

Discussion and Analysis of the Management



Business Environment

The businesses of the Group are concentrated in Sichuan Province which is a large province of the western part of the PRC. Therefore, the business development of the Group is closely related to the economic situation as well as road development of the PRC and Sichuan Province.

Positive trend in economic development of the PRC and Sichuan Province. In 2001, the State continued to strengthen its structural adjustment of the economy and implement positive fiscal and monetary policy. The economic structure has improved and domestic demand has recovered,

forming the major momentum for economic development. Gross domestic product (GDP) reached Rmb9,593.3 billion, representing an increase of 7.3% over last year. Owing to the dual impact of significant growth in the industrial sector and the accelerated rate of investment, the economic growth rate of Sichuan Province even outperformed the national average. GDP of Sichuan Province was Rmb442.18 billion for the year, representing an increase of 9.2% over last year. The positive economic development has constituted a favourable atmosphere for the operation and development of the Group.

Substantial progress achieved in road constructions. In 2001, the government of the PRC continued to regard expanding the construction of basic infrastructure as a vital measure for boosting economic growth. The construction of roads in the PRC had achieved substantial progress and its construction scale, progress and quality have made new records. By the end of the year, the total investment by the State in the construction of roads exceeded Rmb260 billion. The mileage of roads constructed increased by 32,000km, of which the mileage of expressway reached 3,017km. As a result, the mileage of expressways opened to traffic in the PRC reached 19,000km which is in the forefront of the world.

In 2001, traffic constructions of Sichuan grasped the unprecedented opportunity arising from the grand development strategy for the western region of the PRC and achieved significant progress. Investment in traffic constructions during the year amounted to Rmb13.1 billion, which has become a new historical high level. Total mileage of roads in the province reached 92,000km, which was ranked the third of the State. The mileage of road constructed increased by 152km. Total mileage of expressway in the province reached 1,152km, which was ranked the fifth of the State.

Business Environment *(continued)*

Consumption of automobile has become a popular consumption item in the PRC. The domestic economy continued to have a rapid and healthy development and the conditions for road traffic improved drastically in recent years. There has been a surge in the growth rate of automobile ownership. In 2001, the sales volume of automobile in the PRC exceeded 2,000,000, surged by 16% over last year, recording the highest growth rate in recent years. The increase in automobile consumption paved the way for a steady growth in road business.

Business Summary

In 2001, the Group continued to adhere to its business strategy of sticking to core business and developing supplementary business. With its attention focused on economic benefits, the Group actively embarked on a variety of projects and achieved more satisfactory operating results. The Group recorded a total turnover of Rmb664,607,000 for the year, representing an increase of 11.86% over last year, of which approximately Rmb444,188,000, or 66.83%, from Chengyu Expressway; approximately Rmb130,401,000, or 19.62%, from Chengya Expressway; approximately Rmb29,747,000, or 4.48%, from Chengdu Chengbei Exit Expressway; approximately Rmb60,271,000, or 9.07%, from Zigong Ring Roads, Lulong Road, Luhe Road and Tuojiang Er Bridge; and approximately Rmb35,278,000 from other activities. During the year, profit attributable to shareholders was approximately Rmb174,576,000, representing an increase of 4.88% over the previous year and earnings per share was Rmb0.0682, representing an increase of 4.76% over last year.

The growth in the Group's profit attributable to shareholders for the year was mainly attributable to the following factors: (1) Revenue from the Group's major operations was surging steadily. The improvement by the Group of the operation and management of its projects has resulted in the significant growth of toll incomes from its expressways. Among them, toll income from Chengyu Expressway rose by 6.79% as compared to last year; toll income from Chengdu Chengbei Exit Expressway grew by 19.95% compared to last year; and toll income from Chengya Expressway surged by 42.11% as compared with last year. (2) The Group has further tightened its internal cost control and management in an effort to raise the level of profit attributable to shareholders.



Discussion and Analysis of the Management (Cont'd)

Business Review and Analysis

1. Principal Activities - Toll Road Operations

The Group is engaged in the investment, construction, operation and management of toll roads. At present, the Group owns three expressways including Sichuan Chengyu Expressway (“Chengyu Expressway”), Sichuan Chengya Expressway (“Chengya Expressway”), Chengdu Chengbei Exit Expressway (“Chengbei Exit Expressway”) as well as three Class II roads, including Zigong Ring Roads, Lulong Road, Luhe Road and one toll bridge, namely Tuojiang Er Bridge. Their operations for the year were as follows:

Toll roads	Average daily traffic flow (No.)	Year-on year Growth/Decline (± %)	Toll income (Rmb'000)	Year-on-year Growth/Decline (± %)	Net profit/(loss) (Rmb'000)	Performance
Chengyu Expressway	8,908	+11.55%	467,568	+6.79%	217,424	Stable growth in toll income
Chengya Expressway	4,360	N/A	138,564	+42.11%	(97,825)	Significant growth in toll income
Chengbei Exit Expressway	17,625	+19.18%	31,579	+19.95%	1,022	Significant growth in toll income
Zigong Ring Roads, Lulong Road, Luhe Road and Tuojiang Er Bridge	N/A	N/A	63,469	-0.25%	19,379	Slightly decline in toll income

Basic information of toll roads and bridge of the Group:

Toll roads	Category	Mileage (km)	Date of commencement of operation	End of operation period	Number of toll plazas	Interests held by the Company
Chengyu Expressway	Expressway	226	July 1995	August 2027	15/closed	100%
Chengya Expressway	Expressway	144	December 1999	October 2027	15/closed	58.975%
Chengbei Exit Expressway	Expressway	10.42	December 1998	June 2024	1/closed	60%
Airport Expressway	Expressway	11.92	July 1999	December 2024	1/dual	25%
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%

