

I. BUSINESS ENVIRONMENT

The Company's operations are primarily situated in the Mainland. As a result, the Group's business is closely tied to the economic development of the PRC and Anhui Province, and related to highway development of the PRC and Anhui Province.

1. Economic development of the PRC and Anhui Province

In 2003, the GDP of the PRC amounted to RMB11,669.4 billion, representing an increase of 9.1% over previous year. In 2003, China was fully recovered from the impact of the Asian financial crisis in 2003 and entered into a new economic growth period. 2003 was also the first year for the new stage of developing the living standard into that of middle class in the PRC. The GDP of the PRC per capita exceeded USD1,000 for the first time.

In 2003, annual output of Anhui Province amounted to RMB397.32 billion, representing a growth of 9.2% over previous year. Investment in fixed assets upsurged. Annual investments in fixed assets for the community reached RMB147.76 billion in aggregate, representing an increase of 30.4% over previous year. Among them, investments in transport industry increased by 29.6%. Annual retail consumption for the community was RMB133.13 billion in aggregate, representing an increase of 9.8% over previous year. Of which, automobile industry grew by 13.0%. This was evidenced by total imports and exports amounting to USD5.94 billion, representing an increase of 42.1% over previous year. The quality of economy was further improved.

2. Development of highways in the PRC and Anhui Province

In 2003, the construction of "five vertical and seven horizontal" National Trunks System was speeded up. Infrastructure construction such as highway transportation has been developing smoothly. 46,000 kilometres of additional roads in the PRC were opened to traffic for the year, of which 4,600 kilometres were expressways, total mileage of 1.81 million kilometers roads in the PRC were opened to traffic, of which 30,000 kilometres were expressways. It ranked second in the world. Investment in transportation infrastructure was RMB390 billion, representing an increase of 12% over previous year.

In 2003, construction of the transportation infrastructure in Anhui Province grew in a faster pace. Total investment of the construction of transportation infrastructure, in terms of fixed assets, amounted to RMB14,259 million, representing an increase of 32% over previous year. Various economic indicators recorded historical high levels. The momentum on continuous and rapid growth was maintained. In respect of implementation of the "Construction of smooth network of expressways" under the construction of expressway scheme of the Tenth Five-year Plan, two expressways from Hefei to Xuzhou and from Wuhu to Xuancheng were completed. In particular, the expressway between Hefei to Xuzhou constituted a portion of the "five north-south" and "seven east-west" under the National Trunks System, as well as an important section of Beijing-Fuzhou highway. The completion of this expressway marked the first accomplishment by the

province on the expressway construction for the National Trunks System under Ministry of Communications. At the same time, the length of expressway open to traffic within the province also exceeded 1,000 kilometres, reaching 1,070 kilometres as a whole. The province ranked twelfth within the country. On the other hand, 1,090 kilometres of highway is under construction. There was also ground-breaking development in the length of expressway open to traffic and length of expressway under construction, where both of which exceeded “1,000 kilometres”. This laid a strong basis for the construction of 1,700 kilometres of expressways to be open to traffic at the end of the “Tenth Five-year Plan”.

3. Outlook of Business Environment

2004 is the year critical to the achievement of the “Tenth Five-year Plan”. It is also an important year for full implementation of the mission of the sixteenth National People’s Congress and the third meeting of Central Committee of the sixteenth session, enhancement on reforms, extension of opening and facilitation of development. On the macro perspective, global economy is recovering. Demands from the public continued to grow. The State will adhere to its objectives of boosting domestic demands, proactive financial policies and stable monetary policies, as well as maintaining the continuity of policies.

Along with the rapid development of the PRC economy, the function of expressway will continue to be significant. During the period of the “Tenth Five-year Plan”, Anhui province will expedite its development in expressway construction and continue to maintain its rapid, continuous and intra-provincial development within the transportation industry. During this decade, about 2,000 kilometres of expressway will be constructed in Anhui Province. After completing the connection of expressway between Hefei and 16 central cities and construction of about 10,000 kilometres of second grade expressways, an expressway network will be established for the whole province. Each municipality can link up to the expressway network with in one hour. The vehicle traffic can attain east-west border crossing within 3 hours and south-north border crossing with 6 hours. The traffic for the province as a whole will be smoother, safer and quicker.

