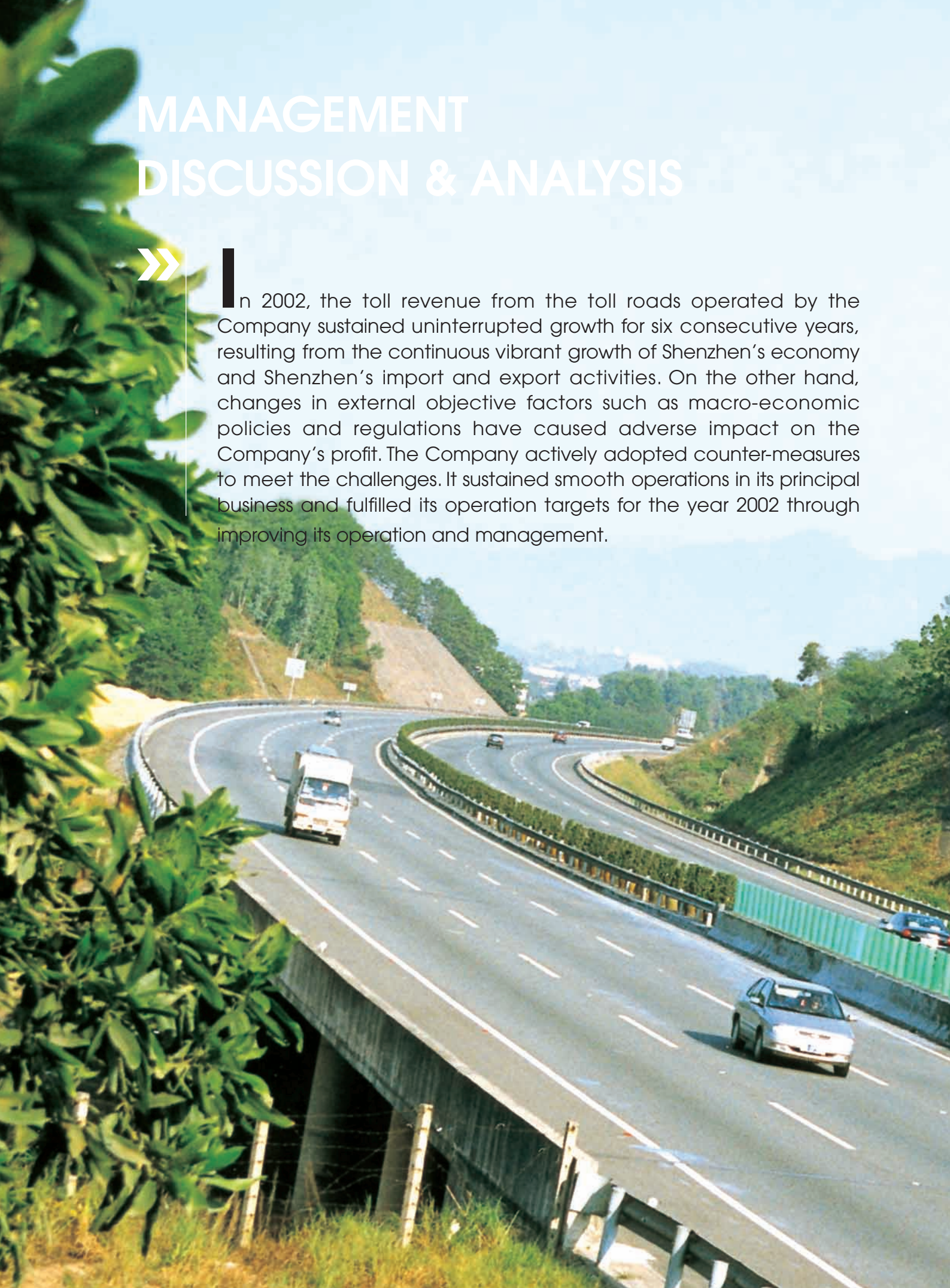


# MANAGEMENT DISCUSSION & ANALYSIS



In 2002, the toll revenue from the toll roads operated by the Company sustained uninterrupted growth for six consecutive years, resulting from the continuous vibrant growth of Shenzhen's economy and Shenzhen's import and export activities. On the other hand, changes in external objective factors such as macro-economic policies and regulations have caused adverse impact on the Company's profit. The Company actively adopted counter-measures to meet the challenges. It sustained smooth operations in its principal business and fulfilled its operation targets for the year 2002 through improving its operation and management.







Shenzhen's economy has sustained a continuous and rapid growth. In 2002, the Gross Domestic Product of Shenzhen City amounted to RMB224 billion, with a growth of 15% as compared with 2001. Its foreign trade volume has topped the large and medium-size cities in the PRC for the consecutive ten years, amounting to USD46.6 billion, with an increase of 24.2% over that of 2001.

After more than twenty years' development, Shenzhen has been built up to be one of the most dynamic cities in the PRC. Owing to its unique location, Shenzhen has become a hub linking Hong Kong and even the Southeast Asia with the Mainland China. In 2002, Shenzhen realized a revenue of RMB30.4 billion, with an increase of 20.4% as compared with 2001, ranking the third among the large cities in the PRC. The development of Shenzhen's economy, the increasing purchasing power of cars in Shenzhen, the frequent trade activities between Shenzhen and Hong Kong together with the further development of the manufacturing industry in the Pearl River Delta Region will in turn pose an even pressing need for highway transportation. Favorable macro-economic environment and the flexible economic system of Shenzhen Special Economic Zone have secured the steady and continuous development of the Company.



## MANAGEMENT DISCUSSION & ANALYSIS

### BUSINESS REVIEW

#### Operation Review

As at 31 December 2002, the turnover of the Group reached RMB524,291,000, with an increase of 7.04% over that of 2001 ("YOY"). Due to the termination of the preferential PRC enterprise income tax treatments by which the Company, its subsidiary and a jointly controlled entity were previously exempted from and the decrease of the construction management service income, profit attributable to shareholders of the Company for the year 2002 recorded a decrease of 14.57% as compared with the year 2001, amounting to RMB359,931,000. The earnings per share were RMB0.165.

#### Business Summary

In 2002, the Company was mainly engaged in the operation and management of seven toll roads, namely NH107, NH205, Meiguan Expressway, Jihe East, Jihe West, Yanba A and Changsha Ring Road, and the construction of Yanba B. It acquired 40% equity interest in Shuiguan Expressway at the end of 2002, resulting that the total length of the toll roads owned by the Group rose to about 200 kilometers.

