

Management Discussion and Analysis

SUMMARY

(The following information is for reference only and does not constitute a part of financial statements contained on page 48 to page 83 audited by Arthur Andersen & Co. Contents. This section should be read in conjunction with the financial statements contained in this annual report.)

In the year 2000, owing to the continuous, rapid and healthy development of the national economy, the quality and benefit of the economic operation have been enhanced and the overall strength of the country has been further improved. Thanks to the full support from the People's Government of Anhui Province and the Department of Communications of Anhui Province, with the hard work of the staff and the aggressive attitude of the management, the Company has achieved remarkable improvements.

The Group's turnover and profit after taxation reached its historical peak in 2000. The existing expressways owned by the Company have entered their maturity stage with prominent growth in traffic volumes. The business of Wantong Technology has been expanded progressively towards in whole country which resulted in the remarkable increase in its turnover and profit after taxation.

BUSINESS ENVIRONMENT

The Company's operation is located in China. As a result, the Company's business is affected by the economic development of the PRC and Anhui Province and is also closely related to the highway development of the PRC and Anhui Province.

1. Economic Development of the PRC and Anhui province

GDP Growth

During the year 2000, under the positive influence of a series of policies and measures such as expanding the domestic needs, readjust the structure, deepen the reform and improve the open policy, the economic growth of the State has been quickened and the operation quality has been substantially elevated and what is more, the economic growth rate of Anhui province is even higher than the national level. In the year 2000, the national GDP growth rate is 8% while the GDP growth rate of Anhui province in 2000 reached 8.3%. If calculated in the current exchange rate the GDP has for the first time amounted to as high as US dollar 1,000,000,000,000.

Consumption, Investment and Export

In 2000, the Ninth-Five Plan has been successfully implemented. The social productivity and the overall national strength have risen to a new stage while the consumption, investment and export all recorded increases as a result. The total amount of the social consumption retailing, the fixed asset investment and the export have increased by 9.7%, 9.3% and 27.8% respectively while those of Anhui Province have increased by 7.7%, 12% and 31.2% correspondingly.

2. Development of Highways in the PRC and Anhui Province

Expansion of Infrastructure Construction

In 2000, the State government continued to increase its investment on infrastructure construction to stimulate the economic growth, which in turn resulted in the great investments in infrastructure facilities and the scale, speed and quality of the construction reaching a historical peak. As at December 31st, 2000, a total of 1,400,000 kilometers of roads, in the PRC have opened to traffic, of which 16,000 kilometers were expressways.

The transportation network of Anhui province has taken shape along with the main-frame construction of highways and the start-up of the throughway project.

In 2000, the investment in transportation infrastructure facilities in Anhui province totalled RMB7,280,000,000, which is a 2.54% increase from the previous year. The total length of roads and expressways in the province reached 44,493 kilometers and about 470 kilometers respectively, ranking Anhui province the 15th and 12th in the nation. Road density reached 32 kilometers per hundred square kilometers, ranking it the 15th in China.

Road Traffic Volume

According to a statistics, the volume of passenger traffic on national highways in 2000 was 13,300,000,000 persons and the turnaround volume was 660,000,000,000 person kilometer, while the volume of goods transported was 10,200,000,000 ton and the turnaround volume was 597,300,000,000 ton kilometers, representing a growth of 5.6%, 6.5%, 3.0% and 4.4% from the previous year respectively.

During the year, the volume of passenger traffic on highways was 590,000,000 person in Anhui Province and the turnaround volume was 31,600,000,000 person kilometer, while the volume of goods transported was 370,000,000 ton and the turnaround volume was 43,400,000,000 ton kilometers, representing a growth of 3.5%, 5.3%, 24.2% and 94.6% from the previous year respectively.

3. Prospects In 2001

The year 2001 is the first year of the new century and the Tenth-Five Plan, the State continues to implement the policy of expanding the demand of domestic needs. The State actively adjusts industrial structures, strengthens the construction on infrastructure facilities, advances the development in western regions so as to stimulate the rapid and healthy economic development and the overall social progress and generally construct on well-to-do society.

To reinforce the construction on infrastructure facilities is an important task for the country in the coming five to ten years. The focus of priority development in the Tenth-Five Plan will be put on the strengthening of the trunk highway construction, the consummation of the highway network and the escalation of the coverage of the highway network.

