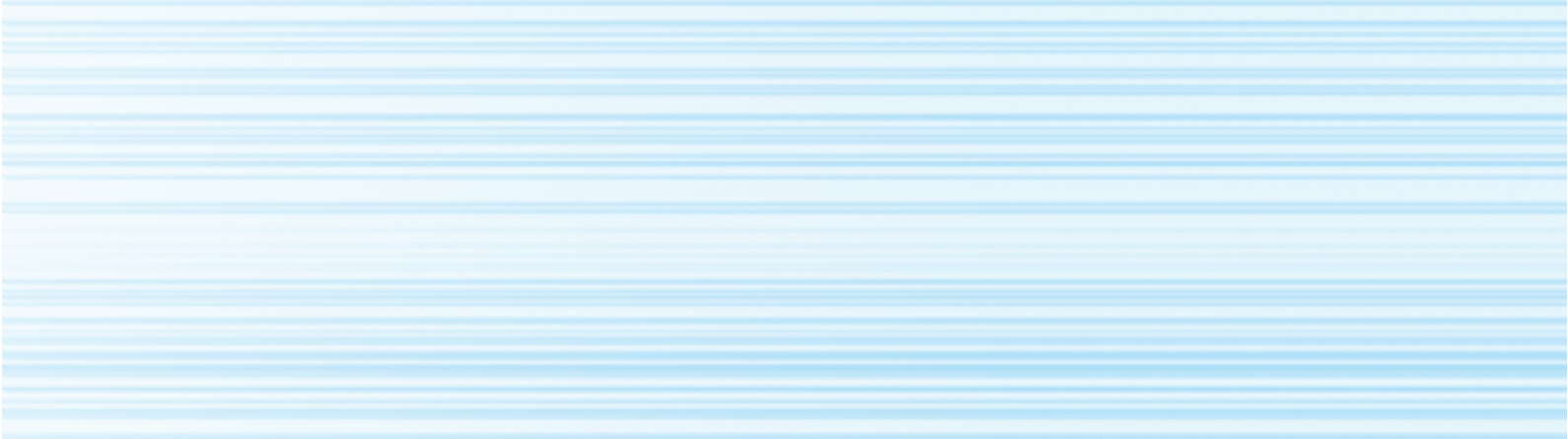


# Management Discussion and Analysis



## Benefitting from a Robust Leveraging

“All in all, the rapid economic development both at the national and the Jiangsu provincial levels, coupled with growth in the number of vehicles and expressway mileage, has provided a predominantly favourable environment for the Group’s operations, adding increasing strengths to the Company’s projects.”



# Economy Our Advantages



# Management Discussion and Analysis



**Mr. Chen Xianghui**  
General General

## (1) Operating Environment

Year 2002 was the first year since China's WTO accession. It is also a crucial year for reinforcing and building on the positive start of the 10th Five Year Plan. China continued to implement the policy of expanding domestic demand. Industrial restructuring of various sectors was well underway and the pace of infrastructure construction was accelerated. Ongoing efforts were made in all areas towards the fulfillment of the goal of creating a moderately affluent society, procuring fast economic growth and social progress. Vigorous economic performance continued with an impressive GDP growth rate of 7.9%.

The strength of economic growth was particularly outstanding in the eastern coastal region of China. Foreign capital and companies had been swiftly drawn to the Yangtze River Delta Region since China's WTO accession, resulting in the soaring growth of an open economy not seen in previous years. As one of the most active provinces in China's eastern coastal region, Jiangsu Province

ranked second in the country in terms of GDP, which registered a strong growth rate of 10.3% in 2002.

The year under review was also a significant year in terms of the rapid transformation of Jiangsu Province's transport network. The province topped the nation with a total investment of RMB22.358 billion in transport infrastructure. No less than 316 miles of expressways were built during the year, and the total expressway mileage in the province open to traffic exceeded 1,700 km, taking Jiangsu to third ranking in terms of expressway mileage and first among all administrative provinces and regions in terms of expressway density. A provincial expressway network that covers all major locations and stretches through every direction has been put in place.

Meanwhile, robust economic development resulted, among other things, in further growth in automobile sales. Sales of private vehicles increased in an unprecedented scale. The province registered a 50% growth in private car ownership in 2002 according to reports, creating favourable conditions for growth in traffic flow and toll revenues for the expressways and highways operated by the Company.

