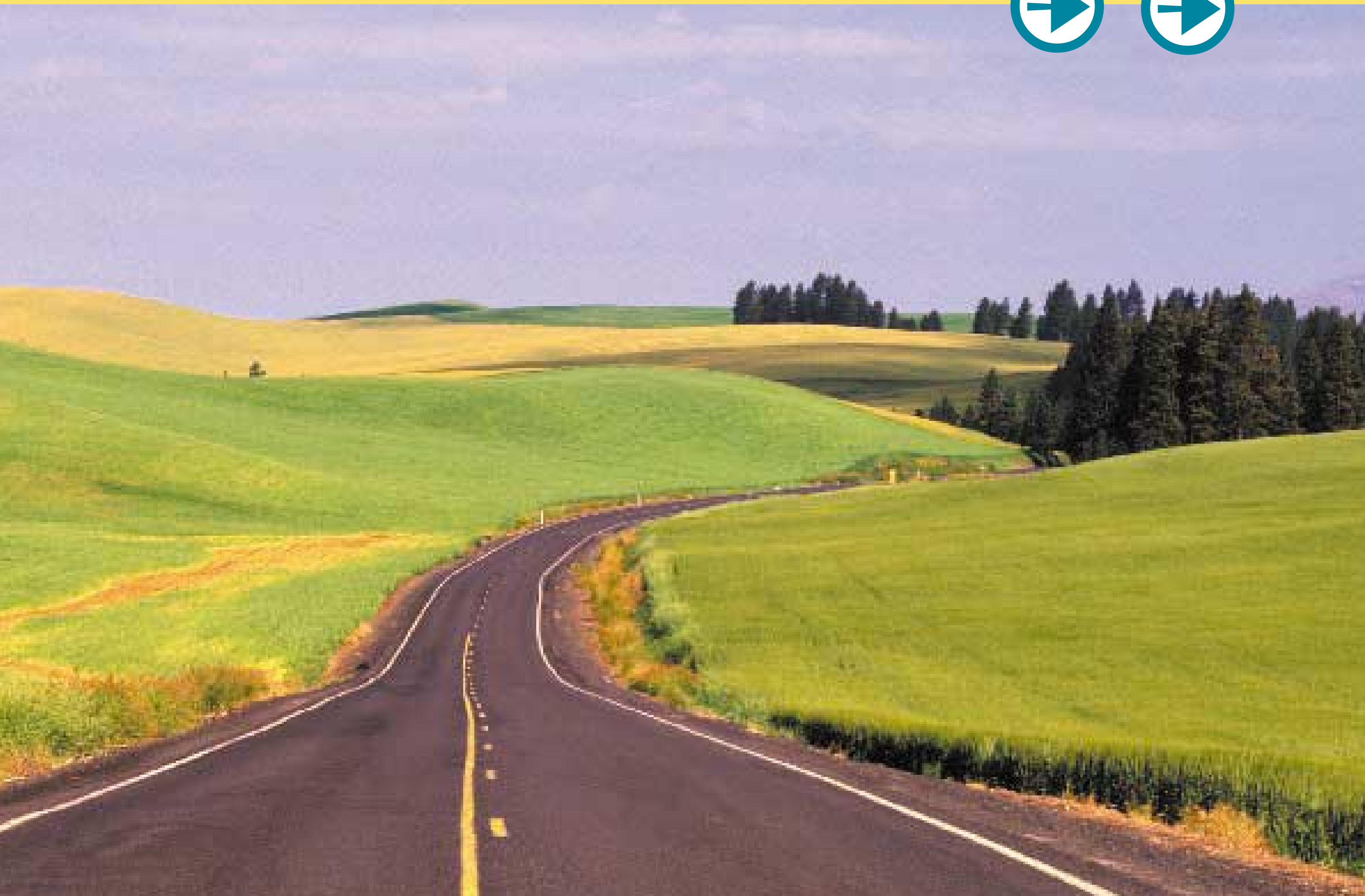
MANAGEMENT DISCUSSION & ANALYSIS

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



MANAGEMENT DISCUSSION AND ANALYSIS

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

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

After twenty years' development, Shenzhen has been built up to be one of the most dynamic cities in the PRC. Owing to its unique location, Shenzhen serves as the gateway between Mainland China and Hong Kong and even Southeast Asia. It is expected that upon China's accession to WTO, the economic development of Shenzhen and the trade activities between Shenzhen and Hong Kong will be further stimulated and the manufacturing industry in the Pearl River Delta will further develop. This will in turn create an even more pressing need for highways. Favorable macro-economic environment has created a desirable investment and management environment for the stable development of the Company.