The national total investment on the transportation infrastructure construction of the year 2001 will be roughly the same with the previous year. The road construction will be focused on the "Priority National Trunk Highway" and the acceleration of the reconstruction on regional road networks. The transportation infrastructure construction will also be stimulated in the implementation of the development strategy on western regions.

Management Discussion and Analysis (Cont'd)

During the year 2001, Anhui Province will spend RMB 8,000,000,000 on the construction of transportation infrastructure. It will also speed up the construction of the expressway projects such as Hexu Expressway, Hean Expressway, the Anhui Section of Lianhuo (Lianyungang to Huoerguosi) Expressway, second phase of Jiefubeng Expressway, Wuxuan Expressway and Huihang Expressway. On the basis of Anhui Sections of three national trunk highways formed by the joint of existing expressways and those still under construction, emphasis will be put on the construction of key national arteries so as to realize the passing-through of the province within three hours from east to west and six hours from south to north.

In 2001, the State will increase scientific input, intensify the technical innovation, expand new & hi-tech technology and advance strategic hi-tech researches in order to improve the level of the industrial technology.

China's comprehensive joining to WTO in 2001 will exert affirmative influence on Chinese economic development of China. As a result, direct foreign investments may be attracted to China in a more efficient way. Advanced technologies from abroad especially in modern management system can be introduced in substantial quantity, the course of Chinese economy towards market orientation will be greatly fastened and higher demand for transportation and infrastructure facilities will be arisen which will in turn provide better opportunities for the development of expressway operations.

BUSINESS REVIEW

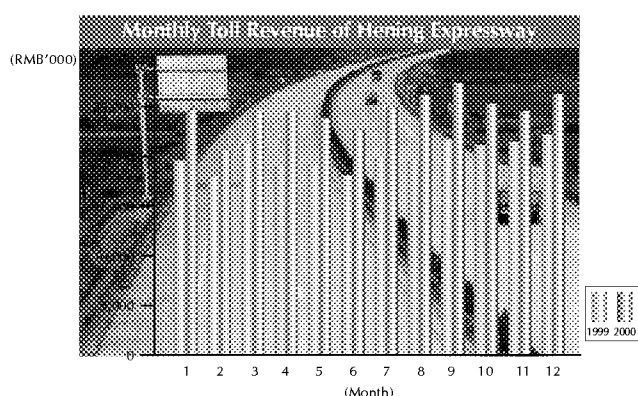
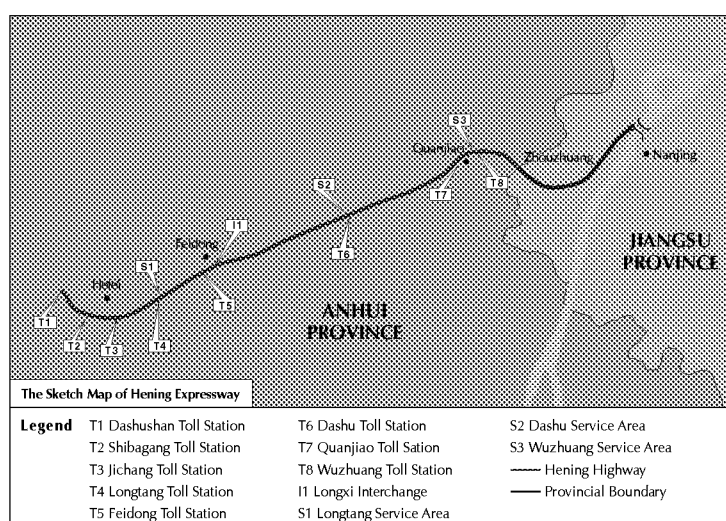
In 2000, the Company, in conformity with the enterprise development aim of strengthening internal quality as well as establishing external image, took advantages of the State's expansion of construction on transportation infrastructure to fully implement the modern enterprise system and actively grasp the investment opportunities with the result that all the designated work have been completed. In addition, the Company also kept applying the latest hi-tech achievement to the toll and monitoring system of the expressway so as to enhance the service quality of the expressway to a considerable extent.

During the year 2000, various operations of the Group have experienced substantial improvement that realized the target in the joint development of benefit and scale. During the period under review, due to the stable growth of the traffic volume of each section and the continuous expansion of the operation scale of Wantong Technology, a net revenue of RMB386,825,000 was achieved by the Group, representing an increase of 17.07% compared with the corresponding period in 1999. The audited profit attributable to shareholders was RMB227,176,000, representing an increase of 10.2% compared with the corresponding period last year. The earning per share for the period under review was RMB0.1613 with an increase of 10.18% over the corresponding period last year which shows the strong growth potential of the Group.

