

# Management Discussion and Analysis

**Zhang Zhiying**  
Vice-Chairman and  
General Manager



## I. Conditions of the Group's Assets

The major assets of the Company include 4 toll roads, namely Sichuan Chengyu Expressway ("Chengyu Expressway"), Sichuan Chengya Expressway ("Chengya Expressway"), Chengdu Chengbei Exit Expressway ("Chengbei Exit Expressway") and Chengdu Airport Expressway ("Airport Expressway"), which are located in Sichuan Province, a large province in the western region of the PRC. Such roads compose the important routes of transportation in Sichuan Province and play a key and special role in the transportation networks within the province.

The basic information of the Group's toll roads is as follows:

Toll roads	Category	Mileage (km)	Date of commencement of operation	End of operation period	Number of toll stations	Interests held by the Company
Chengyu Expressway*	Expressway	226	October 1997	October 2027	15/closed	100%
Chengya Expressway*	Expressway	144	January 2000	December 2029	15/closed	62.595%
Chengbei Exit Expressway	Expressway	10.42	December 1998	June 2024	1/closed	60%
Airport Expressway	Expressway	11.92	July 1999	December 2024	1/dual	25%

\* In accordance with Article 1, read as "Operating period for collecting toll fare shall commence from the date of listing of H shares on the Stock Exchange, with a term of 30 years", of the Approval on Chengyu Expressway's Operating Period of Toll Collection and Entrusted to Hold State-owned Shares issued by the Ministry of Communications, Sichuan Provincial Department of Communications and Sichuan Provincial Price Bureau jointly issued a document on 4 January 2005 pursuant to which the toll collection period of Chengyu Expressway is fixed to commence from 7 October 1997 up to 6 October 2027. The dates of commencement of operation and end of operation period (respectively, July 1995 and August 2027) as disclosed in the previous annual reports are hereby amended.

\* Pursuant to an approval document numbered [Chuan Jiao Fa (2005) No. 15] "Approval of Formal Toll Collection of Chengyu Expressway" issued by Sichuan Provincial Department of Communications and Sichuan Provincial Price Bureau, the formal toll collection period of Chengyu Expressway is determined as from January 2000 to December 2029. The pilot period of toll collection (December 1999 to October 2027) as disclosed in the previous annual reports are hereby amended.

As at 31 December 2004, the Group's total assets and net assets amounted to approximately Rmb7,882,672,000 and Rmb4,870,913,000 respectively.

## II. Toll Collection Policy of Expressway

The toll collection rates for the Group's expressways prescribed by Sichuan Provincial Department of Communications and Sichuan Provincial Price Bureau are mainly based on such factors including traffic flow, construction cost of the road, estimated investment return period, loan repayment period, local price level and inflation rate, operation, management and maintenance costs of the road, and the affordability of users.

The current toll collection rates for the Group's expressways are set out as follows:

### Chengyu Expressway

Categories of vehicles	Basic toll rate Rmb/vehicle.km	Longquanshan Tunnel Rmb/vehicle.time
Class I passenger/cargo vehicle	0.32	5.00
Class II passenger/cargo vehicle	0.64	8.00
Class III passenger/cargo vehicle	1.28	16.00
Class IV passenger/cargo vehicle	1.92	24.00
Class V cargo vehicle	2.56	32.00

\* Under the overall planning of Sichuan Provincial Department of Communications, expressways in Sichuan are required to join the network for online toll collection before 30 June 2005. To smoothly connect with expressways in Sichuan Province, the toll collection rates of Chengyu Expressway, as approved by Sichuan Provincial Price Bureau, were adjusted in accordance with the unified classification criteria for vehicles in Sichuan Province, namely, the vehicles were reclassified into 5 categories from the previous 6 categories. The new toll collection rates came into effect from 20 January 2005 on which Chengyu Expressway joined in the online toll collection network. Estimating theoretically, the adjustment on the toll standard of Chengyu Expressway will have a negative impact of no more than 1% on its toll revenue.



