

MANAGEMENT DISCUSSION AND ANALYSIS

Shanghai-Nanjing Expressway

Progress of the expansion project

The 8-lane expansion project of the Jiangsu Section of Shanghai-Nanjing Expressway was approved by the National Development and Reform Commission on 20th February 2004, and the resolution in respect of the investment in this project was considered and approved at the Company's 2003 Annual General Meeting.



In 2004, the expansion project of Shanghai-Nanjing Expressway was in full swing. Land requisition and removal, overall soft foundation treatment, bridges and tunnels, excavation of earth and stone for roadbeds on the main road were initially completed. Renovation and expansion works for 24 inter-connections and 6 service areas had commenced. Road surface connection works for the southern 4-lane road commenced in August, and up to December, surface connection on 130 km of the 4-lane road was completed. Milestone results were achieved for the expansion project.

At the end of 2004, the Shanghai-Nanjing Expressway expansion project had completed an accumulated investment amounting to approximately RMB4,374 million, representing completion of physical works of approximately RMB3,428 million. This marked a new record for expressway expansion projects. Meanwhile, we performed well according to major quality indicators, with overall quality under good control. This has laid a solid foundation for rapid progress of various works and smooth achievement of overall targets of the expansion project in 2005.

According to the construction progress arrangement, road surface connection works for the remaining 120 km of the southern 8-lane road and the bridge culverts of the sub-lanes will be completed by 30th June 2005. By the end of 2005, the road surface of the 8-lane main road will be basically completed.

Coordination of transportation arrangements

The Company also paid attention to the relationship between construction works and operational management. On the basis of allowing normal road operation to the maximum extent, specific traffic control measures were set up, which reasonably organised the transportation arrangements, strengthened on-site traffic management so as to ensure safe and smooth traffic on the road and smooth progress of the works.

In line with the needs arising from the road surface connection works, the Company implemented traffic diversion measures to the Jiangsu Section of Shanghai-Nanjing Expressway since 1st June 2004, forbidding the passing of trucks of over three axles (inclusive) from the Nanjing to Changzhou Inter-change section, and forbidding the passing of all trucks from the Changzhou inter-change to Huaqiao section. Commencing from 1st August 2004, the second stage of vehicle diversion plan was being implemented on Shanghai-Nanjing Expressway, whereby all trucks were forbidden on the whole expressway.

Impact of traffic diversions

Since the implementation of traffic control and diversions of trucks on Shanghai-Nanjing Expressway, there has been a considerable drop in both traffic volume and toll revenue. During the period from June to December 2004, the average daily traffic volume and average daily toll revenue on Shanghai-Nanjing Expressway were approximately 22,222 vehicles and RMB3,101,500 respectively, down approximately 34.52% and 40.39% respectively compared to the same period of the previous year, and down approximately 40.15% and 58.93% respectively against the average daily figures for the period from January to May 2004 before the implementation of such traffic diversions.

Benefiting from the strong growth in the first half of the year, the average daily toll revenue of Shanghai-Nanjing Expressway for the year of 2004 amounted to approximately RMB4,968,300, still recording an increase of approximately 4.67% over the same period of the previous year, whilst the average daily traffic volume was approximately 28,414 vehicles, down approximately 8.45% over the same period of the previous year.

Nanjing-Shanghai Class 2 Highway

The project of expanding Nanjing-Shanghai Class 2 Highway into a 4-lane Class 1 highway was undertaken by the Highway Bureau of Jiangsu Department of Communications. At present, construction works is proceeding as scheduled and planned to be completed in 2005. Pursuant to the operating right transfer agreement entered into by the Company and the Highway Bureau, the Company had paid an aggregate of RMB1,750 million to the Highway Bureau during the reporting period.

Since the implementation of traffic diversions on Shanghai-Nanjing Expressway from June, Nanjing-Shanghai Class 2 Highway has accommodated most of the diverted traffic and thus its traffic volume and toll revenue then increased considerably. During the period from June to December 2004, the average daily traffic volume and the average daily toll revenue on Nanjing-Shanghai Class 2 Highway were approximately the 49,357 vehicles and RMB1,036,100 respectively, up approximately 27.31% and 80.82% respectively over the corresponding period of the previous year, and up approximately 52.05% and 105.37% respectively over the average daily figures for the period from January to May 2004.



In 2004, the average daily traffic volume on Nanjing-Shanghai Class 2 Highway amounted to approximately 42,341 vehicles, up approximately 5.96% over the corresponding period of the previous year, whilst the average daily toll revenue was approximately RMB795,600, up approximately 25.99% over the corresponding period of the previous year.



