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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)

FIRST QUARTERLY REPORT OF 2006

This announcement is published simultaneously in Hong Kong and Shanghai on 28 April 2006. This quarterly report is prepared in accordance with the regulations of the China Securities Regulatory Commission on Disclosure of Information in Quarterly Reports for Listed Companies. All financial information set out in this report has been prepared in accordance with the PRC GAAP and has not been audited. Shareholders of the Company and public investors should exercise caution when trading in shares of the Company.

This announcement is made pursuant to the disclosure obligation under Paragraph 13.09 of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited.

1. IMPORTANT NOTICE

- 1.1 The board of directors and the directors of Shenzhen Expressway Company Limited (the "Company") undertake that the information in this report does not contain any false information, misleading statements or material omissions, and accept joint and several responsibilities for the truthfulness, accuracy and completeness of the content.
- 1.2 Mr. Wu Ya De, director, Mr. Wang Ji Zhong, director, Ms. Zhang Yang, director, Mr. Li Zhi Zheng, independent non-executive director, and Mr. Poon Kai Leung, James, independent non-executive director, were unable to attend this board meeting, and had appointed Mr. Yang Hai, director, Mr. Li Jing Qi, director, Mr. Lin Xiang Ke, director, Mr. Zhang Zhi Xue, independent non-executive director, and Mr. Wong Kam Ling, independent non-executive director, to attend the meeting and vote on their behalf respectively.
- 1.3 The financial information for the period ended 31 March 2006 (the "Reporting Period" or the "Period") contained in the first quarterly report of 2006 has not been audited.
- 1.4 Mr. Yang Hai, Chairman, Mr. Wu Ya De, General Manager, Ms. Gong Tao Tao, Financial Controller and Mr. Sun Bin, Finance Manager, undertake the truthfulness and completeness of the financial statements contained in this quarterly report.

2. CORPORATE INFORMATION

2.1 Basic Information

	A Shares	H Shares
Share Abbreviations	G Shenzhen Expressway	Shenzhen Expressway
Share Abbreviations before updated	Shenzhen Expressway	—
Stock Code	600548	0548
	Company Secretary	Securities Officer
Name	Wu Qian	Gong Xin
Address	19/F., Tower A, United Plaza, No. 5022 Binhe Road North, Shenzhen, PRC	
Telephone	755 - 82945628, 82945608	
Fax	755 - 82910696	
Email	secretary@sz-expressway.com	

2.2 Financial Information (prepared in accordance with PRC GAAP)

2.2.1 Principal accounting data and financial indices

Unit: RMB

	As at the end of the Reporting Period (31 Mar 2006)	As at the end of the previous year (31 Dec 2005)	Change at the end of the Reporting Period as compared to the end of the previous year (%)
Total assets	9,521,324,270.99	9,927,504,042.60	-4.09
Shareholders' funds (excluding minority interest)	6,400,090,529.89	6,269,421,377.23	2.08
Net assets per share	2.93	2.87	2.08
Adjusted net assets per share	2.92	2.86	2.10

	The Reporting Period (Jan ~ Mar 2006)	Beginning of the year to end of the Reporting Period (Jan ~ Mar 2006)	Change of the Reporting Period as compared to the corresponding period of the previous year (%)
Net cash flow from operating activities	183,803,063.90	183,803,063.90	38.65
Earnings per share	0.059	0.059	28.10
Return on equity (%)	2.01	2.01	Increase 0.37 percentage point
Return on equity excluding non-recurring items (%)	1.91	1.91	Increase 0.41 percentage point

Non-recurring items (Jan ~ Mar 2006)	Amount
Non-operating income	12,330.40
Non-operating expenses	(43,239.43)
Subsidy income	6,610,028.10
Income tax effect on non-recurring items	4,486.35
Total	6,583,605.42

2.2.2 Income statement

Unit: RMB (Unaudited)

Items	Consolidated The Reporting Period (Jan-Mar)	Consolidated The Corresponding period of the previous year (Jan-Mar)	Company The Reporting Period (Jan-Mar)	Company The Corresponding period of the previous year (Jan-Mar)
1. Income from principal operations	250,192,258.45	185,884,878.34	75,493,922.14	67,271,753.67
Less: Cost of principal operations	(51,341,367.80)	(40,330,596.74)	(19,870,501.06)	(18,317,624.74)
Taxes and surcharges on principal operations	(7,724,639.64)	(9,601,657.20)	(2,355,410.37)	(3,499,649.04)

