

Discussion and Analysis of the Management



2000 was the fourth year from the establishment and listing of the Company. With over three-year operation, the asset scale of the Company has been expanded and the operating results have been steadily increasing. The Company has become a conglomerate with 7 controlling and partially holding companies. Total assets reached Rmb8.126 billion, representing a significant 50.88% increase from its initial establishment; net assets Rmb4.298 billion, representing a 7.1% increase.

As at 31st December, 2000, the Group's turnover was Rmb594,165,000, representing a 34.97% increase from the previous year; profit attributable to shareholders amounted to Rmb166,452,000, representing a 1.77% decrease from last year; earnings per share were Rmb0.0651, down 1.77% from the previous year.

PRINCIPAL ACTIVITIES - ANALYSIS ON ROAD BUSINESS

As at the end of 2000, fully opened toll roads and bridge operated by the Group include Sichuan Chengyu Expressway ("Sichuan Chengyu Expressway"), Sichuan Chengya Expressway ("Chengya Expressway"), Chengdu Chengbei Exit Expressway ("Chengbei Exit Expressway"), Zigong Ring Roads, Lulong Road, Luhe Road and Tuojiang Er Bridge. Their operations for the year were as follows:

Toll roads	Average Year-on-year		Year-on-year		NetPerformance	
	daily traffic flow (no.)	growth (* %)	Toll income (Rmb'000)	growth (* %)	profit (Rmb'000)	comment
Sichuan Chengyu Expressway	7,986	+10.12%	437,850	+7.86%	227,744	Stable growth
Chengya Expressway	-	N/A	97,504	N/A	-115,216	Subject to
Chengbei Exit Expressway	14,789	+44.18%	26,326	+47.59%	-3,254	Significant growth
Zigong Ring Roads, Lulong Road, Luhe Road and Tuojiang Er Bridge	N/A	N/A	63,627	+58.66%	14,635	Steady growth

Basic information of toll roads and bridge of the Group:

Toll roads	Category	Date of commencement		Period of operation	Number of toll plazas	Interests held by the Company
		Mileage of operation (km)				
Sichuan Chengyu Expressway	Expressway	226	July, 1995	August, 2027	15/closed	100%
Chengya Expressway	Expressway	144	December, 2000	October, 2027	17/closed	58.75%
Chengbei Exit Expressway	Expressway	10.42	December, 1998	September, 2026	1/closed	60%
Zigong Ring Roads	Class II road	76.1	December, 1998	December, 2018	4/single	59.94%

Lulong Road	Class II road	50	September, 1999	September, 2017	2/single	59.94%
Luhe Road	Class II road	23	September, 1999	September, 2017	3/single	59.94%
Tuojiang Er Bridge	Toll bridge	4.5	September, 1999	September, 2017	1/dual	59.94%

Toll rates of expressways of the Group are as follows:

Categories of vehicles and the current toll rate of Sichuan Chengyu Expressway

Category	Specifications	Long Quan Mountain	
		Toll rate (RMB/Vehicle-km)	Tunnel per car RMB
Class I	sedan, jeep, mini-van, station wagon with under 10-seat; and small truck under 1 tonne	0.32	5.00
Class II	passenger car with 11-seat to 30-seat; and truck with over 1 tonne to 3 tonnes	0.64	8.00
Class III	passenger car with 31-seat to 50-seat; truck with over 3 tonnes to 5 tonnes; sleeper with under 30-bed; and container vehicle with international standard	1.28	16.00
Class IV	passenger car with over 50-seat; truck with over 5 tonnes to 10 tonnes; and sleeper with over 30-bed	2.40	24.00
Class V	truck with over 10 tonnes to 15 tonnes	4.00	32.00
Class VI	truck with over 15 tonnes to 25 tonnes	5.00	48.00

Categories of vehicles and the current trial toll rate of Sichuan Chengya Expressway