## MANAGEMENT DISCUSSION & ANALYSIS

Operating results of the toll roads of the Company in 2002

Toll roads	Average daily mixed traffic volume			Average daily toll revenue (RMB)		
	2002	2001	Year on year	2002	2001	Year on year
Meiguan Expressway	<b>37,566</b>	33,634	11.69%	<b>501,695</b>	476,682	5.25%
Jihe East	<b>26,547</b>	25,103	5.75%	<b>430,094</b>	420,421	2.30%
Jihe West	<b>21,809</b>	16,134	35.17%	<b>384,991</b>	287,024	34.13%
Changsha Ring Road	<b>2,576</b>	1,373	87.64%	<b>36,199</b>	18,449	96.21%
Yanba A	<b>5,343</b>	5,762	-7.27%	<b>35,505</b>	36,132	-1.74%
NH107	<b>25,005</b>	23,214	7.72%	<b>252,441</b>	228,460	10.50%
NH205	<b>41,760</b>	45,408	-8.03%	<b>340,569</b>	397,708	-14.37%

DIAGRAM 1:

The average daily mixed traffic volume of each toll road of the Company (2002 Vs 2001)

2002  
2001

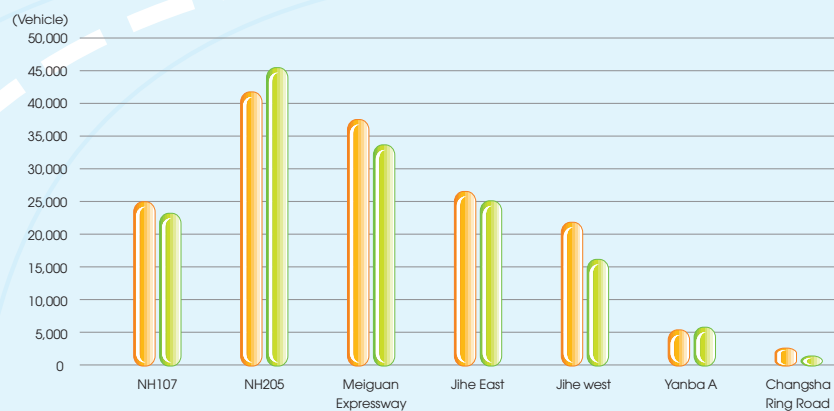
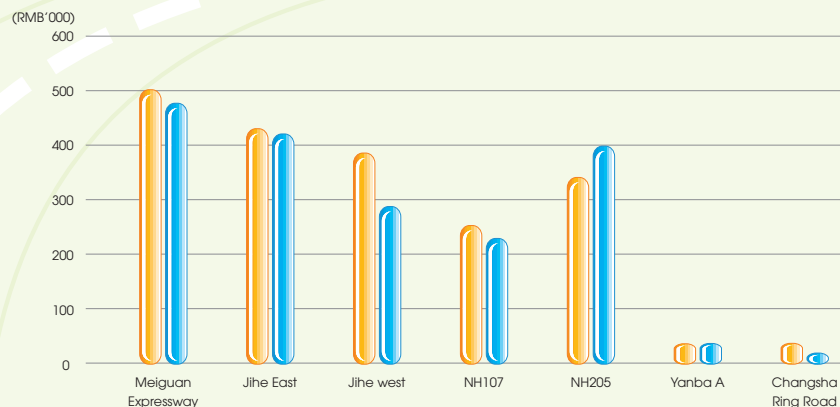


DIAGRAM 2:

The daily average toll revenue of each toll road of the Company (2002 Vs 2001)

2002  
2001





## MANAGEMENT DISCUSSION & ANALYSIS

### Toll Policy

The toll rates are determined by the Guangdong Provincial Government with reference to factors like: traffic flow, construction costs, estimated pay-back periods of investment, loan repayment periods, domestic price levels and inflation rate, management, operation and maintenance costs of the highways and users' affordability.

In March 2002, the Guangdong Provincial Government issued a notice pursuant to which classifications of vehicles using expressways of Guangdong Province and their applicable toll rates shall be unified with effect from 1 January 2003, with a view to adjusting the classification criteria of vehicles and to adopting a unified toll collection system within Guangdong Province. On 23 December 2002, the Company received a notice from Guangdong Price Bureau and Guangdong Provincial Communications Bureau that expressways with toll rates charged in accordance with the head height of the motor vehicles and the number of wheel axis implemented before 31 July 2001 shall maintain the existing toll rates until 31 July 2006. From 1 August 2006, Guangdong Province shall implement a unification system for vehicles classification and toll rates for tolls of all the expressways in the province.

According to such notice, the existing classification of vehicles and toll rates for Jihe Expressway and Meiguan Expressway of the Company remain unchanged until 31 July 2006 and the existing classifications of vehicles and toll rates for Yanba Expressway and Shuiguan Expressway, which were acquired by the Company in December 2002, are the same as the new standards promulgated in such notice. As such, the tolls from expressways and profit for the Company during the period before 31 July 2006 will not be affected by the unification of classification of vehicles and toll rates in Guangdong Province.

## MANAGEMENT DISCUSSION & ANALYSIS

Details of the existing toll rates of the Company's toll roads are set out below:

### *Classification of Vehicles and Toll Rates of NH107 and NH205*

<b>Class</b>	<b>Vehicles</b>	<b>Toll rates</b> (RMB/vehicle)
1	Motorcycles	2.00
2	Passenger cars with 20 seats or below, lorries with a capacity of 2 tonnes or below, motor tricycles, motor cars, various types of tractors	7.00
3	Passenger cars with 21 to 50 seats, lorries with a capacity of 2 tonnes to 5 tonnes	15.00
4	Passenger cars with 51 seats or above, lorries with a capacity over 5 tonnes to 15 tonnes	25.00
5	Lorries over 15 tonnes and container lorries	30.00

### *Classification of Vehicles and Toll Rates of Meiguan Expressway and Jihe Expressway*

<b>Class</b>	<b>Vehicles</b>	<b>Toll rates</b> (RMB/km)
1	Vans, jeeps, small-size lorries, motorcycles	0.60
2	Mini buses, station wagons, light vans, small passenger-cars	1.20
3	Medium-size and large-size buses, medium-size lorries	1.80
4	Large deluxe buses, large-size lorries, large tractors, 20 feet container lorries	2.40
5	Double-decker passenger cars, heavyweight lorries, heavyweight tractors, 40 feet container lorries	3.60

## MANAGEMENT DISCUSSION &amp; ANALYSIS

*Classification of Vehicles and Toll Rates of Yanba A and Shuiguan Expressway*

Standard of classification						Coefficient	Toll rates (RMB/km)
Class	Axle	Wheels	Head height (m)	Wheelbase (m)	Vehicles		
1	2	2~4	<1.3	<3.2	Vans, jeeps, small-size lorries, motorcycles	1	0.60
2	2	4	≥1.3	≥3.2	Mini buses, station wagons, light vans, small passenger vehicles	1.5	0.90
3	2	6	≥1.3	≥3.2	Medium-size and large-size buses, medium-size lorries	2	1.20
4	3	6~10	≥1.3	≥3.2	Large deluxe buses, double-decker passenger vehicles, large-size lorries, large tractors, 20 feet container lorries	3	1.80
5	>3	>10	≥1.3	≥3.2	Heavyweight lorries, heavyweight tractors, vehicles towing 40 feet container lorries	4	2.40

## MANAGEMENT DISCUSSION & ANALYSIS

### *Classification of Vehicles and Toll Rates of Changsha Ring Road*

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

*Notes:*

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

### Business Analysis

The toll roads operated by the Group in Shenzhen have formed a complete road network, linking the main logistics hubs within the region and connecting with the cities like Guangzhou, Huizhou and Dongguan. In 2002, the traffic volume and toll revenue of the Group's expressways sustained continuous growth.







## MANAGEMENT DISCUSSION & ANALYSIS

### 1. *The Traffic Volume and Toll Revenue of Expressways Continued to Grow*

The Group has continued to focus on the development and operation of expressways. During the year, the toll expressways of the Group witnessed continuous growth. Jihe West and Meiguan Expressway have become the key contributors of the Group's steady operation results. The proportion of the toll revenue from expressways of the Company keeps increasing year by year, amounting to 66.15% of the total toll revenue from the Company's toll roads in Shenzhen.

