

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30 June, 2002

		Unaudited Six months ended 30 June,	
	Note	2002 RMB'000	2001 RMB'000 (Restated)
Turnover	3	250,011	219,700
Other revenues	3	37,974	47,609
Depreciation and amortisation		(44,939)	(38,723)
Staff costs	4	(20,719)	(14,709)
Road maintenance expenses		(8,527)	(5,663)
Other operating expenses		(19,612)	(13,415)
Operating profit	5	194,188	194,799
Finance costs		(15,137)	(18,483)
Share of profits less losses of jointly controlled entities		31,194	27,148
Profit before taxation		210,245	203,464
Taxation	6	(8,211)	(96)
Profit after taxation		202,034	203,368
Minority interests		(2,916)	(1,388)
Profit attributable to shareholders		199,118	201,980
Dividends	7	218,070	201,570
Earnings per share	8	RMB9.13 cents	RMB10.02 cents

There are no other recognised gains or losses in the period other than those included above.

CONDENSED INTERIM ACCOUNTS**CONDENSED CONSOLIDATED BALANCE SHEET***As at 30 June, 2002 and 31 December, 2001*

	Note	Unaudited 30 June, 2002 RMB'000	31 December, 2001 RMB'000
Fixed assets		4,194,965	4,231,541
Interests in jointly controlled entities	9	825,812	833,149
Construction in progress		191,471	64,175
Long-term loan	10	306,000	306,000
Current assets			
Inventories		5,622	5,815
Other receivables, prepayments and deposits		12,520	11,280
Other investments	11	100,081	369,637
Bank balances and cash		817,766	962,088
		935,989	1,348,820
Current liabilities			
Amount due to a jointly controlled entity	12	2,455	1,964
Other payables and accrued charges		178,158	208,717
Taxation payable		4,136	34
Short-term bank loans, secured		470,000	100,000
Current portion of long-term bank loans		—	120,000
		654,749	430,715
Net current assets		281,240	918,105
Total assets less current liabilities		5,799,488	6,352,970

CONDENSED CONSOLIDATED BALANCE SHEET (continued)

As at 30 June, 2002 and 31 December, 2001

		Unaudited 30 June, 2002 RMB'000	31 December, 2001 RMB'000
	Note		
Financed by:			
Share capital		2,180,700	2,180,700
Reserves		2,827,448	2,827,448
Retained earnings	13	336,292	137,174
Proposed final dividend	13	—	218,070
		<hr/>	<hr/>
Shareholders' funds		5,344,440	5,363,392
Minority interests		52,260	49,343
Long-term liabilities		147,603	666,941
		<hr/>	<hr/>
Deferred income	14	255,185	273,294
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		5,799,488	6,352,970

CONDENSED INTERIM ACCOUNTS

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June, 2002

	Note	Unaudited	
		Six months ended 30 June,	
		2002	2001
		RMB'000	RMB'000
Net cash inflow from operating activities		198,348	320,441
Net cash outflow from investing activities		(49,057)	(323,950)
Net cash (outflow)/inflow from financing activities		(269,338)	180,000
(Decrease)/increase in cash and cash equivalents		(120,047)	176,491
Cash and cash equivalents at 1 January,		900,813	484,348
Unrealised gains on other investments		—	7,135
Cash and cash equivalents at 30 June,		780,766	667,974
Analysis of balances of cash and cash equivalents:			
Bank balances and cash		817,766	260,839
Other investments		—	407,135
Fixed bank deposits with maturity over 3 months		(37,000)	—
		780,766	667,974

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June, 2002

	Unaudited			Total RMB'000
	Share capital RMB'000	Reserves RMB'000	Retained earnings RMB'000	
At 1 January, 2002	2,180,700	2,827,448	355,244	5,363,392
Profit for the period	—	—	199,118	199,118
Dividends	—	—	(218,070)	(218,070)
	<u>2,180,700</u>	<u>2,827,448</u>	<u>336,292</u>	<u>5,344,440</u>

