

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 are 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	100%
Chengbei Exit Expressway	10.42	December 1998	June 2024	1/closed	60%

As at 31 December 2006, the Group's total assets reached approximately RMB7,476,133,000 with net assets amounted to approximately RMB5,063,878,000.

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.

Pursuant to the "Notice in relation to Implementation of the Adjustments to Classifications for Road Vehicles for Purpose of Toll Rates" promulgated by Sichuan Provincial Department of Communications, the new toll collection rates came into effect in Sichuan Province from 10 April 2006. Details of new classifications for road vehicles before and after the adjustments to toll rates are as follows:

1. Classifications for road vehicles before and after the adjustments (for the purpose of toll rates)

Categories of Vehicles	Type and specification after the adjustments	Type and specification before the adjustments
Class I passenger/cargo vehicle	Sedan and small passenger vehicle of 7 seats (inclusive) or less; small cargo vehicle of 2 tonnes (inclusive) or less	Sedan and small passenger vehicle of 8 seats (inclusive) or less; small cargo vehicle of 1 tonne (inclusive) or less
Class II passenger/cargo vehicle	Passenger vehicle of 8 to 19 seats (inclusive); cargo vehicle of 2 to 5 tonnes (inclusive)	Passenger vehicle of 9 to 30 seats (inclusive); Sleeper vehicle of 20 benches (inclusive) or Cargo vehicle of 1 to 3 tonnes (inclusive)
Class III passenger/cargo vehicle	Passenger vehicle of 20 to 39 seats (inclusive); cargo vehicle of 5 to 10 tonnes (inclusive); Container vehicle of 20"	Passenger vehicle of 31 to 50 seats (inclusive); Sleeper vehicle of 21 to 30 benches; Cargo vehicle of 3 to 5 tonnes (inclusive); Vehicle for international standard container
Class IV passenger/cargo vehicle	Passenger vehicle of 40 seats (inclusive) or more; Cargo vehicle of 10 to 15 tonnes (inclusive); Container vehicle of 40"	Passenger vehicle of 51 seats (inclusive) or more; Sleeper vehicle of 31 benches or more; Cargo vehicle of 5 to 15 tonnes (inclusive);
Class V cargo vehicle	Cargo vehicle of more than 15 tonnes;	Cargo vehicle of 15 to 25 tonnes (inclusive)

2. Toll rates for road vehicles before and after the adjustments

Chengyu Expressway

Categories of vehicles	After the adjustments		Before the adjustments	
	Basic toll rate (RMB)	Longquanshan Tunnel (RMB/ passage)	Basic toll rate (RMB)	Longquanshan Tunnel (RMB/ passage)
Class I passenger/cargo vehicle	0.35	5.00	0.32	5.00
Class II passenger/cargo vehicle	0.70	10.00	0.64	8.00
Class III passenger/cargo vehicle	1.05	15.00	1.28	16.00
Class IV passenger/cargo vehicle	1.40	20.00	1.92	24.00
Class V cargo vehicle	1.75	25.00	2.56	32.00

Chengya Expressway

1) Chengdu-Qinglongchang Section (42.2 kilometres, dual six-lane)

Categories of vehicles	After the adjustments Basic toll rate (RMB)	Before the adjustments Basic toll rate (RMB)
Class I passenger/cargo vehicle	0.45	0.28
Class II passenger/cargo vehicle	0.90	0.532
Class III passenger/cargo vehicle	1.35	1.008
Class IV passenger/cargo vehicle	1.80	1.428
Class V cargo vehicle	2.25	1.792

2) Qinglongchang-Yaan Section (102 kilometres, dual four-lane)

Categories of vehicles	After the adjustments Basic toll rate (RMB)	Before the adjustments Basic toll rate (RMB)
Class I passenger/cargo vehicle	0.35	0.28
Class II passenger/cargo vehicle	0.70	0.532
Class III passenger/cargo vehicle	1.05	1.008
Class IV passenger/cargo vehicle	1.40	1.428
Class V cargo vehicle	1.75	1.792

Chengdu Chengbei Exit Expressway

Categories of vehicles	After the adjustments Basic toll rate (RMB)	Before the adjustments Basic toll rate (RMB)
Class I passenger/cargo vehicle	8.00	7.00
Class II passenger/cargo vehicle	16.00	14.00
Class III passenger/cargo vehicle	24.00	28.00
Class IV passenger/cargo vehicle	32.00	42.00
Class V cargo vehicle	40.00	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.