Discussion and Analysis of the Management (Cont'd)

Business Review and Analysis (continued)

1. Principal Activities - Toll Road Operations (continued)

Toll rates of expressways of the Group are as follows:

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

Category	Specifications	Toll rate	
		RMB/Vehicle-km	Long Quan Mountain Tunnel per vehicle 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	Long Quan Mountain Tunnel per vehicle 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

Discussion and Analysis of the Management *(Cont'd)*

Business Review and Analysis *(continued)*

1. Principal Activities - Toll Road Operations *(continued)*

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

Category	Specifications	Toll rate (RMB/Vehicle)
Class I	sedan, jeep, mini-van, station wagon with under 8-seat; and small truck under 1 tonne	5.00
Class II	passenger car with 9-seat to 30-seat; sleeper with under 20-bed; and truck with over 1 tonne to 3 tonnes	10.00
Class III	passenger car with 31-seat to 50-seat; truck with over 3 tonnes to 5 tonnes; sleeper with under 21-bed to 30-bed; and container vehicle with international standard	20.00
Class IV	passenger car with over 51-seat; truck with over 5 tonnes to 15 tonnes; and sleeper with over 31-bed	30.00
Class V	truck with over 15 tonnes to 25 tonnes	40.00

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

Category	Specifications	Toll rate (RMB/Vehicle)
Class I	sedan, jeep, mini-van, station wagon with under 8-seat; and small truck under 1 tonne	10.00
Class II	passenger car with 9-seat to 30-seat; sleeper with under 20-bed; and truck with over 1 tonne to 3 tonnes	20.00
Class III	passenger car with 31-seat to 50-seat; sleeper with under 21-bed to 30-bed; truck with over 3 tonnes to 5 tonnes; and container vehicle with international standard	30.00
Class IV	passenger car with over 51-seat; sleeper with over 31-bed and truck with over 5 tonnes to 15 tonnes;	40.00
Class V	truck with over 15 tonnes to 25 tonnes	50.00

Business Review and Analysis (continued)

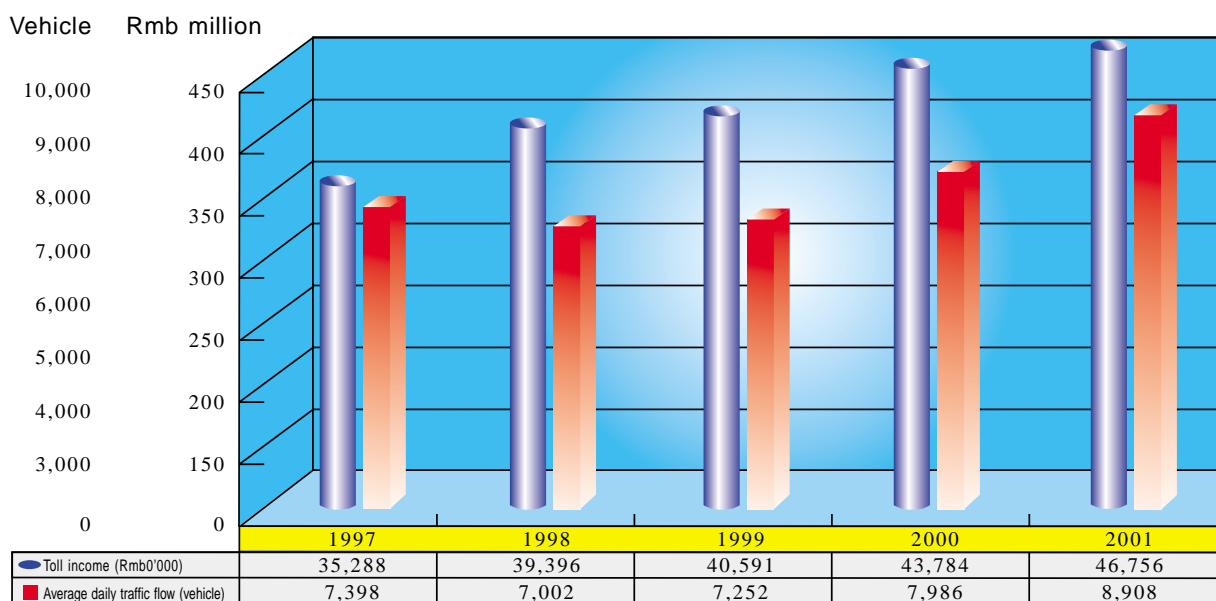
1. Principal Activities - Toll Road Operations (continued)

Chengyu Expressway

The 226km 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 July 1990 and commenced operation in July 1995. It is the first expressway in Sichuan Province and its period of operation is 30 years from 19 August 1997, being the date of establishment of the Company.

Chengyu Expressway is a major traffic artery in Sichuan Province which continues to play an important role in promoting regional economic development and the Company's earnings level. As at 31 December 2001, the average daily traffic flow of Chengyu Expressway was approximately 8,908, representing an increase of approximately 11.55% over last year; toll income was approximately Rmb467,568,000, an approximately 6.79% increase over last year; net profit was approximately Rmb217,424,000. The traffic flow and toll income posted a record high for four years since the establishment of the Company.