	Unaudited			Total RMB'000
	Share capital RMB'000	Reserves RMB'000	Retained earnings RMB'000	
At 1 January, 2001, as previously reported	2,015,700	2,266,541	55,687	4,337,928
Effect of adopting SSAP 9 (Revised)	—	—	201,570	201,570
At 1 January, 2001, as restated	<u>2,015,700</u>	<u>2,266,541</u>	<u>257,257</u>	<u>4,539,498</u>
Profit for the period, as previously reported	—	—	203,596	203,596
Effect of restatement of deferred income (note 3(c))	—	—	8,771	8,771
Effect of restatement arising from revision of projected traffic volume (note 19)	—	—	(10,387)	(10,387)
Profit for the period, as restated	—	—	201,980	201,980
Dividends	—	—	(201,570)	(201,570)
At 30 June, 2001	<u>2,015,700</u>	<u>2,266,541</u>	<u>257,667</u>	<u>4,539,908</u>

CONDENSED INTERIM ACCOUNTS

NOTES TO THE CONDENSED INTERIM ACCOUNTS

1 General

Shenzhen Expressway Company Limited (the "Company") was established as a joint stock limited company in the People's Republic of China (the "PRC") on 30th December 1996. The principal activities of the Company and its subsidiaries (collectively the "Group") and its jointly controlled entities, are the development, operation and management of toll highways in the PRC.

2 Basis of preparation and accounting policies

These unaudited condensed consolidated interim accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25: "Interim financial reporting", issued by the Hong Kong Society of Accountants. This basis of accounting differs in certain material respects from that used in the preparation of the Group's statutory accounts in the PRC. The PRC statutory accounts of the Group have been prepared in accordance with accounting principles and financial regulations applicable to joint stock limited companies in the PRC. Appropriate restatements have been made to the PRC statutory accounts to conform with the accounting principles generally accepted in Hong Kong ("HK GAAP"). Differences arising from the restatements are not incorporated in the Group's accounting records.

The accounting policies and methods of computation used in the preparation of these condensed interim accounts are consistent with those used in the annual accounts for the year ended 31 December, 2001 except that the Group has changed certain of its accounting policies following its adoption of the following Statements of Standard Accounting Practice (SSAPs) issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1 January, 2002:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 11 (revised)	:	Foreign currency translation
SSAP 15 (revised)	:	Cash flow statements
SSAP 25 (revised)	:	Interim financial reporting
SSAP 33	:	Discontinuing operations
SSAP 34	:	Employee benefits

The major changes to the Group's principal accounting policies arising from the adoption of these new or revised SSAPs are set out below:

SSAP 34	:	Employee benefits
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Provision for profit sharing and bonus plans due wholly within twelve months after balance sheet date are recognised when the Group has a present legal or constructive obligation as result of services rendered by employees and a reliable estimate of the obligation can be made.

These interim accounts should be read in conjunction with the 2001 annual accounts.

3 Turnover and revenue

Revenues recognised during the period are as follows:

		Six months ended 30 June,	
		2002 RMB'000	2001 RMB'000
Turnover	(a)		
Income from toll roads		263,723	231,754
Less: taxes related to toll income	(b)	<u>(13,712)</u>	<u>(12,054)</u>
		<u>250,011</u>	<u>219,700</u>
Other revenues			
Interest income from bank deposits		6,162	3,016
Interest income from a long-term loan		9,148	9,607
Government subsidies	(c)	18,109	8,771
Investment income from other investments		826	10,624
Income from construction management services		2,413	13,500
Other income		<u>1,316</u>	<u>2,091</u>
		<u>37,974</u>	<u>47,609</u>
Total revenues		<u>287,985</u>	<u>267,309</u>

(a) No segment information is presented as all turnover of the Group is toll income derived from the PRC.

(b) Taxes related to toll income comprise:

- PRC Business Tax at 5% on toll income
- City Development Tax at 1% of PRC Business Tax
- Education Supplementary Tax at 3% of PRC Business Tax

(c) Deferred income represents government grants provided to the Company in relation to subsidies for compensation of toll revenue of the Yanba Expressway Section A ("Yanba Expressway"), which is recognised in the profit and loss account over the period for which the Company is granted the right to operate the expressway. Yanba Expressway commenced operation in April 2001. However, the circular regarding approval of such government grants was only obtained in November 2001 and therefore the government subsidies for the six months ended 30 June, 2001 of RMB8,771,000 has not been recognised in the interim accounts for the six months ended 30 June, 2001. Restatement to the comparative figure has been made to reflect the government subsidies for that period in preparing these condensed interim accounts.

