



# MANAGEMENT DISCUSSION AND ANALYSIS

Closely Connected

## CONTINUOUS EXPANSION

We aim at modernizing  
our corporate systems.

DECISION MAKING SHALL BE SCIENTIFIC,  
ACTS AND SERVICES SHALL BE STANDARDIZED,  
INSPECTION SHALL BE SYSTEMIZED,

Raising the management  
standards to the fullest extent.



# MANAGEMENT DISCUSSION AND ANALYSIS

Mr. Chen Xianghui



General Manager

## (1) THE OPERATING ENVIRONMENT

In 2001, the economy of China saw steady growth with GDP reaching 7.3%. As one of the most vibrant economies among the eastern coastal provinces and cities of China, Jiangsu Province has once again achieved a growth rate of approximately 2.9% over the average growth in GDP nationwide.

The conducive macroeconomic environment has created very favourable conditions for the rapid expansion of the expressway network, and by 2001, the total mileage of completed expressway network in Jiangsu topped 1,300 km, thereby laying down a good foundation for the smooth traffic flow within the province.

The expansion of the expressway network over time facilitates the growth in passenger and freight transport. As opposed to other forms of transport, the services rendered by expressways are more convenient, speedy and safe, and for these reasons, expressways are becoming the first choice.

Moreover, in the wake of China's accession to the WTO, rapid growth in the economy and the restructured tariffs is expected to lead to faster growth in vehicle ownership, which is advantageous to both the traffic volume and the toll rates of the expressways operated by the Company, making the strengths of the projects operated by the Company all the more conspicuous.

## (2) STATUS OF ASSETS

The Company's operations are situated at the delta region of Zhangjiang River, where economic development is the fastest in China. All the core assets of the Company are within the most affluent areas in China, and they are of special importance to the network of national trunks, as they have formed the principal corridor connecting the entire Jiangsu Province from east to west and from north to south, the continued growth in traffic volume of which generates a steady return of the Company's investments.

**Diagram on Company's assets composition**



Under the financial statements prepared in accordance with PRC Accounting Standards, the Group's total assets as at 31st December 2001 amounted to RMB 14,914,400,000 and its net assets amounted to RMB 13,470,559,000. The total mileage of expressways either operated and managed by the Company or in which the Company has invested has exceeded 600 km, making it one of the largest listed PRC expressways companies in China.

# MANAGEMENT DISCUSSION AND ANALYSIS

## (3) ANALYSIS OF OPERATIONS

### 1. Summary of Results

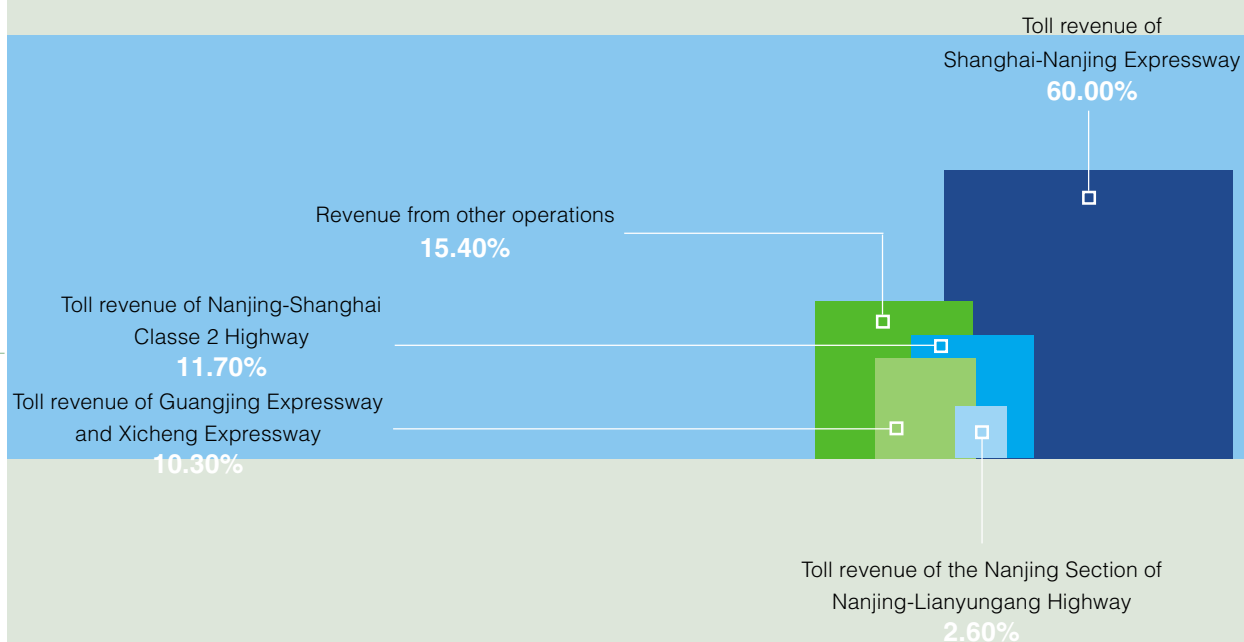
In 2001, the Company's assets of toll roads and bridge sustained an enviable growth. The annual plan of Shanghai-Nanjing Expressway, Guangjing Expressway, Xicheng Expressway, Jianguyin-Yangtze Bridge and Nanjing-Shanghai Class 2 Highway have been attained with results better than expected. The total revenue of the Group in 2001 was approximately RMB 1,919,781,000, and its revenue net of taxes was approximately RMB 1,829,552,000, representing an increase of approximately 18.57% over the previous year.