II. BUSINESS REVIEW

In 2003, the operations of the Group achieved satisfactory results. The various operations attained substantial improvements and basically achieved the operating target of simultaneous development of efficiency and scale. In accordance with the Hong Kong Accounting Standard, during the year, the Group achieved a turnover of RMB858,858,000, representing an increase of 19.43% over the corresponding period of the previous year, the profit after taxation of RMB349,066,000, representing an increase of 12.96% over the corresponding period of the previous year, earnings per share of RMB0.2105, representing a decrease of 3.66% over the corresponding period of the previous year. In accordance with the PRC Accounting Standard, the Group achieved the revenues from main operation of RMB896,554,000, representing an increase of 19.28% over the corresponding period of the previous year, profit after taxation of RMB283,265,000, representing an increase of 9.63% over the corresponding period of the previous year, earnings per share (fully diluted) of RMB0.17, representing an increase of 6.25% over the corresponding period of the previous year.

III. TOLL POLICY

The toll rates are mainly determined by Anhui Provincial Government with reference to the following factors: traffic flow, construction costs, prospective pay-back periods of investment, repayment periods of any loans, local price levels and inflation rate, management, operation and maintenance costs of the highways and user's affordability.

In 2003, there was no adjustment of toll rates of the Company.

At present, the toll rates of the Company are as follows:

Vehicles classification and toll rates of Hening Expressway, Gaojie Expressway, Xuanguang Expressway and Anhui Section of Lianhuo Expressway

Vehicles Classification	Toll Rates (RMB/km)
Small (trucks up to 2.5 tons, and passenger wagons up to 20 seats)	0.4
Medium (trucks between 2.5 tons and 7 tons, and passenger wagons between 20 and 35 seats)	0.7
Large (trucks between 7 tons and 15 tons, and passenger wagons over 35 seats)	1.00
Special (trucks between 15 tons and 40 tons)	1.80
Special Large (trucks over 40 tons)	1.80

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

Vehicles classification and toll rates of New Tianchang Section of National Trunk 205

Vehicles Classification	Toll Rates
Motor bicycles and tricycles	RMB3 each
Small tractors (including manual tractors) and other four-wheeled small and simple mechanical vehicles	RMB5 each
Trucks below 2 tons (including 2 tons) and passenger wagons below 20 seats	RMB10 each
Trucks between 2 and 5 tons (including 5 tons) and passenger wagons between 20 and 50 seats (including 50 seats)	RMB15 each
Trucks between 5 and 10 tons (including 10 tons) and passenger wagons over 50 seats	RMB25 each
Trucks over 10 tons	RMB3 per ton

Note: Vehicle under classification 6, which is over 40 tons enjoys a 50% discount on the part in excess of 40 tons.

Toll rates for the old Xuanguang road

Vehicles Classification	Toll Rates
Vehicles over 1 ton	RMB6 per ton
Vehicles up to 1 ton	RMB10 each
Agriculture vehicles up to 1 ton (including 1 ton)	RMB5 each

Notes:

- The toll rate only apply to vehicles passing the Xuanzhou Toll Station and Cishangang Toll Station without using Xuanguang Expressway.*
- Vehicles registered in Xuanzhou and Guangde (excluding those using Xuanguang Expressway of National Trunk 318) can pay the toll monthly in accordance with the rates of RMB30 per ton per month and the vehicles under 1 ton should be charged as 1 ton.*

IV. BUSINESS ANALYSIS

1. Toll collection business

During the reporting period, the toll revenue of the Group represented an increase of 15.80% over last year, details of each road are as follows:

Hening Expressway is the main toll revenue of the Group, which constitutes 43.55% of the total revenue. Because of the influence of the reconstruction of Hening Expressway and SARS, the toll income represented a decrease of 1.16% over last year.

The New Tianchang Section of National Trunk 205 is a Class One Highway with only 30 km long and has a toll collection period of 8 years. It has transferred from fast increase stage to stable one, and the toll income represented a little increase of 3.67% over last year.

The toll revenue of Gaojie Expressway increased fast, the toll income represented an increase of 12.73% over last year, which was because that He'an Expressway linking Hening Expressway and Gaojie Expressway and Hexu Expressway have been fully linked up and the road network has been taken shape.

