

MANAGEMENT DISCUSSION AND ANALYSIS

I. Conditions of Group's Assets

The major assets of the Group include 3 toll roads, namely Sichuan Chengyu Expressway ("Chengyu Expressway"), Sichuan Chengya Expressway ("Chengya Expressway") and Chengdu Chengbei Exit Expressway ("Chengbei Exit Expressway"), which are located in Sichuan Province, a large province in the western region of PRC. Such roads compose the important routes of transportation in Sichuan Province and play a key and special role in the transportation networks within the province.

The basic information of the Group's toll roads is as follows:

Toll roads	Mileage (km)	Date of commencement of operation	End of operation	Number of toll stations	Interests held by the Company
Chengyu Expressway	226	July 1995	October 2027	15/closed	100%
Chengya Expressway	144	December 2000	December 2029	15/closed	62.595%
Chengbei Exit Expressway	10.42	December 1998	June 2024	1/closed	60%

As at 31 December 2005, the Group's total assets reached approximately RMB7,722,068,000 with net assets amounted to approximately RMB5,221,408,000.

II. Toll Collection Policy of Expressways

The toll collection rates for the Group's expressways prescribed by Sichuan Provincial Department of Communications and Sichuan Provincial Price Bureau are mainly based on such factors including traffic flow, construction cost of the roads, estimated investment return period, loan repayment period, local price level and inflation rate, operation, management and road maintenance costs and affordability of users.

The current toll collection rates for the Group's expressways are set out as follows:

*Chengyu Expressway

Categories of vehicles	Basic toll rate (RMB/vehicle.km)	Longquanshan Tunnel (RMB/vehicle.time)
Class I passenger/cargo vehicle	0.32	5.00
Class II passenger/cargo vehicle	0.64	8.00
Class III passenger/cargo vehicle	1.28	16.00
Class IV passenger/cargo vehicle	1.92	24.00
Class V cargo vehicle	2.56	32.00

* During the year, Chengyu Expressway's toll standard has been adjusted. To facilitate the network of online toll collection carried out by expressways in Sichuan and to smoothly connect with expressways in Sichuan Province, the classification criteria for vehicles of Chengyu Expressway, as approved by Sichuan Provincial Price Bureau, were adjusted in accordance with the unified classification criteria for vehicles in Sichuan Province, namely the vehicles were reclassified into 5 categories from the previous 6 categories, and the toll collection rates were also adjusted accordingly. The new toll collection rates came into effect from 20 January 2005 on which Chengyu Expressway commenced the online toll connection network.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Chengya Expressway

Categories of vehicles	Basic toll rate (RMB/vehicle.km)	Jinjiguan Tunnel (RMB/vehicle.km)
Class I passenger/cargo vehicle	0.28	2.00
Class II passenger/cargo vehicle	0.532	4.00
Class III passenger/cargo vehicle	1.008	8.00
Class IV passenger/cargo vehicle	1.428	12.00
Class V cargo vehicle	1.792	16.00

* Chengbei Exit Expressway

Categories of vehicles	Toll rate (RMB/vehicle)
Class I passenger/cargo vehicle	7.00
Class II passenger/cargo vehicle	14.00
Class III passenger/cargo vehicle	28.00
Class IV passenger/cargo vehicle	42.00
Class V cargo vehicle	56.00

* Since 1 September 2004, Chengbei Exit Expressway's toll station has unified the collection of the toll rate of Qinglongchang Bridge which links Chengbei Exit Expressway. The toll rate shown in the table was therefore the sum of toll rate of Chengbei Exit Expressway and the 4,800-metre long Qinglongchang Bridge.

