

# Report of the Directors

In 2002, the world economy took a turn for the better with the good conditions of world trade and industrial production. The GDP of the PRC made a breakthrough at RMB10,000 billion, representing an actual GDP growth of 8%, with the total volume of trade surpassed US\$600 billion. The economy of Anhui Province continued to grow under good international and domestic economic conditions. Its GDP of 2002 was approximately RMB356.9 billion, representing an increase of 8.9% over last year, the highest increase since 1998. Benefitted by the sustained growth of the PRC and Anhui economies, the Company's toll expressway achieved better development over the previous year.

## I. OPERATIONS OF THE COMPANY

### 1. Scope and operating conditions of its principal operations

The principal activities of the Company are the holding, operation and development of toll highways within and outside of Anhui Province in the PRC.

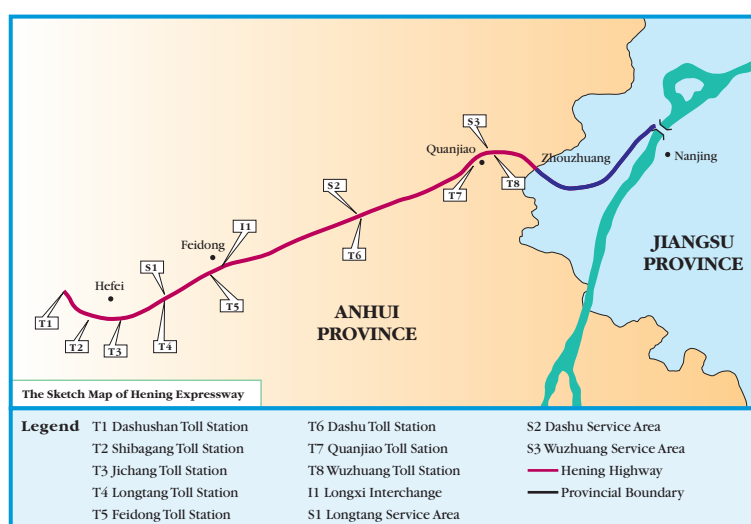
Since the turnover and results for the current year are principally derived from the operation of the toll highways of the Group in Anhui Province, the PRC, the turnover of the Group and its contribution to the operating profit were not analysed by business and geographical distribution.

In 2002, the various operations of the Company enjoyed substantial improvement. During the period under review, turnover of the Company under the PRC Accounting Standards was RMB751,627,000, representing an increase of 22.93% over the previous year, which was mainly due to faster growth of the toll revenue.

## 2. Operation conditions of the Company's highways during the reporting period

### *Hening Expressway*

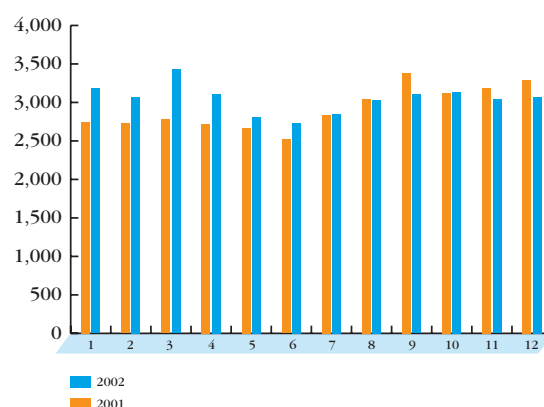
Hening expressway is a 134-kilometer long dual carriageway four-lane toll expressway owned by the Company in Anhui Province linking Dashushan and Zhouzhuang. This expressway forms an integral part of the National Trunk Highway from Shanghai to Chengdu in Sichuan Province, which also forms part of the National Trunk 312 linking Shanghai and Yining in Xinjiang. Hening Expressway was designed and built with eight toll stations and seven interchanges in accordance with the PRC highway standards as a closed expressway with flyover crossings and entry and exit controls. The operation period for the expressway is 30 years commencing from 15th August 1996, the incorporation date of the Company. It is currently a major source of profit and cash flow for the Company.



### *Toll Revenue*

During the year, toll revenue amounted to approximately RMB365,585,000, representing a 13.27% increase over last year.