BUSINESS REVIEW

Operation Review

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

Business Summary

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

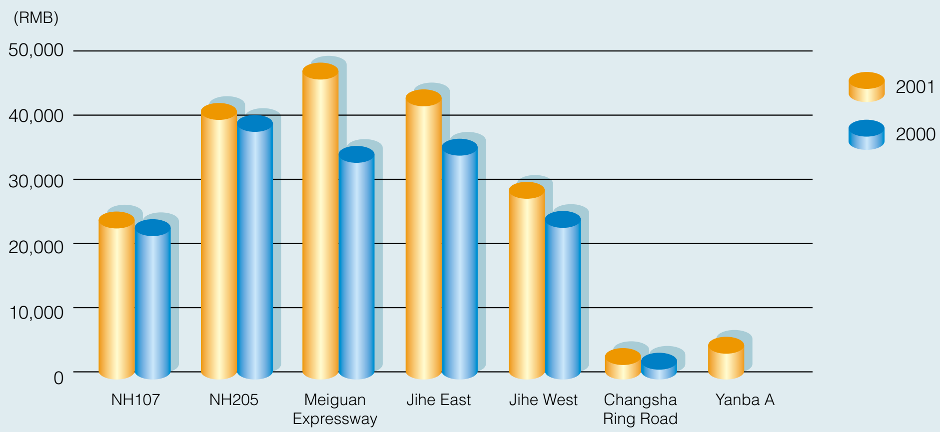
An analysis of the operation of the toll roads of the Company

Operating results of the toll roads of the Company in 2001

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

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

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



MANAGEMENT DISCUSSION AND ANALYSIS

Toll policy

The setting of toll rates is always determined by Guangdong Provincial Government with reference to the following factors: traffic flow, construction costs, prospective pay-back periods of investment, repayment periods of any loans, local price levels and inflation rate, management, operation and maintenance costs of highways and users' affordability. The Company may apply to Guangdong Provincial Government, at appropriate times, for toll rate adjustments by taking into consideration factors like the operating costs of its highways, the pay-back periods of investment and fluctuation of local price. Details of the toll rates of the existing toll roads of the Company are set out below:

Categorization of Vehicles and Toll Rates of NH107 and NH205

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

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

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

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

Categorization of Vehicles and Toll Rates of Changsha Ring Road

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

Notes:

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

Business Analysis

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

The Traffic Volume and Toll Revenue of Expressways Continued to Grow

In 2001, toll income from expressways has become the main source of the Group's profit growth. During the year, Meiguan Expressway and Jihe Expressway have achieved remarkable growth and they play an important role in the future development of the Company. Meiguan Expressway recorded a growth of 43.11% in annual toll income for the year 2001, while the toll incomes of Jihe East and Jihe West increased by 15.13% and 23.87%, respectively, as compared with those of 2000.

Meiguan Expressway

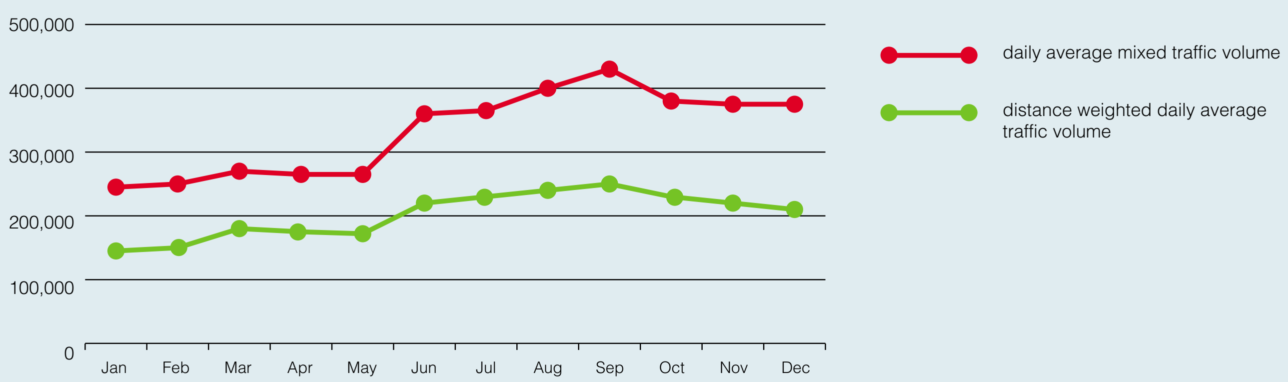
Meiguan Expressway, 19.3 kilometers long, runs northwards from Shenzhen Meilin Checkpoint to the border between Shenzhen and Dongguan and connects with Guanshen Expressway running from Dongguan City to Shenzhen. It connects Huanggang Immigration and Customs Control, the largest land immigration and customs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