The performance of Meiguan Expressway is closely related with the foreign trade activities of Shenzhen. Toll revenue collected from vehicles with Hong Kong licenses constituted about 45% of its total toll revenue. Following the 24-hour border crossing at Huanggang Immigration and Customs Control between Shenzhen and Hong Kong and the improved inspection and passage efficiency, foreign trade of Shenzhen is anticipated to sustain its benign growth trend. In 2002, Meiguan Expressway outperformed other toll roads of the Company in terms of toll revenue, with an increase of 5.25% as compared with year 2001.

Jihe Expressway, an outer ring road linking the east and the west parts of Shenzhen, connects with Shenshan Expressway, Huiyan Expressway and NH205 in the east and Guangshenzhu Expressway and NH107 in the west. In 2002, the distance weighted average daily traffic volume of Jihe Expressway increased 33%, out of which the volume of long-distance passenger buses (Class 4 vehicles) grew fastest. The traffic volume and toll revenue of Jihe West for 2002 witnessed a relatively strong organic growth. It was the fastest growing section in terms of natural traffic volume among the toll roads of the Company during the year. The traffic diversion caused by the opening of Shuiguan Expressway has limited the new traffic flow of Jihe East, resulting in a relatively slower growth in toll revenue of Jihe East, with a mere growth of 2.41% as compared with 2001.

The toll revenue of Yanba A is still at a low level because: 1) it is the first operational section of Yanba Expressway; 2) the strong seasonal and periodical features in its toll revenue; 3) the small proportion of large vehicles out of its total traffic flow. Its toll revenue from April to December 2002 grew by only 2.5% as compared with the same period of 2001. Yanba B is expected to be completed and commenced operation in July 2002. It will link the national and provincial trunk highways with the road network in Shenzhen and Huizhou as a whole, and the road networking effect will be fully realized. It is expected that the traffic volume and toll revenue of Yanba A will have a rapid growth after the operation of Yanba B and the completion of Phase III of Yantian Ports.

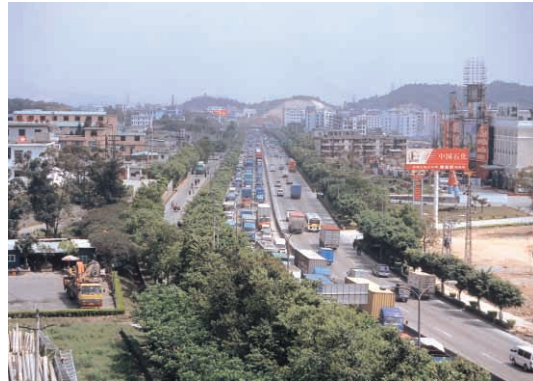
## MANAGEMENT DISCUSSION & ANALYSIS

### 2. *The Performance of National Highways Varied*

The Company owned two class 1 highways, namely National Highway 107 (Shenzhen Section) between Guangzhou and Shenzhen and National Highway 205 (Shenzhen Section) between Shenzhen and Huizhou.

NH107 starts from Nantou Checkpoint in Shenzhen and extends westwards to the border between Shenzhen and Dongguan. Linking up key industrial zones in Shenzhen such as Songgang, Shajing, Fuyong, Xixiang,

and Xin'an, NH107 is the main passage from the western part of Shenzhen to other major cities in the Pearl River Delta Region such as Dongguan and Guangzhou. The Company strengthened its control over the traffic diversion to NH107 through adopting various measures, which resulted in a 10.5% growth in its toll revenue in 2002 as compared with 2001.



NH205 runs eastwards from Buji Checkpoint in Shenzhen to the border between Shenzhen and Huizhou, linking up key industrial towns in Shenzhen such as Buji, Henggang, Longgang and Pingdi. It serves as the main passage connecting the eastern part of Shenzhen with Huizhou and Shantou. As Shuiguan Expressway runs almost in parallel with NH205, it has caused traffic diversion to NH205. In addition, constructions on certain sections of NH205 in 2002 also diverted certain traffic from NH205. Therefore, NH205 recorded a drop of 14.36% and 8.03% in toll revenue and traffic volume, respectively, as compared with 2001.

On 18 March 2002, the Company entered into a transfer agreement with Shenzhen Communications Bureau, pursuant to which the Company transferred all its interests and rights in NH107 and NH205 to Shenzhen Communications Bureau. Shenzhen Communications Bureau took over the above highways on 19 March 2002, details of which are set out in the section headed ("Investment and Acquisition").

## MANAGEMENT DISCUSSION & ANALYSIS

### 3. *Changsha Ring Road Achieved a Remarkable Growth*

The toll revenue of Changsha Ring Road from May to October 2002 doubled as compared with the same period of 2001, which is mainly attributable to the re-opening of Huang Hua Tang Toll Station and Xin An Si Toll Station of Changsha Ring Road in early 2002 and the traffic control exercised by the local transportation authority over certain sections in the downtown as a result of the constructions at Wujialing Interchange, which attracted more cross-border traffic to Changsha Ring Road.

### 4. *Non-stop Toll Collection System has Improved Efficiency and Toll Revenue*

The non-stop toll collection system ("ETC"), jointly developed by the Company and the commercial banks in Shenzhen, is regarded as a relatively advanced electronic toll collection system in Guangdong Province and even in the PRC. Currently, the non-stop toll collection system has been installed in 11 toll stations and 28 special lanes of the Group's toll roads. More than 5,000 vehicles have been equipped with the electronic toll payment system. The ETC has shortened the toll payment time and improved passage conditions and passage efficiency in those toll roads. The non-stop toll collection system facilitates the formation of AutoPass service in most area of Shenzhen, which will play an active part in the development of loyal clients and the stabilisation of client sources. Since the second half of 2002, the respective average daily toll revenue collected from ETC in Meiguan Expressway and Jihe Expressway has witnessed a modest growth and stood at over RMB100,000. In the meantime, key clients of ETC, because of their own business needs, actively promote the application of ETC, playing an active role in enhancing toll revenue of the Company's toll roads.



## MANAGEMENT DISCUSSION & ANALYSIS

### 5. Problems Arising in the Operation and the Solutions

In 2002, varying traffic diversions were seen in the toll roads operated by the Company, which were mainly due to Shenzhen's relatively developed economy, well-developed township roads and streets and highly dense roads and municipal roads. In addition, traffic congestions were sometimes happened in NH107 and NH205, because the above two highways had adopted open toll collection systems and are close to saturation. Furthermore, they run across several crowded towns and villages, which has caused certain difficulty to the Company's management and maintenance of these highways. The reform on the roads and tunnels implemented by the Shenzhen Municipal Government also involves the two toll stations of NH107 and NH205 of the Company.

To tackle the above problems, the Group, on the one hand, attracted traffic flow through such measures as conducting surveys, enhancing marketing and improving service quality. On the other hand, it adopted various measures to control traffic diversion caused to its toll roads. On 18 March 2003, the Company and Shenzhen Communications Bureau entered into an agreement, pursuant to which the Company transferred all its interests and rights in NH107 and NH205 to Shenzhen Communications Bureau, with a view to realizing its investment by disposing of its non-expressway road assets and focusing on toll expressway operation. The Company will closely monitor the traffic changes which will be brought by the relocation of non-expressway toll stations in Shenzhen and take respective countermeasures.

