



深圳高速公路股份有限公司
SHENZHEN EXPRESSWAY COMPANY LIMITED

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

(Stock Code: 548)

2004 Annual Results Announcement

The board of directors (the "Board") of the Company is pleased to announce the audited results of the Group for the year ended 31 December 2004, prepared in accordance with generally accepted accounting principles in Hong Kong, together with comparative figures for the corresponding year in 2003, as follows:

Consolidated Profit and Loss Account

		For the year ended	
		31 December	
	<i>Note</i>	2004	2003
		<i>RMB'000</i>	<i>RMB'000</i>
Turnover	2	482,540	421,531
Other revenues	3	110,609	79,510
Gain on disposal of assets	4	—	691,416
Depreciation		(89,651)	(82,188)
Staff costs		(40,337)	(36,646)
Road maintenance expenses		(8,912)	(7,369)
Other operating expenses		(57,114)	(57,678)
Operating profit		397,135	1,008,576
Finance costs		(12,922)	(13,140)
Share of profits less losses of			
- Jointly controlled entities	5	120,032	59,094
- Associated companies	5	(706)	—
Profit before taxation		503,539	1,054,530
Taxation	6	(76,821)	(148,641)
Profit after taxation		426,718	905,889
Minority interests		(7,848)	(6,517)
Profit attributable to shareholders		418,870	899,372
Dividends		239,877	414,333
Earnings per share	7	RMB0.192	RMB0.412

Notes:

1. **Accounting policies**

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards (“HK GAAP”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). This basis of accounting differs in certain 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 the Group 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.

2. **Turnover**

	2004	2003
	RMB’000	RMB’000
Turnover		
Income from toll highways	509,008	444,653
Less: taxes related to toll income	<u>(26,468)</u>	<u>(23,122)</u>
	<u>482,540</u>	<u>421,531</u>

Turnover of the Group composed of the turnover generated from the Group’s toll highways including Jihe Expressway Western Section, Yanba Expressway (A and B Section), and Meiguan Expressway. No segment information is presented as all the turnover of the Group is toll income earned in the PRC.

Taxes related to toll income comprise PRC Business Tax at 5% of toll income, City Development Tax at 1% of PRC Business Tax and Education Supplementary Tax at 3% of PRC Business Tax.

3. **Other Revenue**

	<i>Note</i>	2004	2003
		RMB’000	RMB’000
Interest income from bank deposits		11,938	9,616
Interest income from long-term loan		—	18,563
Interest income from discounting of long-term receivables	4	35,779	—
Income from construction management services	(a)	17,351	—
Government subsidy income		35,708	35,840
Subsidies from local government		—	10,183
Others		<u>9,833</u>	<u>5,308</u>
		<u>110,609</u>	<u>79,510</u>

(a) This represents income from provision of construction management services of road projects engaged by the government.

4. **Gain on disposal of assets**

Pursuant to a transfer agreement (the “Transfer Agreement”) signed between the Company and the Shenzhen Communications Bureau on 18 March 2003, the Company transferred all its rights and interests in National Highway No. 107 (Shenzhen Section) and National Highway No. 205 (Shenzhen Section) to the Shenzhen Communications Bureau at a consideration of RMB1,930,000,000 (the “Consideration”), resulting a gain of RMB691,416,000.

The Consideration and the related assets disposal extra compensation (the “Compensation”) were recognised as a long-term receivable balance in the accounts. As certain portions of the Consideration and the Compensation will be settled by installments, the Company calculated the net present value of such long-term receivables using an annual interest rate of 3.5%, being the prevailing interest rate for bonds with same maturity period issued by domestic companies in the PRC with similar credit ratings. Interest income from the discounting is recognised as other revenues over the installment settlement period.

5. Share of profit of jointly controlled entities and associated company

The Group’s share of profit of jointly controlled entities increased 103.12% as compared with that of the previous year. This was mainly attributable to the increase in traffic volume on toll highways operated by such jointly controlled entities.

The Group established or acquired six associated companies this year. Such associated companies, except Shenzhen Expressway Engineering Consultancy Company Limited and Guangdong Yangmao Expressway Company Limited, are yet to be operational. The share of losses of associated company was mainly attributable to the amortization of the goodwill arising from the acquisition of associated company in the current year that was amounted to RMB1,545,000.