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

MANAGEMENT DISCUSSION AND ANALYSIS

The strong growth in traffic volume and toll income of Meiguan Expressway in 2001 is mainly attributable to the following: (1) since the opening of Guanshen Expressway in the second half of 2001, which connects with the northern end of Meiguan Expressway, Meiguan Expressway has witnessed remarkable growth both in traffic volume and toll income. The connection between Guanshen Expressway and Meiguan Expressway forms a partial road network, which has given rise to the spectacular growth in proportion of traffic using the whole section of Meiguan Expressway out of its total traffic. The weighted daily average traffic volume of Meiguan Expressway in 2001 reached 19,969, with an increase of 67.36% over that of 2000; (2) Positive factors for the growth of toll income and traffic volume arose. The damage to a bridge in Fenggang in Dongguan City by flood in June, 2001 led much traffic to Meiguan Expressway, which further boosted the growth in traffic volume and toll income of Meiguan Expressway. The upgrading and renovation of the roads near Meiguan Expressway from June to September, 2001 caused certain traffic to use Meiguan Expressway. The above factors ceased in October, 2001; and (3) The commencement of operation of Huawei Toll Station in April, 2001 and the effective control of traffic diversion at Minle Interchange also contributed to the growth in traffic volume and toll income of Meiguan Expressway in 2001.

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



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

Jihe Expressway

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

Though the toll income growth of Jihe East slowed after a high growth in 2000, it still maintained a favorable growth in 2001. The daily average mixed traffic volume of Jihe East was 25,103, up 16.20%, and its annual toll income grew by 15.13% to RMB153,453,633. Jihe West also witnessed relatively strong natural growth in traffic volume and toll income. Its daily average mixed traffic volume was up by 26.17% to 16,134, as compared with that of 2000. The annual toll income of Jihe West amounted to RMB104,763,888, with an increase of 23.87% over that of 2000. Jihe East and Jihe West have become the main sources of the Company's profit growth.

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

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

NH107 and NH205

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

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

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

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

Changsha Ring Road and the Newly Opened Yanba A Need Improvement

Changsha Ring Road

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

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

Yanba A

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

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

INVESTMENT AND CONSTRUCTION

Yanba Expressway

Yanba Expressway shall start from Yantian Ports in the west and end at Shenzhen – Huizhou Border. It will connect with the Class 1 highway in Huizhou and Shenshan Expressway. The total length of Yanba Expressway is 28.92 kilometers, with the designed speed of 80km/hour. Yanba A (from Yantian Ports to Xicong) is 9.65 kilometers long. Yanba B (from Xicong to Kuicong) and Yanba C (from Kuicong to Bagang) will be 9.19 kilometers and 10.08 kilometers, respectively.

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

Investment Strategy and Planning

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

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

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

OTHER ANCILLARY BUSINESSES

Wutongling

The Company has injected RMB11 million in Shenzhen Wutongling Cableway Company Limited and acquired 40% interest in it. The installation of equipment for Wutongling cableway started in July, 1999. Approximately ninety percent of the installation has been completed up till now. However, the distinct difference in management concept between the two partners of the project affected the normal operation of Wutongling.