Unified classification criteria for vehicles:

Class I passenger/cargo vehicle	sedan, jeeps, minibuses and touring cars under 8 seats (inclusive); buggies of 1 tonne (inclusive) and below
Class II passenger/cargo vehicle	passenger cars of 9 to 30 seats (inclusive), sleeping buses under 20 berths (inclusive); cargo vehicles of 1 to 3 (inclusive) tonnes
Class III passenger/cargo vehicle	passengers cars of 31 to 50 seats (inclusive); sleeping buses of 21 to 30 seats (inclusive); cargo vehicles of 3 to 5 (inclusive) tonnes; international standard container trucks
Class IV passenger/cargo vehicle	passenger cars over 51 seats (inclusive); sleeping buses over 31 berths (inclusive); cargo vehicles of 5 to 15 (inclusive) tonnes
Class V cargo vehicle	cargo vehicles of 15 to 25 (inclusive) tonnes



III. Conditions of Group's Operation

1. Business summary

The Group achieved a fairly good operating results during the year. The Group's toll income was RMB992,959,000, a year-on-year increase of 7.57%. The Group's turnover amounted to RMB953,165,000, representing an increase of 7.73% compared with the last year. Profit attributable to ordinary equity holders of the parent increased to RMB248,067,000, a 15.06% increase over the last year. Earnings per share attributable to ordinary equity holders of the parent increased to RMB248,067,000, a 15.06% increase over the last year. Earnings per share attributable to ordinary equity holders of the parent was RMB0.097 (2004: RMB0.0843).

The composition and proportion of income from the Group's principal activities are set out as follows:

Toll income	For the year ended 31 December 2005 (RMB'000)	Percentage to total turnover	Increase as compared with 2004 (%)
Chengyu Expressway	686,226	69.11%	4.46%
Chengya Expressway	236,637	23.83%	11.97%
* Chengbei Exit Expressway	70,096	7.06%	27.94%
Total	992,959	100%	7.57%

* The toll income of Chengbei Company was the total of the toll incomes of Qinglongchang Bridge, Chengbei Exit Expressway and Chengbei Exit Dajian Road Section I.

2. Operation of expressways included in the principal business

The operations of the Group's major expressways during 2005 were as follows:

Toll road	Average daily traffic flow (No. of vehicles)	Year-on-year growth/decline (±%)	Average daily toll income (RMB)	Year-on-year growth/decline (±%)
Chengyu Expressway	14,034	+4.43%	1,880,071	+4.46%
Chengya Expressway	12,686	+2.85%	648,321	+11.97%
Chengbei Exit Expressway	21,252	+8.04%	175,671	+17.75%



Chengyu Expressway

In 2005, Chengyu Expressway achieved a steady growth in traffic flow and toll income but the growth slowdown when compared with the previous year, mainly because Chengyu Expressway was open to traffic for 10 years with the average daily traffic flow increasing from 7,002 vehicles in 1998, the next year following its listing to the existing 14,034 vehicles. The traffic flow was doubled and was gradually entering the mature stage which demonstrates a steady growth. However, with the continuously rapid and healthy growth of Sichuan's economy, especially Chengyu Expressway is located in Chengdu-Chongqing Economic Rim which is economically active and maintains a leading position in Sichuan Province, it is anticipated that Chengyu Expressway will sustain a good profitability.

Chengya Expressway

The traffic flow and toll income of Chengya Expressway has demonstrated a significant upward trend for the past 5 years since the commencement of its operation. In 2005, the operation of Chengya Expressway remained a favourable performance, with the traffic flow increasing by approximately 95% when compared to the first year after it was completely open to traffic in 2001. It is attributable to the economic growth of western Sichuan and the booming tourism in western Sichuan bounced by its ecological and ethical attraction. To expedite the construction of expressway network of the State, the Ministry of Communications has included the highway section connecting Ya'an, Shimian and Lugu in Sichuan Province into the construction plan of 2006. It is anticipated that Chengya Expressway will increasingly ride on the competitive advantage to become a golden tourist route in Sichuan Province.

Chengbei Exit Expressway

In 2005, the traffic flow and toll income of Chengbei Exit Expressway dropped before they surged up because the construction of toll stations of Chengbei Exit Dajian Road Section I, which runs parallel to Chengbei Exit Expressway, was delayed by the urban planning and it was not opened for toll collection until 9 September 2005 despite its renovation project was completed and reopened to traffic in March 2004. Vehicles, in particular, the cargo vehicles, using Chengbei Exit Expressway were further greatly diverged in the last three quarters. Upon the commencement of toll collection at Chengbei Exit Dajian Road Section I, the average daily traffic flow of Chengbei Exit Expressway rapidly rose, with a growth rate of 11.3%.

