



**MANAGEMENT  
DISCUSSION &  
ANALYSIS**

## Hebei Province

Hebei facilitates its economic development with Beijing and Tianjin in its embrace. GDP in 2003 amounted to RMB709.5 billion, hitting a record growth rate of 11.6% since 1998. Industrial production has accelerated. Total value added of industry is RMB325.2 billion, proportion of products sold reaching 98.7%. Industrial restructuring has achieved extraordinary results; medicine, gold smelting, chemicals have contributed 45% of the industrial growth. Pig iron and steel has recorded 47.2% and 53.5% growth in production volume respectively. To match the need of development, the Hebei government actively pushed infrastructure development; highway mileage for the province in 2003 amounted to 65,391 km, while that of expressway hit 1,681 km. With the more convenient road system and the reduced market price of motor vehicles due to lower import tax, car ownership in the province is growing at a rate of 3,000 vehicles per month to 1.25 million. Toll road business is in its stage of rapid development.



The Group's investment in Hebei Province:

	Project Name	AADT	% growth	Annual Toll Revenue (RMB'M)	% growth
1.	Baojin Expressway	11,512	-	55.95*	-
2.	Shijin Highway	12,594	+1.9%	44.09	+6.8%
3.	Hanguan Highway	10,130	-4.1%	71.58	+0.7%

\* 3-month contribution from October to December, 2003

Baojin Expressway, with a total of 104.95 km in length and 7 toll stations, is the major link between Tianjin Municipality and Baoding. The group has invested RMB960 million in the project, acquiring 40% of the interests in the expressway, whose total investment amounted to RMB2.4 billion. Toll revenue of the project contributed to the group since October 2003, amounted to RMB55.95 million in 3 months' time. With the rapid development in Tianjin, generating more traffic between the neighbouring Hebei province, the project is anticipated to become a major source of income of the group in 2004.

Toll revenue of Shijin Highway has remained steady increase. The project management will maintain its tight toll collection management, and strengthen measures against bypassing traffic.

Hanguan Highway has been adversely affected by major repair and maintenance works carried out on the highway and the checking on overloaded trucks, together with the decline in coal trucks from Shanxi, where coal mines are forced to close down after several mine explosion incidents. Toll revenue has basically been maintained in 2003 as compared with 2002.



## Anhui Province

Adversely affected by SARS and floods, Anhui still managed to maintain a satisfactory growth in economy. GDP has reached RMB397.3 billion in 2003, a 9.2% rise, and fixed asset investments increased 30.4%. Internal consumption has climbed steadily, but its composition is undergoing rapid changes. Residential real estate, cars, home appliances and communication devices has become the focus of consumption, in which car retail sales have recorded a 130% increase, from which performance of toll roads has benefited. As at the end of 2003, turnover of freight transport on highways amounted to 31.8 billion ton-km in the province, whereas turnover of passenger transport on highways amounted to 39.7 billion passenger-km, rose by 6.3% and 6.9% respectively.

The Group's investment in Anhui Province:

Project Name	AADT	% growth	Annual Toll Revenue (RMB'M)	% growth
4. Bengbu Huaihe Bridge Highway	8,664	-29.9%	30.64	-29.2%
5. Bengbu Huaimeng Highway	10,551	+32.5%	54.95	+76.2%
6. Hehuai Highway	17,289	-3.3%	68.09	-13.6%
7. Heye Highway	27,524	+9.6%	151.20	+3.5%
8. Chaoyanglu Huaihe Bridge	6,903	+76.6%	22.33	N/A

Bengbu Huaihe Bridge Highway, Bengbu Huaimeng Highway and Chaoyanglu Huaihe Bridge supplements each other, forming an inseparable highway system. Owing to the Chaoyanglu Huaihe Bridge completion and opening in the end of 2002, diverting part of the Bengbu Huaihe Bridge traffic to Chaoyanglu Huaihe Bridge, and the construction of Hexu Expressway, diverting traffic to Bengbu Huaimeng Highway, the toll revenue of our Bengbu road system has surged 44%.

Continuous economic developments have caused apparent growth in monthly ticket traffic on Hehuai Highway. The overall traffic volume and toll revenue of the project in 2003, however, has recorded a drop, mainly from long-haul traffic, in consequence of the widening works in Mengcheng to Fengtai section of the highway and the regulation to dampen overloaded traffic.

Heye Highway, a major route drawn from Hefei, the provincial capital, has recorded steady growth in traffic volume and toll revenue in 2003. With the opening of Jingzhu Expressway (Luohe to Xinyang section) in the end of 2003, we expect the project will continue its role as a major trunk route in 2004.

