

MANAGEMENT DISCUSSION & ANALYSIS



Toll Road Projects



Property Development Projects

CHINA





Toll Road Business

Hebei Province

Project Name	AADT	% growth	Annual Toll Revenue (RMB 'M)	% growth
1. Baojin Expressway	14,870	+0.4%	306.99	+10.8%
2. Tangjin Expressway	20,924	—	313.40*	—
3. Shijin Highway	12,423	-6.7%	47.49	-15.7%
4. Hanguan Highway	12,965	+6.0%	93.23	-2.0%

* 11-month contribution from February to December 2005.

Anhui Province

Project Name	AADT	% growth	Annual Toll Revenue (RMB 'M)	% growth
5. Bengbu Huaimeng Highway	6,438	-27.8%	13.21	-59.7%
6. Hehuai Highway	16,569	-4.4%	61.93	-2.8%
7. Heye Highway	32,445	+1.3%	166.19	+1.4%
8. Bengbu Huaihe Bridge Highway	10,315	-2.2%	32.23	+1.1%
9. Chaoyanglu Huaihe Bridge	6,020	-11.9%	14.28	-2.1%

Guangdong Province

Project Name	AADT	% growth	Annual Toll Revenue (RMB 'M)	% growth
10. Jihe Expressway	51,353	+19.7%	287.10	+24.3%
11. Guangsan Expressway	39,267	+20.5%	278.94	+21.5%
12. Luochong Highway	16,928	+20.1%	54.32	+27.7%

PROJECT REVIEW

Hunan Province

Project Name	AADT	% growth	Annual Toll Revenue (RMB 'M)	% growth
13. Changyi Expressway	36,550	+2.8%	207.06	+10.3%
Including Expressway	14,990	+14.5%	180.28	+15.9%
Changyi Old Road	21,560	-4.0%	26.78	-16.9%

Shanxi Province

Project Name	AADT	% growth	Annual Toll Revenue (RMB 'M)	% growth
14. Taiyu Highway	23,241	+15.4%	54.96	+14.3%
15. Yuci City Bypass	5,358	+31.6%	22.77	+43.7%
16. Dongguan Highway	6,714	+22.6%	21.75	+38.6%
17. Taigu Highway	12,141	+12.2%	33.27	+2.9%

Jiangsu Province

Project Name	AADT	% growth	Annual Toll Revenue (RMB 'M)	% growth
18. Airport Highway	18,113	+6.9%	118.38	+15.3%

Guangxi Zhuang Autonomous Region

Project Name	AADT	% growth	Annual Toll Revenue (RMB 'M)	% growth
19. Yulin City Ring Roads	15,830	+2.1%	35.44	+21.7%
20. Yugong Highway				

Henan Province

Project Name	AADT	% growth	Annual Toll Revenue (RMB 'M)	% growth
21. Xunan Highway	13,242	-40.5%	91.50	-52.0%

Hebei Province

With the approaching of the 2008 Beijing Olympics and the economic fusion of the Beijing-Tianjin-Hebei and the Bohai Economic Circles, Hebei plays a major supporting role to the economic development of the Beijing, Tianjin and even the entire Bohai Bay area. The GDP of Hebei exceeded the RMB 1,000 billion benchmark to RMB 1,011.66 billion in 2005, representing a growth of 13.4%. With the rapid growth in industrial production, the economy of Hebei grew steadily. In 2005, the total value of import and export trade soared to US\$16.07 billion, in which import trade increased by 22.9% to US\$5.14 billion and export trade increased by 17.0% to US\$10.93 billion respectively. The total value-added of industry of Hebei amounted to RMB475.9 billion which rose by 15.9%. In year 2005, RMB12.74 billion was invested in expressway construction. The length of completed expressway amounted to 2,135km at the end of 2005, whereas about 1,160km of expressway is under construction. We predict that the need for transportation will surge with the rapid economic growth of Hebei.



