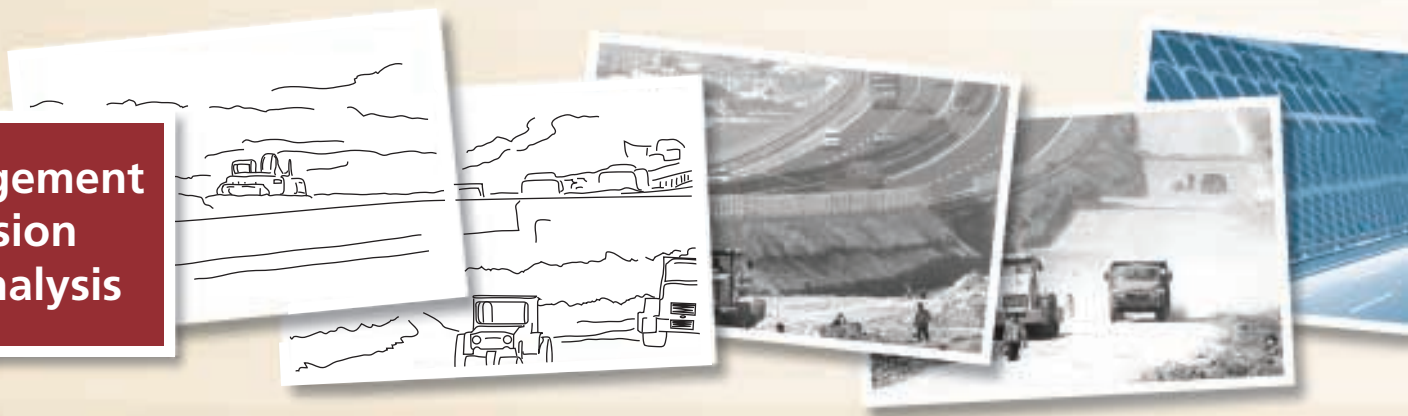


Committed to Maximizing the Company's Cost efficiency

Management
discussion
and analysis





The expansion of Shanghai-Nanjing Expressway was a strategic move of the Company for its development as well as a necessity for the regional economic development. During the two years of expansion works, the Company and the road administration authorities have ensured smooth traffic on Shanghai-Nanjing Expressway by appropriate and efficient traffic arrangements and on-site management, providing unmeasurable social-macro benefits to the regional economic development. As such, the Company has not only maximized its own profitability, but has also contributed greatly to the community.





(I) Overview

1. Operating Environment

Continued economic growth

Against the background of a sustained robust growth in China's national economy in 2005, the pace of a fast economic growth did not slow down remarkably despite the macro-economic control measures enforced by the State, as evidenced by an increase of approximately 9.9% in the national GDP for the whole year, up 0.4 percentage point over 2004. Jiangsu's GDP increased by approximately 14.5% over the corresponding period of the previous year, down 0.4 percentage point, and remained at a high level.



Heavy passenger and cargo transportation

With a sustained, speedy growth in the national economy across Jiangsu Province and a remarkable rise in the frequency of travels by local residents as a result of an increase in their personal income and consumption levels, the passenger and cargo transportation in the Province was heading towards a favourable, speedy development trend in 2005. Passenger and cargo transportation volumes increased by approximately 7.6% and 13.3% respectively over the corresponding period of the previous year. Of such increases, passenger and cargo transportation volumes by means of highways increased by approximately 15.5% and 11.2% respectively over the corresponding period of the previous year. Highway transportation remained the principal means of transportation, whereby highway passenger and cargo volumes accounted for approximately 95.34% and 67.72% respectively of the total transportation volumes.

Significant increase in automobile ownership

In 2005, ownership of automobiles, private cars in particular, continued to surge in Jiangsu Province. By the end of 2005, the number of civilian motor vehicles owned by local residents in the Province reached 1,922,500, up approximately 19.3% over 2004. Among this, the number of private car ownership increased by 312,300 to 1,094,300, representing an increase of approximately 39.9% over 2004 and accounting for 56.9% of the total number of civilian motor vehicles.

Acceleration of expressway construction

The construction of expressways in Jiangsu Province is being further accelerated to meet demands generated by economic development and rapid growth in automobile ownership. In 2005, the mileage of expressways increased by 463 km in the Province, with total mileage opened to traffic reaching 2,886 km. To date, the construction of all projects in the first phase of the "Four Longitudinal-Four Latitudinal-Four Cross Sectional" expressway network programme in Jiangsu Province has already commenced and is scheduled for completion by 2008. By 2006, the traffic mileage of expressways across the Province will have reached over 3,200 km. The improving highway network will serve as a sound transportation basis for further rationalizing the traffic volume within the network and for promoting rapid social and economic development in the region.



