



**MANAGEMENT DISCUSSION & ANALYSIS**

## Hebei Province

Hebei is an important member of both Beijing-Tianjin-Hebei Economic Circle and Bohai Economic Rim. It plays a major supporting role to the economic development of the Beijing, Tianjin and even the entire Bohai Bay area. The GDP of Hebei rose to RMB 883.69 billion in 2004, representing a 12.9% growth, the highest since 1997. Total value added of industry expanded by 15.1% to RMB 415.46 billion. The value added by steel, textile, petroleum refining, chemical, medicine, building materials and foodstuff industries altogether accounted for 55.4% of the total value added of industry and contributed to 62.0% of the growth of the industrial output value. The Hebei government has been aggressive in infrastructure investment in recent years to match with the high pace of economic development; investment in fixed assets in the area of transportation reached RMB 21.9 billion in 2004, representing a 45.9% growth; as at end of 2004, length of highways reached 70,002 km, including 1,706 km of expressways. With the approach of the 2008 Beijing Olympics and the swift economic development of the Beijing-Tianjin-Hebei Economic Circle, we predict that the need for transportation will surge.



The Group's investment in Hebei Province:

	Project Name	AADT	% growth	Annual Toll Revenue (RMB'M)	% growth
1.	Baojin Expressway	14,814	+28.7%	279.06	* +25.4%
2.	Shijin Highway	13,313	+5.7%	56.32	+27.7%
3.	Hanguan Highway	12,228	+20.7%	93.79	+31.0%

\* Since the contribution of toll revenue from Baojin Expressway project in 2003 was from October to December only, the comparison here is based on average daily revenue in 2003 and 2004.

Baojin Expressway has started contributing to the toll revenue of the Group since October 2003. Its daily toll revenue has shown an increasing trend. Average daily revenue grew 25.4% in 2004, and far exceeds our expectations. Supported by the constant economic growth in the Northeastern and Northern China, maintain the rapid growth of freight and coal transport will continue. Baojin Expressway, as one of the major routes connecting the Northeastern and Northern China, with the merge of economies of Beijing, Tianjin and Hebei and the swift economic development of cities such as Tianjin, Shijiazhuang and Baoding, we believe the growth of traffic and toll revenue will keep its pace with the regional economic development.

Toll revenue of Shijin Highway in 2004 revealed a high growth rate, owing to the infrastructure and urban constructions undergoing in Cangzhou and Huanghua Port in 2004 which induced a large amount of transport of building materials on Shijin Highway, the increase in coal transport which elevated heavy truck traffic, and the effect of strengthened measures which reduced traffic bypassing the toll station.

Hanguan Highway is a major route for eastward coal transport from Shanxi. The heavy traffic of coal truck induced by the energy shortage in 2004 and the effect of measures to regulate truck overloading resulted in the remarkable growth in traffic and toll revenue of the project in 2004.

## Anhui Province

Anhui is the back yard of Jiangsu and Zhejiang in the Yangtze River Delta. It is hastening its process of merging with the economy of the Yangtze River Delta with a more active profile, for the sake of its pace of development. The GDP in the year of 2004 reached RMB 481.27 billion, representing a 12.5% growth, the first double-digit growth since 1998. Growth of investment in fixed asset was rapid; investments in the areas of agriculture, energy, transportation, water conservancy, environment and utilities management were strengthened. In the meantime, highway investment was also rolling fast. In 2004, investment in transportation infrastructure expanded 26.2% to RMB17.85 billion. Length of completed expressway mounted to 1,294 km, whereas roughly 1,300 km of expressway is under construction. Growth continued in highway transport; turnover of passenger and freight transport by highway in 2004 reached 42.6 billion passenger-km and 34.9 billion ton-km, expanded by 7.1% and 10.1% respectively. We expect that with the enhancement of economic strength, the demand for transportation will soar.

The Group's investment in Anhui Province:

Project Name	AADT	% growth	Annual Toll Revenue (RMB'M)	% growth
4. Bengbu Huaihe Bridge Highway	10,551	+21.8%	31.88	+4.0%
5. Bengbu Huaimeng Highway	8,912	-15.5%	32.76	-40.4%
6. Hehuai Highway	17,329	+0.2%	63.71	-6.4%
7. Heye Highway	32,018	+16.3%	163.98	+8.5%
8. Chaoyanglu Huaihe Bridge	6,836	-1.0%	14.58	-34.7%

Bengbu Huaihe Bridge Highway, Bengbu Huaimeng Highway and Chaoyanglu Huaihe Bridge supplements each other, forming an inseparable highway network. The complete opening to traffic of Hefei-Xuzhou Expressway in December 2003 and Jieshou-Fuyang-Bengbu Expressway in October 2004 diverted the through traffic originally using the Bengbu highway network; the scale of the actual diversion matches with our predictions at the time of investment.

