

### (I) OVERVIEW

#### 1. Summary of Results

In 2004, the Group realised operating revenues of approximately RMB3,104,839,000, an increase of approximately 10.47% over the corresponding period of the previous year. In accordance with the PRC Accounting Standards, the Group's profit after tax during the reporting period was approximately RMB826,725,000, and earnings per share was approximately RM0.164, a decrease of approximately 13.23% over the corresponding period of the previous year. Profit after tax under Hong Kong GAAP was approximately RMB997,139,000, and earnings per share was approximately RMB0.198, a decrease of approximately 0.86% over the corresponding period of the previous year. Despite the declining results, the total revenue and profit achieved for the year had exceeded the annual operating targets.



#### 2. Economic Environment

##### Economic growth continued

In 2004, the national economy maintained a strong growth. The fast growing economy did not really slow down its pace of growth despite the macro-economic control measures enforced by the State. The national GDP increased by approximately 9.5% for the whole year, up 0.4 percentage point. The GDP of Jiangsu Province increased by approximately 14.9%, up 1.4 percentage points over 2003, generating more robust economic activities.

##### Heavy passenger and cargo transportation

The rapid economic development has brought about busy transportation flow both in terms of passenger and cargo volumes in the region. In 2004, the development of passenger and cargo transportation in Jiangsu Province was heading towards a favourable trend, with passenger transportation and cargo transportation increasing by approximately 7.6% and 6.9% respectively over the corresponding period of the previous year. Of such growth, highway passenger and cargo transportation increased by approximately 7.2% and 7.3% respectively over the corresponding period of the previous year. The growth in passenger and cargo transportation has stimulated significant increase in traffic volume on most of the road or bridge properties of the Company.



### Significant increase of vehicle ownership

With the domestic automobile industry developing rapidly and people's income and consumption levels on an upward trend, car consumption is still moving up in a fast pace. By the end of 2004, the number of private vehicles owned by citizens in Jiangsu Province reached 1,611,900, an increase of approximately 22.3% over the corresponding period of the previous year. Among this, the number of private cars owned amounted to 782,000, an increase of approximately 33.2% over 2003. Such a high growth rate is expected to continue in the next few years.

### Acceleration of expressway construction

In order to satisfy demands generated by economic development and rapid growth in vehicle ownership, the progress in establishing a comprehensive expressway network in Jiangsu Province is being further accelerated. In 2004, there were over 1,600 km of expressways under construction in the Province, and seven expressways were completed and opened to traffic during the year, raising the total mileage of the Province's expressways by 421 km to 2,424 km, which ranked third in the country in terms of expressway mileage and first in terms of expressway concentration. The seven newly operated expressways have contributed to the formation of a much more enhanced "Four Longitudinal-Four Latitudinal-Four Cross Sectional" expressway network in Jiangsu Province, and significantly improved the transportation facilities in southern Jiangsu and along the Yangtze River region. This has in turn created good transportation infrastructure for further rationalising the distribution of road network traffic and for promoting a rapid development of the social economy in the region.



## 3. Operating Environment

Commencing from 1st January 2004, expressway toll rates for passenger cars in Jiangsu Province increased by 12.5%, which directly brought about an increase in toll revenues. Meanwhile, the basis of toll collection by weight ("toll-by-weight") for trucks implemented since 28th December 2003 has generated significant results in the year. The proportion of over-loaded trucks (to total transportation volume) was drastically reduced, providing a more positive effect in ensuring normal traffic flow and reducing daily maintenance expenses, whilst additional charges on over-loaded trucks also led to an increase in toll revenues.

In 2004, Guangjing Expressway, Xicheng Expressway, Sujiahang Expressway, Jiangyin Yangtze Bridge and Shanghai-Nanjing Expressway (before implementation of diversion plan for trucks) all showed outstanding performances in boosting revenue growth, with their average daily toll revenues growing more than 60% over the corresponding period of the previous year, far exceeding their rates of growth in traffic volume. Operations of Nanjing-Shanghai Class 2 Highway and the Nanjing Section of Nanjing-Lianyungang Highway were also stable with satisfactory performances.