Revision of toll charging standards

Pursuant to the “Publication of the Notice of Opinion on Lowering Toll Charging Standards” (《印發關於降低車輛通行費標準的意見的通知》) by the Ministry of Communications and the State Development and Reform Committee, “Issue of the Notice Regarding the Tolls of the Transportation Industry’s Standard Toll Roads for Various Categories of Vehicles” (《關於發佈交通行業標準收費公路車輛通行費車型分類的通知》) by the Ministry of Communications and “Notice Regarding the Policy for Charging Tolls on Highways Across the Province” (《關於調整全省公路車輛通行費征收政策的通知》) by the Jiangsu Provincial Government, the highway toll standards for various highways and bridges operated by the Company or in which the Company has a controlling stake or an equity investment were revised from 10th January 2005, and the highway toll standards for open toll highways were revised from 20th January 2005.

Vehicle categories were changed from six to five after the revisions had become effective. Vehicle classification standards were also revised. Toll charging standards were revised on the basis of the toll-by-weight standards for trucks effective from 28th December 2003 and the charging standards for passenger vehicles effective from 1st January 2004. The decrease in the revised toll rates for heavy vehicles had a slight adverse impact on the Company’s toll revenue.

Revision of business tax rate

Pursuant to the “Notice of Business Tax Policy for Toll Revenues of Highway Operators” (《關於公路經營企業車輛通行費收入營業稅政策的通知》) by the Ministry of Finance and the State Administration of Taxation, the business tax rate for toll revenues from the highways owned by the Group was reduced from 5% to 3% as of 1st June 2005.

2. Summary of Results

In 2005, a positive macro-economic scene and the industry’s development trends have continued to bring a favorable external environment for the Company’s business operations. However, the Group was still affected by the construction of the expansion project of Shanghai-Nanjing Expressway and the full implementation of traffic diversions for trucks, as well as vehicle re-classifications and revisions of toll charging standards implemented for toll highways across the Province effective January 2005. Despite improved road capacity following the operation of the Nanjing-to-Shanghai 4-lane road on Shanghai-Nanjing Expressway from 1st July and the operation of the 8-lane road section between Nanjing and Henglin Interchange (in Changzhou) from 1st October, the expressway still suffered from a slow rebound in traffic volume, partly due to traffic control measures such as on speed limit. As a result, the Group’s operating results for the year were still a decline.



In 2005, the Group realized an operating revenue (operating revenue including revenue and other income) of RMB2,232,679,000, a decrease of 28.09% over the corresponding period of the previous year under PRC Accounting Standards. The Group’s net profit under the PRC Accounting Standards was approximately RMB696,456,000 and earnings per share was approximately RMB0.138, a decrease of approximately 15.76% over the corresponding period of the previous year. Net profit under HKGAAP was approximately RMB668,028,000 and earnings per share was approximately RMB0.133, a decrease of approximately 31.79% over the corresponding period of the previous year. Although the adverse impact of the expansion project was reflected on the Group’s business and operating results during the year, the Group was able to meet its annual operating targets through the management’s efforts in strengthening the collection of tolls and controlling costs in a scientific manner.

Management

Discussion and Analysis



(II) Analysis of Business Operations

In 2005, the Group's operating revenues aggregated RMB2,232,679,000, down approximately 28.09% over the corresponding period of the previous year. The composition of revenues and changes in 2005 over the corresponding period of the previous year are indicated in the table below:

Item	Operating Revenue (RMB'000)	As percentage of total revenue (%)	Increase/decrease over corresponding period of previous year (%)	Operating costs (RMB'000)	Gross profit margin (%)
Jiangsu Section of Shanghai-Nanjing Expressway	1,080,621	48.40	(40.41)	342,962	68.26
Shanghai-Nanjing Section of G312	308,036	13.80	6.08	128,648	58.24
Nanjing Section of Nanjing-Lianyungang Highway	80,695	3.61	17.44	33,882	58.01
Guangjing Xicheng Expressway	496,064	22.22	(7.71)	148,474	70.07
Revenue from ancillary services	229,320	10.27	(34.49)	270,712	(18.05)
Revenue from other operations	37,943	1.70	(15.23)	30,976	18.36
Total	2,232,679	100.00	(28.09)	955,654	57.20

- During the reporting period, revenues from toll and ancillary services along the highways fell approximately 40.41% and 34.49%, respectively, over the corresponding period of the previous year due to the Shanghai-Nanjing Expressway expansion project and the implementation of traffic diversion measures for trucks. Revenues from other operations also decreased by approximately 15.23% over the corresponding period of the previous year as all the outdoor billboards had not yet been in place along the expressway.