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Nanjing Section of Nanjing-Lianyungang Highway

During the reporting period, the operation of the Nanjing Section of Nanjing-Lianyungang Highway was steady, with an average daily traffic volume of approximately 11,009 vehicles, up approximately 0.13% compared to the corresponding period of the previous year. Its toll income was more significantly affected by the toll-by-weight tariff system. The average daily toll revenue was approximately RMB188,300, up approximately 15.95% over the corresponding period of the previous year.

Guangjing Expressway and Xicheng Expressway

Under continued rapid economic development, Guangjing Expressway and Xicheng Expressway have maintained their strong growth. The toll-by-weight tariff system has led to an even more outstanding growth in toll revenue on the two expressways.

The average daily traffic volume on Guangjing Expressway in 2004 was approximately 29,707 vehicles, and the average daily toll revenue was approximately RMB614,400, up approximately 30.49% and 64.19% respectively over the corresponding period of the previous year.

As Xicheng Expressway is directly connected with Shanghai-Nanjing Expressway, it then faced certain impact arising from the traffic diversion measures implemented since June. However, with the opening to traffic of the Jiangtai Section of Yuanjiang Expressway on 15th August, the traffic volume on Xicheng Expressway has recovered considerably. By the end of December, it has basically reached the average level as recorded for January to May. In 2004, the average daily full-trip traffic volume on Xicheng Expressway was approximately 25,209 vehicles, and its average daily toll revenue was RMB858,200, up approximately 21.85% and 61.26% respectively over the corresponding period of the previous year.

Jiangyin Yangtze Bridge

In 2004, the average daily traffic volume on Jiangyin Yangtze Bridge was approximately 31,273 vehicles and its average daily toll revenue was approximately RMB1,989,400, up approximately 32.14% and 78.16% respectively over the corresponding period of the previous year.

During the reporting period, the Company's investment income from the project amounted to approximately RMB81,899,000, making a definite contribution to the Company's results.

Sujiahang Expressway

The northern section of Sujiahang Expressway was opened to traffic on 8th November 2003, closely linking the hub area of Suzhou with the river-side areas. This has promoted the speed of economic development along the river, while also bringing a considerable increase in toll revenue during the year. In 2004, the average daily full-trip traffic volume on the expressway was approximately 17,871 vehicles, and its average daily toll revenue was approximately RMB1,582,100, up approximately 71.84% over the corresponding period of the previous year. The investment made a profit contribution of approximately RMB38,543,000 to the Company, which marked a full-fledged return for the Company's investment in Sujiahang Expressway.

3. Ancillary Services

The Group's ancillary services mainly comprise refueling, catering, accommodation, car repairs and commodity retailing in various service areas along Shanghai-Nanjing Expressway.

In 2004, with the full swing of the expansion project of Shanghai-Nanjing Expressway, in particular following the implementation of traffic diversions, the operating revenues in various service areas dropped considerably as traffic volume was drastically reduced. Meanwhile, purchase prices of oil products and catering rose, operating costs increased and profit margins were squeezed. Since August, the service areas entered into the stage of dismantling and renovations successively and had been basically put into a non-operating or semi-operating state, rendering a diminishment of the scope of operations of the Group's ancillary services.



Under such circumstances, the Company's business departments actively re-organised the operations and dedicated themselves to enhancing service quality and reducing costs, so as to mitigate to the greatest extent the impact of the renovations of the service areas upon its various business operations.

During the reporting period, from the Group's ancillary services recorded a revenue of approximately RMB350,080,000, and a loss of approximately RMB3,982,000, a considerable drop as compared to the corresponding period of the previous year.

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4. Subsidiaries and Associated Companies

As at 31st December 2004, subsidiaries and associated companies of the Company were as follows:

