

OPERATION REVIEW

In accordance with generally accepted accounting principles in Hong Kong, the Group achieved a turnover of RMB207,357,000 for the Period, with a decrease of 17.06% as compared with the corresponding period of 2002, which was mainly due to the disposal of NH107 and NH205 of the Company during the Period. In the mean time, as a result of the non-recurring profit arising from the above disposal, profit attributable to shareholders of the Company for the Period amounted to RMB758,952,000, with a sharp increase of 314.28% as compared with the same period of 2002. Earnings per share for the Period were RMB0.348. In accordance with PRC accounting standards, the Group's principal operating income amounted to RMB288,901,000, down by 6.32% as compared with the corresponding period of 2002. Net profit amounted to RMB707,454,000, an increase of 303.66% as compared with the same period of 2002. Earnings per share were RMB0.324.

Business Review

The Company is mainly engaged in the development, construction, operation and management of toll roads. During the Period, the Company mainly operated and managed toll roads namely, Meiguan Expressway (95% owned), Jihe East (55% owned), Jihe West (100% owned), Shuiguan Expressway (40% owned), Yanba Expressway (100% owned), Changsha Ring Road (51% owned), NH107* and NH205*. 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.

Results of toll road operation

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

Toll roads	Daily average mixed traffic volume	Year on year	Daily average toll revenue (RMB)	Year on year
Meiguan Expressway	40,416	+16.0%	505,579	+6.2%
Jihe West	25,203	+25.0%	437,033	+21.4%
Jihe East	29,903	+16.2%	460,302	+8.9%
Shuiguan Expressway	28,116	+59.1%	282,567	+48.3%
Yanba A	5,632	+8.4%	39,763	+14.8%
Changsha Ring Road	2,883	+39.6%	42,129	+50.7%
NH107*	21,334	-11.8%	217,167	-10.3%
NH205*	39,007	-6.1%	314,282	-8.8%

* NH107 and NH205 were disposed of on 18 March 2003.

Management Discussion and Analysis

Items	Toll roads		Turnover (RMB'000)	Operating costs (RMB'000)	Operating profit (RMB'000)
Branches and subsidiaries	Expressways	Jihe West	74,990	13,043	61,947
		Meiguan Expressway	86,751	15,427	71,324
		Yanba Expressway	6,823	10,001	12,323
	Class 1 highways	NH107 & NH205	38,793	12,072	26,721
Jointly controlled entities	Jihe East		79,107	14,780	35,380
	Shuiguan Expressway		48,562	37,827	4,293
	Changsha Ring Road		7,198	8,712	7,675
Profit after taxation arising from the transfer of NH107 and NH205			586,272		

Notes:

1. In the above chart, the turnover and operating costs of jointly controlled entities are displayed at the full amount of 100%, while their respective operating profit is calculated on the basis of proportion of the interests owned by the Company.
2. The operating profit of Yanba Expressway includes RMB15,501,000 of government subsidies.
3. The operating profit of Changsha Ring Road includes the interest income of RMB8,447,000 from the entrusted loan.

Business Analysis

Despite the adverse impact on China's business environment caused by SARS epidemic, China's overall economic growth maintained a relatively fast pace for the first half of 2003, with an increase of 8.2% in gross domestic product (GDP) as compared with the corresponding period of 2002. Though affected by SARS epidemic, Guangdong's economic development remained sound. Its GDP for the first half of 2003 amounted to RMB582.203 billion, up by 12.6% as compared with the same period of 2002 and represents the highest growth rate for the corresponding period since 1995. Guangdong's exports kept up a fast growth rate, with an increase of 26.2% as compared with the corresponding period of 2002.

Shenzhen maintains as one of the fastest growing cities in the PRC. Its GDP for the first half of 2003 amounted to RMB117.283 billion, an increase of 15.9% over the same period of 2002, topping the country's average GDP growth rate. The volume of imports and exports of Shenzhen amounted to USD50.462 billion, increasing by 30.8% as compared with the same period of 2002. Motor vehicle ownership in Shenzhen has been growing rapidly, with private car ownership rapidly increasing at a rate of over 20%. Currently, Shenzhen has more than 600,000 motor vehicles. Shenzhen's rapid economic growth and its remarkably increasing number of private cars have provided a steady and secured market demand for the Company's toll road operation.

Management Discussion and Analysis

In the first half of 2003, the toll road operation of the Group sustained a continuous growth, which has provided the Group with steadily increasing cash inflow and constituted the main source of the Group's profit.

Meiguan Expressway, Jihe East, Jihe West, and Shuiguan expressway all recorded outstanding performance. The toll revenue and traffic volume of the above expressways increased steadily. The rapid growth in cars constitutes a key feature of the growth of traffic volume of the Company's expressways.