Zhengyi

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

Zhongyunjie

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

OPERATION RESULTS AND FINANCIAL POSITION

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

Operation Results

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

Turnover

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Other revenues

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

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

The relatively sharp decrease in interest income is mainly due to the slash in bank deposits of the Company and the drop in interest rates in 2001. Interest from a long-term loan represents interest charged at over five years' loan interest rate quoted by the People's Bank of China on the long-term loan of RMB306,000,000 advanced through a financial institution to Changsha Ring Road Construction and Development Co., Ltd., the joint venture partner of Shenchang. The interest charged from the long-term loan amounting to RMB19,267,000 in 2001 has been fully received.

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

Operating costs

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

The relatively high increase in operating costs is because:

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

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

(2) Please refer to Other Investments set out below for details of unrealised losses in other investments.

(3) The Company increased expenses for road maintenance and forestation during the year, with a view to improving the road and passage conditions of its toll roads.

(4) The opening of Yanba A increased RMB7,255,738 in depreciation and amortisation and RMB3,931,637 in other operation costs.

MANAGEMENT DISCUSSION AND ANALYSIS

Finance costs

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

Financial Position

Liquidity

	2001	2000
Current ratio	**3.13**	2.28
Quick ratio	**3.12**	2.26

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

Financial resources

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

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

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

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

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

Capital structure

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

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

Funding and treasury policies

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

Net cash inflow from operating activities

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

Financing

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

Capital expenditure

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

Cash inflow and outflow

	(RMB'000)
Net cash inflow from operating activities	535,845
Net increase in bank borrowings and other long-term advances	125,060
Net cash inflow from dividends, other incomes received from jointly controlled entities and other income received	92,989
Issue of A Shares	604,128
Dividends paid	(201,570)
Purchase of fixed assets and payment for construction	(264,643)
Increase in other investments	(233,649)
Other expenses net of other incomes	(81,487)
Increase in cash and cash equivalents for the year ended 31 December, 2001	576,673

Gearing Ratio

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

Cash management

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

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

Future capital commitments

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

Foreign exchange rate risk management

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

Other investments

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

(1) In September, 2001, the contract under which the Company entrusted RMB50,000,000 with China Eagle Securities Co., Ltd ("China Eagle Securities") for investment management expired. The principal together with an investment income of RMB4,750,000 was received by the Company;

(2) In March, 2001, the Company entrusted RMB40,000,000 with China Eagle Securities for investment management with a term of one year. The Company received the principal and an investment income of RMB3,944,444 in March, 2002;

(3) In October, 2001, the Company entrusted RMB50,000,000 with China Eagle Securities for investment management with a term of one year from October, 2001 till October, 2002. The annual return rate of the investment under the agreement is 2% above the coupon rate of 3.28% of the 9905 Government Bonds, i.e., 5.28% per annum. If the actual annual return rate exceeds 5.28%, then China Eagle Securities is entitled to 3.5% of the net assets in the securities accounts at the expiry date as its asset management fees. If the annual return rate of the investment exceeds 8%, then 50% of the excess will go to the Company and the remaining part of the excess will be received by China Eagle Securities as its asset management fees.

(4) The Company entrusted RMB200,000,000 with Guoxin Securities Co., Ltd ("Guoxin Securities") for investment management, with a term from January, 2001 to January, 2002. The Company received the principal in March, 2002 and got an investment income of RMB8,800,000;

(5) In December, 1999 and September, 2000, the Company entrusted respectively RMB50,000,000 and RMB60,000,000 with Huarong Trade (Group) Company ("Beijing Huarong") for investment management, with a term of 2 years. Pursuant to the contracts signed, the return rate of the investments per annum will not be lower than 5.28%. Beijing Huarong had, in breach of the terms of its contracts, exceeded the investment scope confided by the Group to it in carrying out dealings in shares and caused damage, so that upon expiration of its mandate it breached its obligation under the contracts to pay over the Company the principal and income from the investments. With effect from February, 2002, the Company has taken over the management and control of the relevant securities accounts, the market value of securities in such accounts being approximately RMB75,348,801, creating an unrealised loss of RMB24,220,000 for the Company's other investments.

In accordance with the decision of the Board of directors, the Group has already terminated all such management arrangements, and investments entrusted in China Eagle Securities and Guoxin Securities of RMB240,000,000 have been withdrawn. The Company will, based on the principle of "to sell but not to buy", realise as soon as possible the entrusted investments. The Board of directors has also decided that the management shall seek redress for Beijing Huarong's breach of obligations through legal action.

