PRC	Construction, operation and management of Jihe Expressway (East) in Shenzhen	*55%
Changsha Shenchang Expressway Company Limited ("Shenchang")	PRC	Construction, operation and management of Changsha Ring Road (Northwestern) in Changsha	*51%
Shenzhen Wutongling Ropeway Company Limited ("Wutongling")	PRC	Construction and management of a cable car project in Shenzhen	*40%

* *Interests held directly by the Company*

- (b) The advance was made to Airport-Heao and is unsecured, non-interest bearing and is repayable out of the funds to be generated from its toll road project.
- (c) The loans were advanced to Wutongling and are secured by the 55% equity interest in Wutongling held by its majority shareholder and various equipment and operating facilities of Wutongling. The loans are interest bearing at bank loan interest rate prevailing in the PRC market and have no fixed terms of repayment. Included in the balance was an amount of RMB25,000,000 in respect of the guaranteed banking facilities utilised by Wutongling as at 31st December 2001 and such amount was paid by the Company to the banks subsequent to the balance sheet date.



NOTES TO THE ACCOUNTS

13. Interests in jointly controlled entities (Continued)

(d) During the year, Wutongling has not yet commenced operation, provision for impairment was made against goodwill on acquisition of Wutongling of RMB9,060,000, and provision for doubtful debts of RMB3,634,000 was provided in respect of loans to Wutongling.

(e) Information on material jointly controlled entities

Financial information of Airport-Heao and Shenchang as at and for the year ended 31st December 2001 prepared under HK GAAP over which the Company has joint control is as follows:

	Airport-Heao		Shenchang	
	2001 RMB'000	2000 RMB'000	2001 RMB'000	2000 RMB'000
Profit and loss account				
Turnover	145,704	128,956	6,357	6,230
Operating profit/(loss)				
before taxation	112,219	107,381	(3,273)	751
Taxation	—	—	—	(248)
Profit/(loss) after taxation	112,219	107,381	(3,273)	503
Net assets				
Fixed assets	1,252,153	1,269,432	794,225	801,091
Investment securities	—	69,467	—	—
Other long-term assets	43	—	49	—
Current assets	19,362	27,133	5,662	3,242
Current liabilities	(9,159)	(3,580)	(3,323)	(3,654)
Net current assets/(liabilities)	10,203	23,553	2,339	(412)
Amounts due to owners	(646,303)	(892,060)	(599,886)	(600,679)
Net assets	616,096	470,392	196,727	200,000

14. Construction in progress

	Group		Company	
	2001	2000	2001	2000
	RMB'000	RMB'000	RMB'000	RMB'000
At 1st January	663,913	380,770	660,730	379,074
Additions	342,593	309,501	340,731	308,014
Transfer to fixed assets (<i>note 11</i>)	(942,331)	(26,358)	(937,395)	(26,358)
At 31st December	<u>64,175</u>	<u>663,913</u>	<u>64,066</u>	<u>660,730</u>

Construction in progress mainly comprises expenditures incurred on construction of toll roads not yet completed as at 31st December 2001.

15. Long-term loan — Group and Company

The long-term loan of RMB306,000,000 (2000: RMB306,000,000) was advanced to Changsha Ring Road Construction and Development Co., Ltd. ("Ring Road Co."), the joint venture partner of Shenchang, pursuant to a joint venture agreement dated 22nd July 1998. The purpose of the loan is to assist Ring Road Co. to finance part of its advance to Shenchang for construction of the underlying road project. The loan is unsecured and bearing interest at over five years loan interest rate quoted by the People's Bank of China from time to time. Ring Road Co. has pledged its 49% equity interest in Shenchang to the Company to secure its payment obligations of the interest of the loan. The loan is repayable in one lump sum by setting off against the Company's commitment to contribute the same loan amount to Shenchang in 2007.

16. Other investments — Group and Company

	2001	2000
	RMB'000	RMB'000
Other investments, at fair value	<u>369,637</u>	<u>160,208</u>



NOTES TO THE ACCOUNTS

16. Other investments — Group and Company (Continued)

Other investments mainly represent investments entrusted in securities companies in the PRC, two of which, Guoxin Securities Co., Ltd (“Guoxin Securities”) and China Eagle Securities Co., Ltd (“China Eagle Securities”) have related approved licences of securities business and entrusted financing in the PRC. The entrusted investments mainly comprised government bonds and equity securities listed on the Shanghai Stock Exchange and the Shenzhen Stock Exchange of the PRC. Details are as follows:

Securities company	Investment		Investment categories
	costs	Fair value	
	RMB'000	RMB'000	
Guoxin Securities	200,000	202,71	Government bonds
China Eagle Securities	90,000	91,571	Government bonds and equity securities
Huarong Trading (Group) Company	<u>103,857</u>	<u>75,349</u>	Equity securities
	<u>393,857</u>	<u>369,637</u>	

17. Amount due from/to a jointly controlled entity — Group and Company

The amount mainly represents toll income collected by the Group on behalf of Airport-Heao, a jointly controlled entity net of toll income collected by the jointly controlled entity on behalf of the Group. The amount is unsecured, interest free and repayable on a monthly basis.