3. Operation and results of the major controlling shareholder of the Company

Chengya Company

The registered capital of Chengya Company is RMB800 million. It is principally engaged in construction, operation and management of Chengya Expressway and ancillary services. The Company holds 62.595% equity interests in Chengya Company. As at the end of 2005, the total assets of Chengya Company amounted to RMB3,119,444.

During the year, Chengya Company has accumulated toll income of RMB236,637,000, a growth of 11.97% over the previous year. However, since it has a relatively heavy financial cost burden due to a relatively high gearing ratio and the huge financial cost expenditure has not fundamentally improved, a deficit of RMB64,804,000 was recorded during the year, a decrease of RMB13,172,000 or 16.89% from the previous year.



Chengbei Company

Chengbei Company has a registered capital of RMB220 million and its major scope of businesses include construction, operation and management of Chengbei Exit Expressway, Qinglongchang Bridge and Chengbei Exit Dajian Road Section I. The Company holds 60% equity interests in Chengbei Company. As at the end of 2005, the total assets of Chengbei Company was RMB544,177,000.

During the year, the toll income of Chengbei Company reached RMB70,096,000, an increase of 27.94% over the previous year, and the net profits was RMB4,410,000, which decreased by 70.39% year on year, mainly because Chengbei Company began to exercise its toll operating rights on Chengbei Exit Dajian Road Section I on 9 September 2005, recording an accumulated income of RMB5,930,000 from September to December. However, the toll operating rights and financial expenses of Chengbei Exit Dajian Road Section I are provided on amortization for the year. The expenditure exceeds the revenue brought about a decrease in profit.

Note: Chengbei Exit Dajian Road Section I, 8.65 km long, starts from Gaosuntang and ends at Sanhechang, is the starting section of Chengbei Exit Dajian Road in Chengdu. Chengbei Exit Dajian Road runs parallel to Chengbei Exit Expressway, the core asset of Chengbei Company, which it was granted the toll operating rights of Chengbei Exit Expressway upon the completion of the renovation projects of Chengbei Exit Dajian Road following the approval of relevant documents issued by Sichuan provincial government and Sichuan Provincial Department of Communications in 2003. The renovation projects of Chengbei Exit Dajian Road Section I was completed in March 2004 and reopened to traffic, and Chengbei Company commenced the toll collection on trial basis in September 2005.

Shuhai Company

The registered capital of Shuhai Company is RMB200 million. It is principally engaged in investment in road infrastructure projects and other projects, investment consulting (excluding financial and securities business), hi-tech products and technological development. The Company holds 99.9% equity interests in Shuhai Company.

During the year, Shuhai Company, following the disposal interest of its two major investment projects (the toll roads and bridge in Zigong and Luzhou), focused on building up a project reserve of expressways and other transportation infrastructure in Sichuan Province through investigation and study, and striving to reposition itself as soon as possible so as to secure a sustainable development of the company. In December 2005 and March 2006, Shuhai Company entered into "Letters of Intent on Capital Contribution and Equity Increase in Sichuan Jiuzhai Huanglong Airport Company Limited" ("Jiuzhai Huanglong") with other parties that Shuhai Company to make a proposed investment of RMB200 million to obtain 21.16% equity interests of Jiuzhai Huanglong. For details, please refer to Note 37 to the financial statements herein.

Shusha Company

Shusha Company, with the registered capital of RMB30 million, is principally engaged in gas operation, advertisement billboard leasing, vehicle maintenance and mobile emergency repair services along Chengyu Expressway and multiple operations beyond the road. The Company holds 99.5% equity interests in Shusha Company.

During the year, Shusha Company's revenue from principal operation was approximately RMB7,162,000, a decrease of 1% over the previous year, with net profits amounted to approximately RMB301,000.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Shugong Company

The registered capital of Shugong Company is RMB30 million. It mainly engaged in the construction and maintenance of infrastructures such as road, bridge and tunnel and the sale of materials. The Company holds 96.64% equity interests in Shugong Company.

In 2005, Shugong Company's repair and maintenance services for Chengyu Expressway was reduced as the maintenance of Chengyu Expressway focused mainly on technological renovations. Engineering work load of intermediate maintenance was around 30% less as compared with the previous year and no major maintenance was arranged. For the year ended 31 December 2005, principal operating income of Shugong Company totaled at approximately RMB126,534,000, representing a 36.67% decrease from the previous year, and its net profit amounted to approximately RMB1,188,000, representing a decrease of 79.68% from the previous year.