In 2005, the operating costs of the Group totaled RMB955,654,000, a decrease of approximately 14.00% over the corresponding period of the previous year. The composition and changes over the corresponding period of the previous year are as indicated in the table below:

Item	Operating costs for the reporting period (RMB'000)	As percentage of total costs (%)	Operating costs for corresponding period of previous year (RMB'000)	Increase/decrease over corresponding period of previous year (%)
Jiangsu Section of Shanghai-Nanjing Expressway	342,962	35.89	406,970	(15.73)
Shanghai-Nanjing Section of G312	128,648	13.46	151,955	(15.34)
Nanjing Section of Nanjing-Lianyungang Highway	33,882	3.55	30,833	9.89
Guangjing Xicheng Expressway	148,474	15.54	118,506	25.29
Costs of ancillary services	270,712	28.33	353,951	(23.52)
Costs of other operations	30,976	3.23	48,976	(36.75)
Total	955,654	100.00	1,111,191	(14.00)

- During the reporting period, the decline in the operating costs of Shanghai-Nanjing Expressway by approximately 15.73% over 2004 was mainly attributable to a decrease of approximately RMB34,555,000 in provisions made for road assets depreciation due to declined traffic flow and as a result of the adoption of the traffic volume method for depreciation. Road maintenance and repair costs also declined by approximately RMB20,686,000 over the corresponding period of the previous year.
- During the reporting period, the decline in the operating costs of the Shanghai-Nanjing Section of G312 by approximately 15.34% over 2004 was mainly attributable to additional provisions made for depreciation of some road and bridge assets on the basis of the difference between actual and projected traffic volumes last year.
- During the reporting period, the increase in the operating costs of Guangjing Xicheng Expressway by 25.29% over 2004 was mainly attributable to a cost of approximately RMB26,971,000 incurred by the reinforcement works on the fly-over crossing of the Jiangyang Section and by special maintenance works on some road surfaces.
- The declines in both the operating costs and revenues of ancillary services are due to the fact that these services did not operate normally for part of the year as a result of the expansion works on the service areas of Shanghai-Nanjing Expressway.



Management

Discussion and Analysis



1. Toll Road Operations

During the reporting period, the Group's core business – the road and bridge operations - achieved a toll revenue of approximately RMB1,965,416,000, representing approximately 88.03% of the total operating revenue, down approximately 27.48% over the corresponding period of the previous year. Given the relatively concentrated distribution of the Group's road and bridge assets, most of these assets were not in normal operation due to the expansion project of Shanghai-Nanjing Expressway and the traffic diversion measures for trucks.

Comparisons of average daily traffic volumes and toll revenues:

Road/Bridge	Average daily traffic volume (vehicle/day)			Average daily toll revenue (RMB '000/day)		
	2005	2004	Change (%)	2005	2004	Change (%)
Shanghai-Nanjing Expressway	21,688	28,414	(23.67)	2,960.6	4,968.3	(40.41)
Shanghai-Nanjing Section of G312	42,871	42,341	1.25	843.9	795.6	6.08
Nanjing Section of Nanjing-Lianyungang Highway	12,043	11,009	9.39	221.1	188.3	17.44
Guangjing Expressway	32,806	29,707	10.43	639.2	614.4	4.04
Xicheng Expressway	25,041	25,209	(0.67)	719.9	858.2	(16.11)
Jiangyin Yangtze Bridge	34,155	31,273	9.22	2,103.9	1,989.4	5.76
Sujiahang Expressway	17,005	17,871	(4.84)	1,552.5	1,582.1	(1.87)

Road and Bridge Operations

Shanghai-Nanjing Expressway

The expansion project of Shanghai-Nanjing Expressway was at its last phase in 2005, with road surface works and the opening to traffic proceeding by phase in an orderly manner. On 1st July, the Nanjing-to-Shanghai four-lane road commenced operation, offering the whole journey 4-lane travel at the minimum. On 1st October, the 8-lane section covering approximately 132 km from Nanjing to Henglin Interchange in Changzhou was opened to truck traffic. The whole 8-lane main road of Shanghai-Nanjing Expressway was completed at the end of 2005 and opened to trucks from 1st January 2006. Except for the Yangchenghu service area, all other service areas along the expressway have already resumed operation, while other traffic projects and ancillary facilities proceeded speedily to meet the needs following the resumption of normal road operation. The whole project was completed more than one year ahead of schedule.

While the construction works proceeded quickly, the quality was kept under effective control. The Company insisted that a quality assurance system be improved and operated effectively during the construction works so that major technical indicators set for new and existing road foundations, bridge culvert structures and surface joints, and so forth, must be met or exceeded. During the construction works, state-of-the-art technology was widely applied, the use of new type of materials was actively applied, technology content was enhanced and expansion project costs were saved with the full use of recycled resources from existing roads.



