Management Discussion and Analysis

In 2000, the Gross Domestic Product ("GDP") of the PRC surmounted USD1,000 billion for the first time in history, with an increase of 8% than that of 1999. The trade volume and the growth of imports and exports of the PRC reached the highest levels in the past twenty years, with its total volume of imports and exports increasing by 31.5% to USD474.3 billion, as compared with that of 1999. The volume of exports amounted to USD249.2 billion, up 27.8% over that of 1999, while the volume of imports grew by 35.8% to USD225.1 billion. Driven by the policies of expanding domestic demands and encouraging consumption, the number of private cars has increased substantially. Beijing has become the first city with more private cars than commercial vehicles in the PRC. The private car ownership per 100 people of Shenzhen has always ranked first in the PRC.

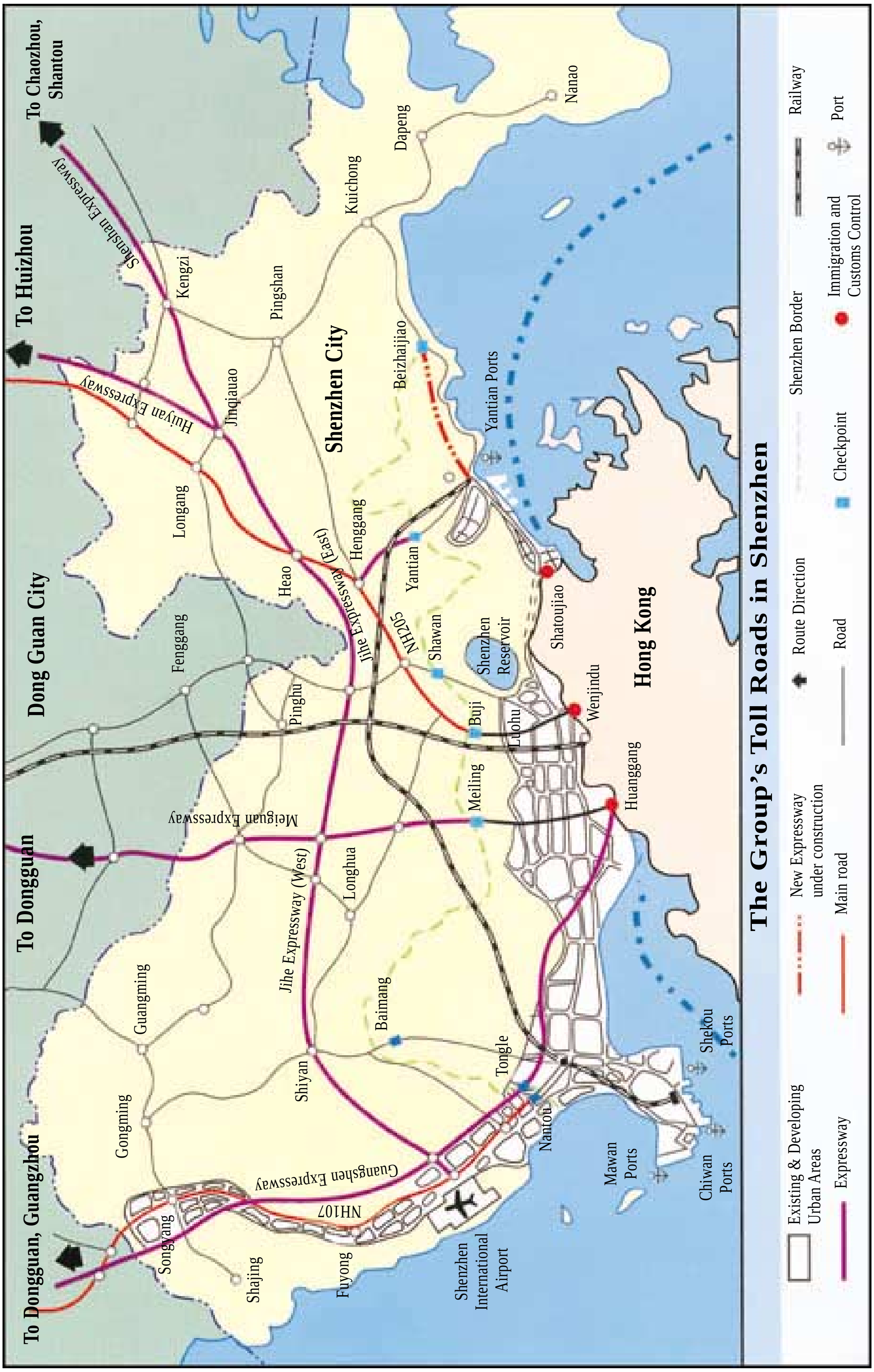
Shenzhen economy continued developing rapidly and healthily in 2000. The GDP of Shenzhen for 2000 ranked fourth in the PRC, with a rise of 14% as compared with that of 1999. The exports of Shenzhen still maintained strong growth throughout the year, continuously topping the large and medium-size cities in the PRC for eight years. In 2000, Shenzhen has more than 320,000 vehicles, among which 140,000 are private cars. Its cross-border traffic volume amounted to 11,250,000, with an increase of 12.5% as compared to that of 1999.