6. Taxation

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

	2004	2003
	RMB’000	RMB’000
Current taxation		
- PRC enterprise income tax	51,502	47,904
- PRC enterprise income tax on disposal of assets	—	105,144
Deferred taxation	7,440	6,189
	58,942	159,237
Share of taxation of jointly controlled entities	17,879	(10,596)
	76,821	148,641

- (a) In 2004, the Company was subject to PRC enterprise income tax rate of 15% (2003: 15%), the preferential tax rate for enterprises established in the Shenzhen Special Economic Zone, as compared with the standard rate of 33% (2003: 33%).
- (b) Deferred taxation is provided in full on temporary differences under the liability method, using a principal taxation rate of 15% (2003: 15%). Deferred tax liabilities of the Group and the Company represent the deferred tax on temporary differences arising from the different basis adopted for depreciation of toll roads and amortisation of land use rights which lead to differences in the accounting and tax bases.
- (c) Pursuant to the approvals of the relevant authorities, two jointly controlled entities of the Company, Shenzhen Qinglong Expressway Company Limited (“Qinglong”) and Hubei Yungang Transportation Development Company Limited (“Yungang ”), are exempt from PRC enterprise income taxes for the first two profit-making years and are entitled to a 50% reduction of their PRC enterprise income taxes for the three consecutive years thereafter. It was the second profit making year for Qinglong and the third profit making year for Yungang, as a result, Qinglong was exempt from PRC enterprise income taxes and Yungang was entitled to a 50% reduction of its PRC enterprise income taxes in 2004.

The PRC enterprise income taxes charged to the consolidated profit and loss account have been calculated based on the assessable profits of the Company, its subsidiaries and other jointly controlled entities of the year at rates of taxation applicable to the respective companies.

- (d) The applicable tax rate to Mei Wah Industrial (Hong Kong) Limited (“Mei Wah”), a subsidiary of the Group incorporated in Hong Kong is 17.5%. No provision for Hong Kong profits tax has been made in the accounts as Mei Wah has no income assessable under Hong Kong profits tax.

7. Earnings per share

The calculation of earnings per share is based on the Group’s profit attributable to shareholders of RMB418,870,000 (2003: RMB899,372,000) and 2,180,700,000 (2003: 2,180,700,000 shares) ordinary shares in issue during the year.

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

8. Reconciliation of accounts

The Group has prepared a separate set of accounts for the year ended 31 December 2004 in accordance with the PRC accounting standards. The major differences between the accounts prepared under the PRC and HK accounting standards are summarised as follows:

	Profit attributable to shareholders for year ended 31 December 2004 RMB’000	Net assets as at 31 December 2004 RMB’000
As per PRC statutory accounts	484,564	6,023,100
Impact of HK GAAP adjustments:		
Amortisation of land use rights and related deferred taxation	3,982	59,541
Depreciation of fixed assets	654	17,022
Assets Disposal Extra Compensation	(106,109)	—
Interest adjustments on discounted long-term receivables	35,779	(13,054)
Others	—	(3)
Net amount of adjustments	<u>(65,694)</u>	<u>63,506</u>
As restated after HK GAAP adjustments	<u>418,870</u>	<u>6,086,606</u>

Annual Results and Dividends

The Group achieved a turnover of RMB482,540,000 for the year ended 31 December 2004, an increase of 14.47% as compared with the corresponding period of 2003. After excluding the effect on turnover of the two Class 1 Highways which were disposed in 2003, turnover derived during the Year actually increased by 26.08%. Profit attributable to shareholders of the Company for the Year amounted to RMB418,870,000, a decrease of 53.43% as compared with the corresponding period of the previous year. While excluding the gain on disposal of the two Class 1 highways of RMB586,272,000 in last year, profit attributable to shareholders for the Year increased by 33.78% as compared to 2003. Earnings per share for the Year was RMB0.192.

The Board recommended the payment of a dividend of RMB0.11 per share (2003: RMB0.19, including a special dividend of RMB 0.09 per share), totaling RMB239,877,000, for the year ended 31 December 2004 to shareholders whose names appear in the register of shareholders of the Company at the close of business on 8 March 2005 (Tuesday). The registration date, dividend payment procedures and payment date for holders of Domestic Shares will be otherwise notified. Such dividend shall be subject to the approval by shareholders at the annual general meeting to be held on 8 April 2005 (Friday).

MANAGEMENT DISCUSSION AND ANALYSIS

Review of Operations

The Company is principally engaged in the investment, construction, operation and management of toll highways and roads. During 2004, the Company was entrusted by the government to undertake construction management service for certain roads invested by the government. The Company adheres to the development strategy of focusing on toll road operations as its core business and the investment strategy of expanding towards the Pearl River Delta region as well as other economically developed regions in the PRC through establishing a foothold in Shenzhen. It aims at bringing ever-improving returns to its shareholders and providing premier and efficient services to the public and the government at reasonable costs.

