

Management Discussion and Analysis

Nanjing Section of Nanjing-Lianyungang Highway

During the reporting period, an average of 9,986 tolled vehicles passed through the Nanjing Section of Nanjing-Lianyungang Highway each day, an increase in 5.67% in comparison to the corresponding period in the previous year. Average daily toll revenues was approximately RMB144,900. There is an increase in 4.92% in comparison to the corresponding period in the previous year. No negative impact was seen from the overhang of the road surface. The toll revenues were higher than expected.

Guangjing Expressway and Xicheng Expressway

During the reporting period, Guangjing Expressway and Xicheng Expressway maintained the rapid growth trends that had been seen since the Nanjing-Shanghai Expressway became fully open to traffic, registering average daily full-trip traffic volumes of 19,481 vehicles and 17,205 vehicle respectively. The figures increased by 45.80% (in the case of Guangjing Expressway) and 44.71% in the case of Xicheng Expressway) in comparison to the corresponding period in the previous year. Average daily toll revenues amounted to RMB341,600 (in the case of Guangjing Expressway) and RMB458,600 (in the case of Xicheng Expressway), representing a growth of 44.75% and 49.04% in comparison to the corresponding period in the previous year.

Jiangyin Yangtze Bridge

An average of 20,836 tolled vehicles passed through Jiangyin Yangtze Bridge every day during the reporting period and average daily toll revenues amounted to RMB1,016,100 million, representing growth of 33.95% and 45.07% in comparison to the corresponding period in the previous year.

Sujiahang Expressway

The 54.4 km southern section (Suzhou to Wujiang) of Sujiahang Expressway, acquired during the reporting period, was opened to traffic on 8th December 2002. Since then, the growth of traffic flow has beaten expectations. Average daily full-trip traffic volume was 12,569 vehicles and average daily toll revenues amounted to RMB579,100, showing strong potential for future growth.

The northern section (Changshu to Suzhou) is scheduled to be opened to traffic in July 2004. Satisfactory conditions have been reported in terms of investment, work progress and quality control.

Road Maintenance

Rapid growth of traffic flow, increasing overloaded and over-speed vehicles and aging of the roads have resulted in damage of the road surface of expressways. In view of the situation, the Company has devoted more human and financial resources to road maintenance and has remedied hazards on the road surface in a timely manner to ensure that the expressways are providing a safe passage.



New technologies, processes and materials have been introduced to enhance maintenance quality. Slurry paving technology has been applied in the maintenance of all sections and new materials for road surface repairs, such as TL2000 and ERA-C, etc, have been used to enhance preventive maintenance. Conditions of the road surface have been significantly improved as a result.

The Company has also developed an intelligent detective vehicle for inspecting road conditions, with major technical features matching international standards and being the country's first.

3. Non-core Businesses

The Company actively develops non-core businesses along its expressways. Such businesses, including advertising, petroleum stations and food catering, have been adequately expanded and have provided good services to expressway travellers as well as good profits to the Company. These businesses have added a unique character to Shanghai-Nanjing Expressway. Meanwhile, the Company has optimised the use of its resources along its expressways. During the reporting period, the leasing of telecommunications cabling resulted in an additional revenue of RMB14,706,000 during the reporting period.

Revenues from non-core businesses totalled RMB368,961,000 in 2002, representing growth of 25.59% in comparison to the corresponding period of the previous year.

Management Discussion and Analysis

4. Subsidiaries and associated companies

As at 31st December 2002, subsidiaries and associated Companies owned by the Group are as follows:

Names of subsidiaries and associated companies (status of legal entity)	Attributable equity interest	Registered capital	Assets scale	Net Profit	Principal activities
		RMB'000	RMB'000	RMB'000	
Jiangsu Ninghu Investment Development Co., Ltd. (limited company)	95%	100,000	100,003	2.8	Investments in infrastructure projects and various related industries
Jiangsu Guangjing Xicheng Expressway Co., Ltd. (limited company)	85%	850,000	2,578,871	134,148	Construction, operation, maintenance and toll collection of Xicheng Expressway and related business of storage, passenger and freight transport and vehicle maintenance
Nanjing Shuangshilou Hotel Co., Ltd. (limited company)	95.05%	1,010	10,434	-1,847	Production and sale of Chinese food
Jiangsu Kuailu Bus Transportation Co., Ltd (limited company)	33.2%	150,300	230,589	16,441	Road transportation, vehicle maintenance and sales of vehicles (excluding sedan cars) and spare parts
Jiangsu Yangtze Bridge Co., Ltd. (limited company)	26.66%	2,137,248	3,351,318	100,511	Mainly engaged in the construction, maintenance and operation of Jiangyin Yangtze Bridge and other traffic infrastructure
Suzhou Sujiahang Expressway Co., Ltd. (limited company)	33.33%	1,350,000	3,838,012	-3,046	Construction maintenance, management and toll collection of the Jiangsu Section of Sujiahang Expressway and related businesses along the route
China Transportation HEAD New Technology (Shanghai) Co., Ltd. (limited company)	35.71%	21,000	25,926	23	Development of engineering design, project management software, highway resource management and consultant services on intelligent traffic tools such as GIS and GPS applications

Note:

- (1) The Company and all its subsidiaries and associated companies are incorporated, and their main businesses are operated, in China.
- (2) At 31st December 2002, none of the subsidiaries or associated companies of the Company had any outstanding equity or debt securities in issue.