Although the parallel Shihuang Expressway diverted a portion of traffic from Baojin Expressway which resulted in a slow growth in traffic, the provincial vehicle reclassification exercise and toll schedule review led to a satisfactory increase in toll revenue. It is expected that Baojin Expressway will maintain steady growth in traffic and toll revenue in 2006.

Tangjin Expressway has commenced its contribution in toll revenue to the Group since February 2005. Tangjin Expressway is an important corridor connecting the northern coastal area, the northeast and the southern provinces, and has recorded gratifying results in 2005. With the accelerated economic developments of Beijing, Tianjin and Hebei, it is anticipated that the project will have a remarkable outlook.

In 2005, toll revenue of Shijin Highway slightly decreased compared with that of 2004 due to the provincial vehicle reclassification exercise and toll schedule review. Some of the traffic was diverted to Shihuang Expressway. The scale of diversion matched with our pre-investment prediction. Along with the rapid growth of Hebei province, there will be certain growth in traffic in Shijin Highway. However, due to the continued developments in the road network nearby and the increasing number of competitive roads, toll revenue of Shijin highway is expected to become more unstable.

Hanguan Highway is an important section of National Highway 309 and a major route of the eastbound coal transport. Due to the restructuring of mining industry in Shanxi in the second half of 2005, coal truck traffic reduction led to a slight decrease in toll revenue of Hanguan Highway compared with that of last year. After the completion of the restructuring in 2006 and the coal mines resume production, it is expected that traffic and toll revenue will grow gradually.

PROJECT REVIEW

Anhui Province

The GDP of Anhui Province reached RMB 537.58 billion, which was 11.8% higher than that of the previous year and was the second consecutive year showing a double-digit growth. Its foreign trade was booming, in 2005, total value of imports and exports reached USD 9.12 billion, with a growth of 26.4% compared to that of last year. Transportation and logistics also showed comparable developments. Turnover of freight transport by highway increased 20.8% to 42.27 billion ton-km and turnover of passenger transport by highway increased by 12.7% to 48.12 billion passenger-km. The number of private vehicles owned also soared by 17.9% to 805,000.



To facilitate the fusion into the Yangtze River Delta development, Anhui Province is devoted to speed up its expressway development. As at the end of year 2005, total mileage of expressway reached 1,500 km and there is another 1,400 km of expressway under construction.

Bengbu Huaimeng Highway was affected by the opening of Jieshou-Fuyang-Bengbu Expressway. Some cross-province traffic originally using Bengbu Huaimeng Highway was diverted and caused significant decrease in both traffic and toll revenue in 2005. The scale of diversion, however, matched with our pre-investment prediction.

Hehuai Highway was included in the central government's "5 longitudinal, 2 transverse" Green Corridor Network to grant a discounted toll rate or free passage to vehicles loaded with fresh and live agricultural products. Toll revenue of Hehuai Highway slightly decreased in 2005. To minimize the effect, the project endeavored to inspect each and every concessionary vehicle for eligibility and explore other ways to increase revenue.

Heye Highway was an important section of National Highway 312 connecting Shanghai, Nanjing, Hefei and Xian. Despite the effect of the opening of Xian-Nanjing railway, the project still acted as the strategic trunk route and showed stable growth in both traffic and toll revenue. Together with the upcoming economic development of the North-western region of mainland China, the project will continue its performance in 2006.

Bengbu Huaihe Bridge Highway and Chaoyanglu Huaihe Bridge were affected by the opening of a highway bridge nearby. The combined toll revenue of the two projects showed only a slight increase in 2005 when compared with those in year 2004.