### 6. The Operating Results of the Company's Toll Roads in 2002 (RMB'000)

	Total	The Company and its subsidiaries					Jointly controlled entities	
		NH107	NH205	Jihe West	Meiguan Expressway	Yanba A	Jihe East	Changsha Ring Road
Turnover	<b>524,291</b>	87,350	117,844	133,215	173,597	12,285	149,056	12,473
Operating costs	<b>158,139</b>	36,102	32,710	27,964	42,294	19,069	32,868	16,456
Operating profit	<b>366,152</b>	51,248	85,134	105,251	131,303	-6,784	116,188	-3,983

Note: In the above chart, the turnover, operating costs and operating profits of the jointly controlled entities are displayed at the proportion of 100% owned.



## MANAGEMENT DISCUSSION & ANALYSIS

### Other Ancillary Business

#### *Shenzhen Expressway Advertising Company Limited*

The Advertising Company, formerly known as Shenzhen Zhengyi Advertising Company Limited, with a registered capital of RMB2,000,000, is principally engaged in renting out billboards at the toll stations of the Company's toll roads or at the adjacent land along the toll roads, the provision of design and production of advertisements and consulting services. The Company owned 60% equity interest in the Advertising Company, and the remaining 40% equity interest was held by Shenzhen Airport Company Limited ("Shenzhen Airport"). The total assets of the Advertising Company as at the year end of 2002 amounted to RMB6,782,562, and its annual advertising revenue was RMB2,945,781. It recorded a net profit of RMB732,695 in 2002.



The Company entered into an agreement with Shenzhen Airport on 20 November 2002, pursuant to which the Company and Meiguan Company acquired 35% and 5% equity interest in the Advertising Company held by Shenzhen Airport, respectively. The above transaction was completed on 18 February 2003.

#### *Shenzhen Wutongling Ropeway Company Limited*

The registered capital of Wutongling Company is RMB5,000,000, and its total assets as at 31 December 2002 amounted to RMB49,896,438. Wutongling Company is principally engaged in the construction and management of Shenzhen Wutongling Ropeway. The Company owned 40% equity interest in Wutongling Company while Shenzhen Zhongmin Service Company ("Zhongmin Company") and Shenzhen Fairy Lake Botanical Garden Administrative Office hold 55% and 5% equity interest in Wutongling Company, respectively. The Company provided guarantee for the bank credits of Wutongling Company, while Zhongmin Company provided a counter guarantee for such

## MANAGEMENT DISCUSSION & ANALYSIS

bank credits of Wutongling Company. The installation of equipment of Wutongling Ropeway started in July 1999. Approximately ninety percent of the installation has been completed up till now. However, owing to the distinctive difference in management and specific technical problems between the main partners of the project which has affected the normal operation of the project, Wutongling Ropeway was not put into use in 2001 as scheduled. The project is currently being held up.

To protect the interests of the Company, the Company filed a writ to Shenzhen Intermediate People’s Court (details of the case are set out in the section headed “Litigation and Arbitration”) in May 2002, requesting Wutongling Company to make a compensation to the Company. A judgment in favour of the Company was given by Shenzhen Intermediate People’s Court. The Company is making preparations for the continuing construction and operation of the project.

### *Shenzhen Expressway Engineering Consulting Company Limited*

The Engineering Consulting Company was established in August 2002, with the registered capital of RMB3,000,000. The Company holds 70% equity interest in it. The principal business of Engineering Consulting Company includes the provision of project management consultation, information consultation and engineering consultation, and the engagement in such business as construction materials, equipments and softwares, imports and exports.

The purpose of setting up the Engineering Consulting Company is to capitalize on the Company’s expertise in project management and its human resources, and to undertake such business as engineering consultation and project management, so as to broaden the profit base of the Group. The consultation for an expressway project in Henan Province has been progressing smoothly. The Company believes that project management will have great potential in Shenzhen and other regions in the PRC, and will become a key source of the Company’s profit growth.





## MANAGEMENT DISCUSSION & ANALYSIS

### INVESTMENT AND ACQUISITION

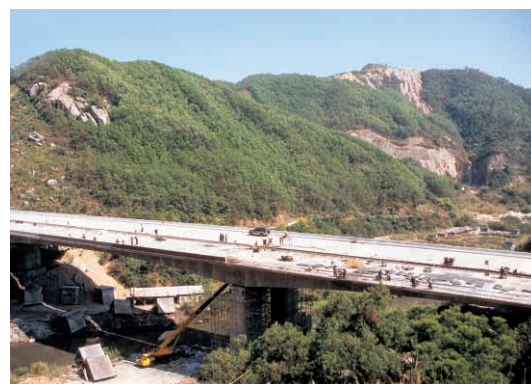
#### The Investment and Construction of Yanba B



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

serve as the backbone of the network of high class roads in Shenzhen, and it is the main passage between the coastal area in the east of Shenzhen and other areas. The construction of Yanba Expressway is of great significance to cater the increasing traffic demand in the eastern coast of Shenzhen and alleviate the traffic pressure of Yantian Ports, and to improve the development of the tourism and economy in the east of Shenzhen. It is also significant for the development of the economy and tourism in the eastern coastal area of Shenzhen, the consolidation of the coastal defense, the evacuation of Daya Bay Nuclear Plant on emergency, the perfection of the expressway network in the east of Guangdong Province and the coastal areas of southeast part of China, and a better connection between Shenzhen and Hong Kong.

Yanba A was completed and put into use in April 2001, while Yanba B commenced construction in June 2001. The total investment for Yanba B is approximately RMB655 million, which is mainly funded by the net proceeds of RMB604 million raised from the issue of 165,000,000 A Shares in December 2002. As at 31 December 2002, approximately RMB244 million has been injected in to the project, all of which is from the net proceeds from the issue of A Shares. The construction of Yanba B has progressed smoothly, with good quality and tight cost control. Yanba B is expected to be completed in July 2003.



## MANAGEMENT DISCUSSION & ANALYSIS

### INVESTMENT AND ACQUISITION



#### The Acquisition of 40% Equity Interest in Shenzhen Fountain and the Provision of Shareholder's Loan

The Company, on 18 December 2002, entered into an agreement with Shenzhen Huayu Investment Company Limited ("Shenzhen Huayu") and Fameluxe Investment Company Limited ("Fameluxe") pursuant to which the Company agreed to purchase from Shenzhen Huayu and Fameluxe 10% and 30% equity interests respectively in Shenzhen Fountain, at the consideration of RMB10,000,000 and RMB30,000,000 respectively. To repay the amount due and owing by Shenzhen Fountain for the construction of Shuiguan Expressway and other liabilities, the shareholders of Shenzhen Fountain agreed to provide shareholders' loans for Shenzhen Fountain. Accordingly, the Company shall provide an aggregate shareholder's loan of RMB330,000,000 to Shenzhen Fountain.

As at 31 December 2002, the Company has paid the consideration of RMB40,000,000 for the acquisition and granted shareholder's loan of RMB140,000,000 to Shenzhen Fountain. The remaining amount of the shareholder's loan will be paid to Shenzhen Fountain by the Company in 2003. In accordance with the agreement, the Company received the repayment of such shareholder's loan of RMB30,000,000 in 2002. With effect from 2003, the Company will be subject to a preferential distribution of Shenzhen Fountain's distributable reserves at the rate of 71.74% until all the shareholder's loan granted by the Company to Shenzhen Fountain is repaid and subject to profit distribution according to the proportion of the interests it holds in Shenzhen Fountain thereafter.

