


*Benefitting from a*  
***Robust Economy***





# *Leveraging Our Advantage*



*In 2003, despite the impact of SARS and large-scale intensive repairs, various major road and bridge projects still achieved satisfactory performance. Apart from relying on the booming economy and scientific and effective management, this was also achieved by the excellent quality of the projects and the ample room for growth in the future.*

## (I) OPERATING ENVIRONMENT

In 2003, the national economy sustained a faster rate of growth. Despite a certain degree of slowdown in the second quarter due to the impact of Severe Acute Respiratory Syndrome (“SARS”), there were no signs of reversal on the trend of rapid growth. GDP increased by approximately 9.1% for the whole year, up 1.1 percentage points when compared with the previous year, with economic activities becoming more robust.

As one of the economically active provinces along the eastern coastal region in the PRC, Jiangsu Province still commands a strong economy. Gross domestic product for the year amounted to RMB1,245.18 billion, a growth of approximately 13.5% which is 1.9 percentage points higher than that of the previous year and 4.4 percentage points higher than the average national growth rate. Jiangsu Province ranked second in the PRC in terms of total value of economic output in the PRC, and fifth in terms of speed of development.

The six cities along the Shanghai-Nanjing Expressway, namely Nanjing, Zhenjiang, Changzhou, Wuxi, Suzhou and Shanghai, all demonstrated rapid economic growth, with their GDP's in 2003 grown by 12.6%, 14.1%, 14.5%, 13%, 18% and 11.8% over the previous year respectively.



With the sustained rapid economic development in Jiangsu Province and the increase in both income of and consumption by urban residents, consumption of cars has entered into a new era of rapid development. By the end of 2003, private vehicle ownership in the whole province reached 587,200 vehicles, an increase of approximately 2.1 times when compared to the end of 2000. For the past three years, the average growth rate of private vehicle ownership was approximately 45.8% per annum, of which the growth rate for 2002/03 in particular was approximately 48.7%. Such a high growth rate is expected to continue in the next few years.

In order to satisfy demands generated by economic development and rapid growth in vehicle ownership, the progress in establishing a network for all the expressways in the province is being further accelerated. Six expressways were completed and opened to traffic during the year, raising the total mileage of the province's expressways by 301 km to more than 2,000 km. Jiangsu Province ranks third in the country in terms of expressway mileage, and first in terms of expressway concentration. Most of the province's expressways form a network effect with the road and bridge properties owned by the Group.

A sound external environment has provided a generally favourable operating environment for the business development of the Group in 2003.

## (II) ANALYSIS OF BUSINESS OPERATIONS

### 1. Overview

In 2003, the Group realized gross revenues of RMB2,810,602,000 representing year-on-year growth of approximately 17.34%.

The composition and proportion of its revenues were as follows:

Item	Revenues (RMB'000)	As	Year-on-year change (%)	Operating costs (RMB'000)	Gross margin (%)
		percentage of total revenues (%)			
Shanghai-Nanjing Expressway	1,732,510	61.64%	21.04%	476,167	72.52%
Nanjing-Shanghai Class 2 Highway	230,490	8.20%	-7.77%	114,936	50.13%
Nanjing Section of					
Nanjing-Lianyungang Highway	59,275	2.11%	12.11%	29,687	49.92%
Guangjing Xicheng Expressways	330,854	11.77%	13.27%	112,552	65.98%
Revenue from other operations	457,473	16.28%	23.99%	426,671	6.73%
<b>Total</b>	<b>2,810,602</b>	<b>100.00%</b>	<b>17.34%</b>	<b>1,160,013</b>	<b>58.73%</b>

In 2003, toll revenues from Shanghai-Nanjing Expressway, the Company's major highway property, grew rapidly, which was mainly attributable to the rapid development in the regional economy which brought forth rapid increase in traffic volume on the expressway.

Revenues from the Group's other businesses, including refueling, catering, emergency assistance service and advertising, increased in 2003, which was mainly attributable to the substantial increase in the refueling business as a result of the rise in petrol prices.

In 2003, operating costs of the Group totalled RMB1,160,013,000, an increase of approximately 21.04% over RMB958,378,000 in the corresponding period of the previous year.

