

MANAGEMENT DISCUSSION AND ANALYSIS

1. BUSINESS SUMMARY

In the first half of the year, the Company continued to adhere to its business strategy of sticking to core business and developing supplementary business. With its attention focused on economic benefits, the Company actively embarked on a variety of projects and achieved more satisfactory operating results. The Group recorded a total turnover of Rmb318,373,000 for the Period, representing an increase of 9.88% over the same period of last year, of which Rmb217,511,000, or 68.32%, from Sichuan Chengyu Expressway; Rmb59,043,000, or 18.55%, from Sichuan Chengya Expressway; Rmb13,183,000, or 4.14%, from Chengdu Chengbei Exit Expressway; Rmb28,636,000, or 8.99%, from Zigong Ring Roads, Lulong Road, Luhe Road and Tuojiang Er Bridge; and, Rmb16,491,000, from other activities. During the Period, profit attributable to shareholders was approximately Rmb86,472,000 and earnings per share was Rmb0.0338, representing an increase of 8.68% over the same period of last year.

The growth in the Group's profit attributable to shareholders for the Period was mainly attributable to the following factors: (1) Revenue from the Group's major operations was surging steadily. The improvement by the Group of the operation and management of its projects has resulted in the growth of toll incomes from its expressways at different speed. Among them, toll income from Sichuan Chengyu Expressway rose by 6.23% as compared to the same period of last year; toll income from Chengdu Chengbei Exit Expressway grew by 3.86% compared to the same period of last year; and, toll income from Sichuan Chengya Expressway surged by 41.67% as compared with the same period of last year. (2) The Group has further tightened its internal cost control and management in an effort to raise the level of profit attributable to shareholders.

2. BUSINESS REVIEW AND ANALYSIS

(1) Principal activities

Core asset - Sichuan Chengyu Expressway ("Chengyu Expressway")

The Company's wholly-owned Chengyu Expressway is a major traffic artery in Sichuan province which continues to play an important role in promoting regional economic development and the Company's earnings level. As at 30 June 2001, the average daily traffic flow of Chengyu Expressway was approximately 8,924, representing an increase of 16.41% over the same period of last year; toll income was approximately Rmb228,960,000, a 6.23% increase over the same period of last year; net profit was approximately Rmb113,422,000.

Chengyu Expressway is the Group's principal source of profit. Its turnover has maintained steady growth over the years, signifying the overall positive trend in the macro-economic development of the Western Region. Nevertheless, it also signifies the relatively slower economic growth of the districts along Chengyu Expressway which limits the rapid growth of the turnover of the expressway. In particular, the listing of Chongqing as a municipality directly under the Central Government has affected the economic ties and dealings between the two important industrial and economic zones of Chengdu and Chongqing, posting more

substantial restrictions on the rapid growth of the turnover of Chengyu Expressway. In addition, the comparatively lower standard of Chengyu Expressway's design is another major factor restricting the rapid growth of the expressway's turnover. Nevertheless, Chengyu Expressway still plays an irreplaceable role in the transport network of Sichuan Province. Following the acceleration of the economic development of the Western Region and the districts along Chengyu Expressway, together with the strengthening of the economic ties between Chengdu and Chongqing, the two principal cities in the Western Region, it is expected that the turnover of Chengyu Expressway will not only maintain sustainable and steady growth, but also head for a comparatively faster growth speed.

Sichuan Chengya Expressway ("Chengya Expressway")

Chengya Expressway was opened to traffic in December 1999. The Company holds 58.75% interest in Sichuan Chengya Expressway Company Limited.

During the Period, the traffic flow and toll income of Chengya Expressway demonstrate a remarkable upward trend. For the six months ended 30 June 2001, Chengya Expressway registered a toll income of approximately Rmb62,673,000, representing an increase of 41.67% over the same period of last year. Nevertheless, the heavy interest expenses pushed the finance costs up to as high as Rmb59,874,000. Moreover depreciation and amortisation for the period from January to June amounted to Rmb37,108,800. The three items totally amounted to Rmb96,982,800, representing 164.25% of the toll income for the Period. Accordingly, Chengya Expressway recorded a loss of approximately Rmb53,417,900, which nevertheless represents an improvement of 6.25% over the percentage loss for the same period of last year.