Management Discussion and Analysis (Cont'd)

1. Hening Expressway

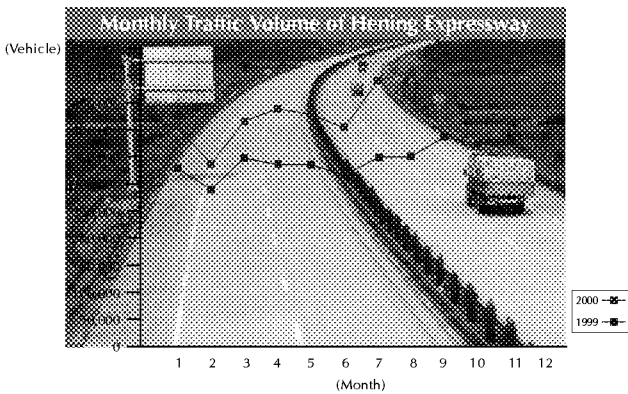
Hening Expressway is a 134-kilometer long dual carriageway four-lane toll expressway owned by the Company in Anhui province linking Dashushan and Zhouzhuang. This expressway forms an integral part of the Priority National Trunk Highway from Shanghai to Chengdu in Sichuan province, which also forms part of the National Highway 312 linking Shanghai and Yining in Xinjiang Autonomous Region. Hening Expressway was designed and built with eight toll stations and seven interchanges in accordance with the PRC highway standards as an enclosed expressway with flyover crossings and entry and exit controls. The operation period for the expressway is 30 years commencing from 15th August, 1996, the incorporation date of the Company. It is currently a major source of profit and cash flow for the Company.



Toll Revenue

During the year, the toll income amounted to approximately RMB295,163,000, representing a 22.92% increase when compared with last year. The increase of the toll revenue was mainly due to the raise of the traffic volume.

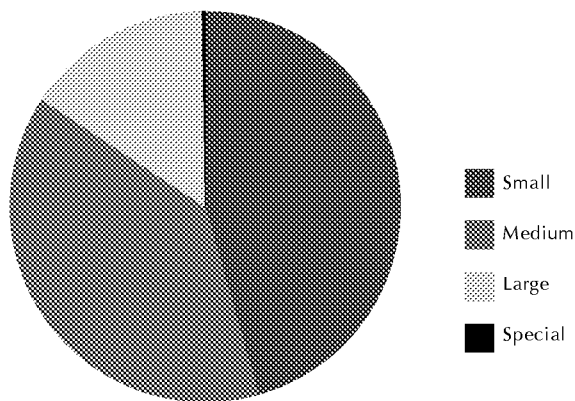
Management Discussion and Analysis (Cont'd)



Traffic Volume

During the year, the average traffic volume of Hening Expressway was approximately 14,520 vehicles per day, representing a 26.69% increase when compared with last year.

Type ratios of vehicles of Hening Expressway in 2000



Toll Rates

Vehicle Classification	Toll Rates (RMB/kilometer)
Small (goods vehicles up to 2.5 tonnes, and passenger vehicles up to 20 seats)	0.40
Medium (goods vehicles between 2.5 tonnes and 7 tonnes, and passenger vehicles between 20 and 35 seats)	0.70
Large (goods vehicles between 7 tonnes and 15 tonnes, and passenger vehicles over 35 seats)	1.00
Special (goods vehicles between 15 tonnes and 40 tonnes)	1.80
Special Large (goods vehicles over 40 tonnes)	1.80