The composition and proportion of operating costs were as indicated in the table below:

Items	Operating costs (RMB'000)	As	The same period last year (RMB'000)	Increase/ decrease as compared to previous year (%)
		percentage of total costs (%)		
Shanghai-Nanjing Expressway	476,167	41.05	422,449	12.72
Nanjing-Shanghai Class 2 Highway	114,936	9.91	109,966	4.52
Nanjing Section of				
Nanjing-Lianyungang Highway	29,687	2.56	28,069	5.77
Guangjing Xicheng Expressways	112,552	9.70	81,042	38.88
Revenue from other operations	426,671	36.78	316,852	34.66
<b>Total</b>	<b>1,160,013</b>	<b>100.00</b>	<b>958,378</b>	<b>21.04</b>

## management *discussion and analysis*

The increase in operating costs for Guangjing Expressway and Xicheng Expressway was mainly due to the specific repair undertaken at Guangjing Expressway by Guangjing Xicheng Expressway Co., Ltd., the Group's subsidiary, with an expenditure of approximately RMB16,400,000 in total. At the same time, additional depreciation expenses of RMB17,840,000 were made to the Guangjing and Xicheng Expressways on the basis of the discrepancies between the forecasted traffic volume and the actual traffic volume.

The increase in operating costs of other businesses was mainly due to the rise in petrol costs. Aggregate increase in the operating costs of the refueling business amounted to RMB94,350,000, accounting for approximately 85.92% of the total increase in operating costs from other businesses.

### 2. Toll Road Operations

During the period, the Group's core business, toll road operations, realized gross toll revenues of RMB2,353,129,000, accounting for approximately 83.72% of the gross revenues and an increase of approximately 16.13% over the corresponding period of the previous year.

In 2003, despite the impact of SARS and large-scale intensive repairs, various major road and bridge projects still achieved satisfactory performance. Apart from relying on the booming economy and scientific and effective management, this was also achieved by the excellent quality of the projects and the ample room for growth in the future.



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

Project	2003	2002	2001	2000	1999
Shanghai-Nanjing Expressway	31,038	25,356	21,013	18,087	16,235
Nanjing-Shanghai Class 2 Highway	39,958	41,442	42,434	42,357	42,909
Nanjing Section of					
Nanjing-Lianyungang Highway	10,994	9,986	9,450	10,644	10,243
Guangjing Expressway	22,766	19,481	13,361	8,977	7,471
Xicheng Expressway	20,689	17,205	11,889	8,963	8,165
Jiangyin Yangtze Bridge	23,667	20,836	15,555	14,162	/
Sujiahang Expressway	23,094	12,569	/	/	/

#### Comparative figures for daily average toll revenues (RMB'000/day):

Project	2003	2002	2001	2000	1999
Shanghai-Nanjing Expressway	4,746.6	3,921.6	3,156.6	2,640.0	2,390.0
Nanjing-Shanghai Class 2 Highway	631.5	684.7	616.3	620.9	647.0
Nanjing Section of					
Nanjing-Lianyungang Highway	162.4	144.9	138.1	147.2	143.5
Guangjing Expressway	374.2	341.6	236.0	153.9	128.0
Xicheng Expressway	532.2	458.6	307.7	212.9	186.0
Jiangyin Yangtze Bridge	1,116.6	1,016.1	700.4	460.8	/
Sujiahang Expressway	920.7	579.1	/	/	/



### Adjustments to the methods and standards of toll collection:

In order to strengthen the management of overloaded transportation vehicles on the use of roads, so as to effectively protect the road and bridge facilities, Jiangsu Province changed the historical method of toll collection for goods vehicles on the basis of vehicle classification. With effect from 28th December 2003, all toll revenues were collected on the basis of the weight of the goods vehicles ("toll-by-weight"). This new basis for toll collection is applicable to goods vehicles using the expressways operated by the Company or in which the Company has control or equity interests; Jiangyin Yangtze Bridge; Suzhou



Wangting, Wuxi Luoshe and Changzhou Benniu toll stations along the Nanjing-Shanghai Class 2 Highway; and the Panjia Garden toll station of the Nanjing Section of Nanjing-Lianyungang Highway. New toll standards for passenger vehicles at the expressways have also been implemented with effect from 1st January 2004. Toll standards for passenger vehicles at the Nanjing-Shanghai Class 2 Highway, Nanjing-Lianyungang Highway and Jiangyin Yangtze Bridge remained unchanged.