# Management Discussion and Analysis (Continued)

## Chengya Expressway

Categories of vehicles	*Basic toll rate from Chengdu to Qinglongchang RMB/vehicle.km	Basic toll rate from Qinglongchang to Ya'an RMB/vehicle.km	Jinjiguan Tunnel Rmb/vehicle.time
Class I passenger/cargo vehicle	0.35	0.28	2.00
Class II passenger/cargo vehicle	0.665	0.532	4.00
Class III passenger/cargo vehicle	1.260	1.008	8.00
Class IV passenger/cargo vehicle	1.785	1.428	12.00
Class V cargo vehicle	2.240	1.792	16.00

\* During the pilot operation period of Chengya Expressway, an unified standard toll rate has been set for the whole expressway, i.e. the "Basic toll rate from Qinglongchang to Ya'an" shown on the above table. In February 2005, as approved by Sichuan Provincial Department of Communications and Sichuan Provincial Price Bureau ([Chuan Jiao Fa (2005) No. 15] "Approval of Formal Toll Collection of Chengya Expressway"), the toll collection rate of Chengya Expressway from Chengdu to Qinglongchang has been raised, while toll rate of other part of the Chengya Expressway remained unchanged. As Sichuan Provincial Department of Communications will adjust and unify the standard for the classification of vehicles for the whole province in July 2005, the new toll rate for the part from Chengdu to Qinglongchang will come into effect thereafter.

## Chengbei Exit Expressway

Categories of vehicles	Toll rate (Rmb/vehicle)
Class I passenger/cargo vehicle	5.00
Class II passenger/cargo vehicle	10.00
Class III passenger/cargo vehicle	20.00
Class IV passenger/cargo vehicle	30.00
Class V cargo vehicle	40.00

## Airport Expressway

Categories of vehicles	Toll rate (Rmb/vehicle)
Class I passenger/cargo vehicle	10.00
Class II passenger/cargo vehicle	20.00
Class III passenger/cargo vehicle	30.00
Class IV passenger/cargo vehicle	40.00
Class V cargo vehicle	50.00

#### Unified classification criteria for vehicles:

Class I passenger/cargo vehicle	sedan, jeeps, minibuses, touring cars below 8 (inclusive) seats; buggies below 1 (inclusive) tonne
Class II passenger/cargo vehicle	passenger cars of 9-30 (inclusive) seats, sleeping buses below 20 (inclusive) berths; cargo vehicle of 1-3 (inclusive) tonnes
Class III passenger/cargo vehicle	passenger cars of 31-50 (inclusive) seats, sleeping buses of 21-30 (inclusive) berths, cargo vehicle of 3-5 (inclusive) tonnes; international standard container trucks
Class IV passenger/cargo vehicle	passenger cars above 51 (inclusive) seats, sleeping buses above 31 berths, cargo vehicles of 5-15 (inclusive) tonnes
Class V cargo vehicle	cargo vehicles of 15-25 (inclusive) tonnes

### III. Business Review and Analysis

#### 1. Business Environment

By virtue of moderate and timely implementation of macroeconomic control policies in 2004, China's economy maintained a steady upward momentum. The national gross domestic product ("GDP") amounted to Rmb13,651.5 billion, representing a year-on-year growth rate of 9.5%. Sichuan Province's economic growth was more impressive. The GDP of Sichuan Province increased by 12.7% over last year to Rmb655.6 billion, hitting the province's historical new high in the recent decade and ranking No. 9 in the country.

As driven by its fast growing economy, Sichuan Province accomplished a noticeable achievement in transportation infrastructure construction, in which a total of Rmb16.9 billion was invested during 2004. With additional expressway mileage of 257km, Sichuan Province's total expressway mileage amounted to 1,759km. The province is geared up for fast-growing transportation infrastructure construction.

The rapid economic growth in the PRC and Sichuan Province, together with the booming demand for transportation services, has laid a solid foundation for the operation and development of the Group.