The toll revenue of Xuanguang Expressway increased fast, the toll income represented an increase of 21.85% over last year, which was because that the Wuhu to Xuanzhou Expressway which linking Xuanguang Expressway has been opened to traffic. The completion of Wuhu to Xuanzhou Expressway makes the transportation to Zhejiang more conveniently, and the road functions took shape.

The Anhui Section of Lianhuo Expressway has been running well since its completion in July 2002 and the converted average daily traffic volumes for entire journey increased stably. In 2003, its toll income and traffic volumes have been further increased upon the completion and opening of Lianhuo Expressway in Jiangsu and Henan Province and the connection of Hexu Expressway. The toll revenue was RMB68,518,000.

2. Other business analysis

During the reporting period, the other-operating income of the Company was RMB66,546,000, constituting 7.42% of the total revenue. The revenue of Wantong Technology was RMB59,675,000.

During 2003, Wantong Technology was awarded the Certificate of System Integration by the Ministry of Information Industry as well as the Certificate of Confidential System Integration by the National Administration for Protection of State Secrets. The awards further consolidated the competitive edge of the Company in the industry. The WTEP-01 optical fibre emergency call system developed by Wantong Technology itself facilitated the enhancement and introduction of the new emergency call system used in expressways. It occupied a leading position in the PRC in terms of technology. Revenue of Wantong Technology for the year was RMB59,675,000 and its net profit was RMB1,703,000.

V. ANALYSIS ON THE OPERATIONS RESULTS AND FINANCIAL SITUATION OF THE COMPANY (IN ACCORDANCE WITH THE HONG KONG STANDARDS)

Analysis on the Operations Results

	2003 RMB'000	2002 RMB'000	Fluctuation
Turnover	858,858	719,123	19.43%
Other revenues	15,334	8,511	80.17%
Operating costs	327,551	251,868	30.05%
Operating profits	453,442	393,431	15.25%
Finance costs	(2,643)	(822)	221.53%
Taxation	(100,878)	309,031	20.84%
Profit attributable to shareholders	349,066	(83,484)	12.96%
Earnings per share (RMB)	0.2105	0.2185	-3.66%
Dividend	99,517	120,189	-17.20%

1. Turnover

	2003 RMB'000	2002 RMB'000	Fluctuation
Toll income	830,007	716,750	15.80%
Toll system installation income	66,548	34,877	90.81%
Emergency assistance income	8,076	5,775	39.84%
Less: Tax related to revenue	(45,773)	(38,279)	19.58%
Turnover	858,858	719,123	19.43%

The Company's turnover increased by 19.43% as compared with 2002, which was mainly attributable to the significant growth in traffic volumes of Xuanguang Expressway and Gaojie Expressway.

2. Other revenues

	2003 RMB'000	2002 RMB'000	Fluctuation
Interest income	2,202	3,722	-40.84%
Income from trading securities	1,482	323	358.82%
Toll system management fees	4,580	3,080	48.70%
Rental service fees	2,527	1,003	151.94%
Others	4,543	383	1,086.16%

The Company was entrusted to provide overall operation management of toll collection, maintenance, central control and road administration to AEHC and Anhui Anlian Expressway Company Limited. This service started from 2002 and service agreement was signed every year.

3. Operating costs

	2003 RMB'000	2002 RMB'000	Change
Depreciation and amortization	177,908	132,178	34.60%
Road maintenance expenses	80,645	76,211	5.82%
Other costs	68,998	43,479	58.69%
Total	327,551	251,868	30.05%

During the year 2003, operating costs of the Company had a big increase as compared with last year, including:

The depreciation and amortization of the Group increased during the year 2003 because the traffic volumes of each of the Group's toll roads grew, which increased the depreciation of its toll roads, the depreciation has been accrued for Xuanzhou South Ring Road which was newly injected and the depreciation of Lianhuo Expressway (Anhui Section) was accrued all over the year while it was accrued half year in 2002.

The increase of other operating costs was mainly because that the turnover of Wantong Technology increased, which resulting in the increase of cost of goods sold.

4. Finance costs

The increase in finance costs was mainly due to the significant increase of capital expenditure for relevant bank loans in 2003.

5. Taxation

(a) Hong Kong profits tax

As the Group did not derive any profit assessable under the Hong Kong Profits Tax, no provision for Hong Kong Profits Tax has been made in the accounts.