### Classification and basis of toll collection for vehicles using expressways in Jiangsu Province:

Unit: RMB

Vehicle type		Criteria of Classification	Toll rate before adjustment	Toll rate after adjustment	Minimum charge		
Class 1	Small passenger car	6 seats or below (including 6 seats)	0.40	0.45	15		
Class 2	Mid-size passenger car	Small lorry	Above 6 seats but up to 20 seats (including 20 seats)	Below 2 tons (including 2 tons)	0.60	0.675	15
Class 3	Large passenger car	Mid-size lorry	Above 20 seats but up to 50 seats (including 50 seats)	Above 2 tons but up to 5 tons (including 5 tons)	0.80	0.90	20
Class 4	Heavy passenger car	Large lorry	Above 50 seats	Above 5 tons but up to 10 tons (including 10 tons)	1.00	1.125	20
Class 5		Heavy lorry		Above 10 tons but up to 20 tons (including 20 tons)	1.20	1.35	30
Class 6		Special lorry		Above 20 tons	1.60	1.80	30

**Basis of toll collection by weight for goods vehicles (not overloaded vehicles) using expressways:**

Type	Total weight ≤10 tons	10 ton<Total weight ≤ 40 tons	Total weight> 40 tons	
Basis of toll collection by weight for goods vehicles:				
1.	Basic rate RMB0.09/ton per km			
2.	Less than 5 tons to be charged as 5 tons	RMB0.09/ ton per km	RMB0.09/ton per km, linearly reduced to RMB0.05/ton per km	RMB0.05/ ton per km
				Integral toll fee: for amount less than RMB2.50, round down to zero; RMB2.51-7.50 will be charged as RMB5.00; RMB7.51-9.99 will be charged as RMB10.00.
3.	Charge RMB20 when less than RMB20			

**Basis of toll collection by weight for goods vehicles (not overloaded vehicles) using Nanjing-Shanghai Class 2 Highway, Nanjing-Lianyungang Highway and Jiangyin Yangtze Bridge:**

Category	Basic toll rate	Total weight ≤10 tons	10 ton<Total weight ≤40 tons	Total weight >40 tons
Nanjing-Shanghai Class 2 Highway	Charge RMB10 when less than RMB10	RMB2.0/ ton per vehicle	RMB2.0/ton per vehicle, linearly reduced to RMB1.75/ton per vehicle	RMB1.75/ ton per vehicle
Nanjing-Lianyungang Highway	Charge RMB10 when less than RMB10	RMB1.5/ ton per vehicle	RMB1.5/ton per vehicle, linearly reduced to RMB1.3/ton per vehicle	RMB1.3/ ton per vehicle
Jiangyin Yangtze Bridge	RMB6/ton per vehicle, charge per 5 tons if less than 5 tons	RMB6/ ton per vehicle	RMB6.0/ton per vehicle, linearly reduced to RMB3.6/ton per vehicle	RMB3.6/ ton per vehicle

**Basis of toll collection for overloaded vehicles:**

1. Normal weight or overloaded less than 30% (including 30%)	2. Overloaded 30% — 50% (including 50%)	3. Overloaded 50% — 100% (including 100%)	4. Overloaded more than 100%	Toll fee will be collected on the basis of the higher of the overloading which exceeds total weight limit (46 tons) or the limit imposed on car axis
Toll collection will be temporarily based on basic rates for normal-weight vehicles	For normal weight or weight portion within 30% overloaded, charge will be per basic toll rates for normal weight			
	Remaining portion to be charged per 1.5 times of basic toll rates	Remaining portion to be charged per 2 times of basic toll rates	Remaining portion to be charged per 3 times of basic toll rates	

**Road and bridge operations**

*Shanghai-Nanjing Expressway*

During the reporting period, traffic volume on Shanghai-Nanjing Expressway continued to maintain its rapid growth, with an average daily full-trip traffic volume of 31,038 vehicles, an increase of approximately 22.41% when compared to the corresponding period of the previous year. Average daily toll revenue was approximately RMB4,746,600, an increase of approximately 21.04% when compared to the corresponding period of the previous year.



Except for the reduction in the second quarter under the impact by SARS and the intensive road surface repair, traffic volume recovered rapidly in the second half year, with a growth of over 30% on average, of which average daily traffic volume from east of the Wuxi hub to the Anting terminal in Shanghai reached 45,233 vehicles.

*Nanjing-Shanghai Class 2 Highway*

During the year, adjustments to the three toll stations at Suzhou, Wuxi, Changzhou along the Nanjing-Shanghai Class 2 Highway were completed, with the new stations commencing operation on 31st August 2003.

During the reporting period, average daily tolled vehicles passing the Nanjing-Shanghai Class 2 Highway toll station amounted to approximately 39,958, down approximately 3.58% over the corresponding period of the previous year, and average daily toll revenue was approximately RMB631,500, down approximately 7.77% over the corresponding period of the previous year.



