

HONG KONG 0548
SHANGHAI 600548

2002 interim ^{report}

SHENZHEN EXPRESSWAY



SHENZHEN EXPRESSWAY COMPANY LIMITED

(A joint stock limited company incorporated in the People's Republic of China with limited liability)

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Websites for Publication of the Interim Report	http://www.hkex.com.hk http://www.sse.com.cn http://www.sz-expressway.com
Newspapers for Information Disclosure	Hong Kong: <i>Hong Kong Economic Times</i> <i>The Standard</i> (English version) PRC: <i>Shanghai Securities News</i> <i>Securities times</i>
Listing Exchanges	H Shares: The Stock Exchange of Hong Kong Limited Stock Code: 0548 A Shares: The Shanghai Stock Exchange Stock Code: 600548
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Futian Subbranch
China Merchants Bank, Huanggang Subbranch

PREPARED IN ACCORDANCE WITH THE HONG KONG ACCOUNTING STANDARDS (UNAUDITED)

Results Highlights

For the six month ended 30 June, 2002

	2002 (RMB'000)	2001 (RMB'000)	Change
Turnover	250,011	219,700	+13.80%
Profit before taxation	210,245	203,464	+3.33%
Profit attributable to shareholders	199,118	201,980	-1.42%
Earnings per share (RMB)	9.13 cents	10.02 cents	-8.88%

Assets Highlights

	As at 30 Jun, 2002 (RMB'000)	As at 31 Dec, 2001 (RMB'000)
Total assets	6,454,237	6,783,685
Total liabilities	1,109,797	1,420,293
Total net assets	5,344,440	5,363,392
Net assets per share (RMB)	2.451	2.459

Operation Highlights

For the six months ended 30 June, 2002

	Turnover (RMB'000)	Profit attributable to shareholders (RMB'000)
Total of branches and subsidiaries	250,011	166,238
Total of jointly controlled entities	—	31,194
Total toll income	250,011	197,432
Income from construction management services	—	2,413
Government subsidies	—	18,109
Net interest income	—	173
Unrealized income from other investments	—	826
Realized losses from other investments	—	(2,319)
Other expenses	—	(17,516)
Total	250,011	199,118

PRINCIPAL ACCOUNTING DATA AND FINANCIAL INDICATORS PREPARED IN ACCORDANCE WITH THE PRC ACCOUNTING STANDARDS (UNAUDITED)

Indicators	For the six months ended 30 June,	
	2002	2001
Net profit (RMB)	191,178,291	181,564,910
Net profit after extraordinary items (RMB)	193,051,100	181,453,642
Earnings per share (fully diluted) (RMB)	0.088	0.090
Return on net assets (fully diluted)	3.63%	4.07%
Return on net assets after extraordinary items (weighted average)	3.74%	4.15%
Net cash flows from operating activities per share (RMB)	0.094	0.176

Indicators	As at	As at
	30 Jun, 2002 (RMB)	31 Dec, 2001 (RMB)
Net assets per share	2.41	2.33
Adjusted net assets per share	2.40	2.31
Shareholders' fund (excluding minority interests)	5,261,724,628	5,070,546,337

SIGNIFICANT DIFFERENCES BETWEEN ACCOUNTS PREPARED IN ACCORDANCE WITH HK GAAP AND PRC GAAP

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

SHARE CAPITAL STRUCTURE AND SHAREHOLDERS

SHARE CAPITAL STRUCTURE

	At 31 December, 2001	Movements	Unit: shares At 30 June, 2002
1. Unlisted shares			
State-owned shares	654,780,000	—	654,780,000
State-owned legal person shares	613,420,000	—	613,420,000
Total of unlisted shares	1,268,200,000	—	1,268,200,000
2. Listed Shares			
Foreign capital shares (H Shares)	747,500,000	—	747,500,000
Domestic ordinary shares (A Shares)	165,000,000	—	165,000,000
Total of listed shares	912,500,000	—	912,500,000
Total	2,180,700,000	—	2,180,700,000

SHAREHOLDERS

1. As at 30 June, 2002, the number of the shareholders whose names appeared on the registers of shareholders of the Company amounted to 44,419, out of which 4 were state-owned share holders, 743 were H Share holders, and the remaining 44,419 were A Share holders.
2. The top ten shareholders of the Company as at 30 June, 2002 are set out as follows:

Shareholders	Nature of shares	No. of Shares held	Percentage
HKSCC NOMINEES LTD	H Shares	724,535,499	33.22%
Shenzhen Freeway Development Company Limited	State-owned shares	654,780,000	30.03%
Shenzhen Shengguanghui Highway Development Company	State-owned legal person shares	457,780,000	20.99%
Huajian Transportation and Economic Development Centre	State-owned legal person shares	91,000,000	4.17%
Guangdong Roads and Bridges Development Company	State-owned legal person shares	64,640,000	2.96%
ARSENTON NOMINEES LTD	H Shares	3,000,000	0.14%
Guoyan Fund	A Shares	2,452,010	0.11%
Yinhe Securities	A Shares	2,293,882	0.11%
Penghua Growth	A Shares	2,041,900	0.09%
HSBC NOMINEES (HONG KONG) LTD	H Shares	2,000,000	0.09%

Note: During the Period, none of the shares held by the shareholders that hold 5% or above in the share capital of the Company were pledged or frozen.

3. There is no change in shares held by the shareholders that hold 5% or more in the share capital of the Company as at 30 June, 2002.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

SHARES HELD BY DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

During the Period, none of the directors, supervisors or senior management held any shares of the Company, thus there is not any movement concerning their holding of the shares of the Company.

CHANGE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Ms Tao Hong's term as the general manager of the Company expired on 24 January, 2002. The Directors of the Company resolved not to reappoint Ms Tao as the general manager of the Company and appointed Mr. Wu Ya De, the director, as the acting general manager till the appointment of the new general manager.

Mr. Li Kwok Wing, Meocre has ceased to be an independent director of the Company as from 10 June, 2002 due to the expiration of the term of directorship with the Company.

With effect from 10 June, 2002, the Company has 10 directors, out of whom 2 are independent directors.

DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S INTERESTS IN SECURITIES AND RIGHTS TO ACQUIRE SECURITIES

As at 30 June, 2002, none of the directors, supervisors, chief executives or their associates had any beneficial interests in the share capital of the Company or any of its associated corporations as defined in the Securities (Disclosure of Interests) Ordinance and to be recorded in the register required to be maintained pursuant to Section 29 thereof or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Hong Kong Stock Exchange.

At no time during the Period was the Company, its subsidiaries and its jointly controlled entities a party to any arrangements to enable the directors, supervisors, chief executives or their associates to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate. No rights to subscribe for equity or debt securities of the Company has been granted by the Company to, nor have any such rights been exercised by, any person during the Period ended 30 June, 2002 and up to the date of this report.

OPERATION REVIEW

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

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

Business summary

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



MANAGEMENT DISCUSSION AND ANALYSIS

Analysis of toll road operation

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

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

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

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

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



Business Analysis

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

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

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

Expressways — sustaining continuous growth

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

Meiguan Expressway & Jihe Expressway

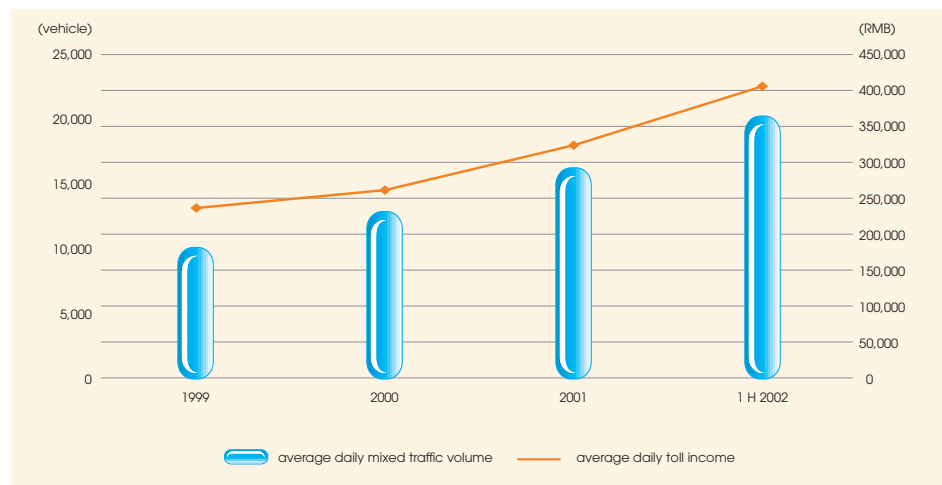
The traffic volume and toll income of Meiguan Expressway have entered a new stage of growth since its connection with the Guanshen Expressway in Dongguan City in October 2000. Its significance as the most important north-south trunk expressway in Shenzhen has been gradually realized. Meiguan Expressway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

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

MANAGEMENT DISCUSSION AND ANALYSIS



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



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

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

Changsha Ring Road and Yanba A

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



The toll income of Yanba A is still at a low level because: 1) it is the first operational section of Yanba Expressway; 2) a road network has yet to be formed owing to its short length; and 3) large vehicles constituted a minor proportion out of the total traffic volume. The average daily toll income of Yanba A for the first half of 2002 is RMB34,626, and the toll income for the Period amounted to RMB6,270,000. It is expected that the traffic volume and toll income of Yanba A will have relative high growth after the opening of Yanba B and the completion of Phase III of Yantian Ports.