(b) Enterprise income tax

The Company and a subsidiary of the Company, Anhui Wantong Science and Technology Development Company Limited ("Wantong Technology"), are new and hi-tech enterprises incorporated in Anhui Hefei New and Hi-tech Industry Development Zone. Pursuant to relevant regulations of the State Taxation Administration, the applicable enterprise income tax rate of the Company and Wantong Technology is at a reduced rate of 15% of the taxable income.

Other subsidiaries and associated companies of the Company shall comply with the PRC laws and regulations in preparing accounts and the enterprise income tax rate is at the rate of 33%.

(c) **Taxation in the consolidated profit and loss account include:**

	2003 RMB'000	2002 RMB'000
Hong Kong profits tax	—	—
PRC enterprises income tax	83,350	66,623
	<u>83,350</u>	<u>66,623</u>
Deferred tax	17,528	16,861
	<u>100,878</u>	<u>83,484</u>
Share of taxation attributable to associated companies	—	—
	<u>100,878</u>	<u>83,484</u>

(d) **Reconciliation between applicable and actual tax rates is as follows:**

	2003 RMB'000		2002 RMB'000	
Profit before taxation	<u>450,205</u>	<u>100%</u>	<u>392,305</u>	<u>100%</u>
Tax at the applicable actual tax rate of 15% (2002: 15%)	67,531	15.0%	58,846	15.0%
Tax effect of non-deductible expenses	895	0.2%	4,950	1.3%
Effects of different tax rates of subsidiaries	<u>32,452</u>	<u>7.2%</u>	<u>19,688</u>	<u>5.0%</u>
	<u>100,878</u>	<u>22.4%</u>	<u>83,484</u>	<u>21.3%</u>

Analysis on Financial Situation

1. Liquidity

	2003	2002
Current ratio	0.5725	5.3018
Quick ratio	0.5545	5.1989

The Company is principally engaged in the operation and management of toll roads, and has a strong and stable cash inflow from its daily operations. During the reporting period, the capital expenditure and the bank loans significantly increased as compared with last year, which resulted in the decrease in the said indexes, but still remained good.

2. Financial resources

	As at 31st December 2003 RMB'000	As at 31st December 2002 RMB'000
Cash at bank and in hand	194	240
Include:		
Cash in hand		
cash at bank		
- Time deposits with original maturity of more than 3 months	5,000	—
- Current deposits and time deposit with original maturity of 3 months or less	418,431	1,018,322
- Cash at bank of HK	82,014	100,354
Other cash balances	4,976	—
Total	510,615	1,118,916
Bank loans		
- Short-term bank loans	627,000	—
- Long-term bank loans	—	—
Total	627,000	—

Bank balances and cash: The total amount of RMB510,615,000 of the Company was deposited in the domestic banks.

Bank borrowings: The Company strictly keeps its liabilities at a reasonable level, and makes reasonable arrangements as to the terms of its bank borrowings with reference to its medium and long-term plans and interest rates. Owing to its sound credit worthiness, the Company manages to obtain preferential interest rates for its bank borrowings. During the year ended 31st December 2003, the Company has un-utilized bank facilities of RMB1.3 billion.

3. Capital commitments

As at 31st December 2003, the capital commitments of the Company are as follows:

(a) Contracted but not provided for

	2003
	RMB'000
Hefei New and Hi-tech Industrial Development Area Project	19,000

(b) Approved but not contracted for

	2003
	RMB'000
Construction of improvement of Hening Expressway	423,000

4. Foreign exchange risks management

The Company has always exercised a tight control over its foreign capital. Its foreign currency payment is mainly for the payment of the dividends of its H Shares. As at 31st December 2003, cash in hand of foreign currency was HKD76,958,000. During the year, the exchange rate remained relatively stable, which did not have significant impact on the Company's results.

Cash Inflow and Outflow

Items	2003
	RMB'000
Net cash inflow from operating activities	555,985
Capital expenditure for purchase of fixed assets	(1,493,685)
Acquisition of equities of and loans to subsidiaries of the Company	(253,350)
Increase of bank borrowings	627,000
Net increase in fixed bank deposits with a term of 3 months or above	(5,000)
Dividends paid	(49,758)
Other incomes net of other expenses	531

As at 31st December 2003, the Company's cash and cash equivalents decreased by RMB618,277,000.

