

MANAGEMENT DISCUSSION & ANALYSIS –

PROJECT REVIEW



Guangdong  
Anhui  
Guangxi  
Shanxi  
Jiangsu  
Hunan  
Henan  
Hebei



## Guangdong Province

With the rapid development of Pearl River Delta in recent years and its proximity to Hong Kong, Guangdong Province continued to play a leading role in China's economic development. In 2002, Guangdong realized a GDP of RMB1,167 billion (10.8% growth), ranking no. 1 in the country. Logistic industry achieved an outstanding performance. Shenzhen port had a throughput of 7.62 million TEUs, making it the sixth biggest hub port in the world. Automobile industry in 2002 made a sales turnover of RMB646.5 billion, an increase of 30.8%. The rapid growth of car owners demanded a more efficient highway transportation system.

The Group's investment in Guangdong Province:

Project Name	AADT	% growth	Annual Toll Revenue (RMB'M)	% growth
1. Jihe Expressway	29,208	+4.2%	156.99	+2.3%
2. Guangsan Expressway	31,043	+10.2%	174.93	+23.2%
3. Luochong Highway	11,154	+8.4%	35.40	+13.1%
4. Qijiang Highway	15,845	+21.3%	41.77	+23.6%

Jihe Expressway is the only eastbound and westbound expressway in Shenzhen city. The opening of Shuijingcun-Guanjingtou Expressway in early 2002 diverted away some local traffic. However, Jihe Expressway still recorded a moderate growth in traffic volume and toll revenue. The sustainable and rapid development of Shenzhen city is expected to enhance the growth of this project.

With the economic growth of the region, traffic volume and toll revenue of Guangsan Expressway attained a steady growth. The classification of toll vehicles was adjusted in September, increasing the toll revenue. At the end of 2002, the State Council approved the modification plan of Foshan city to include regions like Nanhai, Shunde and Sanshui in its administrative areas. This would further strengthen Foshan's economic development and the performance of Guangsan Expressway.

Luochong Highway recorded a better growth in traffic volume and toll revenue, reaping benefits from the completion of the reconstruction of Guangxi section of National Highway 324 and the opening of Guangzhou-Zhaoqing Expressway. Linked with the future Nanning-Yulin Expressway and Zhaoqing-Yunfu Expressway, Luochong Highway is expected to experience a further growth in traffic.



Traffic volume and toll revenue of Qijiang Highway grew substantially in 2002 as a result of the booming economy and growing foreign trade and exports in Zhongshan city. Meanwhile, the maintenance closure of National Highway 105 caused some road users from other provinces to switch to Qijiang Highway, leading to a new high in the project revenue.

### Guangxi Zhuang Autonomous Region

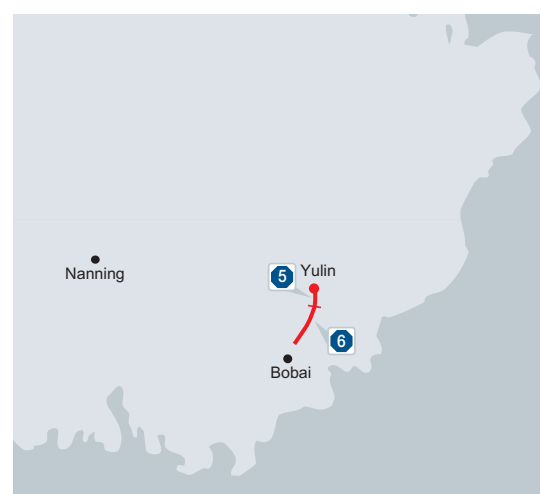
China is launching the strategic development for the Western Region. Being the harbour gateway in the southwest, Guangxi Zhuang Autonomous Region recorded a strong growth in every main economic indicator in 2002. The province realized a GDP of RMB243.7 billion, with a growth rate of 10.3%. Imports-exports turnover grew 35.2% while the volume of throughput of ports rose by 20.7%. As a coastal province in the inland, the Region put great effort on traffic infrastructure development which is especially important to the growth of the overall economy. In the past five years, Guangxi invested over RMB25 billion in selected traffic projects, initializing an integrated traffic system. It is a network of land and sea routes within and outside the region. This system will energize directly the economic growth of Guangxi. At the end of 2002, total highway mileage had exceeded 54,000 km, of which over 800 km was of the expressway.

The Group's investment in Guangxi Zhuang Autonomous Region:

Project Name	AADT	% growth	Annual Toll Revenue (RMB'M)	% growth
5. Yulin City Ring Roads	4,377	-0.3%	13.49	+2.2%
6. Yugong Highway	7,536	+9.7%	13.55	+16.3%

Yulin projects recorded a stable growth in both traffic volume and toll revenue. The opening of Bobai Section of Yulin-Baisha Highway contributed a significant growth on usage and revenue to Yugong Highway last year. The Liujiang-Shanxin section of Nanning-Yulin Expressway, which will be linked to Yulin City Ring Roads, is expected to be opened in the second half of the year 2003. Improvement works along the way will draw more vehicles using the roads.