During the year, toll income collected by the Group on behalf of the jointly controlled entity amounted to RMB64,313,000 (2000: RMB53,425,000), and toll income collected by the jointly controlled entity on behalf of the Group amounted to RMB53,537,000 (2000: RMB46,157,000). All toll income collected is wholly repaid to each other on a monthly basis without any handling charges.

18. Share capital

	Registered, issued and fully paid				Total RMB'000
	Shares held by the State RMB'000	Shares held by legal persons RMB'000	PRC listed Renminbi ordinary shares ("A shares") RMB'000	Hong Kong listed foreign shares ("H shares") RMB'000	
At 31st December 2000	745,780	522,420	—	747,500	2,015,700
Transfer of shares by shareholders (<i>note (b)</i>)	(91,000)	91,000	—	—	—
Issue of shares (<i>note (c)</i>)	—	—	165,000	—	165,000
At 31st December 2001	<u>654,780</u>	<u>613,420</u>	<u>165,000</u>	<u>747,500</u>	<u>2,180,700</u>

- (a) Pursuant to the Company's articles of association, all shares are of nominal value of RMB1 each and are all registered ordinary shares carrying equal rights.
- (b) During the year, with the approval from relevant government authorities, the state-owned shares of the Company of 91,000,000 shares held by Shenzhen Freeway Company Limited, the major shareholder of the Company, on behalf of the Ministry of Communication were converted into state-owned legal person shares which were subsequently transferred to Huajian Transportation and Economic Development Centre, a state-owned enterprise.
- (c) On 13th December 2001, 165,000,000 ordinary shares of RMB1 each ("A shares") were issued at a premium of RMB3.66 each. The amount of the proceeds in excess of the total nominal value of the shares issued, after deducting issuing expenses, has been credited to the capital reserve account of the Company. The A shares were listed on the Shanghai Stock Exchange on 25th December 2001.



NOTES TO THE ACCOUNTS

19. Reserves

Group	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Discretionary surplus reserve RMB'000	Total RMB'000	Retained earnings RMB'000
At 1st January 2000, as previously reported	1,620,881	82,458	82,458	342,190	2,127,987	31,837
Effect of adopting SSAP 9 (Revised) (note 2(r))	—	—	—	—	—	120,942
At 1st January 2000, as restated	1,620,881	82,458	82,458	342,190	2,127,987	152,779
Share of capital contribution from a minority shareholder of a subsidiary	900	—	—	—	900	—
Profit for the year	—	—	—	—	—	363,074
Transfer from/(to) other reserves	—	33,922	33,922	69,810	137,654	(137,654)
1999 final dividend paid	—	—	—	—	—	(120,942)
At 31st December 2000	<u>1,621,781</u>	<u>116,380</u>	<u>116,380</u>	<u>412,000</u>	<u>2,266,541</u>	<u>257,257</u>
Representing:—						
Retained earnings at 31st December 2000						55,687
2000 final dividend proposed						<u>201,570</u>
At 31st December 2000						<u>257,257</u>
Company and subsidiaries	1,621,781	116,380	116,380	412,000	2,266,541	240,541
Jointly controlled entities	—	—	—	—	—	16,716
At 31st December 2000	<u>1,621,781</u>	<u>116,380</u>	<u>116,380</u>	<u>412,000</u>	<u>2,266,541</u>	<u>257,257</u>

19. Reserves (Continued)

Group	Capital reserve	Statutory surplus reserve	Statutory public welfare fund	Discretionary surplus reserve	Total	Retained earnings
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1st January 2001, as previously reported	1,621,781	116,380	116,380	412,000	2,266,541	55,687
Effect of adopting SSAP 9 (Revised) (note 2(r))	—	—	—	—	—	201,570
At 1st January 2001, as restated	1,621,781	116,380	116,380	412,000	2,266,541	257,257
Premium on issue of A shares	439,128	—	—	—	439,128	—
Profit for the year	—	—	—	—	—	421,336
Transfer from/(to) other reserves	—	40,194	40,194	41,391	121,779	(121,779)
2000 final dividends paid	—	—	—	—	—	(201,570)
At 31st December 2001	<u>2,060,909</u>	<u>156,574</u>	<u>156,574</u>	<u>453,391</u>	<u>2,827,448</u>	<u>355,244</u>
Representing:—						
Retained earnings at 31st December 2001						137,174
2001 final dividend proposed						218,070
At 31st December 2001						<u>355,244</u>
Company and subsidiaries	2,060,909	156,574	156,574	453,391	2,827,448	336,385
Jointly controlled entities	—	—	—	—	—	18,859
At 31st December 2001	<u>2,060,909</u>	<u>156,574</u>	<u>156,574</u>	<u>453,391</u>	<u>2,827,448</u>	<u>355,244</u>

19. Reserves (Continued)

- (a) Pursuant to relevant PRC regulations and the articles of association of the Company, profit after taxation shall be appropriated in the following sequence:
- (i) make up accumulated losses;
 - (ii) transfer 10% of the profit after taxation to the statutory surplus reserve. When the balance of the statutory surplus reserve reaches 50% of the share capital, such transfer need not be made;
 - (iii) transfer 10% of the profit after taxation to the statutory public welfare fund;
 - (iv) transfer to the discretionary surplus reserve an amount as may be approved by the shareholders in annual general meeting;
 - (v) distribute dividends to shareholders.