After twenty years' development, Shenzhen has become 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. With great flexibility as a special economic zone, it has gradually turned into a regional logistics centre following rapid economic development. The demand for highway transportation in Shenzhen has increased year by year. It is expected that China's accession to the WTO will further stimulate the economic development of Shenzhen and the trade activities between Shenzhen and Hong Kong, which will in turn pose an even pressing need for highways. Favourable macro-economic environment has created a desirable investment and management environment for the stable development of the Group.

BUSINESS REVIEW

Core Business — Toll Road Operation

The Group is mainly engaged in the investment, construction, operation and management of the existing 7 toll highways and expressways namely, National Highway 107 (Shenzhen Section) ("NH107"), National Highway 205 (Shenzhen Section) ("NH205"), Shenzhen Meiguan Expressway ("Meiguan Expressway"), Shenzhen Airport-Heao Expressway (Eastern Section) ("Jihe East"), Shenzhen Jihe Expressway (Western Section) ("Jihe West"), Changsha Ring Road (Northwestern Section) ("Changsha Ring Road") and Section A of Yanba Expressway (under construction) with a total length of approximately 176km.



The Group's Toll Roads in Shenzhen

General information of the toll highways and expressways of the Company

Toll roads	Category	Interest owned	Length (km)	Lanes	No. of toll plazas	Date of Construction	Date of Operation[1]
NH107	Class 1 highway	100%	31.7	6	1/single direction	—	1997
NH205	Class 1 highway	100%	35.5	6	1/dual direction	—	1997
Meiguan Expressway	Expressway	97.75% [2]	19.3	6/4	4/closed system	1993.3	1997
Jihe East	Expressway	55%	23.3	6	3/closed system	1995.10	1997.11
Jihe West	Expressway	100%	21.0	6	3/closed system	1997.7	1999.5
Changsha Ring Road	Expressway	51%	35.0	4	5/closed system	1996.12	1999.11
Section A of Yanba Expressway	Expressway	100%	9.65	6	3/closed system	1997.10	(2001.3) [3]
Section B of Yanba Expressway	Expressway	100%	9.19	6	2/closed system	—	—
Section C of Yanba Expressway	Expressway	100%	10.08	4	2/closed system	—	—

Notes: (1) Since the establishment of the Company.
(2) Directly and indirectly owned.
(3) Prospective date.

TOLL POLICY

The toll rates are mainly 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 the highways and users' affordability. The Group may apply to Guangdong Provincial Government 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 Group are set out below:

Categories of Vehicles and Toll Rates of National First Class Highways of the Group

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

Categories of Vehicles and Toll Rates of Expressways of the Group

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

Note: Vehicles with Hong Kong licenses will follow the above standards to pay tolls in Hong Kong dollars.

Categories 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 vehicle 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.

An analysis of the Operating Results of the Toll Roads of the Company

Operating results of the toll roads of the Group and its jointly controlled entities in 2000

Toll roads	**Average daily mixed traffic volume**	**Year on Year** *(±%)*	**Annual toll revenue (RMB'000)**	**Year on Year** *(±%)*	**Turnover (RMB'000)** *(note)*	**Year on Year** *(±%)*	**Profit share (RMB'000)**	**Year on Year** *(±%)*	**Status**
The Company and its subsidiaries:									
NH107	22,156	-7.06	82,490	-9.77	78,200	-13.18	43,530	-16.08	Close to saturation
NH205	41,873	-4.64	150,080	-2.78	144,140	-7.30	102,670	-8.88	Close to saturation
Meiguan Expressway	23,659	3.95	121,580	9.34	116,770	6.53	89,290	32.81	Steady growth
Jihe West	12,787	N/A	84,570	N/A	81,350	N/A	60,450	N/A	Steady growth
Jointly controlled entities:									
Jihe East	21,602	28.59	133,280	35.61	128,960	33.49	58,030	39.05	Spectacular growth
Changsha Ring Road	1,302	N/A	6,600	N/A	6,230	N/A	260	N/A	Awaiting further development

Note: Turnover represents toll revenue from operations of toll roads, net of relevant business tax.

Diagram 1: The traffic volume of each toll road of the Company (2000 Vs 1999)