Category	Specifications	Toll rate (RMB/Vehicle-km)	Jin Ji Guan Tunnel per car RMB
Class I	sedan, jeep, mini-van, station wagon with under 8-seat; and small truck under 1 tonne	0.28	2.00
Class II	passenger car with 9-seat to 30-seat; and truck with over 1 tonne to 3 tonnes	0.532	4.00
Class III	passenger car with 31-seat to 50-seat; truck with over 3 tonnes to 5 tonnes; sleeper with under 30-bed; and container vehicle with international standard	1.008	8.00
Class IV	passenger car with over 50-seat; truck with over 5 tonnes to 15 tonnes; and sleeper with over 30-bed	1.428	12.00
Class V	truck with over 15 tonnes to 25 tonnes	1.792	16.00

Categories of vehicles and the current trial toll rate of Chengdu Chengbei Exit Expressway

Category	Specifications	Toll rate (RMB/Vehicle)
Class I	sedan, jeep, mini-van, station wagon with under 10-seat; and small truck under 1 tonne	4.00
Class II	passenger car with 11-seat to 30-seat; and truck with over 1 tonne to 3 tonnes	8.00
Class III	passenger car with 31-seat to 50-seat; truck with over 3 tonnes to 5 tonnes; sleeper with under 30-bed; and container vehicle with international standard	12.00
Class IV	passenger car with over 50-seat; truck with over 5 tonnes to 10 tonnes; and sleeper with over 30-bed	25.00

Class V	truck with over 10 tonnes to 15 tonnes	40.00
Class VI	truck with over 15 tonnes to 25 tonnes	60.00

Categories of vehicles and the current trial toll rate of Chengdu Airport Expressway

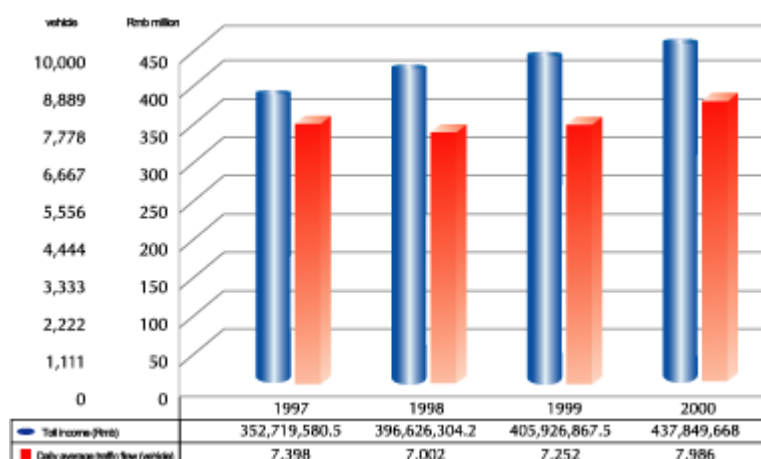
Category	Specifications	Toll rate (RMB/Vehicle)
Class I	sedan, jeep, mini-van, station wagon with under 10-seat; and small truck under 1 tonne	10.00
Class II	passenger car with 11-seat to 30-seat; and truck with over 1 tonne to 3 tonnes	20.00
Class III	passenger car with 31-seat to 50-seat; truck with over 3 tonnes to 5 tonnes; sleeper with under 30-bed; and container vehicle with international standard	30.00
Class IV	passenger car with over 50-seat; truck with over 5 tonnes to 10 tonnes; and sleeper with over 30-bed	40.00
Class V	truck with over 10 tonnes to 15 tonnes	50.00
Class VI	truck with over 15 tonnes to 25 tonnes	60.00

SICHUAN CHENGYU EXPRESSWAY ("SICHUAN CHENGYU EXPRESSWAY")

The 226km Sichuan Chengyu Expressway, the core asset wholly owned by the Company, is a dual two-lane Class I highway in the middle of Sichuan Province. The expressway has been built since September, 1990 and commenced operation in July, 1995. It is the first expressway in Sichuan Province and its period of operation is 30 years from 19th August, 1997, being the date of establishment of the Company.

