

### OPERATION REVIEW

The Directors of Shenzhen Expressway Company Limited (the "Company") are pleased to announce the unaudited interim results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June, 2002 (the "Period"), prepared in accordance with the accounting principles in Hong Kong. During the Period, the Group has achieved a turnover of RMB250,011,000, with an increase of 13.80% as compared with the corresponding period of 2001. Profit attributable to shareholders amounted to RMB199,118,000, representing a slight decrease of 1.42% over the same period of 2001. Earnings per share for the Period are RMB0.0913.

The slight decrease in profit attributable to shareholders of the Company for the Period is attributable to factors such as the commencement of PRC enterprise income tax of the Company with effect from 2002 and the reduction in construction management service income.

### Business summary

The Company is mainly engaged in the development, construction, operation and management of toll roads in the PRC. Currently, it owns five expressways and two national highways, namely Shenzhen Meiguan Expressway ("Meiguan Expressway"), Shenzhen Airport-Heao Expressway (Eastern Section) ("Jihe East"), Shenzhen Airport-Heao Expressway ("Western Section") ("Jihe West"), Section A of Yanba Expressway ("Yanba A"), Changsha Ring Road (Northwestern Section) ("Changsha Ring Road"), National Highway 107 (Shenzhen Section) ("NH107") and National Highway 205 (Shenzhen Section) ("NH205"), with a total length of 176 km. The toll roads in Shenzhen operated by the Company are connected with ports, the airport, checkpoints and industrial zones, playing a very important role in Shenzhen's highway transportation.



## MANAGEMENT DISCUSSION AND ANALYSIS

### Analysis of toll road operation

The operating results of the Company's toll roads during the Period are set out as follows:

Toll roads	Average daily mixed traffic volume	Year on year	Average daily toll income (RMB)	Year on year
Meiguan Expressway	34,842	+23.65%	475,929	+19.19%
Jihe West	20,162	+34.64%	359,903	+34.67%
Jihe East	25,724	+9.65%	422,760	+6.61%
Changsha Ring Road	2,064	+66.64%	27,963	+65.45%
NH107	24,199	+14.14%	242,095	+16.33%
NH205	41,541	-5.65%	344,481	-11.92%
Yanba A*	5,194	N/A	34,626	N/A

\* Yanba A commenced operation on 16 April, 2001. It is not applicable to the comparisons with the same period of 2001.

	Branches and Subsidiaries						Jointly controlled entities	
	Total	NH107	NH205	Jihe West	Meiguan Expressway	Yanba A	Jihe East	Changsha Ring Road
Turnover	250,011	41,541	59,109	61,756	81,664	5,941	72,655	4,778
Operating costs	65,695	16,381	16,509	11,987	14,592	6,226	14,865	5,935
Operating profit	184,315	25,160	42,600	49,768	67,072	-285	57,790	-1,158
Profit attributable to shareholders	166,238	23,304	39,440	49,768	54,011	-285	31,784	-590

Note: In the above chart, the turnover, operating costs and operating profits of the jointly controlled entities namely Jihe East and Changsha Ring Road are displayed at the proportion of 100% owned, while profit attributable to shareholders of Jihe East (55% owned) and Changsha Ring Road (51% owned) are calculated on the basis of the interests owned by the Company.



### Business Analysis

In the first half of 2002, China economy grew at a steady and rapid pace, with a 7.8% increase in the Gross Domestic Product (“GDP”) as compared with the same period of 2001. Guangdong’s overall economy witnessed an obvious growth, with a GDP growth of 10.7%, which is much higher than the average GDP growth rate of the country. The volume of exports of Guangdong Province amounted to USD52.18 billion, up 20.9% as compared with the same period of 2001.