IV. Operating Results and Financial Analysis of the Group

(1) Operation results analysis

Results summary of the Group

Item	Notes	Unit: RMB'000		
		2005 RMB'000	2004 RMB'000	Increase / decrease (+/-)
Turnover	(1)	953,165	884,768	7.73%
Interest income		12,426	11,494	8.11%
Other revenue and gains from operating activities		37,202	42,025	-11.48%
Provision for bad debts	(2)	(27,773)	(2,022)	1,273.54%
Other operating costs	(3)	(564,657)	(583,027)	-3.15%
Operating profit		410,363	353,238	16.17%
Financial cost		(125,752)	(117,087)	7.40%
Share of profit of associates		5,449	3,951	37.91%
Income tax	(4)	(64,417)	(47,326)	36.11%
Profit for the year		225,643	192,776	17.05%
including:				
Profits attributable to ordinary equity holders of the parent		248,067	215,598	+15.06%
Profits attributable to minority shareholders		(22,424)	(22,822)	-1.74%
Earnings per share attributable to ordinary equity holders of the parent		RMB0.0970	RMB0.0843	+15.06%
Dividend per share		0.04	0.04	



- (1) During the reporting period, the turnover has a relatively significant increase because: (i) toll income increased by RMB69,880,000 or 7.57% year-on-year during the reporting period; (ii) business tax of toll income decreased from 5% to 3% with effect from 1 June 2005, resulting in an decrease of RMB8,269,000 of business tax during the reporting period; (iii) the income of discontinued operation (income from petroleum products sold) of appropriately RMB9,752,000 was included in the turnover of 2004.
- (2) Provisin for bad debts increased substantially during the reporting period mainly because a total of RMB22,121,000 was provided on the proportion of 80% as bad debt for the deposit of RMB27,651,000 which was placed with Sichuan Investment Trust Company Limited and Sichuan Construction and Investment Trust Company Limited by the Company and its controlling subsidiary.
- (3) During the reporting period, other operating costs decreased by RMB18,370,000 from the last year because: (i) expenses for road repairs and maintenance dropped significantly from the last year during the reporting period; (ii) the cost of discontinued operation (operating cost of petroleum products sold) of appropriately RMB9,704,000 was included in other operating cost of 2004.
- (4) Income tax increased by RMB17,091,000 year on year during the reporting period because the income tax increased due to the Company's profit for the year increased.

Operating results of the Company and its major controlling companies in 2005

	Toll income	Operating profit	Net profit / (loss)
			<i>Unit: RMB'000</i>
Chengyu Company	686,226	353,781	301,195
Chengya Company	236,637	78,534	(64,804)
Chengbei Company	70,096	22,411	4,410

(2) Analysis of financial position

Group's assets

Item	As at 31 December 2005	As at 31 December 2004	Increase/ decrease (+/-)
	RMB'000	RMB'000	
Total assets	7,722,068	7,882,672	-2.04%
Non-current assets	6,823,505	6,951,363	-1.84%
Current assets	898,563	931,309	-3.52%
Minority interests	204,750	231,835	-11.68%
Equity attributable to equity holders of the parent	5,016,658	4,870,913	+2.99%
Net assets per share of ordinary equity holders of the parent (RMB)	1.96	1.90	+3.16%

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Liquidity of capital and source of finance

95% of the Group's income comes from toll collection income since the Group is mainly engaged in toll collection business, resulting in stable daily cash inflow and strong liquidity of capital with strong repayment ability. During 2005, the Group's net cash inflow derived from operating activities amounted to RMB435,882,000, and cash and cash equivalent amounted to RMB743,948,000 at the end of the period. Therefore, the liquidity of capital of the Group was good.