## MANAGEMENT DISCUSSION AND ANALYSIS

### 4. Impact of the Expansion Project

#### Traffic diversions

The Company's core asset – The Jiangsu Section of Shanghai-Nanjing Expressway - proceeded with its 8-lane expansion project in 2004 in full swing. The construction works brought about pressure to the normal road operation and management. Whilst the construction works has entered into the stage of road surface and bridge connection, traffic diversions were required so as to ensure safe and smooth traffic on the road and smooth progress of the expansion works. The Company implemented traffic diversion measures for trucks on Shanghai-Nanjing



Expressway since 1st June 2004, and starting from 1st August, all trucks were prohibited on the expressway. Loss in truck traffic volume has caused significant reduction in toll revenue on Shanghai-Nanjing Expressway. During the period from June to December 2004, the average daily toll revenue of Shanghai-Nanjing Expressway decreased by 40.39% over the corresponding period of the previous year, representing a drop of approximately 58.93% compared with the average daily figure in January to May 2004 before the implementation of such traffic diversions.

In view of the fact that the total toll revenue of Shanghai-Nanjing Expressway represented over 60% of the Group's total operating income in the past years, the reduction in toll revenue subsequent to the diversions of truck traffic has directly affected the growth of the Group's operating income for the year.

Although Nanjing-Shanghai Class 2 Highway performed its role in accommodating traffic diversions and had generated a considerable increase in toll revenue since June 2004, the road itself was also undergoing expansion, in addition to its limited traffic capacity. Toll revenue growth on the highway was not sufficient enough to compensate the revenue loss incurred on Shanghai-Nanjing Expressway.

#### Loss incurred by disposal of fixed assets

During the reporting period, pursuant to the relevant requirements under the "Interim Regulation on the Financial Treatment of Property Losses of Enterprises" issued by the Ministry of Finance and document Zeng Jian Kuai Ji Zi [2004] No. 1, namely the "Notice regarding Further Enhancement of Information Disclosure Quality of Listed Companies", the Company conducted detailed verification, analysis and definitions on the fixed assets which were being affected by the Shanghai-Nanjing Expressway expansion project including part of the cross-over bridges, buildings in service areas, safety facilities and communications, surveillance and toll collection systems, and on the fixed assets for offices which were to be removed, making appropriate treatments to such fixed assets which were obsolete or had no more application values or transfer values. Accumulated net loss amounting to approximately RMB249,139,000 according to the PRC Accounting Standards (approximately RMB225,971,000 according to HKGAAP) was recorded therefrom. The disposal and impairment of such assets caused significant and direct impact upon the Group's operating results in 2004.

In view of the major reasons discussed above, the Group experienced a slowdown in its operating income in 2004, and the Group witnessed for the first time a decline in its operating results since the inception of its operations.

## (II) ANALYSIS OF BUSINESS OPERATIONS

The composition and proportion of revenues were as follows:

Item	Operating revenue (RMB'000)	As percentage of total gross revenue (%)	Year-on-year change (%)	Operating costs (RMB'000)	margin (%)
Jiangsu Section of Shanghai-Nanjing Expressway	1,813,419	58.41	4.67	406,970	77.56
Nanjing-Shanghai Class 2 Highway	290,380	9.35	25.98	151,955	47.67
Nanjing Section of Nanjing-Lianyungang Highway	68,712	2.21	15.92	30,833	55.13
Guangjing Xicheng Expressways	537,490	17.31	62.46	118,506	77.95
Revenue from ancillary services	350,080	11.28	(7.54)	353,951	(1.11)
Revenue from other operations	44,758	1.44	(43.23)	48,976	(9.42)
Total	3,104,839	100.00	10.47	1,111,191	64.21

1. Reasons for revenue increase on the Jiangsu Section of Nanjing-Shanghai Class 2 Highway during the reporting period: The diversion measures implemented for trucks during the expansion period of Shanghai-Nanjing Expressway have caused a portion of vehicles to travel via Nanjing-Shanghai Class 2 Highway. With an increase in traffic volume on this highway, it also experienced a significant increase in its toll revenue over the corresponding period of the previous year.
2. Major reasons for rapid growth in toll revenue on Guangjing Xicheng Expressways during the reporting period: 1) an increase in traffic volume; 2) a rise of the toll standards for passenger vehicles and adoption of the toll-by-weight tariff system for trucks.
3. Major reasons for a revenue decrease for ancillary businesses during the reporting period: 1) adoption of traffic control measures due to the expansion project of Shanghai-Nanjing Expressway, causing a drop in traffic volume on this expressway and in return a drop in passenger volume; 2) dismantling of part of the service areas caused the closure of some operating projects or rendered them unable to operate normally.
4. A major reason for a revenue decrease for other operations during the reporting period was that during the expansion of Shanghai-Nanjing Expressway, some of the outdoor billboards had to be removed, rendering the advertising business of our subsidiary unable to operate normally.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 1. Adjustments Relating to Business Classifications

For the purpose of enhancing the Group's management level and the interpretability of the information disclosed, the Company made re-classifications of the Group's operating activities during the reporting period in accordance with the criteria related to revenue from expressway operations and revenue from non-expressway operations. In this disclosure, the related data of the previous year have been adjusted in accordance with the same business classifications as for the current reporting period.