During the year, the average daily traffic flow was approximately 7,986, representing a 10.12% increase from the previous year; toll income totalled Rmb437,850,000, up 7.86% from last year; net profit Rmb227,744,000. The traffic flow and toll income posted a record high for three years from the establishment of the Company.

Toll Income and Traffic Flow of Sichuan Chengyu Expressway from 1999 to 2000



An increase in the traffic flow and the toll road income of Sichuan Chengyu Expressway was mainly attributable to the followings:

- * Chinese economy maintained a steady growth in 2000 and economic development tended to be active in Sichuan Province. With the official commencement of strategic western China development, the industrial production situation improved in Sichuan Province. Investment, consumption and export tended to have a fast growth and there was a good regional economic development.
- * Trade and tourism development in Sichuan Province and its periphery gave impetus to traffic demand.
- * Chengyu Expressway is situated in superior geographical location linking Chengdu, the capital of Sichuan Province, and Chongqing municipality, a prominent industrial town. In addition, the counties and cities along the expressway are relatively developed areas in Sichuan Province.
- * The open of the section from Zigong to Yibin in Neiyi Expressway strengthened network effect, making a significant increase in toll income from Neijiang toll plazas of Sichuan Chengyu Expressway.
- * Three big holidays, namely Spring Festival, "1st May" and "1st October", gave impetus to economic prosperous and intensified tourism and shopping spree in the whole Sichuan Province. There was a surge in passenger flow and a prolonged period of peak passenger transportation, making a significant increase in the traffic flow of Chengyu Expressway.

- * In respect of the encouragement of job incentive and creativity of staff, the Company adopted a performance-related salary system and enhanced its quality of service. Moreover, the Company improved its forms of services and strengthened the monitoring of toll collection. All these resulted in satisfactory effect.

In order to facilitate the automation of the three major operating management systems of Sichuan Chengyu Expressway (toll, communication and supervision) and to improve efficiency and profit, the Company is undertaking the implementation of Q1 Mechanical and Electrical Contract. On basis of the preliminary work, the Company commenced full implementation at the beginning of the year. As at the end of December, 2000, the external and internal installation of mechanical and electrical equipment was completed. The trial operation and joint adjustments of lane equipment were done on one lane of Longquan toll plaza. The installation of software and comprehensive adjustment have been undergoing, which will ensure that the above three major systems will commence trial operation in the first quarter of 2001.

The substantial delay of Q1 Contract was mainly caused by the fact that the Sanhuan Road and Waihuan Expressway currently being built by Chengdu Municipal Government have crossed over Sichuan Chengyu Expressway at two joints. As a result, the Company's Chengdu toll plaza was forced to remove and the construction sites of joint areas have serious impact on our construction. Accordingly, to cope with the situation, the Company is negotiating with relevant authorities and will ensure that Q1 Contract will commence trial operation as scheduled.

SICHUAN CHENGYA EXPRESSWAY ("CHENGYA EXPRESSWAY")

Chengya Expressway, 144km long, starts from Chengdu and ends at Duiyan, Yaan City. It is a closed dual expressway. Its main section (129km) was opened for traffic and trial operation on 28th December, 1999. Its Yaan joint section (15km) was also completed and put into trial operation on 28th December, 2000. Therefore, Chengya Expressway was fully completed.