In 2004, the Company's management and staff worked diligently and aggressively in concerted efforts, under the core guiding principle of "Unwavering Corporate System Leadership". We adhered to a market-driven approach to attract more traffic flow. The Company achieved promising results in 2004 in terms of capturing new market share and building new income bases, in addition to a satisfactory growth in our existing business.

1. Operating Results of Toll Roads

The toll roads in Shenzhen City and other regions of Guangdong Province operated and invested by the Group are major components of the national or provincial truck highway networks. These toll roads not only connect the main ports, the airport, customs checkpoints and industrial zones that form a complete road network in Shenzhen, but also constitute part of the major road passages between Shenzhen and Hong Kong leading towards the Pearl River Delta region. They have become important infrastructures especially after the implementation of CEPA and the establishment of the "9+2" Pan Pearl River Delta Economic Zone. The surging vehicle ownership, business commuting and logistics flow and a growing travelling public provide the major driving forces of the Group's toll road operations in the context of robust economic growth in the Pearl River Delta region and the gradual implementation of CEPA and the Pan Pearl River Delta Economic Zone. Traffic flow of the toll roads operated and invested by the Group increased rapidly to register an average growth rate topping 30% for the year.

Toll Road	Proportion of interest	Average daily mixed traffic volume (number of vehicle)			Average daily toll revenue (RMB)		
		2004	2003	change (%)	2004	2003	change (%)
Meiguan Expressway	95%	64,199	46,397	38.37	707,711	560,477	26.27
Jihe East	55%	44,446	33,308	33.44	631,107	499,489	26.35
Jihe West	100%	35,257	28,284	24.65	593,856	484,467	22.58
Yanba (A and B)*	100%	9,427	7,423	27.00	89,165	61,171	45.76
Shuiguan Expressway	40%	39,733	30,397	30.71	382,291	300,079	27.40
Changsha Ring Road	51%	4,623	3,454	33.84	55,170	46,836	17.79
Geputan Bridge	42%	2,888	2,706	6.73	22,512	24,359	-7.58

* Yanba B was completed and opened to traffic in June 2003

During 2004, traffic flow on Meiguan Expressway increased rapidly by 38% over the previous year. Following the operation of the Nonglin Feeder Road of Guanshen (Dongguan-Shenzhen) Expressway in Dongguan in July 2004, a significant volume of Dongguan-Shenzhen traffic on other roads in Dongguan was diverted to Guanshen Expressway and Meiguan Expressway. The rise in traffic volume for Meiguan Expressway was also attributable to the Company's increased effort to improve traffic flow on major peripheral driveways. This resulted in increased traffic volume on certain sections in addition to effectively alleviating congestion on these peripheral driveways.

Small vehicles from Shenzhen accounted for the largest share of traffic volume of Jihe Expressway, one of the outer-ring roads of Shenzhen. Meanwhile, expedited construction of logistics parks and trade centres in the surrounding areas of Jihe Expressway provide further driving forces to rapid traffic growth of Jihe Expressway. Traffic flow of Jihe Expressway is expected to maintain rapid growth in the future as industrial centres and logistics parks with a gross area of over 100 sq km are being planned along Jihe Expressway.

Yanba Expressway's under-par performance in toll revenue in the short term was mainly due to the absence of holistic network coverage. However, real estate development was prospering in the surrounding area of Yanba Expressway as real estate developers were upbeat about the traffic convenience and economic activities brought about by the commissioning of Yanba (A and B). Yanba Expressway is expected to enjoy more significant growth in traffic flow and toll revenue when Yanba C becomes operational and when more improvements are made to the internal road network of Huizhou to bring the networking effect into play.

Shuiguan Expressway has smoothed the traffic flow between the Longgang Industrial Zone and downtown Shenzhen. Given the rapid development of the Longgang Industrial Zone and the fast-growing population and logistic activities in the satellite counties and towns surrounding Shenzhen, traffic volume on Shuiguan Expressway increased by 31% in 2004. Changsha Ring Road has implemented stronger measures against overloaded vehicles since September 2004 and has achieved positive results. Changsha National Highway Ring Expressway (south-western section), which connects with Changsha

Ring Road, was operational in November 2004. Apart from enhancing the networking effect, this has made vehicle passage more convenient and faster as combined toll collection was implemented for the two roads to reduce the number of toll stations, and has contributed to growth in traffic flow.