### Monthly Toll Revenue of Hening Expressway

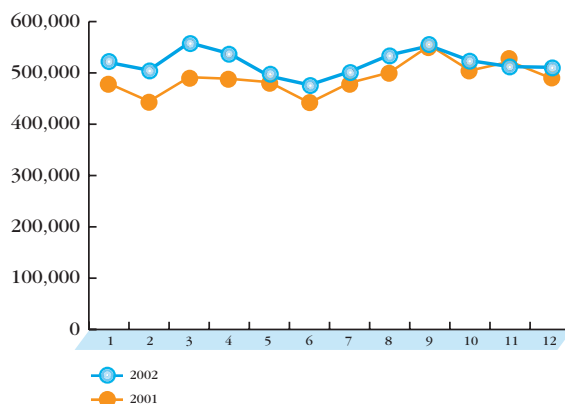


# Report of the Directors (cont'd)

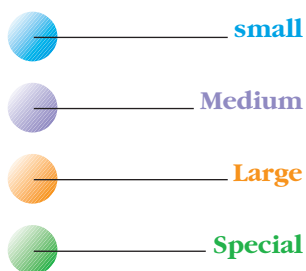
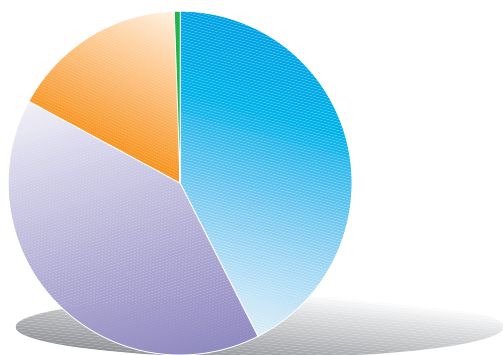
## Traffic Volume

During the year, the average daily traffic volumes of Hening Expressway were approximately 17,067 vehicles, representing a 6.04% increase over last year.

Monthly Traffic Volume of Hening Expressway



Type ratios of vehicles of Hening Expressway in 2002



## Toll Rates for Hening Expressway

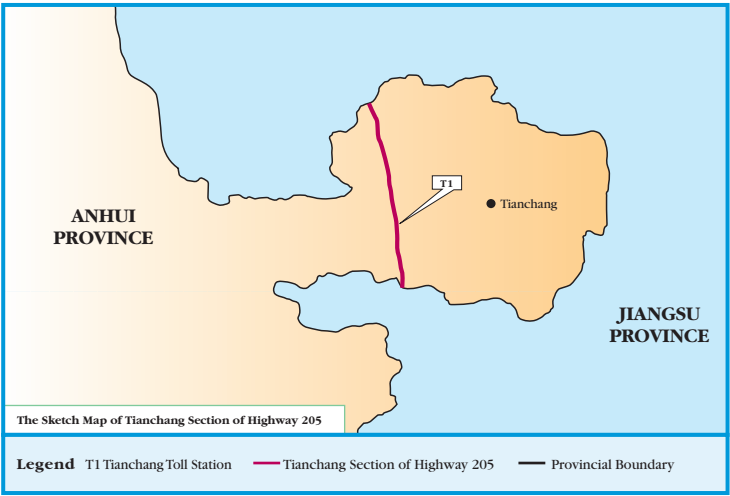
Vehicle Classification	Toll Rates (RMB/kilometer)
Small (trucks up to 2.5 tons, and passenger wagons up to 20 seats)	0.40
Medium (trucks between 2.5 tons and 7 tons, and passenger wagons between 20 and 35 seats)	0.70
Large (trucks between 7 tons and 15 tons, and passenger wagons over 35 seats)	1.00
Special (trucks between 15 tons and 40 tons)	1.80
Special Large (trucks over 40 tons)	1.80

*Note:* Special large trucks are charged with RMB10 for every additional kilometer for every 10 tons in excess.

*New Tianchang Section of National Trunk 205*

The New Tianchang Section of National Trunk 205 is a dual carriageway four-lane vehicular highway of Class 1 standard of 30 kilometers long situated in Tianchang in Anhui Province. Tianchang Section is a part of National Trunk 205, which starts in Shanhaiguan, Hebei Province and ends in Guangzhou, Guangdong Province. This national trunk also forms part of the highway linking Lianyungang and Nanjing in Jiangsu Province. The New Tianchang Section of National Trunk 205 has one toll station and one interchange.

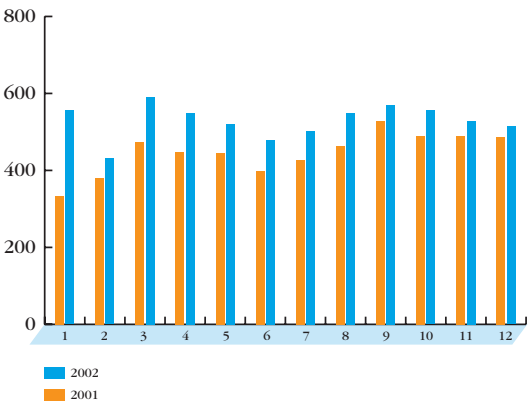
On 1st January 1997, the Company completed the acquisition of the New Tianchang Section of National Trunk 205 with an operation period of 30 years commencing from 1st January 1997.



*Toll Revenue*

During the year, toll revenue amounted to approximately RMB63,459,000, representing a 18.29% increase over last year.