Names of subsidiaries and associated companies (Class of legal person Shares)	Attributable equity interest	Registered capital (RMB'000)	Assets scale (RMB'000)	Net profit (RMB'000)	Principal operations
Jiangsu Ninghu Investment Development Co., Ltd. (limited company)	95%	100,000	111,543	1,690	Investments in various infrastructure, business projects and related assets
Jiangsu Sundian Engineering Co., Ltd (limited company)	95.5%	35,000	69,539	2,839	Repairs and maintenance of roads and bridges (including expressways), road traffic safety facility implementation
Jiangsu Guangjing Xicheng Expressway Guangjing Co., Ltd (limited company)	85%	850,000	2,749,443	266,367	Construction, operation, maintenance and toll collection of Xicheng Expressways and related businesses of storage, passenger and freight transport and vehicle maintenance
Jiangsu Kuailu Bus Transportation Stock Co., Ltd. (limited company)	33.2%	150,300	250,538	14,769	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	3,542,507	340,135	Mainly engaged in the construction, maintenance management and operation of Jiangyin Yangtze Bridge and other traffic infrastructure
Suzhou Sujianhang Expressway Co., Ltd. (limited company)	33.33%	1,578,600	4,954,141	126,777	Construction, maintenance 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	20,798	231	Engineering design and implementation management of software development; intelligent traffic consultancy on management of highway resources and GIS / GPS applications

Notes:

- (1) All the subsidiaries and associated companies of the Company are incorporated with their main businesses being operated in China.
- (2) As at 31st December 2004, none of the subsidiaries or associated companies of the Company had any outstanding equity or debt securities in issue.

(III) OPERATING RESULTS AND FINANCIAL ANALYSIS

The Company adopts a financial policy which is proactive yet prudential. In view of the needs of the Company's sustainable development and the availability of its own resources, the Company reviews its debt portfolio regularly and makes any necessary adjustments whenever appropriate, so that risks of investment are strictly under control, thereby maximizing the interests of both the Company and the shareholders.

1. Assets of the Group

Under the PRC Accounting Standards

Item	2004 (RMB'000)	2003 (RMB'000)	Change (%)
Total assets	20,638,701	16,732,357	23.35
Current liabilities	2,481,289	1,715,106	44.67
Long-term liabilities	3,077,863	54,677	5,529.17
Minority interests	413,464	400,250	3.30
Shareholders' equity	14,666,085	14,562,325	0.71
Profit from principal operations	1,847,350	1,500,514	23.11
Net profit	826,725	950,531	(13.02)
Increase in cash and cash equivalents	(1,012,255)	717,417	-

- (1) The main reason for the increase in total assets during the reporting period was the increase in short-term loans and long-term loans, which were borrowings from banks in order to fund the expansion of Shanghai-Nanjing Expressway and the acquisition of the Jiangsu Section of Nanjing-Shanghai Class 2 Highway.
- (2) Profit from principal operations in 2004 was approximately RMB1,847,350,000, an increase of approximately 23.11% over the previous year, which was higher than the growth of revenue from principal operations of 12.02%. The increase in profit margin for principal operations indicated that cost of the Group's principal operations was under good control during the reporting period. This is especially true for the toll road operations which represented approximately 88.56% of the principal operations: while realising an increase of approximately RMB356,871,000 in toll revenues, the cost of the toll road operations was reduced by approximately RMB25,079,000 compared to the corresponding period of the previous year.
- (3) The main reason for the increase in current liabilities during the reporting period was that the Company applied an amount of RMB1,750 million from bank loans to pay for the acquisition of the operating right of the Jiangsu Section of Nanjing-Shanghai Class 2 Highway, and that it raised a short-term funding of RMB200 million for the Shanghai-Nanjing Expressway expansion project.

MANAGEMENT DISCUSSION AND ANALYSIS

- (4) The increase in long-term liabilities during the reporting period was to satisfy the needs of the expansion works of the Jiangsu Section of Shanghai-Nanjing Expressway. The aggregate funds invested in the Shanghai-Nanjing Expressway expansion project during the reporting period amounted to approximately RMB3,573 million.
- (5) As at 31st December 2004, under the PRC Accounting Standards, the Group's overall gearing ratio was approximately 26.94%, up approximately 16.36 percentage points over the corresponding period of the previous year, mainly due to short-term and medium to long-term borrowings required to satisfy the expansion works of Shanghai-Nanjing Expressway and the acquisition of the operating right of Nanjing-Shanghai Class 2 Highway. In consideration of the high net operating cash-flow of the Group, we consider that the Group's overall liabilities was still at a relatively low level, and that it has maintained good solvency and continued funding capabilities.