All in all, the rapid economic development both at the national and the Jiangsu provincial levels, coupled with growth in the number of vehicles and expressway mileage, has provided a predominantly favourable environment for the Group's operations, adding increasing strengths to the Company's projects.

## (2) Operational Advantages

The Company is a professional entity engaged in the construction, operation and management of infrastructure assets. Ongoing rapid growth of the Company's operating results since it started operation in 1996 is a strong indication of the enormous advantages that it enjoys.

**Geographic advantage** — Yangtze River Delta Region in which the Group operates is economically the most prosperous region in China. Shanghai-Nanjing Expressway connects six medium or large cities, namely Shanghai, Suzhou, Wuxi, Changzhou, Zhenjiang and Nanjing. Underpinned by rich natural produces, solid foundations in manufacturing industries and heavy transportation, this region plays a special and important role in the national economy, boasting an annual GDP growth rate three percentage points above the national average.

**Industry advantage** — Highway operations are one of the key industries supported by the State. Revenues are relatively stable from highways, which are important infrastructural facilities conducive for economic development. The State has designated the transport infrastructure industry as a key industry in the coming years, which means that further financial and policy concessions will be available.

**Project advantage** — Road and bridge assets owned by the Group effectively form the major corridor and land access running through all parts of Jiangsu Province. It claims a special position in the national trunkway network, and its continuously growing traffic flow has ensured steady growth in investment return for the Company. Meanwhile, Jiangsu Province is also mulling major developments in transport facilities spearheaded by the construction of expressway networks, with an aim of having a total mileage of 3,500 km of expressways open to traffic by 2010. Project-wise, therefore, the Company is also facing highly positive prospects.

**Operational advantage** — Expressways in the region are well connected while road and bridges owned by the Company are already operating in large scale. This enables more effective use of resources to gradually achieve economies of scale.

**Human resources advantage** — The Company has been supported by a team of high-caliber experts in project construction in its highway projects, and during the course of its asset expansion and market-oriented, more operating and professional talents have been recruited. The diversity in our human resources structure serves as a driving force to upgrade the overall management standards of the Company.

**Brand name advantage** — The Company adheres to the management principles of lawful operation of road assets, corporate governance through moral cultivation, business building through a good reputation and the emphasis on brand name. We seek to build the Nanjing-Shanghai Expressway brandname by promoting corporate culture, improving corporate governance, standardizing operations and maintaining sound operating results.

# Management Discussion and Analysis

## (3) Analysis of Business Operations

### 1. Overview

During the year under review, the Group continued to seek positive expansion of its asset base through proactive participation and opportune investment, fully leveraging on its internal strengths as well as capitalising on the overwhelmingly positive macro-economic environment. Attempts were made to explore new business frontiers while reinforcing existing core operations, underpinning our incessant quest for profit growth. Marked efforts were also dedicated to the pursuit of rationalised and effective management and standardized operations, with a view to achieving stable and healthy corporate development.

The Group realised gross revenues of RMB2,395,199,000 in 2002, representing year-on-year growth of 24.76%.

The structure of the Group's revenues is analyzed as follows:

Items	Revenues in 2002 (RMB'000)	As percentage of gross revenues (%)	Year-on-year change (%)
Toll revenue of Shanghai-Nanjing Expressway	1,431,371	59.76	24.23
Toll revenue of Nanjing-Shanghai Class 2 Highway	249,898	10.43	11.09
Toll revenue of the Nanjing Section of Nanjing-Lianyungang Highway	52,874	2.21	4.88
Toll revenue of Guangjing Expressway	124,693	5.21	44.76
Toll revenue of Xicheng Expressway	167,402	6.99	49.04
Revenue from other operations	368,961	15.40	25.59
Total	2,395,199	100	24.76

## 2. Toll Road Operations

Toll road operations, the Group's core business, continued to perform well in 2002. All of our toll roads and bridges registered significant growth in traffic flow, resulting in gross toll revenues of RMB2,026,238,000, accounting for 84.60% of the Group's gross revenues and a year-on-year growth of 24.62%.

During the reporting period, the Company implemented the toll upgrade project for the southern network. Toll collection was further standardized and procedures were effectively enhanced.