CONDENSED INTERIM ACCOUNTS

4 Staff costs

	Six months ended 30 June,	
	2002 RMB'000	2001 RMB'000
Wages and salaries	13,659	11,485
Provision for Share Appreciation Right Scheme	3,090	—
Pension costs — defined contribution plans	935	810
Other staff welfare benefits	3,035	2,414
	<u>20,719</u>	<u>14,709</u>

5 Operating profit

Operating profit is stated after crediting and charging the following:

	Six months ended 30 June,	
	2002 RMB'000	2001 RMB'000
Crediting		
Realised gains on disposal of other investments	—	3,489
Unrealised gains on other investments	826	7,135
Net exchange gain	—	101
	<u>—</u>	<u>101</u>
Charging		
Provision for doubtful debts	5,650	—
Realised losses on other investments	2,319	—
Auditors' remuneration	550	530
Loss on disposal of fixed assets	—	267
Net exchange loss	317	—
	<u>317</u>	<u>—</u>

6 Taxation

The amount of taxation charged to the consolidated profit and loss account represents:

	Six months ended 30 June,	
	2002 RMB'000	2001 RMB'000
PRC enterprise income tax	<u>8,211</u>	<u>96</u>

- (a) The Company is subject to PRC enterprise income tax at a rate of 15%, the preferential tax rate for enterprises established in the Shenzhen Special Economic Zone, as compared with the standard rate of 33%. Pursuant to the approvals granted by relevant authorities, the Company, one of its subsidiaries and a jointly controlled entity are exempted from PRC enterprise income taxes for the five years in which they record assessable profits and a 50% reduction of the enterprise income taxes for the five consecutive years thereafter. Except that two branches of the Company (namely Shenzhen Jihe Expressway (Western Section) Company and Shenzhen Yanba Expressway Company) and the jointly controlled entity of the Company are still within the full PRC enterprise income tax exemption period, other branches and the subsidiary are subject to PRC enterprise income tax with a 50% reduction. Provision for PRC enterprise income tax has been made at the rate of 7.5% on the estimated assessable profit for the period in respect of these entities.

The PRC enterprise income taxes charged to the consolidated profit and loss account have been calculated on the assessable profits of the relevant companies for the period at the rate of taxation applicable to these companies.

- (b) No provision for Hong Kong profits tax has been made for the period in the accounts as the Group has no income assessable to Hong Kong profits tax.
- (c) No provision for deferred taxation has been made in the accounts as the effect of timing differences is not material to the Group.

7 Dividends

	Six months ended 30 June,	
	2002 RMB'000	2001 RMB'000
2001 Final dividend, paid, of RMB0.10 (2000: RMB0.10) per ordinary share	<u>218,070</u>	<u>201,570</u>

The directors do not recommend the payment of a dividend in respect of the six months ended 30 June, 2002 (2001: Nil).

CONDENSED INTERIM ACCOUNTS

8 Earnings per share

The calculation of earnings per share is based on the profit attributable to shareholders of RMB199,118,000 (2001: RMB201,980,000) and 2,180,700,000 (2001: 2,015,700,000) ordinary shares in issue during the period.

As shown in note 19, restatements on certain comparative figures resulted in a decrease in profit attributable to shareholders for the six months ended 30 June, 2001 of RMB1,616,000 as compared with that was previously reported and a decrease in earnings per share for that period of RMB0.08 accordingly.

9 Interests in jointly controlled entities

	Note	30 June, 2002 RMB'000	31 December, 2001 RMB'000
Share of net assets other than goodwill		366,171	365,459
Goodwill on acquisition		9,060	9,060
Provision for impairment	(a)	(9,060)	(9,060)
		<u>366,171</u>	<u>365,459</u>
Advance to a jointly controlled entity	(b)	425,306	427,900
Loans to a jointly controlled entity		43,619	43,424
Provision for doubtful debts	(a)	(9,284)	(3,634)
		<u>825,812</u>	<u>833,149</u>

- (a) Shenzhen Wutongling Ropeway Company Limited ("Wutongling"), a jointly controlled entity of the Company, has not yet commenced operation as expected, provision for impairment was made against goodwill on acquisition of the entity of RMB9,060,000 and provision for doubtful debts of RMB9,284,000 (31 December, 2001: RMB3,634,000) was provided in respect of loans previously advanced to it.

The Company has filed writs in the relevant court in the PRC against the jointly controlled entity and the joint venture partner of the jointly controlled entity in relation to the non-repayment of the loans and advances made to them. Details of the litigation are summarised in note 18 to the accounts.

- (b) The advance was made to Shenzhen Airport-Heao Expressway (Eastern Section) Company Limited ("Airport-Heao") and is unsecured, non-interest bearing and is repayable out of the funds to be generated from its toll road project.