Shenzhen Fountain is a Sino-foreign co-operative joint venture company, with a term of operation of 31 years and a registered capital is RMB100,000,000. Shenzhen Fountain is principally engaged in the development, operation and management of Shuiguan Expressway. As at 31 December 2002, the audited total assets of Shenzhen Fountain was RMB1,092,053,130, with its net assets amounting to RMB66,716,782. Shuiguan Expressway starts from Shuijing Village in Buji Town in the west,





## MANAGEMENT DISCUSSION & ANALYSIS

connecting Bulong Road and ends at Guanjingtou in Longgang Town in the east, linking Longxiang Avenue. It serves as a southwest-northeast expressway outside the Shenzhen Special Economic Zone, alleviating the cross-border traffic from Longhua Town to Longgang Town, Shantou and Huizhou, and is the trunk expressway in the direction from Buji Town, Pinghu Town and Henggang Town to the east and the west of Shenzhen. Shuiguan Expressway has a total length of 20.14 kilometers, with a designed speed of 80km/hour and dual-three lanes. It has 4 interchanges along the whole section, with two main toll stations and three sideway toll stations. Shuiguan Expressway commenced construction in 1996, and commenced toll collection on 8 February 2002.

Upon the completion of the acquisition, the Company, Shenzhen Huayu and Fameluxe hold 40%, 30% and 30% equity interest in Shenzhen Fountain, respectively. Shenzhen Fountain completed the relevant business registration formalities on 13 January 2003.

The acquisition and the provision of the shareholder's loan are in the interest of the Company and its shareholders as a whole. It is in line with the business direction of the Group in managing and operating toll roads and will provide synergies with the existing interests of the Group in the toll road business and good investment returns for the Group.

### Acquisition of Equity Interests in the Advertising Company

The Company, Shenzhen Airport, the Advertising Company and Meiguan Company entered into an equity transfer agreement and a supplemental agreement on 20 November 2002, pursuant to which the Company acquired 35% equity interest in the Advertising Company held by Shenzhen Airport at a consideration of RMB2,753,277 and Meiguan Company acquired 5% equity interest in the Advertising Company held by Shenzhen Airport at a consideration of RMB393,325. The above acquisition was completed on 18 February 2002, and the relevant business registration formalities were completed on 27 March 2003.

The acquisition of the equity interests in the Advertising Company will be beneficial to the Advertising Company to further develop and operate the advertising business along its toll roads and capitalize the effect of synergies from the operation of restructured resources, so as to further improve the Company's overall operating results.

## MANAGEMENT DISCUSSION & ANALYSIS

### The Transfer of the Rights in NH107 and NH205

The Shenzhen Municipal Government's Reform on toll roads and tunnels in Shenzhen focuses on reducing toll stations within municipal confines and relocating toll stations to municipal boundaries in order to reduce the cost of investment in Shenzhen.

On 18 March 2003, the Company and Shenzhen Communications Bureau entered into the Agreement on the Transfer of the Rights of Guangshen Branch Company and Huishen Branch Company of Shenzhen Expressway Company Limited, pursuant to which the Company transferred all its interests and rights in NH107 and NH205 to Shenzhen Communications Bureau at a consideration of RMB1.93 billion.

Shenzhen Communications Bureau took over NH107 and NH205 on 19 March 2003. It is responsible for the arrangement of jobs of the employees of the Company engaged in the operation of NH107 and NH205.

NH107 and NH205 were transferred to the Company by the promoters in 1996 comprising a toll concession period for 30 years from 1997. The sole source of income derived from these two highways has been toll income, but traffic congestion has limited the potential business growth of these two highways. The Company had now an opportunity to realized its investment by selling its interests and rights in the above two highways and using the sale proceeds to invest in other expressways with high growth potential in Shenzhen and other regions of China, with a view to improving the asset portfolio of the Company for its long term development.

Details of the above transaction were set out on the announcements of the Company which were published on *Shanghai Securities News* and *Securities Times* on 19 March 2003 and on *Hong Kong Economic Times* and *The Standard* on 20 March 2003, respectively.

## MANAGEMENT DISCUSSION & ANALYSIS

### Strategy and Planning



The strategy of the Company is to focus on the development of toll roads in Shenzhen, and to acquire road projects with high quality and returns in other regions in the PRC. Currently, the Company is conducting the preparatory works of Yanpai Expressway. Yanpai Expressway starts from Yantian Ports, running northwards across Henggang, and ends at the Paipang Interchange at Jihe East. It will serve as a main expressway for traffic flow in Yantian Ports. Yanpai Expressway will have a length of 15.2 kilometers, with an estimated investment of RMB1.189 billion. Its feasibility study has been appraised by Guangdong Provincial Communications Department. It is expected to commence construction in the first half of 2003, and will be completed at the same time as Phase III of Yantian Ports, in 2005.

The Company will, in accordance with the *Master Plan of the Road Network of Shenzhen*, invest and construct in other planned expressways in Shenzhen.

In addition, the Company is actively seeking new road projects in the Pearl River Delta Region and other regions in the PRC. It endeavors to enhance its profitability and to maintain its continuous growth through acquiring existing expressway projects with quality projects and high returns.

### ANALYSIS ON THE OPERATION RESULTS AND FINANCIAL POSITION OF THE COMPANY

During the year, the Group's turnover increased by 7.04% as compared with 2001. Due to the termination of the enterprise income tax preferential treatments enjoyed by the Group and the reduction in construction management services, profit attributable to shareholders of the Company for 2002 declined by 14.57% as compared with 2001, amounting to RMB360 million.

During the year, the financial position of the Company remained sound, with sufficient financial resources.

## MANAGEMENT DISCUSSION & ANALYSIS

### Analysis on the Operation Results of the Company

	2002 RMB'000	2001 RMB'000	Change
Turnover	524,291	489,813	7.04%
Other revenues	66,536	129,765	-48.73%
Total operating costs	213,755	211,311	1.16%
Operating profits	377,072	408,267	-7.64%
Profit of jointly controlled entities	61,873	57,985	6.71%
Finance costs	24,927	41,647	-40.15%
Taxation	48,141	140	N/A
Profit attributable to shareholders	359,931	421,336	-14.57%
Transfer to reserves	123,690	121,779	1.57%
Earnings per share (RMB)	0.165	0.208	-20.67%
Dividend per share (RMB)	0.12	0.1	20%

#### 1. Turnover

	2002 RMB'000	2001 RMB'000	Change
Revenue from toll roads	553,048	516,684	7.04%
Less: business tax and surcharge	28,757	26,871	7.02%
Turnover	524,291	489,813	7.04%

Turnover comprises turnover from wholly-owned toll roads namely NH107, NH205, Jihe West, Yanba A and the 95% held Meiguan Expressway. The Company's turnover increased by 7.04% as compared with 2001, which was mainly attributable to the growth in traffic volume from Jihe West and Meiguan Expressway.



## MANAGEMENT DISCUSSION & ANALYSIS

### 2. Other revenues

	2002 RMB'000	2001 RMB'000	Change
Interest income	25,322	25,656	-1.30%
Income from construction management services	2,413	63,131	-96.18%
Government subsidies	32,982	26,706	23.50%
Income from other investments	—	11,142	—
Others	5,819	3,130	85.91%
	<u>66,536</u>	<u>129,765</u>	<u>-48.73%</u>
Total	<b>66,536</b>	<b>129,765</b>	<b>-48.73%</b>

Income from construction management services represents income from the construction management services provided by the Company for the linkage project from Yantian Ports Section along Shenzhen Eastern Highway to Yanba Expressway, which is owned and developed by Shenzhen Municipal Government. The main part of the project has been completed and the Company was responsible for its ancillary project during the year. Therefore, income from construction management services during the year decreased sharply.