Revenue composition and its percentage are as follows:

Project	Revenue in 2001 (RMB'000)	Percentage of the total revenue (%)	Increase over 2000 (%)
Toll revenue of Shanghai-Nanjing Expressway	<b>1,152,162</b>	60.00	19.24
Toll revenue of Nanjing-Shanghai Class 2 Highway	<b>224,961</b>	11.70	-1.00
Toll revenue of the Nanjing Section of Nanjing-Lianyungang Highway	<b>50,412</b>	2.60	-6.40
Toll revenue of Guangjing Expressway and Xicheng Expressway	<b>198,457</b>	10.30	47.83
Revenue from other operations	<b>293,789</b>	15.40	23.48
<b>Total</b>	<b>1,919,781</b>	<b>100.00</b>	<b>18.57</b>

Revenue and its Percentage

The composition and percentage of revenue for 2001



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Annual  
Report  
2001

# MANAGEMENT DISCUSSION AND ANALYSIS

Under the financial statements prepared in accordance with PRC Accounting Standards and as audited by Arthur Andersen • Hua-Qiang Certified Public Accountants, profit after taxation of the Group in 2001 was approximately RMB 780,864,000 and its earnings per share was approximately RMB 0.155, representing an increase of approximately 12.93% over the previous year. Under the financial statements prepared in accordance with IAS, the profit after taxation and minority interests was approximately RMB 841,240,000, and its earnings per share was approximately RMB 0.167, representing an increase of approximately 22.22% over the previous year.

The profit growth was mainly attributable to the following reasons :

1. the traffic volume of Shanghai-Nanjing Expressway increased by 16.18% over the previous year;
2. both Guangjing Expressway and Xicheng Expressway were at a stage of fast growth when they were first open to traffic, and their traffic volume grew by 34.43% and 51.08% over the previous year respectively;
3. by increasing the shareholding in Yangtze Bridge Co., the return on investment also increased;
4. the Company had received a financial refund for the financial year;
5. measures to collect tolls and management had been effectively implemented for Nanjing-Shanghai Class 2 Highway;
6. more emphasis had been placed on non-core operations, thereby increasing its non-core revenue;
7. by reducing expenses, expenditure was maintained within the planned limits.