During the year, Chengya Expressway posted annual toll income of approximately Rmb97,504,000 and net loss of Rmb115,216,000. The main reasons are as follows:

**SICHUAN CHENGYA EXPRESSWAY ("CHENGYA EXPRESSWAY")
(CONTINUED)**

* **Construction costs of Chengya Expressway increased**

In accordance with "Construction Contract" entered into between the Company and Chengya Company, Chengya Expressway Construction Command Office on 9th November, 1997, the construction price for contracting Chengya Expressway was Rmb2,944,000,000. However, during the construction of the expressway, certain material changes in the original plan were made in order to comply with the unique climate, geographical and social environment of the surrounding areas of Chengya Expressway, to ensure project quality and operating result and to coincide with both Sichuan provincial expressway network scheme and Chengdu municipal road development plan. Four material changes were made including "turn road into bridge" for Chengdu joint section: the surface structure was changed from cement to pitch; the end point of the expressway was changed from Duoying Ping, Yaan to Duiyan, Yaan; to add five inter-linked overline bridges and three semi-inter-linked ones. These changes led to increase in the construction budget to approximately Rmb3,530,000,000, exceeding the original budget by approximately Rmb586,000,000. It led to increase in financing weighting, loan interest and high finance fee, thus directly affecting the earnings level of the expressway.

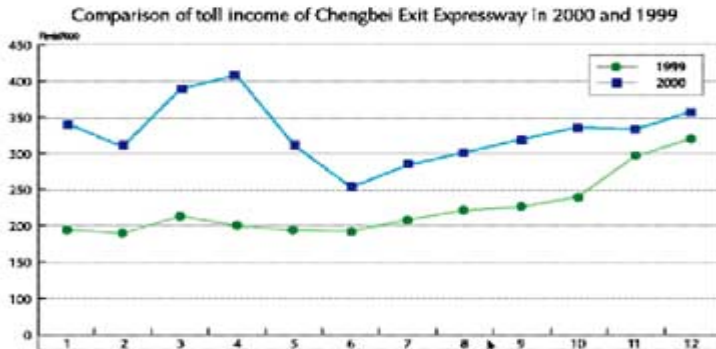
* **Dissatisfactory operating results of some road sections**

The State's strict prohibition of lumbering has resulted in the termination of wood transportation vehicles on Chengya Expressway. It led to a declined traffic flow in certain road sections of Chengya Expressway and, therefore, dissatisfactory earnings.

Chengya Expressway is the largest investment project in the initial public offering of H shares of the Company. Its construction, operation and prospect are of material importance to the Company. In view of this, the Company together with all relevant parties are making serious discussions to seek support from communication administrative department so as to seek the best resolution. It will help Chengya Expressway have highly effective operation and a good development which will be a good foundation for profit-making of Chengya Expressway. In addition, travel resources in Gan Zi Zhou, mineral resources in Pan Xi region and the improving local economic environment will benefit the growth of the traffic flow of Chengya Expressway.

CHENGDU CHENGBEI EXIT EXPRESSWAY ("CHENGBEI EXIT EXPRESSWAY")

Chengbei Exit Expressway, 10.42km long, starts from Qinglong Chang to Baihe Lin. It is a closed dual three-lane system which connects Chengdu and Chengmian Expressway.

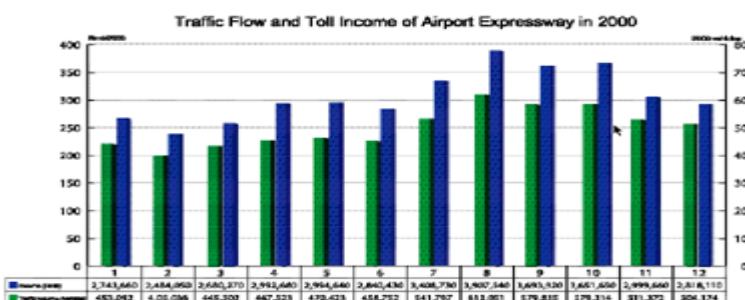


Chengbei Exit Expressway was completed and open to traffic on 21st December, 1998. The year 2000 is the second year of its trial operation. As at 31st December, 2000, its average daily traffic flow reached 14,789, representing a significant increase of 44.18% over the previous year. It recorded toll income of Rmb26,326,000, representing an increase of 47.59% over the previous year and net loss of Rmb3,254,000, down by Rmb10,490,000 comparing to last year.