Government subsidies represent government grants provided to the Company in relation to subsidies for compensation of toll revenue for Yanba A, as a result of the anticipated insufficient traffic volume caused by the early construction of the expressway as requested by the Shenzhen Municipal Government to fulfill its overall town planning requirements. Such government grants are recognised in the profit and loss account according to the Company's accounting policies over the period for which the Company is granted the right to operate the expressway. The operation period of Yanba A in 2002 was 12 months, while its operation period in 2001 was only 8.5 months. Accordingly, the government subsidies recognised during the year increased as compared with 2001.

The decrease in income from other investment is mainly because the Company terminated all its entrusted investment during the year.

## MANAGEMENT DISCUSSION & ANALYSIS

### 3. *Operating costs*

	<b>2002</b>	2001	Change
	<b>RMB'000</b>	RMB'000	
Depreciation and amortisation	<b>100,674</b>	88,150	14.21%
Staff costs	<b>45,950</b>	39,853	15.30%
Road maintenance expenses	<b>16,561</b>	18,496	-10.46%
Other costs	<b>50,570</b>	64,812	-21.97%
	<hr/>	<hr/>	<hr/>
Total	<b>213,755</b>	211,311	1.16%
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

During the year, operating costs of the Company increased as compared with the year 2001, including:

The depreciation and amortisation of the Group increased during the year 2002 because the traffic volume of each of the Group's toll roads grew, which increased the depreciation of its toll roads, and that the depreciation of Yanba A was calculated on the basis of the whole year, which is longer than that of 2001.

The increase in staff costs is mainly due to the payment under the Share Appreciation Rights Scheme in 2002.

Other costs decreased because no losses on unrealized investments were recorded during the year 2002 while in 2001 losses on other investments were recorded.

### 4. *Finance costs*

Finance costs during the year decreased mainly because the Company's bank borrowings reduced and at the same time, the Company adjusted the structure of its long-term and short-term bank borrowings during the year. Its bank borrowings were mainly long-term bank borrowings in 2001, but were all adjusted to short-term bank borrowings during the year. This resulted in the declined interest rates of its bank borrowings and the decreased interests paid by the Company during the year.



## MANAGEMENT DISCUSSION & ANALYSIS

### 5. *Taxation*

The taxation of the Company during the year amounted to RMB48,141,000.

The preferential enterprise income tax treatments (i.e. five years full exemption and 50% reduction for the five years thereafter) previously enjoyed by the Company, its subsidiary namely Meiguan Company and a jointly controlled entity namely Airport-Heao Company, were terminated with effect from 2002. Commencing from 1 January 2002, the aforementioned entities are required to pay PRC enterprise income tax at the rate of 15%, the standard tax rate for enterprises established in the Shenzhen Special Economic zone, while in 2001 the aforesaid entities were all within the full exemption period. Therefore, the taxation of the Company for 2002 recorded sharp increase as compared with the same period last year.

### 6. *Reserves*

During the year, RMB123,690,000 from the profit attributable to shareholders of the Group for 2002 was transferred to reserves, which will mainly be utilized for the future development of the Company.

### 7. *Results and dividend*

Earnings per share of the Company for 2002 were RMB0.165. Based on the Company's sound financial position and sufficient financial resources, the Board of the Company recommended a final dividend distribution of RMB0.12 per share, representing 72.73% of the earnings per share of the Company for 2002.

## **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 to maximizing the shareholders' value.

## MANAGEMENT DISCUSSION & ANALYSIS

### 1. Liquidity

	2002	2001
Current ratio	1.30	3.13
Quick ratio	1.29	3.12

The Company is principally engaged in the operation and management of toll roads, and has a strong and stable cash inflow from its daily operations. Though the liquidity indicators as at 31 December 2002 dropped as compared with 2001 due to the adjustment in the structure of its bank borrowing, which resulted in the increase in its short-term bank borrowings and current liabilities, the Company's liquidity still remained good.

### 2. Financial resources

	As at 31 December 2002 RMB'000	As at 31 December 2001 RMB'000
Bank balances and cash	962,736	962,088
Include:		
Cash on hand	193	87
Bank deposits		
— Fixed deposits in RMB with a term of 3 months or above	202,000	61,275
— Current deposits and deposit with a term of 3 months or less in RMB	663,597	748,507
— Deposits in HKD	89,231	143,741
— Deposits in USD	1,715	31
Capital in other currencies	6,000	8,447
Short-term investments	—	369,637
Subtotal	<u>962,736</u>	<u>1,331,725</u>
Borrowings		
— Short-term bank borrowings	610,000	220,000
— Long-term borrowings	24,419	549,060
Subtotal	<u>634,419</u>	<u>769,060</u>



## MANAGEMENT DISCUSSION & ANALYSIS

### (1) Bank balances and cash

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 the specific project. The unused fund of the Company is mainly deposited in PRC commercial banks.

The banks deposits of the Company mainly include the specific deposits of the proceeds from the issue of A shares and the fund for possible investments.

### (2) Short-term investments

The Company has terminated all entrusted investment arrangements during the year and has withdrawn the entrusted investments of RMB290 million. As at 31 December 2002, the Company has not had any new entrusted investment arrangements.

Since the Company terminated its entrusted investments in Huarong Trade (Group) Company and managed the securities on its own, it has sold out and realized, basing on the principle of "To sell only and not to buy", all the securities as at 31 December 2002,

### (3) 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 31 December 2002, the Company's bank borrowings amounted to RMB634 million. During the year, the Company was granted with an aggregate of RMB1.1 billion banking facilities, out of which RMB500 million was granted by Shangbu Sub-branch, Shenzhen Branch of China Everbright Bank and the remaining RMB600 was granted by Shenzhen Branch of China Minsheng Banking Corporation Limited. As at 31 December 2002, RMB970 million out of the above banking facilities remained available as standby credit.



## MANAGEMENT DISCUSSION & ANALYSIS

### (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 year, the Company received an aggregate of RMB30 million government advances. As at 31 December 2002, the Company has received RMB70 million of government advances in total.

### (5) Impact on the financial resources by the transfer of NH107 and NH205

According to the transfer agreement in relation to the transfer of NH107 and NH205, the Company will receive a consideration of approximately RMB1.93 billion, which will be paid to the Company within three years. In addition, the security created over the operating rights of NH107 and NH205 in respect of the RMB1.9 billion banking facilities granted by the PRC banks to the Company were released on 11 April 2003.

### 3. Capital commitments

The Company's capital commitments are mainly for the constructions of expressways and the investments in equity interests of expressways, including Yanba B, Yanba C, Shuiguan Expressway and Yanpai Expressway, details of which are set out below:

	RMB'000
Contracted but not provided for	442,630
Authorized but not contracted for as at 31 December 2002	496,000
Authorized but not contracted for from 31 December 2002 up to the date of this report	<u>1,225,970</u>
Total	<u><u>2,164,600</u></u>

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



## MANAGEMENT DISCUSSION & ANALYSIS

### 4. *Foreign exchange risks management*

The Company has always exercised a tight control over its foreign capital. Its foreign currency payment is mainly for the payment of the dividends of its H shares. As at 31 December 2002, it had foreign currency bank deposits of HKD84,799,000 and USD207,000 respectively, and bank borrowings of USD2,949,000. During the year, 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

Items	2002 RMB'000
Net cash inflow from operating activities	334,248
Dividends and repayments received from jointly controlled entities	94,189
Realisations of short-term investments	358,300
Government advances	30,000
Capital expenditure for purchase of fixed assets	(304,010)
Acquisition of and loans advanced to a jointly controlled entities	(180,000)
Net cash outflow of bank borrowings	(134,641)
Net increase in fixed bank deposits with a term of 3 months or above	(140,725)
Dividends paid	(218,070)
Other incomes net of other expenses	20,632

As at 31 December 2002, the Company's cash and cash equivalents decreased by RMB140,077,000.