## 2. Core Asset - Shanghai-Nanjing Expressway



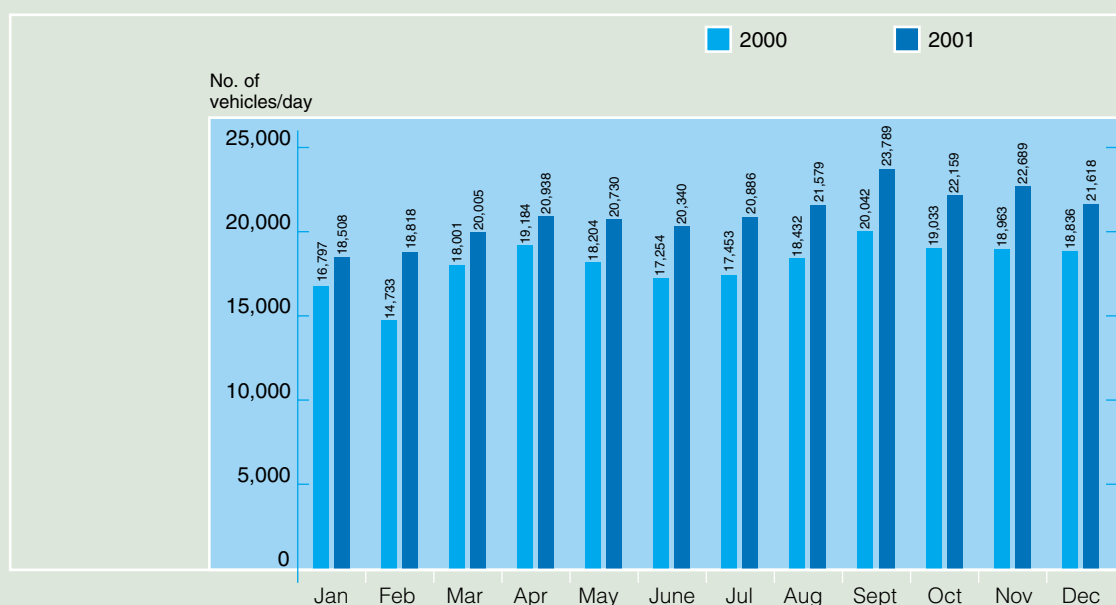
# MANAGEMENT DISCUSSION AND ANALYSIS

As a core asset of the Group, Shanghai - Nanjing Expressway connects six medium and large cities, namely: Shanghai, Suzhou, Wuxi, Changzhou, Zhenjiang and Nanjing. Given the richness in resources, the solid industrial foundation and the business flow of transport among these areas, the expressway is particularly important to the economic development of China.

In 2001, as a result of the continued and steady economic development of China and Jiangsu Province as well as the expressway from Beijing and Shanghai having been fully open to traffic, Shanghai-Nanjing Expressway which has been in operation for the fifth year continued to enjoy a two-digit rate of growth in both traffic volume and toll revenue.

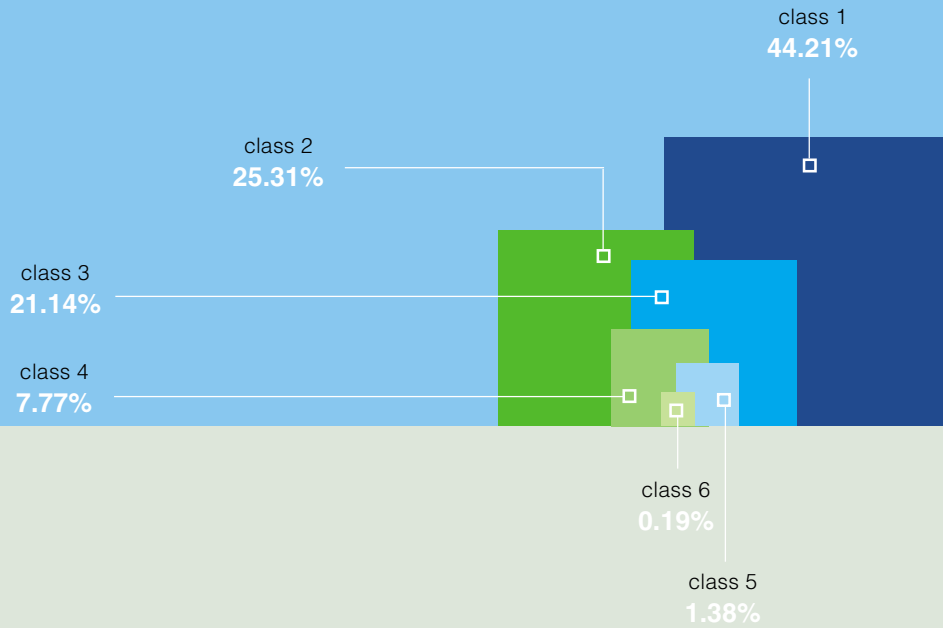
From January to December in 2001, the aggregate number of vehicles passing through Shanghai-Nanjing Expressway was 24,440,000, and the daily weighted average traffic volume was 21,013 vehicles, representing an increase of approximately 16.18% over the previous year. Percentages of vehicles of class one to six using the expressway in 2001 were 44.21%, 25.31%, 21.14%, 7.77%, 1.38% and 0.19% respectively, and the composition class of vehicles was relatively stable.