In 2004, the Ministry of Communications proposed toll rate reductions for certain type of trucks. The proposal requires the formulation of implementation plans by relevant communications and pricing authorities at provincial levels and the approval of provincial governments. As of now, the Company has not received any policy documents from the Guangdong Provincial Government in connection with toll rate adjustments. Therefore, we are not in a position to give any meaningful estimates of the impact of the policy on the Company's results. Nonetheless, Category 4 and Category 5 vehicles respectively accounted for only 3% and 12% of the Group's toll road revenue, and traffic flow on highways is likely to increase as a result of adjusted toll rates, so it is expected that the policy will not have any significant impact on the Group's overall operating income.

Currently, the highway network in Guangdong Province is divided into six districts, namely Guangdong East, Guangdong West, Guangdong North, the Pearl River Delta Region, Guangzhou and Shenzhen for the implementation of intra-network toll collection. According to the relevant planning, intra-network toll collection will ultimately be implemented throughout the entire province on a uniform basis without any district divisions. Intra-province toll collection will enhance the capacity of the road networks and facilitate inspection on toll collection. The Group's intra-network toll collection system is operating smoothly at present after completion of the modifications in early November 2004 with subsequent approval by relevant authorities of Guangdong Province.

2. Construction and Development

The Company's projects currently under construction or at the preliminary stage include the Yanpai Expressway, the Nanguang Expressway and the Yanba C. The construction of Yanpai Expressway commenced in July 2003. Its estimated total investment budget was approximately RMB1,149 million. As at the end of the reporting period, RMB281 million of the above-mentioned budget had been utilised. Completion of the project is scheduled at the end of 2005. The feasibility study report for Nanguang Expressway, with an estimated total investment budget of approximately RMB2,876 million, was approved by the Guangdong Communications Bureau in November 2004. A proposal for toll rates have been submitted to the same bureau through the Shenzhen Communications Bureau for approval, while other governmental approval procedures are currently in progress. Construction of the project is expected to commence in the first half of 2005 with an estimated construction period of 2.5 years. Yanba C has an estimated investment budget of RMB515 million. Preliminary work is currently underway and construction is expected to commence by the end of 2005.

These projects will be solely funded by the Company which will be responsible for toll collection and operational management of such projects upon completion. These projects are located at prime geographical areas and will play a unique role in providing connections and traffic smoothening functions upon completion, thus having excellent development potential.

3. Investment and Acquisition

During the reporting period, the Company made inroads in increasing its market shares by investing in toll roads outside Shenzhen, as it capitalised on opportunities arising from the disposal of equity interests in toll road projects in Guangdong and other provinces. An overview of the contracts entered into with external parties and the investments concluded was as follows:

Contract Signing Date	Project Invested	Investment Budget of the Company (RMB'000)	Amount Paid (RMB'000)	Proportion of interest	Length (km)
March 2004	Yangmao Expressway	271,680	271,680	25%	79.76
April 2004	Jiangzhong Expressway	308,270	205,090	25%	32.38
May 2004	Guangzhou Western Second Ring Expressway	250,000	62,500	25%	39.13
June 2004	Nanjing Third Bridge	270,000	270,000	25%	15.60
May 2004	Shuiguan Extension	60,000	60,000	40%	5.25
December 2004	Guangwu Expressway	179,180	—	30%	36.50

Commencing operation in November 2004, Yangmao Expressway connects with operating expressways at its ends. As a result, it has already achieved good operating performance even at its initial stage of opening. Average daily toll revenue amounted to approximately RMB400,000. Upon completion of the project, the major east-to-west trunk expressway along the coastal line of Guangdong running from Shantou to Zhanjiang through Guangzhou was completely opened to traffic. The expressway serves as a convenient transportation route in Guangdong Province connecting Hainan, Guangxi and other south-western provinces. The traffic volume on Yangmao Expressway will further increase subsequent to the economic development in Yangjiang, Maoming and surrounding areas as well as continuous industrial construction along the expressway.

As at the end of the reporting period, RMB2,120.85 million or 67% of the total investment had been utilised for Jiangzhong Expressway and completion is scheduled for October 2005. Upon completion of Jiangzhong Expressway, economic ties between Guangdong West and the Pearl River Delta region will be strengthened. It will form part of the trunk highway network in south-western Guangdong, reducing the traffic distance between the eastern and western parts of the Pearl River Delta (with Guangzhou as the centre) by nearly 60 km.