#### 2. Business Summary

Due to the disposal of all of its 70% equity interests in Sichuan Chengyu Expressway Energy Development Company Limited ("Chengyu Energy Company") held by Shusha Company (a subsidiary of the Company) during the year, the Company recorded a decrease of approximately Rmb131,550,000 in sales of petroleum products. Another subsidiary of the Company — Shuhai Company also disposed of its equity interests in Luzhou Shulu Road Business Company Limited ("Shulu Company") and Zigong Shunan Ring Road Company Limited ("Shunan Company") in 2003. Accordingly, the Group recorded a year-on-year decrease of approximately 5.61% in its turnover. Due to the increase of Rmb134,588,000 in the Group's toll income (excluding toll incomes of Shulu Company and Shunan Company for the year), net profit attributable to shareholders increased to Rmb215,598,000 and earnings per share amounted to Rmb0.0843, representing a year-on-year increase of 3.82%. After deducting the net gain of Rmb29,746,000 on disposal of Shulu Company and Shunan Company in 2003, net operating profit increased by 21.18% over the last year.

# Management Discussion and Analysis (Continued)

The Composition and proportion of income from the Group's principal activities are set out as follows:

Item	For the year ended 31 December (Rmb '000)	Percentage to total turnover	Increase/ (decrease) as compared with 2003 (%)
Toll income of Chengyu Expressway	656,939	70.42%	18.38
Toll income of Chengya Expressway	211,351	22.66%	23.79
Toll income of Chengbei Exit Expressway	54,789	5.87%	(12.82)
Sales of petroleum products	9,752	1.05%	(93.10)
Total	932,831	100%	0.33*

\* The toll income of Rmb51,541,000 of Shulu Company and Shunan Company in 2003 was excluded in calculation of this total growth rate.

### 3. Principal activities - Operation of Toll Roads

The operations of the Group's toll roads during 2004 were as follows:

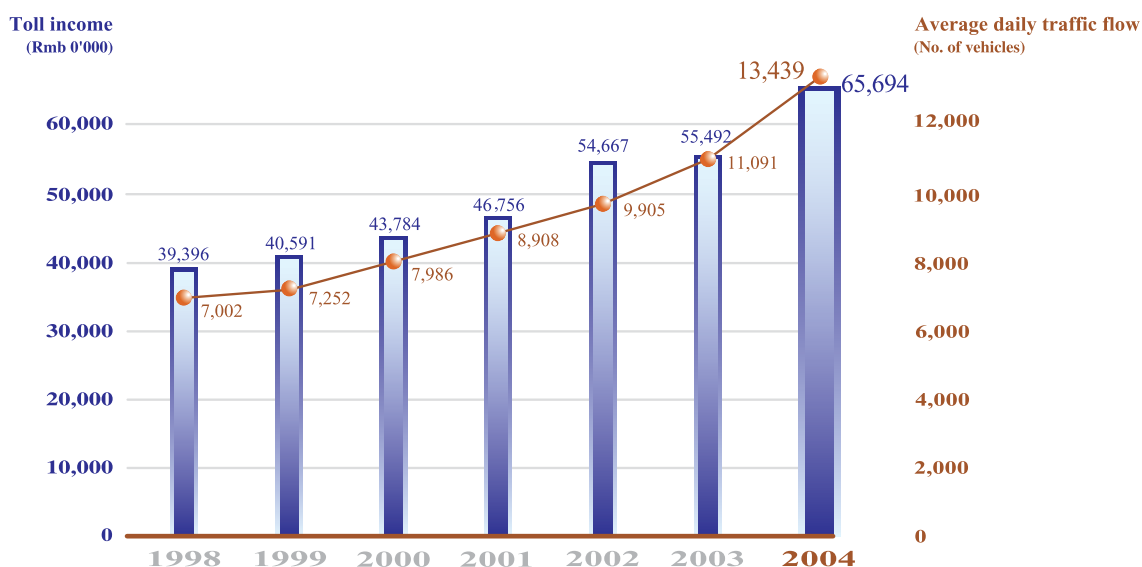
Toll road	Average daily traffic flow (No. of vehicles)	Year- on-year growth/ decline (+/- %)	Toll income (Rmb '000)	Year- on-year growth/ decline (+/- %)	Net profit /(loss) (Rmb '000)	Year- on-year growth/ decline (+/- %)
Chengyu Expressway	13,439	+21.17	656,939	+18.38	249,440	+23.40
Chengya Expressway	12,334	+56.60	211,351	+23.79	(77,976)	+11.07
Chengbei Exit Expressway	19,671	-24.58	54,789	-12.82	14,892	-24.33

#### Chengyu Expressway

The 226km Chengyu Expressway is a dual two-lane highway in the middle of Sichuan Province. The expressway, commenced its construction in July 1990, was completed and open to traffic in July 1995. It is the first expressway in Sichuan Province, and currently the core asset and key profit-earning project of the Company.