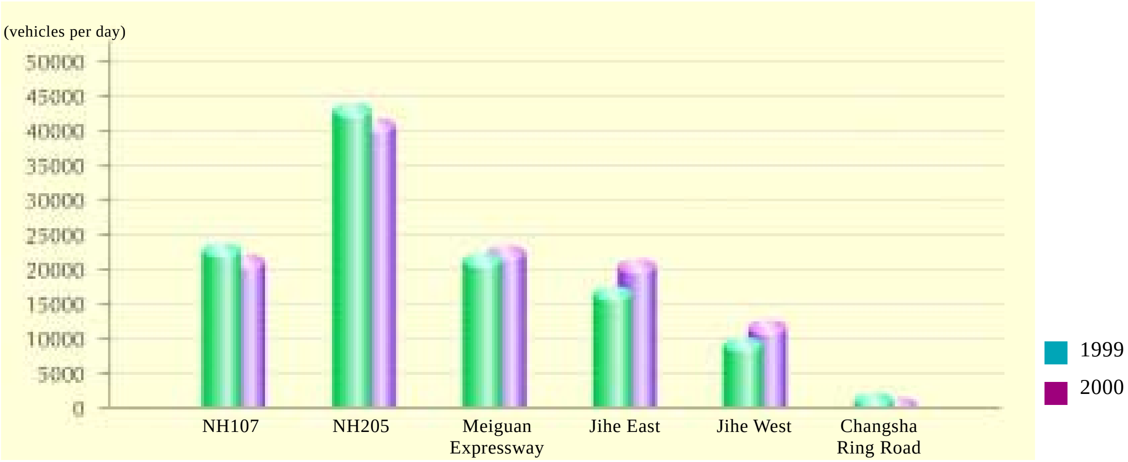
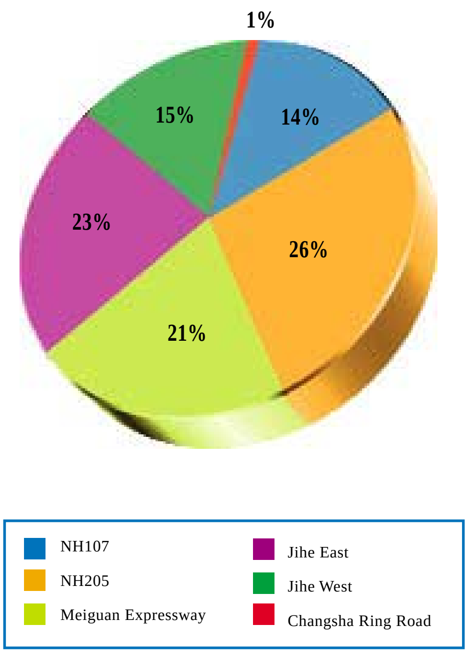


Diagram 2: Profit Contribution of Toll Roads of the Company in 2000



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 a main passage from the western part of Shenzhen to other major cities in the Pearl River Delta such as Dongguan and Guangzhou. It also connects 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 a passage connecting the eastern part of Shenzhen with Huizhou and Shantou and connects to Wenjindu Immigration and Customs Control through main roads in the downtown of Shenzhen.

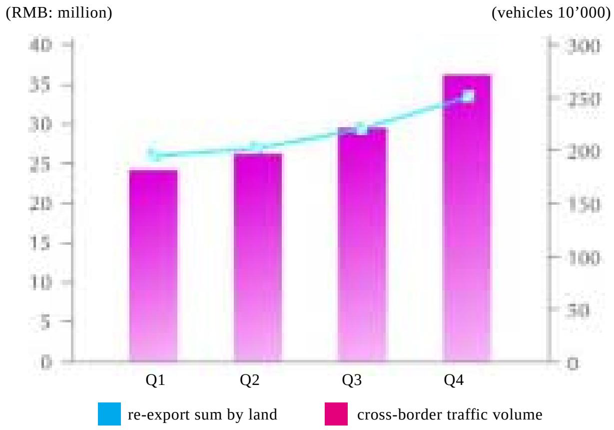
In 2000, the average daily mixed traffic volume of NH107 (one way) is 22,156 vehicles, down 7.06% as compared with that of 1999. Its toll revenue amounted to RMB82,490,000, with a decrease of 9.77% as compared with that of 1999. The average daily mixed traffic volume of NH205 for 2000 (two way) is 41,873 vehicles, with a slight reduction of 4.64% as compared with that of 1999, and its toll revenue is RMB150,080,000, with a slight decrease of 2.78% as compared with that of 1999.

Both NH107 and NH205 are open Class 1 national highways. Owing to their locations and roles in the road network of Shenzhen, they have played relatively important roles in highway transportation. As they run across the main towns and industrial zones of Longgang District and Baoan District in Shenzhen, respectively, and because of their long operational history, great traffic flow and the great difficulty to broaden the road beds, part of the traffic has been distracted following the constant improvement of the township roads in the surrounding areas. In 2000, the Company took measures to control traffic distraction of the above highways, to improve their passage conditions for vehicles and to promote the efficiency of toll collection through upgrading part of NH107 from 6 lanes to 8 lanes and renovating NH205, so as to maintain their current levels of traffic volume. In late 2000, the installation of non-stop toll systems of NH107 and NH205 was completed, so as to improve toll collection efficiency and passage efficiency and attract more traffic flow.

Meiguan Expressway

Meiguan Expressway, 19.3 km 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 immigration and customs control in Asia, with Dongguan City, an export processing certre in the Pearl River Delta Region. It intercepts Jihe Expressway and is the main route for transportation between Hong Kong and Mainland China.