Bar Chart showing Toll Income and Traffic Flow of Chengyu Expressway from 1997 to 2001



Increases in traffic flow and toll income of Chengyu Expressway were mainly attributable to the followings:

- The PRC economy maintained a steady growth in 2001. As triggered by the grand development of the western region, the economic growth rate of Sichuan Province outperformed the national average. GDP of Sichuan Province amounted to Rmb442.18 billion, representing an increase of 9.2% over last year. The positive economic development secured the increase in traffic flow of Chengyu Expressway.

Business Review and Analysis *(continued)*

1. Principal Activities - Toll Road Operations *(continued)*

Chengyu Expressway *(continued)*

- The three long holidays, namely the Spring Festival, the Labour Day and the National Day in the year were prolonged periods of peak passenger transportation during which there were surges in passenger flows, resulting in a dramatic increase in toll income. Average daily toll income for the respective seven-day long holidays of the Labour Day and the National Day increased by approximately 26.33% and 9.15% respectively when compared with the same period of last year.
- The opening for traffic of Longna Expressway opened the passage leading to the harbour of Beihai, Guangxi Province, which has facilitated the use of Chengyu Expressway by vehicles for passenger and freight transportation. This has effectively triggered the growth in traffic flow of Chengyu Expressway.
- With an aim to increase toll income, the Company spared no pains to enhance the quality of its services, improve service image and enhance its management level. The Company also strengthened the monitoring of toll collection. All these have achieved remarkable effect.

In order to cater for the increasing traffic flow, reinforce the application of modern information technology and improve the efficiency in respect of the operation management and the service level of Chengyu Expressway, the Company devoted every effort on undertaking Q1 Electrical and Mechanical Contract Project (automation of toll collection, telecommunication and supervision systems). Substantial progress was further achieved during the year. By the end of December 2001, the installation, testing and inspection of the equipment and the preliminary adjustments of software for the three major systems and the training of operators were basically completed. The Company is currently working hard on preparation work before operations so as to enable trial operation of the systems as a whole by the end of March 2002.

Chengya Expressway

Chengya Expressway, 144km long, starts from Chengdu and ends at Duiyan, Yaan City. It is a closed dual expressway. The main section (129km) of Chengya Expressway was opened to traffic and put into operation on 28 December 1999. Chengya Expressway was fully completed and put into operation on 28 December 2000.

The traffic flow and toll income of Chengya Expressway demonstrate a remarkable upward trend in 2001. The average daily traffic flow for the year reached approximately 4,360. Toll income of approximately Rmb138,564,000 was recorded, representing an increase of 42.11% over last year. Nevertheless, heavy interest expenses and rise in operating costs led to a comparatively less improvement in the profitability of Chengya Expressway. A loss for the year of approximately Rmb97,825,000 was registered, which nevertheless represents an improvement of 15.09% over the percentage loss of last year.

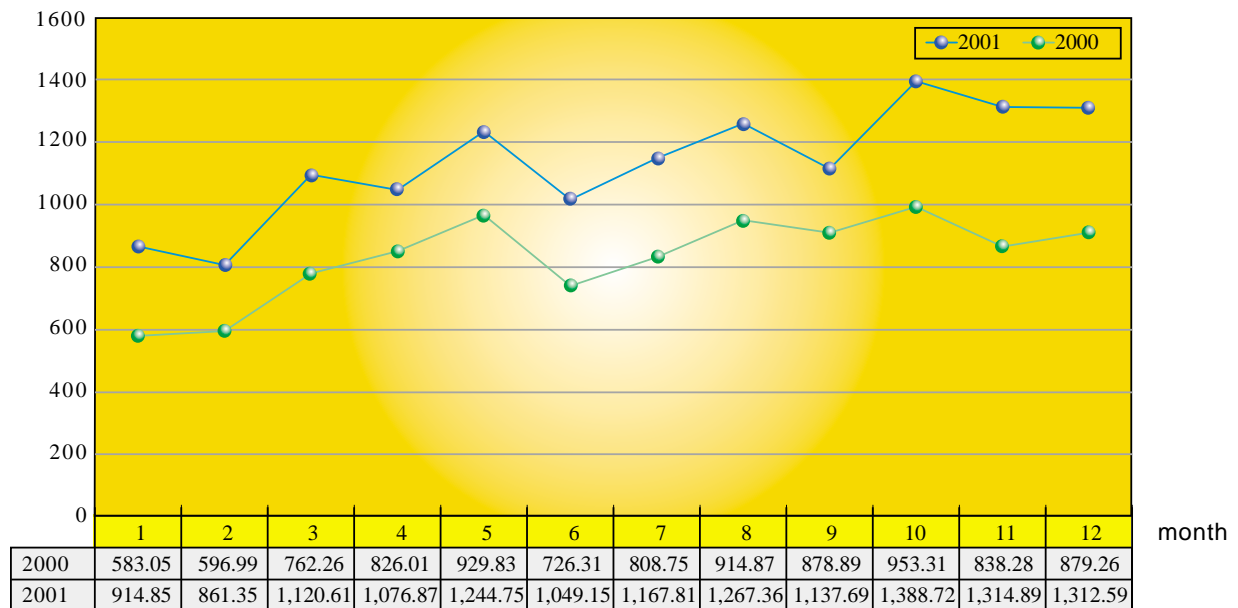
Business Review and Analysis (continued)

1. Principal Activities - Toll Road Operations (continued)

Chengya Expressway (continued)

Comparison of toll income of Chengya Expressway in 2001 and 2000

Rmb0'000



The main reasons stimulating growth in operating performance of Chengya Expressway were as follows:

- 2001 is the second year of which Chengya Expressway is opened to traffic. Its traffic flow was in the stage of growth;
- the avoidance of traffic flow diversion of Chengya Expressway due to the closure of Dajian Road, which is parallel to Chengya Expressway for repair works;
- the improvement in the tourism industry of the western part of Sichuan and economic development of the region led to growth in traffic flow.