Monthly Toll Revenue of National Highway 205

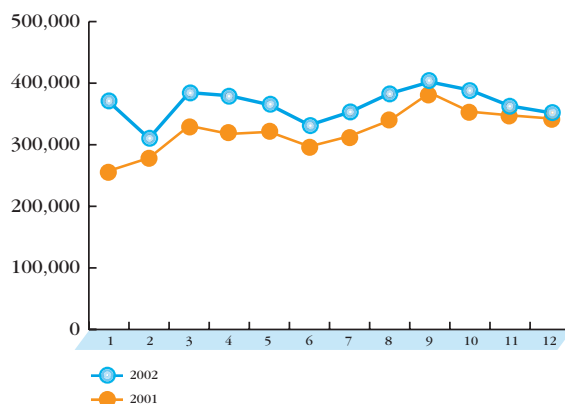


# Report of the Directors (cont'd)

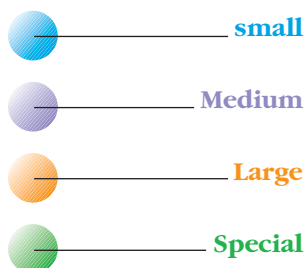
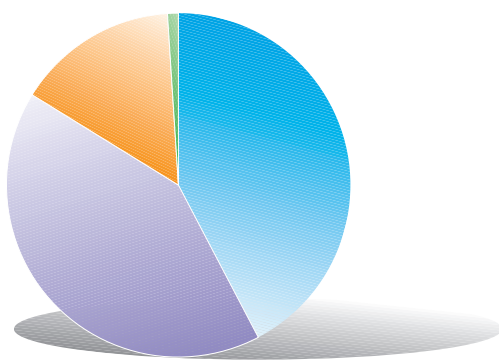
## Traffic Volume

During the year, the average daily traffic volumes of New Tianchang Section of National Trunk 205 were approximately 12,009 vehicles, representing a 12.85% increase over last year.

Monthly Traffic Volume of National Highway 205



Type ratios of vehicles of National Highway 205 in 2002



## Toll Rates

Vehicle Classification	Toll Rates
1. Motor bicycles and tricycles	RMB3 each
2. Small tractors (including manual tractors) and other four-wheeled small and simple mechanical vehicles	RMB5 each
3. Trucks below 2 tons (including 2 tons) and passenger wagons below 20 seats	RMB10 each
4. Trucks between 2 and 5 tons (Including 5 tons) and passenger wagons between 20 and 50 seats (including 50 seats)	RMB15 each
5. Trucks between 5 and 10 tons (Including 10 tons) and passenger wagons over 50 seats	RMB25 each
6. Trucks over 10 tons	RMB3 per ton

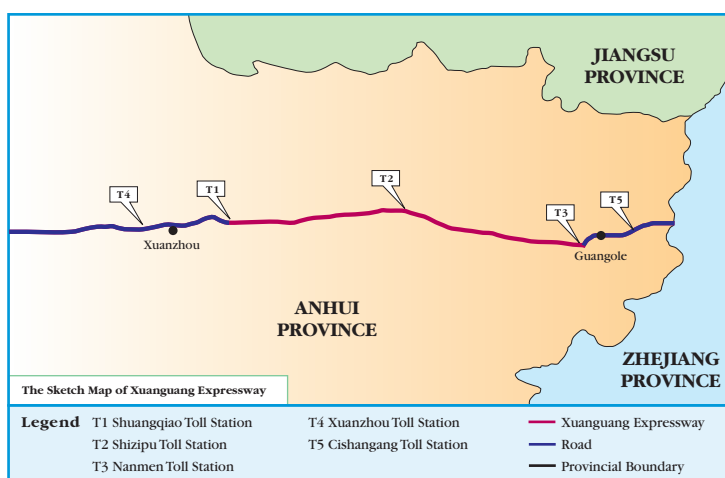
*Note:* Vehicle under classification 6, which is over 40 tons enjoys a 50% discount on the part in excess of 40 tons.

### 3. Operating conditions and results of principal subsidiaries and investee companies of the Company (Under the PRC Accounting Standards)

#### *Xuanguang Expressway Company Limited*

On 18th July 1998, a joint venture contract was entered into between the Company and Xuancheng Area High Class Highway Construction and Management Company Limited, pursuant to which Xuanguang Company (incorporated in the PRC with limited liabilities) was established on 25th July 1998 under the PRC Company Law in Anhui Province, the PRC, with the Company holding 51% equity interests in Xuanguang Company. Xuanguang Company is principally engaged in the operation of Xuanguang Expressway and Xuangzhou Toll Station and Cishangang Toll Station in Guangde and will receive fees in respect of the road and its ancillary and servicing facilities. The term of operation is for a period of 30 years commencing from 25th July 1998. The registered capital of Xuanguang Company was RMB71,880,000, with total assets of RMB705,107,000 as at 31st December 2000 and the net profit of RMB43,912,000 for the year then ended.

