

MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)

As the above special circumstances were short-term, the slowdown in traffic volume growth during the second half of 2000 is not expected to continue into 2001.

A toll rate adjustment took place on July 1, 1999, which increased distance-based mileage fees for Class 1 vehicles from 40cents per vehicle per km to 45cents per vehicle per km, resulting in an overall increase in toll charges by approximately 5%. The current toll rates and corresponding percentage of the various classes of vehicles traveling on the Shanghai-Hangzhou-Ningbo Expressway are as follows:

Vehicle Class	Classification Standards	Entrance fee (RMB/vehicle)	Mileage fee (RMB/vehicle/km)	% of Total Vehicles in 2000
1	Cars, vans and trucks of 2 tons or less	5.00	0.45	65.93
2	Buses and trucks of over 2 tons but not more than 5 tons	10.00	0.80	3.53
3	Minibus and trucks of over 5 tons but not more than 10 tons	15.00	1.20	9.31
4	Trucks of over 10 tons but not more than 20 tons	20.00	1.60	1.12
5	Trucks over 20 tons	25.00	2.00	0.12

Of the RMB1,181.5 million toll income collected on the Shanghai-Hangzhou-Ningbo Expressway in 2000, 14.5% was attributable to entrance fees.

Shangsan Expressway

The Shangsan Expressway (formerly known as the Shangyu-Sanmen Road) is a 142km four-lane expressway connecting the Hangzhou-Ningbo Expressway and the Ningbo-Taizhou-Wenzhou Expressway. It runs from Guzhu Interchange on the Hangzhou-Ningbo Expressway at the northern end to Wuao Interchange on the Ningbo-Taizhou-Wenzhou Expressway at the southern end, with a total of 11 toll stations and three service areas situated in between.



The construction of the Shangsang Expressway was divided into two phases. Phase 1, consisting of four short sections in Shangyu, Shenzhou, Xinchang and Tiantai with a total length of 37.5 km, has been operational since February 1997 whilst the construction of Phase 2 commenced in February 1998.

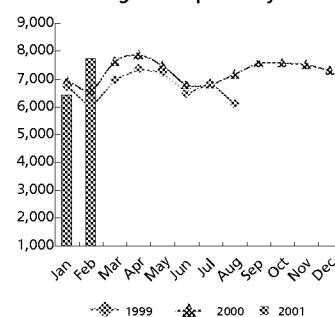
Due to the construction of Phase 2, Phase 1 had been only partially operational since January 2000, until the entire Phase 1 ceased toll collection in August. Average daily traffic volume in full trips during the period of partial operation was 6,699, representing a decrease of 7.9% over the daily average in 1999. The entire Shangsang Expressway was completed and formally opened to traffic and started toll collection on December 26, 2000.

In the concession agreement in relation to the Shangsang Expressway entered into between the Company and the Zhejiang provincial government dated October 31, 1997, the provincial government has undertaken to the Company that toll rates of Shangsang Expressway may be set at a level of not less than 90% of the toll rates charged for the Shanghai-Hangzhou-Ningbo Expressway.

Accordingly, the provincial government approved on December 25, 2000 the toll rates proposed for the Shangsang Expressway at the same level as those on the Shanghai-Hangzhou-Ningbo Expressway, except for the mileage fees for Class 1 vehicles which is 0.40 RMB/vehicle/km, with effect immediately upon the commencement of operation of the expressway.

The operation of, and the toll collection on, the Shangsang Expressway will be carried out by Shangsang Co, which will also be responsible for routine maintenance. Any major overhaul will be put out to tender. In addition, through a monitoring and toll collection center operated by the Company, Shangsang Expressway is placed under a unified operation system with the Shanghai-Hangzhou-Ningbo Expressway. Vehicles travelling through the intersection of these two expressways will not have to stop to settle fees.

Daily Traffic Volume of Shangsang Expressway



Shida Road

Shida Road is a 9.45km connecting road operated by Shida Co. Its main function is to provide an additional route for traffic flow between the Shanghai-Hangzhou-Ningbo Expressway and the city of Hangzhou. Average daily traffic volume in 2000 grew by 60% over that of 1999 to reach approximately 4,104 vehicles, and toll income grew by 82% to reach approximately RMB11.03 million.

Although interest payments on commercial loans continued to outweigh operating profit, and Shida Co recorded a loss of approximately RMB15.57 million during the year, the operation of Shida Road nevertheless enhanced the overall accessibility of the Shanghai-Hangzhou-Ningbo Expressway. As the metro area of Hangzhou continues to expand, more vehicles will be using the Shida Road for access to the Shanghai-Hangzhou-Ningbo Expressway, and profitability of Shida Co is expected to improve accordingly.

Other Businesses

Petroleum Co

The global rise in crude oil and petroleum product prices during the year did not have a significant impact on the business performance of Petroleum Co. However, due to changes in the PRC distribution system of petroleum products which took place in late 1999, Petroleum Co's wholesale business in petroleum products was reduced by approximately 50%. In response to this latest development, Petroleum Co reduced its registered capital by RMB200 million, and re-focused its business operations on retail sales of petroleum products. Petroleum Co's net profit contribution to the Group in 2000 was approximately RMB28.1 million, representing a return on capital of approximately 26%.