As a major traffic artery in Sichuan Province, Chengyu Expressway achieved a continuous steady growth in traffic flow and toll income since its commencement of operation. For the year ended 31 December 2004, the average daily traffic flow of Chengyu Expressway was approximately 13,439 vehicles, representing an increase of approximately 21.17% over the last year. Toll income was approximately Rmb656,939,000, increased by 18.38% over the last year. A net profit of RMB249,440,000 was recorded, representing an increase of 23.40% over the last year.

Chart showing average daily traffic flow and yearly toll income of Chengyu Expressway



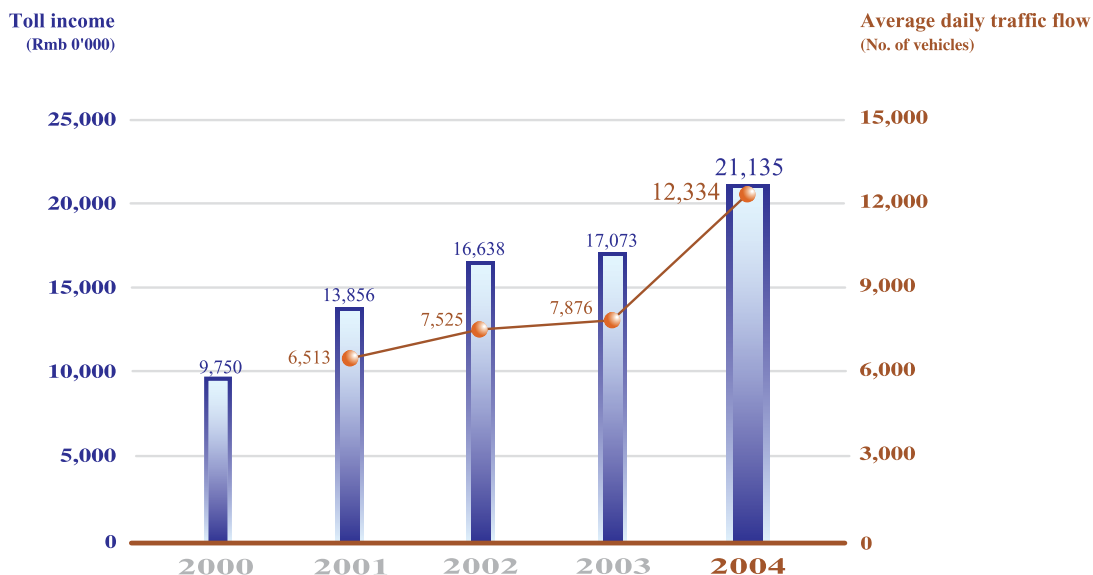
## Chengya Expressway

Chengya Expressway, 144km long, starts from Chengdu and ends at Duiyan, Ya'an City. It is a closed dual two-lane and partly dual three-lane expressway. The main section (129km) of Chengya expressway was opened to traffic and put into trial operation on 28 December 1999. Chengya Expressway was fully completed and put into operation on 28 December 2000. The Company has 62.595% equity interests in Chengya Company.

The traffic flow and toll income of Chengya Expressway has demonstrated an upward trend in each year since the commencement of its operation. For the year ended 31 December 2004, Chengya Expressway recorded a sound performance in road operation, with approximately 12,334 vehicles for the average daily traffic flow, representing an increase of approximately 56.60% over the last year. Toll income recorded approximately Rmb211,351,000, representing an increase of 23.79% over the last year. However, due to the additional bank loan of Rmb0.59 billion of Chengya Expressway in March 2004, interest expenses increased by Rmb21,473,000 during the year. As a result, a loss of Rmb77,976,000 was still incurred, representing an addition of Rmb7,769,000 or 11.07% in loss as compared with the previous year.