The amounts of transfer to the statutory surplus reserve and statutory public welfare fund shall be based on profit after taxation in the statutory accounts of the Company prepared in accordance with PRC accounting standards.

(b) Capital reserve

Capital reserve mainly represents premium on issue of shares net of issuing expenses. According to relevant PRC regulations, capital reserve can only be used to increase share capital.

(c) Statutory surplus reserve and discretionary surplus reserve

According to relevant PRC regulations, statutory surplus reserve and discretionary surplus reserve can be used to make up losses or to increase share capital.

(d) Statutory public welfare fund

According to relevant PRC regulations, the use of the statutory public welfare fund is restricted to capital expenditures for employees welfare facilities. The statutory public welfare fund is not available for distribution to shareholders except on liquidation.



NOTES TO THE ACCOUNTS

19. Reserves (Continued)

- (e) Profit distributable to shareholders

Pursuant to relevant PRC regulations and the articles of association of the Company, profit distributable to shareholders shall be the lower of the accumulated distributable profits determined according to PRC accounting standards as stated in the PRC statutory accounts and the accumulated distributable profits adjusted according to HK GAAP. In the PRC accounts as at 31st December 2001, profit distributable to shareholders of the Company, after taking into account the final dividend declared for the year, amounted to RMB62,088,000 (2000: Nil).

20. Long-term liabilities — Group and Company

	Group		Company	
	2001	2000	2001	2000
	RMB'000	RMB'000	RMB'000	RMB'000
Bank loans, secured	650,000	600,000	650,000	600,000
Current portion of long-term bank loans	(120,000)	—	(120,000)	—
	530,000	600,000	530,000	600,000
Other loans, secured <i>(note (a))</i>	19,060	—	19,060	—
Other long-term advances <i>(note (b))</i>	94,000	288,000	94,000	288,000
Advance from a minority shareholder of a subsidiary <i>(note (c))</i>	23,881	23,881	—	—
	666,941	911,881	643,060	888,000

- (a) Such loans were borrowed from the Spanish Government through the China Construction Bank and were interest bearing at a range of 1.8% to 7.17% per annum. The loans are not wholly repayable within five years and are guaranteed by Shenzhen Freeway Development Company Limited (“Shenzhen Freeway”), the major shareholder of the Company.

20. Long-term liabilities — Group and Company (Continued)

- (b) Other long-term advances were obtained from local government authorities as an inducement for the Company to participate in a toll road project. The advances are unsecured, non-interest bearing and have no fixed terms of repayment. In the opinion of the directors, these advances are not repayable within five years.

Such advances included an amount of RMB24,000,000 which was received by Shenzhen Freeway on behalf of the Company during the year.

- (c) The advance was granted to Meiguan, a subsidiary of the Company, by a minority shareholder of Meiguan. The advance is unsecured, non-interest bearing and is repayable out of the funds to be generated from Meiguan's toll road project.

The analysis of long-term liabilities is as follows:

	Group		Company	
	2001 RMB'000	2000 RMB'000	2001 RMB'000	2000 RMB'000
Bank loans wholly repayable within five years	650,000	600,000	650,000	600,000
Other loans not wholly repayable within five years	19,060	—	19,060	—
Other long-term advances not wholly repayable within five years	94,000	288,000	94,000	288,000
Advances from a minority shareholder not wholly repayable within five years	23,881	23,881	—	—
	786,941	911,881	763,060	888,000
Current portion of long-term bank loans	(120,000)	—	(120,000)	—
	666,941	911,881	643,060	888,000


NOTES TO THE ACCOUNTS
21. Borrowings

At 31st December 2001, the Group's bank loans and other borrowings were repayable as follows:

	Bank loans and other loans		Other long-term advances and advances from a minority shareholder	
	2001	2000	2001	2000
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	220,000	150,000	—	—
In the second year	—	120,000	—	—
In the third to fifth year	530,000	480,000	—	—
After the fifth year	19,060	—	117,881	311,881
	<hr/>	<hr/>	<hr/>	<hr/>
Total	769,060	750,000	117,881	311,881
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

As at 31st December 2001, total banking facilities available to the Group amounted to RMB2,100,000,000 (2000: RMB1,950,000,000) of which the Group had utilised to the extent of bank loans of RMB750,000,000 (2000:RMB750,000,000). The banking facilities are secured by the operating rights for collecting toll income from National Highway No. 107 (Shenzhen Section) and National Highway No. 205 (Shenzhen Section).