### Details of major road and bridge projects

Project	Mileage (km)	Number of lanes	Number of toll stations	Number of service areas	Year starting operation	Remaining term
Shanghai-Nanjing Expressway	258.46	4	19	6	1997.6	25
Acquisition of operating rights for Nanjing-Shanghai Class 2 Highway	271.1	2-4	6	0	1997.6	10
Acquisition of operating rights for Nanjing Section of Nanjing-Lianyungang Highway	29.8	4	1	0	1999.1	27
Guangjing Expressway	17.2	6	1	0	1999.9	27
Xicheng Expressway	35	6	4	1	1999.9	27
Jiangyin Yangtze Bridge	3.07	6	1	0	1999.9	27
Southern Section of Sujiahang Expressway	54.4	4	6 (already open to traffic)	1	2002.12	30

### Comparative figures for daily average traffic volume (vehicles/day)

	2002	2001	2000	1999	1998	1997
Shanghai-Nanjing Expressway	25,356	21,013	18,087	16,235	13,964	12,121
Nanjing-Shanghai Class 2 Highway	41,442	42,434	42,357	42,909	45,174	47,517
Nanjing Section of Nanjing-Lianyungang Highway	9,986	9,450	10,644	10,243	—	—
Guangjing Expressway	19,481	13,361	8,977	7,471	—	—
Xicheng Expressway	17,205	11,889	8,963	8,165	—	—
Jiangyin Yangtze Bridge	20,836	15,555	14,162	—	—	—
Southern Section of Sujiahang Expressway	12,569	—	—	—	—	—

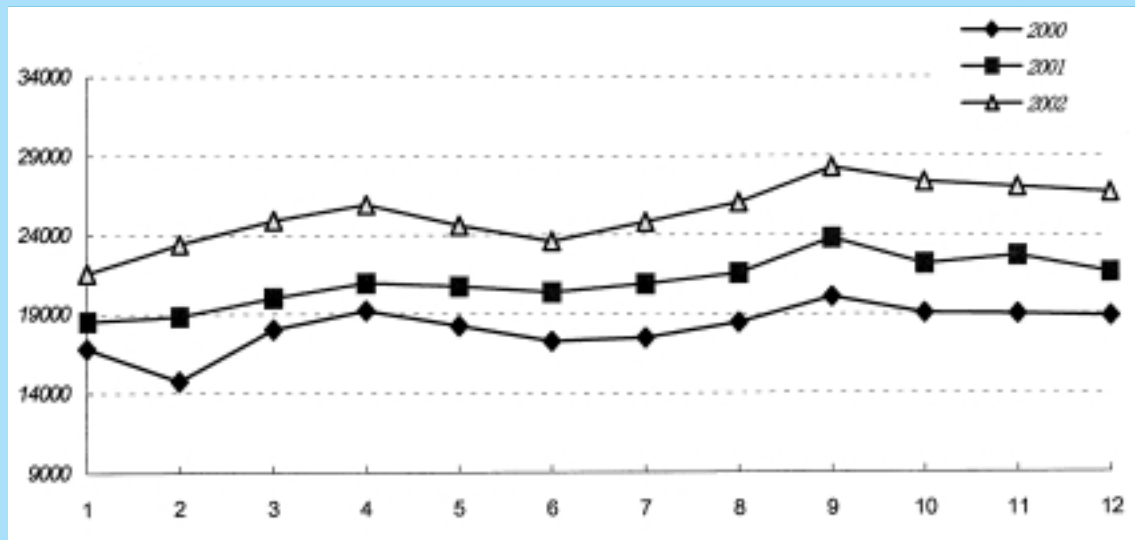
# Management Discussion and Analysis

**Comparative figures for daily average toll revenue (RMB'000/day)**

	2002	2001	2000	1999	1998	1997
Shanghai-Nanjing Expressway	3,921.6	3,156.6	2,640.0	2,390.0	2,049.5	1,570.0
Nanjing-Shanghai Class 2 Highway	684.7	616.3	620.9	647.0	726.0	712.5
Nanjing Section of Nanjing-Lianyungang Highway	144.9	138.1	147.2	143.5	—	—
Guangjing Expressway	341.6	236.0	153.9	128.0	—	—
Xicheng Expressway	458.6	307.7	212.9	186.0	—	—
Jiangyin Yangtze Bridge	1,016.1	700.4	460.8	—	—	—
Southern Section of Sujiahang Expressway	579.1	—	—	—	—	—