Items	Consolidated The Reporting Period (Jan-Mar)	Consolidated The Corresponding period of the previous year (Jan-Mar)	Company The Reporting Period (Jan-Mar)	Company The Corresponding period of the previous year (Jan-Mar)
2. Profit from principal operations	191,126,251.01	135,952,624.40	53,268,010.71	45,454,479.89
Add: Other operating profit	18,744,249.57	3,116,592.33	15,587,791.22	1,531,428.63
Less: Administrative expenses	(17,556,606.45)	(18,661,663.12)	(6,689,933.28)	(11,294,534.72)
Financial expenses - net	(26,142,531.59)	(5,790,664.06)	(14,596,248.09)	(2,756,782.47)
3. Operating profit	166,171,362.54	114,616,889.55	47,569,620.56	32,934,591.33
Add: Investment gain/(loss)	(15,581,105.36)	(712,315.22)	81,503,547.02	66,528,657.11
Subsidy income	6,610,028.10	9,213,129.55	6,610,028.10	9,213,129.55
Non-operating income	12,330.40	204,312.97	15.00	3,800.00
Less: Non-operating expenses	(43,239.43)	(251,301.80)	(39,781.22)	(15,065.80)
4. Total profit	157,169,376.25	123,070,715.05	135,643,429.46	108,665,112.19
Less: Income tax	(26,144,939.64)	(20,603,541.86)	(7,023,352.55)	(8,257,789.93)
Minority interest	(2,404,359.70)	(2,059,850.93)	—	—
5. Net profit	<u>128,620,076.91</u>	<u>100,407,322.26</u>	<u>128,620,076.91</u>	<u>100,407,322.26</u>

2.2.3 Major differences between the financial statements prepared under different accounting standards

The differences between profit attributable to equity holders of the Company and capital and reserves attributable to the Company's equity holders as determined in accordance with the PRC GAAP and Hong Kong Financial Reporting Standards ("HKFRS") are summarised as follows:

	For the period ended 31 Mar 2006 Profit attributable to equity holders of the Company	As at 31 Mar 2006 Capital & reserves attributable to the Company's equity holders
Unit: RMB'000 (Unaudited)		
As reported under the PRC GAAP	128,620	6,400,091
Impact of HKFRS adjustments:		
Adjustment on interest in an associate based on the fair value of net assets	6,728	20,630
Depreciation of property, plant and equipment	(110)	16,596
Adjustment on loan to a jointly controlled entity at amortised cost	976	(4,051)
Income recognized for the measurement of the net assets acquired in a jointly controlled entity at fair value and depreciation of relevant assets	(509)	33,598
Reversal of amortisation of equity investment differences under the PRC GAAP	128	640
Net amount of adjustments	7,213	67,413
As restated after HKFRS adjustments	<u>135,833</u>	<u>6,467,504</u>

2.3 Total number of shareholders and the top ten holders of listed shares at the end of the Reporting Period

As at the end of Reporting Period, the total numbers of shareholders and the top ten holders of listed shares without selling restrictions of the Company based on the shareholders' registers supplied by the share registrar and the transfer offices of the Company in Hong Kong and the PRC were as follows:

Total numbers of shareholders at the end of the Reporting Period were 33,664, out of whom 33,224 were holders of domestic shares and 440 were holders of H shares.

Unit: share

Top Ten Holders of Listed Shares (without selling restrictions):		
Name of shareholder	Number of listed shares held at the end of the Reporting Period	Types of shares
HKSCC Nominees Limited (Note)	728,973,398	H
Xing He Securities Investment Fund	22,235,493	A
Social Security Fund 102	12,096,445	A
Yu Long Securities Investment Fund	6,220,962	A
China Galaxy Securities Company Limited	3,924,850	A
ICBC - SYWG BNP Paribas Shengli Selection Securities Investment Fund	3,050,210	A
ARSENTON Nominees Limited	3,000,000	H
Social Security Fund 103	2,973,616	A
HSBC Nominees (Hong Kong) Limited	2,074,000	H
Beijing Tianshi Real Estate Development Company Limited	2,000,009	A

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

3. MANAGEMENT DISCUSSION AND ANALYSIS

3.1 Brief analysis on the Company's overall operations during the Reporting Period

(1) *Operating performance*

The toll highways operated by the Company, its subsidiaries and joint ventures (collectively the "Group") include Meiguan Expressway, Jihe East, Jihe West, Shuiguan Expressway, Yanba Expressway, Wuhuang Expressway, Changsha Ring Road and Geputan Bridge.

