



MANAGEMENT'S DISCUSSION AND ANALYSIS

I. Business review

With noticeable effects of the central government's economic macro-control policies during the first half of 2004, China's economy maintained a steady upward momentum. For the first half year, the national gross domestic product ("GDP") amounted to Rmb5,877.3 billion, representing a year-on-year growth rate of 9.7% which was 0.9 percentage point higher than the same period last year. The GDP of Sichuan Province amounted to Rmb276.84 billion, representing a year-on-year growth rate of 13.5% which was 2.4 percentage points higher than the same period last year, being the province's historical new high in the recent decade.

Such favourable trend of macro economy guaranteed the Group's smooth progress in its principal activities. For the first half of 2004, the Group's turnover amounted to Rmb430,152,000, down 5.3% from the same period last year. This was mainly attributable to a decrease of Rmb58,510,000 in the Group's sales of petroleum products for the Period as a result of the state's stricter macro-control on petroleum products, the increased fluctuation in their prices and the streaming of other operations for better development of the Company's principal activities. However, thanks to the increase in the Group's toll revenue for the Period, profit attributable to shareholders and earnings per share for the Period increased by 16.26% from the same period last year to Rmb115,287,000 and Rmb0.0451 respectively.



1. Principal activities — Operation of Toll Roads

The principal activities of the Group are the holding, operation and management, and investment and development of toll expressways within Sichuan Province. Currently, the Group mainly owns three expressways, namely, Sichuan Chengyu Expressway (“Chengyu Expressway”), Sichuan Chengya Expressway (“Chengya Expressway”) and Chengdu Chengbei Exit Expressway (“Chengbei Exit Expressway”). Being the components of the traffic arteries in Sichuan province, such expressways play a key and special role in the provincial transportation networks.

Operating performance of expressways for the Period

	Average daily		Toll revenue (Rmb'000)	Period growth/ decline (+/- %)
	traffic flow (Number of vehicles)	Period growth/ decline (+/- %)		
Toll roads and interests held by the Company				
Chengyu Expressway (100%)	13,271	+29.27%	317,530	+18.85%
Chengya Expressway (62.595%)	10,487	+43.05%	99,978	+25.48%
Chengbei Exit Expressway (60%)	21,797	-13.15%	25,921	-6.82%

Thanks to the fast-growing macro economy and favourable influences of the strategy of Western Development, and given the Group's relatively lower toll revenue for the same period last year due to SARS, both traffic flow and toll income of Chengyu Expressway and Chengya Expressway of the Group for the Period recorded significant increases over the same period last year. During the Period, however, traffic flow and toll revenue of Chengbei Exit Expressway recorded a decrease from the same period last year. Such decrease in income was attributable to a serious traffic diversion from Chengbei Exit Expressway, as its parallel Chengbei Exit Dajian Road completed the renovation project and resumed its operation in March 2004, whereas Chengdu Chengbei Exit Expressway Company Limited (“Chengbei Company”) is still in the process of applying for the toll-collecting and operating right of Chengbei Exit Dajian Road.



Operating results of the Company and its major subsidiaries

Unit: (Rmb'000)

	Toll revenue	Operating profit	Net profit/ (loss)
Sichuan Chengyu Expressway Company Limited	317,530	167,261	133,771
Sichuan Chengya Expressway Company Limited	99,978	30,476	(29,687)
Chengdu Chengbei Exit Expressway Company Limited	25,921	13,644	5,089

2. Other businesses

For the Period, the Company's other revenue and gains from activities other than toll roads aggregated to Rmb20,690,000.



II. Financial review

Summary of the Group's Results

	For the six months ended 30 June	
	2004	2003
	<i>Rmb'000</i>	<i>Rmb'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Turnover	430,152	454,208
including: Toll revenue	420, 435	385,981
Sales of petroleum products	9,717	68,227
Profit before tax	133,981	109,282
Net profit attributable to shareholders	115,287	99,159
Earnings per share (Rmb)	0.0451	0.0388

Summary of the Group's Assets

	At 30 June	At 31 December
	2004	2003
	<i>Rmb'000</i>	<i>Rmb'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
Total assets	7,904,726	7,885,895
Total liabilities	2,885,068	2,889,599
Minority interests	249,056	259,123
Total net assets	4,770,602	4,737,173
Net assets per share (Rmb)	1.865	1.852



Analysis of financial results

With regular reviews and necessary adjustments to its financial position under its prudent financial policies, the Group was committed to cutting down operating costs and minimising investment risks, so as to maximise the interests of the Company and shareholders.