Guangdong Province

In 2005, the economy of Guangdong Province has continued to develop rapidly. Its GDP increased by 12.5% to RMB 2,170.1 billion. Guangdong foreign trade in 2005 made a historical record high, amounted to US\$ 427.98 billion, representing 19.8% more than that of last year. Guangdong foreign trading value accounted for 30.1% of the country's total imports and exports value, of which US\$ 238.16 billion in exports with 24.3% growth compared with that of 2004, and US\$ 189.82 billion in imports, an increase of 14.7%. The annual trading surplus of 2005 was US\$ 48.34 billion, an increase of US\$ 22.35 billion and 86% from that of the previous year. In 2005, the total value-added of industry was RMB 989.14 billion, an increase of 15.8% over that of the previous year. Automobile, petrochemical, telecommunication, and other high growth industries consolidated the economic development of the province, and facilitated the transformation of the economic and social development model of Guangzhou. Total highway length of the province reached 115,336 km, of which 3,140 km was expressway, 7,301 km was Class 1 highway, and 17,139 km was Class 2 highway. The province's road mileage, road density, and other indicators are ranked in the top tier of the whole country.



Jihe Expressway is an important component of Shenzhen highway network in east-west direction. In 2005, the project's traffic and toll revenue attained promising growth, which mainly caused by rapid development of logistic and trading centres along the highway. A few expressways will be completed in phases in 2006. It is expected that the improved transportation network system will produce synergy and traffic re-distribution and Jihe Expressway will continue to generate further growth in toll revenue.

Taking advantage of the rapid economic development of Foshan, the declining price of motor vehicle, and the accelerated growth rate of private cars, traffic flow of Guangsan Expressway in 2005 increased by 20.5% when compared with that of last year. Toll income also increased by 21.5%. It is expected that Guangsan Expressway will continue to maintain ideal growth in 2006.

Luochong Highway is the main route connecting Guangdong and Guangxi Provinces. Impacted by the Guangxi flooding during the year, part of the National Highway 321 in Guangxi was required to be re-built and some traffic was diverted to National Highway 324, causing a high growth for the project. Due to the construction of the Yunfu to Guangxi Cenxi Expressway and Yangjiang to Luoding Expressway in 2006, there will be a positive impact to traffic of Luochong Highway during the construction period.

PROJECT REVIEW

Hunan Province

The GDP of Hunan Province reached RMB 647.3 billion, which was 11.6% higher than that of the previous year. Provincial government revenue was RMB 73.86 billion and this revealed an actively growing economy. In 2005, a total of 61 major projects in the province including steel, medicine, tobacco, power station and expressway with total investment of RMB 50.7 billion were under construction. In addition, grain output continued to increase and reached 28.566 million tons in 2005. Transportation industry also showed a stable development. Turnover of freight transport was 165.7 billion ton-km and turnover of passenger transport was 102.3 billion passenger-km in year 2005. Turnover of freight and passenger transport by highway were 47.84 billion tons-km and 43.54 billion passenger-km respectively. At the end of year 2005, total length of highway was 88,200 km and the length of expressway therein was 1,400 km. There is about 858 km of expressway under construction.



Changyi Expressway is composed of Changsha-Yiyang Expressway and National Highway 319 Changsha-Yiyang section (Changyi old road). Toll revenue generated from the Expressway accounted to 87% of the whole project.

Changyi Expressway experienced a growth rate of 14.5% in traffic flow, resulting from the economic growth in Hunan and the diversion of traffic from Changyi old road to the Expressway due to the extensive inspection on overloading trucks along National Highway 319. In addition, the opening of Changde-Zhangjiajie Expressway in December 2005 also led to an increase in traffic and toll revenue. It is expected that the positive effect of Changde-Zhangjiajie Expressway will continue and the implementation of toll collection by weight for trucks in mid 2006 will further increase the traffic and toll revenue of the project.

Shanxi Province

Shanxi Province recorded an increase of 12.5% in its GDP to RMB 412.12 billion in year 2005. It was also a successful year in attracting foreign investment. Total contract sum of foreign investment reached USD 1.1 billion, a 173% growth compared to year 2004. Foreign investments are mainly in industries of processing, coal mining, electricity and steel manufacturing. Shanxi Province is one of the most important coal mining provinces in Northern China. In year 2005, total sales of coal out of the province were over 400 million tons, a quarter of which were exported to other provinces through highways. As of the end of year 2005, total mileage of highways in the Province recorded 67,000 km, mileage of expressways reached 1,684 km and the "inverted Y" expressway network planning was basically established.