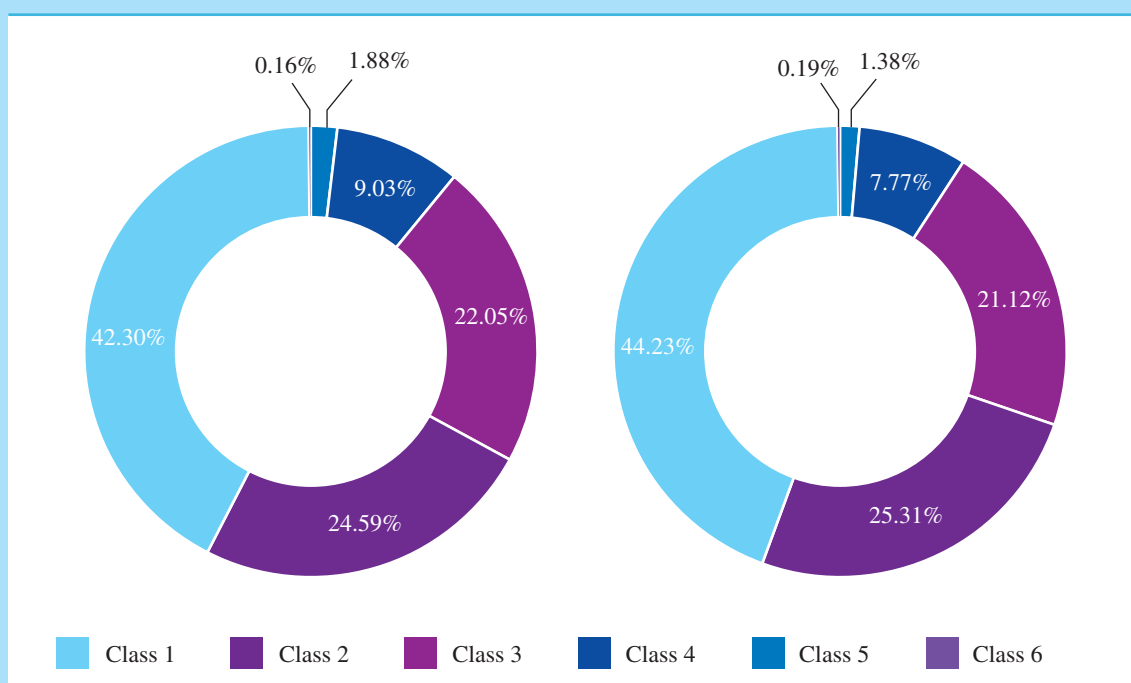
## Shanghai-Nanjing Expressway

During the reporting period, the daily average full-trip traffic volume for Shanghai-Nanjing Expressway was 25,356 vehicles. There is an increase in 20.67% in comparison to the corresponding period in the previous year. This marks the first growth rate above 20%. The tendency of the growth in the traffic volume was satisfactory. The volume of the cross-sectional traffic flow from the east of the Wuxi hub to Anting, Shanghai was 35,234 vehicles. There is an increase in 25.90% in comparison to the corresponding period in the previous year.



Average daily toll revenues for Shanghai-Nanjing Expressway during the period amounted to RMB3,921,600. There is an increase in approximately 24.23% in comparison to the corresponding period in the previous year. The proportion of the large vehicles (Classes 3 to 6) increased by 2.65 percentage points in comparison to the corresponding period in the previous year.

**The average composition of different classes of vehicles using Shanghai-Nanjing Expressway**  
2002 2001



#### Nanjing-Shanghai Class 2 Highway

Following the approval of the toll station re-alignment plan for Nanjing-Shanghai Class 2 Highway by the Jiangsu Provincial Government, the Baiyang Toll Station was relocated to the border of Shanghai on 28th December 2001 and renamed as Gunan Toll Station. Re-alignment of other toll stations is underway and is expected to be completed by the end of 2003.

During the reporting period, an average of 41,442 tolled vehicles passed through the toll station of Nanjing-Shanghai Class 2 Highway each day, a decrease in 2.34% in comparison to the corresponding period in the previous year. (Gunan Station collects tolls at one end of the highway only. It collects tolls at the entry to Jiangsu and does not collect any toll at the exit). Average daily toll revenues increased by 11.10% to approximately RMB684,700.