During the reporting period, approximately RMB3,077 million of funds was put into in the expansion project of Shanghai-Nanjing Expressway. As at 31st December 2005, an aggregate of approximately RMB7,451 million of funds has been put into the project.

Due to the expansion project, traffic diversion measures for trucks were implemented for the entire Shanghai-Nanjing Expressway for the whole year of 2005. As a result, average daily traffic volume and average daily toll revenue dropped further by approximately 23.67% and 40.41%, respectively, over the corresponding period of the previous year. Total toll revenue from this expressway decreased by 10 percentage points from approximately 58.4% of the Group's total revenue in 2004 to approximately 48.4%, directly leading to a fall in the Company's results. After the section from Nanjing to Henglin in Changzhou was opened to trucks on 1st October, traffic volume began to pick up gradually, as evidenced by an average daily traffic volume of 25,362 vehicles and an average daily toll revenue of RMB3,773,000 recorded from October to December 2005, up approximately 24.02% and 37.49% respectively over the months from January to September 2005.



Shanghai-Nanjing Section of G312 (formerly Jiangsu Section of Shanghai-Nanjing Class 2 Highway)

The whole widening project of the Shanghai-Nanjing Section of G312 was completed and opened to traffic in December 2005. The reconstructed section covers 282 km and is a two-way, four-lane Class 1 highway. The Company acquired the toll operating right for another twelve years for RMB2,700 million.

During the reporting period, RMB850 million transfer fee was paid to the Highway Bureau pursuant to a contract on the transfer of the operating right. As at the end of the reporting period, an aggregate of RMB2,600 million transfer fee had been paid.

In 2005, the Shanghai-Nanjing Section of G312 continued to be a major road in receiving the diverted traffic from Shanghai-Nanjing Expressway, with its traffic volume continuing to increase over the corresponding period of the previous year. The average daily traffic volume was 42,871 vehicles, up approximately 1.25% over the corresponding period of the previous year, while the average daily toll revenue amounted to RMB843,900, up approximately 6.08% over the corresponding period of the previous year. There was a remarkable decline in the rates of growth in traffic volume and revenue over the corresponding period of the previous year due to both its own widening project and traffic diversions following the operation of Yanjiang Expressway.

Management

Discussion and Analysis



Nanjing Section of Nanjing-Lianyungang Highway

During the reporting period, the Nanjing Section of Nanjing-Lianyungang Highway operated smoothly with satisfactory performance, recording an average daily traffic volume of 12,043 vehicles, up approximately 9.39% over the corresponding period of the previous year, and an average daily toll revenue of RMB221,100, up approximately 17.44% over the corresponding period of the previous year.

Other Road and Bridge Assets

The Company owns, or has equity investments in, other road and bridge assets including Guangjing Expressway, Xicheng Expressway, Sujianghang Expressway and Jiangyin Yangtze Bridge, which are either located along Shanghai-Nanjing Expressway or longitudinally connected to the expressway forming a network therewith. Traffic volume on each of these expressways was affected to varying degrees due to the radiation effect of the expansion project of Shanghai-Nanjing Expressway and associated substantial truck diversions during the year.

Among these expressways, Xicheng Expressway and Sujianghang Expressway, directly connected to Shanghai-Nanjing Expressway, were significantly hit as their average daily traffic volumes dropped by approximately 0.67% and 4.84%, respectively, during the reporting period over the corresponding period of the previous year. Guangjing Expressway and Jiangyin Yangtze Bridge were hit slightly, with traffic volumes continuing to grow approximately 10.43% and 9.22% respectively, though the growth rates were obviously lower than those for the corresponding period of the previous year.

The adverse impact of the expansion project has vanished completely since the operation of the eight lanes on Shanghai-Nanjing Expressway on 1st January 2006, as the highways within the network have begun to resume normal operation gradually. It is believed that there will be satisfactory performance in 2006.

(2) Ancillary Services

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

These service areas have been successively closed since 2004 due to demolition, reconstruction or expansion works, thus substantially cutting down their business scope and resulting in a notable decline in operating revenues. During the reporting period, revenues from ancillary services amounted to approximately RMB229,320,000, down 34.49% over the corresponding period of the previous year. Losses amounted to approximately RMB41,392,000.



In the second half of 2005, the service areas along the expressway began to resume operation upon completion of reconstruction and expansion works. All service areas have commenced normal operation to date, except for the Yangchenghu service area.