The Group's turnover for the Period amounted to Rmb430,152,000, representing a decrease of 5.3% from the same period last year, of which expressway toll revenue increased by Rmb65,183,000 or 18.35% over the same period last year, while sales of petroleum products decreased by 85.76% or Rmb58,510,000 from the same period last year. Profit attributable to shareholders amounted to Rmb115,287,000, representing an increase of 16.26% from the same period last year.

The Group's profit attributable to shareholders for the Period was principally affected by the following factors: (1) a considerable year-on-year increase in toll income of Chengyu Expressway and Chengya Expressway, of which toll revenue of Chengyu Expressway increased by 18.85% to Rmb317,530,000 with an increase of 11.59% in net profit over the same period last year, and toll revenue of Chengya Expressway increased by 25.48% to Rmb99,978,000, with an operating loss dropping by Rmb5,717,000 or 16.15% to Rmb29,687,000 from the same period last year; (2) a year-on-year decrease of Rmb38,137,000 or 23.97% in other operating cost due to effective control on costs and expenses as a result of strengthened internal management; (3) toll revenue of Chengbei Company recorded a year-on-year decrease of Rmb1,897,000, together with a payable income tax amounting to Rmb2,879,000 in 2004 (for the same period of 2003: nil), leading to a year-on-year decrease of Rmb6,688,000 or 56.79% in its net profit.



Liquidity of Capital and Sources of Finance

During the Period, capital expenditure of the Group reached Rmb25,678,000, which was mainly financed by incomes derived from operations. As at 30 June 2004, the Group's loans amounted to Rmb2,583,732,000 with an average interest rate of approximately 5.3%. The gearing ratio of the Group was 36.5% as at 30 June 2004. Details of capital structure together with comparative figures as at 31 December 2003 are set out as follows:

	As at 30 June 2004		As at 31 December 2003	
	Amount	Percentage	Amount	Percentage
	Rmb'000	%	Rmb'000	%
	(Unaudited)		(Audited)	
Shareholders' equity	4,770,602	60.35	4,737,173	60.07
Debt with floating interest rate	2,583,732	32.69	2,020,052	25.62
Interest-free debt	301,336	3.81	869,547	11.03
Minority interests	249,056	3.15	259,123	3.28
Total	7,904,726	100	7,885,895	100
Debt to equity ratio	60.48%		61%	

Note: Debt to equity ratio = (Debt with floating interest rate + interest - free debt) / Shareholders's equity



Financial Policy

The Group carries out stringent cash management and risk control measures. The Group usually places its cash as short-term deposits in Renminbi. Among the Group's debts with floating interest rate, there is a loan of US\$7,707,000 lent by the World Bank which was on-lent through Sichuan Highway Development, the parent company. 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 for dividend distribution to holders of H Shares. As the fluctuation in foreign exchange rate was insignificant in the Period, the Group's operating results were not materially affected. Save for a deposit of US\$180,000 under letter of credit for equipment procurement, the Company held no balance in deposit denominated in foreign currency as at the end of the Period. In view of the expectation of a steady exchange rate of Renminbi, it is expected that the fluctuation in exchange rates will not have a material impact on the Group's future results.

Capital Commitment

Details of the Group's capital commitment are set out in note 9 to the condensed financial statements.



III. Business development plan for the second half of 2004

1. The Company will further press ahead repairs and maintenance of Chengyu Expressway based on the remarkable maintenance effects in the first half of the year. As such, the Company expects to build rational relationships among safe and smooth operation of roads and cost control and financing arrangement, aiming at a better profitability for its core assets.
2. Under the overall arrangement of Sichuan Provincial Department of Communications on online toll collection of the provincial expressways, the Company expects to complete the technological renovation of online toll collection of Chengyu Expressway, and put the project of district online toll collection into operation within the year. During the first half of 2004, the Company has completed invitation and evaluation of biddings and signed the relevant contracts or agreements, bringing the project into the co-designing phase. Through the construction, installation and trial run phases in the second half of 2004, the Company strives to accomplish the online toll collection project of Chengyu Expressway by the end of the year.
3. The Company will assist its subsidiary Chengbei Company to obtain the approval for toll-collecting and operating right of Chengbei Exit Dajian Road from the relevant authorities as soon as possible, so as to improve toll revenue of Chengbei Company and the overall profitability of the Group.
4. Upon a clear outcome on the disputation in relation to equity interest in SC Expressway between Sichuan Highway Development and Oriental Harvest, the Company will resume or terminate, at its discretion, the proceeding with the Conditional S&P Agreement and the A Shares Issue for the best interests of the Company and its investors. (For details, please refer to the Company's announcement headed "Suspension to Proceed with a Major and Connected Transaction and Proposed Issue of A Shares", which was published in Hong Kong Economic Times / The Standard on 16 July 2004.)