The daily average mixed traffic volume and daily average toll revenue of Meiguan Expressway for the first half of 2003 increased by 16.0% and 6.2% respectively as compared with the corresponding period of 2002. The proportion of traffic using the whole section of Meiguan Expressway out of its toll traffic volume continued to climb. Its distance weighted daily average traffic volume for the first half of 2003 reached 24,648, with an increase of 16.5% as compared with the same period of 2002.

The traffic volume and toll revenue of Jihe West continued to grow rapidly on the basis of its strong growth in 2002. Its daily average mixed traffic volume and daily average toll revenue for the first half of 2003 increased at a rate of over 20%. The distance weighted average traffic volume of Jihe West was 20,934, up by 24.10% as compared with the same period of 2002. During the first half of 2003, as a result of a lessening traffic diversion impact caused by Shuiguan Expressway, the growth in the traffic volume and toll revenue of Jihe East recovered, with 6 to 10 percentage points in respective growth rate higher than 2002 levels.

The Company acquired a 40% equity interest in Qinglong Company at the end of 2002. Shuiguan Expressway, operated by Qinglong Company, witnessed a satisfactory performance in both traffic volume and toll revenue in the first half of 2003. In March 2003, its daily average toll revenue hit historical records, amounting to RMB318,000. Due to the outbreak of SARS epidemic in April 2003, and relocation of Henggang Toll Station of NH205 to the boundary between Shenzhen and Huizhou on 28 April 2003, which has caused certain traffic diversion to Shuiguan Expressway, the growth in both traffic volume and toll revenue of Shuiguan Expressway in the second quarter of 2003 slowed as compared to its performance in the first quarter of 2003.

In the first half of 2003, the traffic volume and toll revenue of Changsha Ring Road continued to advance. Its daily average mixed traffic volume and daily average toll revenue increased by 39.6% and 50.7% respectively, as compared with the corresponding period of 2002, which is mainly due to certain roadway improvement works in the downtown of Changsha City, causing certain traffic to use Changsha Ring Road. However, the return from Changsha Ring Road cannot meet the investment expectations. The Company is currently undertaking an assessment of its investment value with a view to determining whether provision for diminution in value is required.



Yanba B commenced operation on 12 June 2003. It is linked with Yanba A, forming a local road network, which has boosted the growth of traffic volume and toll revenue of Yanba A. In June 2003, Yanba A recorded a growth of 18.4% and 16.2% in daily average mixed traffic volume and daily average toll revenue respectively, as compared with the same period of 2002. It is expected that the performance of Yanba A will continue to improve in the second half of 2003 due to the opening of Yanba B.

On 18 March 2003, the Company transferred NH107 and NH205 to Shenzhen Communications Bureau. The combined turnover of NH107 and NH205 for the period between 1 January 2003 and 18 March 2003 totaled RMB38,793,000.

The Impact of SARS on the Company's Toll Road Operation

The toll roads operated by the Company performed well during the first quarter of 2003. Due to the outbreak of SARS epidemic in April this year, the actual growth in toll revenue of the Company's toll roads was 4 to 5 percentage points lower than expected. Since mid May 2003 onwards, as the SARS epidemic was relieved, the traffic volume and toll revenue of the Company's toll roads have gradually recovered their upward trends. As a whole, the SARS epidemic did not have any significant impact on the Company's toll road business.

The Existing Toll Rates of the Company's Expressways Remained Unchanged

In 2001, in order to implement a uniform toll network system in the whole province, the Guangdong Provincial Government introduced unified classifications for both vehicles and toll rates for expressways (the "New Standards") within the province. In February 2002, the Guangdong Provincial Government issued a notice that with effect from 1 January 2003, all expressways in Guangdong Province shall collect tolls in accordance with the New Standards. The Company appointed Guangdong Price Evaluation Center to conduct an assessment on the impact of the New Standards. In addition, through various channels, it conveyed feedbacks and views to the Guangdong Provincial Government and the relevant authorities, and called for the maintenance of continuity and stability of the toll rates of the Company's Meiguan Expressway and Jihe Expressway which were anticipated to be affected by the implementation of the New Standards. In November 2002, the Guangdong Provincial Government issued a notice, pursuant to which expressways with toll rates charged in accordance with the new classification of vehicles implemented before 1 July 2001 shall maintain their existing toll rates until 31 July 2006.