## Guangdong Province

With strong exports and internal consumption, Guangdong acted as the locomotive of the economy of China. GDP in 2003 soared 13.6% to RMB1,345 billion whereas the growth rate of gross industrial output value hit 21.9%, record high of recent years. Automobile retail sales has risen 46.6% in the past year, raising utilization of road and highway transport in the province. The implementation of the Closer Economic Partnership Arrangement between Hong Kong and Chinese mainland (CEPA) further strengthened the economic interactions between Hong Kong and Guangdong, and the advantage of the Guangdong among all other provinces became even more distinct. The boom in commercial activities is speeding up the improvements of the highway transport network to cope with the rising demand. Mileage of newly constructed highways in 2003 amounted to 1,689 km, in which 562 km are expressways.



The Group's investment in Guangdong Province:

	Project Name	AADT	% growth	Annual Toll Revenue (RMB'M)	% growth
9.	Jihe Expressway	35,806	+22.6%	182.32	+16.1%
10.	Guangsan Expressway	27,496	-11.4%	195.31	+11.7%
11.	Luochong Highway	11,924	+6.9%	38.93	+10.0%

Growth of GDP of Shenzhen in 2003 reached 17.8%, whereas the throughput of its port has risen 30%. Car ownership of Shenzhen in 2003 has also soared at a rate of 10,000 per month on average. These favourable factors have maintained the ideal growth in traffic and toll revenue of Jihe Expressway. Looking into the future, the economic performances will continue its lead to other mainland cities, and we expect the project will benefit from it.

In accordance with the economic planning of Greater Foshan, the Foshan government cancelled a portion of toll stations and implemented the annual ticketing policy in ordinary highways, resulting in the diversion of traffic on Guangsan Expressway, shown as a drop in traffic. However, the effects of the change in vehicle categorization, implemented in September 2002, have fully surfaced in 2003, producing a growth in revenue that year.

The majority of traffic of Luochong Highway, one of the main routes connecting the Guangdong and Guangxi, is inter-provincial. Benefited from the economic growth of the two provinces and the development of the surrounding area, both traffic and toll revenue has recorded growth. We expect that the completion of the widening works of National Highway 324 (Yunfu West Section) will improve driving conditions and stimulate traffic of the project.

The group completed the transfer of its interests in the Guangdong Zhongshan Qijiang Highway project to Zhongshan Roads and Bridges Construction Company Limited under the Zhongshan government. The payment has been received in due course.

## Hunan Province

Hunan's economy is in active growth in all aspects in recent years. GDP in 2003 rose 9.6% to RMB463.4 billion, the fastest growth since 1998. Total value of import and export trade reached US\$3.7 billion, a 29.9% increase. During the year, total value added of industry exceeded RMB145.0 billion, risen 12.6%. Among the main products are coal, steel, glass and automobile, whose number of production has surged 76.2% to 43.8 thousand. Highway utilization has soared with the actively growing commercial and industrial activities. Freight transport over highway soared 29.4% to 46.1 billion ton-km. As at the end of 2003, highway mileage in the province exceeded 85,200 km, in which expressway mileage has increased 216 km to 1,218 km.



The Group's investment in Hunan Province:

Project Name		AADT	% growth	Annual Toll Revenue (RMB'M)	% growth
12.	Changyi Expressway	31,485	+4.7%	162.34	+18.5%
In	Expressway	10,564	+20.4%	122.54	+23.7%
which	Changyi old road	20,921	-1.7%	39.80	+5.0%

The Changyi Expressway project comprises the Changsha to Yiyang Expressway and National Highway 319 Changsha to Yiyang Section (Changyi old road). The expressway has contributed approximately 75% of the entire project's toll revenue.

Benefited from the province's flourishing economy, the Changyi Expressway project has recorded ideal growths in traffic volume and toll revenue in 2003. Revenue from the expressway has soared by 23.7%. Hunan has implemented more stringent policies against toll-free vehicles in mid-2003, raising the toll revenue of the project. The construction of Changde to Zhangjiajie Expressway, connecting the Changyi Expressway, has commenced construction in the second half of 2003, and is expected to open to traffic in 2005. Changde to Jishou Expressway has also been scheduled for completion in 2007. We expect the project, being a main route connecting the provincial capital and western Hunan, to maintain remarkable growth.

## Shanxi Province

Since Shanxi has placed continuous efforts in economic restructuring in recent years, and its brisk pace of economic development has not been hindered even with the sudden attack of SARS in the first half of 2003. GDP in 2003 climbed at a 19-year height of 13.2% to RMB244.6 billion. The successful economic reform has brought steady development to the agricultural and industrial sectors as well as vigorous expansion on investment. Fixed assets investment achieved RMB111.6 billion, a 33% jump, the highest since 1998. As at the end of 2003, total expressway mileage of Shanxi Province exceeded 1,200 km, among the 63,121 km highway network.