Following the change in municipality boundary of Hefei and Huainan which affected the Caoan toll station of Hehuai Highway, a portion of traffic originally using the highway on pay-per-pass basis has been made eligible to purchase monthly tickets. This caused the toll revenue from Hehuai highway to fall short of our expectation. Corresponding measures have been taken to minimize loss of toll revenue, therefore we expect the performance of Hehuai Highway in 2005 will be stabilized.

Heye Highway is a section of the National Highway 312 which connects Shanghai, Nanjing, Hefei and Xian. It has continued its role as an important route in 2004. Besides, repairing works undergoing in 2004 on several diversion roads forced traffic to return to Heye Highway. Therefore, traffic and toll revenue of Heye highway showed ideal growth.

## Guangdong Province

In 2004, the GDP of Guangdong Province soared 14.2% to RMB 1,603.9 billion, thus the target of the economic growth mentioned in the “Tenth Five-Year Plan” was achieved one year ahead of schedule. The cooperation within Pan-Pearl River Delta (Pan-PRD) achieved a satisfactory commencement. Benefited from the Closer Economic Partnership Arrangement between Hong Kong and Chinese mainland (CEPA) as well as the success of the first Pan-PRD Regional Economic and Trade Cooperation Fair, the economic connection and development of Guangdong and Hong Kong was further strengthened. The opening of Guangzhou New Baiyun International Airport and the completion of phase one of the Shenzhen Metro have enhanced the internal and external transportation development of Guangdong. At the end of 2004, the province attained the target of connecting the provincial capital with other municipalities in the province through expressways. During the year the mileage of newly constructed expressways hit 216.5 km, while total expressway mileage reached 2,519.5 km. In accordance with the continuous cooperation between Guangdong and other regions in Pan-PRD as well as the swift development of the logistics industry, we expect the speedy growth of transport can be maintained.



The Group's investment in Guangdong Province:

	Project Name	AADT	% growth	Annual Toll Revenue (RMB'M)	% growth
9.	Jihe Expressway	42,906	+19.8%	230.98	+26.7%
10.	Guangsan Expressway	32,576	+18.5%	229.63	+17.6%
11.	Luochong Highway	14,100	+18.2%	42.53	+9.2%

Being an important component of the Shenzhen highway network, the east-west Jihe Expressway achieved promising growth of traffic and toll revenue, along with the continuous development of Shenzhen economy in 2004. The markdown of car prices in Shenzhen induced continuous growth in volume of private passenger vehicle ownership. Traffic of heavy trucks grew more than 50%, which further improved the growth rate of toll revenue. It is anticipated that the project will maintain its satisfactory performance in 2005.

Benefited from the flourishing economic development and the saturation of the parallel National Highway 321, traffic and toll revenue of Guangsan Expressway performed prominently. At the end of November 2004, all the toll stations in open system highways in Foshan restored the two-way toll collection practice towards non-local vehicles. At the same time, a new toll station on National Highway 321 was reset. These factors have positive influences on traffic and toll revenue of the project in 2005.

Luochong Highway is the main route connecting Guangdong and Guangxi. Benefited from the rapid economic growth of both provinces, measures to regulate truck overloading, as well as the opening to traffic of connecting highways in the year, the traffic and toll revenue of Luochong Highway project grew 18% and 9% respectively. It is expected that the opening of Guangzhou-Wuzhou Expressway Zhaoqing to Yunfu Section at the end of 2004 will divert a portion of the traffic originally using the National Highway 321 to Luochong Highway. All the preceding factors will improve the traffic of Luochong Highway project.

## Hunan Province

Being a big agricultural province, Hunan recorded a strong and continuous economic growth. The GDP of the province reached RMB 561.2 billion in 2004, representing a growth of 12%, the highest among the past eight years. Grain obtained good harvest; the total output of grain was 28.1 million tons, rose by 15%. Industrial development was speedy. The top ten superior industries, including equipment manufacturing, nonferrous metal, tobacco, electronic information and new material industries, constituted RMB 91.2 billion of total value-added of industry. The total growth of the top ten superior industries in the year was 26.5%. Turnover of freight transport by highway soared 12.7% to 51.3 billion ton-km, while turnover of passenger transport by highway increased 16.9% to 45 billion passenger-km. In 2004, expressway mileage of the province was 1,218 km. Increase in grain output and industrial development boost the need for transportation.



