

Management Discussion and Analysis





Summary

(The following information is for reference only and does not constitute any part of the financial statements set out on pages 55 to 99, which have been audited by Arthur Andersen & Co.. This section should be read in conjunction with the financial statements contained in this annual report.)

2001 is the first year of the new millenium, and is the first year in the implementation of the Tenth Five-Year Plan, when the PRC was awarded the sponsorship for the 2008 Olympic Games and successfully hosted the APEC conference. The PRC formally joined the WTO as a member. The State continued with its objectives : boosting domestic demand, making active efforts in rationalizing the industrial structure, pushing for infrastructure constructions, solidly implementing the development of western regions, maintaining a rapid and healthy development of the national economy and enhancing of the quality and efficiency of economic operations. As a result, the overall national strength was enhanced. With the full support of the Anhui Provincial Government, the Department of Communications of Anhui Province and all the shareholders, the management of the Company, took an aggressive approach, having reviewed the current position, led all the staff in its efforts to reform and innovate, and having gone through solid and hard work, have achieved significant improvements in various aspects.

The Group's turnover and profit after taxation marked an all-time height in 2001. The existing expressways under the Company have grown into a maturity stage which saw a marked growth in traffic volumes, and the business of Wantong Technology has been making its nationwide expansion dramatically.

Business Environment

The Company's operations are mainly situated in mainland 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 2001, with the favorable effects of a series of policies and measures such as boosting domestic demand, structural adjustments and deepening of the reforms and further deregulation, the economic growth of the PRC was speeded up, the quality of its operations has been substantially lifted, in particular, the economic growth of Anhui Province performed better than the national level. In the year 2001, the national GDP recorded a 7.3% in growth, while the GDP of Anhui Province in 2001 hit a growth rate of 8.6%.

Consumptions, Investments and Exports

In 2001, social productivity and overall national strength scaled a new level, while consumptions, investments and exports were on the rise. The total amount of retail consumables, fixed assets investment and export increased by 10.1%, 12.1% and 6.8% respectively, and as for Anhui Province, they increased by 8.4%, 17.1% and 5.1% respectively.

2. Development of Highways in the PRC and Anhui Province

Expansion of Infrastructure Construction

In 2001, the PRC government continued to increase its investment on infrastructure construction as an important initiative to stimulate economic growth. As a result, the infrastructure construction had seen substantial progress, and the scale, speed and quality of the construction reached an all-time height. As at the end of the year, over 1,435,000 kilometers of roads in the PRC have been opened to traffic, of which 19,500 kilometers were expressways.

The transport network of Anhui Province has taken shape in the wake of the construction of principal highways and the start-up of trunk highway projects.

In 2001, the investment in transportation infrastructure in Anhui Province totalled RMB7,800,000,000, a 6.65% increase over the previous year. The total length of roads and expressways in the province reached 65,807 kilometers and 596 kilometers respectively. Road density reached 47.35 kilometers per hundred square kilometers.

Road Traffic Volume

According to the statistics, the volume of passenger traffic on national highways in the year was 14,340,000,000 persons and the turnaround volume was 704,700,000,000 persons kilometers, while the volume of goods transported was 10,540,000,000 tonnes and the turnaround volume was 618,000,000,000 tonnes kilometers, representing a growth of 6.5%, 5.8%, 1.4% and 0.8% respectively over the previous year.

In 2001, the volume of passenger traffic on highways was 590,000,000 persons in Anhui Province and the turnaround volume was 32,300,000,000 persons kilometers, while the volume of goods transported was 380,000,000 tonnes and the turnaround volume was 39,600,000,000 tonnes kilometers.

3. Outlook of Business Environment

In 2002, the State will continue with its objectives : to implement the policies of boosting the domestic demand, to actively adjust industrial structures, to strengthen the construction of infrastructure, to solidly further the development in the western regions, to stimulate rapid and healthy economic development and overall social progress, thereby building an overall fairly well-off society.

To reinforce the infrastructure construction is an important mission for the State in the coming five to ten years. The focus of priority development of the Tenth Five-Year Plan will be on the strengthening of national trunks construction, the improvement of highway network, thereby advancing the access of the highway network.

The total investment on transportation infrastructure construction nationwide in the year 2002 will be basically the same as the previous year. More efforts will be put on the construction of the National Trunks System. On the other hand, reconstruction of regional road networks will be speeded up. The transport infrastructure construction will also be speeded up as part of the development strategy for the western regions.

During the year 2002, Anhui Province will invest RMB9 billion on the construction of transport infrastructure. It will also speed up the construction of expressway projects such as northern section of Hexu Expressway, Hean Expressway, the Anhui Section of Lianhuo Expressway, second phase of Jiefubang Expressway, Wuxuan Expressway and Huihang Expressway, thereby fully connecting the existing expressways and those still under construction to initially form a fast passing-through highway network in the province, making it possible to pass through the province within three hours from east to west and six hours from south to north.