### (1) Revenues from principal operation

Revenues from principal operations include toll revenues from the Jiangsu Section of Shanghai-Nanjing Expressway, Guangjing Xicheng Expressways, the Nanjing Section of Nanjing-Lianyungang Highway and Nanjing-Shanghai Class 2 Highway, and revenues from ancillary services closely related to toll road operations:

- i) Toll revenues refer to toll income from toll road operations;
- ii) Revenues from ancillary services mainly comprise revenues other than toll income but obtained within the expressways' bordering fences, including refueling, catering, accommodation, car repairs and commodity retailing.

### (2) Revenues from other operation

Revenue from other operations mainly comprise revenues from road and bridge maintenance and advertising.

In 2004, operating costs of the Group totalled RMB1,111,191,000, a decrease of approximately 3.86% compared to the corresponding period of the previous year.

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

Items	Operating cost for the reporting period (RMB'000)	As percentage of total costs (%)	Operating cost for the same period last year (RMB'000)	Increase/decrease as compared to previous year (%)
Jiangsu Section of Shanghai-Nanjing Expressway	406,970	36.62	476,167	(14.53)
Nanjing-Shanghai Class 2 Highway	151,955	13.67	114,936	32.21
Nanjing Section of Nanjing-Lianyungang Highway	30,833	2.78	29,688	3.86
Guangjing Xicheng Expressways	118,506	10.67	112,552	5.29
Cost of ancillary services	353,951	31.85	363,116	(2.52)
Cost of other operations	48,976	4.41%	59,365	(17.50)
Total	1,111,191	100.00	1,155,824	(3.86)

Note: The increase in operating costs for the Jiangsu Section of Nanjing-Shanghai Class 2 Highway was mainly due to the supplementary provisions for road asset depreciation for the Jiangsu Section of Nanjing-Shanghai Class 2 Highway based on the discrepancy between the forecasted traffic volume and the actual traffic volume, resulting in an increase in road asset depreciation by approximately RMB43,923,000 over the same period of the previous year.

## 2. Toll Road Operations

During the reporting period, the Group's principal business, the road and bridge operations, realised a toll revenue of approximately RMB2,710,001,000, accounting for approximately 87.28% of the total operating revenue and an increase of approximately 15.17% over the corresponding period of the previous year. Except for Shanghai-Nanjing Expressway which has been considerably affected by the expansion project and diversions of truck traffic, other road and bridge projects all capitalised on their advantages and benefited from the favourable external economic and social environment, the upward adjustment of passenger car toll standards and the implementation of the toll-by-weight tariff system for trucks. As such, these road and bridge projects all achieved good performance in 2004 in terms of growth in both traffic volume and toll revenue.

Comparisons of average daily traffic volumes and toll revenues:

Road/Bridge Project	Average daily traffic volume (vehicle per day)			Average daily toll revenue (RMB'000 per day)		
	2004	2003	Changes%	2004	2003	Changes%
Shanghai-Nanjing Expressway	<b>28,414</b>	31,038	-8.45	<b>4,968.3</b>	4,746.6	4.67
Nanjing-Shanghai Class 2 Highway	<b>42,341</b>	39,958	5.96	<b>795.6</b>	631.5	25.99
Nanjing Section of Nanjing-Lianyungang Highway	<b>11,009</b>	10,994	0.13	<b>188.3</b>	162.4	15.95
Guangjing Expressway	<b>29,707</b>	22,766	30.49	<b>614.4</b>	374.2	64.19
Xicheng Expressway	<b>25,209</b>	20,689	21.85	<b>858.2</b>	532.2	61.26
Jiangyin Yangtze Bridge	<b>31,273</b>	23,667	32.14	<b>1,989.4</b>	1,116.6	78.16
Sujiahang Expressway *	<b>17,871</b>	23,094	-22.62	<b>1,582.1</b>	920.7	71.84

\* For the same period in the previous year, as Sujiahang Expressway was partially opened (southern section only) to traffic, there was discrepancy in the basis of statistics.