### 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.

## MANAGEMENT DISCUSSION & ANALYSIS

### 2. Cash flow from investing activities

The Company's cash inflow from investing activities during the year mainly represents the realisation of RMB358 million short-term investments. Its cash outflow from investing activities mainly represents the RMB304 million of capital expenditure paid for the constructions of Yanba A and Yanba B, and the consideration for the acquisition of 40% in Shenzhen Fountain and the granting of shareholder's loan to Shenzhen Fountain amounting to RMB180 million.

### 3. Cash flow from financing

During the year, the Company reduced its bank borrowings by RMB135 million and received RMB30 million of government advances provided by the Shenzhen Municipal Government for the construction of Yanba B.

### Capital Structure

The Company's capital structure is mainly composed of shareholders' funds and liabilities. As at 31 December 2002, the Company's shareholders' funds amounted to RMB5,505,253,000, and its liabilities were RMB1,219,273. Its gearing ratio at 31 December 2002 (total liabilities as at the balance sheet date to its shareholders' funds as at the balance sheet date) was 22.15% (At 31 December 2001: 26.48%).

During the year, the Company's financial position remained sound, with its interest cover of 17.61 times, while its interest cover for 2001 was 11.20 times.

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

	31 December 2002		31 December 2001	
	Amount RMB'000	Percentage	Amount RMB'000	Percentage
Current liabilities	760,047	11.30%	430,715	6.35%
Long-term liabilities	407,938	6.07%	940,235	13.86%
Shareholders' funds	5,505,253	81.87%	5,363,392	79.06%
Minority interests	51,288	0.76%	49,343	0.73%
Total	<b>6,724,526</b>	<b>100%</b>	<b>6,783,685</b>	<b>100%</b>

## MANAGEMENT DISCUSSION & ANALYSIS

The Company's current liabilities increased by 76.46% as compared with 2001, while its long-term liabilities decreased by 56.61% as compared with 2001 as a result of the adjustments in the structure of the Company's long-term and short-term liabilities during the year.

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

	As at 31 December 2002		As at 31 December 2001	
	Amount RMB'000	Percentage	Amount RMB'000	Percentage
Fixed rate liabilities	<b>634,419</b>	<b>9.44%</b>	239,060	3.53%
Floating rate liabilities	—	—	530,000	7.81%
Interest-free liabilities	<b>533,566</b>	<b>7.93%</b>	601,890	8.87%
Shareholders' funds	<b>5,505,253</b>	<b>81.87%</b>	5,363,392	79.06%
Minority interests	<b>51,288</b>	<b>0.76%</b>	49,343	0.73%
Total	<b><u>6,724,526</u></b>	<b><u>100%</u></b>	<b><u>6,783,685</u></b>	<b><u>100%</u></b>

During the year, the Company's bank borrowings in the PRC were all short-term bank borrowings, while in 2001 they were mainly long-term bank borrowings. Owing to the shortened loan periods of its bank borrowings during the year, interest rates of the Company's bank borrowings lowered as compared with those of 2001. The Company's PRC short-term borrowings were fixed rate liabilities, while its PRC long-term borrowings were floating rate liabilities. The Company's PRC short-term bank borrowings amounted to RMB610 million, with the annual interest rate of about 4.536%. Its foreign long-term liabilities represent the long-term Spanish Governmental fixed rate loans of USD2,949,235.82 (equivalent to RMB24,419,000), out of which at an interest rate of USD1,474,617.91 is at an interest rate of 1.8% per annum and the remaining USD1,474,617.91 is at an interest rate of 7.17% 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.

The Company's overall liabilities are 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.

## MANAGEMENT DISCUSSION & ANALYSIS

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

The Company raised RMB604 million from the issue of A Shares. During the year, the Company applies the net proceeds to the construction of Yanba B in strict compliance with the undertakings stated in the Prospectus of A Shares. The total investment of Yanba B is estimated to be RMB655 million. Yanba B commenced construction in June 2001 as scheduled and is expected to be completed in July 2003. Currently, the construction of Yanba B has progressed smoothly, with a tight quality and cost control. As at 31 December 2002, approximately 70% of the project has been completed.

During the year, approximately RMB207 million of the proceeds from the issue of A Shares has been injected into the project. Up till now, an aggregate of RMB244 million has been invested into the construction of Yanba B.

As at 31 December 2002, the unused proceeds from the issue of A Shares of the Company amounted to RMB360 million, which are kept as fixed deposits in domestic commercial banks. Because Yanba B is still under construction, no investment return has been recorded up till now.

### MATERIAL INVESTMENTS NOT USING THE PROCEEDS FROM THE ISSUE OF A SHARES

The Company's material investments not using the proceeds from the issue of A shares during the year represent the investment in Shuiguan Expressway. Details of the above transaction were set out in the section headed "Investment and Acquisition".

### CHARGES ON THE GROUP'S ASSETS

To obtain bank loans or banking facilities, the Company pledged the following operating rights of its 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

Note: The above pledges of the operating rights were released on 11 April 2003.





## MANAGEMENT DISCUSSION & ANALYSIS

### PERFORMANCE OF GUARANTEE OBLIGATION

In January 2002, the Company repaid the principal of bank loans of RMB25 million and the accrued interest of RMB195,450, to fulfill its guarantee obligation for Wutongling Company.

### LITIGATION AND ARBITRATION

#### Litigation

The Company has disclosed in details in its 2001 Annual Report and 2002 Interim Report, the writ against Shenzhen Wutongling Ropeway Company Limited (“Wutongling Company”) for enforcement of the recovery of RMB43,000,000 plus interests accrued thereon, representing settlement of bank loans on behalf of Wutongling Company and the writ against Shenzhen Zhongmin Investment Service Company (“Zhongmin Company”) in relation to a claim of 55% of the bank loans of RMB18,000,000 (equivalent to RMB9,900,000) of Wutongling Company plus interests accrued thereon, that was guaranteed by Zhongmin Company, but was repaid by the Company.

The hearings of the above case in Shenzhen Intermediate People’s Court were commenced on 12 August 2002 and were completed on 8 October 2002. Under Orders 235 and 266 of 2002 delivered by the court, the court supported the Company’s requests and has now ordered that Wutongling Company shall pay to the Company the secured credit of RMB25,195,450 which has been paid by the Company and the interest accrued thereon starting from 29 January 2002 till the repayment date; that Wutongling Company shall pay to the Company RMB18,000,000 which has been paid by the Company and the interest accrued thereon starting from 30 July 1997, and that out of the said RMB18,000,000 Zhongmin Company shall have joint liability with Wutongling Company to the Company for RMB9,900,000 and the interest accrued thereon (starting from 30 July 1997 till the repayment date). The above interests are calculated on the basis of the interest rates with the same loan term borrowings promulgated by the People’s Bank of China. The court fees and asset protection fees before the writs in relation with the above case shall be borne by Wutongling Company.