During the Period, the operations of various major toll highways were satisfactory, with traffic flows and toll revenues continuing to grow steadily. The Group recorded an income from principal operations of RMB250,192,000, representing an increase of 34.60% over the corresponding period of the previous year. The Group's major sources of income were derived from Meiguan Expressway, Jihe West, Jihe East, Wuhuang Expressway, Shuiguan Expressway and Yanba Expressway, and the toll revenue generated by them represented 98.7% of the total income from principal operations of the Group. An overview of the operations of the principal toll highways for the Reporting Period was as follows:

Principal Toll road	Average daily mixed traffic volume (number of vehicles)			Average daily toll revenue (RMB)				
	Contribu- tion to income*	Reporting Period	Corresponding period last year	Change	Reporting Period	Corresponding period last year	Change	
Meiguan Expressway	95%	28.4%	80,923	68,882	17.48%	788,644	720,548	9.45%
Jihe East	55%	17.1%	62,290	51,952	19.90%	865,882	732,106	18.27%
Jihe West	100%	26.0%	49,505	39,864	24.18%	723,432	663,696	9.00%
Yanba A & B	100%	4.2%	10,602	8,399	26.23%	115,389	83,768	37.75%
Shuiguan Expressway	40%	7.9%	61,476	41,813	47.03%	548,022	391,617	39.94%
Wuhuang Expressway	55%	15.1%	23,852	22,740	4.89%	764,452	683,726	11.81%

* The principal operating incomes of Jihe East, Shuiguan Expressway and Wuhuang Expressway were proportionately consolidated according to the shareholdings of 55%, 40% and 55% respectively held by the Company.

During the Reporting Period, blessed by the sound macro-economic environment, the sustained growth of the national economy has boosted demand for quality and efficient toll road service, thus driving the rapid growth of the Group's toll road business. Along with the successive openings of Shuiguan Extension, Longda Expressway and the western section of Nanping Freeway Phase I in Shenzhen district as well as the improvements being made to the highway network in the Pearl River Delta, traffic flows and vehicle composition on Shenzhen's various toll roads have undergone certain adjustments, but overall speaking the performance of these roads have still maintained a solid growth trend. The toll-by-weight system to be implemented on Wuhuang Expressway effective from 1 April 2006 is expected to be conducive for the operating performance of the expressway.

During the Reporting Period, the toll roads held by the Company's associates also performed well. Among which, Yangmao Expressway and Guangwu Expressway, both were open to traffic at the end of 2004, recorded average daily toll revenues of RMB801,000 and RMB249,000, respectively, representing increases of 31.6% and 58.1%, respectively when compared to the same period of the previous year. Shuiguan Extension, Jiangzhong Expressway and Nanjing Third Bridge, all of which were open to traffic in the second half of 2005, recorded average daily toll revenues of RMB176,000, RMB322,000 and RMB507,000, respectively.

(2) Brief analysis of operating results

During the Reporting Period, primarily owing to the rise of toll revenues, net profit of the Group amounted to RMB128,620,000, representing an increase of 28.10% when compared to the same period of the previous year. During the Reporting Period, profit from principal operations of the Group increased by 40.58% to RMB191,126,000.

During the Reporting Period, profit from other operations of the Group increased by 501.43% to RMB18,744,000, which was mainly attributable to the entrusted construction management service income of RMB16,947,000 during the Reporting Period as per the progress of the completion of the Nanping Project, for which a profit of RMB15,037,000 was recognised.

In the recent two years, the Group has expanded the scale of external investments. As compared to the corresponding period of the previous year, the Group has issued short-term commercial papers and increased bank borrowings during the Reporting Period to keep in line with its capital expenditure plans. As a result, interest expenses and financing expenses increased while interest income decreased. During the Reporting Period, the Group's financial expenses increased by RMB20,352,000 when compared to the same period of the previous year.

During the Reporting Period, the investment income of the Group was a net loss of RMB15,581,000, representing an increase of loss of RMB14,869,000 when compared to the same period of the previous year. This was mainly due to the amortisation of premium on equity investments in relation to the acquisition of Qinglian Project and Wuhuang Expressway which amounted to RMB16,015,000.

(3) Progress of projects under construction

The toll road assets being constructed and planned by the Group and its associates include Yanpai Expressway, Nanguang Expressway, Yanba C, GZ W2 Expressway and the reconstruction project of Qinglian Class I Highway into an expressway.