22. Deferred income — Group and Company

	Group and Company	
	2001	2000
	RMB'000	RMB'000
At 1st January	—	—
Transfer from other long-term advances (<i>note 23(b)</i>)	300,000	—
Government subsidy income recognised for the year (<i>note 3</i>)	(26,706)	—
	<hr/>	<hr/>
At 31st December	273,294	—
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22. Deferred income — Group and Company (Continued)

Deferred income represents government grants provided to the Company in relation to subsidies for compensation of toll revenue of the Yanba Expressway Section A (the “Expressway”), as a result of the anticipated insufficient traffic volume caused by the early construction of the Expressway as requested by the Shenzhen Municipal Government to fulfil its overall town planning requirements. Pursuant to a circular No. Shenjitouzi [2001]764 issued by the Shenzhen Municipal Government dated 21st November 2001, Shenzhen Municipal Government approved the non-repayment of long-term advances totalling RMB300,000,000 previously provided to the Company, and the conversion of these advances to subsidies for compensation of toll revenue to the Company. Such government grants are recognised in the profit and loss account according to the Group’s accounting policies as shown in note 2(o) over the period for which the Company is granted the right to operate the Expressway.

23. Notes to the consolidated cash flow statement

(a) Reconciliation of operating profit to net cash inflow from operating activities

	2001 RMB'000	2000 RMB'000
Operating profit	408,267	341,377
Depreciation and amortisation	88,150	58,697
Impairment of goodwill	9,060	—
Provision for doubtful debts	3,697	—
Pre-operating expenses written off	—	2,737
Loss on disposal of fixed assets	3,206	22
Increase in inventories	(659)	(5,156)
Decrease/(increase) in other receivables, prepayments and deposits	12,746	(3,475)
(Decrease)/increase in amount due to a jointly controlled entity	(9,962)	11,926
Increase/(decrease) in other payables and accrued charges	60,624	(17,489)
Interest income from bank deposits	(6,389)	(12,891)
Interest income from a long-term loan	(19,267)	(19,321)
Investment losses/(income) from other investments	13,078	(10,518)
Government subsidies	(26,706)	—
	<hr/>	<hr/>
Net cash inflow from operating activities	535,845	345,909



NOTES TO THE ACCOUNTS

23. Notes to the consolidated cash flow statement (Continued)

(b) Analysis of changes in financing during the year

	Share capital and capital reserve		Minority interests		Bank loans and other long-term advances	
	2001	2000	2001	2000	2001	2000
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1st January	3,637,481	3,636,581	49,527	47,464	1,061,881	1,043,881
Issue of shares	604,128	—	—	—	—	—
Capital contribution from a minority shareholder of a subsidiary	—	900	—	600	—	—
Minority interests in share of profits	—	—	3,129	2,305	—	—
Dividend paid/payable to minority shareholders of subsidiaries	—	—	(3,313)	(842)	—	—
New loans granted	—	—	—	—	559,060	650,000
New advances granted	—	—	—	—	106,000	168,000
Repayments of loans borrowed	—	—	—	—	(540,000)	(800,000)
Transfer from other long-term advances to deferred income	—	—	—	—	(300,000)	—
At 31st December	<u>4,241,609</u>	<u>3,637,481</u>	<u>49,343</u>	<u>49,527</u>	<u>886,941</u>	<u>1,061,881</u>

24. Contingent liabilities

	Group		Company	
	2001	2000	2001	2000
	RMB'000	RMB'000	RMB'000	RMB'000
Guarantees given to banks in respect of bank loans granted to Wutongling, a jointly controlled entity	—	25,000	—	25,000

The Company provides guarantees to banks in respect of bank facilities granted to Wutongling. As at 31st December 2001, these facilities were utilised by Wutongling to the extent of RMB25,000,000 (2000: RMB25,000,000). Such amount was repaid to the banks by the Company subsequent to the balance sheet date, and has been recognised as a liability as at 31st December 2001.

25. Commitments

As at 31st December 2001, the Group and the Company had the following capital commitments for construction of expressways:

	2001	2000
	RMB'000	RMB'000
Contracted but not provided for	311,509	129,390
Authorised but not contracted for	722,666	1,152,150
	<u>1,034,175</u>	<u>1,281,540</u>

The jointly controlled entities had no capital commitments as at 31st December 2001.

26. Related party transactions

Save as disclosed in these accounts, the Group had not entered into any other material transactions with related parties during the year.

**27. Retirement benefits**

The Group participates in the Shenzhen Municipal Retirement Scheme managed by Shenzhen Social Security Bureau. Pursuant to relevant provisions, the Group is required to make a monthly contribution equivalent to 12% and 7% respectively (2000: 12% and 7% respectively) of the monthly salary in respect of its full-time and temporary employees. The Bureau is responsible for pension payments to the retired employees of the Group and the Group has no further obligations. For the year ended 31st December 2001, total contributions made in this connection amounted to RMB2,662,000 (2000: RMB2,026,000).