During the year, the traffic flow of Chengbei Exit Expressway appeared to have a strong growth, mainly attributable to the continued economic development of the region, especially the cities near Chengmian Expressway; the avoidance of split-flow of Chengbei Exit Expressway because of the close of the section from Xindu to Guanghan of Chuanshan Dajian Road which is parallel to the expressway for repair during the period from 8th November, 1999 to 8th May, 2000.

CHENGDU AIRPORT EXPRESSWAY ("AIRPORT EXPRESSWAY")

Airport Expressway, 11.92km, is an affiliated project of Chengdu Shuangliu International Airport. It is a closed dual three-lane system connecting Chengdu and Shuangliu International Airport.



Airport Expressway commenced its trial operation on 9th July, 1999. During the year, the average daily traffic flow reached 16,517, representing an increase of 10.38% over the previous year; toll income amounted to Rmb42,170,000 and the net profit was approximately Rmb828,000.

Traffic flow of Airport Expressway in the second half of 2000 was much higher than the first half. It is mainly due to the concentration of travel season in the second half of the year. In addition, the active rate of air transport also affected the traffic flow of the Airport Expressway directly. It is expected that after the completion of the terminal building of Chengdu Shuangliu Airport and the full operation of the expressway, the traffic flow and toll income will have a steady growth.

THE TOLL ROADS AND BRIDGE IN ZIGONG AND LUZHOU

The Company, through its subsidiary, Chengdu Shuhai Investment Management Company Limited, owns 59.94% of the operation right and related interests in two class II roads, including 30km from Dengguan to Zigong and 46.1km from Yanggong Bridge to Rong County within the border of Zigong ("Zigong Ring Roads"), respectively. Within Luzhou, the Company also owns 59.94% of operation right and related interests in Lulong Road (50km from Luzhou to Longchang), Luhe Road (23km from Luzhou to Hejiang Luzhou section), the 418-meter Tuojiang Er Bridge and its 4.1km approach road, respectively.

As at 31st December, 2000, Zigong Ring Roads and the two roads and one bridge in Luzhou recorded toll income of Rmb63,627,000 and net profit was Rmb14,635,000.

OTHER BUSINESS

Road Construction Business

With a view to explore road extension business, the Company invested in the establishment of Sichuan Shugong Expressway Engineering Company Limited ("Shugong Company") in April 1999, in which the Company holds 95% interests. It is mainly engaged in the construction and maintenance of infrastructure like road, bridge and tunnel; sale of mechanical machinery and materials.

During the year, Shugong Company recorded a turnover of approximately Rmb4,300,000 and the profit after tax was Rmb183,000.

Road-related Business and Multiple Operations Beyond the Road

With a view to enhance the efficiency of road-related business and to explore the potential profitability of auxiliary facilities of Chengyu Expressway, the Company invested in the establishment of Sichuan Shusha Enterprise Company Limited ("Shusha Company") in April, 1999, in which the Company holds 99.5% interests. Shusha Company mainly engages in operating gas stations, leasing advertisement, maintenance of vehicle, mobile emergency repair required on Chengyu Expressway. It also diversifies its business beyond the road.

During the year, Shusha Company recorded a turnover of approximately Rmb4,394,000 and profit after tax of approximately Rmb504,000.

The Company is reviewing the investment and operation of related business so as to make a conclusion and adjustment.

FINANCIAL STATUS

Summary of the results of the Group

For the year ended 31st December

	2000	1999	1998	1997
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
				Pro forma
Turnover	594,165	440,215	375,966	340,922
Operating profit before tax	158,776	177,094	180,957	172,942
Profit attributable to shareholders	166,452	169,449	180,810	158,876
Earnings per share (Rmb)	0.0651	0.0662	0.0707	0.0849

Summary of assets of the Group

as at 31st December

	2000	1999	1998	1997
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
Total assets	8,125,918	7,654,455	6,651,998	5,385,782
Total liabilities and minority interests	3,827,806	3,445,267	2,535,517	1,373,369
Total net assets	4,298,112	4,209,188	4,116,481	4,012,413
Net assets per share (Rmb)	1.6802	1.6455	1.6092	1.5685