3. Subsidiaries and Associates

As at 31st December 2005, the subsidiaries and associates of the Company were as follows:

Names of subsidiaries and associates	Attributable equity interests	Registered capital (RMB'000)	Asset size (RMB'000)	Net profit (RMB'000)	Principal operations
Jiangsu Sundian Engineering Co., Ltd	95.5%	35,000	70,991	1,531	Special repairs and maintenance of roads and bridges (including expressways), works on road surfaces and traffic safety facilities, and so forth
Jiangsu Ninghu Investment Development Co., Ltd.	95%	100,000	113,796	2,227	Investments in various infrastructures, industrial concerns and industries
Jiangsu Guangjing Xicheng Expressway Guangjing Co., Ltd	85%	850,000	2,780,108	218,286	Construction, management, maintenance and toll collection of Guangjing Xicheng Expressway and related supplies storage, passenger and cargo transport and automobile repairs
China Transportation HEAD New Technology (Shanghai) Co., Ltd.	35.71%	21,000	21,482	609	Development of software on engineering design and construction management, management of highway resources and intelligent traffic consultancy on GIS/GPS applications
Suzhou Sujiahang Expressway Co., Ltd	33.33%	1,578,600	4,992,797	84,025	Construction, maintenance management and toll collection of the Jiangsu Section of Sujiahang Expressway and related businesses along the highway
Jiangsu Kuailu Bus Transportation Stock Co., Ltd.	33.2%	150,300	260,012	14,969	Road transportation, automobile repairs and sales of automobiles (excluding sedan cars) and spare parts
Jiangsu Yangtze Bridge Co., Ltd	26.66%	2,137,248	3,452,861	356,151	Mainly engaged in the construction, maintenance management and operation of Jiangyin Yangtze Bridge and other transportation infrastructures

Notes:

- All the subsidiaries and associates of the Company are incorporated and carry out their principal operations in China.
- As at 31st December 2005, none of the subsidiaries or associates of the Company had any outstanding equity or debt securities in issue.

Management

Discussion and Analysis



(III) Analysis of Operating Results and Financial Status

The Group adopts a proactive and prudent financial policy that keeps financial risks under strict control. In line with the needs for the Company's sustainable development and the availability of its internal resources, the financial structure is reviewed on a regular basis and any necessary adjustments are made thereto promptly as required for maximising both the value of the Company and the interests of its shareholders.

1. Assets of the Group

Under the PRC Accounting Standards

Item	2005 (RMB'000)	2004 (RMB'000)	Change (%)
Total assets	27,223,147	20,638,701	31.90
Current liabilities	7,233,689	2,481,289	191.53
Long-term liabilities	4,939,990	3,077,863	60.50
Minority interests	416,908	413,464	0.83
Shareholders' equity	14,632,560	14,666,085	(0.23)
Profit from principal operations	1,180,227	1,847,350	(36.11)
Net profit	696,456	826,725	(15.76)
Increase in cash and cash equivalents	549,284	(1,012,254)	154.26

- During the reporting period, the Group's total assets increased by RMB6,584,446,000 and total liabilities increased by RMB6,614,527,000 were mainly attributable to substantial investments made in the expansion project of Shanghai-Nanjing Expressway and the payment for the acquisition of the operating right of the Shanghai-Nanjing Section of G312.
- During the reporting period, the decrease in net profit was less than the decrease in profit from principal operations, mainly because of the write-off in 2004 on assets removed in the course of the expansion project which had incurred a loss of approximately RMB225,971,000.

Under the HKGAAP

Item	2005 (RMB'000)	2004 (RMB'000) (Restated)	Change (%)
Total assets	25,798,403	19,240,021	34.09
Current liabilities	7,233,688	2,481,286	191.53
Long-term liabilities	4,939,990	3,077,864	60.50
Minority interests	416,908	413,464	0.83
Shareholders' equity	13,207,817	13,267,407	(0.45)
Profit before taxation	990,608	1,461,238	(32.21)
Profit attributable to equity holders of the Company	668,028	979,391	(31.79)
Increase in cash and cash equivalents	549,284	(1,012,254)	154.26



2. Analysis of Operating Results

Under the PRC Accounting Standards

Item	2005 (RMB'000)	2004 (RMB'000)	Change (%)
Income from principal operations	2,194,736	3,060,081	(28.28)
Profit from principal operations	1,180,227	1,847,350	(36.11)
Financial costs	162,389	122,204	32.88
Operating profit	829,238	1,527,917	(45.73)
Investment gains	128,945	131,254	(1.76)
Total profit	944,436	1,390,204	(32.06)
Taxation	(215,126)	(523,954)	(58.94)
Minority interests	(32,854)	(40,118)	(18.11)
Net profit	696,456	826,725	(15.76)
Earnings per share (RMB)	0.138	0.164	(15.76)
Dividend per share (RMB)	0.145	0.145	—