Guangzhou Western Second Ring Expressway is a section of the ring road surrounding Guangzhou City and circulating within the Pearl River Delta region. Construction of the expressway commenced in September 2004 and completion is scheduled for June 2007. As at the end of the reporting period, a total of RMB306.31 million or 10% of the total investment amount had been utilised. When the expressway is operational, it will be connected with expressways and national highways at the periphery of Guangzhou and will serve as the only route connecting western Guangzhou to Huadu International Airport.

Nanjing Third Bridge is the most convenient passage along the Shanghai-Chengdu national highway trunk (Hurong Line) crossing over Yangtze River at Nanjing. The construction was commenced in May 2003. As at the end of the reporting period, RMB 1,673.76 million had been utilised, and the project was about 51% completed. Nanjing Third Bridge is expected to be completed in 2006 and upon completion, it will complete the Jiangsu Section of Hurong Line, contributing to the formation of the east-west highway trunk and the enhancement of the overall national traffic network.

Shuiguan Extension connected with Bulong Interchange of Shuiguan Expressway and Shenzhen, linking the two major warehouse areas at Qingshuihe and Sungang in downtown Shenzhen. As at the end of the reporting period, RMB 450 million or 88% of its total investment had been made. The construction had been 95% completed and it is scheduled to be operational by mid-2005.

Guangwu Expressway was operational in December 2004 and is positioned to an important passage in western Guangdong to provide the Pearl River Delta region an economic and transportation link with Guangxi and the south-western part of the PRC. On 18 February 2005, the said acquisition was approved by shareholders at the extraordinary general meeting of the Company.

4. Entrusted Construction Management

On 11 February 2004, the Company entered into an entrusted construction management agreement with the Shenzhen Communications Bureau (on behalf of the Shenzhen Government). The Company was appointed as the project administrator of the Nanping project. According to the agreement, the Company's management income was to be determined by the project costs balance. The construction budget of the project was estimated at approximately RMB2,268 million. If the final balance of project costs or any deficit was to fall within 2.5% of the construction budget, then the balance or the deficit amount would be credited to or borne by the Company. If the balance or the deficit was greater than 2.5% of the construction budget, the portion of balance or deficit that exceeded 2.5% would be equally shared or borne by the Company and the Shenzhen Communications Bureau. During the reporting period, 15 contract sections of the Nanping project commenced construction and an investment amount of RMB471.92 million had been utilised. The project is expected to be completed in line with schedules specified under the terms and conditions of the agreement, with partial completion scheduled for the first half of 2005 and full completion by the end of 2005. Based on

the tendering status of various contract sections, the accepted tender prices were generally within budget. As at the end of the reporting period, the Company had received RMB400 million from the Shenzhen Municipal Government as project funding, of which an aggregate of RMB355.567 million had been paid as project expenses.

On 12 March 2004, the Company entered into an entrusted construction management agreement with Longgang Highway Bureau (on behalf of the Shenzhen Longgang People's Government). The Company was appointed as the project administrator of the Hengping project. According to the agreement, the Company's management income was to be determined by the project costs balance. The construction budget of the project was estimated at approximately RMB450 million. Any balance or deficit amount of the final construction costs would be credited to or borne by the Company. As at the end of the reporting period, investment of the Hengping project amounted to RMB14.09 million. The Company received RMB30 million from the Shenzhen Longgang District Government as project funds and an aggregate of RMB18.445 million had been advanced or paid as project expenses. At present, the land requisitioning and demolition work of the Hengping project is falling behind schedule and the completion date will be delayed. If the land requisition and demolition cause any delay, the Company's performance under such construction schedule as stipulated in the contract would not be affected, as it is not required by the contract to be responsible for land requisition and demolition. The whole project is expected to be completed in the first half of 2006.

SUBSEQUENT EVENT

The Group entered into a series of transactions on 3 February 2005 with an aim to acquire a total of 56.28% equity interest in Guangdong Qinglian Highway Development Company Limited at a total consideration of RMB1,839 million. Guangdong Qinglian Highway Development Company Limited is mainly engaged in the construction, operation and management of Qinglian Class 1 Highway and Qinglian Class 2 Road in Guangdong Province and related facilities. Details of the transactions are set forth in the announcement dated 16 February 2005.

OUTLOOK

The Pearl River Delta region stands out with robust economic growth, against the backdrop of the rapid, stable and healthy development of the Chinese economy. Economic growth is set to create demand for transportation as individual travelling and business commuting become more frequent. The State and local governments have formulated forward-looking plans for China's transportation network to meet the needs of economic development. China will add around 3,000 km each year to its highway network until 2010, translating into annual investments of approximately RMB140 billion. Guangdong Province's expressways is scheduled to reach 4,000 km by 2008. It has been separately confirmed by the Ministry of Communications and the National Development and Reform Commission that highway construction will continue to be funded through a variety of sources and toll revenue shall remain a rightful source for investors to generate investment returns.