FINANCIAL ANALYSIS

For the fiscal year ended 31st December, 2000, the Group has a stable financial position. However, the main subsequent project, Chengya Expressway, incurred an operating loss which is attributable to increase in construction price, high finance fee and the lower traffic flow than expected in the prospectus of the Company's initial public offering because the State Council has prohibited lumbering in upstream of Yangtze River. The Group has a dissatisfactory growth in its results. Turnover of the Group amounted to Rmb594,165,000 for the year, representing a 34.97% increase from the previous year; profit attributable to shareholders Rmb166,452,000, representing a 1.77% decrease from the previous year.

Major factors for profit attributable to shareholders of the Group for 2000: 1) Chengya Expressway posted dissatisfactory initial traffic flow. Its turnover was only Rmb97,504,000. Financing cost reached Rmb123,311,000 and operating loss Rmb115,216,000; 2) The Company paid enterprise income tax at half of 24% amounting to Rmb31,932,000 for the year, which has become the important factor for the profit attributable to shareholders. However, the Group strengthened control on toll income of original projects. Income of Chengyu Expressway and Chengbei Expressway increased by 7.86% and 47.59% from the previous year respectively. The Group also enhanced its internal cost control and management. These resulted in a slight decline in the profit attributable to shareholders.

Profit contribution by toll roads for 2000

	Contribution Turnover Rmb'000	of operating profit Rmb'000	Unconsolidated net profit Rmb'000
Sichuan Chengyu Expressway	415,957	268,135	227,744
Chengbei Exit Expressway	24,793	12,699	-3,254
Chengya Expressway	91,879	8,094	-115,216
Two class II roads in Zigong	16,695	3,319	2,233
Two class II roads and one toll bridge in Luzhou	44,841	18,526	12,412

LIQUIDITY OF CAPITAL AND FINANCIAL SOURCES

In 2000, the capital expenditure of the Group amounted to Rmb498,338,000, which is mainly from operations and bank loans. As at 31st December, 2000, the Group bears loan totalling Rmb2,536,000,000 with average interest rate at approximately 5.7%. As at 31st December, 2000, the Group has committed but unused bank loans of Rmb700,000,000 to Rmb900,000,000, which are all five-year long-term loans. The bank loans are for reserves and will be used in due course. Gearing ratio of the Group is 31.20% as at 31st December, 2000. Details of capital structure are as follows:

	Total amount Rmb'000	Percentage (%)
Shareholders' equity	4,298,112	52.89
Debt of floating interest rate	2,535,610	31.20
Interest-free debt	805,634	9.91
Minority interests	486,562	5.99
Total	8,125,918	100%
Debt-equity swap ratio	77.74%	

Finance Policy

The Group has strict cash management and risk control. The Group usually places its cash as short-term deposit in Renminbi. In the debt of floating interest rate of the Group, there is a loan of US\$30,126,000 with World Bank in favour of Sichuan Highway Development Holding Company, the parent company and 11,552,000 special drawing rights. The Company makes repayment of the principal and related interest through purchase of exchange from its parent company by Renminbi at the floating exchange rate. Other loans are denominated in Renminbi and repayed from Renminbi income. In addition, the group purchases foreign exchange to make dividend distribution to holders of H shares. The Group considered about exchange risk that as current account has remained favourable balance for the past few consecutive years and slowdown in growth of the US economy, US dollar rate tends to decline and the possibility of Renminbi depreciation is significantly lowered. Pressure on Renminbi appreciation depends on its depreciation pressure. Therefore, the open-ended exchange risk faced by foreign exchange debt of the Group has been drastically lowered. The Group reduced its financial expenditure owing to decline in US dollar rate in 2000.

Capital Commitment

Details of capital commitment of the Group and the Company are set out in note 28 to the financial statements.