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

MANAGEMENT DISCUSSION AND ANALYSIS



NH107 and NH205

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

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

CONSTRUCTION AND PLANNING

Yanba B — under construction

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

Investment and planning

Currently, the total length of highways in Shenzhen exceeds 1,500 km, with the highway density of 74 km/100 km². According to Shenzhen's adjusted road network planning, a total length of 270 km of expressways are expected to be built in Shenzhen in the next 10 years, with a total investment of approximately RMB20 billion. The Company will make full use of its concessions rights to expand its operation of expressways in Shenzhen.

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

OPERATION RESULTS AND FINANCIAL ANALYSIS

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

Operation Results

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

Turnover

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

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

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

Other revenues

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

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

Interest from a long-term loan represents interest charged at over five years' loan interest rate quoted by the People's Bank of China on the long-term loan of RMB306,000,000 advanced through a financial institution to Changsha Ring Road Construction and Development Co., Ltd., the joint venture partner of Changsha Company.

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

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

Income from construction management services represents income from the construction management services provided by the Company for the linkage project from Yantian Ports Section along Shenzhen Eastern Highway to Yanba Expressway, which is owned and developed by Shenzhen Municipal Government. The main part of the project was completed in 2001. During the Period, the Company is mainly responsible for the management of its auxiliary project and the income from the management service for the project decreased.

Operating costs

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Finance costs

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

Income tax

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

FINANCIAL POSITION

Liquidity and financial resources

Liquidity

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

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

Financial resources

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Treasury policies and objectives

1. Cash management

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

2. Short-term investment management

The Group has terminated all short-term investment arrangements.

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

3. Foreign exchange risks management

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

4. Management on debts, borrowing terms and interest rates

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

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

Cash inflow and outflow

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

1. Net cash inflow from operating activities

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

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

3. Principal financing

Government advances

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

Bank financing

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

MANAGEMENT DISCUSSION AND ANALYSIS

4. Capital expenditure

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

Capital structure

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

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

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

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

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

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

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

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

Gearing Ratio

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

Other investments

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

Contingent liabilities

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

USE OF THE PROCEEDS FROM THE ISSUE OF A SHARES

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

MATERIAL INVESTMENTS WITH NON-PROCEEDS

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

CHARGES ON THE GROUP'S ASSETS

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

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

PERFORMANCE OF GUARANTEE OBLIGATION

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

PROJECT MANAGEMENT AND PROSPECTS FOR NEW BUSINESS

The Company is responsible for the development, construction and maintenance of its toll roads. The Company selects contractors through tendering system for the construction of its new road projects, so as to ensure the effective control of costs.

The Company has accumulated extensive experience in project management, with a favorable track record of project quality management, tight cost control and good reputation in the toll road sector. To capitalise on the Company's expertise in management, the Company decided to invest RMB3 million to establish Shenzhen Expressway Engineering Consulting Company Limited (the "Engineering Consulting Company"), with a view to enhancing its competitiveness in project management and engineering consultation. Currently, the relevant registration formalities of the Engineering Consulting Company are being carried out.

PROSPECTS

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

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

MAJOR EVENTS

2002 INTERIM PROFIT DISTRIBUTION SCHEME

The Directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 June, 2002, or the transfer to capital reserves.

THE PROFITS DISTRIBUTION OF 2001

The Company's 2001 profit distribution scheme was approved at the 2001 Annual General Meeting held on 31 May, 2002, details of which are: basing on the total shares of 2,180,700,000 issued as at 31 December, 2001, a final dividend of RMB0.10 per share (including tax) was paid to its shareholders (a final dividend of HKD0.0943 was paid to shareholders of H Shares). The total amount of dividends amounted RMB218,070,000. Details of 2001 profits distribution scheme were published on *Hong Kong Economic Times*, *South China Morning Post* (English version), *Shanghai Securities News* and *Securities Times* on 3 June, 2002.