The Group's investment in Shanxi Province:

	Project Name	AADT	% growth	Annual Toll Revenue (RMB'M)	% growth
13.	Dongguan Highway	4,705	-5.8%	12.79	-9.4%
14.	Taiyu Highway	16,244	-1.4%	38.21	+24.3%
15.	Yuci City Bypass	3,287	-25.0%	12.57	-5.6%
16.	Taigu Highway	8,475	+6.9%	24.59	+25.5%

Taiyu Highway being the main entrance to the Taiyuan City, its toll revenue was substantially generated from passenger cars. While Taigu Highway is an important coal transport trunk, it is under direct impact from the coal-mining industry. SARS caused a drop in the traffic volume of Taiyu Highway during the first half of 2003. Throughout the year, Taigu Highway was also impacted from various regulations applied on coal-mining industries. Both highways managed to overcome these adverse effects to maintain a rise in toll revenue, thanks to the toll rate adjustment made in August 2002.

The completion of Taiyuan-Qixian Expressway diverted the traffic of Dongguan Highway and Yuci City Bypass. The diversion effect is expected to stabilize in 2004.





## Jiangsu Province

Jiangsu has been one of the fastest developing provinces in recent years. Its proximity to Shanghai lured foreign enterprises. Investment atmosphere is optimistic. GDP of the province in 2003 has reached RMB1,245.2 billion, 13.5% growth compared to the previous year. In particular, GDP of Suzhou grew 18% and reached RMB280.2 billion, industrial output value has reached RMB701.1 billion, ranked second in the country only to Shanghai. Highway infrastructure has further improved the investment environment in the province. Total highway mileage of 65,565 km was recorded at the end of 2003, in which expressway mileage has passed beyond the 2,000 km mark. Possession of civil motor vehicles grew 26.1% and reached 1.32 million, leading to soaring traffic on the entire road system.

The Group's investment in Jiangsu Province:

Project Name	AADT	% growth	Annual Toll Revenue (RMB'M)	% growth
17. Airport Highway	12,262	+59.8%	64.83	+47.8%
18. Changcao Highway	5,920	+13.9%	23.96	+7.7%

The encouraging growths in both traffic volume and toll revenue of Airport Highway in 2003 was largely owing to the rapid development in Shanghai and Suzhou, apart from other factors including the relocation of the Jinjihu toll station and diverted traffic due to the major repair works in the Nanjing-Shanghai expressway. We expect the rapid economic growth of Suzhou will create space for growth of the project.

Located in the economically advanced Suzhou-Wuxi-Changzhou area, Changcao Highway has recorded steady growth in toll revenue in 2003. The implementation of measures to regulate local vehicles has promoted the remarkable rise in traffic volume. The project has started toll calculation by weight for trucks since December 2003, obtaining satisfactory results. We expect a further increase in toll revenue from the project.



## Guangxi Zhuang Autonomous Region

Riding on the opportunities of the Western China Exploitation, the speed of Guangxi's development has stepped up, thanks to its coastline acting as the gateway in the Southwestern part of China. GDP in 2003 amounted to RMB273.3 billion, a 10.2% growth compared to the previous year. Foreign import and export has risen 31.4%. This significant growth of freight volume has stimulated an upsurge on highway utilization. As at the end of 2003, highway mileage in Guangxi is over 56,000 km, in which expressways accounts for 1,000 km. The advance of transport infrastructure development has created a better space for economic development of Guangxi.



The Group's investment in Guangxi Zhuang Autonomous Region:

Project Name	AADT	% growth	Annual Toll Revenue (RMB'M)	% growth
19. Yulin City Ring Roads	4,568	+4.4%	15.20	+12.7%
20. Yugong Highway	7,975	+5.8%	14.44	+6.6%

Yulin projects have recorded stable growths in both traffic volume and toll revenue in 2003. The accelerated developments of western China coastal economies and the opening of Yugong Highway (Bobai to Baisha section), which increases freight transport, have added to both traffic and toll revenue of the project. We expect the traffic will rise steadily in 2004.





### Henan Province

The Henan government has been trying to adjust its industrial structure in recent years, such that its industrial developments can accelerate while its agricultural advancements is maintained. GDP of the province has achieved RMB702.6 billion in 2003, a 10.5% increase, the highest growth rate since 1997. The portion of its agricultural output value has dropped slightly, while its industrial output value soared to account for more than half of total output value, reflecting its success in shifting the mode of economy. In the meantime, the service sector has further improved, enabling a large amount of Chinese or foreign renowned chain stores to invest in Henan. Automobile sales has risen 41.3%, implying increasing needs for road transport. Investments in transport infrastructure have reached RMB30.2 billion, a 19.2% growth. Newly constructed and upgraded highways exceeded 2,000 km, in which 187 km are expressways.

The Group's investment in Henan Province:

Project Name	AADT	% growth	Annual Toll Revenue (RMB'M)	% growth
21. Xunan Highway	21,520	+3.7%	147.75	+0.3%

Traffic volume on Xunan Highway was affected by the regulation to dampen overloaded traffic, resulting in some overloaded trucks choosing alternative routes, but both traffic volume and toll revenue have slightly risen owing to the toll adjustment in the year and tightened toll collection management. The parallel Xunan Expressway is due to open in 2005, the diversion effect of which, however, was already taken into consideration at the time of investment.