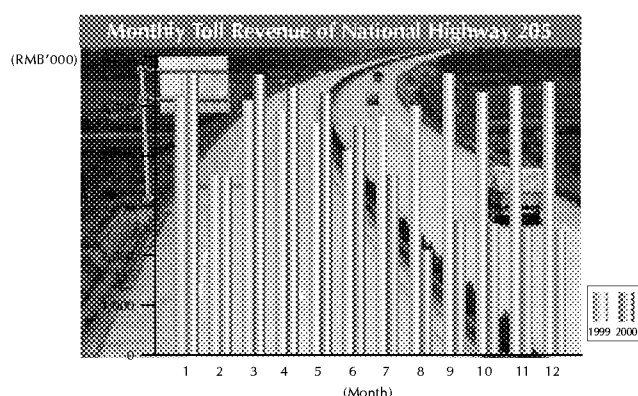
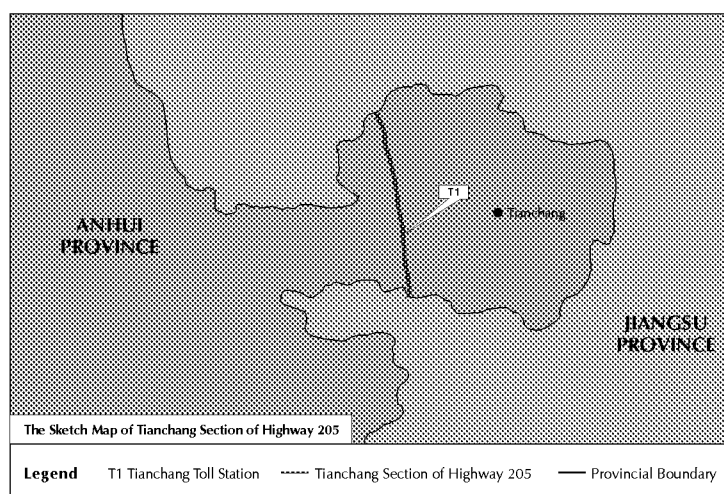
Note: Special large goods vehicles are charged RMB 10 for every 10 tonnes in excess.

2. The New Tianchang Section of Highway 205

The New Tianchang Section of Highway 205 is a dual carriageway four-lane vehicular highway of Class 1 standard of 30 kilometers long situated in Tianchang in Anhui province. Tianchang Section of Highway 205 is part of National Highway 205 which starts in Shanhaiguan, Hebei province and ends in Guangzhou, Guangdong province. This national highway also forms part of the highway linking Lianyungang and Nanjing in Jiangsu province. The New Tianchang Section of Highway 205 has one toll station and one interchange.

On 1st January, 1997, the Company completed the acquisition of the New Tianchang Section of Highway 205 with an operation period of 30 years commencing from 1st January, 1997.

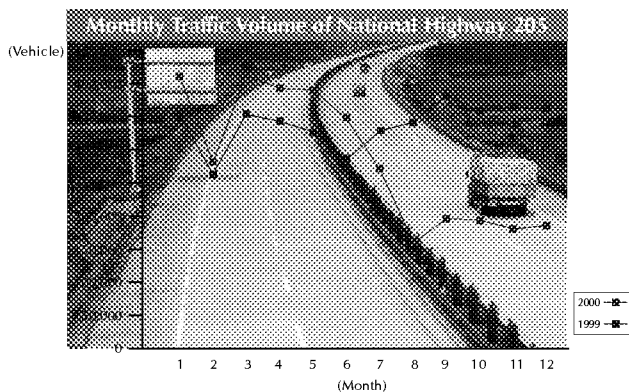
The Company started to reconstruct the New Tianchang Section of National Highway 205 in July 2000 in order to satisfy the requirements of the rapidly increasing traffic volume. The reconstruction will be conducted in two phases. Phase I on western carriageway has already been completed at the end of 2000 while Phase II on eastern carriageway is expected to be completed in July, 2001.



Toll Revenue

During the year, the toll revenue amounted to approximately RMB46,170,000 with a reduction of 21.96% over previous year. The reduction of the toll revenue was mainly due to the reconstruction.

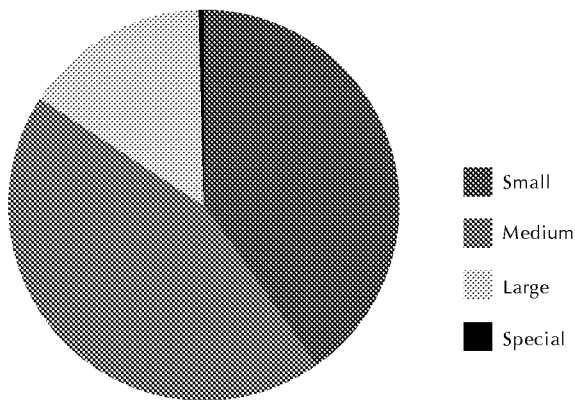
Management Discussion and Analysis (Cont'd)



Traffic Volume

During the year, the average volume of the New Tianchang Section of Highway 205 was approximately 9,365 vehicles per day with an reduction of 15.91% over previous year.