In July 2003, the Company received a notice issued by the Guangdong Provincial Government stating that "new arrangement for new roads, and existing arrangement for existing roads", i.e. toll road projects approved prior to 31 July 2001 shall continue to collect tolls in accordance with their existing toll rates. Therefore, the potential toll rate adjustment risk faced by expressways operated by the Company has now been fully cleared up, and their existing toll rates shall remain unchanged.



THE TRANSFER OF NH107 AND NH205 AND ITS IMPACT ON THE COMPANY

The Transfer of NH107 and NH205

Pursuant to Shenzhen Municipal Government's reform plan on toll roads and tunnels, toll stations within municipal confines shall be removed or relocated. This involves the transfer of NH107 and NH205 originally operated by the Company.

On 18 March 2003, the Company and Shenzhen Communications Bureau (on behalf of the Shenzhen Municipal Government), entered into a transfer agreement (the "Transfer Agreement"), pursuant to which the Company transferred all its rights and interests in National Highway 107 (Shenzhen Section) and National Highway 205 (Shenzhen Section) to Shenzhen Communications Bureau at a consideration of RMB1.93 billion. Pursuant to the Transfer Agreement, 25% of the consideration will be paid within 10 days after the signing of the Transfer Agreement by the Shenzhen Municipal Government, 25% of the consideration will be paid before 31 December 2003, 30% of the consideration will be paid before 31 December 2004 and the balance of the consideration will be paid before 31 December 2005.

The Impact of the Transfer of NH107 and NH205 on the Company

During the Period, profit after taxation arising from the transfer of NH107 and NH205 amounted to RMB586,272,000, representing 77.25% of the Company's profit attributable to shareholders for the Period.

In 2002, the total turnover of NH107 and NH205 amounted to RMB205,194,000, and their combined operating profit was RMB136,382,000, accounting for 39.14% and 31.86% of the Company's turnover and operating profit of toll roads (including the jointly controlled entities) for 2002, respectively. The turnover of NH107 and NH205 in 2003 was RMB38,793,000, and their operating profit was RMB26,721,000.

The above two highways are close to saturation, with limited business growth potentials. The Company took this opportunity to dispose of its non-expressway assets. All the toll roads currently operated and managed by the Company are expressways. The Company will receive significant cash inflow from the transfer of NH107 and NH205. The first installment of the consideration of the transfer has already been received by the Company, which was mainly used to repay bank loans in order to reduce interest payment. The installments of the consideration subsequently received will be applied to the investment of expressway projects with high growth potential in Shenzhen and other regions of China, with a view to broadening the profit base of the Company.

In accordance with Hong Kong and PRC accounting standards, the profit arising from such transfer is recognized during the Period. It is expected that the Company's profit attributable to shareholders for the year 2003 will substantially increase over that of 2002.



INVESTMENT, CONSTRUCTION AND PLANNING

Yanba B

Yanba B is the second phase of Shenzhen Yanba Expressway, with a length of 9.19 km. It commenced construction in June 2001, passed project completion inspection on 6 June 2003 with a project quality score of 92.2 points, and commenced operation on 12 June 2003. The total construction budget for Yanba B is estimated to be RMB655 million, which is mainly funded by net proceeds from the issue of Renminbi-denominated ordinary shares (A shares) in the PRC.

The toll revenue of Yanba B for the 18 days since its commencement of operation in June 2003 was RMB399,000 and its daily average mixed traffic volume was 4,351. It is expected that the opening of Yanba B will greatly boost the growth in traffic volume and toll revenue of Yanba A.

Yanpai Expressway

Yanpai Expressway runs from Yantian Ports to Paibang Interchange along Jihe East, with a length of 15.2 km. Its construction budget is estimated to be RMB1.189 billion. The groundbreaking ceremony of Yanpai Expressway was held in July 2003 and the expressway is expected to commence operation in December 2005.

The Linkage Section of Shuiguan Expressway

The Linkage Section of Shuiguan Expressway runs from Qing Shui River Checkpoint to Bulong Interchange in Longgang District, with a length of 5.25 km. Its total investment is estimated to be RMB470 million. The construction of the Linkage Section of Shuiguan Expressway has already started, and the expressway is expected to be completed and commence operation by the end of 2004. The Company holds 40% equity interest in this project. It is anticipated that the completion of the Linkage Section of Shuiguan Expressway will further boost the growth of Shuiguan Expressway.

Planning

According to Shenzhen's trunk highway network planning, the Shenzhen Municipal Government will invest RMB20 billion in the next 10 years to build a total length of 270 km of expressways. This planning will provide a broader room for the Company to expand its business. Shenzhen's rapid economic development, the increasing number of cars and the continuous growth in foreign trade in the Pearl River Delta Region especially in Shenzhen provide a pressing traffic demand, which will in turn provide a beneficial business environment for the Company's toll road operation.