The Group's investment in Hunan Province:

Project Name		AADT	% growth	Annual Toll Revenue (RMB'M)	% growth
12.	Changyi Expressway	35,560	+12.9%	187.78	+15.7%
In which	Expressway	13,092	+23.9%	155.56	+26.9%
	Changyi old road	22,468	+7.4%	32.22	-19.0%

The Changyi Expressway project comprises the Changsha to Yiyang Expressway and National Highway 319 Changsha to Yiyang Section ("Changyi old road"). The expressway contributed approximately 83% of toll revenue of the project in 2004.

The traffic and toll revenue of Changyi Expressway was remarkable in 2004. The natural growth rate of traffic and toll revenue of the expressway, which reflected to the swift economic growth of Hunan, revealed the importance of the expressway in transportation. In consequence of the extensive inspection on regulating truck overloading and the execution of preferential policy towards specific agricultural product vehicles in 2004, the annual toll revenue of Changyi old road declined. In 2005, the toll revenue of Changyi Expressway will benefit from the implementation of the policy of "restoration of under-scaled trucks" since the second half of 2004. Toll collected from under-scaled trucks will rise correspondingly with their upward adjustment in toll class. In addition, Changde to Zhangjiajie Expressway is expected to post positive effect on Changyi Expressway when it is open to traffic in the end of 2005.



## Shanxi Province

Shanxi is one of the major coal mining provinces in Northern China. The extensive power shortage in mainland China in 2004 caused a great demand in coal, which powered up the swift economic development of Shanxi. The GDP of Shanxi in 2004 rose 14.1% to RMB 304.24 billion and the GDP per capita exceeded US\$1,100. Coal production speeded up; 493 million tons of coal were produced in 2004, increased by more than 40 million tons compared to that of 2003, and constituted 25.2% of national coal production. At the same pace with the expansion of the coal industry, the transportation sector also continues its healthy development. Turnover of passenger and freight transport by highway reached 18.14 billion passenger-km and 36.56 billion ton-km, representing growth of 11.8% and 8.7% respectively. Out of the 65,813 km of highways built, 1,347 km were expressways by the end of 2004. It would be difficult to solve the problem of energy shortage in mainland China in the near future, hence, the demand for coal transport will remain high. We expect the demand for transport in Shanxi will continue to rise.

The Group's investment in Shanxi Province:

	Project Name	AADT	% growth	Annual Toll Revenue (RMB'M)	% growth
13.	Dongguan Highway	5,476	+16.4%	15.69	+22.7%
14.	Taiyu Highway	20,141	+24.0%	48.08	+25.8%
15.	Yuci City Bypass	4,073	+23.9%	15.84	+26.0%
16.	Taigu Highway	10,820	+27.7%	32.33	+31.5%

All 4 projects in Shanxi showed extraordinary performances in 2004.

Taiyu Highway is a major entrance to the provincial capital of Taiyuan. Traffic on Taiyu Highway composes mainly of small passenger vehicles. Small passenger vehicle traffic, badly hit in 2003 by SARS, restored to normal volume and enhanced the development of the project performance in 2004.

The adverse effect of the opening of Taiyuan to Qixian Expressway in 2003 to both Yuci City Bypass and Dongguan Highway has basically stabilized. Measures regulating truck overloading led to the healthy development of the freight transport market. In addition, power shortage induced a large amount of coal transport out of and within the province. These factors resulted in the disproportionate increase of heavy truck traffic, which pushed forward the performances of the two projects.

As Taigu Highway is a major route for coal transport, and interactions between the cities of Gujiao and Taiyuan have been closer, the numbers of both heavy trucks and small passenger vehicles using the highway recorded significant increases. With the strengthened regulation of the use of monthly tickets in the year, Taigu Highway became the fastest growing project among the 4 projects in Shanxi in terms of traffic and toll revenue.

## Jiangsu Province

The Jiangsu Province, a major region of the Yangtze River Delta, recorded its GDP of RMB1,551.2 billion in 2004, which was 14.9% higher than that of the previous year. The industrial structure of the Jiangsu Province has been under continual readjustment and optimization in recent years. The electronic, textile, chemical and metallurgical industries have been the four pillar industries of the province. In 2004, the output value of the four pillar industries soared 40.8% to RMB1,072.1 billion, which accounted for 43.2% of the total output value of the province. Passenger transportation vehicles, especially private vehicles, grew rapidly. As at the end of 2004, ownership of private vehicles soared 54.4% to 406,000, while newly registered private vehicles for the year increased 31.9% to 143,000. Expressway mileage reached 2,424 km, which was the third highest in the nation. Mileage of newly constructed expressway was 421 km, which was the highest in the nation. The need for transportation and development of the four pillar industries will grow in accord.