10 Long-term loan

The long-term loan of RMB306,000,000 (31 December, 2001: RMB306,000,000) was advanced to Changsha Ring Road Construction and Development Co., Ltd. ("Ring Road Co."), the joint venture partner of the Company's jointly controlled entity, Changsha Shenchang Expressway Company Limited ("Shenchang"), through a financial institution in the PRC pursuant to a joint venture agreement dated 22 July, 1998. The purpose of the loan is to assist Ring Road Co. to finance part of its advance to Shenchang for construction of the underlying road project. The loan is unsecured and bearing interest at over five-years' loan interest rate quoted by the People's Bank of China from time to time. Ring Road Co. has pledged its 49% equity interest in Shenchang to the Company to secure its payment obligations of the interest of the loan. The loan is repayable in one lump sum by setting off against the Company's commitment to contribute the same loan amount to Shenchang in 2007.

11 Other investments

	30 June, 2002 RMB'000	31 December, 2001 RMB'000
Other investments, at fair value	<u>100,081</u>	<u>369,637</u>

Other investments represent investments entrusted in securities companies in the PRC of RMB50,000,000 and investments managed by the Company of RMB50,081,000. The related entrusted securities company is, China Eagle Securities Co., Ltd ("China Eagle Securities"), which has relevant approved licenses of securities and entrusted financing business in the PRC. Other investments as at 30 June, 2002 comprised government bonds and equity securities listed on the Shanghai Stock Exchange and the Shenzhen Stock Exchange of the PRC.

12 Amount due to a jointly controlled entity

The amount mainly represents toll income collected by the Group on behalf of a jointly controlled entity net of toll income collected by the jointly controlled entity on behalf of the Group. The amount is unsecured, interest free and repayable on demand.

During the period, toll income collected by the Group on behalf of the jointly controlled entity amounted to RMB33,090,000 (2001: RMB28,226,000), and toll income collected by the jointly controlled entity on behalf of the Group amounted to RMB29,777,000 (2001: RMB24,800,000). All toll income collected is wholly repaid to each other without any handling charges.

CONDENSED INTERIM ACCOUNTS**13 Retained earnings**

	Retained earnings <i>RMB'000</i>
Year 2001	
At 1 January, 2001, as previously reported	55,687
Effect of adopting SSAP 9 (Revised)	<u>201,570</u>
At 1 January, 2001, as restated	257,257
2000 final dividend paid	(201,570)
Profit for the year	421,336
Transfer to reserves	<u>(121,779)</u>
At 31 December, 2001	<u><u>355,244</u></u>
Representing:	
Retained earnings at 31 December, 2001	137,174
2001 final dividend proposed	<u>218,070</u>
At 31 December, 2001	<u><u>355,244</u></u>
Company and subsidiaries	336,385
Jointly controlled entities	<u>18,859</u>
At 31 December, 2001	<u><u>355,244</u></u>
Six months ended 30 June, 2002	
At 1 January, 2002	355,244
2001 final dividend paid	(218,070)
Profit for the period	<u>199,118</u>
At 30 June, 2002	<u><u>336,292</u></u>
Company and subsidiaries	313,802
Jointly controlled entities	<u>22,490</u>
At 30 June, 2002	<u><u>336,292</u></u>

14 Deferred income

	30 June, 2002 <i>RMB'000</i>	31 December, 2001 <i>RMB'000</i>
At beginning of the period/year	273,294	—
Transfer from other long-term advances	—	300,000
Government subsidy income recognised for the period	<u>(18,109)</u>	<u>(26,706)</u>
At end of the period/year	<u><u>255,185</u></u>	<u><u>273,294</u></u>

Deferred income represents government grants provided to the Company in relation to subsidies for compensation of toll revenue of the Yanba Expressway Section A ("Yanba Expressway"), as a result of the anticipated insufficient traffic volume caused by the early construction of Yanba Expressway as requested by the Shenzhen Municipal Government to fulfil its overall town planning requirements. Pursuant to a circular No. Shenjitouzi [2001]764 issued by the Shenzhen Municipal Government dated 21 November, 2001, Shenzhen Municipal Government approved the non-repayment of long-term advances totalling RMB300,000,000 previously provided to the Company, and the conversion of these advances to subsidies for compensation of toll revenue to the Company. Such government grants are recognised in the profit and loss account over the period for which the Company is granted the right to operate the Expressway.