Robust economic growth coupled with effective policy support has provided highway operators with a golden opportunity for development. Meanwhile, the Board and the management of the Company are fully aware of the risks confronting the Group. Proactive reviews are conducted on an ongoing basis and relevant preventive measures have been adopted in this regard. The Company will leverage every opportunity and rise to every challenge. Focusing on toll road operation as its principal business, the Company will continue to build on its core competitive strengths while braving for ever-higher standards in corporate governance, with a view to achieving rapid but stable growth on all fronts and scoring new landmarks in its business development and bringing even better operating results and investment returns to all shareholders.

FINANCIAL ANALYSIS

1. Current Assets and Liabilities

As at 31 December 2004, the Group's current assets amounted to RMB1,669.43 million (2003: RMB1,944.49 million), including cash and cash equivalents of RMB1,203.239 million, restricted cash of RMB55.988 million and receivables of RMB403.268 million. The cash and cash equivalents at the end of the year were mainly cash received from the disposal of two Class 1 highways in the previous year. Such cash amounts will be used as investments for new projects.

As at 31 December 2004, the Group's current liabilities amounted to RMB642.756 million (2003: RMB357.133 million), including project cost payables and deposits of RMB156.538 million, government funds for entrusted construction management projects of RMB55.988 million and short-term bank loans of RMB360 million. The increase in the Group's current liabilities was mainly attributable to the increase in short-term borrowings. In view of the current cash flow position and future cash flow requirements of the Group, it is expected that the Group will have sufficient funds for the repayment of these borrowing.

2. Financing Activities

While the Chinese government implemented macro-economic control measures during the year, highway investments remained as encouraged industry and continued to enjoy strong support from the financial market such as banks. At present, bank loans generally finance for 65% of the total investment costs for highway projects in China. The repayment period is generally over 10 years and this provides adequate financial resources for highway projects. The Renminbi interest rate remained at historic lows despite a small upward adjustment in the second half of 2004 due to inflation and US interest rate hikes. On the back of steady growth in cash flow, sound credit record and good industry reputation, the Company was given an AAA credit rating in 2004 by an institution recognised by the People's Bank of China. Good credit rating is beneficial to the Company's financing activities and allows the Company to continue to qualify for prime interest rates under the interest rate policy of the People's Bank of China.

Due to a low borrowing level in 2004, the Group's bank loans were mainly of short-term nature with maturity period of one to two years. The combined lending rate for the year under review was 4.778%, slightly higher than 4.582% for the previous year, mainly as a result of the larger proportion of two-year loans compared to the previous year. During the year, the Company made proactive moves to capitalise on favourable conditions, both internal and external, to negotiate new financing facilities and agreements with banks. As of the date of this report, credit facilities granted to the Company amounted to RMB4,890 million, with an unutilised balance of RMB4,400 million. The Company also has plans to adjust its borrowing structure to increase the variety of loan types employed and to extend its maturity profiles with a view to satisfying the capital expenditure requirements in future.

3. Capital Structure

As at 31 December 2004, the Group's total debt to equity ratio was 19.86% (2003: 14.09%) and its loan to equity ratio was 8.11% (2003: 1.25%). Interest coverage for 2004 was 39.97 times (2003: 28.63, excluding gains on disposal of two Class 1 highways). With steady growth of net operating cash flow and funds generated from the disposal of two Class 1 highways, the Group currently enjoys a high level of solvency that ensures greater flexibility for raising loans in the future.

4. Capital Commitments

As at 31 December 2004, the Group's capital expenditure projects mainly included the construction of Yanpai Expressway, Nanguang Expressway and Yanba C and investments in Qinglian Class 1 Highway, Guangzhou Western Second Ring Expressway, Guangwu Expressway and Jiangzhong Expressway. Capital expenditure for the next five years is estimated at RMB7,147.356 million, of which RMB 3,817 million is for 2005, representing a substantial increase compared to previous years. The Company plans to fund the aforesaid amounts by internal resources and external borrowings and the Company would be able to fulfil these capital expenditure given the Company's enriched financial resources and sound financing capabilities. Apart from the aforesaid capital expenditure of the Company, funds for the reconstruction of Qinglian Class 1 Highway into an expressway amounted to RMB3,900 million is expected to be satisfied by external borrowings by Qinglian Company.