## GUANGXI





## Jiangsu Province

Creating an ideal investment place has long been the goal for Jiangsu Province. Its excellent development has attracted a total of 153 Fortune 500 companies to invest there. With the favourable environment of China's entry to WTO and the fast growth in the Yangtze River Delta region, Jiangsu Province continued to grow with an open economy policy. In 2002, GDP reached RMB1,064 billion (an increase of 11.6%), continuing to make the second in the country. Imports-exports turnover reached a new height of US\$70 billion which was a growth of 36.9%. The magnitude of growth ranked No. 1 among the major export provinces and municipalities. The actual utilization amount of foreign investments was US\$10.83 billion, representing an increase of 76.3%. Improving infrastructure further enhanced the investment climate. As at 2002, there was a total of 60,141 km of highway of which 1,702 km was expressway including 315 km newly built.

The Group's investment in Jiangsu Province:

	Project Name	AADT	% growth	Annual Toll Revenue (RMB'M)	% growth
7.	Airport Highway	7,674	-33.7%	43.86	+9.8%
8.	Changcao Highway	5,197	+8.6%	22.26	+10.9%

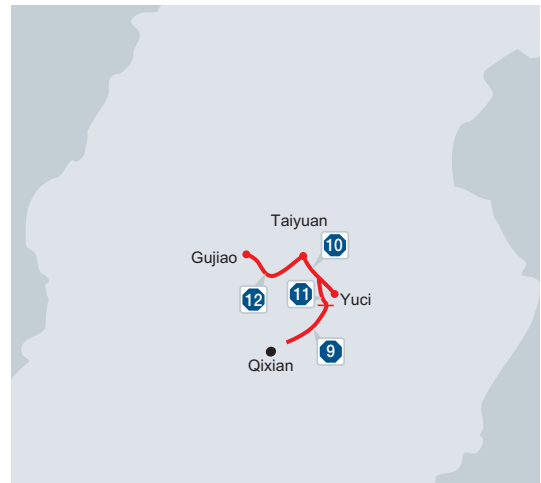
With the relocation of Qiandeng toll station of Airport Highway in end of 2001 and the modification of the toll collection method, the Annual Toll Revenue improved satisfactorily in 2002. The adoption of the one-way toll collection at Qiandeng toll station brought a 10% rise of the project's toll revenue despite the drastic reduction of toll traffic volume. To avoid bypassing the toll station, the Jinjihu toll station of Airport Highway was relocated in January 2003, bringing in a remarkable rise of the toll revenue.

With the fast growth pace of Jiangsu Province and Changzhou City, the traffic volume and toll revenue achieved a satisfactory growth in 2002. Dampened by the problem of bypassing access of toll stations, the joint venture will continue to lower the impact by striving for higher toll revenue through measures of toll rate increment and toll station relocation.



## Shanxi Province

Shanxi Province has implemented various economic reforms to energize the economic development. Such measures brought brilliant results and raised the living standards substantially. GDP in 2002 was RMB200.2 billion, a growth of 10.8% and ranking the 8th in the country. This was a record breaking growth since 9 years ago. Core industries like coal-mining and tourism performed well. The volume of production and export of coal soared significantly in 2002. The income generated from the tourism reached RMB11.8 billion, an increase of 18%. As at 2002, a total of 59,611 km of highway was built in the province, with 1,070 km of expressway. The increase of highway raised the level of infrastructure development, speeding up the economic growth further.



The Group's investment in Shanxi Province:

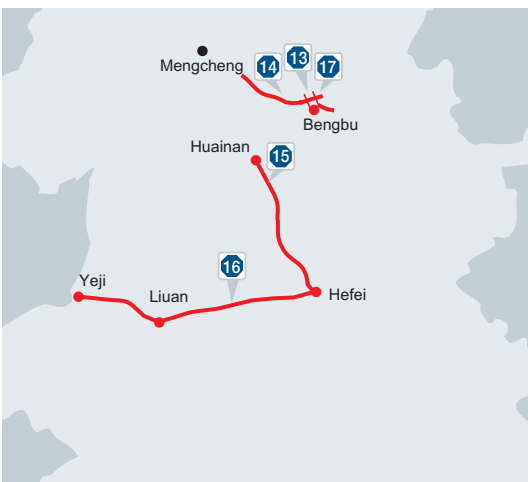
Project Name	AADT	% growth	Annual Toll Revenue (RMB'M)	% growth
9. Dongguan Highway	4,995	+5.0%	14.13	+32.8%
10. Taiyu Highway	16,478	+11.8%	30.74	+43.7%
11. Yuci City Bypass	4,380	+9.8%	13.32	+44.3%
12. Taigu Highway	7,928	+8.6%	19.60	+45.0%

A toll rate adjustment with an average increase of 30%-50% was made in August 2002 and the annual toll revenue bounced upward. However, this toll rate adjustment caused part of the traffic to shift to other more economical routes.