The Company firmly adheres to its development strategy, focusing on toll road operation, basing on Shenzhen and expanding its business to the Pearl River Delta Region and the surrounding area, so as to broaden its profit base.



ANALYSIS ON THE COMPANY'S OPERATION RESULTS AND FINANCIAL POSITION

During the Period, the Group's turnover decreased by 17.06% as compared with the same period of 2002 as a result of the transfer of NH107 and NH205 by the Company. In the meantime, due to the non-recurring profit of RMB586,272,000 arising from the transfer of NH107 and NH205, the Company's profit attributable to shareholders increased by 314.28% as compared with the corresponding period of 2002, amounting to RMB758,952,000.

Analysis on the Operation Results of the Company

(For the six months ended 30 June)

	2003 (RMB'000)	2002 (RMB'000)	Change
Turnover	207,357	250,011	-17.06%
Other revenues	33,038	37,974	-13.00%
Gain from disposal of assets	691,416	—	N/A
Total operating costs	72,164	93,797	-23.06%
Operating profits	859,647	194,188	+342.69%
Finance costs	8,494	15,137	-43.89%
Share of profits less losses of jointly controlled entities	38,901	31,194	+24.71%
Taxation	128,344	24,315	427.84%
Include: income tax of the transfer of assets	105,144	—	N/A
Profit attributable to shareholders	<u>758,952</u>	<u>183,200</u>	<u>+314.28%</u>
Earnings per share (RMB: cents)	<u>34.80</u>	<u>8.40</u>	<u>+314.28%</u>

1. Turnover

(For the six months ended 30 June)

Items	2003			2002			Change		
	Total (RMB'000)	Expressways (RMB'000)	Class 1	Total (RMB'000)	Expressways (RMB'000)	Class 1	Total	Expressways	Class 1
			highways (RMB'000)			highways (RMB'000)			
Toll revenue	218,731	177,810	40,921	263,723	157,553	106,170	-17.06%	12.86%	N/A
Less: business tax and surcharge	11,374	9,246	2,128	13,712	8,192	5,520	-17.05%	12.87%	N/A
Turnover	<u>207,357</u>	<u>168,564</u>	<u>38,793</u>	250,011	149,361	100,650	-17.06%	12.86%	N/A

Management Discussion and Analysis

The Group's turnover comprises turnover from wholly-owned toll roads namely NH107, NH205, Jihe West, Yanba Expressway and the 95% held Meiguan Expressway.

During the Period, turnover from expressways grew by 12.86% as compared with the same period of 2002, mainly due to the increases in traffic volume of Jihe West, Meiguan Expressway and Yanba Expressway. However, due to the transfer of NH107 and NH205 on 18 March 2003 and their respective toll collection period was 104 days less than the same period of 2002, the Group's turnover was down by 17.06% as compared with the same period of 2002.

2. Other Revenues

Other revenues mainly include interest income, government subsidies for Yanba A and income from construction management services. Other revenues for the Period reduced by 13% as compared with the same period of 2002, mainly due to reduction in interest income and the government subsidies recognized on the basis of traffic volume.

3. Gain from Disposal of Assets

The Transfer Agreement of the Company's disposal of NH107 and NH205 came into effect during the Period. The gain from the assets disposal is set out as below:

	2003 (RMB'000)	2004 (RMB'000)	2005 (RMB'000)
Total consideration per the Transfer Agreement	1,930,000	—	—
Assets disposal extra compensation	106,109	—	—
Imputed interest of long-term portion of consideration	(48,833)	35,779	13,054
	<u>1,987,276</u>	—	—
Stamp duty on assets disposal	(965)		
Book value of assets disposal	(1,294,895)	—	—
Profit before taxation arising from the assets disposal	691,416	—	—
PRC enterprise income tax on disposal of assets	(105,144)	—	—
Net gain arising from disposal of assets	<u><u>586,272</u></u>	<u>35,779</u>	<u>13,054</u>

Gain on disposal of assets during the Period:

Pursuant to the Transfer Agreement, Shenzhen Communications Bureau will grant an amount to the Company in 2004, equivalent to the tax payments to be made by the Company to relevant tax authorities arising from this assets disposal transaction as a compensation for highway construction. The Company has paid stamp duty of RMB965,000 and made a provision of RMB105,144,000 of PRC enterprise income tax on disposal of assets. Total taxes arising from this assets disposal transaction amounted to RMB106,109,000. Such extra compensation is recognized in the Company's account during the Period.

