

# Management Discussion and Analysis

## I. SUMMARY

2002 is the second year of the new millennium and also the second year of the Tenth Five-Year Plan. The national economy continued to maintain its sustained rapid and healthy development of the national economy and enhancing the quality and efficiency of economic operations. As a result, the overall national strength was enhanced. With the full support of Anhui Provincial Government and its Department of Communications and all the shareholders, the management of the Company, took an aggressive approach after reviewed the current position, in leading all the staff in its solid and hard efforts to reform and innovate, and achieved significant improvements in various aspects.

In 2002, the Group's turnover and profit after taxation grew significantly over last year. The existing expressways and intended acquisition of expressways under the Company saw stable growth in traffic volumes.

## II. BUSINESS ENVIRONMENT

The Company's operations are primarily situated in the Mainland. As a result, the Company's business is closely tied to the economic development of the PRC and Anhui Province, and related to highway development of the PRC and Anhui Province.

### 1. Economic development of the PRC and Anhui Province

During 2002, with the favourable effects of a series of policies and measures such as boosting domestic demands, structural adjustments and deepening of reforms and deregulation, the economic growth of the PRC was speeded up, the quality of operation has been substantially lifted, in particular, the economic growth of Anhui Province exceeded the national average. In 2002, the national GDP recorded 8% in growth, while that of Anhui Province hit a growth rate of 8.9%.

In 2002, social productivity and overall national strength of the PRC scaled a new level with the GDP of China reaching RMB10,200 billion, foreign exchange reserve reached US\$286.4 billion and import and export volumes increased to US\$620.8 billion. The economy of Anhui Province continued to grow with its GDP increased to RMB356.9 billion and the provincial revenue raised to RMB34.67 billion. The quality of economic growth of Anhui Province performed positively with its interior mechanism of sustained and stable rapid growth taking shape.

### 2. Development of Highways in the PRC and Anhui Province

In 2002, the PRC government continued to increase its investment on infrastructure construction as an important initiative to stimulate economic growth. As a result, the infrastructure construction had seen substantial progress, and pushing the scale, speed and quality of construction to an all-time height. As at the end of the year, over 1,760,000 kilometres of roads in the PRC are opened to traffic, of which 25,200 kilometers were expressways.

In 2002, the investment in transportation infrastructure in Anhui Province exceeded RMB10 billion for the first time. The total length of roads and expressways in the province reached 68,000 km and 866 km respectively. The transport network of Anhui Province is taking a preliminary shape with the bottlenecks of restraining economic development by communications and transportation apparently smoothened.

According to statistics, the volume of passenger traffic on national highways this year was 14.66 billion persons and the turnaround volume for passengers was 764.3 billion person kilometers, 11.06 billion tonnes for freights and the turnaround volume was 670.4 billion ton kilometers.

# Management Discussion and Analysis (cont'd)

In 2002, the volume of passenger traffic on highways and waterways was 0.62 billion persons in Anhui Province and the turnaround volume for passengers was 37.1 billion person kilometers, 0.43 billion tons for freight, and the turnaround volume was 47.36 billion ton kilometers.

### 3. Outlook of Business Environment

In 2003, the State will adhere to its objectives: to implement the policies of boosting domestic demands; to implement active financial policies and stable monetary policies; to maintain the two motivation forces of consumption demands and investment demands to economic development; to accelerate adjustments in industry structures; to strengthen construction of infrastructure; to solidly further the development in the western regions and to stimulate rapid and healthy economic development and overall social progress, thereby building an overall fairly well-off society.

To reinforce infrastructure construction is an important mission for the State in the coming five to ten years. The focus of priority development of the Tenth Five-year Plan will be strengthening the construction of national trunks highways, the improvement of highway network, thereby upgrading the depth of penetration of the highway network.

The focus of road construction is centred on the construction of the National Trunks System. On the other hand, reconstruction of regional road networks will also be speeded up. The transport infrastructure construction will also be speeded up as part of the development strategy for the western regions.

During 2003, Anhui Province will invest RMB12 billion in the construction of transport infrastructure facility by speeding up the overall construction to initially form a key expressway network between cities administered by Anhui Province.

In 2003, the State will increase input in technology, solidify technological innovation and expand new and high-tech technology and advanced strategic hi-tech research in order to improve the level of technology for the industry.

## III. BUSINESS REVIEW

### 1. Sound operation conditions of the Company

In 2002, the various operations of the Group attained substantial improvements and basically achieved the operating target of simultaneous development of efficiency and scale. In accordance with the Hong Kong Accounting Standard, during the year, the Group achieved turnover of RMB719,123,000, representing an increase of 22.30% over the corresponding period of the previous year, and this was mainly due to the steady growth in traffic volume of the highways. The audited profit attributable to shareholders amounted to RMB309,031,000, representing an increase of 14.47% over the corresponding period of the previous year. Basic earnings per share for the period was RMB0.2185, representing an increase of 13.98% over the corresponding period of last year. This showed the strong growth trend of the Group.