1. *Net cash inflow from operating activities*

The Company's net cash inflow from operating activities mainly comes from the toll revenue of its toll roads, which is largely received in cash on daily basis.

2. *Cash flow from investing activities*

The Company's cash outflow from investing activities was mainly for the acquisition of Xuanzhou South Ring Road, the Anhui Section of Lianhuo Expressway and for the reconstruction of Hening Expressway.

3. *Cash flow from financing*

Cash inflow from financing was mainly to obtain bank borrowings for the reconstruction of Hening Expressway.

Capital structure

The Group's capital structure is mainly composed of shareholders' funds and liabilities. As at 31st December 2003, the Company's shareholders' funds amounted to RMB4,459,959,000, and its liabilities were RMB2,524,677,000. Its gearing ratio at 31st December 2003 (total liabilities as at the balance sheet data to its shareholders' funds as at the balance sheet data) was 56.61% (At 31st December 2002 was 33.62%).

The capital structure of the Company classified in terms of capital liquidity:

	31st December 2003		31st December 2002	
	Amount RMB'000	Percentage	Amount RMB'000	Percentage
Current liabilities	991,523	14.20%	221,155	3.85%
Long-term liabilities	1,324,552	18.96%	1,177,019	20.47%
Shareholders' funds	4,459,959	63.85%	4,158,254	72.33%
Minority interests	208,602	2.99%	192,197	3.35%
Total	<u>6,984,636</u>	<u>100%</u>	<u>5,748,625</u>	<u>100%</u>

The Group's current liabilities increased by 348.34% as compared with 2002 mainly due to the increase of bank borrowings.

The capital structure of the Company classified in terms of interest rates:

	31st December 2003		31st December 2002	
	Amount	Percentage	Amount	Percentage
	RMB'000		RMB'000	
Fixed rate liabilities	627,000	8.98%	—	—
Floating rate liabilities	—	—	—	—
Interest-free liabilities	1,689,075	24.18%	1,398,174	24.32%
Shareholders' funds	4,459,959	63.85%	4,158,254	72.33%
Minority interests	208,602	2.99%	192,197	3.35%
Total	<u>6,984,636</u>	<u>100%</u>	<u>5,748,625</u>	<u>100%</u>

The Group's current bank borrowings are all fixed rate liabilities with the rates between 4.536% and 4.779%. Fluctuation in interest rates will not have any material impact on the Group's operating results.

The Group's interest-free liabilities represent the general payables and the long-term payables to minority shareholders of subsidiaries.

The Group's overall liabilities are at a low level, with a sound and solid capital structure.

VI. ADVANTAGES FOR BUSINESS DEVELOPMENT

Since the public flotation of the Company in Hong Kong in 1996, the Company's operating results have sustained its growth trend, which fully illustrated its significant advantages for development:

- Being an industry receiving key supports of the State, its monopolistic nature and a steady stream of revenue are characteristic of the expressway industry in which the Company is principally engaged. As an important infrastructure facility for stimulating economic development, the expressway industry will continue to be a key industry of development by the State in the next five to ten years.
- Anhui Province, where the Company is located, is an important province linking the southeast coastal regions of the PRC to the hinterland and the central and western part of the PRC. It also enjoys a unique regional advantage as the province where two horizontal national trunks of the National Trunk System run through.
- The Company obtained undertakings from the People's Government of Anhui Province and Anhui Provincial Department of Communications, which provide protection for the toll highways operated by the Company to considerable extent, from competition with other toll highways, and Anhui Provincial Department of Communications will give the priority to consider the Company when constructing other vehicular highways of Class II standard or above in future.
- The Company is the only domestic Highway Company that has developed and maintained an expressway information system and other relevant systems independently and possessed abundant research capability and human resources.

VII. BUSINESS DEVELOPMENT PLANS FOR THE COMING YEAR

1. To consolidate the concept of service and improve management of operations

The Company will continue to improve the concept of service, optimize service environment and improve service functions. High service quality can not only show our industry style, but also establish a good model on corporate image. We shall consolidate our concept towards service and establish the brand name on the basis of services.

2. To speed up with the construction and renovations of roads

The reconstruction of Hening Expressway is planned to finish by the end of 2004.