During the Period, the Company has calculated the future consideration by discounting the future receipts using an imputed rate of interest of 3.5% per annum, being the prevailing rate for a similar instrument of an issuer in the PRC with a similar credit rating. The income on disposal of assets recognized during the Period amounted to RMB1,987,276,000. The net gain on disposal of assets recognized during the Period was RMB586,272,000, accounting for 77.25% of the Company's profit attributable to shareholders during the Period.

In accordance with the *"An Official Reply by the State Tax Bureau in Respect of the Issues of Exempting Business Tax for Enterprise assets"*, no provision on business tax on disposal of assets has been made during the Period. The Company is making an application to the local tax authorities for confirmation of business tax exemption on the disposal of assets.

Projected gain for 2004 and 2005:

The imputed interest of long-term portion of consideration expected to be recognised in 2004 and 2005 is RMB35,779,000 and RMB13,054,000 respectively.

4. *Operating costs*

Operating costs mainly include depreciation and amortisation, staff costs, road maintenance expenses and other expenses. During the Period, operating costs of the Company decreased by 23.06% to RMB72,164,000, mainly due to the transfer of NH107 and NH205 on 18 March 2003, leading to reduction in operating costs during the Period.

Management Discussion and Analysis

5. Operating profits

The composition of the Company's operating profits during the Period is set out as follows:

(For the six months ended 30 June)

Items	2003 (RMB'000)	2002 (RMB'000)	Change
Expressways	145,594	134,665	+8.12%
Class 1 highways	26,721	67,760	-60.57%
Subtotal	172,315	202,425	-14.87%
Gain on disposal of assets and other gains	687,332	(8,237)	N/A
Total operating profits	859,647	194,188	+342.69%

During the Period, the Group's toll expressway operation continued to perform well. The operating profits from expressways increased by 8.12% as compared with the same period of 2002. Jihe West witnessed a remarkable growth, with its operating profit for the Period increasing by 24.47% as compared with the same period of 2002.

The Group's overall operating profits increased by 342.69% as compared with the same period of 2002, mainly due to the transfer of NH107 and NH205 during the Period.

6. Finance costs

Finance costs during the Period dropped by 43.89% as compared with the same period of 2002, mainly because the Company repaid part of its bank borrowings with part of consideration it received, lowering the interest payments.

7. Share of profits less losses of jointly controlled entities

Share of profits less losses of jointly controlled entities during the Period increased by 24.71%, mainly because a jointly controlled entity namely Qinglong Company, which was acquired by the Company at the end of 2002, was consolidated into the Group during the Period. Share of profits less losses of jointly controlled entities from Qinglong Company during the Period amounted to RMB4,293,000.

Share of profit less losses of jointly controlled entities from Jihe East increased by 11.31% as compared with the same period of 2002.

8. Taxation

Commencing from 1 January 2002, the Company is subject to PRC enterprise income tax at 15%, the standard tax rate for enterprises established in the Shenzhen Special Economic Zone.

The Group's taxation for the Period amounted to RMB128,344,000, including the provision of RMB105,144,000 made for the PRC income tax on disposal of assets.

Financial Position and Analysis

The Company has adopted prudent financial policies and exercised tight risk management control over its investment, financing and cash. Its capital structure has always remained sound and solid. The Company will adjust its investment, financing and capital structure from time to time in accordance with its continuous development demand and internal resources, with a view of maximizing the shareholders' value.

1. Liquidity

	As at 30 June 2003	As at 31 December 2002
Current ratio	2.19	1.30
Quick ratio	<u>2.18</u>	<u>1.29</u>

As at 30 June 2003, the Group's liquidity remained good. The increase in current assets is mainly due to the receipt of the installment of the consideration of the transfer of NH107 and NH205. The current liabilities decreased mainly as a result of the decrease of bank borrowings.

2. Financial resources

	As at 30 June 2003 (RMB'000)	As at 31 December 2002 (RMB'000)
Cash and bank balances		
Cash on hand	243	193
Bank deposits		
— Current and fixed deposits	564,327	865,597
— Deposits in HKD (HKD83,471,000)	88,567	89,231
— Deposits in USD (USD126,000)	1,044	1,715
Capital in other currencies	—	6,000
Total	654,181	962,736
Bank borrowings		
— short-term bank borrowings	205,000	610,000
— long-term bank borrowings	35,373	24,419
Total	240,373	634,419

(1) Cash and bank balances

The cash of the Company includes proceeds from the issue of A shares and other working capital. In strict compliance with the undertakings stated in the Prospectus of A Shares, the proceeds raised from the issue of A shares are under specific management and will be used for specific projects. The unused fund of the Company is mainly deposited in PRC commercial banks.

The bank deposits of the Company mainly include the specific deposits of the proceeds from the issue of A shares, the fund reserved for repurchase of H Shares and the fund for possible investments.