Diagram 3: The Traffic Volume and Toll Revenue of Meiguan Expressway in 2000



The Company directly holds 95% equity interest of Meiguan Company, and the other 5% equity interest is held by Shenzhen Airport-Heao Expressway (Eastern Section) Company Limited, a 55% owned subsidiary of the Company. In 2000, the average daily mixed traffic volume of Meiguan Expressway amounted to 23,659 vehicles, a rise of 3.95% over that of 1999. Its annual toll revenue was increased by 9.34% to RMB121,580,000, with an increase of RMB10,380,000 as compared with that of 1999.

The recovery of imports and exports of Shenzhen and Hong Kong economy in 2000 attributed to the stable traffic growth of Meiguan Expressway in the first three quarters of 2000, but the growth appeared rather slow, mainly because: 1) the proportion of traffic flow using the whole section of Meiguan Expressway to its total traffic flow remained minor; 2) the relocation of Fenggang（鳳崗）Immigration and Customs Control to Yantian（雁田）in Dongguan City has led a certain number of cross-border traffic from Hong Kong to use Jihe East; 3) Minle Interchange in Longhua Town adjacent to Meilin Checkpoint which was completed at the end of 1999 also distracted some small vehicles in Longhua Town from Meiguan Expressway. In the fourth quarter of 2000, the completion and operation of Guanshen Expressway, which connects with the northern end of Meiguan Expressway, gave rise to the spectacular growth of traffic volume and toll revenue of Meiguan Expressway. The average daily toll revenue of Meiguan Expressway in 2000 grew at a faster pace than the average daily traffic volume, which shows: 1) the proportion of large vehicles, in particular container trucks from Hong Kong to the total traffic of Meiguan Expressway grew remarkably; 2) the proportion of traffic using the whole section of Meiguan Expressway to its total traffic grew rapidly. It is expected that the traffic volume and toll revenue of Meiguan Expressway will sustain a high growth in the future.

Jihe Expressway

Jihe Expressway, with a total length of 44.3 km, 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（二縱二橫）of the PRC. It runs from west to east starting from Shenzhen Airport along Hezhou, Shiyan, Longhua, and Pinghu to Heao at Henggang town. 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 western section for construction. In May 1999, the whole section of Jihe Expressway was completed and commenced operation.

Diagram 4: The Toll Revenue
Jihe East (2000 Vs 1999)

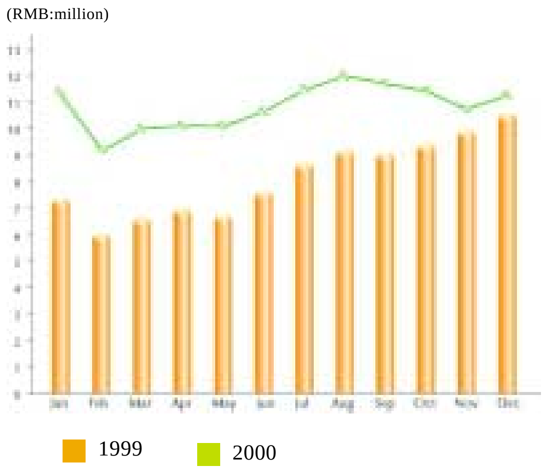
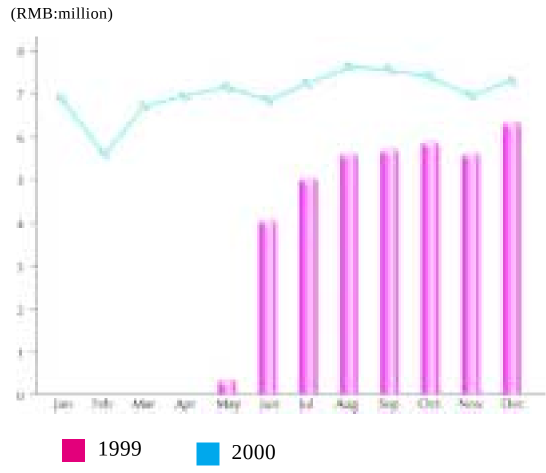