Daily average traffic volume for Shanghai-Nanjing Expressway from January to December since opening



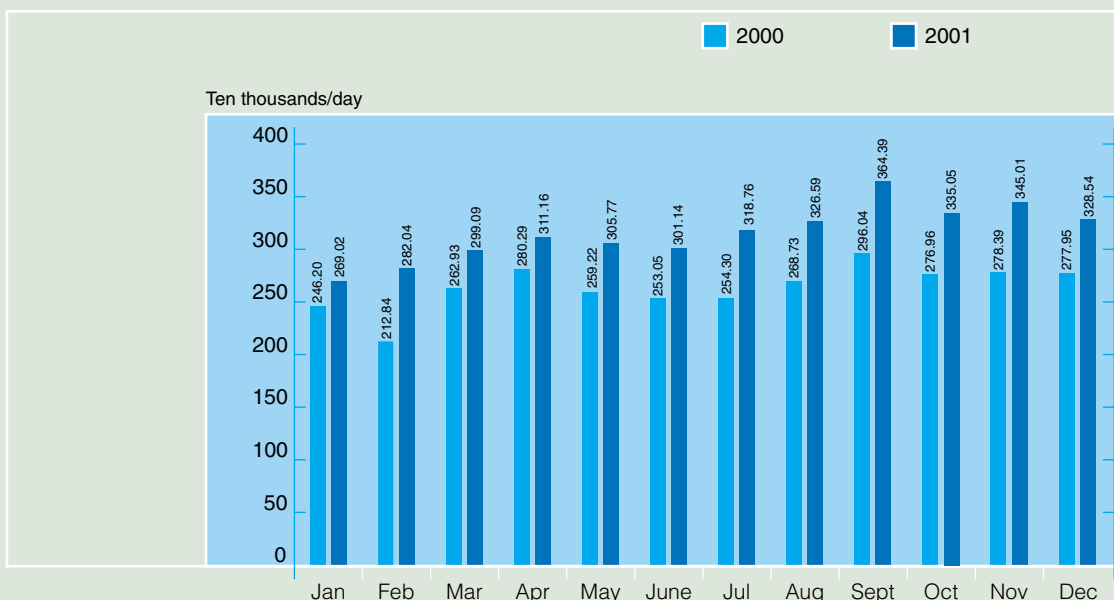
# MANAGEMENT DISCUSSION AND ANALYSIS

Composition of Average vehicles using Shanghai-Nanjing Expressway in 2001



The aggregate toll revenue of Shanghai-Nanjing Expressway from January to December, 2001 was approximately RMB 1,152,162,000, and the daily average toll revenue was approximately RMB 3,156,600, representing an increase of approximately 19.24% over 2000.

Daily average toll revenue for Shanghai-Nanjing Expressway from January to December since opening





# MANAGEMENT DISCUSSION AND ANALYSIS

## Management of Expressways

Continued efforts to raise the Company's professionalism in managing expressways is essential to improve its core capability. In 2001, the Company continued to step up its road management, both in the static and in the dynamic aspects. It adhered firmly to having roads managed in accordance with the laws and standards, and having enforcement being carried out in a civil manner; also, the road inspection system has improved, whereby road inspections were carried out around the clock, and measures were taken to prevent any illegal or irregular acts, and were stopped when found. In this way, both the road assets and the rights of these roads were protected, thereby safeguarding the safe and smooth passage of the expressways' traffic.

Upgrading of the three key systems of Shanghai-Nanjing Expressway, namely, toll collection, communication and monitoring produced good results for a reliable safeguard for the production and operating services of the Company.

In 2001, the Company took further efforts in building up a sound maintenance system, whereby engineering and maintenance works have now separated to become the management and maintenance divisions. By means of this, much efforts were made to take preventive maintenance measures, and close attention was paid to address road conditions, thereby ensuring that a good road condition rate of over 95% was attained. Moreover, a scientific way of road maintenance had been adhered to, with new materials, techniques, technologies and equipment being adopted extensively, a huge technological reserve has been in place in preparation for a major overhaul.

## Non-core Operations



In respect of non-core operations, Operation Development Company and Modern Road and Bridge Company were established by the Company as a quasi-legal person entity, on the basis of the existing resources, and by means of exploring operations together with strengthened management, opening up channels and leveraging on the competitive edges of the expressways to move onto various forms of operations, good results were attained.