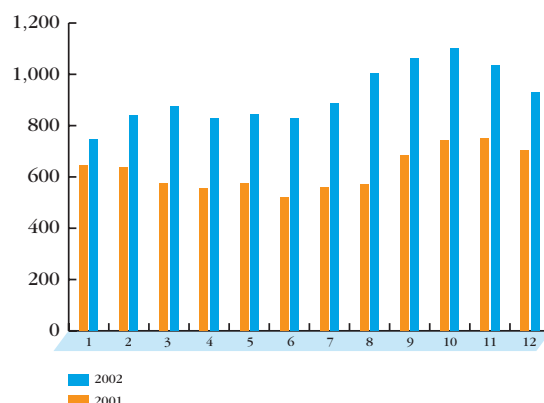
The Xuanzhou to Guangde Expressway is an existing dual carriageway four lane expressway located in the south-eastern part of Anhui Province and was opened to traffic in September 1997. The Xuanguang Expressway, which is 66.761 kilometers long, starts from Shuangqiao, Xuanzhou in Anhui Province and ends near Jiepai, Guangde in Anhui Province and forms part of the National Trunk 318 extending from Shanghai to Nielamu in Tibet. National Trunk 318 is a key transport artery, linking the coastal regions with the inland and the western border of the PRC. The Xuanguang Expressway has three toll stations and one interchange.



#### *Toll Revenue*

During the year, toll revenue amounted to approximately RMB109,808,000, representing a 55.95% increase over last year.

Monthly Toll Revenue of Xuanguang Expressway

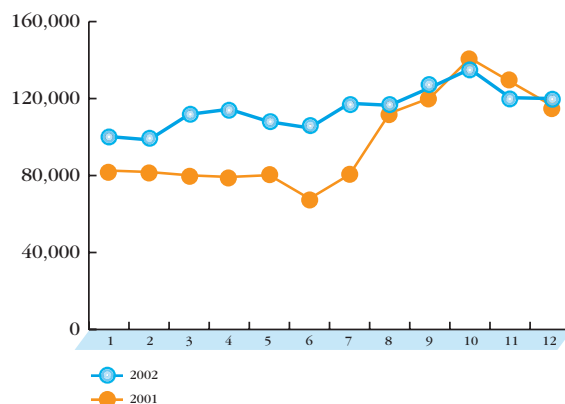


# Report of the Directors (cont'd)

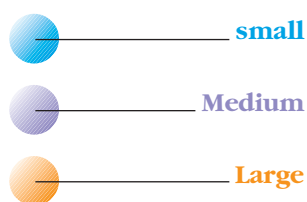
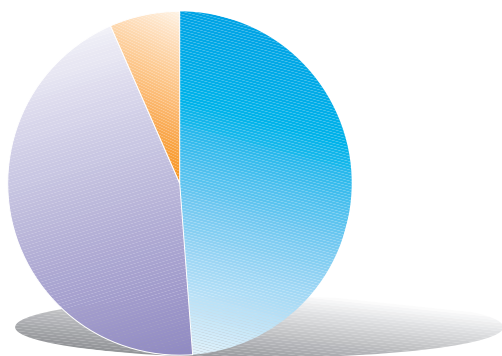
## Traffic Volume

During the year, the average daily traffic volumes were approximately 3,762 vehicles per day, representing a 17.06% increase over last year.

Monthly Traffic Volume of Xuanguang Expressway



Type ratios of vehicles of Xuanguang Expressway in 2002



### Toll Rates for Xuanguang Expressway

Vehicle Classification	Toll Rates (RMB/kilometer)
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Small (trucks up to 2.5 tons and passenger wagons up to 20 seats)	0.40
Medium (trucks between 2.5 tons and 7 tons, and passenger wagons between 20 and 35 seats)	0.70
Large (trucks between 7 tons and 15 tons, and passenger wagons over 35 seats)	1.00
Special (trucks between 15 tons and 40 tons)	1.80
Special Large (trucks over 40 tons)	1.80

#### Notes:

1. Special large trucks are charged with RMB10 for every additional kilometer for every 10 tons in excess.
2. The toll rates only apply to vehicles using the Xuanguang Expressway.

### Toll Rates for the Old Road

Vehicle Classification	New Toll Rates
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Vehicles over 1 ton	RMB6 per ton
Vehicles up to 1 ton	RMB10 each
Agricultural vehicles up to 1 ton (including 1 ton)	RMB5 each

#### Notes:

1. The toll rates only apply to vehicles passing the Xuanzhou Toll Station and Cishangang Toll Station without using Xuanguang Expressway.
2. Vehicles registered in Xuanzhou and Guangde (excluding those using Xuanguang Expressway of National Trunk 318) can pay the toll monthly in accordance with the rates of RMB30 per ton per month and the vehicles under 1 ton should be charged as 1 ton.