#### *Nanjing Section of Nanjing-Lianyungang Highway*

During the reporting period, average daily tolled vehicles passing the Nanjing Section of Nanjing-Lianyungang Highway toll station totaled approximately 10,994, up approximately 10.09% when compared to the corresponding period of the previous year, and average daily toll revenue was approximately RMB162,400, up approximately 12.1% over the corresponding period of the previous year. The situation of toll operations was satisfactory.

#### *Guangjing Expressway and Xicheng Expressway*

As a result of intensive road surface repairs at Shanghai-Nanjing Expressway and bridge surface repairs at Jiangyin Yangtze Bridge in the second half year, together with the restrictions on overloaded vehicles, growth in traffic volumes on the Guangjing Expressway and Xicheng Expressway slowed down compared with those in the corresponding period of the previous year. Average daily full-trip traffic volumes were 22,766 and 20,689 vehicles respectively, representing increases of approximately 16.86% and 20.25% respectively over the corresponding period of the previous year. Average daily toll revenues amounted to RMB374,200 and RMB532,200 respectively, representing increases of 9.54% and 16.05% respectively over the corresponding period of the previous year.

#### *Jiangyin Yangtze Bridge*

During the reporting period, average daily traffic volume at the Jiangyin Yangtze Bridge was 23,667 vehicles, and average toll revenue was RMB1,116,600, representing increases of approximately 13.59% and 9.88% respectively over the corresponding period of the previous year.

Due to damage caused by overloaded vehicles to the bridge surface, Jiangyin Yangtze Bridge underwent bridge surface repairs from 15th August to 10th October, and thereafter implemented restrictions on overloaded vehicles. This in turn caused a slowdown on traffic volume growth.

#### *Sujiahang Expressway*

For a year since it was opened to traffic, the southern section of Sujiahang Expressway saw traffic volume grow rapidly. Its northern section was also completed and opened to traffic on 8th November 2003, closely linking the hub area of Suzhou with the river-side areas. This has strengthened economic inter-flow between the southern and northern parts of Suzhou and facilitated rapid economic developments along the river.

In 2003, its average daily full-trip traffic volume was 23,094 vehicles, and average daily toll revenue was RMB920,700. With an investment return of RMB11,606,000 to the Company, Sujiahang Expressway has become the Group's new profit base.

#### **Intensive repairs**

In order to mitigate the conflict between maintenance and smooth flow of traffic, to ensure safety and smooth traffic flow while improving road conditions and to enhance the level of road service, the Company commenced intensive repairs to the seriously damaged section of Shanghai-Nanjing Expressway east of Wuxi in April, and subsequently also to the road surface to the west of Wuxi. Total investment in the east section's intensive repair works amounted to approximately RMB180,000,000, while total investment in the west section's intensive repair works amounted to approximately RMB43,000,000. The repair works have passed acceptance inspection



with good rating, and the quality of the road surface attained the intended purpose, thus creating favourable conditions for the overall initiation of the expansion works of the Jiangsu Section of Shanghai-Nanjing Expressway.

### Road maintenance

The Company continued to perform preventive maintenance to road surfaces. Pursuant to the intensive repair program for the west section of Shanghai-Nanjing Expressway, microlayer maintenance works of approximately 2 million sq.m. at the Nanjing, Zhenjiang, Changzhou sections were conducted, inspections to the structures of the bridges and tunnels along the whole road were made and treatments were carried out to the bridges where reinforcements were needed, thus clearing hazards and effectively improving road conditions.

In order to enhance the level of maintenance, the Company actively organized scientific researches to overcome difficulties, conducting researches on microlayer maintenance technology applications. The N-1 model of road condition intelligence detection vehicle developed by the Company has passed assessment and was accredited with Grade II Award of Provincial Technology Advancements. The promotion of the applications of new technology and new equipment has effectively enhanced maintenance quality and work efficiency, thereby reducing maintenance costs.

### 3. Non-core Businesses

During the reporting period, the Group's non-core businesses came mainly from the operations of the service areas. Revenues from the non-core businesses amounted to approximately RMB457,473,000, with a profit of RMB30,802,000 in accordance with both PRC Accounting Standards and HKGAAP.

The operations of the service areas aimed to provide modern high-quality service, focusing on environmental health and greening and providing high-quality service to vehicle drivers and passengers, so as to enhance the Company's image vis-à-vis this first-level audience.