(2) Bank borrowings

The Company strictly keeps its liabilities at a reasonable level, and makes reasonable arrangements as to the terms of its bank borrowings with reference to its medium and long-term financial plans, capital liquidity and flexibility as well as interest rates. Owing to its sound credit worthiness, the Company manages to obtain preferential interest rates for its bank borrowings. As at the end of the Period, the Company's bank borrowings amounted to RMB240,373,000.

(3) Banking facilities

The Company has been granted by domestic commercial banks with a total banking facilities of RMB1.650 billion. As at 30 June 2003, RMB1.505 billion out of the above banking facilities remained available as standby credit.

(4) Government advances

The Shenzhen Municipal Government plans to provide the Company with an aggregate of RMB150 million government advances for the construction of Yanba B. During the Period, the Company received an aggregate of RMB30 million government advances. As at 30 June 2003, the Company had received RMB100 million of government advances in total.

(5) Installments of the consideration of the disposal of NH107 and NH205

Pursuant to the Transfer Agreement entered into between the Company and Shenzhen Communications Bureau, the consideration of RMB1.930 billion is payable by installments in a period of three years. During the Period, the Company received RMB482.5 million out of the consideration and will receive another RMB482.5 million in 2003. An amount of RMB579 million is expected to be received by 31 December 2004, while the balance of RMB386 million is expected to be received by 31 December 2005.

3. *Capital commitments*

The Company's capital commitments are mainly for the construction of expressways and investment in expressways, including Yanpai Expressway, details of which are set out below:

	As at 30 June 2003
Contracted but not provided for	RMB86,500,000
Authorized but not contracted	RMB2,037,000,000
Total	RMB2,123,500,000

The Company's current financial resources are sufficient to cover the above capital commitments.

4. Foreign exchange risks management

The Company's foreign currency payment is mainly for the payment of the dividends of its H shares. As at 30 June 2003, it had foreign currency bank deposit of HKD83,471,000 and USD126,000, and the bank borrowings of USD4,273,000. 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 Company's results. Owing to the stable exchange rates and the small amount of the foreign settlement of the Company, the foreign exchange rate fluctuation will not have any material impact on the Company's future results.

Cash inflow and Outflow

(For the six months ended 30 June 2003)

Items	(RMB'000)
Net cash inflow from operating activities	135,911
Net cash inflow from investing activities	188,060
Net cash outflow from financing activities	(620,526)

As at 30 June 2003, the Company's cash and cash equivalent decreased by RMB296,555,000.

1. Net cash inflow from operating activities

The Company's net cash inflow from operating activities mainly comes from the toll revenue of its toll roads, which is largely received in cash on daily basis.

2. Cash flow from investing activities

The Company's cash inflow from investing activities mainly includes RMB482.5 million as part of the consideration received for the disposal of NH107 and NH205, and the dividends and repayment of shareholder's loan from a jointly controlled entity totaling RMB54 million. The Company's cash outflow from investing activities mainly represents the RMB121 million of capital expenditure paid for the construction of Yanba A and Yanba B, and the shareholder's advances to Qinglong Company amounting to RMB190 million.

3. Cash flow from financing activities

During the Period, the Company's bank borrowings reduced by RMB394 million. RMB243 million of dividends for the year 2002 was distributed and RMB30 million of government advances provided by the Shenzhen Municipal Government for the construction of Yanba B was received.

Capital Structure

The Company's capital structure is mainly composed of shareholders' funds and liabilities. The Company's shareholders' funds amounted to RMB6,001,621,000, and its liabilities were RMB986,866,000 (excluding minority interests). Its gearing ratio as at 30 June 2003 (total liabilities as at the balance sheet date to its shareholders' funds as at the balance sheet date) was 16.44% (At 31 December 2002: 21.22%).

During the Period, the Group's total liabilities decreased to RMB608,055,000 after deducting the government deferred subsidy for Yanba Expressway project amounting to RMB224,811,000 and government advances for Yanba Expressway project amounting to RMB154,000,000. As at 30 June 2003, the Group's actual gearing ratio was 10.13% (At 31 December 2002: 14.60%).

The Company's overall liabilities is at a low level, with a sound and solid capital structure. Therefore, it has relatively strong risk defense capability and relatively great potential for financing.

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

	As at 30 June 2003		As at 31 December 2002	
	Amount (RMB'000)	Percentage	Amount (RMB'000)	Percentage
Current liabilities	558,045	7.93%	760,047	11.30%
Long-term liabilities	428,821	6.09%	407,938	6.07%
Shareholders' funds	6,001,621	85.24%	5,505,253	81.87%
Minority interest	52,209	0.74%	51,288	0.76%
Total	7,040,696	100%	6,724,526	100%

The Company's current liabilities decreased by 26.58% as compared with 2002, mainly due to repayment of some of the short-term bank borrowings.