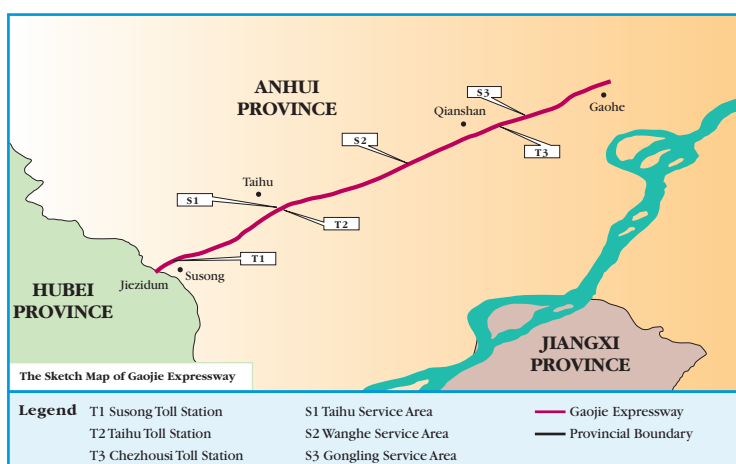
### ***Gaojie Expressway Company Limited***

On 13th May 1997, a joint venture agreement was entered into between the Company and AEHC, whereby Gaojie Company, a company incorporated in the PRC with limited liability, was established for the purpose of developing, constructing and operating the expressway from Gaohe to Jiezidun. The Company holds 30% of the equity interests.

On 10th November 2000, an agreement of equity transfer was entered into by the Company and AEHC, pursuant to which 21% equity held by AEHC was transferred to the Company at a consideration of RMB387,240,000. Since completion of the transfer on 31st December 2000, the Company owns 51% equity in Gaojie Company as its holding company.

The registered capital of Gaojie Company was RMB300,000,000 with total assets of RMB1,745,059,000 as at 31st December 2002 and net profit of RMB50,706,000 for the year then ended.

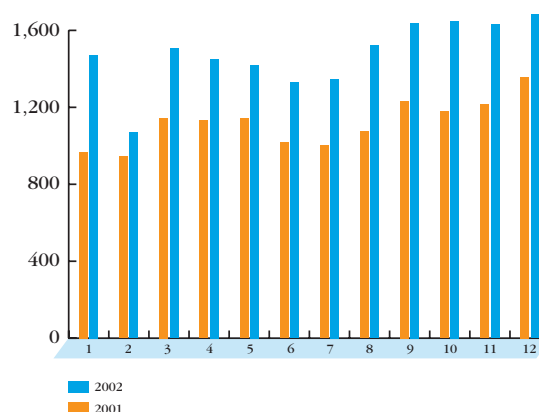
The Gaohe to Jiezidun Expressway, with a length of approximately 110 km, is an existing dual carriageway four-lane expressway that forms part of the National Trunk System between Shanghai to Chengdu in Sichuan. The Expressway, originating from Gaohe Town, Huining County, Anhui Province, links up with the Hening Expressway, operated by the Company, through the Heife-Anxing Highway and terminates at the border between Hunan and Anhui at Jiezidun, Susong County, Anhui Province. It further runs westward to link up with cities like Wuhan, Chongqing and Chengdu and is an important trunk road that links up the central and western region with the south eastern coastal region. The construction of the Expressway, which has 3 toll stations and two interchanges, began in 1996 and was open to traffic on 1st May 1999.



### ***Toll Revenue***

During the year, toll revenue amounted to approximately RMB177,174,000, representing a 32.17% increase over last year.

**Monthly Toll Revenue of Gaojie Expressway**



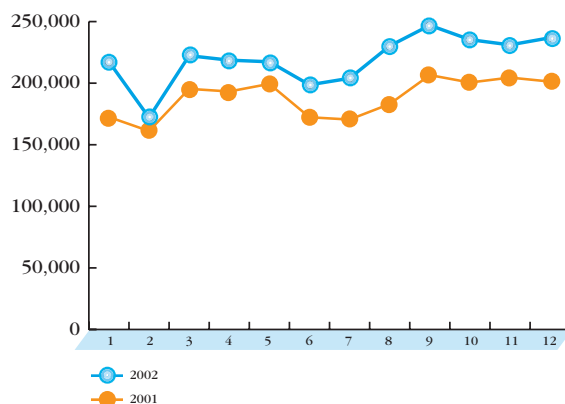


# Report of the Directors (cont'd)

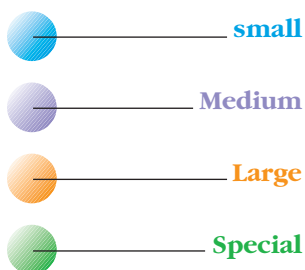
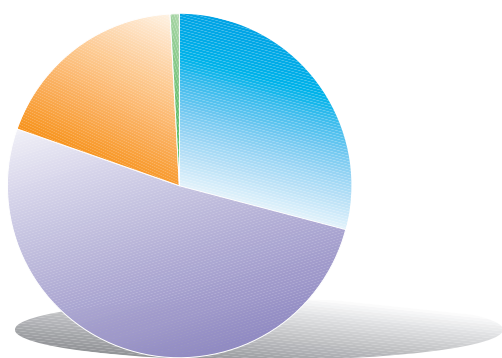
## Traffic Volume

During the year, the average daily traffic volumes of Gaojie Expressway were approximately 6,417 vehicles, representing a 3.62% increase over the previous year.