Type rations of vehicles of National Highway 205 in 2000



Toll Rates

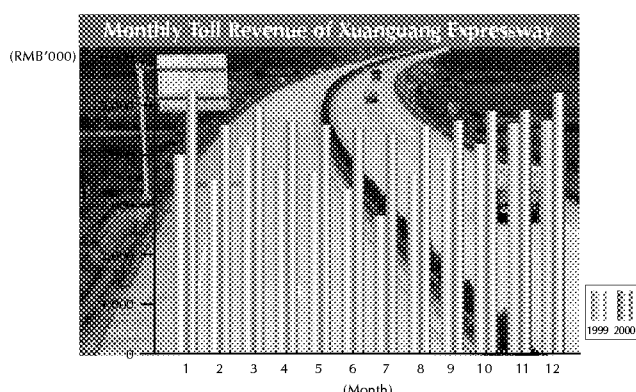
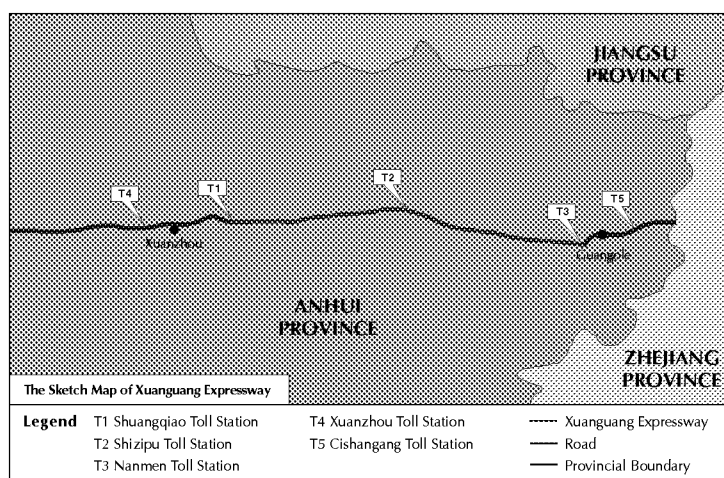
Vehicle Classification	Toll Rates
1. Motor bicycles and tricycles	RMB 3 each
2. Small tractors (including walking tractors) and other small and simple mechanical vehicles with four wheels or otherwise	RMB 5 each
3. Goods vehicles below 2 tonnes (including 2 tonnes) Passenger vehicles below 20 seats	RMB 10 each
4. Goods vehicles between 2 and 5 tonnes (including 5 tonnes) Passenger vehicles between 20 and 50 seats (including 20 seats)	RMB 15 each
5. Goods vehicles between 5 and 10 tonnes (including 5 tonnes) Passenger vehicles over 50 seats	RMB 25 each
6. Goods vehicles over 10 tonnes	RMB 3 per tonne

Note: Vehicle under classification 6 which is over 40 tonnes enjoys a 50% discount on the part after 40 tonnes.

3. Xuanzhou-Guangde Expressway

Xuanzhou to Guangde Expressway is an existing dual carriageway four lane expressway located in the south-eastern part of Anhui province and was opened to traffic in September 1997. The Xuanguang Expressway, which is 66.761 kilometers long with three toll stations, starts from Shuangqiao, Xuanzhou in Anhui province and ends near Jiepai, Guangde in Anhui province and forms part of the 318 National Highway extending from Shanghai to Nielamu in Tibet. The 318 National Highway is a key transport artery linking the coastal regions with the hinterland, three collection stations are set up and one interchange.

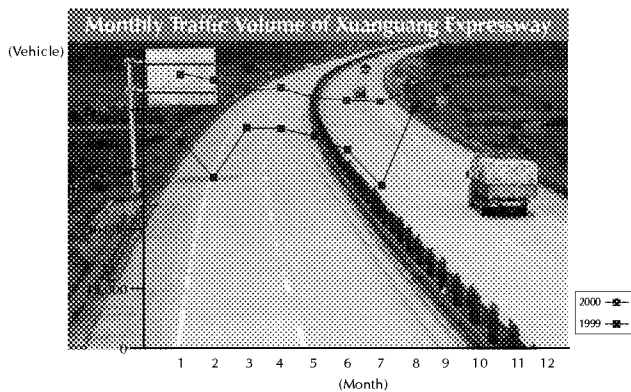
On 18th July, 1998, a joint venture contract was entered into between the Company and Xuancheng Area High Class Highway Construction And Management Company Limited ("Xuancheng Highway Management Company"), pursuant to which Xuanguang Company was established on 25th July, 1998 under the PRC Company Law in Anhui Province, the PRC with the Company holding 51% equity interests of Xuanguang Company. Xuanguang Company will be principally engaged in the operation in Xuanguang Expressway and Xuanzhou Toll Station and Cishangang Toll Station in Guangde and will receive fees in respect of the road and its ancillary and servicing facilities. The term of operation will be for a period of 30 years from 25th July, 1998.