- During the reporting period, the decrease in income from principal operations was mainly attributable to a decrease in toll revenue from Shanghai-Nanjing Expressway, revenue from the ancillary services along the expressway and toll revenue from Xicheng Expressway. Of these revenues, toll revenue from Shanghai-Nanjing Expressway decreased by RMB732,798,000, representing 84.68% of the total decrease in revenue from principal operations; revenue from the ancillary services along the expressway decreased by RMB 92,337,000, representing 10.67% of the total decrease in revenue from principal operations; and toll revenue from Xicheng Expressway decreased by RMB50,490,000, representing 5.83% of the total decrease in income from principal operations.
- During the reporting period, profit from principal operations decreased as a result of decrease in income from principal operations. However, the rate of decrease in profit from principal operations was higher than that in revenue due to the expenses on relatively fixed items such as staff costs, public service costs of service areas and start-up costs for some service areas.
- During the reporting period, the increase in financial costs was mainly attributable to the costs of financing from external resources in order to meet capital commitments. Of these costs, interests on borrowings amounted to approximately RMB126,567,000, interests on short-term commercial papers amounted to RMB25,626,000 and underwriting and handling charges for short-term commercial papers amounted to approximately RMB16,140,000.
- During the reporting period, the decrease in taxation was mainly attributable to a reduced tax base due to the decline in operating results. Moreover, the Company received a reply from the tax authorities in 2005 approving that the losses from assets write-off for 2004 could be accounted for before tax, and as a result a relevant taxation amount of approximately RMB76,978,000 offset the amount of taxation for the reporting period.

Under the HKGAAP

Item	2005 (RMB'000)	2004 (RMB'000) (Restated)	Change (%)
Revenue	2,110,981	2,951,996	(28.49)
Other income	31,891	22,328	42.83
Share of results of associates	135,995	130,601	(4.13)
Financial costs	(168,334)	(132,534)	27.01
Taxation	(289,726)	(441,729)	(34.41)
Profit attributable to minority interests	(32,854)	(40,118)	(18.11)
Profit attributable to equity holders of the Company	668,028	979,391	(31.79)
Reserves	8,170,069	8,229,659	(0.72)
Earnings per share (RMB)	0.133	0.194	(31.44)
Dividend per share (RMB)	0.145	0.145	—

Management Discussion and Analysis



3. Analysis of Financial Status

The Group's capital structure

Under the PRC Accounting Standards, the capital structure of the Group as at 31st December 2005 and the comparative figures for 2004 are as follows:

Item	As at 31st December 2005		As at 31st December 2004	
	RMB'000	%	RMB'000	%
Current liabilities	7,233,689	26.57	2,481,289	12.03
Long-term liabilities	4,939,990	18.15	3,077,863	14.91
Liabilities at fixed interest rates	9,308,659	34.19	5,034,677	24.40
Liabilities at floating interest rates	—	—	—	—
Interest-free liabilities	2,865,020	10.53	524,475	2.54
Shareholders' equity	14,632,560	53.75	14,666,085	71.06
Minority interests	416,908	1.53	413,464	2.00
Total assets	27,223,147	100.00	20,638,701	100.00
Gearing ratio	—	44.72	—	26.94

— During the reporting period, there were substantial changes in the Company's capital structure and total liabilities ratio over the corresponding period of the previous year, reflected by a decrease in the percentage of equity-based capital and an increase in liability-based capital. This is due to the fact that in order to meet capital commitments, a substantial amount of debt capital was secured from external resources.

Under the HKGAAP, the capital structure of the Group as at 31st December 2005 and the comparative figures for 2004 are as follows:

Item	As at 31st December 2005		As at 31st December 2004	
	(RMB'000)	%	RMB'000 (Restated)	%
Current liabilities	7,233,688	28.04	2,481,286	12.90
Long-term liabilities	4,939,990	19.15	3,077,864	16.00
Liabilities at fixed interest rates	9,308,659	36.08	5,034,677	26.17
Liabilities at floating interest rates	—	—	—	—
Interest-free liabilities	2,865,019	11.11	524,473	2.73
Shareholders' equity	13,207,817	51.19	13,267,407	68.95
Minority Interests	416,908	1.62	413,464	2.15
Total Assets	25,798,403	100.00	19,240,021	100.00
Gearing ratio	—	36.08	—	26.17

Gearing ratio: Liabilities at fixed interest rate/total assets



Asset liquidity and financial resources

The Group is principally engaged in the operation of toll roads and bridges. The operating activities relating to day-to-day toll business provide a substantial amount of steady cash inflows, with which the Group has a strong payment capacity. Despite the Company's great demand for capital expenditures in recent years, this did not have a remarkable impact on the Company's asset liquidity as most of the project investments and distribution of dividends to shareholders were funded by bank loans or other financing activities. In 2005, cash inflows from the Group's operating activities amounted to approximately RMB2,294,594,000; net cash inflows from operating activities amounted to approximately RMB1,285,000,000; and monetary capital at book value amounted to approximately RMB1,074,058,000. Accordingly, the management believes that the Group does not have any cash liquidity problem.