Under the Hong Kong GAAP

Item	2004 (RMB'000)	2003 (RMB'000)	Change (%)
Total assets	19,318,407	15,278,665	26.44
Current liabilities	2,481,286	1,715,104	44.67
Long-term liabilities	3,077,864	84,184	3,556.12
Minority interests	413,464	400,250	3.30
Shareholders' equity	13,345,793	13,079,127	2.04
Profit from operations	1,483,019	1,457,763	1.73
Net profit	997,139	1,005,773	(0.86)
Increase in cash and cash equivalents	(1,012,255)	708,351	–



2. Analysis of Operating Results

Under the PRC Accounting Standards

Item	2004 (RMB'000)	2003 (RMB'000)	Change (%)
Revenue from principal operations	3,060,081	2,731,760	12.02
Profit from principal operations	1,847,350	1,500,514	23.11
Financial cost	122,204	786	15,447.58
Profit from operation	1,527,917	1,357,057	12.59
Investment revenue	131,254	69,948	87.65
Total profit	1,390,204	1,447,833	(3.98)
Income Tax	(523,954)	(475,924)	10.09
Minority interests	(40,118)	(22,982)	74.56
Net profit	826,725	950,531	(13.02)
Earnings per share (RMB)	0.164	0.189	(13.02)
Dividend per share (RMB)	0.145	0.145	–

- (1) The increase in profit margin for principal operations indicated that the cost of the Group's principal operations was under good control. This is especially true for the toll road operations which represented approximately 88.56% of the principal operations; while realising an increase of approximately RMB356,871,000 in toll revenues, the cost of the toll road operations was reduced by approximately RMB25,079,000 compared to the corresponding period of the previous year.
- (2) The drastic increase in financial costs during the reporting period was mainly due to the interest expenses on short-term loans from banks for the acquisition of the operating right of the Jiangsu Section of Nanjing-Shanghai Class 2 Highway.
- (3) The significant increase in profit attributable to associated companies during the reporting period was mainly due to the investment revenue of approximately RMB38,543,000 attributable to Sujiahang Company, an increase of approximately RMB26,937,000 over RMB11,606,000 in the corresponding period of the previous year, and the investment revenue of approximately RMB81,899,000 attributable to Yangtze Bridge Company, an increase of approximately RMB44,612,000 over the corresponding period of the previous year.

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Under the Hong Kong GAAP

Item	2004 (RMB'000)	2003 (RMB'000)	Change (%)
Turnover	2,951,996	2,675,814	10.32%
Interest revenue	10,330	9,094	13.59%
Other operating revenue	11,998	29,618	(59.49)%
Profit from operation	1,483,019	1,457,763	1.73%
Profit attributable to associated companies	200,333	97,198	106.11%
Financial cost	(132,534)	(8,899)	1,389.31%
Amortisation of goodwill	(12,735)	(12,607)	1.02%
Income tax	(507,987)	(505,219)	0.55%
Minority interests	(40,118)	(22,982)	74.56%
Net profit	997,139	1,005,773	(0.86)%
Reserves	8,308,045	8,041,379	3.32%
Earnings per Share (RMB)	0.198	0.200	(0.86)%
Dividend per Share (RMB)	0.145	0.145	–

The significant increase in profit attributable to associated companies during the reporting period was mainly due to the investment revenue of approximately RMB52,269,000 attributable to Sujiahang Company, an increase of approximately 126.63% over RMB23,064,000 in the corresponding period of the previous year, and the investment revenue of approximately RMB134,285,000 attributable to Yangtze Bridge Company, an increase of approximately 121.50% over RMB60,625,000 in the corresponding period of the previous year.



3. Financial Analysis

Asset liquidity and financial resources

The Group's principal operations comprise toll roads and bridges. The Group has been able to maintain a large amount of stable cash inflow from its ordinary operations, and thereby has a relatively strong solvency position. In 2004, the cash inflow from the Group's business activities amounted to approximately RMB3,086,088,000, an increase of approximately 6.06% over the corresponding period of the previous year. Accordingly, the management considers that the Group has no liquidity problem.

The Group's cash and cash equivalents and borrowings were as set out in the table below:

Item	As at 31st December, 2004 The Group (RMB'000)	As at 31st December, 2003 The Group (RMB'000)
Cash and cash equivalents		
Cash in hand	318	266
Bank deposits	524,456	1,536,508
Short-term investment	—	255
Total:	524,774	1,537,029
Borrowings		
Short-term bank borrowings	1,950,000	1,400,000
Long-term borrowings, maturing in one year	6,813	6,813
Long-term bank borrowings	3,077,863	54,677
Total:	5,034,676	1,461,490

Note: There were relatively large changes in short-term and long-term borrowings in 2004 which were mainly due to the additional short-term and medium to long-term bank loans required for the expansion of Shanghai-Nanjing Expressway and for the acquisition of the operating right of Nanjing-Shanghai Class 2 Highway.