Monthly Traffic Volume of Gaojie Expressway



Type ratios of vehicles of Gaojie Expressway in 2002



## Toll Rates

### Vehicle Classification

### Toll Rates (RMB/kilometer)

Small (trucks up to 2.5 tons and passenger wagons up to 20 seats)	0.40
Medium (trucks between 2.5 tons and 7 tons, and passenger wagons between 20 and 35 seats)	0.70
Large (trucks between 7 tons and 15 tons, and passenger wagons over 35 seats)	1.00
Special (trucks between 15 tons and 40 tons)	1.80
Special Large (trucks over 40 tons)	1.80

*Note:* Special large trucks are charged with RMB10 for every additional kilometer for every 10 tons in excess.

***Anhui Wantong Science and Technology Development Company Limited (Wantong Technology)***

In May 1999, Wantong Technology was registered and established in Anhui Hefei National New and Hi-tech Industry Park as the first new and hi-tech enterprise stationed in the Software Park. Wantong Technology is principally engaged in the research, development and manufacture of comprehensive information system on expressways, large-scaled network system integration projects, digital monitoring products and optical communication products. The registered capital of Wantong Technology was RMB1,000,000, in which the Company has a 51% equity interest. On 18th December 2000, the registered capital of Wantong Technology was increased to RMB20,000,000 with the Company having a 75.5% equity interest.

The total assets of Wantong Technology were RMB45,871,000 as at 31st December 2002 with a net profit of RMB1,674,000 for the year then ended.

***Beijing Haiwei Investment Company Limited (Beijing Haiwei)***

The registered capital of Beijing Haiwei was RMB 50,000,000 and its scope of operations covers project investment management, investment consultation, computer software and hardware development, technological service, technological transfer, technological consultation, technological training, sales of construction materials, steel materials, mechanical and electrical products, communication equipment, light industry and agricultural by-products. Beijing Haiwei is a joint venture of the Company with Gaojie Company and Wantong Technology. The Company contributed RMB35,000,000, holding a 70% equity interest, Gaojie Company contributed RMB14,000,000, holding a 28% equity interest, and Wantong Technology contributed RMB1,000,000, holding a 2% equity interest. Beijing Haiwei had total assets of RMB48,800,000 as at 31st December 2002 and total loss of RMB777,000 for the year then ended.

***Tianjin Xinxigang Jiazi Development Company Limited (Tianjin Xinxigang)***

The registered capital of Tianjin Xinxigang was RMB2,000,000 and the scope of its operations includes technological development, consultation, service, transfer (electronic and information, integrated mechanical and electrical technology and products), computer peripherals, mechanical equipment, electrical equipment, cultural office machines, wholesale and retailing, computer installation and maintenance. At present, Wantong Technology holds a 70% equity interest of Tianjin Xinxigang. Since Wantong Technology is a subsidiary of the Company, the Company is, therefore, indirectly interested in Tianjin Xinxigang as to 52.85%. Tianjin Xinxigang had total assets of RMB5,126,000 as at 31st December 2002 with a net profit of RMB345,000 for the year then ended.

***Anhui Expressway Advertisement Company Limited (Expressway Advertisement)***

The registered capital of Expressway Company was RMB3,800,000 and the scope of its operations includes design, making, release and agency of domestic advertisements, indoor and outdoor decoration, ornamental materials, sales of handicraft articles, environmental arts and design and manufacture of handicraft articles. The investment of the Company was RMB1,444,000, holding a 38% interest. The other two shareholders are the AEHC, holding 51% and Anhui Anlian Expressway Company Limited, holding 11%. Total assets of Expressway Company were RMB5,746,000 as at 31st December 2002 and net profit was RMB3,000 for the year then ended.

***Anhui Kangcheng Pharmaceutical Company Limited***

The registered capital of Kangcheng Pharmaceutical was RMB10,000,000 with total assets of RMB9,990,000 and the scope of its operations includes research, development, transfer and licensing of Western and Chinese medicine and scientific research results of medical apparatus and instruments, consultation and service. The Company holds 65% of Kangcheng Pharmaceutical, with a natural person, Prof. Xu Xiping holds a 35% equity interest. The Company has just completed its registration and its operating activities were not commenced yet.