The Company's share of net profits from subsidiaries and associated companies in 2002 amounted to RMB139,776,000, accounting for 16.36% of the Group's profits attributable to shareholders and making significant contributions to the Group's profit growth.

(4) Corporate Management

Rationalised, comprehensive, standardized and efficient management is an important guarantee for the healthy development of an enterprise. Throughout 2002, the Management had been making major efforts to improve management standards at basic levels and to build a rationalised management system in tandem with modern corporate management requirements. Overall management capabilities have been enhanced to put the Company in a stronger competitive position.

Management structure — Based on the Company's overall strategic planning and taking into account of actual conditions, management organisation was restructured on the principles of simplicity, uniformity and efficiency. Duties of various departments were streamlined. The departments of investment development and operational management were enhanced, while departments carrying out general functions were trimmed. Management levels were reduced and management rules and regulations for individual functions were established or enhanced.

Information system — The requirement analysis and construction outline for the OA system of the integrated information system platform were completed and an IT network management system was built. Through the use of computer networks and applications, the collection, compilation and analysis of information and data were enhanced.

Certifications — The ISO9001 quality management program, the ISO14000 environment management programme and the OHSAS18001 safety and health programme were commenced concurrently to address the quality, safety and environment factors in highway management and to commit to providing to highway users standardised services that are fine, high quality, safe, smooth and environment-friendly.

Human resources — The Company has always sought to improve staff quality and to maximise initiatives, active involvement and creativity on the part of employees through pro-active human resources management. Education and training programmes were put in place to provide specific training. For production staff the training was mainly focused on the acquisition of new skills, while managers were given comprehensive training. Training for management at intermediary level or above was focused on strategic and forward thinking, with a view to improving the Company's overall management standards.

Remuneration — The Company has appointed a reputed international human resource consultant to conduct a study on the establishment of a promotion and remuneration system based on the Company's strategy and performance-driven management. A performance-linked remuneration system that relates annual remuneration to duties and risks was implemented for the management staff of the Company and its three quasi-legal entities. A remuneration system in which the interests of the managers are closely linked to the Company's profitability and risks has initially been put in place.

Service Mission — The Company has determined as its mission "People Come First; Vehicles Come First". Through regulated conduct and standardised services, we intend to build a prestigious brand name for our services and a positive social image for the Company.



Management Discussion and Analysis

(5) 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 maximising the interests of both the Company and the shareholders.

Financial position of the Group (under the PRC Accounting Standards)

Items	2002 (RMB'000)	2001 (RMB'000)	Change (%)
Total asset	15,081,793	14,914,400	1.12
Current liabilities	1,010,594	1,031,521	-2.03
Long-term liability	61,494	297,813	-79.35
Minority Interests	396,503	131,345	201.88
Shareholders' equity	13,613,202	13,453,721	1.19
Gross profit from operations	1,272,256	1,017,568	25.03
Net profit	816,833	780,864	4.61

Main reasons for the movement:

The long-term liability reduced and the minority interests increased because the board of directors of Guangjing Xicheng Expressway Co., Ltd. had resolved that the long-term liability be capitalised as capital reserve.

Capital expenditure and financial resources

In 2002, the Group has implemented capital expenditure of approximately RMB756,548,000, with details as follows:

Item	Unit: RMB'000
Investments in Sujiahang Expressway	489,400
Investments in HEAD Technology	7,500
Investments in Jiangsu Provincial Leasing Co., Ltd.	100,000
Establishment of the Investment Company	95,000
Investments in the operating fixed assets	64,648
Total	756,548

The above capital expenditure was funded by the Group's own internal sources.

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. According to the PRC accounting standards in 2002, the cash inflow from operating activities was RMB1,301,452,000, representing an increase of 19.45% in comparison to the corresponding period of the previous year. According to HK GAAP, working capital amounted to RMB552,945,000, representing a significant increase in comparison to the corresponding period of the previous year. Accordingly, the management considers that the Group has no liquidity problem.

