

Jiangyin-Yangtze Bridge

With the approval of Jiangsu Provincial Government, the standard tolls of Jiangyin-Yangtze Bridge were adjusted in February 2001. There was an increase by approximately 35% on average. This guaranteed a substantial growth in toll revenue. Moreover, as an integral part of Beijing-Shanghai Expressway, its traffic volume continued to grow. For the first half of 2001, the average daily traffic volume was 14,802 vehicles, and the average daily toll revenue was RMB631,300, indicating an increase of 9.4% and 45.6% in comparison with those over the corresponding period in last year. The growth in both the traffic volume and the toll revenue will continue.

3. Financial analysis

Cash Flow

The Company is mainly engaged in the operation of toll roads, therefore has relatively adequate and stable operational cash-flow, and with the location of the highways operated by the Company and the economic development trends of the neighboring districts, operating cash-flow tends to grow annually. As at the end of the report period, in order to enhance the profitability of the Company, the Company chose investments on projects having development potential and in close relationship with the business operation of the Company. Following the changes in the scope of the investment projects, cash-flow demands of the Company also tend to fluctuate. During the report period, the Company has no new long-term investment projects. In order to increase the rate of capital application, the Company conducted steady short-term asset assignments, with the effect that, as at the end of the report period, cash-flow of the Company reduced by approximately Rmb230,401,000 over last year.

In order to maintain a certain gear ratio, the Company adopted a steady financing strategy. As at the end of the report period, short-term loans of the Company was only slightly reduced by Rmb50,000,000 over last year. The long-term loan of the Company was the loan obtained from the Bank of China Jiangsu Branch on 15th October 1998. These loans were designated to be used for the implementation of the foreign exchange portion in a commercial contract for the import of equipment amounting US\$9,804,269.50. The term of the loan was to be pursuant to the loan agreement. The period for the use of the funds from the government loan portion in this loan was within 12 months after the effectiveness of the commercial contract, and the first repayment date is 16th January 2007, with a repayment period of 30 years, of which, grace period is 10 years, and repayment period 20 years, to be made in 40 equal half-yearly installments. The period for the use of the funds from the buyer's credit facility in this loan was within 10 months after the effectiveness of the commercial contract, and the first repayment not to be later than July 1999, with a repayment period of 7 years, to be made in 14 equal half-yearly installments.

Capital Structure

During the end of the report period, the total liability of the Company was Rmb906,814,000, of which short-term liability was Rmb847,733,000, long-term liability Rmb59,077,000 (total liability at the end of last year was Rmb940,466,000, of which short-term liability Rmb897,180,000 and long-term liability Rmb43,286,000). Gear ratio was 6.8% (gearing ratio at the end of last year was 7.0%). Of the total liability of the Company, bank loans were

Rmb587,363,000, representing 64.8% of the total liability (bank loans at the end of last year were Rmb626,723,000, representing 66.6% of the total liability). Net assets of the Company were Rmb12,055,802,000 (net assets at the end of last year were Rmb12,115,691,000). For details of the repayment conditions of the long-term loans of the Company, please refer to the sections in Other Material Contracts and Its Implementation.

4. Investments of the Company

The use of the proceeds from the H Share issue

The Company issued 1,222,000,000 H Shares at HK\$3.11 per Share (equivalent to RMB3.33). The proceeds from the offer were approximately RMB4,069,000,000. Upon deducting the issue expenses, the net proceeds amounted to RMB3,926,000,000. According to the proposed Use of the Proceeds as disclosed in the Prospectus, as at 30th June, 2001, the proceeds have been used for the following purposes:

1. RMB1,345,786,000 was used to acquire the land use right of and the right to operate Nanjiang-Shanghai Class 2 Highway for a term of 15 years;
2. RMB601,855,000 and RMB1,398,016,000 were used, on the basis of the construction progress, to invest in and construct Guangjing Expressway and Xicheng Expressway respectively, in each of which the Company holds 85% interests;
3. RMB93,888,000 was used to construct and upgrade the toll collection, the communication and the monitoring systems of Shanghai-Nanjing Expressway;
4. RMB250,000,000 was used to repay the loans; and
5. The balance of approximately RMB236,455,000 is deposited in a construction bank as liability reserves of Guangjing Expressway and Xicheng Expressway and as a remedial works reserve for the toll collection, the communication and the monitoring systems of Shanghai-Nanjing Expressway.