For the rates set out above, an interim discount on tolls for passenger vehicle of 20 to 30 seats will be implemented for a term of 3 years commencing from 10 April 2006 to 9 April 2009, which will be correspondingly charged based on the rate for the category immediately namely an interim downward classification from class III to class II. With effect from 10 April 2009, tolls for passenger vehicle of 20 to 30 seats shall be charged based on the rate for class III under the classification of vehicles for the purpose of toll rates.

Currently, the cargo vehicle loading-based toll collection for the expressways is under preparation in Sichuan Province, which is scheduled to be implemented within the province on in 2007.



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 RMB1,049,211,000, a year-on-year increase of 5.67%. The Group's revenue amounted to RMB1,016,321,000, representing an increase of 6.63% as compared with last year. Profit attributable to equity holders of the Company increased to RMB292,900,000, a 18.07% increase over last year. Earnings per share was RMB0.115 (2005: RMB0.097).

Income from the Group's principal operations

Toll income	For the year ended 31 December 2006 (RMB'000)	Percentage to total income	Increase/ (decrease) as compared with 2005 (%)
Chengyu Company	665,548	63.43%	(3.01%)
Chengya Branch	303,275	28.91%	28.16%
*Chengbei Company	80,388	7.66%	14.68%
Total	1,049,211	100.00%	5.67%

* 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. The Chengbei Exit Dajian Road Section I commenced its toll collection on 9 September 2005 and ceased the collection on 30 December 2006.

2. Operation of expressways included in the principal business

The operations of the Group's major expressways during 2006 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	14,358	2.30%	1,823,419	(3.01%)
Chengya Expressway	12,680	(0.05%)	830,890	28.16%
Chengbei Exit Expressway (including Qinglongchang Bridge)	20,740	(2.41%)	187,279	6.61%

Chengyu Expressway

In 2006, Chengyu Expressway had a slowdown in the growth of its traffic flow and a slight decrease in its toll income. The main reasons for such slowdown and decrease were that: (i) the adverse impact of road construction on traffic flow derived from the repair and maintenance project at the entrance and exit section of Longquanshan Tunnel and the cement road surface of Chenglong (Chengdu-Longquan) section commenced from 8 May and 27 August respectively; (ii) the new toll rate policy was implemented on 10 April, without taking in account the incurred fluctuation of the traffic flow, it was estimated that the toll income of Chengyu Expressway for the year decreased by approximately RMB 50 million due to the adjustment of the categories of vehicles and toll rates; (iii) Chengyu intercity express train debuted on 1 May, which brought a certain impact on the traffic flow of Chengyu Expressway. However, viewing the favourable economic development trend in Sichuan, especially Chengyu Economic Circle where Chengyu Expressway is located, Chengyu Expressway is expected to maintain a sound profitability based on the completion and reopening for traffic of the two above-mentioned repair and maintenance projects at the end of November 2006 and the beginning of February 2007 respectively as well as the implementation of cargo vehicle loading-based toll collection in Sichuan in 2007.

Chengya Expressway

With the economic growth of western Sichuan and the booming tourism in western Sichuan bounced by its ecological and ethnic attraction, toll income of Chengya Expressway demonstrated an upward trend. Benefiting from the implementation of new toll rates from 2006, Chengya Expressway recorded a more satisfactory toll income, with an increase of nearly 30% when compared with the last year. It is anticipated that with the completion and commencement of operation of Leyi (Leshan-Yibin) Expressway and Yapan (Yaan-Panzhihua) Expressway, which are under construction, in 2008 and 2010 respectively, Chengya Expressway will increasingly ride on the competitive advantage as a major transportation junction and a golden tourist route in Sichuan province.

Chengbei Exit Expressway

Chengbei Exit Expressway started to implement the new toll rates policy in April 2006. The basic toll rates for Class I and II vehicles were increased while those for Class III, IV and V vehicles were decreased. Chengbei Exit Expressway mainly serves sedans and passenger vehicles while most cargo vehicles choose Chengbei Exit Dajian Road which runs parallel to Chengbei Exit Expressway. Meanwhile, toll rate of Qinglongchang Bridge was increased from RMB2/passage to RMB3/passage. Despite a slight year-on-year decrease of 2.41% in traffic flow, toll income of Chengbei Exit Expressway read a steady increase of 6.53% when compared with the last year.