Taiyu Highway is one of the major entrances to Taiyuan, the capital city of Shanxi Province. Resulting from the increasing traffic of private cars and closure of surrounding parallel road networks for maintenance works, traffic and toll revenue of Taiyu Highway recorded satisfactory increase in year 2005.

Yuci City Bypass and Dongguan Highway have both benefited from the increasing demand of coal, which led to increasing traffic of medium class vehicles. Traffic and toll revenue of the two projects showed significant increase in 2005.

Taigu Highway mainly serves as a major coal transportation route between Taiyuan city and the Gujiao area. In year 2005 the suspension of production of substandard coal mines due to safety concerns led to a slow-down of increase in traffic and toll revenue of Taigu Highway. It is expected that both traffic and toll revenue will improve in year 2006 when normal coal production resumes.

Jiangsu Province

Jiangsu Province is one of the important components of Yangtze River Delta. In 2005, GDP of Jiangsu Province reached RMB 1,827.21 billion, which was 14.5% higher than that of the previous year. Transportation industry showed rapid growth. Turnover of passenger transport by highway increased by 15.5% to 1.41 billion passengers while turnover of freight transport by highway increased by 11.2% to 768 million tons. Private motor vehicle ownership also soared by 19.3% to 1.92 million. Jiangsu Province has been devoted to the development of the port industry in recent years. Total throughput in 2005 reached 780 million tons, 23% growth compared to that of year 2004. Throughput of containers increased by 40% to 3 million TEU. Development of highway transport has been improving as well. In 2005, total length of newly constructed expressways was 463 km and total length of expressway was 2,887 km. There are about 350 km of expressway under construction.



Benefited from the remarkable economic growth of Suzhou and Shanghai and the partial closure of Nanjing-Shanghai Expressway and National Highway 312 during their widening works in the year, both traffic and toll revenue of Airport Highway recorded historical peak in year 2005. Along with the completion of the widening works on Nanjing-Shanghai Expressway and National Highway 312 in December 2005 and October 2005 respectively and the opening of new Suzhou-Shanghai Expressway in September 2005, it is expected that the project's toll revenue and traffic flow in year 2006 will restore to original level.

Guangxi Zhuang Autonomous Region

Guangxi Zhuang Autonomous Region, located next to the prosperous Guangdong province, is the main coastal province of South-west China. In 2005, the GDP soared to RMB 406.33 billion, representing a 12.7% growth. The per capita GDP soared to RMB 8,300, exceeding US\$ 1,000. The financial strength of Guangxi was further enhanced. The annual revenue of the region increased by 16%. For tertiary industry, tourism developed rapidly. In 2005, both the number of international tourists and tourism earnings broke the historical record. The number of international tourists soared to 1.46 million with a growth of 29.9%, and the tourism earnings soared to 2.59 billion, representing a growth of 31.6%. For highway construction, total mileage of expressways in Guangxi has already reached 1,411 km.



As a result of the tighter control on registration of under-weight trucks, the annual toll revenue of the project increased by 21.7%, even though traffic only slightly increased.

Regarding to the arbitration pleas requesting the PRC joint venture partners of Yulin City projects in Guangxi Zhuang autonomous Region to honor the joint venture contracts and related agreements, the China International Economic and Trade Arbitration Commission awarded in favour of the Group in June 2005. It was held that the PRC joint venture partners were required to pay the Group the sum of approximately RMB 243million, and the local government and the related parties were also held to be responsible for part of the awarded sum in case there is any shortfall in payment. The group is following up with joint venture partners, local government and government of the Autonomous Region for the settlement of awarded sum. Nevertheless, the Group is not certain as to the extent and when the related payment will be settled.