Shenzhen maintains its role as one of the fastest growing cities in the PRC, with a GDP growth of 13.5% for the first half of 2002. The volume of its imports and exports amounted to USD38.57 billion, increasing by 21.7% as compared with the same period of 2001. Shenzhen’s private cars are increasing at an astonishing pace. New cars sold during the first half of 2002 amounted to 38,625 vehicles, with an average monthly growth of approximately 6,500 vehicles. The private car ownership per 100 households climbed from 7 vehicles in 2000 to 18.5 vehicles in 2002. Shenzhen’s rapid economic growth and its remarkable development of private cars have provided a steady demand for the toll road operations of the Company.

The steady performance of the Group’s toll roads during the first half of 2002 has provided a steadily increasing cash flow for the Group, which has laid a solid foundation for the Group’s profit.

### Expressways — sustaining continuous growth

In the first half of 2002, the Company’s expressways sustained continuous growth and were the main source of the Company’s profit growth. Meiguan Expressway and Jihe Expressway have become the main sources of the Group’s profit. They are expected to play an important role in the future development of the Company.

#### *Meiguan Expressway & Jihe Expressway*

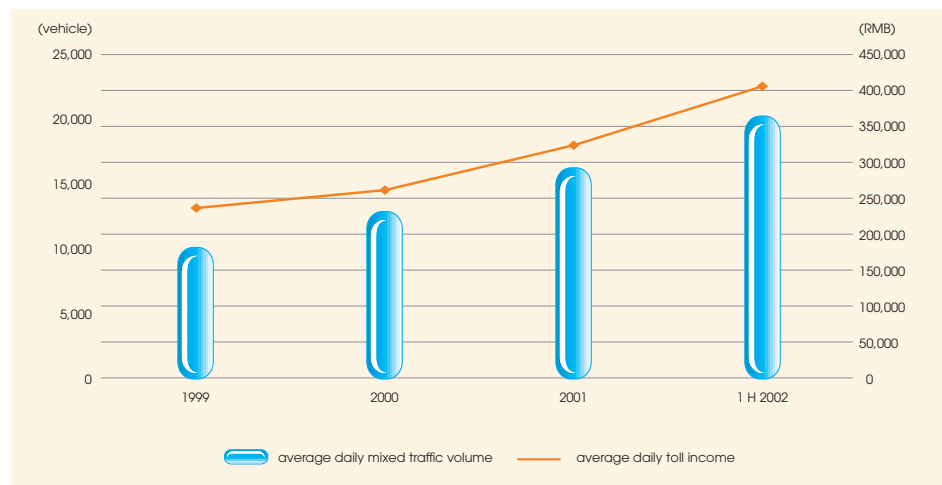
The traffic volume and toll income of Meiguan Expressway have entered a new stage of growth since its connection with the Guanshen Expressway in Dongguan City in October 2000. Its significance as the most important north-south trunk expressway in Shenzhen has been gradually realized. Meiguan Expressway still recorded a relatively high growth in the first half of 2002 after its strong growth of more than 40% in both traffic volume and toll income, with its average daily mixed traffic volume and average daily toll income for the Period increasing by 23.65% and 19.19%, respectively. The proportion of traffic using the whole section of Meiguan Expressway out of its total traffic continued climbing. Its distance weighted daily average traffic volume for the Period reached 21,166, with an increase of 22.57% as compared with the same period of 2001.

Jihe West has entered the stage of strong growth, with its growth in average daily mixed traffic volume and average daily toll income amounting to 34.64% and 34.67%. Vehicles using the whole section of Jihe West increased remarkably. Its distance weighted average daily traffic volume for the Period amounted to 16,865, up 33.84% as compared with the same period of 2001.

## MANAGEMENT DISCUSSION AND ANALYSIS



Diagram 1: The average daily mixed traffic volume and average daily toll income of Jihe West (1999 – 2002)



In the first half of 2002, Jihe East's growth in traffic volume and toll income slowed as a result of the traffic diversion caused by the newly opened Shuiguan Expressway. Its respective growth in average daily traffic volume and average daily toll income is 9.65% and 6.61%.