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

Chengya Branch

In 2006, the Company has successfully acquired a total of 37.628% remaining equity interests in Chengya Company from the minority shareholders at a consideration of RMB360 million, and the Company has re-registered it as a branch of the Company on 9 August 2006. Currently, the Company holds 100% equity interests in Chengya Branch.

Chengya Branch is principally engaged in construction, operation and management of Chengya Expressway and ancillary facilities. As at the end of 2006, the total assets of Chengya Branch amounted to RMB3,333,726,000.

With the advantage of a higher toll rates collection standard for Chengya Expressway during the year, Chengya Branch has accumulated a toll income of RMB303,275,000, a growth of 28.16% over the previous year. Upon the establishment of Chengya Branch, the previous shareholders' loan bears no interests. Meanwhile, the Company repaid the loan for Chengya Company with the existing cash in advance and issued short-term commercial papers with total amount of RMB1,500 million to exchange of the long-term bank loans, thus optimizing financial structure and cutting down finance costs considerably for Chengya Branch. Chengya Branch recorded profit of RMB49,597,000 for the year ended 31 December 2006 (including the profit and loss of Chengya Company in January-August), being the first turnaround from loss making to registering profit since the establishment of Chengya Company.

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 2006, the total assets of Chengbei Company amounted to RMB524,597,000.

During the year, the toll income of Chengbei Company reached RMB80,388,000, an increase of 14.68% over the previous year. In particular, the toll income from Chengbei Exit Expressway (including Qinglongchang Bridge) was RMB68,357,000, an increase of 6.53% over the previous year. The toll income from Chengbei Exit Dajian Road Section I was RMB12,031,000, which is 102.88% higher than the previous year. The net profit of Chengbei Company during the year amounted to RMB16,232,000, increasing by 268.07% over the previous year, mainly because Chengbei Company began to exercise its toll operating rights on Chengbei Exit Dajian Road Section I on 9 September 2005. However, the amortisation of toll operating rights and financial expenses of the section are provided in full year in 2005.

Note: Chengbei Exit Dajian Road Section I, with 8.65 km long, starts from Gaosuntang and ends at Sanhechang, which is the starting section of Chengbei Exit Dajian Road in Chengdu. With the completion of the renovation projects of Chengbei Exit Dajian Road Section I in March 2004, Chengbei Company commenced the toll collection on trial basis in September 2005. To promote the regional economic development of Chengdu City, Chengdu Municipal Government, in November 2006, decided to cease the toll collection on this section before 31 December 2006 and make Xindu District Government responsible to make compensation to Chengbei Company on an annual instalment basis. On 29 December, Chengbei Company entered into a debt compensation agreement with Xindu District Government and Chengdu Municipal Department of Communications, pursuant to which the compensation of RMB211.8 million will be paid by Xindu District Government in equivalent amount of RMB13 million annually during a 17 year-period from 2007 and the balance of RMB3,802,100 will be paid in the 17th year. On 30 December 2006, Chengbei Exit Dajian Road Section I ceased its toll collection.

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.

As an investment management company specializing in infrastructure projects, Shuhai Company focused on building up a project reserve of expressways and other transportation infrastructure in Sichuan Province through investigation and study. In 2006, by further investigation and study on the proposed investment project of capital contribution and equity increase in Sichuan Jiuzhai Huanglong Airport Company Limited ("Jiuzhai Huanglong Airport"), Shuhai Company concluded that the application procedures for land use rights of Jiuzhai Huanglong Airport were incomplete and the investment plan may face some difficulties and law barriers under the national strengthened management on land. In order to guard against risks, Shuhai Company finally decided to withdraw the proposed investment. On 16 March 2007, pursuant to the Letters of Intent on Capital Contribution and Equity Increase in Jiuzhai Huanglong Airport entered into between Shuhai Company and the related parties, Jiuzhai Huanglong Airport refunded the prepayment of RMB100million to Shuhai Company in full.

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 RMB7,582,000, an increase of 5.86% over the previous year, with net profits amounted to approximately RMB1,294,000.

Shugong Company

The registered capital of Shugong Company is RMB44,658,000. It is mainly engaged in the construction and maintenance of infrastructures such as road, bridge and tunnel and the sale of materials.