Chengya Expressway, a major highway connecting Sichuan and Yunnan, Tibet and Sichun Paizhilhua City, which is a prominent industrial town, plays a critical role in the transport network of Sichuan Province with great development potential. Nevertheless, the development of the local economy is lagging behind when compared with other regions. This, together with factors like the State policy of prohibiting lumbering, resulted in the lower-than-expected traffic flow and toll income level of Chengya Expressway. Following the gradual implementation of the Grand Development Strategy of the Western Region, and in particular, the enlarged investment of the State in the infrastructure of the region, the local economy is expected to improve gradually, and the peripheral road networks of Chengya Expressway will gradually take shape, which will in turn benefit Chengya Expressway. Furthermore, the boom in the tourism industry of Yaan region constitutes a favourable condition for the development of the traffic flow of Chengya Expressway.

Business Review and Analysis *(continued)*

1. Principal Activities - Toll Road Operations *(continued)*

Chengbei Exit Expressway

Chengbei Exit Expressway, 10.42km long, starts from Qinglong Chang and ends at Baihe Lin. It is a closed dual three-lane system which connects Chengdu and Chengmian Expressway. Pursuant to the Chengbei Concession Agreement, the Sichuan Provincial Department of Communications, as authorised by the Sichuan Provincial Government, has granted the concession rights in respect of the Chengbei Exit Expressway (the "Concession Rights") for a term of 30 years from 6 September 1996. Chengbei Exit Expressway was completed and open to traffic on 21 December 1998. The remaining period of the Concession Rights had been approximately 28 years, which was adopted for the calculation of the depreciation rates of land and expressway of Chengbei Exit Expressway.

However, according to a document "Chuan Jiao Gong Lu [2001] No. 90" jointly issued by the Sichuan Provincial Department of Communications and Sichuan Provincial Price Bureau on 18 June 2001, the toll collection period actually granted to Chengbei Exit Expressway is only 25.5 years from 21 December 1998 to 30 June 2024. The management of the Group is of the opinion that the relevant government authorities have taken construction costs and toll rate into consideration when determining the approved toll collection period of Chengbei Exit Expressway, and the approved toll collection period reflects the economic useful lives of land and expressway of Chengbei Exit Expressway.

In this connection, the Group changed the estimated useful lives of land and expressway of Chengbei Exit Expressway according to the above approval document with effect from 1 January 2001.

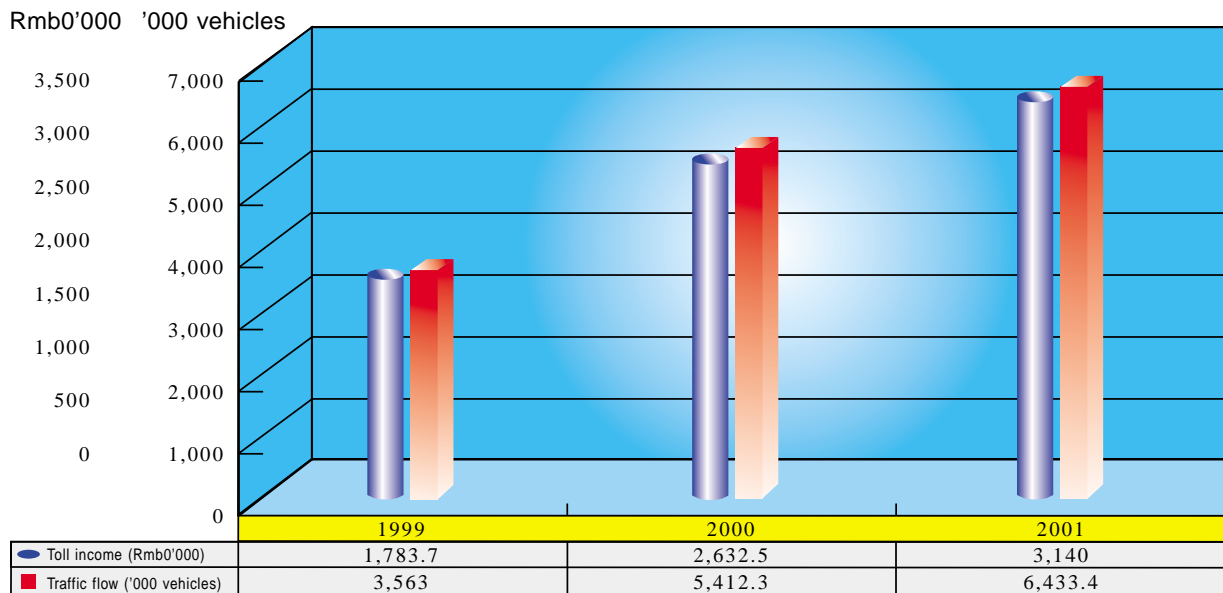
The year 2001 is the third year of Chengbei Exit Expressway trial operation. As at 31 December 2001, its average daily traffic flow reached 17,625, representing an increase of 19.18% over last year. It recorded toll income of Rmb31,579,000, representing an increase of 19.95% over last year and net profit of Rmb1,022,000.