The installations of non-stop toll collection system in Meiguan Expressway, Jihe East and Jihe West by the Group were completed at the end of 2001, which has improved the passage conditions and promoted passage efficiency and toll collection efficiency on the above expressways and has attracted certain traffic.

### *Changsha Ring Road and Yanba A*

In the first half of 2002, Changsha Ring Road witnessed great improvements in traffic volume and toll income. Both its average daily mixed traffic volume and average daily toll income recorded a growth of more than 65% as compared with the same period of 2001, which are due to: 1) Changsha Shenchang Expressway Company Limited ("Shengchang Company") has strengthened its internal management; 2) two toll stations were re-opened from February to April 2002; 3) constructions at Wujialing in Changsha City commenced and the local transportation authority exercised traffic control, which has led much traffic to use Changsha Ring Road.



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; and 3) large vehicles constituted a minor proportion out of the total traffic volume. The average daily toll income of Yanba A for the first half of 2002 is RMB34,626, and the toll income for the Period amounted to RMB6,270,000. 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.

Pursuant to the regulation promulgated by Guangdong Provincial Government with effect from 1 April, 2002, the expressways of the Company collected toll fees from vehicles with Hong Kong licenses in RMB as per the PRC standards instead of in HKD, which has caused a slight decrease to the toll income of the expressways of the Group for the first half of 2002.



## MANAGEMENT DISCUSSION AND ANALYSIS



### NH107 and NH205

The non-stop toll collection systems of NH107 and NH205 were put into use at the end of 2001, which has shortened toll collection period and improved toll collection efficiency.

During the first half of 2002, NH107 witnessed a steady growth in average daily traffic volume and average daily toll income, which were up by 14.14% and 16.33%, respectively, as compared with the same period of 2001. As affected by the traffic diversion caused by the Shuiguan Expressway, NH205's average daily mixed traffic volume dropped by 5.65% as compared with the same period of 2001, while its average daily toll income recorded a decrease of 11.92% as compared with the same period of 2001.

### CONSTRUCTION AND PLANNING

#### Yanba B — under construction

Yanba B is the second phase of Shenzhen Yanba Expressway, with a length of 9.19 km. Its construction commenced in June 2001, and approximately 36% of the project has been completed. It is expected to be completed in July 2003. The total investment of Yanba B is estimated to be RMB655 million, which is mainly funded by the net proceeds from the issue of Renminbi-denominated ordinary shares (A Shares) in the PRC and the government advances of RMB150 million which Shenzhen Municipal Government agreed to provide to the Company.

#### Investment and planning

Currently, the total length of highways in Shenzhen exceeds 1,500 km, with the highway density of 74 km/100 km<sup>2</sup>. According to Shenzhen's adjusted road network planning, a total length of 270 km of expressways are expected to be built in Shenzhen in the next 10 years, with a total investment of approximately RMB20 billion. The Company will make full use of its concessions rights to expand its operation of expressways in Shenzhen.

The Company is carrying out the feasibility studies or preparatory works of Yanpai Expressway and other planned expressways in Shenzhen. Yanpai Expressway will start from Yantian Ports to Paibang Interchange at Jihe East, with a total length of approximately 13 km. Its total investment is estimated to be RMB989 million. The feasibility study of Yanpai Expressway has been appraised by Guangdong Provincial Communications Department. The construction of Yanpai Expressway is expected to commence in late 2002 or early 2003. The Company plans to raise funds for Yanpai Expressway through such ways as bank borrowings.