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Major sources of cash and its applications

	RMB'000 2004	RMB'000 2003
Net cash flows from operating activities	1,675,402	1,453,795
Net cash flows from investing activities	(5,373,358)	(1,328,037)
Net cash flows from financing activities	2,685,701	591,659
Net increase (decrease) in cash and cash equivalents	(1,012,255)	717,417

The Group's net decrease of cash and cash equivalents amounted to approximately RMB1,012,255,000 for the year ended 31st December 2004.

1. *Net cash flows from operating activities*

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

2. *Net cash flows from investing activities*

During the reporting period, the Group's cash inflow mainly came from the cash received from investment return. Cash outflow were mainly funds paid for the expansion project of Shanghai-Nanjing Expressway and for the acquisition of the operating right of Nanjing-Shanghai Class 2 Highway.

3. *Net cash flows from financing activities*

Cash inflows from financing activities comprised mainly commercial loans. Cash outflows from financing activities comprised mainly the repayments of principals of commercial loans, loan interests and dividend payments for year 2003.



The Group's capital structure

According to the PRC Accounting Standards, the capital structure of the Group as at 31st December 2004 and the figures for 2003 for comparison are as follows:

Item	As at 31st December, 2004		As at 31st December, 2003	
	(RMB'000)	%	(RMB'000)	%
Current liabilities	2,481,286	12.03	1,715,106	10.25
Long-term liabilities	3,077,864	14.91	54,677	0.33
Liabilities at fixed interest rates	5,034,677	24.40	1,461,490	8.74
Liabilities at floating interest rates	—	—	—	—
Interest-free liabilities	524,473	2.54	308,293	1.84
Shareholders equity	14,666,085	71.06	14,562,325	87.03
Minority Interests	413,464	2.00	400,250	2.39
Total Assets	20,638,701	100.00	16,732,358	100.00
Gearing ratio	—	26.94	—	10.58

According to the HK GAAP, the capital structure of the Group as at 31st December 2004 and the figures for 2003 for comparison are as follows:

Item	As at 31st December, 2004		As at 31st December, 2003	
	(RMB'000)	%	(RMB'000)	%
Current liabilities	2,481,286	12.85	1,715,104	11.23
Long-term liabilities	3,077,864	15.93	84,184	0.55
Liabilities at fixed interest rates	5,034,677	26.06	1,461,490	9.57
Liabilities at floating interest rates	—	—	—	—
Interest-free liabilities	524,473	2.72	337,798	2.21
Shareholders equity	13,345,793	69.08	13,079,127	85.60
Minority Interests	413,464	2.14	400,250	2.62
Total	19,318,407	100.00	15,278,665	100.00
Gearing ratio	—	26.03	—	9.71

Note: As at 31st December 2004, the shareholders' equity of the Group amounted to approximately RMB14,666,085,000, representing an increase of approximately RMB103,760,000 over the corresponding period of the previous year. Total liabilities amounted to approximately RMB5,559,152,000, representing an increase of approximately RMB3,789,369,000 over the corresponding period of the previous year. Despite a significant increase of the gearing ratio as compared with that of the corresponding period of the previous year, it is still at a relatively low level, indicating that the Group's financial situation is generally sound.



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Capital expenditure

For the year 2004, capital expenditure for the Group's projects-in-progress amounted to approximately RMB5,463,262,000, with details as follows:

Capital Expenditure Item	RMB'000
Purchasing of fixed assets	125,585
Expansion of Shanghai-Nanjing Expressway	3,572,677
Acquisition of the operating right of Nanjing-Shanghai Class 2 Highway	1,750,000
Investing in subsidiaries and associates	15,000
Total	5,463,262

Source of funds: Payments for the purchase of fixed assets during the reporting period were mainly made for the expansion of the Jiangsu Section of Shanghai-Nanjing Expressway and for the acquisition of the operating right of Nanjing-Shanghai Class 2 Highway. The major source of funds were loans from commercial banks and the Company's internally generated funds.



Reserve

Unit: RMB'000

	Share premium	Statutory surplus reserve funds	Statutory public welfare funds	Retained earnings	Total
1st January 2003	5,730,454	401,631	200,816	1,357,612	7,690,513
Profit for the Year	–	–	–	1,005,773	1,005,773
Distribution of profit	–	109,289	54,645	(163,934)	–
Distribution of dividend	–	–	–	(654,907)	(654,907)
31st December 2003	5,730,454	510,920	255,461	1,544,544	8,041,379
Profit for the Year	–	–	–	997,139	997,139
Distribution of profit	–	106,108	53,054	(159,162)	–
Distribution of dividend	–	–	–	(730,473)	(730,473)
31st December 2004	5,730,454	617,028	308,515	1,652,048	8,308,045

The ownership of the above capitalized items belong to respective companies which formed the Group.