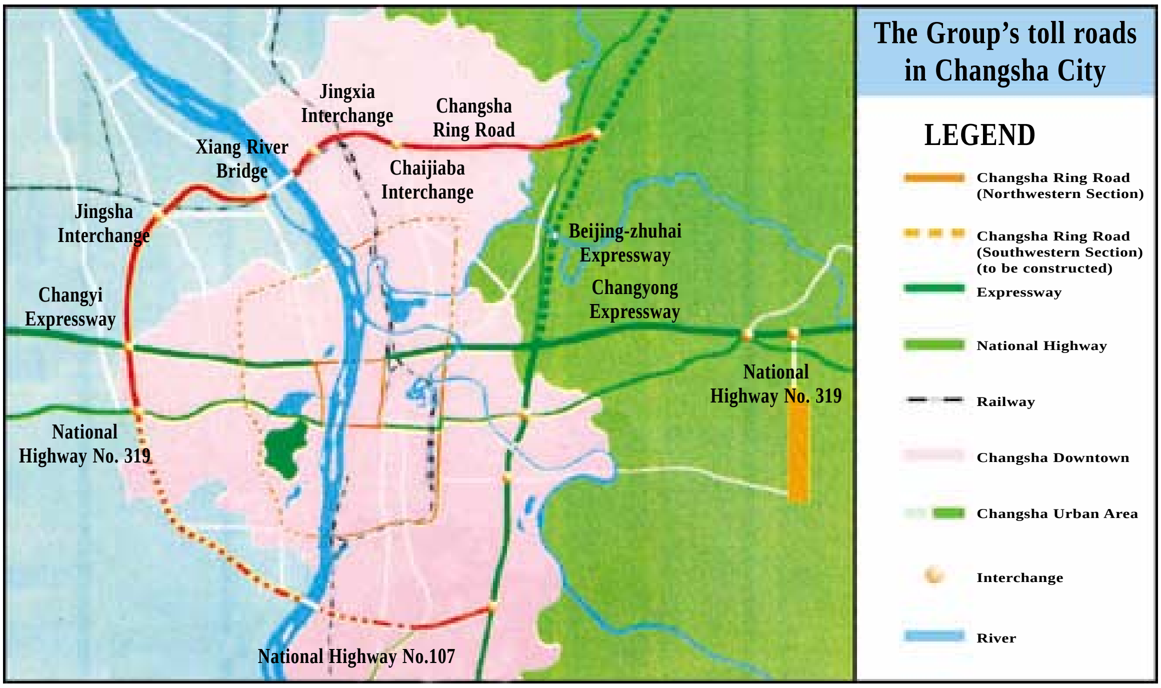
Diagram 5: The Toll Revenue of
of Jihe West (2000 Vs 1999)



The completion and operation of Jihe Expressway provides a direct outer ring road connecting the east and the west of Shenzhen, which greatly alleviates the traffic pressure between the Pearl River Delta Region and the eastern part of Guangdong Province. Following the relocation of Fenggang（鳳崗）Immigration and Customs Control to Yantian (雁田) in early 2000, substantial number of container trucks required to make customs declarations turned to use Jihe East instead of Meiguan Expressway. In 2000, the traffic volume and toll revenue of Jihe East entered a new growth stage. Its average daily mixed traffic volume amounted to 21,602 vehicles, with a rise of 28.59% as compared with that of 1999, and its annual toll revenue grew by 35.61% to RMB133,280,000.

Jihe West has maintained its growth momentum in traffic volume and toll revenue, in particular the remarkable growth in the third quarter of 2000. Its average daily mixed traffic volume was 12,787 vehicles and its daily toll revenue rose substantially by 29.12% as compared with last year. The annual toll revenue of Jihe West amounted to RMB84,570,000. Jihe West has become one of the major sources of the growth of the Group’s profits.


The Four Priority National Trunk Highways Plan
China
Beijing
Hunan
Changsha
Guangdong
Shenzhen
Hong Kong


The Group's toll roads in Changsha City
LEGEND
Changsha Ring Road (Northwestern Section)
Changsha Ring Road (Southwestern Section) (to be constructed)
Expressway
National Highway
Railway
Changsha Downtown
Changsha Urban Area
Interchange
River
Jingxia Interchange
Changsha Ring Road
Xiang River Bridge
Chaijiaba Interchange
Jingsha Interchange
Beijing-zhuhai Expressway
Changyong Expressway
Changyi Expressway
National Highway No. 319
National Highway No. 319
National Highway No.107

The Group will further strengthen the management of its expressways and continuously improve road facilities and relevant services. It will strengthen the management of the toll roads, constantly improve service, and create a smooth, clean, green and pleasant environment for vehicles, so as to attract more vehicles to use its toll roads. In addition, the Group will tighten its cost management to further enhance the profits of its expressways and the Group's resistance against risks. It is believed that following the economic development and the completion of expressways in the coastal provinces, more and more vehicles will be attracted to use expressways.

Changsha Ring Road

Changsha Ring Road (Northwestern Section), with a total length of 35 km (including a 2,020 meters 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 revenue are still at a low level. The average daily mixed traffic volume of Changsha Ring Road was 1,302 vehicles, and its toll revenue amounted to RMB6,600,000. Following the approval granted by Hunan Provincial Government, the toll rate of each type of vehicles was increased by RMB0.10 per kilometer over the original basis with effect from May 2000. It is expected that there will not be any sharp increases in traffic volume and toll revenue of Changsha Ring Road in the near future, but as the economic development of the northwestern part of Changsha City continues and with the completion of relevant municipal roads connected with Changsha Ring Road, Changsha Ring Road is expected to gain better results.

Core Business — Investment and Construction

Yanba Expressway

Shenzhen Yanba Expressway shall start from Yantian Ports in the west, passing Dameisha, Xiaomeisha, Xicong, Kuicong, and Bagang, and end at the border of Shenzhen and Huiyang. It will connect with a Class 1 highway in Huizhou and Shenshan Expressway. The total length of Yanba Expressway is 28.92 km, with the designed speed of 80km/hour. Section A of Yanba Expressway (from Yantian to Xicong), Section B of Yanba Expressway (from Xicong to kuicong) and Section C of Yanba Expressway (from kuicong to Bagang) are 9.65km, 9.19km and 10.08km, respectively, and will be closed systems. The whole project will be built on phases. Section A of Yanba Expressway is close to completion, which is scheduled to be in March 2001. The construction of Sections B of Yanba Expressway is expected to start in the second half year of 2001.