The use of the proceeds from A Share issue

(i) The use of the proceeds and the results (Unit: RMB)

Way of Fund-raising	Investment Project Undertaken	Date of Application Undertaken	Total investment	Anticipated Return	Actual investment Project	Actual Amount of Investment	Date of Actual Investment
A Share Issue	Acquisition of 381,185,660 Shares in Yangtze Bridge Co.	2000-12-29	472,670,200	21.13%	Acquisition of 381,185,660 Shares in Yangtze Bridge Co.	472,670,200	2000-12-29

(ii) The balance of the proceeds

The balance of the proceeds from the A Share Issue RMB 141,829,782 will be used to acquire not less than 46,263,940 Shares in Yangtze Bridge Co. (representing 2.17% of the capital of the company), thereby increasing the Company's shareholding in the Yangtze Bridge Co. to over 20%. The funds are currently deposited in a commercial bank in the PRC.

(iii) The progress and the revenue of the project

Yangtze Bridge Company was incorporated on 31st December, 1992. Its total share capital consists of 2,137,248,000 shares. The company is mainly engaged in the construction, the maintenance and the management of Jiangyin-Yangtze Bridge and other traffic infrastructures. Jaingyin-Yangtze Bridge was opened to traffic on 28th September, 1999 upon completion of its construction. Its unique position of being the common sections of Beijing-Shanghai Expressway and Tongjiang-Sanya Expressway has been the determining factor of its huge traffic volume. Yangtze Bridge Company will gain material benefit from the flourishing traffic development. The acquisition was completed on 29th December, 2000. From 1st January, 2001, the Company became the third largest shareholder of Yangtze Bridge Company, holding 17.83% interests in the company.

(2) PLANS FOR THE SECOND HALF OF 2001:

1. Rationalization of the locations of the toll gates of Nanjing-Shanghai Class Z Highway. Through an analysis of the traffic volume of Nanjing-Shanghai Class 2 Highway, an application will be submitted for rationalizing the locations of the existing toll gates.
2. Investment in Suzhou-Jiading-Hangzhou Expressway. Pursuant to the relevant legal procedures of acquisition, the Company will actively proceed with the acquisition of Suzhou-Jiading-Hangzhou Expressway in the second half of this year.
3. Increase in the shareholding interests in Yangtze Bridge Co. The Company will continue to finance the acquisition of part of the shareholding interests in Yangtze Bridge Co. by the proceeds from A Shares issue, so that the Company will hold over 20% interests in Yangtze Bridge Co.
4. Completion of acceptance tests of the three major systems. The three major systems of Shanghai-Nanjing Expressway, namely, the toll collection, the communication and the monitoring systems, have been run on trial for a year. In the second half of this year, the Company will complete the acceptance tests of those systems, and will fully utilise the advantages of the hardware platform of the three major systems to raise the efficiency by advancing to the office automation of the Company.

5. Completion of the study of the business strategy of the Company. The Company will actively study the development strategy and direction of the Company, emphasis will be put on the in-depth discussions of proposals concerning the positioning of the Company, its latest development plan, plans for implementation of its medium to long-term development strategy and targets, so as to bring the development of the Company into a healthy, orderly and persistent orbit and lay down a solid foundation for the sustainable development of the Company.
6. Furtherance of the corporate restructuring. In order to be in line with the long-term strategic development of the Company, the Company will further its corporate restructuring, standardize its business practice and improve its management structure.