Prepare well for the road investigation of each of highways controlled by the Company to provide scientific basis for the reconstitution of each highway controlled by the Company.

3. To achieve expansion in the core operations safely and efficiently

The Company will seek to acquire other high-quality highway assets to realize the stable expansion of its core business.

4. To increase investments in technological development and innovation

By adopting high technology to achieve the upgrading and renewal of the existing toll and comprehensive information system network, to enhance the technological level and stability of the system, and to move towards the transition to an AutoFill system in order to substantially increase the traffic capacity and toll collection efficiency of the roads, the Company plans to gradually increase the input in research and development expenditure in the next two years.

5. To enhance effort in development of human resources

The Company will continue to enhance development and application of human resources, reform personnel mechanism, optimize human resources environment, and improve services provided. It will implement personnel selection and employment, broaden its vision for extensive employment of expertise. It will also refine the appraisal and incentive system, and recruit personnel with high caliber. At the same time, it provides a development platform for its employees, and enhances staff training. It will set up the corresponding training scheme for different levels of staff, so as to raise overall staff quality.

6. Strengthen corporate culture establishment and cultivate corporate concepts

The Company will identify and cultivate its corporate concepts and prepare the corporate development strategies and corporate mission. It will establish a standardized production and operation management system and staff code of conduct. It focuses on solidarity and creation of corporate image. It will fully develop a knowledgeable corporate.

VIII. OTHER MAJOR EVENTS

1. Basic Medical Insurance

During the reporting period, the enterprises and institutions in Hefei should contribute 8% of the basic wages of its staff for medical insurance in accordance with No.82 Hefei People's Government Order issued in November 2000 by Hefei, Anhui, where the Company is located. The Company plans to contribute the said medical insurance from 2004, the insurance fees will be provided from the welfare funds of the staff. This will not have any material impact on the operating result for the current year and the Company has no obligations to pay for the medical insurance relating to the prior years.

Anhui Gaojie Expressway Company Limited and Xuanguang Expressway Company Limited, subsidiaries of the Company, contributed 6.5% of the basic wages of its staff to the medical insurance commencing February 2002.

2. Staff Quarters

The Company does not own any staff quarters and does not plan to provide any staff quarters. The staff quarters of the Company are all provided by AEHC, for which the Company is not required to pay any fee to AEHC. The Group does not encounter any financial problems arising from the reform on the enterprise housing system. Accordingly, the relevant policies do not have any material effect on the Group.

During the reporting period under review, the Company has contributed 15% to the basic wages of its staff (approximately RMB3,503,000) to the Housing Fund in accordance with the society insurance scheme implemented by Anhui Provincial Government. There is no further obligation of the Company apart from contributions to the Housing Fund.

In accordance with relevant stipulations implemented by the local government, the Company should contribute 20% to the basic wages of its staff to the Housing Fund from 2004.

3. Pension Scheme

The Group has participated in the pension scheme organized by the government since 1997, pursuant to which a contribution shall be made based on 23% to 27% of the basic salary of the employees (as to which 20% to 23% contributed by the Group and the remaining contributed by the employees). This constituted the sole responsibility of the Group to the pension scheme.

Such pension scheme shall undertake the responsibility to pay pension fund to the retired employees.

For the year ended 31st December 2003, the Group contributed RMB5,838,000 to the scheme.

4. Loans, Overdrafts and Other Borrowings

Details of bank loans, overdrafts and other borrowings for the year ended 31st December 2003 are set in note 18 to the financial statements, which were prepared in accordance with Hong Kong Accounting Standards

5. The Audit Committee

Four meetings of the Independent Audit Committee were held at the office address of the Company on 22nd April, 20th August and 26th October 2003 and 9th March 2004 respectively for examining and approving the annual financial statements for 2002, the first quarterly statements, the interim financial statements and the third quarterly financial statements for 2003 and the financial statements for 2003 respectively. Upon the examination on the integrity, accuracy and impartiality of the financial statements of the Company, members of the Committee agreed that the financial statements had made sufficient disclosure on relevant materials and the materials disclosure would enable the accounts users to obtain an impartial understanding of the financial status of the Company.

Li Yungui

Director and General Manager

Hefei, Anhui, the PRC
11th March 2004