15 Commitments

As at 30 June, 2002, the Group had the following capital commitments for construction of expressways:

	30 June, 2002 <i>RMB'000</i>	31 December, 2001 <i>RMB'000</i>
Contracted but not provided for	244,941	311,509
Authorised but not contracted for	<u>644,906</u>	<u>722,666</u>
	<u><u>889,847</u></u>	<u><u>1,034,175</u></u>

The jointly controlled entities had no capital commitment as at 30 June, 2002.

16 Related party transactions

Save as those disclosed in other notes to the accounts, the Group had no material transactions with its related parties during the period.

CONDENSED INTERIM ACCOUNTS

17 Contingent liabilities

	30 June, 2002 RMB'000	31 December, 2001 RMB'000
Guarantees given to banks in respect of bank loans granted to Wutongling, a jointly controlled entity	<u>—</u>	<u>25,000</u>

The Company provided guarantees to banks in respect of bank facilities granted to Wutongling. These facilities were utilised by Wutongling to the extent of RMB25,000,000 (2001: RMB25,000,000). Such amount was repaid to the banks by the Company in January 2002, and has been recognised as a liability in the accounts.

18 Litigation

In May 2002, the Company filed a writ to Shenzhen Intermediate People's Court against Wutongling, a jointly controlled entity of the Company, in relation to the enforcement of the recovery of RMB43,000,000 plus interests accrued thereon, representing settlement of bank loans on behalf of Wutongling. The Company also filed a writ to Shenzhen Intermediate People's Court against Shenzhen Zhongming Investment Service Company ("Zhongming Company"), the joint venture partner of Wutongling, in relation to a claim of RMB9,900,000 plus interests accrued thereon, representing the portion of bank loans of Wutongling that was guaranteed by Zhongming Company, but was repaid by the Company. Upon the request of the Company, Zhongming Company's 55% equity interests in Wutongling have been frozen by the court. As at the date of announcement of these interim accounts, the court proceedings of these cases have not yet been commenced.

19 Comparative figures

According to the Group's policy to review regularly the projected total traffic volume throughout the operating periods of respective toll roads, in 2001, the Group 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 commencing from 1 January, 2001. Appropriate adjustments in respect of the effect of these changes in accounting estimate to the Group's results have been made in the 2001 annual accounts. However, related adjustments have not been reflected in the interim accounts for the six months ended 30 June, 2001. Certain comparative figures have been restated in this condensed interim accounts to reflect the effect of the revision in projected traffic volume. Details are as follows:

	Depreciation and amorisation <i>RMB'000</i>	Share of profits less losses of jointly controlled entities <i>RMB'000</i>	Minority interests <i>RMB'000</i>
For the six months ended 30 June, 2001, as previously reported	30,754	29,646	1,468
Effect of revision in projected traffic volume	<u>7,969</u>	<u>(2,498)</u>	<u>(80)</u>
For the six months ended 30 June, 2001, as restated	<u><u>38,723</u></u>	<u><u>27,148</u></u>	<u><u>1,388</u></u>

Such revision in projected traffic volume resulted in a decrease in the profit attributable to shareholders for the six months ended 30 June, 2001 of RMB10,387,000.

In addition, as shown in note 3(c), the restatement of government subsidies for the six months ended 30 June, 2001 resulted in an increase of the profit attributable to shareholders for that period of RMB8,771,000.

The restatements of comparative figures as mentioned above in aggregate resulted in a decrease in the profit attributable to shareholders for the six months ended 30 June, 2001 of RMB1,616,000.

CONDENSED INTERIM ACCOUNTS**SUPPLEMENTARY INFORMATION****Reconciliation of accounts**

The Group has prepared a separate set of accounts for the period ended 30 June, 2002 in accordance with PRC accounting standards. The major differences between the accounts prepared under PRC and HK accounting standards are summarised as follows:

	Profit attributable to shareholders for the six months ended 30 June, 2002 <i>RMB'000</i>	Net assets as at 30 June, 2002 <i>RMB'000</i>
As per PRC statutory accounts	191,178	5,261,724
Impact of HK GAAP adjustments:		
Amortisation of land use rights	6,934	77,421
Realised and unrealised gains on other investments	1,006	5,295
	<u>199,118</u>	<u>5,344,440</u>
As restated after HK GAAP adjustments	<u>199,118</u>	<u>5,344,440</u>