### OPERATION RESULTS AND FINANCIAL ANALYSIS

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

#### Operation Results

	For the six months ended 30 June		Change
	2002 (RMB'000)	2001 (RMB'000)	
Turnover	250,011	219,700	+13.80%
Other revenues	37,974	47,609	-20.24%
Total operating costs	(93,797)	(72,510)	+29.36%
Operating profits	194,188	194,799	-0.31%
Share of profit/(losses) of jointly controlled entities	31,194	27,148	+14.90%
Finance costs	(15,137)	(18,483)	-18.10%
PRC enterprise income tax	(8,211)	(96)	N/A
Profit attributable to shareholders	199,118	201,980	-1.42%

#### Turnover

	For the six months ended 30 June		Change
	2002 (RMB'000)	2001 (RMB'000)	
Income from toll roads	263,723	231,754	+13.79%
Less: business tax and surcharge	(13,712)	(12,054)	+13.75%
Turnover	250,011	219,700	+13.80%

## MANAGEMENT DISCUSSION AND ANALYSIS

Turnover comprises turnover from wholly-owned toll roads namely NH107, NH205, Jihe West, Yanba A and the 95% held Meiguan Expressway.

The increase in the turnover of the Group for the first half of 2002 is mainly attributable to the growth in traffic volume from Meiguan Expressway and Jihe Expressway.

### Other revenues

	For the six months ended 30 June		Change
	2002 (RMB'000)	2001 (RMB'000)	
Interest income from bank deposits	6,162	3,016	+104.31%
Interest income from a long-term loan	9,148	9,607	-4.78%
Government subsidies	18,109	8,771	+106.46%
Investment income from other investments	826	10,624	-92.23%
Income from construction management service	2,413	13,500	-82.13%
Other income	1,316	2,091	-37.06%
Total	<u>37,974</u>	<u>47,609</u>	-20.24%

The increase in the interest income from bank deposits is mainly attributable to the unused net proceeds from the issue of A Shares kept in the PRC banks during the Period, increasing the interest income from bank deposits for the Period.

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 Changsha Company.

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 insufficient traffic volume caused by the early construction of the expressway, which was requested by the Shenzhen Municipal Government. Yanba A commenced operation on 16 April, 2001 and its operation period in the first half of 2002 was 3.5 months more than that of the same period of 2001. Accordingly, the government subsidies recognized for the Period increased as compared with that of the first half of 2001.

Income from other investments represents income from the investment entrusted to licensed securities companies in the PRC for management. During the Period, the entrusted investments were received gradually, thus the income from other investments decreased accordingly.



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 was completed in 2001. During the Period, the Company is mainly responsible for the management of its auxiliary project and the income from the management service for the project decreased.

### Operating costs

	For the six months ended 30 June		Change
	2002 (RMB'000)	2001 (RMB'000)	
Total operating costs	93,797	72,510	+29.36%
Included: Depreciation and amortisation	44,939	38,723	+16.05%
Staff costs	20,719	14,709	+40.86%
Road maintenance expenses	8,527	5,663	+50.57%
Other costs	19,612	13,415	+46.19%

During the Period, operating costs of the Company increased as compared with the same period of 2001, mainly because:

1. As the traffic volume of each toll road of the Company grew, the depreciation of toll roads and land use rights calculated on the basis of traffic volume method increased accordingly.
2. The increase in staff costs is mainly due to the provision of RMB3,090,000 for the share appreciation rights scheme for the Period.
3. The Company increased the expenses for road maintenance such as small and medium road maintenance for the Period, with a view to maintaining the existing road conditions and improving the passage conditions of its toll roads.
4. The increase in other operating expenses for the Period is mainly due to the losses on other investments amounting to RMB2,319,000 and the provision of RMB5,650,000 for doubtful debts on the loans advanced to the Company's jointly controlled entity namely Shenzhen Wutongling Cableway Company Limited ("Wutongling").

## MANAGEMENT DISCUSSION AND ANALYSIS

### Finance costs

The Group's finance costs dropped by 18.10% as compared with the same period of 2001, because the Group actively adopted such various measures as repaying borrowings according to its capital demand and obtaining preferential interest rates for its bank borrowings to reduce its finance costs and that the interest rates of bank borrowings quoted by the People's Bank of China dropped during the Period.