The Group's investment in Jiangsu Province:

Project Name	AADT	% growth	Annual Toll Revenue (RMB'M)	% growth
17. Airport Highway	16,944	+38.2%	102.71	+58.4%
18. Changcao Highway	8,356	+41.1%	29.88	+24.7%

In consequence of the remarkable economic performance of Suzhou and the widening works on Nanjing-Shanghai Expressway and National Highway 312, both traffic and toll revenue of Airport Highway grew strongly in 2004. In accordance with the completion of the widening works on Nanjing-Shanghai Expressway and the parallel section of National Highway 312 after mid-2005, it is expected that the project's income will return to normal level.

The group entered into the Share Transfer Agreement with Changzhou Wujin Transport Development Company Limited on 21st January 2005 to transfer its entire interest in Changcao Highway. The transfer was subsequently approved by the Changzhou Foreign Trade and Economic Cooperation Bureau on 5th February 2005. This transaction meets the Group's business strategy and it is expected to be completed in the first half of 2005.



## Guangxi Zhuang Autonomous Region

Guangxi Zhuang Autonomous Region is the main coastal province of South-west China. Benefited from the establishment of China-ASEAN free trade zone and the Pan-Pearl River Delta Cooperation in 2004, Guangxi showed the best development posture among the last 10 years. The GDP in 2004 soared 11.8% to RMB 332 billion, thus the target set in the "Tenth Five-year Plan" was completed one year ahead of schedule. Total value of import and export trade soared 34.3% to US\$4.3 billion, while the export market was further expanded and the number of foreign exportation countries surpassed 160, which broke the historical record. Value added of industry mounted to RMB 104.5 billion, which rose 17.0%, the highest growth rate since 1995. In terms of highway transportation, the turnover of freight transport and passenger transport escalated by 8.2% and 15.7% respectively. In 2004, newly constructed expressway mounted to 145 km, the total expressway mileage of the region reached 1,162 km. It is expected that the commercial and trading activities of Guangxi with ASEAN and Pan-Pearl River Delta will grow speedily, which is beneficial to the increase in traffic.

The Group's investment in Guangxi Zhuang Autonomous Region:

Project Name	AADT	% growth	Annual Toll Revenue (RMB'M)	% growth
19. Yulin City Ring Roads	15,500	+23.6%	29.10	-1.8%
20. Yugong Highway				

In consequence of the transformation of toll vehicle structure, both the traffic of Yulin City Ring Roads and Yugong Highway increased obviously, while the annual toll revenue decreased slightly. The Group, through its subsidiaries, requested arbitration pleas to the China International Economic and Trade Arbitration Commission in order to resolve the issues that the Yulin Government as well as the PRC joint venture partners breached the joint venture contracts and related agreements. Hearings were held in June 2004. It is expected that the arbitration results will be announced in mid-2005.

## Henan Province

Economy of Henan Province develops speedily. Other than further revelation of the province's superiority in agriculture, industrial investment was also boosted. In 2004, Henan's GDP reached RMB 881.5 billion, which was 13.7% higher than that of the previous year. The annual grain yield reached 42.6 million ton, with a growth rate of 19.3%. The increase in grain yield was the highest in the nation. Industrial investment mounted to RMB 108.6 billion; the growth rate was 53.5% which surpassed the development of other sectors. The speedy growth of the industrial sector revealed the notable outcome of economic restructuring. Foreign trade activities increased swiftly; total value of import and export trade reached US\$6.6 billion, rising 40.2% during 2004. The scope of utilizing foreign capital has been expanding. There were 478 foreign investment enterprises approved throughout the year, which was 48.0% higher compared to that of the previous year. There were 19 expressway construction projects commenced during year 2004. Expressway mileage increased 341 km, while the total expressway mileage reached 1,758 km. We are optimistic about the prospect of transportation based on the view of the increasing output of grain and the accelerating growth of industry.



The Group's investment in Henan Province:

Project Name	AADT	% growth	Annual Toll	
			Revenue (RMB'M)	% growth
21. Xunan Highway	22,246	+3.4%	191.31	+29.5%

The annual toll revenue of 2004 soared 29.5% owing to the toll rate adjustment in October 2003, the implementation of toll collection by weight as well as the tightening of toll collection management. The parallel Xuchang-Pingdingshan-Nanyang Expressway was open to traffic in December 2004; its diversion effect will gradually be unveiled. The diversion effect of the expressway was already taken into consideration at the time of investment.