Advertising Co

Advertising Co, which operates billboard advertising along expressways operated by the Group, was successful in reaching out to a wider market through extensive use of intermediate advertising agents. Turnover for the year was approximately RMB14.2 million, and net profit was approximately RMB12.7 million, representing increases of 175% and 326% over that of 1999, respectively.

JoinHands Technology

JoinHands Technology is a start-up company principally engaged in the application of computer technologies in the areas of anti-counterfeiting and modern logistics management networks. Since the Company's investment in April 2000, JoinHands Technology made a breakthrough in opening up markets with the introduction of its technology to the local merchandising market. Various degrees of headway in marketing were also made in areas such as agricultural products, finance, pharmaceuticals, publishing, taxation receipts and legal certificates. Turnover realized in 2000 was approximately RMB6.25 million, and a net profit of approximately RMB250,000 was realized for the first time.

Expressway Management

An essential part of the Company's continued efforts in improving core competence is the constant improvement in expressway management techniques. Following the adoption of pre-paid IC cards throughout the Shanghai-Hangzhou-Ningbo Expressway in October 1999 aimed at offering convenience to frequent expressway travelers, the Company further introduced a credit card payment option in September 2000.

Meanwhile, a complete upgrade of the toll collection system operated by the Group was completed in October 2000 to replace the slide-through IC cards used for recording vehicle and travel information with contactless IC cards. This latest upgrade has proved to increase efficiency of the toll collection operation.

On April 18, 2000, the Company initiated a campaign to establish a service quality assurance system covering all aspects of expressway management. The initiative was aimed at improving the quality of service on the expressways operated by the Group and establishing the Company as a leading toll road operator. During the campaign, a "Quality Handbook" and 41 procedures were produced following the principle of "Focus on Customers".

After four months of successful trial, on January 4, 2001, the China Classification Society Quality Assurance Ltd. certified the Company's expressway management system as conforming to Quality Standard GB/T19002-1994 idt ISO9002: 1994.



MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)

Human Resources

As of December 31, 2000, the Group had 1,937 employees, of whom 337 were administrative and management staff, 131 were engineering and technical staff and 1,469 were toll collection and maintenance staff.

The Company recognizes that its employees are its most precious asset, because a company can only be as good as the people who are running it. Employees are encouraged to combine self-learning with regular and topic-specific training programs provided by the Company to keep abreast of the latest technology and business management skills.

The Company structures its remuneration packages to link rewards more closely with performance so as to ensure salary competitiveness as well as accountability of various key positions. As an essential part of this policy, a performance assessment program was established whereby management staff have to undergo assessments by supervisors, colleagues and subordinates.

Project Development

The investment environment in the PRC was generally encouraging during the year as the PRC made preparations for its imminent accession to the World Trade Organization. The demand for funding for infrastructure construction continued to accelerate, and more projects were made available for investment, resulting in increased choices in, and stronger competition for, project investments at the same time.

During the year under review, the Company actively pursued a number of potential investment projects, two of which came to fruition with acquisition costs amounting to RMB191.3 million.

In April 2000, the Company invested an aggregate amount of RMB18.5 million to acquire a 30% equity interest in JoinHands Technology. Details of this acquisition were disclosed in the Company's announcement dated April 7, 2000.

In September 2000, the Company acquired a further 6% equity interest in Shangsang Co through two separate acquisitions for a total consideration of RMB172.8 million, details of which were disclosed in the Company's announcement dated September 25, 2000.

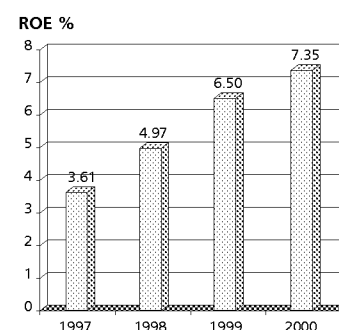
FINANCIAL ANALYSIS

The Company adopted a treasury policy characterized by pro-activeness with prudence. The Company reviews its liability profiles from time to time, and makes adjustments whenever it is deemed necessary. While strictly limiting investment risks, the Company intends to raise its gearing ratio in an effort to realize its aim of increasing the Company's return on shareholders' equity.

Return on Equity

During the year under review, return on shareholders' equity (the "ROE"), or, net profit attributable to shareholders/shareholders' equity, was approximately 7.35%. Growth in ROE since the establishment of the Company in 1997 is shown below:

	2000	1999	1998	1997
ROE	7.35%	6.50%	4.97%	3.61%



Liquidity

As at December 31, 2000, the interest bearing borrowings of the Group are summarized below:

Interest Portfolio and Committed Borrowing Facilities

	Gross		Floating		Committed
	Amount	Fixed Rate	Rate	Percentage	Borrowing
	RMB'000	RMB'000	RMB'000	%	Facilities RMB'000
World Bank loan (US\$)	1,778,529	—	1,778,529	51.6	313,564
Commercial bank loans	1,230,000	1,230,000	—	35.7	550,000
Policy loans	238,069	238,069	—	6.9	—
Bonds	200,000	200,000	—	5.8	—
Total	3,446,598	1,668,069	1,778,529	100.0	863,564