Chengya Expressway, a major highway connecting Sichuan and Yunnan, Tibet and Sichun Paizhilhua City, plays a critical role in the transport network of Sichuan province. Nevertheless, the development of the local economy has lagged behind when compared with other regions. This, together with factors like the State policy of prohibiting lumbering, resulted in the lower-than-expected traffic flow and toll income level of Chengya Expressway. Following the gradual implementation of the Grand Development Strategy of the Western Region, and in particular, the enlarged investment of the State in the infrastructure of the region, the local economy is expected to improve gradually, and the peripheral road networks of Chengya Expressway will gradually take shape, which will in turn benefit Chengya Expressway. Furthermore, the boom in the tourism industry of Yaan region will also constitute a favourable condition for the development of the traffic flow of Chengya Expressway.

Chengdu Chengbei Exit Expressway ("Chengbei Exit Expressway")

Chengbei Exit Expressway was completed and opened to traffic in December 1998. The Company holds 60% interest in Chengdu Chengbei Exit Expressway Company Limited.

2001 is the third year since Chengbei Exit Expressway was completed and opened to traffic. Its traffic flow continues to grow at a relatively fast speed. For the six months ended 30 June 2001, its average daily traffic flow reached approximately 15,600, representing an increase of 6.6% over the same period of last year. Toll income for the six months ended

30 June 2001 was approximately Rmb13,990,000, a 3.86% increase over the same period of last year. Profit for the Period was approximately Rmb591,000, signifying the first time for which Chengbei Exit Expressway made a turnaround from loss making to registering a profit since its operation. The growth in the travel flow and toll income is expected to continue in the second half of the year as a result of the active economic activities of the districts along the expressway.

Chengdu Airport Expressway ("Airport Expressway")

Airport Expressway was opened to traffic in July 1999. The Company holds 25% interest in Chengdu Airport Expressway Company Limited.

In the first half of the year, an increase was charted in the traffic flow and toll income of Airport Expressway as a result of increased flights and the stringent measures of Chengdu Airport Expressway Company Limited in blocking toll-free exits. As at 30 June 2001, the average daily traffic flow of Airport Expressway reached approximately 17,849, representing an increase of 19.64% over the same period of last year; toll income amounted to approximately Rmb20,260,000, a 10.41% increase over the same period of last year; and profit was approximately Rmb810,700 as compared to loss of Rmb1,490,000 in the same period of last year. In the second half of the year, the traffic flow and income toll are expected to record a growth as compared with the same period of last year following the completion of the new airport hall and the opening of the whole route of Airport Expressway.

Toll Roads and Bridge in Zigong and Luzhou

The Company holds, through its subsidiary - Chengdu Shuhai Investment Management Company Limited, 59.94% of the operation rights and related interests in each of Zigong Ring Roads in Zigong; and, Lulong Road, Luhe Road and Tuojiang Er Bridge in Luzhou.

As at 30 June 2001, toll income from Zigong Ring Roads and the two roads and one bridge in Luzhou amounted to approximately Rmb31,238,000, representing a drop of 3.77% from the same period of last year; and, net profit was approximately Rmb6,952,200, a 3.97% drop from the same period of last year. The decrease was mainly attributable to the following factors: 1) The opening of Longna Expressway Phase II diverts some of the traffic from Lulong Road and Tuojiang Er Bridge; and, 2) In the first half of 2001, the State reorganised and shut down certain small local coal pits. Consequently, the number of vehicles for coal transportation in Luzhou dropped which in turn resulted in the reduction in toll income.

(2) Other Business

Apart from improving the operation and management of its principal activities, the Company also devoted significant effort on developing road-related business and multiple operations beyond the road by leveraging on its principal activities in an effort to explore the potential profitability of supplementary highway facilities and expand the room for the Company's development.

The Company's non-core business are principally developed by the following two subsidiaries:

(1) Sichuan Shusha Enterprise Company Limited ("Shusha Company")

Shusha Company is mainly engaged in gas station operation, advertisement leasing, vehicle maintenance and mobile emergency repair service along Chengyu Expressway. It also diversifies its business beyond the road. The Company holds 99.5% interest in Shusha Company. As at 30 June 2001, major operating revenue of Shusha Company was approximately Rmb2,320,000, representing an increase over the same period of last year; but a net loss of Rmb314,100 was recorded. The loss was mainly attributable to the net loss of approximately Rmb600,000 arising from the relocation of Shusha Company's two vehicle maintenance centres as a result of the improvement of Chengdu City's appearance.