Business Review and Analysis (continued)

1. Principal Activities - Toll Road Operations (continued)

Chengbei Exit Expressway (continued)

Bar Chart showing Toll Income and Traffic Flow of Chengbei Exit Expressway from 1999 to 2001



Chengbei Exit Expressway has been opened to traffic for three years. Its toll income had increased by 47.59% and 19.95% year on year. It made a turnaround in the year from loss making to registering a profit for the first time since its operation. The significant growth in the operating performance of Chengbei Exit Expressway was mainly attributable to the followings:

- emphasis placed on internal management, stringent toll collection standard, tightened management and supervision over toll collection by Chengbei Company which achieved significant effect;
- the avoidance of traffic flow diversion of Chengbei Exit Expressway due to the close of the section from Xindu to Guanghan of Chuanshan Dajian Road, which is parallel to Chengbei Exit Expressway, for repair works during November 1999 to May 2000 and the construction of the footbridge across Dajian Road in Sanhechang during September 2000 and January 2001;
- Chengbei Exit Expressway started to charge new toll rate since 20 June 2001 that the minimum charge has been adjusted upward from Rmb4.00/tonne-vehicle to Rmb5.00/tonne-vehicle;
- the granting of long holidays, namely the Labour Day and the National Day by the State since 2000 bringing about an unprecedented prosperity during such holidays. Furthermore, the continuous economic development and the active production and transportation activities of the districts along the expressway effectively stimulated growth in traffic flow of Chengbei Exit Expressway.

Business Review and Analysis (continued)

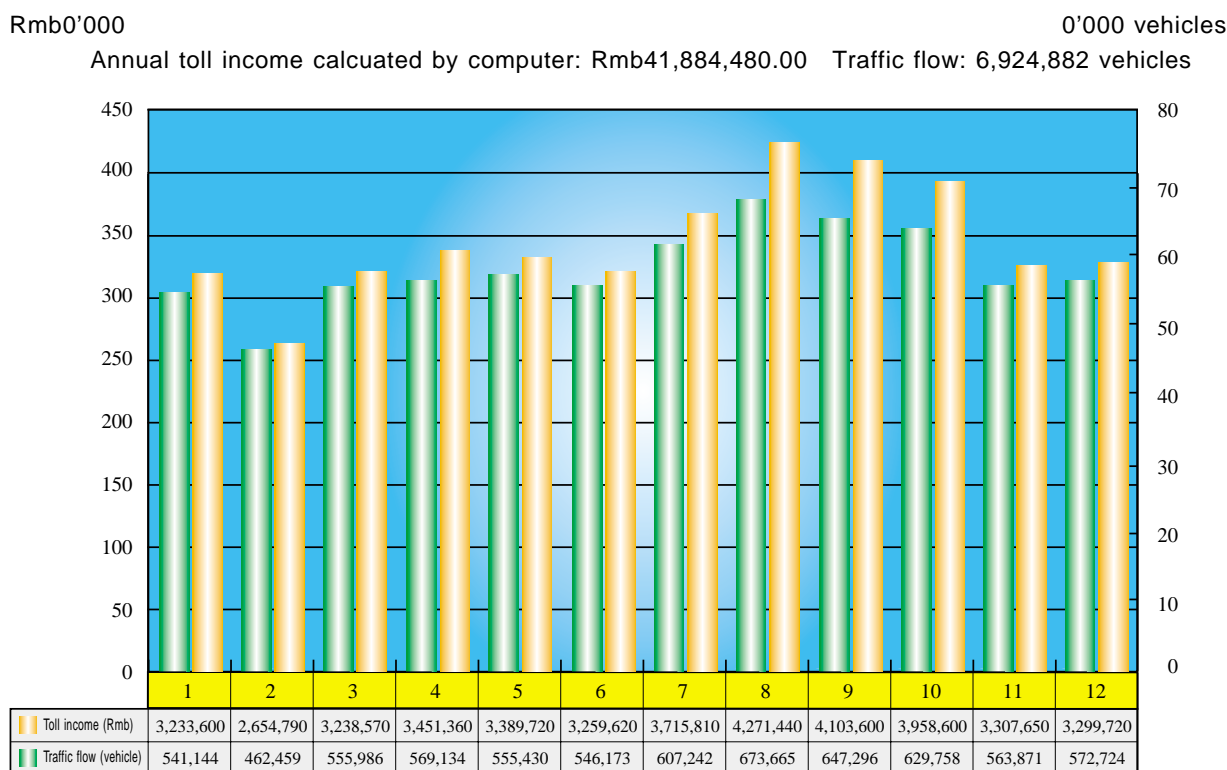
1. Principal Activities - Toll Road Operations (continued)

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 9 July 1999. During the year, the average daily traffic flow reached 18,972, representing an increase of 14.86% over last year; toll income amounted to approximately Rmb46,461,000, a 10.17% increase over last year; and net profit was approximately Rmb4,134,000, representing an increase of 364% over last year.

Traffic Flow and Toll Income of Airport Expressway in 2001



Traffic flow and toll income of Airport Expressway grew steadily from year to year. This was closely and inseparably related to the satisfactory economic development of Sichuan and its increasingly worth investing, trading and travelling as a major province in the western region with a large population, rich resources, sizeable market and magnificent landscape. Following the implementation of the grand development strategy for the western region, further increase in the number of domestic and international flights of Chengdu Shuangli International Airport, growth in traffic flow of Airport Expressway is expected to continue.