### Income tax

Except that the Company's jointly controlled entity (Shenzhen Airport-Heao Expressway (Eastern Section) Company Limited) and its branches namely Shenzhen Yanba Expressway Company and Shenzhen Jihe Expressway (Western Section) Company are still within the PRC enterprise income tax exemption period, the Company and its subsidiary (Shenzhen Meiguan Expressway Company Limited) are subject to a 50% reduction in PRC enterprise income tax rate, i.e., at the tax rate of 7.5% with effect from 2002. As a result, the income tax paid during the Period increased.

## FINANCIAL POSITION

### Liquidity and financial resources

#### *Liquidity*

	As at 30 June, 2002	As at 31 December, 2001
Current ratio	1.43	3.13
Quick ratio	1.42	3.12

Though the liquidity indicators as at 30 June, 2002 dropped as compared with those as at 31 December, 2001 because of the proceeds applied to the construction of Yanba B, the increase in the Group's short-term bank borrowings and the repayment of long-term borrowings, the Group's liquidity still remains good. As a toll road operator, the Group has had relatively strong cash flow since its operation, with good liquidity position, solid capital structure and strong repayment ability.

*Financial resources*

As at 30 June, 2002, the Group has cash of RMB817,766,000 and short-term investments of RMB100,081,000. Its bank borrowings amounted to RMB494,418,000. The breakdown of its financial resources is set out below:

	As at 30 June, 2002		
	Currency	Amount (‘000)	Translated into RMB (‘000)
Cash on hand			140
Bank deposits			
— Fixed deposits in RMB	RMB	461,200	461,200
— Current deposits in RMB	RMB	208,438	208,438
— Deposits in HKD	HKD	114,275	121,201
— Deposits in USD	USD	292	2,421
Capital in other currencies	RMB	24,366	24,366
Cash in total		—	817,766
Short-term investments			
— Entrusted investment	RMB	50,000	50,000
— Self-managed investment	RMB	50,081	50,081
Short-term investments in total	RMB	100,081	100,081
Bank borrowings			
— Short-term bank borrowings	RMB	470,000	470,000
— Long-term bank borrowings	USD	2,950	24,418
Total bank borrowings			494,418

The Group has an aggregate of RMB1.9 billion secured banking facilities. As at 30 June, 2002, the Group has RMB1.43 billion banking facilities remaining unused.

In addition, the Shenzhen Municipal Government has agreed to provide a financial advance of RMB150 million for the construction of Yanba B. As at 30 June, 2002, the Group has received an aggregate of RMB50 million of government advances.

## MANAGEMENT DISCUSSION AND ANALYSIS

### *Treasury policies and objectives*

#### 1. Cash management

The proceeds from the issue of A Shares are under specific management, which is and will be specifically applied to the construction of Yanba B. The unused proceeds are mainly kept as fixed deposits in domestic banks. Other working capital for operation is mainly for the operation of the Group, repayment of due liabilities and investments. The idle fund is mainly kept in banks or used for repayment of bank borrowings.

#### 2. Short-term investment management

The Group has terminated all short-term investment arrangements.

During the Period, the Group has withdrawn the investments of RMB240 million which were entrusted in securities companies. Another investment of RMB50 million was withdrawn on 2 August, 2002. The Company took over the securities accounts from Huarong Trade (Group) Company for self management basing on the principle of "To sell but not to buy" and "To realize gradually". The market value of the stocks taken over was RMB75,349,000. During the Period, part of the stocks have been sold, and the market value of the remaining stocks was RMB50,081,000 as at 30 June, 2002. The Group will take advantage of the favorable opportunities of the securities market and realize the stocks promptly.

#### 3. Foreign exchange risks management

The Group had HKD114,275,000 and USD292,000 in bank deposits, and loans of USD2,950,000. The Group terminated collecting toll fees in HKD with effect from 1 April, 2002. During the Period, the exchange rates for converting USD and HKD to RMB remained relatively stable, which did not have any significant impact on the Group's results.