## management *discussion and analysis*

### 4. Subsidiaries and Associated Companies

As at 31st December 2002, subsidiaries and associated companies of the Company are as follows:

Names of subsidiaries and associated companies	Attributable equity interest	Registered capital (RMB'000)	Assets scale (RMB'000)	Net profit (RMB'000)	Principal activities
Jiangsu Ninghu Investment Development Co., Ltd. (limited company)	95%	100,000	110,607	7,772	Investments in various infrastructure projects and related businesses and assets
Jiangsu Sundian Engineering Co., Ltd. (limited company)	95.5%	35,000	100,568	12,344	Repairs and maintenance of roads and bridges (including expressways), road surface and traffic safety facility implementation
Jiangsu Guangjing Xicheng Expressway Co., Ltd. (limited company)	85%	850,000	2,654,959	151,132	Construction, operation, maintenance and toll collection of Guangjing Xicheng Expressways and related businesses of storage, passenger and freight transport and vehicle maintenance
Nanjing Shuangshilou Hotel Co., Ltd. (limited company)	95.05%	1,010	8,402	-1,604	Production and sale of Chinese cuisine
Jiangsu Kuailu Bus Transportation Stock Co., Ltd. (limited company)	33.2%	150,300	279,508	11,291	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	3,320,886	172,009	Mainly engaged in the construction, maintenance and operation of Jiangyin Yangtze Bridge and other traffic infrastructure
Suzhou Sujianhang Expressway Co., Ltd. (limited company)	33.33%	1,578,600	4,595,735	46,661	Construction, management and toll collection of the Jiangsu Section of Sujianhang Expressway and related businesses along the route
China Transportation HEAD New Technology (Shanghai) Co., Ltd. (limited company)	35.71%	21,000	20,516	-5,135	Engineering design and implementation management of software development; intelligent traffic consultancy on management of highway resources and GIS / GPS applications

Note:

- (1) All the Company's subsidiaries and associated companies are incorporated, and their main businesses are operated, in China.
- (2) As at 31st December 2003, none of the subsidiaries or associated companies of the Company had any outstanding equity or debt securities in issue.

### (III) PROJECT INVESTMENTS

#### 1. Shanghai-Nanjing Expressway Expansion Project

In order to cope with the needs of regional economic and traffic developments, fully capitalize on the role of “Golden Passage” of Shanghai-Nanjing Expressway at the Yangtze River Delta region, enhance the level of road service and operating efficiency, and further upgrade economic effectiveness, the Board of Directors has decided to invest in the Shanghai-Nanjing Expressway expansion project.



The expansion works will commence in 2004 and will be completed by 2006. The project expansion plan has been approved by the State, and the Jiangsu Provincial Government has agreed to extend the operating period of Shanghai-Nanjing Expressway until 26th June 2032.

The expansion project will expand the existing two-way four-lane road to two-way eight-lane road, and the relevant total investment will be approximately RMB10.54 billion, of which approximately RMB4.54 billion will be funded by the Company’s internal resources, representing approximately 43% of the total investment. The remaining balance will be funded by financing.

Land use rights needed for the expansion will be obtained by way of leasing. The initial annual leasing price will be based on RMB1.50 per sq.m., and the leasing period will be until the termination of the operating period.

The expansion works will be carried out on the premises that normal road operations will be ensured. When road surface and bridge connection works are in progress, partial traffic organization will be conducted to rationalize the use of road networks for diversion, so as to reduce the difficulty in construction organizations and to ensure quality of the engineering works.

The Directors believe that the investment of the Company in the Shanghai-Nanjing Expressway expansion project fulfills the traffic need resulted from rapid economic developments as well as the Company’s need for sustainable development. It has a great bearing upon the maintenance and enhancement of the Company’s good operating results, service level and brand image; the consolidation of its leadership position among the expressway industry and listed communication companies in the PRC; and the overall enhancement of the Company’s core competitiveness.

#### 2. Acquisition of the New Operating Right in Nanjing Shanghai Class 2 Highway



Nanjing-Shanghai Class 2 Highway is an important trunk road connecting Shanghai with Nanjing, in which the Company has the toll operating right for a term of 15 years. Given the low standards of the Nanjing-Shanghai Class 2 Highway, and its level of service being unable to cope with the economic development along the road, the Jiangsu Provincial Government has approved an expansion plan, and has extended its operating right for 12 years until 26th June 2024.

The expansion works commenced in July 2003 and is anticipated to be fully completed by 1st October 2005. The implementation of the project is organized by the Highway Bureau of the Communications Department of Jiangsu Province.