### 2. Issue of 250,000,000 A Shares

The proceeds of RMB0.55 billion from the successful issue of 250,000,000 A Shares on 23rd December 2002 will be used to acquire Anhui Section of Lianhuo Expressway, and this will further enlarge the scale of assets and further improve the competitive forces of the Company.

### **3. Increase of investments**

During the reporting period, the Company invested a total of RMB25,944,000 in Expressway Advertisement, Kangcheng Pharmaceutical and Information Investment. This indicated that the Company is attempting to diversify its development whilst consolidating its core business. The Company will continue to increase its investments in new and hi-tech industries to nurture new pillar industries to the Company.

## **IV. ADVANTAGES FOR BUSINESS DEVELOPMENT**

Since the public flotation of the Company in Hong Kong in 1996, the Company's operating results have sustained its growth trend, which fully illustrated its significant advantages for development:

- Being an industry receiving key supports of the State, its monopolistic nature and a steady stream of revenue are characteristic of the expressway industry in which the Company is principally engaged. As an important infrastructure facility for stimulating economic development, the expressway industry will continue to be a key industry of development by the State in the next five to ten years.
- Anhui Province, where the Company is located, is an important province linking the southeast coastal regions of the PRC to the hinterland and the central and western part of the PRC. It also enjoys an unique regional advantage as the province where two horizontal national trunks of the National Trunk System run through.
- The Company obtained undertakings from the People's Government of Anhui Province and Anhui Provincial Department of Communications, which provide protection for the toll highways operated by the Company to a considerable extent, from competition with other toll highways, and Anhui Provincial Department of Communications will give the priority to consider the Company when constructing other vehicular highways of Class II standard or above in future.
- The Company is the only domestic Highway Company that has developed and maintained an expressway information system and other relevant systems independently and possessed abundant research capability and human resources.

## **V. BUSINESS DEVELOPMENT PLANS**

### **1. To improve standards of service and management of existing road sections**

The Company will strengthen the management of maintenance of the existing road sections by enhancing maintenance quality, improving traffic environment, upgrading its ability to cope with contingencies, strengthening management of toll operation, refining various elements of toll management, maximising operational efficiency of the comprehensive information system of the Company and identifying more potential traffic flow.

### **2. To identify other sources of revenue**

The Company will strengthen value-added services along the highways, including the development of advertising business, setting up chained comprehensive service areas covering catering, resting and vehicle maintenance, reasonable planning and building petrol stations.

### **3. Speed up construction and renovations of roads**

The Company will proceed with the major renovation project of Hening Expressway which is expected to overhaul 60 km of road surfaces by the end of 2003.

# Management Discussion and Analysis (cont'd)

## 4. Achieve expansion of the core operations safely and efficiently

After the acquisition of Anhui Section of Lianhuo Expressway, the Company will seek to acquire other high-quality highway assets to realise the stable expansion of its core business.

## 5. Increase investments in technological development and innovation

The Company plans to gradually increase the input in research and development expenditure in the next two years by adopting high technology to achieve the upgrading and renewal of the existing toll and comprehensive information system network, to enhance the technological level and stability of the system, and to move towards the transition to an AutoFill system in order to substantially increase the traffic capacity and toll collection efficiency of the roads. At the same time, it will further expedite the technological development of Wantong Technology, and will invest in the establishment of a photo-communication product base and information product research and development base, and will continuously introduce new technology, develop new products and capture new markets. The Company will make the hi-tech business as the new profit growth engines to the Company as soon as possible through development of Kangcheng Pharmaceutical, research of genetic medicines genome and developing new medicines with its own proprietary intellectual property rights.

## 6. Strengthen the construction of human resources management system

By adhering to the modern system of corporate management and operation, the Company will establish and refine various regulations and systems. Whilst on one hand it will make efforts to lift the operation and management standards of the Company's management, thereby forming a clear-cut operation mechanism of decision-making, management and implementation with high quality management personnel of merits and expertise introduced to form a core team of high quality and competency, and on the other hand it will strengthen team construction and staff training to enhance business quality and professional morality of the staff as a whole, and to recruit high quality personnel from universities and colleges systematically.

## 7. Regulate operations and strengthen risk control

The Company will further strengthen the healthy internal financial management system within the Company for solidifying the internal controls of the Company, the setting up of an effective internal control system on funds, cost expenditure and target profit margin, thereby fully increasing the utilization of assets.

## 8. Explore fund-raising channels and its scientific applications for the Company

The Company will draw up a fund raising plan for application in accordance with the operating needs and investment plans. To the extent that requirements for development and returns on shareholders' equity are not affected, the Company will carry out fund raising exercises through different means such as bank loans, corporate bonds and issue of shares, with the costs of financing being the basis for selecting the funding combinations.

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