PROJECT REVIEW

Henan Province

In 2005, Henan's GDP reached RMB 1,053.52 billion, which was 14.1% higher than that of the previous year. Henan has also become the fifth province with GDP over one trillion following Guangdong, Shandong, Jiangsu, Zhejiang. The per capita GDP of Henan exceeded RMB 10,000. Industrial and agricultural production hit the historical peak, and the total industrial output of the province went up to the sixth place in the nation, whereas the growth was in the fourth place, entering the top tier in the nation for the first time. With the upsurge in economic performance, the total value-added of industry of Henan amounted to RMB492.3 billion. The total length of expressway completed in 2005 was 920 km, and the total length of expressway increased to 2,678 km.



Owing to the diversion of long distance traffic to the parallel Xuchang-Pingdingshan-Nanyang Expressway, the annual toll revenue of Xunan Highway decreased significantly in 2005. This diversion effect was in line with our prediction at the time of investment. With the rapid growing economy of Henan Province and other mid-west provinces, the traffic of Xunan Highway will maintain its organic growth. Together with optimization on toll collection by weight for trucks, it is expected that the toll revenue of the project will be improved gradually.

Note:

The information and data mentioned above are abstracted from relevant Provincial Bureau of Statistics and Provincial Communications Department.



PROJECT REVIEW

Property Development Business

Project Name	Location	Approximate GFA (m ²)	Type
Parkrise	Guangzhou	99,000	Commercial & Residential
Zhujiang New City (Site G4-1)	Guangzhou	62,000	Commercial & Residential
Zhujiang New City (Site G4-2)	Guangzhou	59,000	Commercial & Residential
Royal City	Changzhou	877,000	Residential
Vista Panorama	Changzhou	406,000	Residential
Grand Metropolis	Changzhou	100,000	Commercial

Guangdong Province, Guangzhou

Guangzhou, as the capital city of Guangdong province, has a total population around 10 million. Its GDP in 2005 amounted to RMB512 billion with an increase of 13% compared to that of 2004. Guangzhou is ranked the third among cities in China in terms of economic performance and living standard.

The Group has secured three property development projects in Guangzhou, with total site area of approximately 30,000 m² and GFA of approximately 220,000 m². All the projects are wholly owned by the Group.

Parkrise

Parkrise locates in Tianhe District. The east of Parkrise is in proximity to the Tianhe Park, which is the Natural Regional Park of Eastern Guangzhou with land area of 780,000 m², and the south of Parkrise is adjacent to Tianhe District Government. Parkrise is surrounded by famous colleges, universities and scientific research institutions. It lies in the community of white collars middle class. Parkrise is being developed as a project with four high-rise residential buildings, a shopping mall, and carparks. It provides 728 residential units. It occupies a site area of approximately 16,000 m², with GFA of approximately 99,000 m². The main structure of Parkrise was completed at the end of 2005 and has been offered for pre-sale in phases since November 2005. Sale performance was excellent.



Zhujiang New City (Site G4-1)

The project locates at the high-end residential and commercial area in eastern Zhujiang New City of Guangzhou. Zhujiang New City is the new CBD of Guangzhou City. Its first-class facilities of finance, trading, commerce, exhibition, entertainment and leisure, external affairs, government administration, as well as housing have been developed accordingly. Zhujiang New City accommodates about 180,000 people and provides up to 300,000 jobs that leads to a very large demand of high-end housing.

The project site area is approximately 7,000 m². and has a planned GFA of approximately 62,000 m², which comprises six high-rise residential buildings on top of a shopping mall. 336 residential units will be provided. The construction is commenced in early of 2006 and completion is scheduled in 2007.

Zhujiang New City (Site G4-2)

The west of this project is connected to the Site G4-1 of Zhujiang New City while the east is very close to Zhujiang Park of 230,000 m² in size. The site area is approximately 7,000 m² and has a planned GFA of approximately 59,000 m². The shopping mall of Site G4-2 is linked to that of Site G4-1, which forms a shopping corridor between them on the ground as well as upper levels. The project is in the procedure of getting government approval on site construction.