Cash and cash equivalents and loans are indicated in the table below:

Item	As at 31st December 2005 The Group (RMB'000)	As at 31st December 2004 The Group (RMB'000)
Cash and cash equivalents:		
Cash on hands	192	318
Bank deposits	1,073,866	524,456
Short-term investments	—	—
Total:	1,074,058	524,774
Loans:		
Short-term bank loans	450,000	1,950,000
Short-term bonds	3,912,026	—
Long-term loans due within one year	6,643	6,813
Long-term bank loans	4,939,990	3,077,863
Total:	9,308,659	5,034,676

Management

Discussion and Analysis



Financing activities and financial costs

The Group's capital expenditures were financed mainly by Renminbi loans from commercial banks in China. Despite the macro-economic measures enforced by the Chinese Government, investments are still encouraged in the highway sector and supported substantially by banks on the capital market. With its steady cash flows, sound credit track records and reputation in the sector, the Company is also entitled to the prime rates under the interest rate policy of the People's Bank of China. Taking into account its repayment capacity and financing costs, the Company has undertaken a loan portfolio that comprises short-term, medium-term and long-term loans. In 2005, the Group's loans increased by RMB4,273,982,000, of which short-term loans decreased by RMB1,500,000,000 and long-term loans (including amount due within one year) increased by RMB1,861,956,000. Short-term commercial papers increased by RMB3,912,026,000. Financial costs incurred for the current year amounted to approximately RMB162,389,000 while capitalized interest expenses amounted to approximately RMB253,959,000.



Pursuant to a resolution passed at the 12th meeting of the fourth session of the Board of the Company, an application was submitted to the People's Bank of China during the reporting period for the issue of short-term commercial papers with an aggregate amount of not exceeding RMB4 billion, and an approval was granted by the People's Bank of China on 7th September. An extraordinary general meeting was held on 9th September, at which the matter was considered and approved. Upon completion of relevant offering procedures, short-term commercial papers with an aggregate amount of RMB4 billion were issued to inter-bank institutional investors in two batches on 23rd September and 7th November respectively. The offering interest rate was 2.923% and the handling charge rate was approximately 0.4%. Proceeds from the issue will be mainly applied to the expansion project of Shanghai-Nanjing Expressway and repayment of short-term bank loans.

Major sources and applications of cash

Unit: RMB'000

	2005	2004
Net cash flows from operating activities	1,285,000	1,675,403
Net cash flows from investing activities	(3,850,340)	(5,373,358)
Net cash flows from financing activities	3,114,623	2,685,701
Net increase in cash and cash equivalents	549,283	(1,012,254)

- The decrease in net cash flows from operating activities was mainly attributable to the decrease in toll revenue from the Jiangsu Section of Shanghai-Nanjing Expressway, a core asset of the Company.
- Net cash flows from investing activities and net cash flows from financing activities were affected by the two capital commitments in relation to the expansion project of the Jiangsu Section of Shanghai-Nanjing Expressway and the acquisition of the operating right of the Shanghai-Nanjing Section of G312.



Capital expenditures

In 2005, the Group's planned capital expenditures amounted to approximately RMB4,255,488,000. The main composition of capital expenditures is as follows:

Capital Expenditure	RMB'000
Expansion of Shanghai-Nanjing Expressway	3,077,213
Acquisition of operating right of Nanjing-Shanghai Class 2 Highway	850,000
Purchase of fixed assets	74,316
Others	1,000
Capitalized interest	253,959
Total	4,255,488

Tax policy

Enterprise income tax was paid in full at a statutory tax rate of 33%. In 2005, income tax expenses aggregated approximately RMB215,126,000. Business tax for toll revenue from expressways was charged at 5% from 1st January 2005 to 31st May 2005 and at 3% from 1st June 2005 to 31st December 2005.