At the end of the Reporting Period, as per the progress of the physical completion of the project of Yanpai Expressway, an accumulated amount of approximately RMB980 million had been utilised as construction costs, representing approximately 85% of the estimated investment. The project is scheduled for completion by the first half of 2006. As for Nanguang Expressway, tenders have already been invited for the construction of some sub-contracted sections of the expressway, and preparation work for construction is being carried out. Land requisition, demolition and relocation are underway. For Yanba C, a construction plan was drawn up and the procedures for land requisition, demolition and relocation are in progress. The project is scheduled for construction by the second half of 2006. Meanwhile, for GZ W2 Expressway, a project being constructed by an associated company, an accumulated amount of RMB1,719 million had been utilised as construction costs, representing approximately 57% of the estimated investment. The whole project is scheduled for completion by the first half of 2007. For the reconstruction project of Qinglian Class I Highway into an expressway, preliminary design, construction plan, inspection of bridges and tunnels, land requisition, demolition, relocation and tenders invitation for the construction are underway. As at the date of this report, the relevant authorities of the Guangdong Provincial Government have approved the reconstruction of Qinglian Project and have granted a toll collection term of 25 years for Qinglian Expressway.

(4) Entrusted construction management services

The Company has been appointed by the Shenzhen government as project administrators for the Nanping Project and Hengping Project. During the Reporting Period, new progress has been made on the Company's entrusted construction management business. Pursuant to the contract entered into with the Shenzhen Communications Bureau (representing the Shenzhen Municipal Government) in January 2006, the Company has been appointed as project administrator for the Wutong Mountain Avenue (Supplementary Road) and Jihe Expressway Yantian Subsidiary Road Checkpoint Station Project in Shenzhen (the "Wutong Mountain Avenue Project"). This project is an auxiliary project of Yanpai Expressway, with a construction budget of approximately RMB254 million, subject to finalisation by the Shenzhen Municipal Audit Bureau.

As at the end of the Reporting Period, as per the progress of the physical completion, an accumulated amount of approximately RMB2,020 million had been utilised as construction costs in the Nanping Project. The project is scheduled for completion by the middle of 2006. For the Hengping Project, the accumulated amount utilised as construction costs represented 36% of the estimated investment. As for the Wutong Mountain Avenue Project, the accumulated amount utilised as construction costs represented 63% of the estimated investment, and the parts of road section are scheduled for completion concurrently with Yanpai Expressway.

3.1.1 Principal sectors or products representing 10% or more of the total principal income or profit from principal operations

Applicable Not applicable

Unit: RMB (Unaudited)

By sector or product	Income from principle operations (Jan ~ Mar 2006)	Cost of principle operations (Jan ~ Mar 2006)	Gross Profit margin (Jan ~ Mar 2006)
Toll highway sector:	250,192,258.45	51,341,367.80	79.48%
of which: Meiguan Expressway	70,977,919.76	10,626,187.05	85.03%
Jihe West	65,108,906.64	9,826,039.04	84.91%
Jihe East	42,861,150.98	5,195,436.69	87.88%
Wuhuang Expressway	37,840,364.09	9,806,018.60	74.09%
of which: connected transactions	—	—	—

3.1.2 Seasonal or cyclical features in the Company's operations

Applicable Not applicable

3.1.3 Profit components of the Company' during the Reporting Period (significant changes and reasons in the proportions of profit from principal operations, profit from other operations, expenses for the Period, investment gain, subsidy income and net amount from non-operating activities out of the total profit as compared to the last reporting period)

Applicable Not applicable

3.1.4 Significant changes and reasons in principal business and its structure as compared to the last reporting period

Applicable Not applicable

3.1.5 Significant changes and reasons in the profitability (gross profit margin) of the principal business of the Company as compared to the last reporting period