Contingent liabilities

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

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

Charges on the Group's assets and guarantees

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

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

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

Project Management and Prospects for New Business

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

The Company has accumulated extensive experience in project management, with a favorable track record of project quality management, tight cost control and good reputation in the toll road sector. To capitalise on the Company's expertise in management and to meet the needs of the development of new activities, the Company proposes to invest RMB2,700,000 to establish Shenzhen Expressway Engineering Consulting Company Limited (the "Engineering Consulting Company") with Meiguan, representing 90% interest of the Engineering Consulting Company. The principal activity of the Engineering Consulting Company will be to provide consultation in project management. Through the establishment of the Engineering Consulting Company, the Company intends to make full use of its experience and human resources in road project management and expand into fields such as engineering consultation and project management, so as to broaden the profit base of the Group. Currently, the relevant formalities of the Engineering Consulting Company are being carried out.

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

MANAGEMENT DISCUSSION AND ANALYSIS

THE ISSUE AND LISTING OF A SHARES

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

SALARIES OF EMPLOYEES AND THE INCENTIVE SCHEME

The Company's personnel is its most valuable asset. Upon the establishment of the Company, a team of competent and professional personnel was formed. As at 31 December, 2001, the Company had 1,121 employees, out of whom 96 are administrative staff, 27 are finance staff, 136 are technical staff and the rest 957 are toll collection staff. The number of the personnel with professional qualifications amounted to 167, representing 10.40% of the total number of the employees of the Company. Employees with college, post-secondary education or above education levels accounted for 55.60% of the Company's employees. All the toll collection staff are graduates with secondary school education or above. As at 31 December, 2001, the Company had no retirees.

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

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

Training

The Company puts much emphasis on employee training. The training system has been established and specific training programs have been carried out according to the development of the Company. The Company carried out a training program of MBA core courses aiming at the medium and senior management in the first half of 2001. In the second half of the year, training programs for staff at all levels from different departments were carried out, which has enhanced the business level and quality of the staff.

The Share Appreciation Right Scheme

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

The total number of rights under the Scheme is 60,471,000 shares, with a validity of 10 years. All the rights have an exercise period of 5 years. A grantee is not allowed to exercise his or her rights in the first year after the date of granting the rights. In each of the second, third, and fourth year after the date of grant, the rights exercised will not in aggregate exceed 25%, 50% and 75%, respectively, of the total rights granted to him or her. The grant price and the exercise price of the rights will be determined by reference to both the H Share price and the A Share price of the Company, which is mainly determined by H Share price (representing 60%) with reference to A Share price (accounting for 40%) of the Company. The grant price of the rights is 90% of the average close price of the Company's stocks for the five trading days preceding the date of granting the rights. The exercise price of rights granted is the average close price of the Company's stocks for the five trading days counting from the sixth day since the date of the application by grantees. Upon the exercise of the rights, the grantee will receive cash payment, subject to any withholding tax, equal to the number of the rights exercised multiplied by the difference of exercise price and grant price at the time of exercise. The grant price and the exercise price of the rights are calculated by adding the H Share price and the A Share price, and the difference of exercise price and grant price will not be above RMB1.50 per share. If the exercise of the rights is postponed by every one year, the maximum amount of the difference of the exercise price and the grant price will increase by every 15%. The Company's management can make their applications for the exercise of their rights within 2 months counting from the third trading day after the annual results, interim results or the quarterly results are announced. The Scheme also states that, if the Company's annual results or interim results are down by 20% or above, then the exercise of the rights supposed to be exercised in that year will not be allowed while the rights which have not been exercised in the previous years will be allowed to be exercised in that year.

PROSPECTS AND OUTLOOK

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

Opportunities and Challenges

1. The unique location of the Company means that the traffic volume and toll income of its toll roads greatly depend on the economic development and the imports and exports of Shenzhen and Hong Kong. It is expected that China's accession to the WTO will greatly stimulate the traffic demands related to the foreign trade of the PRC. Beijing's successful bid for the host of 2008 Olympics will expand the demands for transportation facilities which will further increase the traffic volume and toll income of the Company's toll roads.