#### 4. Management on debts, borrowing terms and interest rates

The Group is able to pay bank borrowings and other borrowings when due. The terms of bank borrowings are determined collectively on the basis of the Group's financial plans, liquidity and risks as well as the interest rates of bank borrowings, so as to ensure that the Group is able to repay borrowings when due, to reduce repayment risks, to cut finance costs and to provide sufficient fund for the Company's current and future development.

The interest rates of the Group's bank borrowings are mainly floating interest rates, which are based on the prime interest rates quoted by the People's Bank of China. With its good reputation, the Group is able to obtain preferential interest rates lower than the prime rates for its bank borrowings, which may be adjusted as per the adjustment of the loan interest rate made by the People's Bank of China.

## Cash inflow and outflow

<i>Cash inflow and outflow</i>	<i>(RMB'000)</i>
Net cash inflow from operating activities	198,348
Net cash inflow from dividends, other incomes received from jointly controlled entities	49,949
Capital expenditure for purchase of fixed assets	(182,173)
Net cash outflow of bank borrowings	(274,642)
Government advances	10,000
Short-term investment withdraw	263,965
Dividends paid	(156,728)
Other incomes net of other expenses	(28,766)
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<b>Net decrease in cash and cash equivalents for the six months ended 30 June, 2002</b>	<b>(120,047)</b>
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## 1. Net cash inflow from operating activities

As a toll road operator, the Group has had relatively strong cash flow. The net cash inflow from operating activities of the Group for the first half of 2002 amounted to RMB198 million, which is mainly from its relatively fast growing toll revenue of its toll roads.

2. As for short-term investments, please refer to the aforesaid *short-term investment management*.

## 3. Principal financing

*Government advances*

During the Period, the Group received RMB10 million of government advances granted for the construction of Yanba B.

*Bank financing*

During the Period, the Group repaid an aggregate of RMB890 million, out of which short-term bank borrowing amounted to RMB240 million and long-term bank borrowings amounted to RMB650 million. During the Period, short-term borrowings increased by RMB610 million, and long-term borrowings increased by USD647,000 (approximately RMB5.357 million). As at 30 June, 2002, the Group has short-term borrowings of RMB470 million and USD2.95 million (approximately RMB24,418,000) of long-term borrowings with a term of 3 to 5 years.

## MANAGEMENT DISCUSSION AND ANALYSIS

### 4. Capital expenditure

The Group's capital expenditure for purchase of fixed assets including road constructions for the Period amounted to RMB183 million, which was mainly used to pay for the progress payment of Yanba A and the construction of Yanba B.

### Capital structure

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

	As at 30 June, 2002		As at 31 December, 2001	
	Amount (RMB'000)	Percentage	Amount (RMB'000)	Percentage
Current liabilities	654,749	10.14%	430,715	6.35%
Long-term liabilities	402,788	6.24%	940,235	13.86%
Shareholders' funds	5,344,440	82.81%	5,363,392	79.06%
Minority interests	52,260	0.81%	49,343	0.73%
Total	<u>6,454,237</u>	100%	<u>6,783,685</u>	100%

The Group's equity-debt ratio is 16.39%. Its operation and capital structure have remained sound, with overall low gearing ratio and strong repayment capability, which is in conformity with the specific features of the toll road sector, i.e., substantial amount of investments with a long period of recovery.

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

	As at 30 June, 2002		As at 31 December, 2001	
	Amount (RMB'000)	Percentage	Amount (RMB'000)	Percentage
Fixed rate liabilities	24,418	0.38%	19,060	0.28%
Floating rate liabilities	470,000	7.28%	750,000	11.06%
Interest-free liabilities	563,119	8.72%	601,890	8.87%
Shareholders' funds	5,344,440	82.81%	5,363,392	79.06%
Minority interests	52,260	0.81%	49,343	0.73%
Total	<u>6,454,237</u>	100%	<u>6,783,685</u>	100%



Fixed rate liabilities represent the loans of USD2,950,000 from the Spanish Government, out of which the USD1,475,000 is charged at a rate of 1.8% per annum and the remaining USD1,475,000 is at 7.17% per annum.