The Company acquired 3.36% remaining equity interests in Shugong Company from the minority shareholders at a consideration of RMB1.5million on 22 August 2006. The relevant change of business registration was completed on 24 August and the company was registered as a one-man company of limited liability. Up to date, the Company holds 100% equity interests in Shugong Company.

Due to the roll-out of major and intermediate maintenance projects of Chengyu Expressway, the engineering work load of maintenance engaged by Shugong Company increased sharply. For the year ended 31 December 2006, principal operating income of Shugong Company totaled approximately RMB180,628,000, representing a 42.75% increase over the previous year, and its net profit amounted to approximately RMB1,650,000, representing an increase of 38.89% over the previous year.

IV. Financial Review

Summary of the Group's Results

	2006 RMB'000	2005 RMB'000
Revenue	1,016,321	953,165
Profit before tax	327,068	290,060
Net profit attributable to equity holders of the Company	292,900	248,067
Earnings per share (RMB)	0.115	0.097

Summary of the Group's Assets

	2006 RMB'000	2005 RMB'000
Total assets	7,476,133	7,709,853
Total liabilities	2,412,255	2,500,660
Minority interests	100,354	204,750
Equity attributable to shareholders of the Company	4,963,524	5,004,443
Equity per share attributable to equity holders of the Company (RMB)	1,940	1.956

Analysis of Operating Results

Revenue

The Group's revenue for the year amounted to RMB1,016,321,000, representing an increase of 6.63% over the last year, which mainly included toll incomes of Chengyu Expressway, Chengya Expressway, Chengbei Exit Expressway and Chengbei Exit Dajian Road Section I. The revenue was principally affected by (1) the natural growth in traffic flow; (2) the implementation of the new toll rates for the roads, bridges and tunnels operated, owned or jointly controlled by the Company on 10 April 2006 for details please see page 16. These adjustments to toll rates stimulated, to a different extent, the increased toll income of Chengya Expressway and Chengbei Exit Expressway, however, there was certain adverse impacts on toll income of Chengyu Expressway; (3) the repair and maintenance project for the entrance and exit section of Longquanshan Tunnel and the cement road surface of Chenglong (Chengdu-Longquan) section commenced from the beginning of May and the end of August respectively. During the construction period, traffic flow of Chengyu Expressway had obvious diversion, leading to a decrease in its toll income. The above projects had been completed and open to traffic at the end of November 2006 and the beginning of February 2007 respectively; (4) the commencement of toll collection of Chengbei Exit Dajian Road Section I started on 9 September 2005. Revenue for this year included the toll income amounting to RMB12,031,000 from Chengbei Exit Dajian Road Section I; and (5) the levy of the 3% business tax rate on the Group's expressway toll income with effect from 1 June 2005 (tax rate before the adjustment: 5%), which decreased the business tax and surtaxes for the year by RMB6,904,000 compared with last year.

Other revenue and gains

The Group's other revenue and gains for the year amounted to RMB64,289,000, an year-on-year increase of 29.54%. This was mainly because the revenue of the Company's subsidiary Shugong Company from external projects increased by RMB21,770,000 over the last year.

Operating Expenses

The Group's operating expenses for the year amounted to RMB643,690,000, an increase of 8.65% over the last year, of which:

- (1) depreciation and amortization expenses decreased by 2.75% compared with last year to RMB236,031,000. The increase in fixed assets and traffic flow during the year led to an increase in depreciation and amortization expenses for the year. However, no or less provision for depreciation as full provision had been made for depreciation of certain fixed assets in accordance with the relevant regulations, which resulted in a decrease in depreciation and amortization expenses for the year. Since March 2006, no provision has been made for depreciation of a batch of safety equipment of the Company amounting to RMB204,555,000 at cost since it has exceeded its expected life span, leading to a decrease of RMB6,919,000 in depreciation expenses compared with last year.
- (2) cost of road repairs and maintenance increased by 42.52% compared with last year to RMB181,005,000. This was principally attributable to the Company's strengthened efforts in road repairs and maintenance of Sichuan Expressway, leading to an increase of 24.97% to RMB162,933,000 in the Sichuan Expressway's cost of road maintenance for the year compared with last year.
- (3) staff cost increased by 5.79% over last year to RMB104,794,000. This was mainly attributable to the rise of total salary, various social insurances, accommodation fund paid in 2006 along with the increase of average salary for the working population of Chengdu.
- (4) other operating expenditures decreased by 1.46% compared with last year to RMB121,860,000. This was mainly attributable to a decrease of RMB20,506,000 in provision for bad debts for the year compared with last year.