28. Comparative figures

Certain comparative figures have been reclassified as to conform with current year's presentation.

29. Approval of accounts

The accounts were approved by the board of directors on 12th April 2002.

SUPPLEMENTARY INFORMATION

For the year ended 31st December 2001



Reconciliation of accounts

The Group has prepared a separate set of accounts for the year ended 31st December 2001 in accordance with PRC accounting standards. The major differences between the accounts prepared under PRC and HK accounting standards are summarised as follows:

	Profit attributable to the shareholders for the year ended 31st December 2001 RMB'000	Net assets as at 31st December 2001 RMB'000
As per PRC statutory accounts	401,937	5,070,546
Impact of HK GAAP adjustments:		
Amortisation of land use rights	13,654	70,488
Realised and unrealised gains on other investments	4,080	4,288
Reversal of pre-operating expenses written-off	1,355	—
Reversal of dividend declared for 2001 after the balance sheet date	—	218,070
Others	310	—
	<hr/>	<hr/>
As restated after HK GAAP adjustments	<u>421,336</u>	<u>5,363,392</u>



DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Directors

Mr. CHEN Chao, aged 46, engineer, is the chairman of the Board, chairman of the Strategic Development & Investment Committee, chairman of Human Resources & Remuneration Committee of the Company. Mr. Chen graduated from Wuhan University of Transportation Technology (武漢交通科技大學) and obtained a bachelor's degree in engineering. Then he served as the deputy director of the Highway Bureau, the secretary to the deputy minister of the Ministry of Communications and the deputy general manager of Zhong Tong (Group) Industry & Trade Co. which was under the supervision of the Ministry of Communications. Mr. Chen has more than twenty years of experience in the transportation industry. He had been the general manager of the Company since the establishment of the Company till January, 2000 and is currently responsible for the overall management and strategic planning of the Company. Since April, 1994, Mr. Chen has been the general manager of Shenzhen Freeway Development Company. Since March, 2000, he has been the vice chairman and chief executive officer of Shenzhen International Holdings Limited. He is also the vice chairman of Shenzhen Hi-Tech Holdings Limited, chairman of China Southern Glass Holdings Company Limited and director of Shenzhen Chuangxin Technology and Investment Company Limited.

Mr. WU Ya De, aged 38, is director and the acting general manager of the Company. Mr. Wu graduated from the Administration Institute of Guangdong Province (廣東行政學院) in 1987. He served as the chief of the administration department of Shenzhen Roads Bureau, manager of a toll road company, the general manager and chairman of Shenzhen Shengguanghui Highway Development Company. Mr. Wu is also the vice chairman of the Labour Union of Shenzhen Roads Bureau.

Ms. TAO Hong, aged 39, senior accountant, is the director and member of the Strategic Development & Investment Committee of the Company. She graduated from Xi'an University of Highways and Communications (西安公路交通大學) and obtained a bachelor's degree and a master's degree in finance and accounting in 1984 and 1990, respectively. Ms. Tao has many years of experience in financial management. She had been the chief accountant of the Company, being responsible for the financial management and planning of the Company. She was the general manager of the Company from January, 2000 to 31 December, 2001. She is the general economist of Shenzhen Freeway Development Company Limited.

Mr. ZHANG Rong Xing, aged 38, engineer, is the director and company secretary of the Company. Mr. Zhang graduated from South China University of Technology (華南理工大學) and obtained a bachelor's degree and a master's degree in mechanical engineering in 1985 and 1988, respectively. He worked in large Chinese-foreign joint ventures and was responsible for technology, administration and management before he joined Shenzhen Freeway Development Company in 1993 and served as chief of the Personnel Department and deputy director of the office for the restructuring of Shenzhen Freeway Development Company. Since the establishment of the Company, he has been the company secretary of the Company. Mr. Zhang is mainly responsible for the planning, supervision, coordination and investor relations.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT



Mr. ZHONG Shan Qun, aged 37, engineer, is the director of the Company. Mr. Zhong graduated from Changsha Institute of Communications (長沙交通學院) in 1985, with a bachelor's degree in civil engineering and economics. Mr. Zhong worked in the Research Institute of the Highway System Engineering of Changsha Institute of Communications before he joined Shenzhen Freeway Development Company in May 1993. He served as the deputy manager and manager of the Engineering Department and assistant to general manager of Shenzhen Freeway Development Company. He is currently the deputy general manager and chairman of the Labour Union of Shenzhen Freeway Development Company.