The above statutory reserve funds cannot be used in a way other than the objectives for its establishment and cannot be distributed as cash dividend.

Retained earnings included associated companies' retained earnings amounting to approximately RMB162,986,000 (2003: RMB81,007,000).

For the year ended 31st December 2004, distributed profit amounted to approximately RMB1,312,877,000 according to PRC Accounting Standards (2003: RMB1,332,973,000).

Contingent liabilities

As at 31st December 2004, the Company does not have any contingent liabilities.

Foreign exchange risks

The Company has no material foreign exchange risk. The Company was granted a loan facility of US\$9,800,000 from the Spanish government in 1998. As at 31st December 2004, the balance of the said loan was equivalent to RMB54,677,000.

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Taxation policy

The Company was subject to an income tax rate of 33%. Total income tax paid in 2004 was approximately RMB523,954,000.

Deposit on assignment

As at 31st December 2004, the Company had no deposit on assignment with any financial institution in the PRC, and there was no un-collectible deposits upon maturity.

Loan on assignment

In December 2004, the Company obtained a loan of RMB200,000,000 from Jiangsu Xicheng Expressway Company Limited, its subsidiary, by way of loan on assignment, for a term from 27th December 2004 to 26th December 2005, and at an annual interest rate of 5.022%.

(IV) PROBLEMS APPEARING IN THE OPERATIONS AND THEIR SOLUTIONS

The 8-lane expansion project of Shanghai-Nanjing Expressway has commenced and entered into a full-swing stage. The rapid progress of the works brought about great pressure to traffic arrangements and operational management. The traffic diversion measures implemented since June resulted in a substantial drop in toll revenue on Shanghai-Nanjing Expressway, and have directly affected the Company's operating results. In 2005, diversions of trucks and traffic control in part of the road sections will still continue, and there will still be certain impact upon the Company's operating results.



The Company's management and staff will have a two-fold focus in their work: the expansion works and the operational management. We will strengthen on-site construction management and traffic arrangements, and on the basis of ensuring road safety and smooth implementation of the works, we will strive to minimise the impact of the expansion project upon the Company's operating revenues and profitability.

(V) BUSINESS DEVELOPMENT PLANS

In 2005, the Shanghai-Nanjing Expressway expansion project will be accelerated, and road surface works, inter-connection pivot works and traffic works will be fully implemented. The road surface connection works on the remaining 120 km of the southern 4-lane road and the bridge culverts of the sub-lanes will be completed by 30th June. By the end of 2005, the road surface of the 8-lane main road will be basically completed, with more than half of the road ancillary facilities completed.



In 2005, truck diversions and traffic control in part of the road sections will still continue. By the time when the southern 4-lanes are open to traffic in July, traffic conditions will be greatly improved. However, since there are still many traffic bottlenecks due to the fact that bridge culverts at inter-connections and some of the nodes at extra large bridges are still under construction and that road traffic works is fully carried out, the overall traffic capacity will not yet be substantially enhanced and the Company's operating results will still be affected.

The management of the Company will emphasise economic efficiency, strengthen operating management, ensure smooth traffic flow on the road and expedite various works for the completion of the 8-lanes so as to create favourable conditions for their early opening to traffic.

The Company will continue to improve its basic management and set up a highly efficient, applicable and scientific management system. It will strengthen work planning and inspect implementations so as to upgrade the overall management level and enhance work efficiency in all aspects.

The Company will implement overall budget management: to strengthen cost control and to control the process of fund application and management; to organise auditing firms to conduct regular tracking audits to the projects; and to strictly control various cost expenditures.

In respect of fund raising, the Company will, on the basis of ensuring timely supplies to the fund requirements of the expansion projects, make efforts to obtain construction funds at lower costs, and to reduce loan costs by making reasonable adjustments to the loan structures and maturity in order to reduce fund raising expenses.

The Company believes that through the coordinated efforts of the management and all the staff, the Company will lay a solid foundation for the development of the Company's various operations in 2005 so as to realise a new round of advancement for the Company and to provide opportunities of self development for the staff.

Xie Jia Quan
General Manager

Nanjing, the PRC
18th March 2005