

# Management Discussion and Analysis

The Company was listed on the Main Board of the Stock Exchange of Hong Kong Limited on 29th November, 2001. The listing has not only strengthened the Group's financial position, but also enhanced its corporate image and public recognition, hence bringing the operation of the Group to a higher level and creating more business opportunities for the Group. The net proceeds has been kept by the Group as referred to the prospectus issued on 19th November, 2001. As at 31st December, 2001, no formal agreement had been reached between the negotiating parties of Chongqing Sino-Portuguese acquisition project. Net proceeds from the share offer was approximately RMB36,687,000 and had not been used and was kept in a bank in Hong Kong.

## OVERVIEW

The nation-wide construction and development of new highways led to diversion of traffic flows. Subsequently, intense market competition brought about huge challenges to the Group. In the year, due to the decline in traffic flows for the Wen An Section and Xin Fu Section, the turnover and operating profits for the Group were lower than the previous year. However, with the sustained efforts of the management and staff of the Group and effective cost control measures implemented, the Group managed to maintain a steady business development despite the fierce business environment.

## BUSINESS REVIEW



### The Wen An Section of National Highway 106, Hebei Province

In the year under review, the Gross Domestic Product (GDP) of Hebei Province reached RMB557,800,000,000, representing a growth of 8.7% as compared to the previous year, and remained higher than the national average GDP. The province is currently experiencing the rapid expansion in its transportation industry. The total length of highways within the province was about 63,000 km, among which, 1,563 km were expressways, representing an increase of 5.9% and 5.6% respectively over the previous year.

There was healthy development in other modes of transportation such as railways and waterways during the year. However, the completion of new highways led to the diversion of traffic flows. At the same time, road maintenance works were carried out at the Gu An Section of National Highway 106 in the vicinity of the Wen An toll station. All these factors led to a reduction in the traffic volume of the Wen An Section during the year, with a monthly average traffic flows of approximately 220,000 vehicles, representing a decrease of 13% as compared with the same period last year. The toll income amounted to approximately RMB40,166,000, representing a decrease of 18% to that of last year.

### The Xin Fu Section of National Highway 204, Jiangsu Province

In the year under review, the economic development of the Jiangsu Province achieved a steady growth. Its GDP was about RMB951,500,000,000, which represents a growth of about 10% over the same period last year and was higher than the national average GDP by about 3%. Transportation development within the province remained steady. The annual freight traffic volume amounted to approximately 35,400,000,000 tonne/km, representing an increase of about 4% over the previous year.





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During the year, the average monthly traffic flows of the Xin Fu Section was about 240,000 vehicles, which represents a decrease of 17% as compared with the same period last year. The toll income amounted to about RMB33,631,000, representing a decrease of 19% as compared with the same period last year. The decline in traffic flows for the Xin Fu Section was mainly due to the diversion of traffic flows to the Yihuaijiang Expressway since it came into operation in 2000. Moreover, the continual development of other modes of transportation such as railways and waterways, posed competition for freight traffic volume for the Xin Fu Section.

## HIGHWAY TOLL COLLECTION SYSTEMS

A computer-aided toll collection system, which came into operation in 1998 at the Wen An toll station, together with the toll collectors in identifying the category of vehicles that is subject to the toll charge. The computer-aided toll collection system and the closed circuit cameras installed at the toll station are linked to the control centre nearby to maintain a 24-hour surveillance of each vehicle passage as well as the toll collection booth to ensure the proper daily toll collection.



The Xin Xing and Shi Zhuang toll stations of the Xin Fu Section adopt manual toll collection system. From day to day, designated staff of the accounts department are responsible to ensure the amount of toll collected is accurate. To improve the toll collection system of the Xin Fu Section, the Group commenced the installation of a new computerized system to replace the existing manual one in December 2001. The new system is expected to come into operation in 2002, which will subsequently improve the service quality of the Xin Fu Section.

In the year under review, other than an increase of toll rates was introduced to the Xin Xing toll station in September 2001, there was no toll adjustment for the other two toll stations. Furthermore, the Group established an independent audit team to each of the three toll stations to closely monitor the proper implementation of the toll collection system.

## MAINTENANCE, REPAIR AND SUPPORTING FACILITIES

In the year under review, Langfang Municipal Communications Bureau and Yancheng Xinfu Highway Company Limited are responsible for the maintenance and repair works for the Wen An Section and Xin Fu Section. Regular maintenance and repair works were carried out, and no major maintenance work were executed.



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## FINANCIAL REVIEW

### Current Assets and Financial Sources

As at 31st December, 2001, the current assets of the Group were about RMB65,733,000 (2000: RMB69,766,000), of which bank balance and cash amounted to RMB64,233,000. The total net assets of the Group amounted to RMB277,240,000, representing an increase of approximately 26% as compared with the same period in 2000. Short-term bank loans were RMB15,000,000 while other long-term loans were RMB86,505,000. The gearing ratio (Total liabilities/Total assets) of the Group was 26% (2000: 40%).

As at 31st December, 2001, apart from guarantee of RMB15,000,000 for bank loans granted to its subsidiary, the Company did not provide any form of guarantee.

The monetary assets, liabilities and transactions of the Group are denominated in Hong Kong dollars, Renminbi and US dollars. As the Hong Kong dollars is pegged to the US dollars and there was no major fluctuation in the exchange rate between Hong Kong dollars and Renminbi, the Group foresees no significant exchange rate risk in this respect.

### Capital Structure

As at the balance sheet date, the share capital of the Group was RMB21,000,000 (2000: RMB14,700,000) while the reserves were about RMB256,240,000 (2000: RMB205,871,000). Total current liabilities were RMB40,799,000 (2000: RMB62,617,000) while the total non-current liabilities were RMB90,148,000 (2000: RMB142,453,000).

### Employees and Remuneration Policy

As at 31st December, 2001, the Group employed 287 full-time management, executive and toll collection staff in the PRC and Hong Kong. The remuneration policy is reviewed by the management of the Group regularly with reference to the performance and experience of the staff as well as the prevailing practice in the industry.

## AUDIT COMMITTEE

Mr. Cai Chuan Bing and Ms. Yu Chor Woon, Carol, both independent non-executive directors, have been appointed as members of the audit committee. The audit committee was established on 12th November, 2001, with an aim to review and provide supervision over the Group's reporting process and internal control, ensuring the benefits of the Company's shareholders. The audit committee held a meeting on 13th April, 2002 and reviewed the financial statements and connected transactions, etc. accordingly.



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## PROSPECTS

In 2001, China's accession to the WTO will have profound influence on the overall business environment within China. The demand for transportation networks is increasing. The major development project of China in the coming five to ten years will be the consolidation of construction work of infrastructure facilities, with road construction and the building of comprehensive road networks as a high priority. In view of this, the Group will strive to consolidate its core business by implementing effective road maintenance measures and operational cost control. The Group will, at the same time, employ existing resources properly, to seize investment opportunities in accordance with the market development. The Group endeavours to adopt an aggressive strategy to expand its business scope into investment and operation of infrastructure facilities.



Furthermore, with the full support of Jiangsu Yue Da Group Company Limited, the Group's ultimate holding company, the Group will recruit more personnel and professional expertises to pursue opportunities in infrastructure and public utility projects with great potential and high value. Building on the foundation of its toll highway business, the Group strives to become one of the major infrastructure operators in China with an intention to further enhance the competitiveness of the Company and secure higher returns for its investors.