# Management Discussion and Analysis (Continued)

Chart showing average daily traffic flow and yearly toll income of Chengya Expressway



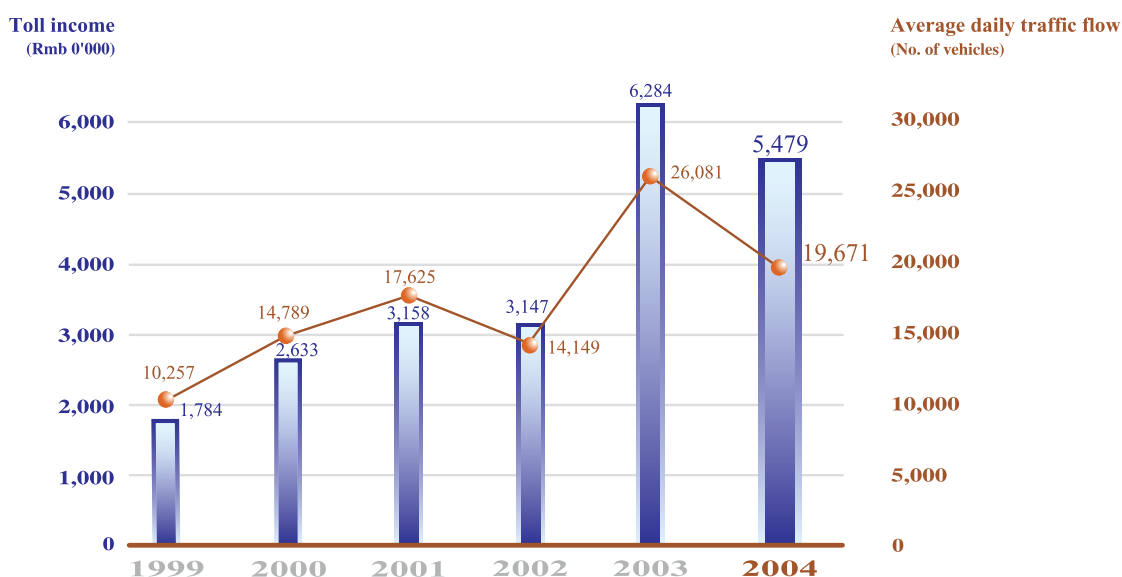
## Chengbei Exit Expressway

Chengbei Exit Expressway, 10.42km long, starts from Qinglongchang and ends at Baihelin. It is a closed dual three-lane system which connects Chengdu and Chengmian Expressway. Chengbei Exit Expressway was completed and opened to traffic in December 1998. The Company has 60% equity interests in Chengbei Company.

According to the relevant approval issued by Sichuan Provincial Government and Sichuan Provincial Department of Communications, Chengbei Company is in charge of the implementation of the renovation project of Chengbei Exit Dajian Road. Upon that, it will obtain the operation right of that road transferred by Chengdu Communication Bureau. In 2003, Chengbei Company started the whole renovation project of Chengbei Exit Dajian Road, which has a length of 8.6 km and runs parallel to Chengbei Exit Expressway. In March 2004, the renovation project of Chengbei Exit Dajian Road carried out by Chengbei Company was fully completed and reopened to traffic, and the traffic flow of Chengbei Exit Expressway in the last three quarters was therefore substantially affected. For the year ended 31 December 2004, the average daily traffic flow of Chengbei Exit Expressway was approximately 19,671 vehicles, representing a decrease of 24.58% from the last year. Toll income was approximately Rmb54,789,000, decreased by 12.82% from the last year. During the year, the net profit amounted to approximately Rmb14,892,000, representing a decrease of 24.33% down from the last year.

After the renovation project of Chengbei Exit Dajian Road was fully completed and reopened to traffic, Chengbei Company sped up its application for the approval concerning the toll collection and operating rights. Under the approval of Sichuan Provincial Department of Communications and Sichuan Provincial Price Bureau issued on 30 August 2004, Chengbei Company is currently in negotiation with relevant Chengdu municipal authorities concerning construction of toll stations in Chengbei Exit Dajian Road, so as to ensure it is in line with Chengdu urban planning. It is expected that toll stations of Chengbei Exit Dajian Road will be completed and commence toll collection in the second quarter of 2005. By then the operation of Chengbei Company will be greatly improved.