Business Review and Analysis *(continued)*

1. Principal Activities - Toll Road Operations *(continued)*

Toll Roads and Bridge in Zigong and Luzhou

The Company holds, through its subsidiary - Chengdu Shuhai Investment Management Company Limited, 59.94% of the operation rights and related interests in each of Zigong Ring Roads in Zigong; and Lulong Road, Luhe Road and Tuojiang Er Bridge in Luzhou.

During the year, operating results of toll roads and bridge in Zigong and Luzhou dropped slightly. As at 31 December 2001, toll income from Zigong Ring Roads and the two roads and one bridge in Luzhou amounted to approximately Rmb63,469,000, representing a drop of 0.25% from last year; and net profit was approximately Rmb19,379,000, a 32.42% increase over last year. The drop in toll income was mainly attributable to the following factors: (1) the opening of Longna Expressway Phase II, which diverts some of the traffic from Lulong Road and Tuojiang Er Bridge; and (2) in 2001, the State reorganised and shut down certain small local coal mines, hence the number of vehicles for coal transportation in Luzhou dropped which in turn resulted in the reduction in toll income.

2. Other Business

Apart from improving the operation and management of its principal activities, the Company also devoted significant effort on developing road-related business and multiple operations beyond the road by leveraging on its principal activities in an attempt to explore the potential profitability of supplementary highway facilities and expand the room for the Company's development.

The Company's non-core business are principally developed by the following three subsidiaries:

(1) Sichuan Shuhai Investment Management Company Limited ("Shuhai Company")

The Company has invested Rmb199,800,000 in Shuhai Company and holds 99.9% interests therein. Its scope of business includes investment in road infrastructure projects and other projects, investment consulting (excluding financial and security business), high-tech products and technological development. Currently, Shuhai Company's main income derives from the investment return from its acquisition of the toll roads and bridge in Zigong and Luzhou, details of which was disclosed above.

During the year, having recorded a satisfactory investment return from its core asset, the toll roads and bridge, Shuhai Company also enhanced its development through developing new investment projects. In September, Shuhai Company invested Rmb10,725,000 to purchase 5,500,000 new shares issued by China Everbright Bank; In October, Shuhai Company invested Rmb15,000,000 to hold partial interests in the Transfer Scientific and Technological Research Results to Production Center Company Limited of Sichuan University and has become its third largest shareholder. Shuhai Company has basically formed a multiple investment structure.

Business Review and Analysis *(continued)*

2. Other Business *(continued)*

(2) Sichuan Shusha Enterprise Company Limited (“Shusha Company”)

The Company has invested Rmb29,850,000 in Shusha Company and holds 99.5% interests therein. Its scope of business includes gas station operation, advertisement leasing, vehicle maintenance and mobile emergency repair service along Chengyu Expressway as well as multiple operations.

Operating revenue of Shusha Company for the year amounted to approximately Rmb4,531,000, representing an increase of 3.11% over last year; and a net loss of Rmb304,000 was recorded. The loss was mainly attributable to the followings:

- Due to the relocation work of Dongdamen of Chengdu City, Shusha Company's Machinery and Tools Maintenance Centre together with part of its advertising facilities were demolished, resulting in a loss of fixed assets of the Maintenance Centre amounting to Rmb600,000 and a decrease in advertising income amounting to approximately Rmb500,000;
- Shusha Company invested Rmb12,391,000 in July 2001 to acquire Zigong Jiu Da Petrochemical Company Limited which is still in the course of preparation of its project, and therefore no returns were generated from such investment yet.

Shusha Company regarded the construction of Jiu Da Petrochemical Petrol Depot as a major project of 2002 and is endeavouring to complete such construction in May in an effort to lay a foundation for Shusha Company's accession to the energy market and form a new profit growth factor.

(3) Sichuan Shugong Expressway Engineering Company Limited (“Shugong Company”)

The Company has invested Rmb28,500,000 in Shugong Company and holds 95% interests therein. Its scope of business includes the construction and maintenance of infrastructures such as roads, bridges and tunnels, and the sale of mechanical machinery and materials. In order to reinforce repair and maintenance and reduce operating costs of Chengyu Expressway, the Company undertook renovation in its maintenance system during the year and set up three mechanical maintenance centres responsible for the repair and maintenance work of the whole route of Chengyu Expressway. The raling maintenance business originally undertaken by Shugong Company is shifted to one of the maintenance centres. Therefore, operating revenue of Shugong Company dropped by approximately 8.98%, amounting to Rmb3,914,000; net profit amounted to approximately Rmb18,600, representing a decrease of approximately 89.84% from last year.

The Company is reviewing its investments in and the operations of related business in order to conclude its experience and make any adjustment as and when appropriate.

Discussion and Analysis of the Management (Cont'd)

Financial Review

Summary of the Group's Results

	For the year ended 31 December	
	2001 Rmb'000	2000 Rmb'000
Turnover	664,607	594,165
Operating profit before tax	168,494	158,776
Profit attributable to shareholders	174,576	166,452
Earnings per share (Rmb)	0.0682	0.0651

Summary of the Group's assets

	For the year ended 31 December	
	2001 Rmb'000	2000 Rmb'000
Total assets	7,907,440	8,125,918
Total liabilities	2,980,246	3,264,502
Minority interests	454,506	486,562
Total net assets	4,472,688	4,374,854
Net assets per share (Rmb)	1.75	1.71

Financial Analysis

The Group adopted positive and prudent financial policy. With the aim of continuous development, the Group endeavoured to reduce operating costs, strictly control investment risk so as to maximize the investment returns to shareholders.