# Report of the Directors (cont'd)

## *Hefei Information Investment Company Limited (Information Investment)*

The registered capital of Information Investment was RMB100,000,000 and the scope of its operations includes information infrastructure investment; information technology service, information engineering consultation and supervision; transfer of scientific and technological results and intermediary service of investment; relevant ancillary engineering construction and service of urban information. At the end of 2002, Information Investment was under preparation and has yet to develop its business fully.

### 4. Principal Customers and Suppliers

In view of the facts that the principal customers of the Company are the users of toll highways and the principal suppliers of the Company are contractors of toll highways, information on principal customers and suppliers are not disclosed further.

### 5. Profit forecast and fulfilling conditions of 2002

The net profit, stated in profit forecast of the A Share prospectus published on 18th December 2002, was RMB257,530,000 with actual profit achieved of RMB258,392,000.

## II. INVESTMENTS OF THE COMPANY

### 1. Proceeds from A Share Issue and their use

#### *(1) Investment Project of the proceeds raised*

The committing investment project	The planning investments (RMB)	The committing use of the proceeds	Planning pace of the project	Real investment project	Real pace of the project
Lianhuo Expressway Anhui Section	1,180,000,000	Total proceeds	Completeness of the principal part of construction in June 2002	Lianhuo Expressway Anhui Section	Finished in time

#### *(2) Use of the proceeds raised*

The principal construction of the Lianhuo Expressway was finished in June 2002. As at 31st December 2002, RMB1.18 billion has been used in the project. All of the proceeds not yet utilised were deposited as bank deposits.

(3) During the year, as the acquisition was not completed, the investment project did not bring any profit to the Company.

### 2. Other Investment Projects

- (1) To establish Anhui Kangcheng Pharmaceutical through investment. (Details are set out in "Operating conditions and results of the principal subsidiaries and investee companies of the Company").
- (2) To establish Anhui Expressway Advertisement through capital injection. (Details are set out in "Operating conditions and results of the principal subsidiaries and investee companies of the Company")
- (3) To establish Hefei Information Investment Company Limited through capital injection. (Details are set out in "Operating conditions and results of the principal subsidiaries and investee companies of the Company")

### III. ANALYSIS OF FINANCIAL CONDITION AND OPERATING RESULTS OF THE COMPANY (PREPARED IN ACCORDANCE WITH THE PRC ACCOUNTING STANDARDS)

#### 1. Operating results

*Unit: RMB*

Items	2002	2001	Fluctuations	Percentage
Revenue from principal operations	751,627,487.66	611,449,942.44	140,177,545.22	22.93%
Profit from principal operations	397,989,230.82	304,497,583.35	93,491,647.47	30.70%
Operating profit	325,036,633.25	257,415,582.08	67,621,051.17	26.27%
Total Profit	324,805,926.29	257,985,235.28	66,820,691.01	25.90%
Net Profit	258,392,601.47	248,119,320.92	10,273,280.55	4.14%

#### 2. Assets, Liabilities and Equity

*Unit: RMB*

Items	2002	2001	Fluctuations	Percentage
Total assets	5,062,203,678.57	4,359,674,870.02	702,528,808.55	16.11%
Total liabilities	1,317,807,526.98	1,283,733,003.74	34,074,523.24	2.65%
Total shareholders' equity	3,552,199,647.07	2,887,035,850.92	665,163,796.15	23.04%

#### 3. Financial Analysis

Items	2002	2001	Change
Return on shareholders' equity	7.27%	8.59%	-15.37%
Gearing ratio	26.03%	29.45%	-11.61%
Current ratio	4.33	1.84	135.33%
Quick ratio	4.23	1.76	140.34%
Cash ratio	4.13	1.48	179.05%

The assets and liabilities structure of the Company is reasonable and the assets quality is excellent.

The liquidity of the assets of the Company is sound with adequate cashflows generated from operating activities with strong debt repayment ability.

# Report of the Directors (cont'd)

## IV. CAPITAL COMMITMENTS

Capital commitments of the Group as at 31st December 2002 are set out in note 28 to the financial statements prepared in accordance with the Hong Kong Accounting Standards.

- V. PricewaterhouseCoopers and PricewaterhouseCooper Zhong Tian Certified Public Accountants Co., Ltd provided the standard unqualified audit opinions on the financial statements of the Company for the year ended 31st December 2002.

## VI. DAILY WORK OF THE BOARD OF DIRECTORS

### 1. Board meetings and contents of resolutions during the reporting period

Six board meetings of the Company were held in 2002:

- (1) The following items were passed at the 13th Session of the 2nd Board Meeting held on 4th March 2002:

- Financial statements for 2001 prepared in accordance with the International Accounting Standards and the PRC Accounting Standards respectively;
- The report of the Board of Directors for 2001;
- Profit appropriation plan for 2001;
- The 2001 annual report;
- To approve the convening of the Annual General Meeting on 20th April 2002;
- To formulate the special and ordinary resolutions to be presented to the Annual General Meeting;
- Draft announcement of the 2001 results;
- Audit agreement;
- To re-appoint the auditors;
- To appoint collecting agents of H Share dividends;
- To appoint overseas and domestic legal advisers;
- To replace members of the audit committee.