Mr. SHI Da Qing, aged 36, engineer, is director and member of the Audit Committee of the Company. Mr. Shi graduated from Southeast China University (東南大學) with a bachelor's degree in engineering in 1987. In 1992, he graduated from Tongji University (同濟大學) with a master's degree in civil engineering. Mr. Shi worked in the Highway Planning and Design Institute of the Ministry of Communications and then joined Guangdong Roads Company in 1989 as the manager of the contracting department. Since January, 1996, he has been the deputy general manager of Guangdong Roads Company.

Mr. LIN Xiang Ke, aged 45, accountant, is director, member of the Audit Committee, and member of the Strategic Development & Investment Committee of the Company. Mr. Lin has been working in various enterprises in the PRC and has extensive experience in finance and management. Mr. Lin worked as the deputy director of the Finance Department and deputy director of the Audit Department. He is currently the chairman of Shen Guang Hui Highway Development Company.

Dr. HO Chung Tai, Raymond MBE., J.P., aged 62, is an independent director of the Company. He graduated from the City University of London, United Kingdom and obtained a doctorate's degree in civil engineering. Mr. Ho has 39 years' extensive experience in large infrastructure projects. He is member of the Legislative Council of the Hong Kong Special Administrative Region, the joint chairman of Ho Wang Group, joint chairman of Capital China Group and deputy chairman of Guangdong Daya Bay Nuclear Plant Safety Consultative Committee.

Mr. CHIU Chi Cheong, Clifton, aged 47, a certified public accountant in the USA, is an independent director, chairman of the Audit Committee, and member of the Strategic Development & Investment Committee of the Company. He graduated from the University of Southern California with an MBA degree. Mr. Chiu has extensive experience in finance, securities and accounting. Mr. Chiu has been member of Shenzhen Political Consultative Committee since March 1994. He has been vice chairman of Takeovers and Mergers Panel of the Securities and Futures Commission since January, 1996 and the vice chairman of the Growth Enterprise Market Listing Committee of the Stock Exchange of Hong Kong Limited since August, 1999. Mr Chiu is currently the managing director of Harvest (Holdings) Co. Ltd..



DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Li Kwok Wing, Meocre, aged 46, accountant, is an independent director, member of the Audit Committee, member of the Human Resources and Remuneration Committee of the Company. He received a Bachelor of Commerce Degree, with a distinction, from University of Alberta, Canada, and is member of the Public Certified Accountant Association of UK and the Hong Kong Public Certified Accountant Association respectively. Mr. Li has extensive experience in accounting, investment banks, and business administration. Mr. Li was the accountant, manager, partner and the managing director of Arthur Anderson in charge of its business in the PRC and Hong Kong. He was the managing director of NatWest Securities Asia from 1995 to 1998 and the chief executive of ICEA from 1998 to early 2002. He is the founder and has been the chief executive of Alpha Alliance Finance Holdings Limited since April, 2002. .

Ms. Zhang Yang, aged 37, political officer, was a director of the Company. Ms. Zhang graduated from Lanzhou University and obtained a bachelor's degree in economics in 1987. Then she worked at the Ministry of Aviation and joined Huajian Transportation and Economic Development Center in 1994, working as project manager and manager. Ms. Zhang is currently the assistant to general manager and the manager of the Securities Department of Huajian Transportation and Economic Development Center, the executive director of Sichuan Expressway Company Limited. She once was the director of Hunan Changyong Expressway Company Limited

Supervisors

Mr. WANG Ji Zhong, aged 54, senior accountant, is the chairman of the Supervisory Committee of the Company. Mr. Wang graduated from the Institute of Industrial Management in Guizhou Province. He has worked in various enterprises for more than thirty years, and has extensive work experience. Mr. Wang worked in Shenzhen Investment and Management Co., and was the deputy director of Industry and Transportation Department and director of the Finance Department. Mr. Wang has been the deputy general manager of Shenzhen Freeway Development Company Limited since October, 1997.

Mr. WANG Shan, aged 31, accountant, is a supervisor of the Company. He graduated from Changsha Institute of Communications (長沙交通學院) with a bachelor's degree in 1993. Mr. Wang worked in the Finance Department of Shenzhen Roads Bureau. He is the head of the Finance Department of Shen Guang Hui Highway Development Company.

Mr. Li Jian, aged 43, is the supervisor of the Company. Mr. Li graduated from Changsha Institute of Communications (長沙交通學院) and obtained a bachelor's degree in mechanical engineering. Mr. Li joined Shenzhen Freeway Development Company Limited in November, 1994 and was the officer of the Administration Department. Upon the establishment of the Company, he served as the manager of the Operation and Management Department. Mr. Li is currently the manager of the Investment & Development Department of the Company.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT



Senior Management

Mr. WU Xian, aged 43, engineer, is the deputy general manager of the Company. Mr. Wu graduated from the Xi'an University of Highways and Communications (西安公路交通大學) in 1982 and obtained a bachelor's degree in civil engineering. He joined Shenzhen Freeway Development Company in 1995 and was a deputy general manager. He has served as the deputy general manager of the Company since its establishment, mainly responsible for the road asset management, communications, and training of the Company. Mr. Wu is also vice chairman of Shenzhen Zhengyi Advertising Company Limited and director of Shenzhen Wutongling Cableway Company Limited.