In 2001, revenue from other operations of the Group of approximately RMB 293,790,000 and a profit of approximately RMB 22,915,000 was achieved. Advertising operation was expanded by marketing and sales efforts, and an advertising revenue of RMB 23,173,000 were achieved in 2001, representing a twofold increase over the previous year.

In completing the specific works to address the road condition of Shanghai-Nanjing Expressway, Modern Road and Bridge Company has also been market-oriented and made attempts in taking part in the competition at large. During the year, income from contracted works from outside amounted to RMB 20,919,000, and an operating profit of RMB 1,057,000 was achieved.

### 3. Other Assets

#### **Nanjing-Shanghai Class 2 Highway**

In addressing the year-on-year decline in the toll revenue of Nanjing-Shanghai Class 2 Highway, the Company established a unit to take charge of matters such as the management of toll collection of Nanjing-Shanghai Class 2 Highway at the end of 2000, and a series of measures had been adopted to place more emphasis on road management and inspection of toll collection. In this way, the declining trend of the toll revenue of Nanjing-Shanghai Class 2 Highway was halted.

In 2001, the daily average traffic volume passing through the toll stations of Nanjing-Shanghai Class 2 Highway was approximately 42,434 vehicles, representing an increase of 0.18% over the previous year, and the daily average toll revenue was approximately RMB 616,300, which was more or less the same level as 2000.

Due to the formation and continued development of the road network in the peripheral areas of Nanjing-Shanghai Class 2 Highway, detour by vehicles remain a common phenomenon. In addressing the situation, the Company has carried out a study on the relocation of toll collection stations along Nanjing-Shanghai Class 2 Highway, and the relevant proposal has been submitted to the provincial government for approval. It is anticipated that by a reasonable relocation of these toll stations, detour by vehicles can be reduced, hence an increase of revenue can be achieved.

#### **Nanjing Section of Nanjing-Lianyungang Highway**

In the wake of the expressway from Beijing to Shanghai having been fully opened to traffic, the redistribution of traffic flows and the sectional repair works being carried out on parts of the Nanjing Section, in 2001, both the traffic volume and toll amount of Nanjing Section of Nanjing -Lianyungang Highway saw a downward trend. The daily average number of vehicles using the highway was 9,450 vehicles and the daily average toll revenue was RMB 138,100, representing a decrease of 4.93% and 6.17% respectively over the previous year.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Guangjing Expressway and Xicheng Expressway

With the expressway from Beijing to Shanghai fully opened to traffic, its dragging effect as a main artery emerges with time. As an integral section, the traffic volumes of Guangjing Expressway and Xicheng Expressway reached historical highs. In 2001, the daily average traffic volume of Guangjing Expressway was 13,562 vehicles, and the daily average toll revenue was approximately RMB 236,000, representing an increase of 51.08% and 53.36% respectively over the previous year; the daily average traffic volume of Xicheng Expressway was 12,049 vehicles, and the daily average toll revenue was approximately RMB 307,700, representing an increase of 34.43% and 44.58% respectively over the previous year. In 2001, the profit of Guangjing Xicheng Co., contributed to the Group was RMB 72,633,000.

## Jiangyin-Yangtze Bridge

Since February, 2001 when the toll rates of Jiangyin-Yangtze Bridge were adjusted, toll revenue saw a substantial increase. Moreover, as an essential and integral part of the expressway from Beijing to Shanghai, growth in its traffic volume was sustained. In 2001, the daily average traffic volume passing through the bridge was 15,555 vehicles, and the daily average toll revenue was RMB 700,400, representing an increase of 9.83% and 52.01% respectively over the previous year, and both the traffic volume and the toll revenue will continue to enjoy growth. On 4th September, 2001, the Company increased its shareholding in Jiangsu Yangtze Bridge Co., Ltd. by 8.83%, which contributed a profit of of RMB 9,496,000 to the Company for 2001 and represented a new growth area in profit for the Group.

## (4) FINANCIAL ANALYSIS

The Company adopts a financial policy which is proactive yet prudential. It reviews its debt portfolio regularly and makes any necessary change as it arises, so that risks of investment are strictly under control, thereby maximizing the interests of both the Company and the shareholders.