2. Upon China's accession to the WTO, the active financial policies adopted by the PRC Government will further boost the development of commercial vehicles. Domestic commercial vehicles in the PRC are expected to grow at more than 10% in 2002. In addition, the severe tariff cuts for automobiles and other commodities will lead to a new round of price cuts in auto sales, further stimulating consumption with respect to private cars. The above will provide a steady demand for the toll road operations of the Company.

3. The PRC is expected to implement fuel taxes in 2002. The introduction of fuel tax will increase the costs of vehicles, which will lead to the increase in charges by vehicles, weakening the competitiveness of highway versus railway, waterway and airflight. That will bring a certain impact on the traffic volume and toll income of the Company's existing toll roads. On the other hand, the replacement of road maintenance fees by fuel tax will prompt more and more vehicles to use expressways. In the long run, the implementation of fuel tax will bring positive impacts on the Company's results.

4. The existing toll highways and expressways of the Company have formed a road network, therefore, many short-haul passenger vehicles and freight vehicles choose to use the toll roads of the Company, as means of transportation with high efficiency, flexibility and swiftness. Highway transportation in Shenzhen accounted for 80% of its freight volume, which far exceeded the freight volumes moved by railway, waterway and airflight.

5. In 2001, the utilization of non-stop toll collection systems in NH107, NH205, Meiguan Expressway and Jihe Expressway promoted the passage efficiency and attracted traffic flow, to some extent. However, following the constant improvement of the township roads in the surrounding areas, traffic diversion has appeared in certain sections of the Company's toll roads. The Company will strengthen control of traffic diversion to alleviate the impact of traffic diversion on the traffic volume and toll income of the Company's toll roads.

6. For the five years commencing from 2002, the Company and Meiguan are subject to a 50% reduction in PRC income tax rate, i.e., at the tax rate of 7.5% which will have a certain effect on Company's profits.

7. In the second half of 2001, the Ministry of Communications and the State Planning Commission jointly promulgated *The views on providing preferential treatments on toll fees to vehicles towing containers* and issued a consultation paper on the matter. According to the document, the average toll fees collected from vehicles towing containers will drop. Though the decrease in toll fees collected from vehicles towing containers will have an adverse impact on the Company's toll income, it will also attract more vehicles towing containers to use expressways, which in turn will increase the traffic volume of the Company's toll roads. The above policy has yet to be implemented. As a result, its impact on the Company cannot yet be measured.

8. The Guangdong Provincial Government has approved that, with effect from 1 January, 2003, classification of vehicles of expressways for Guangdong Province shall be unified and applicable toll rates shall be adopted. If the ultimate toll rates are less than the present standard toll rates of the Company, this will have a substantial adverse effect on the Company's toll road operations and future profits. Based on the Company's toll income for the year 2001, it is estimated that toll income of expressways may record a drop of 15~20% in 2003 under the new proposed classification of vehicles and applicable toll rates. It is expected that the profits of the Company may also decrease accordingly.

   Guangdong Province has further proposed to have settlement and appropriation of toll fees for the whole of the province thereby realizing a uniform toll network system for all the expressways in the province. Due to the foregoing, the Company may have to stop using the main toll stations on the expressways operated by the Company, but with minimal effects on the toll income received by the Company. Adopting such a uniform toll network system could reduce operation costs of the Company and enhance traffic efficiency.

9. Guangdong relevant authorities recently promulgated a new regulation requiring the expressways in Guangdong Province should collect toll fees from vehicles with foreign licenses in RMB with effect from 1 April, 2002. Pursuant to the above regulation, the toll roads of the Company collect toll fees from vehicles with Hong Kong licenses in RMB at PRC standards. The implementation of the new regulation will also have certain effects on the toll income of the Company's expressways.

Outlook

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

MANAGEMENT DISCUSSION AND ANALYSIS

MAJOR EVENTS

2001 Profit Distribution Scheme

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

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

The Proposed Profit Distribution Policy in 2002

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

The Profit Forecast for 2001

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

Material Litigation and Arbitration

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

Material Acquisition, Asset Disposal and Merger

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

Appointment of Auditors

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

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

(RMB)

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

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

Other Major Events

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