Floating rate liabilities are all loans denominated in Renminbi, with the interest rate of 4.536% per annum.

Interest-free liabilities represent payables and shareholders' advances, which are mainly payments for road maintenance and construction, and will be repaid when due.

#### Gearing Ratio

As at 30 June, 2002, the Group's gearing ratio (total liabilities as at 30 June, 2002/shareholders' funds as 30 June, 2002) was 19.79%, that was at a low level as compared with other toll road operators. This shows that the Group has strong capital base and ample capability for further fund raising.

#### Other investments

As at 30 June, 2002, other investments of the Company amounted to RMB100,081,000, representing (1) investments of RMB50,000,000 entrusted in a securities company, China Eagle Securities Co., Ltd which has relevant approved license to conduct securities and entrusted financing businesses in the PRC; and (2) investments managed by the Company of RMB50,081,000. Such other investments comprised government bonds and equity securities listed on the Shanghai Stock Exchange and the Shenzhen Stock Exchange of the PRC. The Company withdrew the investments entrusted in China Eagle Securities Co., Ltd on 2 August, 2002 ahead of schedule.

#### Contingent liabilities

During the Period, the Group has not any contingent liabilities.

#### USE OF THE PROCEEDS FROM THE ISSUE OF A SHARES

In strict compliance with the undertakings stated in the *Prospectus of A Shares*, the Group applies the net proceeds of RMB604 million from the issue of A Shares to the construction of Yanba B. Yanba B is expected to be completed in 2003, the total investment of which is estimated to be RMB655 million. Approximately RMB321 million will be injected into Yanba B in 2002. As at 30 June, 2002, approximately 35.88% of the project has been completed. Up till now, approximately RMB152,048,749 out of the proceeds of the issue of A Shares has been injected into the project.

As at 30 June, 2002, the unused proceeds from the issue of A Share of the Group amounted to RMB452,079,251, which are kept as bank deposits in domestic commercial banks.

## MANAGEMENT DISCUSSION AND ANALYSIS

### MATERIAL INVESTMENTS WITH NON-PROCEEDS

During the Period, the Group had no material investments with non-proceeds.

### CHARGES ON THE GROUP'S ASSETS

To obtain bank loans or banking facilities, the Company has pledged the following operating rights of the toll roads to banks:

Secured assets	Banks	Maximum amount secured	Validity
Operating rights of NH107	The Industrial and Commercial Bank of China	RMB900 million	9 Feb, 1999 – 9 Feb, 2004
Operating rights of NH205	China Merchants Bank	RMB1,000 million	11 Feb, 1999 – 11 Feb, 2004

### PERFORMANCE OF GUARANTEE OBLIGATION

In January 2002, the Company repaid the principal of bank loans of RMB25 million and the interest of RMB195,000 accrued, to fulfill its guarantee obligation for Wutongling.

### 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 tendering system for the construction of its new road projects, so as to ensure the effective control of costs.

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, the Company decided to invest RMB3 million to establish Shenzhen Expressway Engineering Consulting Company Limited (the "Engineering Consulting Company"), with a view to enhancing its competitiveness in project management and engineering consultation. Currently, the relevant registration formalities of the Engineering Consulting Company are being carried out.

**PROSPECTS**

Looking forward, the Company's core business is expected to develop steadily. The expressways operated by the Group will remain as the profit of the Company. The traffic volume and toll income of Meiguan Expressway and Jihe Expressway are expected to continue increasing at a relatively high pace. However, the impact of traffic diversion caused by Shuiguan Expressway on Jihe East and NH205 will continue, and will have certain effect on the Company's toll revenue.

The Group is expected to achieve a turnover of RMB277 million for the second half of 2002. The Group will further enhance its management on toll roads and perfect its costs and budget control, so as to ensure the accomplishment of its operating goal for 2002.