As the "Southern Gate" of Taiyuan City, Taiyu Highway benefited directly from the economic growth of Shanxi province and the substantial increase of traffic volume. However, the Group anticipated a negative impact before 2004 because of the completion of Outer Ring Expressway in Taiyuan City.

The recovery of the coal-mining industry brought a significant growth in traffic volume to Taigu Highway, Dongguan Highway and Yuci City Bypass. Nevertheless, the completion of Taiyuan-Qixian Expressway in December 2002 will cause a traffic diversion from Dongguan Highway and Yuci City Bypass. The Group will monitor closely the actual impact from the expressway.

The Group still owned the Xiaodian Fenhe Bridge project during the year. In end 2002, the Group has reached an agreement with our Shanxi joint venture partner to dispose the project's entire interests owned by the Group. The proceedings are expected to be completed in the first-half of 2003.



## Anhui Province

Anhui Province further refined its economic structure and the quality of industries this year. Emphasis was put on attracting investments and improving the environment for foreign trade and exports. The total value of imports and exports reached US\$4.18 billion, with a steady growth of 15.7% compared to the figure from last year. The GDP in 2002 was RMB356.9 billion, a 8.9% rise from last year. Turnover of freight traffic grew by 14.3%; road transportation and road passengers traffic turnover increased 18.6% and 14.8% respectively. This reflected a healthy economic development. As at 2002, the total length of highway amounted to 67,547 km including 866 km expressways of which 269 km was newly added during the year.

The Group's investment in Anhui Province:

Project Name	AADT	% growth	Annual Toll Revenue (RMB 'M)	% growth
13. Bengbu Huaihe Bridge Highway	12,353	+5.1%	43.25	-14.0%
14. Bengbu Huaimeng Highway	7,961	+0.3%	31.19	+31.6%
15. Hehuai Highway	17,882	+10.0%	78.81	+7.4%
16. Heye Highway	25,104	+20.3%	146.10	+17.6%
17. Chaoyanglu Huaihe Bridge	3,909	-	0.49	-

The opening of Hefei-Xuzhou Expressway Southern Section during the year changed the traffic mix of Bengbu and the surrounding areas significantly.

As Bengbu Huaihe Bridge Highway is located at the downtown of Bengbu City and more suitable for passenger vehicles, certain large trucks shifted to Hexu Expressway. Toll rates for trucks are higher than that of passenger vehicles, causing a rise in traffic volume but a drop in revenue. Nevertheless, the performance of Bengbu Huaihe Bridge Highway is better than the Group forecast. The northern section of Hexu Expressway will be completed in end 2003 and is expected to affect the traffic of this project further. The factor was anticipated when the Group invested.

At the entrance of Hexu Expressway southern section, Bengbu Huaimeng Highway became the main route for trucks. The growing percentage of trucks in the traffic mix increased toll revenue. The Group expected this favourable situation would be minimized after the link up of the southern and northern sections of Hexu Expressway in end 2003.



With a relatively even distribution of long haul vehicles and local vehicles using Heye Highway and Hehuai Highway, both projects resulted in similar growth in traffic and toll revenue. Heye Highway also greatly benefited from government's measures on regulating the forms of truck transportation and the lack of direct competing roads.

Chaoyanglu Huaihe Bridge was opened to traffic and commenced toll collection in early December of year 2002. Operation has been smooth.

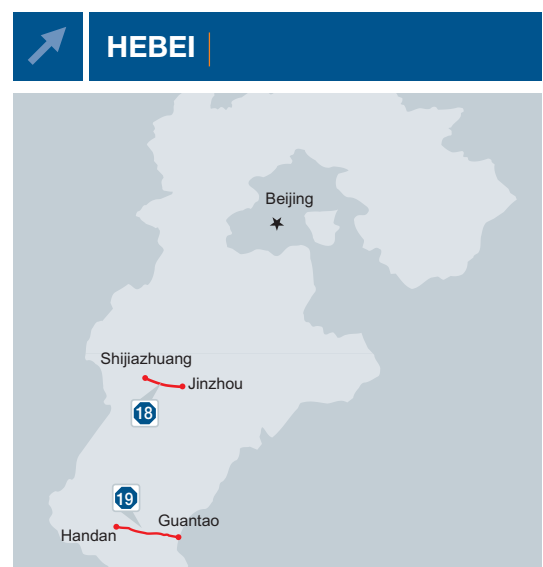
## Hebei Province

Surrounding Beijing and Tianjin, Hebei Province always has a leading position in economic development in the country. In 2002, GDP was RMB607.6 billion, an increase of 9.6%. Tourism, exports and transportation industries made an excellent performance. Tourism industry realized a total revenue of RMB27.9 billion, a growth of 13.1% from the 2001 figures. Imports-exports turnover was US\$6.667 billion, ranking the 10th in China. To serve the rapid development of various industries and the society, Hebei province continued to invest in highway industry. By 2002, total expressway mileage of Hebei Province reached 1,591 km. Rural road mileage is also increasing at a rate of 1,000 km per year, which improves the highway transportation environment in the province substantially.