Financing Cost

The Group's financing cost for the year amounted to RMB114,900,000, representing a decrease of 8.62% compared with last year. Due to a decrease of RMB264,407,000 in net loan for the year, the loan interest expenses recorded a decrease compared with last year.

Taxation

The corporate income tax of the Group amounted to RMB7,127,000 for the year, representing a decrease of 88.94% compared with last year. The reasons are as follows:

- (1) The corporate income tax increased due to the growth of profit before tax.
- (2) The Company's is required to pay local income tax at a rate of 3% since 1 January 2006 in compliance with the Notice on Termination of Preferential Local Income Tax Enjoyed by Foreign Investment Enterprises promulgated by Sichuan Provincial Department of the State Tax Bureau (Chuan Guo Shui [2006] Circular No.40)(川國稅[2006]40號文《四川省國家稅務局關於廢止外商投資企業地方所得稅免減優惠政策的通知》). Therefore, the corporate income tax was up.
- (3) Due to the recognition of deferred tax assets of RMB51,822,000 resulting from the unutilised tax losses of Chengya Company in previous years, the income tax for the year was decreased accordingly.

Profit

The Group's profit for the year amounted to RMB319,941,000, representing an increase of 41.79% compared with last year. Of which, profit attributable to equity holders of the Company was RMB292,900,000, increased by 18.07% compared with last year. This was mainly due to:

- (1) increase in the Group's toll income compared with last year;
- (2) decrease in income tax for the year due to the recognition of deferred tax assets of RMB51,822,000 from the unutilised tax losses of Chengya Company in previous years.

Analysis of Financial Position

Non-current assets

As at 31 December 2006, the Group's non-current assets amounted to RMB6,895,067,000, representing an increase of 1.23% compared with that of 31 December 2005, which was mainly due to:

The newly acquired fixed assets amounting to RMB298,070,000 (mainly including the expenditure of RMB254,346,000 in the repair and maintenance projects for the entrance and exit section of Longquanshan Tunnel of Chengyu Expressway and the cement road surface of Chenglong (Chengdu-Longquan) section), the provision for depreciation amounting to RMB199,474,000, and the amortization of land use right amounting to RMB11,384,000 for the year.

Current assets and current liabilities

As at 31 December 2006, current assets of the Group amounted to RMB581,066,000, representing a decrease of 35.33% compared with that of 31 December 2005, which was mainly due to the decrease of approximately RMB327,123,000 in cash and cash equivalents by 43.97% as a result of the payments used for technology renovation for the road of Chengyu Expressway, the maintenance project of the entrance and exit road of Longquanshan Tunnel and the maintenance project of the cement road surface of Chenglong (Chengdu-Longquan) section, and acquisition of remaining equity interests in Chengya Company from minority shareholders.

As at 31 December 2006, current liabilities of the Group amounted to RMB1,946,910,000, representing an increase of 176.33% compared with that of 31 December 2005, which was mainly attributable to the issued of short-term commercial papers totalling RMB1,500 million in November 2006 which was included as current liabilities.

Non-current liabilities

As at 31 December 2006, non-current liabilities of the Group amounted to RMB465,345,000, representing a decrease of 74.09% compared with that of 31 December 2005, which was principally attributable to the repayment of long-term bank loans from proceed of the issue of short-term commercial papers totalling RMB1,500 million in November 2006.

Equity

As at 31 December 2006, equity of the Group amounted to RMB5,063,878,000, representing a decrease of 2.79% compared with that of 31 December 2005, which was principally attributable to the following reasons: the increase of RMB319,941,000 from profit for the year; the reserve of RMB231,714,000 offset by the difference between the acquisition of remaining equity interests in Chengya Company from minority shareholders during the year; the decrease of RMB129,630,000 in minority interests due to the dissolution of Chengya Company and the registration of Chengya Company as a branch, and the proposed final dividends of RMB102,322,000 for 2006.

Gearing Ratio

The Group's gearing ratio as at 31 December 2006 was 32.3% (2005: 32.4%). The gearing ratio was based on the Group's total liabilities over its total assets.