According to HK GAAP as at 31st December 2002, the Group had a total of RMB828,678,000 in cash and cash equivalents, as well as bank borrowings of RMB188,316,000:

Items HK GAAP	As at 31st December, 2002 The Group (RMB'000)
Cash and cash equivalents	
Cash at hands	252
Bank deposits	719,359
Trading securities	109,067
Total:	828,678
Borrowings	
Short-term borrowings	120,000
Long-term borrowings, current portion	6,822
Long-term borrowings	61,494
Total:	188,316

Solvency position

At the end of 2002, the borrowings of the Company were as follows:

	RMB'000
1. Repayable within one year	126,822
2. Repayable after one year, within two years	6,822
3. Repayable after two years, within five years	20,466
4. Repayable after five years	34,206
Total:	188,316

Notes:

- The long-term bank loans were 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% per annum, the interest rate for the buyer's credit loan was 6.77% per annum.
- Short-term bank loans were calculated at fixed rate of 5.04% per annum.
- The management of the Company believes that the Company has sufficient cashflow for repayment of the bank loans to be due and payable.

Management Discussion and Analysis

Cash and bank deposits

The interest expenses for 2002 amounted to RMB10,727,000, interest income amounted to RMB13,135,000.

Risk on foreign currency loan

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 2002, the balance of the loan was US\$8,252,000, but the Group has currently a foreign exchange deposit of US\$5,279,161 which offset the foreign exchange risks.

Capital structure of the Group (HK GAAP)

The capital structure of the Group as at 31st December 2002 and the figures for 2001 for comparison are as follows:

Items	As at 31st December 2002		As at 31st December 2001	
	RMB'000	%	RMB'000	%
Shareholders' equity	12,728,261	93.8	12,503,534	93.8
Minority interests	396,503	2.9	378,845	2.8
Liabilities at fixed interest rates	188,316	1.4	265,016	2.0
Interest free liabilities	253,028	1.9	187,289	1.4
Total	13,566,108	100	13,334,684	100
Liabilities to total assets:	3.25%		3.39%	

Ageing analysis of prepayments and other accounts receivable

	The Group			
	As at 31st December 2002		As at 31st December 2001	
	Amount RMB'000	% Over the balance of the account	Amount RMB'000	% Over the balance of the account
Ageing of balance				
Within 1 year	71,146	100	47,680	84.22
1-2 years	—	—	7,455	13.17
2-3 years	—	—	1,480	2.61
Total	71,146	100	56,615	100.00

Accounts receivable of the Group arose from the road repair and maintenance fees receivable by Modern Road and Bridge Company from third parties and the payment receivable from Yixing Communications & Construction Company upon the liquidation of Yicao Company.

Ageing Analysis of construction fee payable

	The Group			
	As at 31st December 2002		As at 31st December 2001	
	Amount RMB'000	% Over the balance of the account	Amount RMB'000	% Over the balance of the account
Ageing of balance				
Within 1 year	58,741	100.00	45,661	67.11
1-2 years	—	—	364	0.53
2-3 years	—	—	16,214	23.83
over 3 years	—	—	5,802	8.53
Total	58,741	100.00	68,041	100.00

(6) Operational Issues and Problems and Corresponding Solutions

The abolition of tax concession had an inevitable impact on the Company's profit. Income tax expense of the Company in 2002 amounted to RMB400,501,000, equivalent to 272.48% of the actual income tax expenses in the previous year. The effect of the abolition of tax concession on the Company's profit was mitigated by steady growth in operating income thanks to efforts to increase revenues.

(7) Business Development Plans

In 2003, Jiangsu Province shall strive to maintain an annual growth rate of over 10%, achieving GDP value of RMB1,170 billion. Construction of transport infrastructure will be a priority and its development will be accelerated, with investments planned for the year amounting to RMB24.5 billion, an increase of RMB2.142 billion compared to 2002. RMB13.4 billion has been earmarked for expressway construction, which is expected to add mileage of more than 300 km, bringing the total expressway mileage in the province to above 2,000 km.

The nation's ongoing development towards a moderately affluent society shall provide a favourable external environment for the Company's operations. A string of construction projects in the pipeline shall provide a strong driving force to the Company's growth, while our existing financial and technological strengths shall render solid support for further improvements in the Company's operational management.

A project to widen Shanghai-Nanjing Expressway has been contemplated to meet growing traffic flow, for which a feasibility study report and construction plans are now closely reviewed. The Company expects to report concrete progress of this project within 2003.

Relocation of toll stations along Nanjing-Shanghai Class II Highway continues and efforts are being made for the re-aligned stations to start toll collection within the first half of 2003. We will strive to reduce hazards arising from the removal process to a minimum to ensure smooth relocation of the stations concerned.

Management enhancement represents a reinforcement task for the Company and an important foundation for the Company's long-term development. We will continue to designate 2003 as the "Management Year", during which we are set to achieve the management objectives of enhancing disciplines in business practices, improving service standards, introducing performance appraisal systems and promoting rationalised decision-making. A human resource management structure that emphasises both fairness to employees and competitiveness for the Company will be put in place to ensure results-driven performance.

Practical financial policies and capital-raising programmes will be formulated on the basis of the Company's operational requirements and investment plans. Opportunities to participate in relevant projects will be actively pursued to expand the Company's portfolio of toll road and bridges in Jiangsu Province.

Chen Xiang Hui
General Manager

Nanjing, China
20th March 2003