Mr. WANG Xue Feng, aged 40, senior economist, is the deputy general manager and chief operation officer of the Company. Mr. Wang graduated from Central China University of Agriculture (華中農業大學) in 1983 and obtained a bachelor's degree in mechanical engineering and economics. He worked in the local governmental departments in Hubei Province. Mr. Wang joined Shenzhen Freeway Development Company in 1995 and was the manager of the Personnel Department. Mr. Wang is now responsible for the operational management of the toll roads. He is the chairman of Shenzhen Meiguan Expressway Company Limited and Shenzhen Airport-Heao Expressway (Eastern Section) Company Limited, supervisor of Changsha Shenchang Expressway Company Limited.

Mr. FAN Li Ping, aged 38, senior engineer, is the deputy general manager and chief project management officer of the Company. Mr. Fan graduated from Chongqing Institute of Architecture and Engineering (重慶建築工程學院) in 1982 and obtained a bachelor's degree in engineering. He worked in the No.1 Highway Survey, Planning and Design Institute of the Ministry of Communications (交通部第一公路勘察設計院). Mr. Fan joined Shenzhen Freeway Development Company in 1994 and was engineer, senior engineer, and manager of the Contracting Department of the Administration Office of Jihe Airport-Heao Expressway (Eastern Section). Upon the establishment of the Company, he served as the deputy manager of the Department of Engineering, manager of the Operations and Development Department of the Project Administration Office of Jihe Expressway (Western Section) and the deputy general manager of the Project Administration Office of Jihe Expressway (Western Section). Mr. Fan has extensive experience in project construction and management, and is now responsible for the construction management of Yanba Expressway.

Mr. XU Mei Sheng, aged 58, senior engineer, is the chief engineering and technology officer of the Company. Mr. Xu graduated from Hunan University in 1968 and obtained a bachelor's degree of civil engineering. He served as the senior engineer of Shenzhen Highway Administration Department and the head of Shenzhen Highway Administration Office. In December, 1993, Mr. Xu joined Shenzhen Freeway Development Company and has been the chief engineer since then. Mr. Xu has more than 30 years of experience in highway, and he is currently responsible for the technical development and management of the expressway projects of the Company.



NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 2001 Annual General Meeting (the "AGM") of Shenzhen Expressway Company Limited (the "Company") will be held at the conference room of the Company on 19/F, Tower A, United Plaza, No. 5022 Binhe Road North, Shenzhen, on 31 May, 2002 (Friday) at 10:00 a. m. for the following purposes:

1. To consider and approve the report of the Directors for the year 2001;
2. To consider and approve the report of the Supervisory Committee for the year 2001;
3. To consider and approve the audited accounts for the year 2001;
4. To consider and approve the proposed distribution scheme of profits for the year 2001 (including declaration of the final dividend);
5. To consider and approve the budget plan for the year 2002;
6. To consider and approve the emoluments of the directors and supervisors for the year 2002;
7. To consider and approve the amendments to *The Regulation of Shareholders' General Meeting* of the Company;
8. To consider and approve the re-appointment of Messrs. PricewaterhouseCoopers (Certified Public Accountants, Hong Kong) as the international auditors and the appointment of Tianjian Xinde Certified Public Accountants (Certified Public Accountants, the PRC) as the statutory auditors of the Company, respectively, and to authorise the Board of Directors of the Company to fix their remuneration;
9. To consider and approve the following resolution as a special resolution:

That Article 18 and Article 21 of the articles of association of the Company are replaced in their entirety with the following:

"Article 18 Three promoters subscribed for 1,268,200,000 domestic capital shares upon incorporation of the Company.

On 21 February, 1997, the Company obtained approval from the State Council Securities Committee to issue 747,500,000 overseas listed foreign capital shares (H Shares), which were subscribed for in Hong Kong dollars and listed overseas, to foreign investors. The same were listed on The Stock Exchange of Hong Kong Limited on 12 March, 1997.

On 29 November, 2001, the China Securities Regulatory Commission approved the issue of additional 165,000,000 RMB-denominated ordinary shares (A Shares), which were subscribed for in Renminbi and listed in the PRC, to domestic investors. The same were listed on the Shanghai Stock Exchange on 25 December, 2001.

"Article 21 The registered capital of the Company is RMB2,180,700,000."