As at the end of 2001, the Group has a stable financial position. However, the main subsequent project, Chengya Expressway, incurred an operating loss which is attributable to traffic flow lower than the Company expected due to the State policy of prohibiting lumbering in the upper stream of Yangtze River. The growth of the Group's results was affected to a certain extent. Turnover of the Group amounted to Rmb664,607,000 for the year, representing a 11.86% increase from last year; profit attributable to shareholders amounted to Rmb174,576,000 representing a 4.88% increase over last year.

Major factors for profit attributable to shareholders of the Group for 2001: 1. The traffic flow of Chengya Expressway was still unsatisfactory. Its toll income was Rmb138,564,000. Finance cost reached Rmb112,238,000 and operating loss amounted to Rmb97,825,000; 2. Chengyu Expressway has opened to traffic for a few years, some of its sections required major overhaul. Among the financial costs, road maintenance cost for the year increased by Rmb4,034,000 over last year, which has become an important factor affecting profit attributable to shareholders. Nevertheless, the Group strengthened its control on toll income. Toll income of Chengyu Expressway and Chengbei Exit Expressway increased by 6.79% and 19.95% over the previous year respectively. Toll income of Chengya Expressway also recorded a growth of 42.11% over last year. The Group also enhanced its internal cost control and management, resulted in an increase in profit attributable to shareholders.

Financial Review (continued)

Discussion and Analysis of the Management (Cont'd)

Profit Contribution by Toll Roads for 2001

	Turnover <i>Rmb'000</i>	Contribution to operating profit <i>Rmb'000</i>
Sichuan Chengyu Expressway	444,188	248,889
Chengbei Exit Expressway	29,747	15,334
Chengya Expressway	130,401	14,783
Two Class II roads in Zigong	21,539	7,703
Two Class II roads and one toll bridge in Luzhou	38,732	15,097

Liquidity of Capital and Financial Sources

In 2001, capital expenditure of the Group amounted to Rmb217,956,000, which was mainly derived from operations and bank loans. As at 31 December 2001, the Group's bank loans totalling Rmb2,108,877,000 with an average interest rate of approximately 5.5%. As at 31 December 2001, unutilized banking facilities of the Group ranged from Rmb700,000,000 to Rmb900,000,000, which are all five-year long-term loans. The amount is a standby loan and will be utilized when appropriate. The gearing ratio of the Group was 37.69% as at 31 December 2001. Details of capital structure are as follows:

	Total amount <i>Rmb'000</i>	Percentage %
Shareholders' equity	4,472,688	56.56%
Debt of floating interest rate	2,108,877	26.67%
Interest-free debt	871,369	11.02%
Minority interests	454,506	5.75%
Total	7,907,440	100%
Debt-equity swap ratio	66.63%	

Financial Review (continued)

Financial Policy

The Group has stringent cash management and risk control measures. The Group usually places its cash as short-term deposit in Renminbi. Among the Group's debts of floating interest rate, there is a loan of US\$15,837,000 advanced by the World Bank which was on-lent through Sichuan Highway Development Holding Company, the parent company, (of which the Company repaid all the 10,108,000 special drawing rights and part of the US drawing rights of 11,445,000 on 29 December 2001). The Company makes payment of the principal and related interest through purchase of foreign exchange from its parent company with Renminbi at floating exchange rate. Other loans are denominated in Renminbi and repaid from Renminbi income. In addition, the Group purchases foreign exchange to make dividend distribution to holders of H shares. The Group evaluates exchange risk as follows: There is a slowdown in the development of the global economy and, in particular, economic recession of the US economy persisted and growth in exports of the PRC decreased significant in 2001. However, the international income and payment of the current account has maintained a favourable balance. Moreover, foreign investors are optimistic about the PRC economy that foreign investment increased drastically. Current account and capital account maintain favourable balances, resulting in a faster increase in the foreign exchange reserve which has consolidated the stability of the exchange rate for Renminbi. Furthermore, there are even experts who are of the opinion that the pressure of Renminbi appreciation has outweighed that of depreciation. Therefore, the present exchange risk faced by the Company has significantly reduced.

Recently, there is a sign of recovery in the US economy. People regain their confidence in investing in the US which boosts the exchange rate and the interest rate for US dollars. Notwithstanding that, interest rate for the US dollar is still lower than that for Renminbi. In addition, the interest expenses of the Company for part of its US dollar floating rate loans have decreased as a result of US dollar interest rate cuts. Furthermore, the Company has placed some US dollar fixed deposits in anticipation of further US dollar interest rate cuts. The Company has already benefited from the recent series of rate cuts.

Capital Commitment

Details of the Group's capital commitment are set out in note 31 to the account.

Human Resources

The Company has been emphasizing on the training and retention of human resources. The Company regards those high calibre staff with strong overall capacities as its most valuable assets. As at 31 December the total number of employees of the Company was 976.

During the year, the Company has further refined its job competitive system and the system of reward which is commensurate with performance in order to arouse the initiative and creativity of its staff. Salaries paid by the Company for the year amounted to approximately Rmb22,876,000.

During the year, the Company has amended and modified the "Trial Procedures for Management of Staff Educational Training" in order to comply with the requirements of standardizing management of educational training of staff and to enhance the calibre as well as the overall capacities of its staff and the management in every aspect.

Prospects and Outlook

Discussion and Analysis of the Management *(Cont'd)*

Despite the PRC economy is facing with the negative impact of slowdown in global economic development and further decline in external demand, the macroeconomic policy adopted by the State will facilitate growth in investment and consumption. The PRC government will continue to implement positive fiscal policy and prudent monetary policy in an attempt to increase investment, boost domestic demand as well as to make up for the deficiency of external demand. Accordingly, growth in GDP of the PRC for 2002 is expected to slow down but it is anticipated that it can be maintained at about 7%. The PRC economy will continue to have a steady development.