(2) Sichuan Shugong Expressway Engineering Company Limited ("Shugong Company")

Shugong Company is mainly engaged in the construction and maintenance of infrastructures like road, bridge and tunnel and the sale of mechanical machinery and materials. The Company holds 95% interest in shugong Company. During the period, Shugong Company registered a substantial growth in its machinery rental and railing maintenance business. As a result, its major operating income and net profit amounted to approximately Rmb1,580,000 and Rmb88,200 respectively, representing an increase over the same period of last year.

(3) Chengyu Expressway Q1 Electrical and Mechanical Contract Project

With the aim of promoting the application of modern information technology and improving the operation and management of Chengyu Expressway, the Company is devoting every effort on undertaking the Q1 Electrical and Mechanical Contract Project. Remarkable progress was achieved in the past six months. The installation of the mechanical and electrical equipment for the three major systems - communications, toll collection and supervision is all completed. The installation and test of the software for the four tier toll collection system - toll lane, station, sub-centre and centre was basically completed and the finalization process is underway. Tests of individual systems was partially completed and the final test of the systems as a whole was in the pipeline in an effort to meet the technical requirements before the trial operation.

To ensure the commencement of the trial operation of all the three major systems by the end of August 2001, the Company is currently working hard on pre-trial preparation work like testing the three systems and training operators in an effort to cover the losses resulted from the delay of the project caused by objective factors over the past two years (the Sanhuan Road and Waihuan Expressway being constructed by Chengdu Municipal Government have intersected with Chengyu Expressway which has been causing disruption to the project) and to enable Q1 electrical and mechanical facilities to come into operation as early as possible.

(4) Renovation of Dajian Road Southern Section Project

Sichuan Shutong Road Industrial Company Limited ("Shutong Company"), a subsidiary of

the Company, has modified the Dajian Road Southern Section project proposal in accordance with the approval document of Sichuan provincial planning commission and scaled down the construction work. According to the modified proposal, the total investment on Dajian Road Southern Section project is approximately Rmb60,000,000. The length of the road is approximately 42km from Chengdu to Xinjin. At present, Shutong Company is busy with the preparation of construction drawings, formulation of tender mechanism, land resumption, and relocation and demolition work in an effort to, on the premise of guaranteed construction work quality, start and complete renovation work and commence road operation as early as possible.

3. FINANCIAL REVIEW

Summary of the Group's results

	For the six months ended 30 June	
	2001	2000
	<i>Rmb'000</i>	<i>Rmb'000</i>
	(Unaudited)	(Unaudited)
Turnover	318,373	289,739
Profit before taxation	84,083	78,878
Net Profit attributable to shareholders	86,472	79,568
Earnings per share (Rmb)	0.0338	0.0311

Summary of the Group's assets

	30 June	31 December
	2001	2000
	<i>Rmb'000</i>	<i>Rmb'000</i>
	(Unaudited)	
Total assets	8,054,454	8,125,918
Total liability and minority interests	3,669,871	3,872,806
Total net assets	4,384,583	4,298,112
Net asset per share (Rmb)	1.71	1.68

Profit contribution by toll roads for in Period

	Turnover	Contribution to operating profit
	<i>Rmb'000</i>	<i>Rmb'000</i>
	(Unaudited)	(Unaudited)
Chengyu Expressway	217,511	131,237
Chengbei Exit Expressway	13,183	7,865

Chengya Expressway	59,043	6,456
Two Class II roads in Zigong	9,501	2,827
Two Class II roads and one toll bridge in Luzhou	19,135	7,550

Liquidity of Capital and Financial Sources

During the Period, the capital expenditure of the Group amounted to Rmb56,796,000 which mainly derived from operations and bank loans. As at 30 June 2001, the Group's had loans totalling Rmb2,307,643,000 with an average interest rate of approximately 5.7%; and, unutilized banking facilities amounted to a range from Rmb700,000,000 to Rmb900,000,000, which are all five-year long-term loans. The amount is a standby loan and will be utilized when appropriate. The gearing ratio of the Group was 29% as at 30 June 2001. Details of capital structure are set out as follows:

	Total amount <i>Rmb'000</i> (Unaudited)	Percentage % (Unaudited)
Shareholders' equity	4,384,583	54.4
Debt of floating interest rate	2,307,643	28.65
Interest-free debt	897,342	11.14
Minority interests	464,886	5.77
Total	8,054,454	100
Debt-equity swap ratio	73.10%	

Financial Policy

The Group has stringent cash management and risk control measures. The Group usually places its cash as short-term deposit in Renminbi. Among the Group's debts of floating interest rate, there is a loan of US\$28,731,000 with the World Bank in favour of Sichuan Highway Development Holding Company, the parent company, and 10,830,000 special drawing rights. The Company makes payment of the principal and related interest through purchase of foreign exchange from its parent company with Renminbi at floating exchange rate. Other loans are denominated in Renminbi and repaid from Renminbi income. In addition, the Group purchases foreign exchange to make dividend distribution to holders of H shares. The Group evaluates exchange risk as follows: Current account has maintained a favourable balance for the past several consecutive years. In addition, there is a slowdown in the development of the US economy. The US Federal Reserve has cut US dollar interest rate for several times. The prevailing US dollar interest rate has been brought to a level close to that of Renminbi, watering down the possibility of Renminbi depreciation. There are even experts who are of the opinion that the pressure of Renminbi appreciation has outweighed that of depreciation. Therefore, the present exchange risk faced by the Company has significantly reduced.

In addition, the interest expenses of the Company for part of its US dollar floating rate loans

have decreased as a result of US dollar interest rate cuts.

Furthermore, the Company has placed some US dollar fixed deposits in anticipation of further US dollar interest rate cuts. The Company has already benefited from the recent series of rate cuts.

Capital Commitment

Details of the Group's capital commitment are set out in Note 10 to the condensed financial statements.

4. BUSINESS DEVELOPMENT PLAN FOR THE SECOND HALF OF 2001

In the second half of the year, the Company will focus on the following work:

1. To set up a highly-efficient company legal person management structure in accordance with the requirements of modern enterprise systems, and rationalise the Company's organisational structure and improve the overall management and operation of the Company in accordance with the different types and characteristics of its activities.
2. To continue to enhance the operation and management of the Company's core asset - Chengyu Expressway in an effort to ensure the steady growth in the toll income from Chengyu Expressway.
 - (1) To strengthen the management of toll collection business units and toll collection staff, focus on upgrading the quality of toll collection service, and attract as many vehicles as possible to use Chengyu Expressway;
 - (2) To duly increase the budget for the repairs and maintenance of Chengyu Expressway in accordance with actual needs in order to guarantee road engineering technology standard and safety, comfort and smooth traffic flow;
 - (3) To focus on the relocation of Chengdu toll collection station, take necessary measures to minimise the impact of the relocation on traffic flow, and try the Company's best to retain vehicle users;
 - (4) To take further measures to solve the construction and technical problems faced by Q1 Electrical and Mechanical Contract Project, and accelerate the pace of computerisation of the toll collection, telecommunication and supervision systems of Chengyu Expressway;
3. To strengthen the management of the subsidiaries of the Company according to laws and gradually improve their profitability;
 - (1) To focus on the study of the difficulties and problems faced in the operation and management of Sichuan Chengyu Expressway Company Limited, a subsidiary of the Company, work out feasible solutions on the basis of extensive participation and

scientific proof, and work hard to improve the unreasonable financial structure and position of Chengya Company in an effort to bring it to the healthy growth track as soon as possible.

- (2) To encourage the subsidiaries of the Company to improve their legal person management structures, strengthen the control and supervision of their operations and management, and in particular, to strengthen the control of their financial operations, and to set up a channel for the smooth and frequent communications between the Company and its subsidiaries.
4. To actively and safely strengthen the Company's operation of its capital, improve the asset structure of the Company, expand the Company's asset scale, improve the Company's overall profitability and foster the healthy and speedy development of the Company.
- 5 To explore the potential of existing resources, develop supplementary operations and improve the added values of core business.