CORPORATE GOVERNANCE

During the Period, the Company has completed its *Self-checked Report on the Establishment of Modern Enterprise System*. From 22 July to 26 July, 2002, the Shenzhen Office of the China Securities Regulatory Commission ("CSRC") examined the Company's corporate governance, information disclosure, the use of the proceeds from the issue of the A Shares and financial treatments. According to the conclusion of the Shenzhen Office of CSRC, the Company's overall operation is properly regulated. At the same time, suggestions for improvements were also made by Shenzhen Office of CSRC. The Company is taking steps to improve its internal system according to the recommendations by the Shenzhen Office of CSRC, with a view to further enhancing the Company's corporate governance.

LITIGATION

In May 1997, the Company acquired 40% of equity interest of Wutongling from Shenzhen Zhongmin Investment Service Company ("Zhongmin Company"). In June 1997, the Company issued a corporate guarantee to secure the credit facilities of USD2.34 million granted to Wutongling and the interest and costs accrued thereon. In July 1997, the Company repaid the credit facilities of RMB18,000,000 for Wutongling, so as to humour its guarantee obligation.

In December 1999, the Company issued a corporate guarantee to secure the credit facilities of RMB25,000,000 granted to Wutongling. In January 2002, the credit facilities of RMB25,000,000 and the interest of RMB195,450 accrued thereon were repaid by the Company to humour its guarantee obligation.

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

As at 30 June, 2002, the Company has made a provision of RMB9,284,000 for the doubtful debts on such repayables.

GUARANTEED EVENTS

The shareholders of the Company which hold 5% or above of the issued share capital of the Company namely Shenzhen Freeway Development Company Limited and Shenzhen Shengguanghui 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 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, as stated in the *Prospectus of the Issue of A Share*.

ACQUISITION, MERGER AND ASSETS RESTRUCTURING

During the Period, the Group had no acquisitions, mergers or assets restructuring.

MAJOR CONNECTED TRANSACTION

During the Period, the Group had not entered into any material connected transactions.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June, 2002, the Company has 1,170 employees, 89 out of whom work at the headquarters of the Company. Their salaries and welfare of employees are linked with their positions and performance.

MAJOR EVENTS

The Share Appreciation Right Scheme

The Company implemented the Share Appreciation Right Scheme (the "Scheme"), aiming at linking the benefits of its staff with the interests of shareholders, the Company's performance and its share price, so as to encourage its staff to commit to the long-term success of the Company and to enhance the Company's value and the shareholders' value. The Scheme will be valid for 10 years. The Scheme is managed by the Board of directors of the Company and is carried out by the Human Resources & Remuneration Committee of the Board of the Company.

The rights exercisable under the Scheme for the year 2002 to 2003 amounted to 4,601,250 units. As at 30 June, 2002, rights for which applications for exercise have been amounted to 2,491,200 units. A provision of RMB3,090,000 has been made for such rights proposed to be exercised.

TRAINING OF THE STAFF

The Company emphasizes on the employees' training. The employees' training system has been established and specific training programs have been carried out according to the development of the Company each year.

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 the Hong Kong Stock Exchange.

PURCHASE, SALE OR REDEMPTION OF SHARES

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

AUDIT COMMITTEE

During the Period, the Audit Committee of the Company has convened two meetings, reviewing the Group's 2001 annual report and financial report, the interim report and the condensed unaudited interim accounts for the six months ended 30 June, 2002. It also reviewed the internal controls on the short-term investment of the Company and other issues related to internal control.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30 June, 2002

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

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

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

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

CONDENSED CONSOLIDATED BALANCE SHEET (continued)

As at 30 June, 2002 and 31 December, 2001

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

CONDENSED INTERIM ACCOUNTS

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June, 2002

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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June, 2002

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

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

CONDENSED INTERIM ACCOUNTS

NOTES TO THE CONDENSED INTERIM ACCOUNTS

1 General

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

2 Basis of preparation and accounting policies

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

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

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

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

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

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

3 Turnover and revenue

Revenues recognised during the period are as follows:

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

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

(b) Taxes related to toll income comprise:

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

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

CONDENSED INTERIM ACCOUNTS

4 Staff costs

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

5 Operating profit

Operating profit is stated after crediting and charging the following:

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

6 Taxation

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

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

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

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

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

7 Dividends

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

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

CONDENSED INTERIM ACCOUNTS

8 Earnings per share

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

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

9 Interests in jointly controlled entities

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

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

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

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

10 Long-term loan

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

11 Other investments

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

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

12 Amount due to a jointly controlled entity

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

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

CONDENSED INTERIM ACCOUNTS**13 Retained earnings**

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

14 Deferred income

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

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

15 Commitments

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

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

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

16 Related party transactions

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

CONDENSED INTERIM ACCOUNTS

17 Contingent liabilities

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

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

18 Litigation

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

19 Comparative figures

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

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

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

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

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

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

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

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