Zhongmin Company has made an appeal against such orders. As at the date of this report the Company has made a bad debt provision in respect of this loan in the amount of RMB18,153,000.

## MANAGEMENT DISCUSSION & ANALYSIS

### Arbitration

The Company has made a detailed and continuous disclosure in relation to its investments entrusted in Huarong Trade (Group) Company Limited ("Huarong Trade") in its 2001 Annual Report, 2002 Interim Report, and its 2002 1st and 3rd quarterly reports. The Company submitted the dispute with Huarong as to the losses in such entrusted investments caused to the Company by Huarong to arbitration at the Shenzhen Arbitration Commission, claiming from Huarong losses in the amount of RMB39,365,591 and that Anshan Securities Company, as the guarantor of such entrusted investments in Huarong Trade and supervisor of the execution of the contracts, shall have joint liability in such losses. Shenzhen Arbitration Commission has accepted the Company's application on 10 October 2002.

As at the date of this report, the above arbitration is still proceeding.

### MATERIAL CONNECTED TRANSACTIONS

During the year, the Company had not entered into any material connected transactions.

### MATERIAL CONTRACTS AND THEIR PERFORMANCE

#### Guarantee

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

#### Entrusted Investments

The Group has terminated all entrusted investment arrangements and principal and investment income were fully received during the year.

As at 31 December 2002, the Company has not had any new entrusted investment arrangements.



## MANAGEMENT DISCUSSION & ANALYSIS

### Banking Facilities Contracts

On 28 August 2002, Shenzhen Branch of China Minsheng Banking Corporation Ltd and the Company entered into a Banking Facilities Contract, pursuant to which the former granted the Company with the banking facilities of RMB600 million, with a term from 28 August 2002 to 28 August 2004. As at 31 December 2002, the Company has obtained an aggregate of RMB100 million bank borrowings from Shenzhen Branch of China Minsheng Bank Corporation Ltd.

On 1 July 2002, Shangbu Sub-branch, Shenzhen Branch of China Everbright Bank and the Company entered into a Banking Facilities Contract, pursuant to which the former granted the Company with the banking facilities of RMB500 million, with a term from 1 July 2002 to 1 July 2005. As at 31 December 2002, the Company has obtained an aggregate of RMB30 million bank borrowings from Shangbu Sub-branch, Shenzhen Branch of China Everbright Bank.

### GUARANTEED EVENTS

The shareholders of the Company which hold 5% or above of the issued share capital of the Company namely Xin Tong Chan 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 promise during the year.

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, as stated in the Prospectus of the Issue of A Share.

### TRAINING AND REMUNERATION

As at 31 December 2002, the Group had 1,173 employees, out of whom 96 were administrative staff, 26 were financial staff, 132 were technical staff and the remaining 926 were toll collection staff. The staff with various professional qualifications of the Company amounted to 162, about 13.8% of the total staff. 55.8% of the Company's staff were graduate students from specialized schools, colleges or above, and all the toll collection staff were graduates from senior middle schools or above. As at 31 December 2002, the Company has not any retirees.

## MANAGEMENT DISCUSSION & ANALYSIS

The Company emphasizes on the staff training. The staff training system has been established and specific training programs have been carried out according to the development and management of the Company. During the year, 32 training courses aiming at different departments and staff at all level were carried out, and 540 staff attended such training courses, representing 432 training hours, which has produced desirable results.

The incentive for the Company's senior management is a combination of long-term incentives with short and medium terms incentives. Centering on the feature of the toll road sector and its annual operation results, the Company also implemented the Share Appreciation Right Scheme and improved medical insurance and retirement insurance on the basis of salaries and annual bonus.

### The implementation of the Share Appreciation Right Scheme

The Group implemented the Share Appreciation Right Scheme in 2001. It was approved by the Annual General Meeting held on 6 March 2001. The total units of the rights under the scheme amounted to 60,471,000. The grant price and the exercise price of the rights will be determined by reference to both the H Share price and the A Share price of the Company. The Company has granted an aggregate of 18,405,000 units of rights to its directors and management staff, which are not allowed to be exercised in the first year after the share appreciation rights were granted namely the year 2001 to 2002, while the exercisable units for the year 2002 to 2003 amounted to 4,601,250. As at 31 December 2002, 27 grantees have exercised 2,827,800 units, with the cash payment of RMB3,289,461.

During the year, the Board of the Company further perfected the implementation of the Share Appreciation Right Scheme by finetuning the time and price limits in relation to the exercise of the units and the prohibited non-exercisable events thereunder.

## MANAGEMENT DISCUSSION &amp; ANALYSIS

## The Share Appreciation Right Scheme (“Scheme”)

	No. of rights	Grantees	Cash payment paid (RMB)
As at 1 January 2002	18,405,000	40	
Rights granted during the year	—		
Rights decreased during the year	(661,725)	3	
Rights exercised during the year	<u>(2,827,800)</u>	<u>27</u>	<u>3,289,461</u>
As at 31 December 2002	<u>14,915,475</u>	<u>37</u>	

In accordance with the resolution of the Board of the Company, before any rights were exercised by any grantee, the Company adjusted the number of the units granted in 2001 to 18,405,000 units. The decrease in units is because some grantees left the Group during the year.

As at the balance sheet date, the Company has 14,915,475 units of rights which were granted but not exercised. Unless they are revoked or revised otherwise, they shall be exercisable from the exercise date till 15 March 2006.

As at 31 December 2002, details of the rights which are not exercised are set out below:

No. of the rights which are not exercised	Provision for the year (RMB)	Exercisable date
1,773,450	1,580,744	16 March 2002
4,380,675	—	16 March 2003
4,380,675	—	16 March 2004
4,380,675	—	16 March 2005
<u>14,915,475</u>	<u>1,580,744</u>	



## MANAGEMENT DISCUSSION & ANALYSIS

### IMPACT ON THE COMPANY BY CHANGES IN FUTURE MICRO ENVIRONMENT

In accordance with *the Master Plan of Road Network in Shenzhen*, Shenzhen plans to invest RMB20 billion in the construction of a total length of 270 kilometers expressways within the next 10 years, with a view to intensifying its existing expressway network. In 2015, Shenzhen is expected to have a total length of 1,750 kilometers expressways and class I highways, with the density of 86 kilometer per 100 square kilometers. This development plan will provide ample room for the future development of the Company's principal business.

In 2002, Shenzhen's foreign trade continued to grow. The trade activities between Shenzhen and Hong Kong remained frequent. The container transportation business and ports business in Shenzhen thrived. The sales and production of cars kept prosperous. Private cars in the Pearl River Delta Region increased at a fast pace. The car ownership in Shenzhen ranked first in China, which has provided a steady traffic flow for the Company's toll roads. Shenzhen Municipal Government decided to greatly stimulate the development of modern e-commerce business and logistics, which has posed an even pressing demand for highway transportation and provided a benign operation environment for the Company's toll roads.

Shenzhen Municipal Government adjusted its policy as to the toll roads other than expressways. According to its *Implementation Plan for the Reform of the Return on Investment in Shenzhen Road and Tunnel Projects and the Funds for Development Projects* (《深圳市路隧項目償還及發展專項資金改革實施方案》), 12 of the existing non-expressway toll stations will be dismantled and 9 new toll stations will be set up at the boundaries between Shenzhen and its surrounding cities. The Company's two toll stations namely the toll stations of NH107 and NH205 were involved in the reform. The reform is expected to reduce vehicles' operating costs and stimulate the growth in highway transportation and cars.