### Capital expenditure and financial resources

In 2001, the Group has implemented capital expenditure of approximately RMB 590,867,000, the details are as follows :

	RMB '000
1. Investment in Guangjing Xicheng Co. (proceeds from H share issue)	109,071
2. Acquisition of an additional interests of 8.83% in Yangtze Bridge Co. (partly, proceeds from A share issue)	244,190 141,830
3. Upgrading and revamping works of its three major systems (proceeds from H share issue)	84,812
4. Other contracts relation to Shanghai-Nanjing Expressway	10,964

The above capital expenditure, was funded by the proceeds from H Shares and A Shares issued by the Group and the Group's working capital.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Management of cash and liabilities

As an operator of toll expressways, the Group has been able to maintain a relatively stronger cash inflow from its ordinary operations since it started to operate, and its solvency position has been strong. In 2001, the cash inflow from operating activities was 1,092,958,000, representing an increase of 19% over last year; cash and cash equivalent at the end of the year amounted to RMB 891,934,000. Accordingly, the management considers that the Group has no liquidity problem.

As at 31st December 2001, the Group had a total of RMB 891,934,000 in cash and cash equivalents, as well as bank borrowings of RMB 265,016,000:

	As at 31st December, 2001 The Group (RMB '000)
Cash and cash equivalents	891,934
Cash at hands	243
Fixed deposits	79,660
Saving deposits	695,720
Short-term investment in RMB	116,311
Total :	891,934
Borrowings	265,016
Short-term bank borrowings	210,000
Long-term bank borrowings	55,016

# MANAGEMENT DISCUSSION AND ANALYSIS

## Solvency position

RMB '000

At the end of 2001, the borrowings of the Company were as follows:

1. Repayable within one year	214,703
2. Repayable after one year, within two years	4,703
3. Repayable after two years, within five years	14,109
4. Repayable after five years	31,501

Total: 265,016

### Notes:

1. The long-term bank loans is calculated at fixed interest rates, the facility of which amounts to US\$ 9,800,000 in total. The interest rate for the Spanish government loan was 1%, and the interest rate for the buyer's credit loan was 6.7%. Both the government loan and the buyer's credit loan amounted to US\$ 4,900,000.
2. The short-term bank loans were calculated at fixed interest rates varying between 5.58% and 5.85%, which were fully repaid in January, 2001.
3. The management of the Company believes that the Company has sufficient capital for repayment of due bank borrowings

## Cash and bank deposits

The interest expenses for 2001 amounted to RMB 20,287,000 (of which RMB 1,223,000 represented the capitalization of interest for construction in progress), interest income amounted to RMB 33,736,000, including interest income from bank deposits, long-term accounts receivables and investment held to maturity amounted to RMB15,909,000, RMB10,750,000 and RMB7,077,000, respectively.

## Short-term investments

The Group entrusted to asset management and treasury bonds with its own capital. While these investments represented its risk control, they were also meant to maximize the return of idle capital. Such investments represented part of the cash management of the Group. Apart from RMB7,077,000 of interest income from investment held to maturity stated, the Company has received the gains from these short-term investments for 2001 amounted to RMB 10,210,000.

## Risk on the rates of foreign exchange

The Group has no material foreign exchange risks. The Group obtained a loan from the Spanish Government in 1998 equivalent to US \$9,800,000. As at 31st December 2001, the balance of the loan was US \$6,645,000, but the Group has currently a foreign exchange deposit of US \$6,142,500 which offset the foreign exchange risks.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Capital Structure of the Group

The Capital structure of the Group as at 31st December 2001 and the figures for 2000 for comparison are as follow:

	As at 31st December 2001		As at 31st December 2000	
	RMB '000	% change	RMB '000	% change
Shareholders' equity	<b>12,503,534</b>	<b>93.8</b>	12,115,691	90.4
Minority interests	<b>378,845</b>	<b>2.8</b>	343,951	2.6
Liabilities at fixed interest rates	<b>265,016</b>	<b>2.0</b>	626,723	4.7
Liabilities at floating interest rates	—	—	—	—
Interest free liabilities	<b>187,289</b>	<b>1.4</b>	313,743	2.3
<b>Total</b>	<b>13,334,684</b>	<b>100</b>	13,400,108	100