- (2) The following items were passed at the 14th Session of the 2nd Board Meeting held on 15th June 2002:

- The Annual Plan of 2002;
- Relevant Governance Regulations of the Company;
- To establish the Human Resources and Remuneration Committee;

- To establish Expressway Advertisement Company.
- (3) The following items were passed at the 15th Session of the 2nd Board Meeting held on 15th June 2002:
- To approve the nomination of Mr. Wang Shui, Mr. Li Yungui, Mr. Tu Xiaobei and Mr. Zhang Hui as executive directors of the Company;
  - To approve the nomination of Mr. Zhang Wensheng and Ms. He Kun as non-executive directors of the Company;
  - To approve the nomination of Mr. Zhang Liping, Mr. Cao Deyun and Mr. Song Youming as independent non-executive directors of the Company;
  - To approve the nomination of Mr. Kan Zhaorong and Ms. Yan Yuhong as supervisors of the Company;
  - To agree the remuneration proposal of the new session of directors and supervisors;
  - To pass the draft stock option proposal of the Company;
  - To approve the convening of the Extraordinary General Meeting on 1st August 2002;
  - To approve the letter to shareholders;
  - To approve the establishment of the modern enterprise system self reporting report of listed company.
- (4) The following items were passed at the 16th Session of the 2nd Board Meeting held on 15th August 2002:
- Interim Financial Report and Interim Report of 2002.
- (5) The following items were passed at the first Session of the Third Board Meeting held on 16th August 2002:
- To appoint Mr. Wang Shui as Chairman of the Company and Mr. Tu Xiaobei as Vice Chairman of the Company;
  - To appoint Mr. Li Yungui as General Manager of the Company and Mr. Zhang Hui and Mr. Xie Xinyu as Deputy General Manager of the Company;
  - To appoint Mr. Xie Xinyu as Company Secretary of the Company;
  - To appoint Mr. Zhanghui and Mr. Xie Xinyu as Authorised Representative of the Company;
  - To agree the establishment of the Strategic Development and Investment Committee;
  - To appoint new members of the next session of the audit committee;
  - To appoint new members of the next session of Human Resources and Remuneration Committee.

# Report of the Directors (cont'd)

(6) The following items were passed at the second session of the Third Board Meeting held on 18 December 2002:

- To approve the investment and establishment of Anhui Kangcheng Pharmaceutical Co., Ltd;
- To approve the contribution and establishment of Hefei Information Investment Co., Ltd..

## 2. Execution of resolutions passed at the General Meeting by the Board of Directors

During the reporting period, the Board of Directors strictly carried out the contents of the following resolutions in accordance with the relevant laws and regulations and the resolutions and authorities passed at the General Meeting:

### *(1) Execution of the 2001 profit appropriations of the Company*

The final profit appropriation plan of 2001 was approved by the 2001 Annual General Meeting: the Board of Directors recommended the payment of a final dividend of RMB0.03 per share for 2001 to all shareholders (HK\$0.028 per share for H shareholders) and the aggregate amount of dividend volume was RMB42,258,000. The said final dividend was made prior to 6th May 2002.

### *(2) Execution of the application for public issue of A Shares of the Company*

The Board of Directors successfully completed the A share issue in accordance with the resolutions and authorities of the 2001 Annual General Meeting. With the approval of the China Securities Regulatory Commission, the Company issued 250,000,000 A Shares on 23rd December 2002.

## VII. PROFIT APPROPRIATION PLAN OF 2002

Net profit as shown on the 2002 consolidated financial statements amounted to RMB258,392,601.47, with transfers of RMB25,839,260.15 and RMB25,839,260.15 to statutory surplus reserve and statutory public welfare fund respectively. The profit available for distribution to shareholders was RMB624,264,725.79. Pursuant to relevant regulations of the State, the profit available for appropriation should be the lower of the profit available for appropriation calculated in accordance with the Hong Kong Accounting Standards and the PRC Accounting Standards. Accordingly, the profit available for appropriation amounted to RMB624,264,725.79. The Board of the Company recommended the payment of a final dividend of RMB49,758,300 on the basis of RMB0.3 for every 10 shares (tax imputed) based the total number of shares outstanding at the end of 2002 of 1,658,610,000 shares. Unappropriated profit of RMB504,075,925.79 after the dividend appropriation will be carried forward to next year.

By order of the Board

**Wang Shui**

*Chairman*

Hefei city, Anhui, the PRC

23rd April 2003