(1) Cash and borrowing

Item	As at 31 December 2005 The Group RMB'000	As at 31 December 2004 The Group RMB'000
Cash and cash equivalent	743,948	699,206
Borrowing		
Long-term borrowing due within one year	529,601	349,143
Long-term borrowing	1,792,146	2,208,132
Total	2,321,747	2,557,275

(2) Major source and use of cash

Item	2005 of the Group RMB'000	2004 of the Group RMB'000
Net cash inflow from operating activities	435,882	7,410
Net cash inflow from investing activities	77,751	(237,396)
Net cash inflow from financing activities	(468,891)	338,358
Net increase of cash and cash equivalent	44,742	108,372



Capital structure of the Group

	As at 31 December 2005		As at 31 December 2004	
	Total amount (RMB'000)	Percentage	Total amount (RMB'000)	Percentage
Equity attributable to equity holders of the parent	5,016,658	64.96%	4,870,913	61.79%
Debt with floating interest rate	2,321,747	30.07%	2,557,275	32.44%
Interest-free debt	178,913	2.32%	222,649	2.83%
Minority Interests	204,750	2.65%	231,835	2.94%
Total	7,722,068	100%	7,882,672	100%
Debt-equity swap ratio (defined as total liabilities divided by equity attributable to equity holders of the parent)	49.85%		57.07%	

Change in floating interest rate was mainly due to the repayment of loan by Chengya Company, a subsidiary of the Company.

As of 31 December 2005, the equity attributable to equity holders of the parent of the Group was approximately RMB5,016,658,000, representing a year-on-year increase of approximately RMB145,745,000. Total debt amounted to approximately RMB2,500,660,000, representing a decrease of approximately of RMB279,264,000 from the previous year. Equity to debt ratio decreased by 7.22 percentage point from the last year. Current ratio maintained a reasonable level of 1.28, though there was a considerable decrease from the previous year, and the percentage of cash and cash equivalent to total current assets was 82.79%.

Risk of exchange fluctuation

As of 31 December 2005, among the floating rate debt of the Group, there was an outstanding amount of US\$2,037,000 debt from World Bank transferred from its parent company --- Sichuan Highway Development which was required to pay Renminbi to purchase foreign exchange in accordance with exchange rate to repay principal and interest. Besides, the Group needed to purchase Hong Kong dollars to distribute dividends for holders of H Shares. The change of exchange rate this year did not have material impact to the Company.

Capital commitment

Details of capital commitment of the Group and the Company are set out on note 32 to the financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS (*Continued*)



Zhang Zhiying
Vice-Chairman and General Manager

V. PROSPECT AND OUTLOOK

China's economy maintained a fast, steady and healthy developing trend. Sichuan Province, with the largest economic size among the provinces in the western region which is developing towards in-depth with increasing support from the state, has achieved a growth rate in economy higher than the State's average. At the end of 2005, Sichuan provincial government stated in its performance report that Sichuan Province will put more effort to implement the strategy of developing itself into a province strong in industry, with targets to achieve three leaps in five years: 1. promoting the province's industrialization from its initial stage to the mid-stage; 2. developing the province into a medium-low income region from a low income region; 3. improving the provincial overall strength with its economic size exceeding RMB1,000 billion. In order to satisfy the demand of the further development with a leap of Sichuan Province's economy and society, the provincial government placed the development of transportation in the position of its major investment and priority development and required the transportation industry to embark on the construction of expressway in the coming five years so as to pave the way for developing the province's economy and society. In the light of such new trend, Sichuan Provincial Department of Communications made a clear arrangement for the provincial transportation work in a short and medium run: to ensure an investment of RMB18 billion on transportation development in 2006, representing an increase of 12.5% from the previous year, with the total mileage of expressway in the province amounted to 1,801 km and strive to commence the construction of new expressways for a total of 253 km long. In the coming five years, the total planned investment in provincial transportation development will reach RMB110 billion, of which RMB70 billion will be invested in expressway construction and strive to bring the traffic mileage of expressway to 3,160 km.

Good economic development trend, effective policy guarantee and the new expressway construction peak of Sichuan Province bring to the road industry opportunities for sustainable and rapid development. At the same time, the Company has a clear understanding of the challenges and risks in respect of finance, market and operation environment and is proactively reviewing and adopting corresponding precautionary measures. We are confident to stick to the development orientation in investments, operation and management of expressways. Leveraging its core competitive edge and by taking initiatives to foster new sources of profit growth, the Company is committed to speeding up the expansion of its principal business, achieving its healthy and sustainable development, and generating the best investment returns for shareholders.

Zhang Zhiying
Vice-Chairman and General Manager