Applicable Not applicable

3.2 Major Events and the analysis on the relative impacts and solutions

Applicable Not applicable

- The term of office of the Company's third session of the board of directors and supervisory committee expired on 31 December 2005. The term of office of the fourth session of the board of directors and supervisory committee is from 1 January 2006 to 31 December 2008. At the first meeting of the fourth session of the board of directors and the first meeting of the fourth session of the supervisory committee convened on 6 January 2006, Mr. Yang Hai and Mr. Zhong Shan Qun were elected as the chairman of the Company and the chairman of the supervisory committee, respectively.
- In January 2006, the Company issued the first batch of short-term commercial papers in the total amount of RMB1 billion with a term of nine months at 3.07% per annum. The issue of short-term commercial papers expanded the financial channels of the Company, improved the borrowing structure and lowered the overall financing costs of the Company. Pursuant to the approval of the People's Bank of China, the Company is allowed to issue the short-term commercial papers up to RMB2 billion, which is valid until the end of November of 2006.
- In February 2006, the Company received the approval from the Ministry of Commerce in increasing the capital investment of Mei Wah Company for expanding its business scope, thereby agreeing to inject an additional capital of US\$100 million to Mei Wah Company by the Company for the acquisition of Maxprofit Company (holding 25% equity interest of Qinglian Company) and JEL Company (indirectly holding 100% interest of Wuhuang Expressway). As at the end of the Reporting Period, the Company has invested approximately RMB601 million in Mei Wah Company.
- To increase its control over the Qinglian Project and to enhance its management of the operation and project construction of Qinglian Company so that a smooth and efficient reconstruction of Qinglian Class I Highway could be facilitated, the Company entered into an agreement with the liquidation committee of Qingyuan Yueqing Highway Construction and Development Co., Ltd. on 8 February 2006 for a proposed further acquisition of 20.09% equity interest in Qinglian Company at a consideration of RMB484 million. This transaction is subject to the approval of independent shareholders at a shareholders' meeting pursuant to the Listing Rules of The Stock Exchange of Hong Kong Limited. Should the acquisition be completed, the Group will hold a total of 76.37% equity interest in Qinglian Company, and the Group will be entitled to appoint 12 out of 15 directors of the Qinglian Company. From an accounting viewpoint, Qinglian Company will change from the status of an associated company to a subsidiary of the Group, and its operating results will be consolidated into the Group's financial statements. This will help the Group to further strengthen its operating scale and to expand its income base. The Company has issued a notice of shareholders' general meeting, and the aforesaid transaction will be considered at the 2006 first extraordinary meeting to be held on 12 June 2006.
- The Share Segregation Reform Proposal ("Proposal") of the Company was approved by relevant general meeting of the A shareholders held on 23 January 2006, pursuant to which, all holders of unlisted shares of the Company would transfer 3.2 shares to A shareholders for every 10 A shares held by such holders of A shares at the close of business on the registration date of the implementation of the Proposal (i.e. 24 February 2006), so as to obtain the circulation rights of the unlisted shares on the A shares stock market. The Proposal was successfully implemented on 27 February 2006 after obtaining approval from the governing authority and the A shares of the Company resumed trading on 28 February 2006. After the implementation of the Proposal, the total number of shares held by the former holders of unlisted shares of the Company decreased from 1,268,200,000 shares to 1,215,400,000 shares, and the nature of such shares were changed from unlisted shares to listed shares with selling restrictions, and the shares held by the A shares shareholders increased from 165,000,000 shares to 217,800,000 shares. The total shares of the Company before and after the implementation of the Proposal remained unchanged.

3.3 Changes and reasons in accounting policies, accounting estimates, scope of consolidation and significant accounting errors during the Period

Applicable Not applicable

3.4 Statement made by the board of directors and the supervisory committee on the "qualified opinion" in respect of audited financial statements

Applicable Not applicable

3.5 Profit warning with reasons on possible losses of the accumulated results from the beginning of the year to the end of the next reporting period or on a substantial change when compared to the corresponding period in the last year

Applicable Not applicable

3.6 Ongoing adjustments by the Company on announced annual business plan or budget

Applicable Not applicable

3.7 Undertaking and the fulfillment made by the former holders of unlisted shares during the period of share segregation reform

Applicable Not applicable

Name of shareholder	Undertakings	Fulfillment
Xin Tong Chan Development (Shenzhen) Company Limited	(i) within 36 months from the day of granting listing status to the unlisted shares of the Company held by them, they would not trade such shares on the stock exchange;	The Company did not notice that these shareholders had violated such undertakings during the Reporting Period.
Shenzhen Shen Guang Hui Highway Development Company	(ii) during three continuous years immediately following the completion of implementation of the Proposal, they should propose at the annual general meeting of the Company that the Company's dividends distributable in cash shall not be less than 50% of the recorded profit for the corresponding periods available for distribution to the shareholders, and to vote for such resolutions at the annual general meeting;	
Huajian Transportation and Economic Development Centre	(iii) they would pay relevant expenses arising from the share segregation reform based on the shares proportion held by them.	
Guangdong Roads and Bridges Construction Development Company Limited		

By order of the Board
Yang Hai
Chairman

Shenzhen, the PRC, 27 April 2006

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