10. To consider and approve the following resolutions as special resolutions:
 - a. subject to paragraphs c and d, pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time) and the Company Law of the People's Republic of China (the "PRC"), the exercise by the Board of directors of the

NOTICE OF ANNUAL GENERAL MEETING



Company with all the powers of the Company to allot or issue or otherwise deal with new shares, either separately or concurrently during the Relevant Period and the exercise of powers by the Board of directors to determine the terms and conditions for the allotment or issue or otherwise dealing with new shares including the following terms are hereby generally and unconditionally approved:

- (1) class and quantity of the new shares to be issued;
 - (2) issue price of new shares;
 - (3) the starting and closing time for the allotment or issue or otherwise dealing with the new share;
 - (4) class and quantity of the new shares to be issued to existing shareholders; and
 - (5) to make or grant offers, agreements and options when the exercise of such powers might be required;
- b. according to the approval in paragraph a, the Board of directors of the Company shall be authorized during the Relevant Period to make or grant offers, agreements and options which would or might be exercised after the end of the Relevant Period;
- c. the aggregate nominal amount of domestic capital shares and overseas listed foreign capital shares allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Board of directors of the Company pursuant to the approval in paragraph a, otherwise than pursuant to issue of shares by conversion of the surplus reserve into capital in accordance with the Company Law of PRC and the articles of association of the Company, shall not exceed twenty percent (20%) of each of the issued domestic capital shares and overseas listed foreign capital shares of the Company as of the date of this resolution;
- d. the Board of directors of the Company have (1) to comply with the relevant Laws and Regulations of PRC and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time), (2) to obtain approvals from the China Securities Regulatory Commission and other relevant authorities of the PRC upon the exercise of the powers pursuant to paragraph a above;
- e. for the purpose of this resolution: "Relevant Period" means the period from the passing of this Resolution until whichever is the earlier of:
- (1) the conclusion of the next Annual General Meeting of the Company;
 - (2) the expiration of the period within which the next Annual General Meeting of the Company is required by the articles of association of the Company or by law to be held; and
 - (3) the revocation or variation of the authority given under this Resolution by special resolution of the shareholders in general meeting;
- f. the Board of directors of the Company shall be authorised to increase the registered share capital of the Company to the respective amount upon the exercise of the powers pursuant to paragraph a above, but the registered share capital shall not exceed RMB2,616,840,000;



NOTICE OF ANNUAL GENERAL MEETING

- g. subject to the approval of the listing of and permission to deal with the H shares in the share capital of the Company, which are intended to be issued by the Company, by the Listing Committee of The Stock Exchange of Hong Kong Limited and the approval of China Securities Regulatory Commission to issue the said shares, the Board of directors shall be authorised to make the appropriate and necessary amendments to Articles 18 and 21 of the articles of association of the Company to reflect the alteration of the share capital of the Company.
11. To consider and approve any motion put forward by shareholders representing in aggregate 5% or more of the shares with voting rights in the Company (if any).

By Order of the Board

Zhang Rong Xing

Director & Company Secretary

Shenzhen, the PRC, 12 April, 2002

Notes:

1. Eligibility for Attending the AGM

Shareholders of the Company whose names appear on the registers of shareholders of the Company at the close of business on 30 April, 2002 shall have the right to attend the AGM after complying the necessary registration procedures.

2. Registration procedures for attending the AGM

- i. Shareholders intending to attend the AGM should deliver to the Company, on or before 10 May, 2002, either in person, by post or by fax, the reply slip (together with any required registration documents) for attending the AGM.
- ii. Register of H Share holders of the Company will be closed from 1 May, 2002 to 31 May, 2002 (both days inclusive), during which period no transfer of H Shares will be registered. Holders of H Shares of the Company who intend to attend the AGM must deliver their instruments of transfer together with the relevant share certificates to HKSCC Registrars Limited ("HKSCC"), the registrar of H Shares of the Company, at or before 4:00 p.m. on 30 April, 2002.

3. Proxy

- i. Shareholders entitled to attend the AGM are entitled to appoint, in written form, one or more proxies to attend and vote on behalf of him. A proxy needs not be a shareholder of the Company.
- ii. A proxy should be appointed by written instrument signed by the appointor or his attorney. If the written instrument is signed by the attorney of the appointor, the written authorization or other authorization documents of such attorney should be notarized. In order to be valid, for shareholders of domestic capital shares, the written authorization or authorization documents which have been notarized together with the completed proxy form must be delivered to the Company 24 hours before the time of the holding of the AGM. In order to be valid, for shareholders of H Shares, the above documents must be delivered to HKSCC within the same period.
- iii. If a shareholder appoints one or more proxies, the proxies shall not have the right to vote individually on a show of hands.
- iv. Shareholder or his proxy should produce identify proof when attending the AGM.

4. Other businesses

- i. Registration date of equity interest, method and time of the declaration of dividends for holders of A Shares will be otherwise notified.
- ii. The duration of the AGM is expected not to exceed one day. Shareholders who attend the AGM shall arrange for food and accommodation at his own cost.
- iii. Address of HKSCC Registrars Limited:
2/F, Vicwood Plaza
199 Des Voeux Road Central
Hong Kong
- iv. Address of the Company:
19/F, Tower A, United Plaza
No. 5022 Binhe Road North
Shenzhen, 518026 PRC
Telephone: (86) 755-2910588
Facsimile: (86) 755-2910696