Management Discussion and Analysis

The capital structure of the Company classified in terms of interest rates

	As at 30 June 2003		As at 31 December 2002	
	Amount (RMB'000)	Percentage	Amount (RMB'000)	Percentage
Fixed rate liabilities	240,373	3.42%	634,419	9.44%
Interest-free liabilities	746,493	10.60%	533,566	7.93%
Shareholders' funds	6,001,621	85.24%	5,505,253	81.87%
Minority interest	52,209	0.74%	51,288	0.76%
Total	<u>7,040,696</u>	<u>100%</u>	<u>6,724,526</u>	<u>100%</u>

As at 30 June 2003, the Company's fixed rate liabilities amounted to RMB240,373,000, including short-term bank borrowings of RMB205 million from domestic commercial banks with an annual interest rate of 4.536% and the long-term Spanish Governmental fixed rate loans of USD4,273,394 (equivalent to RMB35,373,000), out of which USD2,136,697 is at an interest rate of 7.17% per annum and the remaining USD2,136,697 is at an interest rate of 1.8% per annum.

The Company's current bank borrowings are all fixed rate liabilities. Fluctuation in interest rates will not have any material impact on the Company's operating results.

The Company's interest-free liabilities represent the general payables and the deferred income.

REPURCHASE OF H SHARES

The resolution regarding the repurchase of part of the Company's H Shares was passed at the shareholders' general meeting held at 30 May 2003. Pursuant to the requirements of relevant laws and regulations, the Company served notifications to the creditors of the Company in June 2003 and published three announcements to the creditors on *Hong Kong Economic Times*, *The Standard*, *Shanghai Securities News* and *Securities Times*.

The Company intends to improve its capital structure and stabilize its share prices through the repurchase of H Shares.

USE OF THE PROCEEDS FROM THE ISSUE OF A SHARES

The Company raised RMB604 million from the issue of A Shares. During the Period, the Company applied the net proceeds to the construction of Section B of Shenzhen Yantian-Bagang Expressway (Yanba Expressway) in strict compliance with the undertakings stated in the Prospectus of A Shares. The construction of Yanba B commenced in June 2001 and the expressway commenced toll collection on 12 June 2003.

Management Discussion and Analysis

During the Period, RMB98 million of the proceeds from the issue of A Shares has been injected into the project. Up till now, an aggregate of RMB342 million has been invested into the construction of Yanba B.

As at 30 June 2003, the unused proceeds from the issue of A Shares of the Company amounted to RMB262 million, which will be applied to pay the progress payments. Such proceeds are kept as fixed deposits in domestic commercial banks.

MATERIAL CONTRACTS AND THEIR PERFORMANCE

As at 30 June 2003, the Group's material contracts under performance include:

Banking Facilities Contracts

Banks	Banking facilities	Validity	Borrowings during Period
Shenzhen Branch, China Mingsheng Banking Corporation Limited	RMB600 million	From 28 August 2002 to 28 August 2004	RMB55 million
Shangbu Sub-branch, Shenzhen Branch, China Everbright Bank	RMB500 million	From 1 July 2002 to 1 July 2005	RMB50 million
Shenzhen Huanggang Sub-branch, China Merchants Bank	RMB550 million	From 10 June 2003 to 10 June 2004	RMB40 million

CHARGES ON THE GROUP'S ASSETS

Qinglong Company, a jointly controlled entity in which the Group holds 40% equity interest, has pledged the following assets:

Secured assets	Banks	Scope of pledge	Validity
Operating rights of Shuiguan Expressway	State Development Bank	The principal amount of RMB550 million and the Interests thus incurred	28 April 2013

The pledges of the operating rights of NH107 and NH205 to The Industrial and Commercial Bank of China and China Merchants Bank respectively were released on 11 April 2003.

MAJOR EVENTS

Distribution of Profits for the Year 2002

The 2002 profit distribution scheme was passed at the 2002 annual general meeting, details of which are: basing on the issued shares of 2,180,700,000 of the Company as at 31 December 2002, a final dividend of RMB0.12 per share was paid to all the shareholders of the Company, totaling RMB261,684,000. The scheme was implemented before 23 June 2003.

2003 Interim Profit Distribution Scheme

The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2003, or any transfer to capital reserves.