The Shanghai-Nanjing Expressway and the Nanjing-Shanghai Class 2 Highway owned by the Company run almost parallel to but are complementing with each other, with one as the primary and the other as supplementary roads jointly forming important highway passages between Nanjing and Shanghai. The Company considers that, upon completion

of the expansion of Nanjing-Shanghai Class 2 Highway, the Company must acquire its new operating right and remove competition, so as to consolidate the Company’s leading position within the Shanghai-Nanjing passage, and ensure the steady enhancement of the Company’s operating efficiency.

Upon assessments made to the new operating right of Nanjing-Shanghai Class 2 Highway, the acquisition price was determined to be RMB2,700 million, which the Company will finance with bank loans.

## management *discussion and analysis*

### (IV) FINANCIAL ANALYSIS

The Company adopts a financial policy which is proactive yet prudential. It reviews its debt portfolio regularly and makes any necessary change whenever appropriate, so that risks of investment are strictly under control, thereby maximizing the interests of both the Company and the shareholders.

#### Under the PRC Accounting Standards

Item	2003 (RMB'000)	2002 (RMB'000)	Change (%)
Total assets	16,732,357	15,081,793	10.94%
Current liabilities	1,715,106	355,687	382.2%
Long-term liabilities	54,677	61,494	-11.09%
Minority interests	400,250	396,503	0.95%
Shareholders' equity	14,562,325	14,268,109	2.06%
Profit from principal operations	1,489,189	1,272,256	17.05%
Net profit	950,531	816,833	16.37%
Increase in cash and cash equivalents	717,418	-65,246	—

#### Under the HKGAAP

Item	2003 (RMB'000)	2002 (RMB'000)	Change (%)
Total assets	15,278,665	13,566,108	12.62%
Current liabilities	1,715,104	354,622	383.64%
Long-term liabilities	84,184	86,722	-2.93%
Minority interests	400,250	396,503	0.95%
Shareholders' equity	13,079,127	12,728,261	2.76%
Profit from principal operations	1,457,763	1,270,605	14.73%
Net profit	1,005,773	854,445	17.71%
Increase in cash and cash equivalents	717,418	(63,256)	—

Note: Increase in current assets was mainly attributable to the injection of RMB1.4 billion for the Shanghai-Nanjing Expressway Expansion Project.

As at 31st December 2003, the Group's gearing ratio was 10.58% and 11.58% respectively as calculated in accordance with the PRC Accounting Standards and HKGAAP respectively, an increase of 7.81 percentage-points and 8.51 percentage-points respectively over those of the corresponding period of the previous year. The increase was mainly attributable to the increase in debts resulting from capital raised for expansion work. However, the Group's total debts was maintained at a relatively low level, with enhancement in solvency and sustainable capability to raise fund in future.

In accordance with PRC Accounting Standards and HKGAAP, the Group's profit generated from its principal operations increased by approximately 17.05% and 14.73% respectively in 2003, slightly higher than the 16.13% increase in income from principal activities. Given the intensive road surface repair work and the impact of SARS during April to May, the increase in the profit percentage of principal activities indicated that the costs of the Group's principal activities were under better control during the year.

## 1. Analysis of Operating Results

Item	2003 (RMB'000)	2002 (RMB'000)	Change (%)
Revenue	2,675,814	2,272,515	17.75%
Other operating income	38,712	33,529	15.46%
Operating profit	1,457,763	1,270,605	14.73%
Share of profit and loss of associates	97,198	60,320	61.14%
Finance costs	(8,899)	(10,727)	-17.04%
Amortization of goodwill	(12,607)	(11,768)	7.13%
Taxation	(505,219)	(434,120)	16.38%
Minority interests	(22,982)	(20,384)	12.75%
Profit attributable to shareholders	1,005,773	854,445	17.71%
Reserves	8,041,379	7,690,513	4.56%
Earnings per share (RMB)	0.20	0.17	17.71%
Dividend per share (RMB)	0.145	0.13	11.54%

Shares of profit and loss of associates in 2003 increased significantly. The increase was mainly attributable to the gain from the investment in Sujiahang amounting to RMB11,610,000 during the year, representing an increase of RMB10,600,000 over that of the previous year, as well as the gains from the investment in Yangtze Bridge Co. amounting to RMB37,290,000 during the year, representing an increase of RMB28,480,000 over that of the previous year.

## 2. Financial Analysis

### Asset liquidity and financial resources

As an operator of toll expressways, the Group has been able to maintain a large amount of stable cash inflow from its ordinary operations, and its solvency position has been strong. In 2003, the net cash inflow from the Group's business activities amounted to RMB1,441,643,000, an 11.77% increase over the corresponding period of the previous year. Accordingly, the management considers that the Group has no liquidity problem.