5. Cash Flow of the Group

As at 31 December 2004, the Group's cash and cash equivalents decreased by RMB1.579 million as compared to the previous year.

The growth in traffic volume and toll revenue ensures steady growth in the Group's operating cash flow. During the year, net operating cash flow of the Group was RMB351.317 million (2003: RMB295.006 million). Dividends and loan repayments received from jointly controlled entities amounted to RMB159.459 million (2003: RMB168.255 million). The aggregate net cash flow resulted from the above two items amounted to RMB510.776 million (2003: RMB463.261 million). The installment

payment and the tax-equivalent compensation payment in respect of the disposal of two Class 1 highways received during the year amounted to RMB579 million and RMB105.204 million, respectively. Net increase in borrowings amounted to RMB417.725 million during the year.

During the year, the Group's cash outflow mainly comprised capital expenditure for Yanpai Expressway, Yanba Expressway, Yangmao Expressway, Jiangzhong Expressway, Nangjing Third Bridge, Shuiguan Extension and Guangzhou Western Second Ring Expressway amounting to RMB1,164.413 million in aggregate; payment of income tax amounting to RMB105.204 million in respect of income received for the disposal of two Class 1 highways; and dividend payments amounting to RMB414.333 million.

6. Foreign Exchange Risk

All major operations of the Group are located in China and the operating income and expenses as well as capital expenditure of the Company, with the exception of dividend payment in respect of its H-Shares, are denominated in RMB. Therefore, the Group's loans are principally denominated in RMB. At the end of 2004, the Group only recorded a minimal amount of foreign exchange loans and deposits and as a result, fluctuations in exchange rates did not have any material impact on the Company's results.

7. Interest Rate Risk

The Group maintains a reasonable debt portfolio mainly based on a combination of fixed and floating interest rates. Interest rate swap contracts are also executed as appropriate, according to changes in market conditions to control the risk of interest rate hikes. As at the end of 2004, the Group had no outstanding interest rate swap option contracts.

8. Contingent Liabilities

Pursuant to the provisions of the two construction management contracts described above, the Company undertakes to bear all costs overrun for the two projects. Pursuant to the terms of these two contracts, the Company was required to issue irrevocable bank guarantees to Shenzhen Longgang Highway Bureau and Shenzhen Communications Bureau in the amounts of RMB30,000,000 and RMB100,000,000, respectively. The Company also paid a deposit of RMB 15,000,000 to Shenzhen Longgang Highway Bureau as a guarantee deposit for ensuring the progress, quality and safety standards for the construction of one of the projects.

USE OF PROCEEDS FROM ISSUE OF A SHARES

The Company raised RMB604 million from the issue of A Shares in 2001. During the reporting period, the Company applied such proceeds for the construction of Yanba B in strict compliance with the representations made in the Prospectus. The construction of Yanba B began in June 2001 and the section was opened to traffic for toll collection in June 2003.

An amount of RMB30.5 million was applied during the reporting period and the cumulative amount of proceeds applied was RMB414 million. As at 31 December 2004, proceeds in the amount of RMB190 million remained unutilised and were mainly held as short-term fixed deposits with banks in China to be used for the settlement of remaining project payments for Yanba B. After the commissioning of Yanba B, traffic flow and toll revenue of Yanba Expressway had been significantly enhanced with the formation of a local traffic network.

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 subsidiaries or jointly controlled entities.

On 23 April 2004, the shareholders of the Company approved at the general meeting a special resolution to authorise the Directors to execute the repurchase of H shares of the Company. The application in relation to the repurchase of H Shares were approved by China Securities Regulatory Commission. During the year, the Company had not repurchased any H Shares.

PROVISION AND EXECUTION OF GUARANTEES TO EXTERNAL PARTIES

As at the end of the reporting period, the Company, its subsidiaries and jointly controlled entities had not provided any guarantee to any external party.

LITIGATION AND ARBITRATION

As at the end of the reporting period, there was no litigation and arbitration for the Company, its subsidiaries and jointly controlled entities.

TRUST DEPOSITS AND OVERDUE TIME DEPOSITS

As at the end of the reporting period, the Group did not have any trust deposit or overdue time deposit.

EMPLOYEE REMUNERATION AND BENEFITS

As at 31 December 2004, there were 1,270 employees in the Company, of whom 301 were senior management and professionals while 969 were toll collection staff.