In 2002, the State will increase input in technology, intensify technological innovation, expand new and high-end technology and advanced strategic hi-tech research in order to improve the level of technology for the industry.

The formal accession of the PRC to the WTO will be favorable to the economic development of the PRC, which will be seen mainly in the form of more direct foreign investments being drawn to the PRC more effectively. Advanced technologies from abroad, a large amount of techniques from abroad, especially in modern management system can be introduced, the pace of the PRC towards market economy will be significantly quickened and a higher demand for transport and infrastructure will arise, which in turn will provide better opportunities for the development of expressway operations.

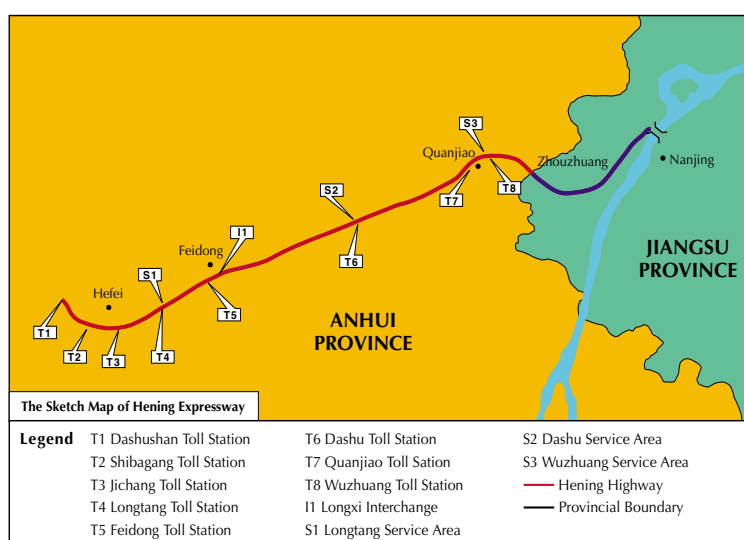
Business Review

In 2001, leveraging on the investment opportunities which arose with the macroeconomic policies of the State and Anhui Province aiming at speeding up the construction of transport infrastructure, the Company played an active role and captured such rare investment opportunity, thereby expanding the Company's assets from time to time, so that while new progress was being made in respect of its core assets, more assets of hi-tech in nature were also being added. On the other hand, management of the corporate structure by the legal person was on the improvement, whereby standards of corporate governance were enhanced as a result. In addition, the Company also kept applying the latest hi-tech achievement to corporate management so as to improve efficiency and reduce costs.

In 2001, the various operations of the Group enjoyed substantial improvements, thus achieving the target in the joint development of efficiency and scale at the same time. During the period under review, a turnover of RMB582,584,000 was achieved by the Group, representing an increase of 50.61% over the corresponding period of the previous year, and this was mainly due to the steady growth of the traffic volume of the highways, the incorporation of Gaojie Company's income to the Group and the continuous expansion of the operation scale of Wantong Technology. The audited profit attributable to shareholders amounted to RMB269,972,000, representing an increase of 18.84% over the corresponding period of the previous year. Earnings per share for the period was RMB0.1917, an increase of 18.85% over the corresponding period of last year. This shows the strong growth trend of the Group.

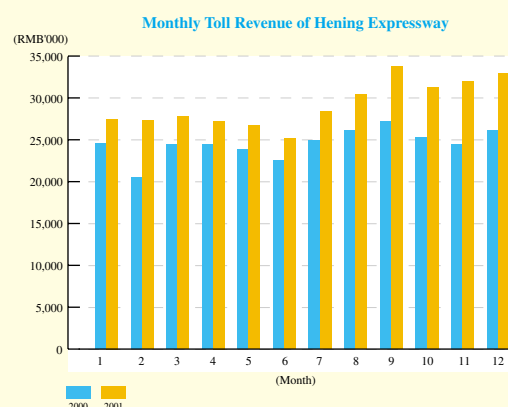
1. Hening Expressway

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 Trunk 312 linking Shanghai and Yining in Xinjiang. Hening Expressway was designed and built with eight toll stations and seven interchanges in accordance with the PRC highway standards as an closed 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.