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 consolidation of the coastal defense, the evacuation of Daya Bay Nuclear Plant on emergency, the perfection of the expressway network in the east of Guangdong Province and the coastal areas of southeast China, and a better connection between Shenzhen and Hong Kong. Since Yanba Expressway runs through areas of specific geographical features, it involves complicated construction works which result in much higher costs than other highways. To render support to the construction of Yanba Expressway, and to ensure reasonable returns for the investors, Shenzhen Municipal Government has agreed to provide financial assistance of RMB300 million to the Company. This reduces the investment costs of the Company, and the investment return of the project has been substantially improved accordingly.

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 in other regions outside Shenzhen in the PRC.

Currently, the Company is carrying out the preparations for the construction of Section B of Yanba Expressway. The preliminary works of the planned No. 3 and No. 6 expressways in Shenzhen are also conducted. After taking into consideration the economic development of Shenzhen, the traffic volume in relevant regions and investment returns, the Company may consider developing the above projects at the appropriate time.

To meet the needs of the development of the east of Shenzhen and Yantian Ports, the Company is studying the possibility to build an exit highway for Yantian Ports which will start from Yantian Ports to the central part of Shenzhen and intercept with Jihe East at Paibang Interchange (“Yanpai Expressway”), with a total length of approximately 11 km. Currently, the Company is conducting the feasibility study of the project.

The Company is actively seeking high-quality road projects in regions outside Shenzhen. Letters of intent in respect of relevant projects have been signed. The Company endeavors to enhance its profitability and to provide better returns for shareholders through mergers and acquisitions.

Other ancillary businesses

Wutongling Cableway

The Company has injected RMB11 million in Shenzhen Wutongling Cableway Company Limited ("Wutongling Company") and acquired 40% equity interest in it. The installation of equipment of Wutongling Cableway started in July 1999. Ninety percent of the installation has been completed. However, owing to the distinctive difference on management concepts between the two partners of the project which affected the normal operation of Wutongling Company, Wutongling Cableway was not completed and commenced operation as scheduled. The commissioning of the project is expected to be delayed till the second half of 2001.

Zhengyi Advertising

The Company has invested RMB1.2 million in Shenzhen Zhengyi Advertising Company Limited ("Zhengyi"), 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 at the adjacent land along the toll roads. During the year, the operation of Zhengyi was satisfactory, and it generated profits for the Company.

Zhongyunjie Transportation Consultation

The Company has injected RMB600,000 into Zhongyunjie Transportation Development Company ("Zhongyunjie"), representing 20% of its equity interest. Zhongyunjie is mainly engaged in transportation services such as highway construction and planning consultancy, project supervision, traffic volume investigation, and transportation service. Zhongyunjie also recorded profits during the year.

The Company is reviewing performances of the ancillary activities and summing up experience to make appropriate and timely re-adjustments as required.

FINANCIAL REVIEW

Financial Results Analysis

Adhering to principles of long-term stability and continuous development, the Group has been making efforts to cut down operating costs and bring the best returns for its shareholders. As at 31st December 2000, the financial position of the Group has remained sound and the Group has achieved satisfactory results. Turnover for year 2000 amounted to RMB420,455,000, with a rise of 22.92% as compared with that of 1999. Profit attributable to shareholders increased by 7.51% to RMB363,074,000, the growth of which are mainly attributable to the profit growth of its toll roads.

The profit composition for the year has altered substantially as compared with that of 1999. Bank loans increased as the net proceeds from the H Shares initial public offering were fully utilized as at the end of 1999. Finance gains from government bonds and interest of bank deposits decreased by a big margin. On the basis of maintaining stable toll revenue growth and putting new projects into operation, the Group has strengthened control on internal costs and management, which led to a sharp increase of 18.20% in profit from toll road operations.

Year	Profit from toll roads (RMB'000)	Year on year (± %)	Finance gains (RMB'000)	Year on year (± %)	Other income (RMB'000)	Year on year (± %)	Profit attributable To shareholders (RMB'000)	Year on year (± %)	Earnings per share (RMB)	Year on year (± %)
2000	354,228	18.20	8,743	-76.85	103	-58.80	363,074	7.51	0.180	7.14
1999	299,694	24.91	37,760	-43.63	250	N/A	337,704	10.03	0.168	10.53