Employee remunerations were divided into three parts, namely salaries, year-end bonuses as well as statutory benefits and extra benefits provided by the Company, which amounts were to be determined in accordance to their positions, their performance based on overall assessments and market rates so as to maintain the Company's competitiveness in recruiting and retaining employees. Furthermore, the Company has implemented a share appreciation right scheme which has been approved by the shareholders since 2001 and amended by the shareholders in October 2003. As at 31 December 2004, units in the share appreciation right scheme granted by the Company and collectively held by management were 5,501,400. The receipts from exercise of the units shall be applied as a special incentive fund and distributed by the Company according to proposals put forward by general manager and the Human Resources and Nomination Committee of the Company. As at 31 December 2004, the management of the Company has not yet exercised any of the above-mentioned units.

The Group has participated in an employee retirement scheme in accordance with the rules and regulations promulgated by the Shenzhen Municipal Government. The Group has provided basic medical insurance package as well as employee's compensation insurance, unemployment insurance and birth insurance to its employees.

The Company values staff training. In the year, the Company had organised five group training workshops with a total of 786 employees participated. Furthermore, each department had organised a number of specific training programmes on its own according to the annual training plans.

COMPLIANCE WITH THE CODE OF BEST PRACTICE AND MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

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

AUDIT COMMITTEE

The audit committee of the Company has reviewed and confirmed the results announcement and financial statements for the year ended 31 December 2004.

Definitions

"CEPA"	Closer Economic Partnership Arrangement
"Changsha Ring Road"	The northwestern section of the ring road surrounding Changsha City in Hunan Province
"Geputan Bridge"	Hubei Geputan Bridge in Yungang, Hubei Province
"Guangdong Roads"	Guangdong Roads and Bridges Construction Development Company Limited
"Guangwu Expressway"	The expressway running from Guangzhou to Wuzhou (Ma-an to Hekou section) in Guangdong Province
"Guangzhou Western Second Ring Expressway"	The Guangzhou Western Second Ring Expressway in Guangdong Province
"Hengping Project"	Western section of Hengping Class 1 Freeway in Shenzhen
"HKEX"	The Stock Exchange of Hong Kong Limited

“Jiangzhong Expressway”	The expressway from Zhongshan City to Jiangmen City and the second phase of the expressway from Jiangmen City to Heshan City in Guangdong Province
“Jihe Expressway”	Shenzhen Jihe Expressway, comprising Jihe East and Jihe West
“Listing Rules”	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Meiguan Expressway”	Shenzhen Meiguan Expressway
“Nanguang Expressway”	Shenzhen Nanguang Expressway
“Nanjing Third Bridge”	Nanjing-Yangtze Third Bridge in Nanjing, Jiangsu
“Nanping Project”	Phase 1 works of Nanping Freeway in Shenzhen
“Qinglian Class 1 Highway”	The expressway running from Qingyuan to Lianzhou in Guangdong Province
“Shuiguan Expressway”	Shenzhen Shuiguan Expressway, also referred to as the “No.2” Longgang Passage
“Shuiguan Extension”	An extension to the Shuiguan Expressway in Shenzhen
“The Company, Company”	Shenzhen Expressway Company Limited
“The Group, Group”	Shenzhen Expressway Company Limited and its subsidiaries
“The Year, the reporting period”	For the year ended 31 December 2004
“Yanba Expressway”	Shenzhen Yantian-Bagang Expressway comprising Yanba A, Yanba B and Yanba C
“Yangmao Expressway”	The expressway from Yangjiang City to Maoming City located in Guangdong Province
“Yanpai Expressway”	Shenzhen Yanpai Expressway, also known as Jihe Expressway Yantian Subsidiary Road

By Order of the Board
Chen Chao
Chairman

Shenzhen, the PRC, 18 February 2005

The directors of the Company at the date of this announcement are: Mr. Chen Chao (Chairman of the Board); Mr. Wu Ya De (Director and General Manager); Mr. Zhang Rong Xing (Director); Mr. Zhong Shan Qun (Director); Ms. Tao Hong (Director); Mr. Lin Xiang Ke (Director); Ms. Zhang Yang (Director); Mr. Chiu Chi Cheong, Clifton (Director); Mr. Ho Pak Cho, Denis Morgie (Independent non-executive Director); Mr. Li Zhi Zheng (Independent non-executive Director); Mr. Zhang Zhi Xue (Independent non-executive Director) and Mr. Poon Kai Leung, James (Independent non-executive Director).

A detailed annual results announcement containing all the information required by paragraph 45(1) to 45(3) of Appendix 16 to the Listing Rules will be subsequently published on the website of The Stock Exchange of Hong Kong Limited at <http://www.hkex.com.hk> in due course.

Please also refer to the published version of this announcement in The Standard.