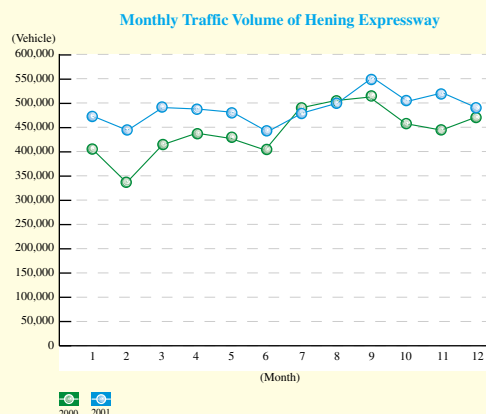
Toll Revenue

During the year, the toll revenue amounted to approximately RMB322,749,000, representing a 9.35% increase compared with last year. The increase of the toll revenue was mainly due to the increase of the traffic volume.

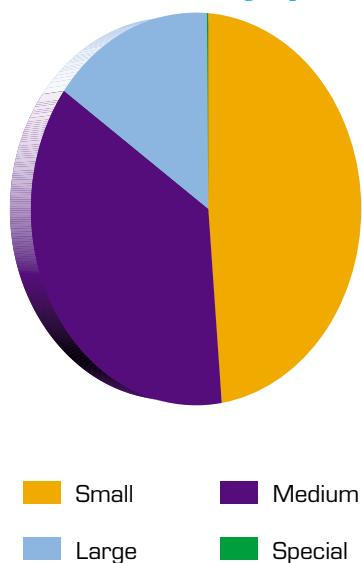


Traffic Volume

During the year, the average daily traffic volume of Hening Expressway was approximately 16,095 vehicles, representing a 10.85% increase compared with last year.



Type ratios of vehicles of Hening Expressway in 2001

**Toll Rates for Hening Expressway****Vehicle Classification****Toll Rates**
(RMB/kilometer)

Small (trucks up to 2.5 tonnes, and passenger wagons up to 20 seats)	0.40
Medium (trucks between 2.5 tonnes and 7 tonnes, and passenger wagons between 20 and 35 seats)	0.70
Large (trucks between 7 tonnes and 15 tonnes, and passenger wagons over 35 seats)	1.00
Special (trucks between 15 tonnes and 40 tonnes)	1.80
Special Large (trucks over 40 tonnes)	1.80

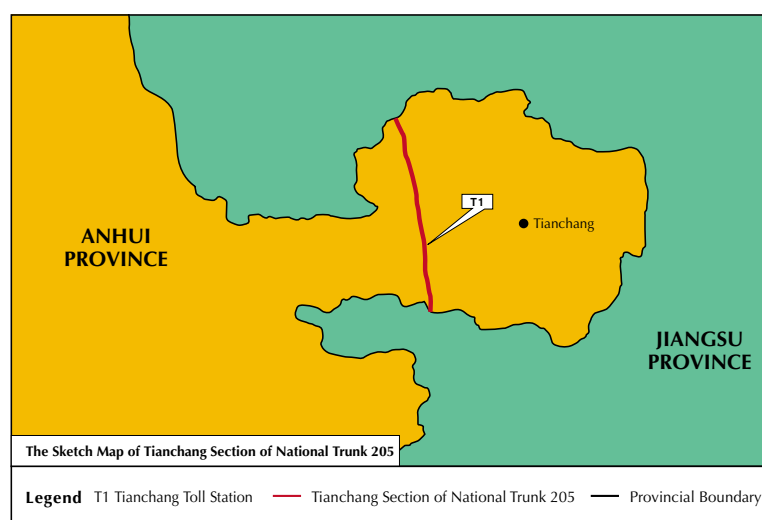
Note: Special large trucks are charged with RMB10 for every additional kilometer for every 10 tonnes in excess.

2. The New Tianchang Section of National Trunk 205

The New Tianchang Section of National Trunk 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 is a part of National Trunk 205 which starts in Shanhaiguan, Hebei Province and ends in Guangzhou, Guangdong Province. This national trunk also forms part of the highway linking Lianyungang and Nanjing in Jiangsu Province. The New Tianchang Section of National Trunk 205 has one toll station and one interchange.

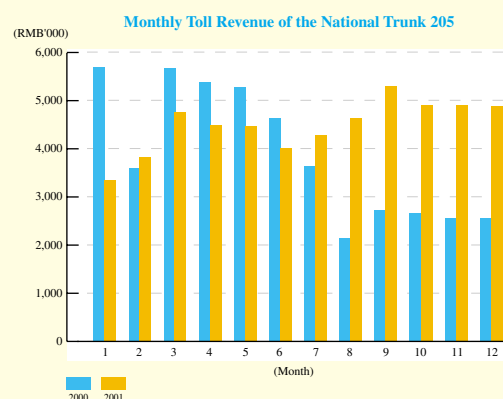
On 1st January, 1997, the Company completed the acquisition of the New Tianchang Section of National Trunk 205 with an operation period of 30 years commencing from 1st January, 1997.