The development of traffic industry will accelerate in 2002. Sichuan Province intends to invest Rmb12.5 billion in traffic constructions. There will be 12 projects and 800km of expressway under construction. 2002 is the year in which the number of focused projects under construction in Sichuan is the most. It is planned that the length of expressway constructed in 2002 will reach 350km. The mileage of expressway constructed in Sichuan in 2002 will also be the most. The target of expressway construction in Sichuan in 2002 is to achieve a total mileage of 1,500km to form the framework of Sichuan's expressway network which is centered around Chengdu accessing to 15 cities.

Opportunities and Challenges

- In 2002, the State plans to issue government bonds in the sum of Rmb150 billion for long-term constructions, and will mainly be used for the western region. This is really a splendid opportunity for further accelerating the development of Sichuan's traffic which is part of the grand development strategy of the western region;
- It is expected that the PRC government will implement fuel tax in 2002. The introduction of fuel tax will increase operating costs of vehicles and in turn, to a certain extent, affect the toll income level of the Group. Nevertheless, the substitution of fuel tax for road maintenance fee will further stimulate demand for private vehicles and commercial vehicles, which will bring about long-term economic benefits for the Group;
- The successful accession to the WTO of the PRC will result in 2002 becoming the year which has the greatest percentage decrease in tariff for imported vehicles. This will certainly further stimulate domestic consumption of automobile significantly. The total demand for automobile is expected to maintain a two-digit growth rate, or estimated to be about 2,700,000, in 2002, and of which growth rate of private car will be the most substantial. The overall stimulation of automobile consumption implies there will be an increasing demand for road traffic which will enable the Group to have a steady growth in business;
- The smooth opening to traffic of Southwest Road leading to Beihai Harbour, Guangxi Province with a total length of 1,709km makes the competitive edge of the core asset of the Company, namely Chengyu Expressway as a major traffic artery in Sichuan province more prominent. Southwest Road is a part forming "two verticals, two horizontals and three lanes" of national trunk highways linking Sichuan, Guizhou and Guangxi. Chengyu Expressway is the starting of Southwest Road in Sichuan. This competitive edge of geographical location undoubtedly increases the social value as well as the economic value of Chengyu Expressway;

Prospects and Outlook *(continued)*

Opportunities and Challenges *(continued)*

- Although Chengyu Expressway made a historical high record in terms of toll income for 2001, the Company has to be well prepared for and cope with a number of problems and challenges before it can maintain the relatively rapid growth in the operating results of Chengyu Expressway. For instance, since Chengyu Expressway has been in operation for a long term, the design standard as such is comparatively lower, which leaves a heavy workload on road repair and maintenance in recent years and causes an increase in operating costs. In addition, competition from the parallel road and the speed acceleration of Chengyu Railway exerted pressure on the operation of Chengyu Expressway.

Corporate Strategies

Confronted with new circumstances in 2002, the Company will lever on the macroeconomic environment, grasp the unprecedented opportunity of the grand development of the western region to focus on developing Sichuan's traffic. The Company will adhere to its strategy of sticking to market orientation with capital operation and be based on the management and operation of its core asset so as to fully utilize the flagship function of the Company in Sichuan's traffic industry and maximize the interests of shareholders.

Accordingly, the Company will Focus on the Following Work:

- To further improve the legal person management structure of the Company and set up a highly-efficient operation mechanism in accordance with the requirements of the Company Law and modern enterprise systems, and actively engage in renovation of corporate system and improve its internal management system as well as to refine its job competitive system and the system of reward which compensensurate with performance;
- To continue to enhance the operation and management of the Company's core asset - Chengyu Expressway in an effort to ensure the steady growth in the toll income from Chengyu Expressway.
 - (1) To strengthen the management of toll collection business units and toll collection staff, focus on upgrading the quality of toll collection service, and attract as many vehicles as possible to use Chengyu Expressway;
 - (2) To duly increase the budget for the repairs and maintenance of Chengyu Expressway in accordance with actual needs in order to guarantee road engineering technology standard and safety, comfort and smooth traffic flow;
 - (3) To focus on the relocation of Chengdu toll collection station, take necessary measures to minimize the impact of the relocation on traffic flow, and try the Company's best to retain vehicle users;
- To strengthen the management of the subsidiaries of the Company according to laws and gradually improve their profitability. To encourage the subsidiaries of the Company to improve their legal person management structures, strengthen the control and supervision of their operations and management, and in particular, to strengthen the control of their financial operations, and to set up a channel for the smooth and frequent communications between the parent company and its subsidiaries.

Prospects and Outlook *(continued)*

Discussion and Analysis of the Management *(Cont'd)*

Accordingly, the Company will Focus on the Following Work: *(continued)*

- To actively and safely strengthen the Company's operation of its capital, improve the asset structure of the Company, expand the Company's asset scale, improve the Company's overall profitability and foster the healthy and speedy development of the Company.
- To fully make use of the functions of its subsidiaries, explore the potential of existing resources and enhance the values of its core business, to continue to develop multiple operations, select projects carefully and create new foundation of profit growth.
- 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 business nature, scale, prospects and the management of the Company and to increase its transparency and fame.



Tan Shi Qiao

Vice Chairman and General Manager

Chengdu, Sichuan, the PRC
21 March 2002