Cash flow of the Group

As at 31 December 2006, the Group's cash and cash equivalent amounted to RMB416,825,000, a year-on-year decrease of RMB327,123,000 (as at 31 December 2005: RMB743,948,000). During the year, the Group's net cash inflow from operating activities amounted to RMB687,733,000 (2005: RMB435,882,000).

For the year, cash outflow of the Group mainly consists of: RMB392,877,000 in cash for daily operation and management, RMB254,346,000 for renovation project of expressways, net decrease of RMB269,817,000 in bank loans, RMB109,495,000 for interest expenses, payment of RMB102,322,000 as dividends, cash of RMB250,513,000 paid for acquisition of the remaining 37.628% equity interests in Chengya Company from minority shareholders by the Group in 2006.

Capital commitment of the Group

Details of capital commitment of the Group and the Company as at 31 December 2006 are set out on note 32 to the financial statements.

Risk of exchange fluctuation

The debt due to World Bank transferred from Sichuan Highway Development, the parent and ultimate holding company of the Company was fully repaid during the year. Save that the Company needed to purchase Hong Kong dollars to distribute dividends to holders of H shares, all operating income and expenses and capital expenditures of the Group were denominated in Renminbi and thus the fluctuation in exchange rate did not have any material impact on the Group's results.

Financing Ability and Plan

With its steady cash flow, sound capital structure and excellent credit records, the Group received AAA credit rating for bank facilities and maintained favorable relations with financial institutions, enjoying most preferential interest rates for its loans. As at 31 December 2006, the Group had bank facilities totalling RMB4,680 million and unused bank facilities amounting to RMB4,390 million.

The Company successfully issued RMB1,500 million short term commercial papers in November 2006 at the issue price of RMB96.29 per RMB100 and the proceed was used to repaid the similar bank loans.

Contingent liabilities

Nil.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)



Zhang Zhiying
Vice-Chairman and General Manager

V. Goal and planning

The mid and long-term development planning, which has defined the overall development goal of the Company in 2006 to 2010, mainly includes: 1. based on the principal operations, the Company is set to secure a steady growth in the profitability of the Group's existing operating projects and lay a solid foundation for its faster development through strengthening management, controlling cost strictly and enhancing core competitive edge; 2. Leveraging the historical opportunity during the transportation development in Sichuan, the Company seeks to achieve a greater breakthrough in exploring new investment areas of expressways, striving to achieve a 50% growth in the Group's assets scale and total profit in 5 years and forge itself into an extra-large infrastructure corporation in west China; 3. The Company will fully improve management and quality of human resources in order to meet the demands from its on-going development.

To realise the above strategic goals, the Company will attach great importance on the following tasks in 2007:

- (1) The Company will further press ahead the operation and management of the Group's existing chargeable projects and deepen and upgrade the management philosophy, system and measures in response to the new conditions and characteristics arising from the operation to secure the steady improvement of its operating results.
- (2) The Company has successfully acquired and merged its former subsidiary Chengya Company in 2006, thus expanding the assets scale of the Group and improving the operating profit effectively. On such basis and in light of industrial policies and external conditions and innovative investment philosophies, the Company will continue to seek and select high quality road assets within the Province and accelerate the expansion of the Group's asset on a careful, safe and efficient basis under the transportation development planning of the Province, so as to improve its profitability for a sustainable, fast and health development.

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- (3) Based on the proposed investment projects, the Company will utilise various financing channels and modes to explore fund sources, optimize financing structure, reduce finance costs, as well as maintain a reasonable level of its debt.
- (4) With the smooth completion of the repair and maintenance project for the entrance and exit section of Longquanshan Tunnel and the road surface of Chengdu-Longquan section, the five year mid and long-term maintenance plan is almost completed. The Company is well positioned to take advantage of the modern information management resources and further level up the road management and maintenance by innovative measures while strengthening precautionary road maintenance.
- (5) The Company will further advance its management in a scientific, standardised and specialised way, and emphasize the development, cultivation and management of human resources in order to meet the demands from its on-going development.

Looking into the future, we are confident to stick to the development orientation in investment, operation and management of expressways and focus on fostering new sources of profit growth and promoting the Company's sustainable development. Capitalising on its core competitive edge and by taking initiatives to explore the business in line with the development strategy, the Company is committed to press ahead an all-round, healthy and steady development with satisfactory returns to all shareholders.

Zhang Zhiying

Vice-Chairman and General Manager

Chengdu, Sichuan, the PRC
29 March 2007