The Company started to reconstruct the New Tianchang Section of National Trunk 205 in July 2000 in order to meet the requirements of the rapidly increasing traffic volume. During the year, with the completion of the reconstruction works, both the road condition and traffic volume of the road have been markedly improved and enhanced.



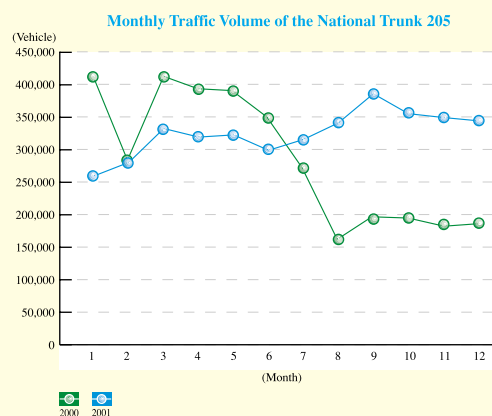
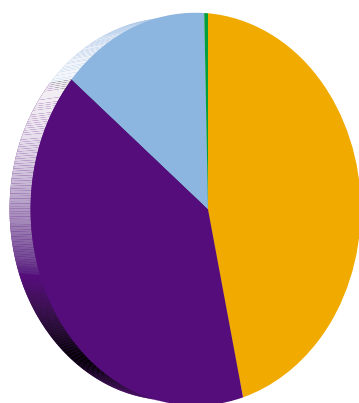
Toll Revenue

During the year, the toll revenue amounted to approximately RMB53,646,000, representing a 16.20% increase compared with last year. The increase of the toll revenue was mainly due to completion of reconstruction work during first half of the year and increase in traffic volume.



Traffic Volume

During the year, the average daily traffic volume of New Tianchang Section of National Trunk 205 was approximately 10,642 vehicles, representing a 13.64% increase over last year.

**Type ratios of vehicles of National Trunk 205 in 2001**

Small Medium
Large Special

Toll Rates

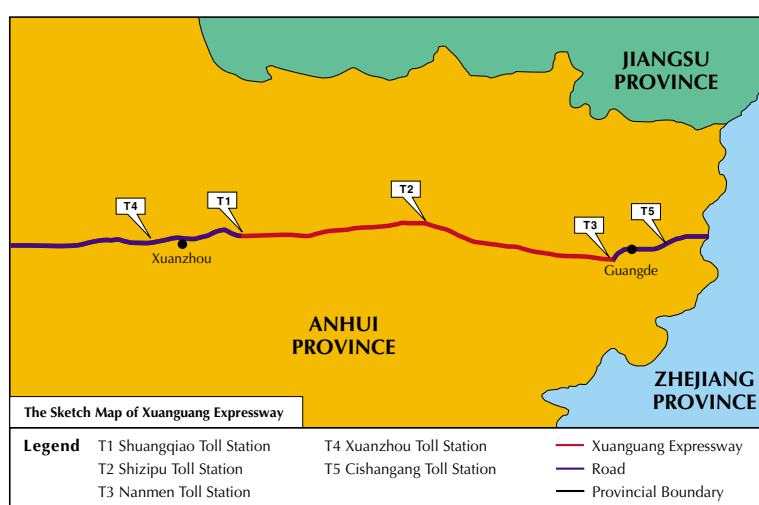
Vehicle Classification	Toll Rates
1. Motor bicycles and tricycles	RMB3 each
2. Small tractors (including manual tractors) and other four-wheeled small and simple mechanical vehicles	RMB5 each
3. Trucks below 2 tonnes (including 2 tonnes) and passenger wagons below 20 seats	RMB10 each
4. Trucks between 2 and 5 tonnes (including 5 tonnes) and passenger wagons between 20 and 50 seats (including 50 seats)	RMB15 each
5. Trucks between 5 and 10 tonnes (including 10 tonnes) and passenger wagons over 50 seats	RMB25 each
6. Trucks over 10 tonnes	RMB3 per tonne

Note: Vehicles under classification 6 which is over 40 tonnes enjoys a 50% discount on the part in excess of 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 66.71 kilometers long, starts from Shuangqiao, Xuanzhou in Anhui Province and ends near Jiepai, Guangde in Anhui Province and forms part of the National Trunk 318 extending from Shanghai to Nielamu in Tibet, National Trunk 318 is a key transport artery linking the coastal regions with the hinterland. The Xuanguang Expressway has three toll stations 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, 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 in Xuanguang Company. Xuanguang Company will be principally engaged in the operation in Xuanguang Expressway and Xuangzhou 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 commencing from 25th July, 1998.



Toll Revenue

During the year, the toll revenue amounted to approximately RMB75,201,000, representing a 30.67% increase over last year. The increase of the toll revenue was mainly due to the increase in traffic volume.