HUMAN RESOURCES

During the year, the Company conducted reforms on its personnel, labour and distribution system. It adopted a performance-related salary system in order to stimulate the staff's initiative and creativity.

The Company now has a total of 997 employees. The salaries paid amounted to Rmb28,139,000.

During the year, the Company continued to strengthen training for staff in finance, toll plazas and those on road duty. The Company also arranged occupational safety training and manager qualification training for middle and senior management as well as MBA qualification training through Sichuan University so as to improve the overall management level of the Company and the preparation of human resources for the Company's long-term development.

PROSPECTS

Positive Macro-economic Environment

The economy of the PRC continues to have steady growth and national economy has recovered with positive major index such as investment and consumption. The exports has shown trends of high growth. Particularly, China will join WTO and implementation of grand development strategy for the western region has commenced. All these will provide new opportunities for Sichuan traffic industry, better investment and operating environment for the Company's further development.

The Situation and Prospect of Expressway in Sichuan

Sichuan expressway industry commenced in 1990 with the construction of Chengyu Expressway. After ten years of continuous efforts, the expressway mileage reached 1,000km as at the end of 2000. Twelve expressways were established with total investment of Rmb22,000,000,000. Currently, Sichuan has 21 cities and counties, 14 of which, where local governments are located, are connected to Chengdu by expressway. This has indicated that the framework of Sichuan's expressway network centered around Chengdu has been formulated.

Looking into the new century, Sichuan Province starts to implement the Tenth Five Year Plan. It plans to spend five years to complete two main national roads and to commence four roads leading to the western region as part of grand revelopment for western region. By the end of the Tenth Five Year Plan period, it is ensured that the total expressway mileage will reach 1,700km and is expected to reach 2,000 km; 19 cities and counties out of the total 21 cities and counties in the province will be connected to Chengdu by expressway and main entrance and exit roads to Sichuan will be opened for traffic.

Corporate Strategies

Traffic will have great development owing to the grand development for western region. The macroeconomic environment provides the Company valuable opportunities. In 2001, the Company will continue to follow market orientation with capital operation and to be based on its core asset operation and management so as to fully utilize the Company's flagship function in Sichuan traffic industry and to maximize shareholders' interests.

To achieve these objectives, the Company will focus on the following work:

- * To enhance scientific management and cost control and to promote internal system reform as well as to establish and improve competitive rewarding and supervision system;
- * To enhance the operation and management of the core asset, Sichuan Chengyu Expressway and to improve road condition; to enhance contingency ability; to ensure the scheduled operation of Q1 Contract and to sustain and improve the competitiveness of Sichuan Chengyu Expressway.
- * To facilitate contact and cooperation with its subsidiaries; to strengthen supervisions and instructions, particularly regarding the construction and operation of Chengya Expressway; to further increase the Group's overall profitability; to protect shareholders' interests and to improve investment returns.

- * To expand local market, seek good investment opportunities, expand the project mix of the Company, improve investment structure and further enhance the profitability of the Company. As approved by Sichuan Provincial Government and the Provincial Department of Communications, the Company will make investment in the renovation of the south section of Dajian Road (approximately 42km from Chengdu to Xinjin), which is parallel to Sichuan Chengya Expressway, and exercise its toll right and operation management right. At present, Sichuan Shutong Road Industrial Co., Ltd., a subsidiary of the Company, has been undergoing renovation works of the south section of Dajian road. As at the end of 2000, the tender for construction and consultant units for the project was completed and the tender result was notified.

- * To develop facilities along the roads; to expand into various business; to explore more potentials and to add value to the core business.

- * To further strengthen the communication and contact with shareholders and investors by extending disclosure of information and launching overseas roadshows so as to make the public understand more about the Company's business, scale, prospects and management and to increase the Company's transparency and fame.

Tan Shi Qiao

Vice Chairman and General Manager

Chengdu, Sichuan, the PRC
22nd March, 2001