Toll Revenue

During the year, the toll revenue amounted to approximately RMB57,550,000 with an increase of 24.46% over previous year. The increase of the toll revenue was mainly due to the increase in the traffic volume.

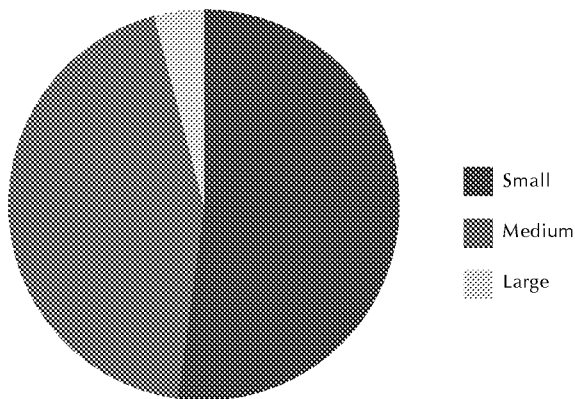
Management Discussion and Analysis (Cont'd)



Traffic Volume

During the year, the average volume of the Xuanzhou to Guangde Expressway was approximately 2,192 vehicles per day with an increase of 19.13% over previous year.

Type rations of vehicles of Xuanguang Expressway in 2000



Toll Rates for Xuanguang Expressway

Vehicle Classification	Toll Rates (RMB/kilometer)
Small (goods vehicles up to 2.5 tonnes, and passenger vehicles up to 20 seats)	0.40
Medium (goods vehicles between 2.5 tonnes and 7 tonnes, and passenger vehicles between 20 and 35 seats)	0.70
Large (goods vehicles between 7 tonnes and 15 tonnes, and passenger vehicles over 35 seats)	1.00
Special (goods vehicles between 15 tonnes and 40 tonnes)	1.80
Special Large (goods vehicles over 40 tonnes)	1.80

- Notes: 1. Special large goods vehicles are charged RMB 10 for every 10 tonnes in excess.
2. The toll rates only apply to the vehicles using Xuanguang Expressway.

Management Discussion and Analysis (Cont'd)

Toll Rates for The Old Road

Vehicle Classification	Original toll rates	New toll rates
Vehicles over 1 tonne	RMB4 per tonne	RMB6 per tonne
Vehicles up to 1 tonne	RMB5 each	RMB10 each
Agricultural vehicles up to 1 tonne (including 1 tonne)	—	RMB5 each

Notes:

1. The toll rates only apply to the vehicles which pass Xuanzhou Toll Station and Cishangang Toll Station without using Xuanguang Expressway.
2. The vehicles registered in Xuanzhou and Guangde (excluding those using Xuanguang Expressway of National Highway 318) can pay the toll monthly in accordance with the rates of RMB30 per ton per month and the vehicles up to 1 tonne should be levied as 1 tonne.

4. Gaohe to Jieqidun Expressway

Gaohe to Jieqidun Expressway has a total length of approximately 110 kilometers. It is a dual four-lane expressway and forms part of the Priority National Trunk Highway System running from Shanghai to Chengdu, Sichuan Province. The expressway starts from Gaohe, Huaining County, Anhui Province and passes Hefei-Anqing Highway and links to Hening Expressway operated by the Company. It ends at Jieqidun located at the E-Wan border of Susong County of Anhui Province. The expressway extends westward to cities such as Wuhan, Chongqing and Chengdu and is an important network highway linking the central and western regions and the southeast coastal regions. The construction of the expressway commenced in 1996 and the road was opened to traffic on May 1st, 1999. The Gaojie Expressway has four toll stations and two interchanges.

On 13th May, 1997, a joint venture agreement was entered into between the Company and AEHC, whereby Gaojie Company, a company incorporated in China with limited liabilities, was established for the purpose of developing, constructing and operating the expressway from Gaohe to Jieqidun. The Company holds 30% of the equity interests.

On 10th November, 2000, an agreement on equity transfer was entered into by the Company and AEHC, pursuant to which 21% equity held by AEHC will be transferred to the Company with a consideration of RMB 387, 240, 000. Upon the completion of transfer on 31st December, 2000, the Company owns 51% equity in Gaojie Company as its holding company.