Settled Litigation

The Company's writs filed in May 2002 against Wutongling Company and Zhongmin Company were adjudicated by Shenzhen Intermediate People's Court, and the court supported all the requests made by the Company. In April 2003, the Company and Zhongmin Company reached an amicable settlement agreement. The Company proposed to acquire 55% equity interest in Wutongling Company held by Zhongmin Company at a consideration of RMB2,520,000. As at the date of the announcement of this report, the above acquisition is still under negotiation.

Arbitration

In 2002, the Company submitted the dispute with Huarong Trade (Group) Company Limited as to the losses in the entrusted investments caused to the Company by Huarong Trade (Group) Company Limited to arbitration at the Shenzhen Arbitration Commission. As at the date of this report, the above arbitration is still proceeding.

Corporate Governance

The Company has always devoted a lot of efforts to perfect its corporate governance structure, to establish modern enterprise system and to standardize its operation, in strict compliance with the Companies Law, Securities Law, the listing Rules and the relevant requirements of laws and regulations promulgated by CSRC.

Since May 2000, the Company has compiled *The Corporate Governance Regulations of the Company including The Regulation of the Shareholders' General Meeting, The Regulation of the Board of Directors, The Regulation of the Supervisory Committee, the Regulation of the General Manager* and every description of functions and powers of the Audit Committee, the Strategic Development & Investment Committee, and the Human Resources & Nomination Committee, which was fully implemented within the Company.

Management Discussion and Analysis

The Board comprises of 12 directors, 4 of them being independent directors, representing one third of the total number of directors. The number and the composition of the Board of the Company are in line with the requirements of the relevant laws and regulations. All the directors of the Company have attended the board meetings and shareholders' meetings with serious and responsible attitudes. As at the date of this report, the Company has held four board meetings, all of which were attended by all of the directors.

The number and the composition of the Supervisory Committee of the Company are in line with the requirements of the relevant laws and regulations. The supervisors of the Company have discharged their duties with serious and responsible attitudes. They have monitored the Company's finance, and the Company's directors, managers and other senior management in performing their duties on behalf of the shareholders in compliance with relevant legal and regulatory requirements.

The Company has fulfilled its information disclosure obligations in strict compliance with the listing rules of HKEX and SSE. It has assigned the Secretariat to the Board to be responsible for information disclosure, reception of company visits and consultation. It also releases relevant information of the Company by holding press conferences, analysts' conferences, roadshows inside and outside the PRC, inviting investors to visit the Company and through the Company's website.

During the Period, none of the Company, the Board or its directors has been punished by any regulatory authorities.

GUARANTEED EVENTS

The shareholders of the Company which hold 5% or above of the issued share capital of the Company namely Xin Tong Chang Development (Shenzhen) Company Limited and Shenzhen Shen Guang Hui Highway Development Company agreed in The Agreement of Promoters on the Establishment of the Company that they will not in any way be engaged in any sectors or activities which will pose competition to the Company in a direct or indirect way. The directors consider that the above shareholders are in strict compliance with such undertaking during the Period.

The Company raised net proceeds of RMB604,128,000 from the issue of A Shares in December 2001, which are expected to be applied to the construction of Yanba B. Such net proceeds are being injected into the project according to its construction progress.

MATERIAL CONNECTED TRANSACTIONS

During the Period, the Company did not enter into any material connected transactions.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2003, the Company had 862 employees, 80 out of which were staff at the headquarters of the Company. During the Period, the Company transferred NH107 and NH205. Accordingly, 311 employees employed in relation to such transferred assets were transferred to relevant administrative departments of Shenzhen Communications Bureau on 19 March 2003.

The remuneration and benefits for the employees are related to their positions and performance.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

The Directors of the Company consider that during the Period, the Company was in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities of HKEX.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the Period, no shares of the Company were purchased, sold or redeemed by the Company, its subsidiaries or any of its jointly controlled entities.

PROFESSIONAL COMMITTEES

Audit Committee

As at the date of this report, the Audit Committee of the Company has convened five meetings. At such meetings, the Audit Committee reviewed the Group's 2002 annual report and financial report, 2003 first quarterly report and 2003 interim report. It also conducted independent reviews on the Company's operation from the perspectives of financial reporting, auditing, internal monitoring and control and risk management. All the members were present at such meetings.

The Human Resources & Nomination Committee

As at the date of this report, the Human Resources & Nomination Committee convened four meetings. At such meetings, the Committee completed the evaluation on the performance of the general manager during his probation period, the evaluation on the performance of the deputy general managers during their term of office and the review and assessment of the implementation of the Share Appreciation Right Scheme. All the members of the Human Resources & Nomination Committee were present at all of the meetings.

By order of the Board

Chen Chao

Chairman

Shenzhen, the PRC, 15 August 2003