Liquidity and Financing

The Group's capital expenditure and investments which amounted to RMB295,233,000 for the year which is funded by cash generated from operation and financial assistance from Shenzhen Municipal Government. As at 31st December 2000, the Group's borrowing was RMB750 million, with an average interest rate of approximately 5.7%. The banking facilities available to the Group, but not drawn as at 31st December 2000 amounted to RMB1.95 billion. The banking facilities are all long term loans and repayable within 5 years. They are secured by the operating rights of the Company's two toll highways namely, NH205 and NH107 and the corporate guarantee from Meiguan Company. The banking facilities are for standby purpose and will be utilized should opportunities arise. In addition to the banking facilities, Shenzhen Municipal Government has agreed to provide an aggregate financial assistance of RMB300 million to the Company as an inducement for the Company to participate in Yanba Expressway, of which RMB250 million has been received by the Company and the other RMB50 million will be available in year 2001. Such financial assistance is unsecured, non-interest bearing and has no fixed terms of repayment. Even taking into account such financial assistance, the gearing ratio of the Group amounted to 30.3% as at 31st December 2000. Details of the capital structure are set out as follows:

	Total *(RMB'000)*	Percentage *(%)*
Shareholders' funds	4,337,928	76.26
Floating rate loans	750,000	13.18
Zero rate loans	564,693	9.92
Minority interests	35,202	0.64
Total	5,687,823	100
Debt-to-equity ratio	30.3%	

Given the Group's solid recurring cashflow from operation and a conservatively low gearing ratio, the Group has strong capacity to grow.

The financial position of the Group remains very strong. In 2000, the Group received a total cash of RMB345,909,000 from operation. If the A Share Issue is successful, the Group is expected to have an estimated increase of RMB900 million in capital.

Treasury Policies

The Group adopts conservative treasury policies and controls tightly over its cash and risk management. Cash is generally placed in short term deposits denominated in either Hong Kong or RMB. The banking facilities of the Group are all denominated in RMB that can be met by its RMB revenues. Its only foreign exchange liability is to pay dividends to its overseas shareholders. Accordingly, the Group has no significant currency exposure.

Capital Commitments

Details of the capital commitments of the Group and the Company are set out in the note 24 to the accounts.

As at 31st December 2000, the Group had a total capital commitments of RMB1,281,540,000 for the construction of Yanba Expressway in the next one to five years, among which RMB129,390,000, contracted but not provided for, will be applied to the construction of Section A of Yanba Expressway, payable in one to two years, and approximately RMB1,152,150,000 will be applied to the construction of Sections B and C of Yanba Expressway, authorised by the Board but not contracted for, payable in the next one to five years.

Other Material Events

Plan to Issue A Shares by Way of Public Offering in the PRC

It was resolved as a special resolution at the 1999 Annual General Meeting of the Company dated 19th May 2000 that the exercise by the Board of Directors of the Company of all the powers to allot or issue new shares be approved. According to "Provisional Regualtions for Listed Companies to Issue Shares by Way of Public Offering" promulgated by China Securities Regulatory Commission ("CSRC") in April 2000, the Company is entitled to raise funds by way of offering A Shares (shares traded by legal persons and natural persons in the PRC only) to the public at the domestic stock market, so as to cater the needs of the Company's future investment and further development and to make full use of the concession rights granted to the Company to develop and operate toll highways and expressways in Shenzhen.

The issue of A Shares (the "A Share Issue") will provide new source of funding for the Company, optimize the shareholder structure of the Company, make better use of the capital market, and ensure the continuous and rapid development of the Company. In the first Extraordinary General Meeting ("EGM") of the Company held on 28th December 2000, each of the resolutions in relation to the A Share Issue was voted by registered ballot and all the resolutions were unanimously approved by all the shareholders present in the EGM.

The Company will deliver the required application documents to CSRC as soon as practicable. The Company plans to apply for the issue of maximum 180,000,000 Renminbi-denominated A Shares and the listing of the proposed A Shares on the Shanghai Stock Exchange. Pursuant to the market principles, an appropriate issue price for such A Share Issue will be determined by conducting "Book-building" process for institutional investors who should apply outside the system network and by conducting "Book-building" process within the range of the application price for public investors who should apply outside the system network. The Board of Directors was authorised to do for and on behalf of the Company all relevant matters which are in connection with the A Share Issue. Upon the completion of the A Share Issue, the existing shareholders and the additional A Share shareholders of the Company are entitled to the undistributed profits of the Company as at 31st December 2000 and the profits accumulated from 1st January 2001 to the date of completion of the A Share Issue. The A Share Issue and the above authorisation shall be valid for one year from the date of passing such resolutions in the EGM.

Salaries of Employees and the Incentive Scheme

The Group's personnel is its most valuable asset. Upon the establishment of the Company, a team of competent and professional personnel was formed. As at 31st December 2000, the Group has 1,126 employees.

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

Training Program

The Company has compiled "The Staff Training System" and defined its training tasks for 2000 to 2002, aiming at upgrading the professional skills of its staff at all levels and to promote their understanding and recognition of corporate culture through all-round training.

The Share Appreciation Right Scheme

The Company always aims at its long-term development, endeavoring to establish a long-term market-oriented incentive system, so as to encourage its staff to commit to the long-term success of the Company. It plans to implement a share appreciation right scheme ("Scheme") in 2001, which is subject to the approval of the 2000 Annual General Meeting to be held on 6th March 2001. The Scheme aims at linking the benefits of its staff with the interests of shareholders, the Company's performance and its share price. Certain share appreciation rights shall be granted to management staff at various levels in accordance with their respective contributions.