Reserves

Unit: RMB'000

	Share capital	Share premium	Statutory surplus reserve fund	Statutory public welfare fund	Undistributed profit	Total
At 1st January 2004 as restated	5,037,748	5,730,454	510,920	255,461	1,483,906	13,018,489
Profit for the year and total income recognised	—	—	—	—	979,391	979,391
Appropriations	—	—	106,108	53,054	(159,162)	—
Dividends	—	—	—	—	(730,473)	(730,473)
At 31st December 2004	5,037,748	5,730,454	617,028	308,515	1,573,662	13,267,407
Effects of changes in accounting policies	—	—	—	—	2,855	2,855
At 1st January 2005 as restated	5,037,748	5,730,454	617,028	308,515	1,576,517	13,270,262
Profit for the year	—	—	—	—	668,028	668,028
Appropriations	—	—	88,591	44,296	(132,887)	—
Dividends	—	—	—	—	(730,473)	(730,473)
At 31st December 2005	5,037,748	5,730,454	705,619	352,811	1,381,185	13,207,817

The above capital accounts are owned by individual companies which form the Group.

None of the above statutory reserves may be used for purposes other than their intended purposes nor for distribution as cash dividends.

Management

Discussion and Analysis



Contingent liabilities

As at 31st December 2005, the Company did not have any contingent liabilities.

Foreign exchange risks

The Group operates its businesses principally in China. No major foreign exchange risks are involved as revenues from operations and capital expenditures are settled in Renminbi, except dividend payments for H shares. A loan of US\$9,800,000 was secured from the Spanish Government in 1998. As at 31st December 2005, the balance of the loan was RMB46,633,000 after conversion from US dollars, against which no foreign exchange hedge was made. Fluctuations in the exchange rates do not have a material impact on the Company's results.

Trust deposits

As at 31st December 2005, the Company did not have any trust deposits with any financial institutions in China or any term deposits which were irrecoverable upon their maturity.

Trust loans

In December 2004, the Company secured a loan of RMB200,000,000 from its subsidiary Jiangsu Guangjing Xicheng Expressway Co., Ltd. by way of a trust loan for a term from 27th December 2004 to 26th December 2005 at an annual interest rate of 5.022%. The loan was fully settled during the reporting period. The Company does not have any trust loans at present.

(IV) Problems Arising from Operations and their Solutions

During the year, the expansion project of Shanghai-Nanjing Expressway embarked large-scale major road surface connection works, reconstruction and expansion of service areas and construction of traffic projects and ancillary facilities, with the core works completed within the year. The works were very concentrated and have created tremendous pressure on traffic arrangements and operational management. Meanwhile, the prohibition of trucks from using Shanghai-Nanjing Expressway for the most part of the year had affected the normal operation of other highways so much so that the Group's operating results continued to fall during the reporting period.

Despite the pressures encountered, the Company's management strived to take effective measures in various aspects, starting first with strengthening the management of construction works, traffic arrangements and collection of tolls as well as rational control of operating costs, aimed at minimising the effect of the expansion project on the Company's operating revenue and profit levels.

The effect of the expansion project on the Company's operations was reflected mainly in the year. All adverse effect of the expansion project had vanished completely upon operation of the eight lanes on Shanghai-Nanjing Expressway on 1st January 2006. The Company's various operating activities will be gradually back to normal.



(V) Business Development Initiatives

In 2006, the Company will focus on both completing the final touches for the expansion project and making a strategic switch: a switch to strengthening business operations and corporate management with the use of all positive factors, so that we will greet the 10th anniversary of the Company with a new face and new results.

The expansion project spanning more than two years is close to an end with the operation of the 8-lane Shanghai-Nanjing Expressway on 1st January 2006. The remaining ancillary projects and the construction of toll, monitoring and communication systems will be basically completed by the first quarter, and subsequent matters such as documentation, financial audit, works delivery and inspection will be completed by the first half of the year.



The completion of the project also marks a new chapter in the Group's business. Higher requirements for maintenance, safety management and service standards in respect an eight-lane expressway have been set for road operation and management. With innovation and enhancement, we are set to gradually establish a sound management system for the eight-lane expressway through exploration and practices.

Accordingly, the Company will, during the new year, continue to improve management standards; make innovations to the management system; establish an efficient, applicable and scientific management system; and strengthen planning and supervision of work so as to enhance work efficiency. In addition, the Company will, through strengthening staff training, enhance operational skills, operational responsiveness and service quality. By means of this series of initiatives, we believe that the traffic flow and operating results will recuperate faster than it should.

In 2006, the substantial increase in asset depreciation and financial costs will work against a rapid rise in the Company's results. The Company will continue to carry out budget management, strengthen cost controls, keep funds applications and management procedures under control, rationalize the loan portfolio to gain interest differentials to reduce financial costs and enhance profitability.

By carrying out personnel and salary reform programs, the Company aims to mobilize the enthusiasm, creativity and sense of belonging of the staff based on their performance, developing a corporate culture consistent with the needs of a harmonized society so that the Company will grow together with its staff harmoniously.

Xie Jia Quan

General Manager

Nanjing, the PRC

7th April 2006