Chart showing average daily traffic flow and yearly toll income of Chengbei Exit Expressway



#### 4. Other businesses

Apart from improving the operation and management of its principal activities, the Company also put effort into developing road-related businesses and multiple operations beyond road business based on its principal activities, so as to explore the potential profitability of supplementary highway facilities and expand the room for the Company's development.

The Company's non-core businesses are principally undertaken by the following three subsidiaries:

##### (1) Shuhai Company

Shuhai Company is an investment management limited company and its major scope of businesses includes investment in road infrastructure projects and other projects, investment consulting (excluding financial and security business), high-tech products and technological development. The Company holds 99.9% equity interests in Shuhai Company.



# Management Discussion and Analysis (*Continued*)

Due to the disposal of interest in its two major investments (the toll roads and bridge in Zigong and Luzhou) by Shuhai Company in last year, Shuhai Company experienced a significant change in the asset structure. The company is confronted by a reposition of investment target and scope. Leveraging its own competitive advantage and the experience obtained in the past years, Shuhai Company focuses on infrastructure projects in the transportation industry for the following several years. The company committed to reducing non-road projects, making thorough investigation of expressways in Sichuan Province, together with building up a project reserve upon sufficient data of high quality highways as the main content for the year, striving to reposition itself as soon as possible so as to secure a sustainable development of the company.

## **(2) Shusha Company**

Shusha Company is principally engaged in gas station operation, advertisement billboard leasing, vehicle maintenance and mobile emergency repair services along Chengyu Expressway and multiple operations beyond the road. The Company holds 99.5% equity interests in Shusha Company.

For the year ended 31 December 2004, principal operating income of Shusha Company amounted to Rmb7,224,000, representing an increase of 11.62% over the last year. However, as Chengyu Energy Company, a subsidiary of Shusha Company recorded an operating loss of approximately Rmb4,328,000 for the year, Shusha Company recorded a consolidated loss of approximately Rmb4,807,000.

In view of the development concept of focusing on transportation and reducing non-infrastructure investment step by step, together with unfavourable factors such as the poor operation and deteriorating financial status of Chengyu Energy Company and intensifying competitions in product oil market, Shusha Company transferred all its 70% equity interests in Chengyu Energy Company at a consideration of Rmb5.95 million on 31 August 2004 for a better asset structure for its long-term development.

## **(3) Shugong Company**

Shugong Company is a mechanical engineering company principally engaged in the construction and maintenance of infrastructures such as road, bridge and tunnel and the sale of materials. The Company holds 96.64% equity interests in Shugong Company.

With Chengyu Company continuously putting more efforts into overhaul for Chengyu Expressway in 2004, Shugong Company undertook a large quantity of maintenance work on Chengyu Expressway, resulting a significant increase in its business volume. For the year ended 31 December 2004, principal operating income of Shugong Company amounted to Rmb199,803,000 (of which Rmb5,371,000 was derived from repair services provided to parties outside the Group and Rmb286,000 was derived from the lease of mechanical equipment), representing an increase of 32.61% over the last year, and its net profit amounted to Rmb5,846,000, representing an increase of 28.29% over the last year.

## V. Operation Results and Financial Analysis of the Group

### (1) Operation results analysis

#### Summary of the Group's Results

	For the year ended 31 December		Increase/ decrease (+/-)
	2004 Rmb'000	2003 Rmb'000	
Turnover	884,768	937,398	-5.61%
Operating profit before tax	240,770	244,248	-1.42%
Profit attributable to shareholders	215,598	207,664	+3.82%
Earnings per share (Rmb)	0.0843	0.0812	+3.82%

Note: After deducting the net income of Rmb29,746,000 from the disposal of Shulu Company and Shunan Company in 2003, the net operating profit increased by 21.18% over the last year.