Outlook

Guangzhou is one of the cities with the earliest developed property market in China and the market has been becoming more and more matured over the past ten years. The shortage of land supply, soaring demand of residential buildings, increasing purchasing power of Guangzhou city population, and improvement of transport infrastructure guarantee the development of property market in the long-run.

The Group is confident of Guangzhou property market and will continue to explore suitable projects.

Jiangsu Province, Changzhou

In the Yangtze River Delta region, Changzhou is linked up with Suzhou and Wuxi to form a rapidly developing SuXiChang region. The city of Changzhou has a total area of 4,375 sq. km, total population of 3.5 million and mobile population of 1.5 million in 2005. GDP of Changzhou in 2005 reached RMB 130.22 billion, an annual growth rate of 15%, which was the fourth among the 16 cities of the Yangtze River Delta. The total sales of consumer goods in Changzhou was RMB 44.41 billion, whereas the annual disposable income per capita was RMB 14,589, which was slightly less than that of Nanjing of RMB14,997.

The Group has three property development projects including two residential and one commercial in Wujin District of Changzhou. The total land area is approximately 680,000 m² and the total GFA is approximately 1,400,000 m². All three projects are wholly owned by the Group.

Royal City

Royal City is in a favourable location, surrounded by the Wujin commercial centre in the north, Wujin Government administration centre in the west, and Changzhou University Town in the south. It takes only 25 minutes to drive to downtown Changzhou. Royal City, being one of the largest residential projects in the central urban zone of Wujin, has a site area of 487,000 m² with GFA of 877,000 m². Hsin Yieh Architects (International) Ltd. of Hong Kong was employed as architectural designer for the project. A scenic lake will be featured as the heart of the project, recreation and sport facilities such as a golf practicing course and a stadium will spot the perimeter. Greenery will cover over 50% of site. We believe the theme of a relaxed and healthy living style of the city will ensure the project as the best choice for living in Changzhou. The master layout plan has been approved by the government. The project is divided into five phases with the sale of first phase scheduled in 2006.



PROJECT REVIEW

Vista Panorama

The project locates at the southeast corner of Nantian Park and is adjacent to our Group's shopping mall, Grand Metropolis. The north end of the project connects to the Nantian Park, a large-scale recreational and sightseeing wetland park, with land area of 400,000 m². Taking advantage of prominent geographical location, the project embraces both prosperity and peaceful life. The project will be developed as a prestigious high-rise residential area with a site area of 127,000 m² with total GFA of 406,000 m². It is at the preliminary design stage.



Grand Metropolis

Grand Metropolis locates at the central urban zone of Wujin District. Wujin Government administrative centre is on the southwest of the project, Changzhou University Town with over 100,000 faculty members and students is on its south and Nantian Park is on its north. The other two projects of the Group, Royal City and Vista Panorama, are nearby. The project covers the centre of administration, tourism, culture, commerce, and residence of the Wujin District. The project has a site area of 67,000 m² with total GFA of 100,000 m², and the current design consists of three surface and one basement levels. Preliminary planning and design is underway.



In order to maximize the advantage of the project, the Group invited an international renowned American architectural designer, Arquitectonica, as the project architect, who was also the architect of Hong Kong Cyber Port and Festival Walk. The Group aims to develop this project as a landmark for Wujin District.

Outlook

Wujin District is moving rapidly towards the process of urbanization, in line with the "one city, two wings" development scheme in Changzhou. In 2005, the investment in fixed assets reached RMB18.8 billion, increased by 25%. Urban construction has entered a stage of rapid development, and the ancillary facilities of the city has been refined progressively. In addition, with its well developed economy, Wujin has been in top ten of the List of 100 Most Developed County. Hutang, where our three projects locate, is recognized as the centre of government administration, economic development, culture, and residence. Hutang is also the south wing of the "two wings" of the development scheme of Changzhou. It attracts potential home buyers in Wujin and Changzhou. It is foreseeable that Wujin will have a radical change in coming five years. With the elevating living standard, the prospect of the property market in Wujin is expected to be rosy, making Wujin the best living place in Changzhou.