The Group's investment in Hebei Province:

Project Name	AADT	% growth	Annual Toll Revenue (RMB'M)	% growth
18. Shijin Highway	12,363	-4.6%	41.30	+4.8%
19. Hanguan Highway	10,561	+20.2%	71.09	+30.7%

With management of bypassing traffic and toll evasion, together with the high growth of transportation industry in the region, Shijin Highway recorded a moderate growth last year in spite of the traffic diversion to Shijiazhuang-Huanghua Port Expressway.





Hanguan Highway is located at Handan city, the intersection between Hebei, Henan, Shandong and Shanxi Provinces. It saw a rapid growth in the number of passengers and freight traffic last year. Trip turnover of goods vehicles noticeably increased as the country prohibited vehicles from being overloaded. The total recovery of the coal mining industry contributed to the increase of toll revenue of Hanguan Highway which is the major gateway for transporting coal from Shanxi Province to the east. This project also experienced a temporal growth of usage as the neighboring Handan-Daming Highway was under maintenance.

**HENAN** 



**Henan Province**

Henan Province has been an agricultural province. In recent years, the Province has focused on strengthening the foundation of agricultural industry and modifying the industrial structure, aiming for industrial modernization. In the past five years, the average income per capita of the agricultural workers in the province grew by 30%. The share of industry in GDP exceeded 40%. With various economic measures in Henan, GDP reached RMB600 billion in 2002, making a growth of 9.5% and ranking the 5th in China. Henan has always placed greater emphasis on developing transportation in order to maximize the value of its central location in the plain. Over 1,000 km of expressways were under construction during 2002, with 154 km newly increased. The total expressway grew to 1,231 km and total mileage to 71,750 km, ranking among the highest in the country.

The Group's investment in Henan Province:

Project Name	AADT	% growth	Annual Toll Revenue (RMB'M)	% growth
20. Xunan Highway	20,760	+6.4%	147.24	+10.6%

Average daily traffic and toll revenue of Xunan Highway continued to grow significantly this year. Pingdingshan City, where the Highway is located, will emphasize the development of industries like coal mining, electricity, chemical and tourism in the coming years. With this local economic development, the Group forecasted that income from the Highway will grow steadily. Construction of the parallel Xunan Expressway started and it will be completed in 2005. Anticipation of traffic diversion to Xunan Expressway was included when the Group made this investment.





**HUNAN**

**Hunan Province**

Hunan Province economy continued to grow fast, realizing a GDP of RMB434.1 billion which made a 9% increase. Utilization of foreign capital reached US\$1.38 billion, representing a growth of 16% compared with that of last year. Rapid development of various sectors greatly stimulated the demand for highway transportation. Turnover of freight traffic by highway exceeded 30 billion ton km. Total highway mileage exceeded 60,000 km, in which expressway mileage achieved a breakthrough of 1,000 km, taking Hunan into the first 10 ranks in the nation. Hunan Provincial Government planned to have a fixed assets investment reaching up to RMB13 billion in 2003. The target of linking Changsha, the provincial capital, to 13 cities and autonomous prefectures by expressways is planned to be achieved in 2010.



The Group's investment in Hunan Province:

Project Name	AADT	% growth	Annual Toll Revenue (RMB'M)	% growth
21. Changyi Expressway	30,058	+26.4%	136.96	+15.3%
in Expressway	8,776	+20.0%	99.04	+12.6%
which Changyi old road	21,282	+29.2%	37.92	+23.1%

Changyi Expressway consists of Changsha to Yiyang Expressway and the Changsha to Yiyang section of the National Highway 319 ("Changyi old road"). Of the total toll revenue, Changyi Expressway contributed 72%.

With economic development, the growth performance of traffic and toll revenue of Changyi Expressway was promising. In April 2002, two toll stations of Changyi old road were allowed to raise toll rates for about 40%. This caused some vehicles to switch to use the expressway, further raising the volume and revenue of the expressway.

Being a participating province involved in the development strategy for the Western Region, Hunan Province planned to construct a number of expressways. Some projects like Changde-Zhangjiajie Expressway and Changde-Jishou Expressway will link up with the Group's project and start to operate within the next three to five years, maximizing the growth potential of Changyi Expressway.