As at 31 December, 2003, the Group had RMB1, 537,029,000 of cash and cash equivalents and RMB1,461,490,000 of bank borrowings.

Item	As at 31st December, 2003 The Group (RMB'000)	As at 31st December, 2002 The Group (RMB'000)
Cash and cash equivalents		
Cash in hand	266	252
Bank deposits	1,536,508	719,359
Designated deposits	255	100,000
Total:	<u>1,537,029</u>	<u>819,611</u>
Borrowings		
Short-term borrowings	1,400,000	120,000
Long-term borrowings, current portion	6,813	6,822
Long-term borrowings	54,677	61,494
Total:	<u>1,461,490</u>	<u>188,316</u>

There were relatively large changes in cash and cash equivalents and borrowings in 2003 mainly due to the substantial proceeds for the expansion of Shanghai-Nanjing Expressway.



## management *discussion and analysis*

### Major source of cash and its application

	2003	2002
Net cash flows from operating activities	1,453,795	1,301,452
Net cash flows from investing activities	(1,328,037)	(639,977)
Net cash flows from financing activities	591,660	(726,721)
Net increase (decrease) in cash and cash equivalents	<u>717,418</u>	<u>(65,246)</u>

The Group's net increase of cash and cash equivalents amounted to RMB717,418,000 for the year ended 31st December 2003.

#### 1. Net cash flows from operating activities

The net cash flows from operating activities increased significantly as compared to the previous year due to the increase of toll income from all expressways and bridges. Such income was mainly in the form of cash.

#### 2. Net cash flows from investing activities

During the reporting period, cash inflow mainly came from cash income from investment return.

#### 3. Net cash flows from financing activities

Cash inflows from financing activities comprised mainly commercial loans in the amount of RMB1,500,000,000. Cash outflows from financing activities comprised mainly repayment of commercial loans and dividend payments.

### Group's capital structure

According to the PRC Accounting Standards, the capital structure of the Group as at 31st December 2003 and the figures for 2002 for comparison are as follows:

Item	As at 31st December, 2003		As at 31st December, 2002	
	(RMB'000)	%	(RMB'000)	%
Current liabilities	1,715,106	10.25%	355,687	2.36%
Long-term liabilities	54,677	0.33%	61,494	0.41%
Shareholders equity	14,562,325	87.03%	14,268,109	94.6%
Minority Interests	400,250	2.39%	396,503	2.63%
Liabilities at fixed interest rates	1,461,490	8.74%	188,316	1.25%
Liabilities at floating interest rates	—	—	—	—
Interest-free liabilities	308,293	1.84%	228,865	1.52%
Total	16,732,358	100.00%	15,081,793	100.00%
Gearing ratio	—	10.58%	—	2.77%

As at 31st December 2003, the Group's shareholders' equity amounted to RMB14,562,325,000, representing an increase of RMB294,216,000 over that of 31st December 2002, and the total liabilities amounted to RMB1,769,783,000, representing an increase of RMB1,352,602,000 over that of 31st December 2002. Although the gearing ratio increased slightly, the Group's financial situation in general was sound.

According to the HKGAAP, the capital structure of the Group as at 31st December 2003 and the figures for 2002 for comparison are as follows:

Item	As at 31st December, 2003		As at 31st December, 2002	
	(RMB'000)	%	(RMB'000)	%
Current liabilities	1,715,104	11.23%	354,622	2.62%
Long-term liabilities	54,677	0.36%	61,494	0.45%
Deferred taxation	29,507	0.19%	25,228	0.19%
Shareholders' equity	13,079,127	85.60%	12,728,261	93.82%
Minority Interests	400,250	2.62%	396,503	2.92%
Liabilities at fixed interest rates	1,461,490	9.57%	188,316	1.39%
Liabilities at floating interest rates	—	—	—	—
Interest-free liabilities	308,291	2.02%	227,800	1.68%
Total	15,278,665	100.00%	13,566,108	100.00%
Gearing ratio	—	11.58%	—	3.07%

As at 31st December 2003, the Group's shareholders' equity amounted to RMB13,079,127,000, representing an increase of RMB350,866,000 over that of 31st December 2002, and the total liabilities amounted to RMB1,769,781,000, representing an increase of RMB1,353,665,000 over that of 31st December 2002. Although the gearing ratio increased slightly, the Group's financial situation in general was sound.