The share appreciation rights ("Rights") refers to the rights under which the grantees are entitled to receive cash payment when the Company's share price rises above the prescribed exercise price granted in accordance with the Scheme. The cash payment received through the exercise of the Rights by the management staff of the Company is expected to account for approximately 50% to 75% of their remuneration package. According to the analysis, if the grantees exercise their respective Rights, the cash payment made by the Company under such Rights will have little impact on the Company's profits and under such circumstances, the value of the shares is expected to increase correspondingly by 30% to 150%.

The Rights will be granted to the management staff of the Company, about 95 management staff will be granted the Rights in 2001, including directors, supervisors, general manager, deputy general managers, department heads, certain management staff, and directors, supervisors and management staff of the subsidiaries and the jointly controlled entities of the Company that are appointed by the Company.

The Rights will be in units with each unit representing one share. The grantees of such Rights shall not have any rights for voting, dividends, transfers or other rights apart from the rights granted by the Rights, no matter he exercises the Rights or not. The number of the Rights initially available under the Scheme is approximately 20,000,000 units, representing approximately 0.99% of the total number of the issued shares of the Company (approximately 2.67% of the total number of H Shares). The total number of options available under the Scheme is 60,000,000, accounting for 2.98% of the issued shares of the Company (representing 8.03% of the H Shares of the Company).

The Scheme shall be valid for 10 years, while all the Rights will 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, fourth and fifth year after the date of grant, the options exercised will not in aggregate exceed 25%, 50%, 70% and 100%, 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 mainly determined by H Share price with reference to A Share price of the Company. Upon the exercise of the Rights, the grantee will receive 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.

PROSPECTS AND OUTLOOK

Year 2001 is the first year of China's 10th Five-Year Plan. In 2001, the global economy is expected to maintain fast growth and the PRC is soon to join the WTO. The PRC Government will continue to implement stable financial and monetary policies which have been carried out for the past three years. The strategy to open up the western part of the PRC is being implemented. Such developments are of great importance to further expand the domestic demands, improve infrastructure facilities, and promote foreign trade and the economic development of the PRC. Investment, consumption and foreign trade will maintain stable growth. It is expected that China economy will continue to grow rapidly and steadily in 2001.

Prospects

The development of logistics industry in Shenzhen, one of the future pillar industries of Shenzhen, has been launched. New means and larger scale of cargo transportation will bring greater traffic flow. The Company is expected to share the benefits of such new industrial policy. To further improve the highway transportation of Shenzhen, Shenzhen Municipal Government has drafted the master plan of the road network of Shenzhen. During its 10th Five-Year Plan, approximately RMB4 billion to RMB5 billion will be invested in highways, and the total length of highways in Shenzhen are expected to be 1,750km, among which 200km will be expressways. The Company owns the concession rights and a right of first refusal to develop new highways and expressways in Shenzhen. Accordingly, the Company is the only player to implement the master plan of the road network of Shenzhen Municipal Government. Pursuant to the policy of developing public utilities and infrastructure set out in "The Ninth Five-year Plan of Economic and Social Development and the Outline of Goals for 2001", the Group is expected to have a more desirable business environment for the investment and development of toll roads and ancillary activities and a brighter future.

Opportunities and Challenges

1. The PRC is going to implement the fuel tax in 2001. 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 to railway, waterway and flight. That will bring certain impact on the traffic volume and toll revenue of the Group's existing toll roads. On the other hand, the replacement of road maintenance fees by fuel tax will further stimulate the growth of commercial vehicles and private cars, and more and more vehicles will be attracted to use expressways. In the long run, the implementation of fuel tax will bring positive impacts on the Company's results.

2. The fluctuation of international oil prices has affected the operating costs of vehicles, which will lead to the reduction of usage of vehicles by users on the one hand, and the preference of using expressways by car users to save fuel on the other hand.

3. The PRC will further abolish policies that hinder the consumption of cars and housing so as to expand the demands for cars and housing. It is expected that in 2001 prices of cars will be cut down and economy household cars will come on the market. The rapid development of automobile market will increase the demand for toll roads.

4. The existing toll highways and expressways of the Group have formed a road network, therefore, much of short-haul passenger vehicles and freight vehicles choose to use the toll roads of the Group, a 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 by railway, waterway and flight.

5. The unique location of the Company results that the traffic volume and toll revenue 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 of foreign trade of the PRC, thus increasing the toll revenue of the Company.

Outlook

The Group is ready to take up challenges and to capitalize various opportunities. To be responsible for the existing and new shareholders, with the spirit of pioneering, the Group will make full use of its current market advantages on the basis of stable operation of its existing toll highways and expressways. With a firm foothold in Shenzhen, it will expand its business in other regions of the PRC. It will further enhance its operation and management, and make full use of its human resources and unique location, so as to produce better economic and social results.