#### Operating results of the Company and its subsidiaries

	Turnover	Operating profit	Unit: (Rmb'000) Net profit/(loss)
Chengyu Company	656,939	306,412	249,440
Chengya Company	211,351	50,471	(77,976)
Chengbei Company	54,789	22,868	14,892

### (2) Analysis of Financial Position

	As at 31 December 2004 Rmb'000	As at 31 December 2003 Rmb'000	Increase / decrease (+/-)
Total assets	7,882,672	7,885,895	-0.04%
Non-current assets	6,951,363	7,124,773	-2.43%
Total liabilities	931,309	761,122	+22.36%
Minority interests	231,835	259,123	-10.53%
Total net assets	4,870,913	4,737,173	+2.82%
Net assets per share (Rmb)	1.90	1.85	+2.70%

Details of pledges are set out on note 24 to the financial statements of this annual report.

# Management Discussion and Analysis (Continued)

## Liquidity of capital and sources of finance

As of 31 December 2004, the cash and cash equivalents of the Group amounted to Rmb 876,374,000, representing an increase of 258,363,000 over the last year. Cash represented 94.10% of the current assets. Current liability amounted to Rmb 571,792,000. The liquidity ratio was 1.63 with sufficient cash and bank balance. As of 31 December 2004, the Group's total loan amounted to Rmb 2,557,275,000, with an average interest rate of approximately 5.8%. As of 31 December 2004, the gearing ratio was 35.27%, representing a decrease of 1.37 percentage point from the last year. Details of capital structure together with comparative figures as at 31 December 2003 are set out as follows:

	As at 31 December 2004		As at 31 December 2003	
	Total amount	Percentage	Total amount	Percentage
Shareholders' equity	4,870,913	61.79	4,737,173	60.07
Debt with floating interest rate	2,557,275	32.44	2,020,052	25.62
Interest-free debt	222,649	2.83	869,547	11.03
Minority interests	231,835	2.94	259,123	3.28
Total	7,882,672	100	7,885,895	100
Debt-equity swap ratio	57.07%		61.00%	

Changes in floating rate and interest-free debts are mainly due to Chengya Company, a subsidiary of the Company, had incurred additional bank loans of Rmb 590,000,000 in March 2004, for repayment of the financing funds provided by Sichuan Highway Development in the previous years.

## Exchange risk

As of 31 December 2004, among the floating rate debt of the Group, there was an outstanding amount of US\$5,889,000 debt from World Bank transferred from its parent company — Sichuan Highway Development which was required to pay in Renminbi to purchase foreign exchange in accordance with exchange rate to repay principal and interest. Besides, the Group needed to purchase Hong Kong dollars to distribute dividends for H Shares holders. The change of exchange rate was insignificant this year and did not have material impact on the results of the Company.

## Capital Commitment

Details of capital commitment of the Group and the Company are set out on notes 31 to the financial statement.

## VI. Prospects and Outlook

1. Under the construction planning of transportation infrastructure of Sichuan Province, the Company will actively identify and select quality road assets in the province, set out financing and investment activities on a safe and effective basis, aiming at a steady expansion of its principal business.
2. It is expected that the overhaul and repair projects of Chengyu Expressway will be completed in 2 to 3 years. As such, the Company will build rational relationships among safe and smooth operation of roads and cost control and financing arrangement, so as to ensure an effective progress of repair and maintenance projects.
3. By improving the awareness and capability for better service quality and efficiency, the Group wishes to further enhance the operating and management performance of its expressways. In response to the new conditions and characteristics arising from online toll collection, the Company will in time polish and update its management system and management methods for toll collection to secure good economic benefits.
4. With strict implementation of financial control system covering financial budget management and capital management, the Company will press ahead the overall execution of corporate management and contract management measures for its subsidiaries. At the same time, the Company will improve its audit work to further strengthen both supervision on capital and monitoring force of audit.
5. In light of its corporate culture, namely, "Build a career, altruistic, industrious and innovative morale", the Company will engage itself in forging a learning enterprise, aiming to an improvement in quality of the staff and a better corporate cohesion for its development in the future.

**Zhang Zhiying**  
*Vice-Chairman and General Manager*

Chengdu, Sichuan, the PRC  
31 March 2005