#### Capital Expenditure

For the year ended 31st December 2003, the Company's has implemented capital expenditure of approximately RMB1,374,897,000, with details as follows:

Capital Expenditure Item	RMB'000
Purchasing of fixed assets	1,266,547
Investing in subsidiaries and associates	108,350
Total	1,374,897

Source of funds: The expenditures on acquisition of fixed assets during the year were mainly the expenditures made for the preparation work on the expansion of Shanghai-Nanjing Expressway, which was mainly financed by the loans from commercial banks and the Company's internal resources.

#### Risk on foreign currency loan

The Group has no material foreign exchange risks. The Group obtained a loan from the Spanish Government in 1998 in an amount equivalent to approximately US\$9,800,000. As at 31st December 2003, the balance of the loan was RMB61,490,000.

#### (V) Problems Appearing in the Operations and their Solutions

The rapid growth in the traffic volume brought about by the sustained rapid economic development caused increasing pressure on the traffic flow to the roads, and recently, the average daily traffic volume at the east-of-Wuxi section of Shanghai-Nanjing Expressway has exceeded 50,000 vehicles. The traffic fluidity and level of service are declining, and the operations and management of the Company are faced with a serious challenge.

The Company aims at long-term development, and the eight-lane expansion project of Shanghai-Nanjing Expressway raised by the Company has been approved by the State. Construction works will be in full swing in 2004, to be completed by 2006. Upon completion of the road expansion, traffic fluidity will be greatly enhanced, and will satisfy the needs of economic growth and the Group's sustainable development.

#### **(VI) Business Development Plans and Outlook**

Looking ahead, sustained economic growth for Jiangsu Province and the PRC is expected to continue in 2004, and the integration progress of the Yangtze River Delta region will be accelerated. The economic development in the two provinces of Jiangsu and Zhejiang and the city of Shanghai will have a strong follow-through, and the regional economic environment will continue to flourish.

Highway construction in Jiangsu has realized a comprehensive leap-forward development, and has indicated an unprecedented strong development position. In 2004, total newly added expressway mileage will be approximately 400 km, and its resultant network effect will bring benefits to the majority of the road and bridge properties of the Group in future.

During the initial stage of the operation of the toll-by-weight tariff system first adopted in Jiangsu Province, the system has already demonstrated its full scientific effect and feasibility. The fact that overloaded vehicles were restrained has good effect on enhancing traffic fluidity and reducing maintenance costs, thereby increasing toll revenues. At the same time, the approximately 12.5% increase of the toll rate in fact even assures the Company's growth in revenue.

Whether analyzing the macro or micro factors, we observe that the overall operating environment provides very favourable conditions for the future development of the Group. However, following the full commencement of the Shanghai-Nanjing Expressway expansion project and with progression of its works, normal traffic on the road will be affected for a certain period, which will call for efforts to organize partial traffic diversions. The Company's operation, management, service and social image will be faced with significant testing and challenges.

Faced with various pressures, the management is studying coping strategies with a positive attitude, and is strengthening its daily operations and management in a pragmatic manner. Focusing on the objectives of achieving steady growth in revenues and operating results, we aim to carry out good work designs, traffic arrangements and safety management, so as to attain effective traffic diversion and personnel deployment, strengthen inspection and maintenance of the existing road surface and bridges during the expansion period, and ensure traffic safety during the works.

In 2004, the Shanghai-Nanjing Expressway expansion project will be in full swing, and the soft foundation treatment, soil excavation, bridge culvert, base structures and minor structures will be completed. Road surface works will commence in the second half year, while at the same time making modifications and expansions work to inter-connections, cross-over bridges and service areas.

The Company will continue to make improvements to the weak areas of frontline management, and put in place regularized, scientific and effective management in accordance with international standard systems, thereby enhancing the overall standards of our management. We will also strengthen our financial management, and in accordance with the financial needs, lay down workable financial policies and fund raising plans, fully capitalizing on our financial resources and strictly controlling various operating expenses.

The Company shall uphold the service concept of “Customer is Our Priority”, making efforts for regularized actions and standardized services, so as to compensate the insufficiencies in the road hardware during the expansion period with better service and safeguard the good social image of the Company.

The new management of the Company will aim high with full passion, and capitalizing on the opportunity of the Shanghai-Nanjing Expressway eight-lane expansion project to realize the “Second Venture”, fully enhancing the core competitiveness of the Group to create better results and achieve sustainable development.



**Xie Jia Quan**  
*General Manager*

Nanjing, the PRC  
1st April 2004