Gearing ratio: **3.39%** 7.02%

## Ageing analysis of prepayments and other accounts receivable

	The Group			
	As at 31st December 2001		As at 31st December 2000	
	Amount RMB'000	% over the balance of the account	Amount RMB'000	% over the balance of the account
Ageing of balance				
within 1 year	<b>47,680</b>	<b>84.22%</b>	38,923	92.17%
1 - 2 years	<b>7,455</b>	<b>13.17%</b>	3,308	7.83%
2 - 3 years	<b>1,480</b>	<b>2.61%</b>	—	—
over 3 years	—	—	—	—
<b>Total</b>	<b>56,615</b>	<b>100.00%</b>	42,231	100.00%

Accounts receivable of the Group arose from the road repair and maintenance fees of Modern Road and Bridge Company which were receivable from third parties.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Ageing Analysis of construction fee payable

	The Group			
	As at 31st December 2001		As at 31st December 2000	
	Amount RMB'000	% over the balance of the account	Amount RMB'000	% over the balance of the account
Balance of the account				
within 1 year	45,661	67.11%	9,052	5.42%
1 - 2 years	364	0.53%	151,122	90.48%
2 - 3 years	16,214	23.83%	6,857	4.10%
over 3 years	5,802	8.53%	—	—
Total	68,041	100.00%	167,031	100.00%

## (5) PROBLEMS AND DIFFICULTIES ARISING IN THE COURSE OF OPERATION

As the macroeconomic regulation policies of the State continue to favour infrastructure, the Company with its strengths in infrastructure projects as well as its internal scientific and sound management will continue to have a steady increase in operating revenue. The Company encountered no material problems or difficulties.

## (6) INVESTMENTS MADE BY THE COMPANY

Please refer to the section headed "Major Events" in this report.

## (7) BUSINESS DEVELOPMENT AND PLANS IN THE YEAR TO COME

Following China's official accession to the WTO, with its geographical and economic strengths, Jiangsu Province is positioned to enter a new and more rapid phase of economic development, thereby bringing forth new opportunities to the Company's growth. At the same time, with the further liberalisation of the market and further convergence with the world at large, when both qualified human resources and capital are sufficiently circulated, and when competition from outside becoming keener, the Company will come up with tremendous changes in the market environment and rules, hence new challenges.

A firm and steady development remains the Company's theme of its operations. In 2002, the Company will aim at modernizing its corporate systems, whereby a modern corporate structure and a system of management are to be established and consolidated, and decision making shall be scientific, acts and services shall be standardized, inspection shall be systemized, thereby raising the management standards to the fullest extent in order to cope with the challenges that will come up following China's accession to the WTO.

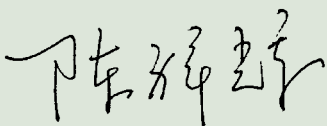
# MANAGEMENT DISCUSSION AND ANALYSIS

On the basis of the sustainable development of the Company, in 2002, the Company will proceed with the strategic study on its development for both the near term and the medium term, the feasibility study on the expansion works to be carried out on the Jiangsu section and the Nanjing-Shanghai Class 2 Highway, and will implement the relocation of the Nanjing-Shanghai Class 2 Highway and fully explore the potential of toll imposition. These are all aimed at enhancing the cost-effectiveness of these two roads.

Toll roads, which provides huge cash flow and solid foundation for the Company development, will continue to be the core operations of the Company. The Company will continue to take part in the investment in or acquisition of quality infrastructure facilities and toll roads with a view to create new areas of profit growth, thereby giving new momentum to the Company's development and further expand the size of the Company's assets. The Company will complete the acquisition of 33.33% of the shareholding in Jiangsu Sujiahang Expressway Co., Ltd., and move to cross-industry development.

The Company will be proceeding with its objective to implement the ISO9000 series of quality accreditation efforts in full swing and will complete the establishment of the system with a view that test operation under the system can be put in place by the end of the year. These efforts are meant to raise both the management and service standards of the high-grade roads operated by the Company, so as to establish the Company as the leader among the toll road operators.

The Company will establish a series of mechanisms in line with modern corporate systems in order to improve the way resources are being managed. It will carry out the planning of human resources in accordance with the development planning of the Company, and employees are to be recruited and trained with such purpose; a reasonable structure of remuneration and a performance appraisal and incentive assessment system will be established, whereby human resources of the Company will be deployed in a rational manner, and those who are suitable for the Company's future development are cultivated and retained.



**Chen Xianghui**  
*General Manager*

Nanjing, the PRC  
8th April 2002

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Jiangsu  
Expressway  
Company  
Limited