

MANAGEMENT DISCUSSION AND ANALYSIS

I. Business Environment

The domestic economy of the PRC maintained its steady and rapid trend of development in 2004. Gross domestic product for the year has increased by 9.5% over the previous year.

Key economic indicators of Anhui Province rose to their record high in 2004. The performance of the economy continued to enhance in terms of quality. Gross domestic product for the province was RMB481,270 million, which was increased by 12.5% over the previous year, and was 3.3 percentage points higher than the previous year. It was the first year since 1998 that the province recorded double-digit growth in its economy, indicating the strong momentum of growth. As at the end of 2004, car ownership in Anhui Province was 683,000 vehicles, of which private car ownership reached 74,000 vehicles, representing an increase of 26.5%.

In order to satisfy the growth in the economy and the demand arising from the rapid growth of car ownership, the progress on linking the expressway within the province to form a network has accelerated. During the year, six new expressways were completed and commenced operation. Total length of expressway in operation reached 1,294 km.

The favorable external environment provided a comprehensive and positive setting for the business development of the Group in 2004.

II. Analysis of Business Operation

(I) Results summary (in accordance with the PRC Accounting Standard)

As the turnover and results for the year were mainly derived from the operation of toll roads by the Group in Anhui Province, no analysis on the Group's turnover and contribution to operating profits in terms of segments and geographical regions was presented.

During the reporting period, In accordance with the PRC Accounting Standard, the Group achieved the income from principal operations of RMB1,242,899,000, representing an increase of 38.63% over the corresponding period of the previous year; profit after taxation RMB404,403,000, representing an increase of 42.76 % over the corresponding period of the previous year; earnings per share (fully diluted) reached RMB0.24, representing an increase of 41.18% over the corresponding period of the previous year.

Composition and percentage of revenue was as follows:

Projects	Revenue in 2004 (RMB'000)	Percentage of total revenue	Increase over the corresponding period of the previous year
Hening Expressway	476,792	38.36%	31.89%
New Tianchang Section of National Trunk 205	68,664	5.52%	4.32%
Gaojie Expressway	267,878	21.55%	34.05%
Xuanguang Expressway	218,318	17.57%	62.52%
Lianhuo Expressway Anhui Section	146,876	11.82%	114.36%
Revenue of other operations	64,371	5.18%	-3.27%
Total	1,242,899	100%	38.63%

(II) Operations of toll highways

During the reporting period, benefiting from rapid economic development of the region and Anhui Province and the rapid increase of registered number of vehicles, particularly the adjustment of toll rates, toll highways, the core business of the Group, achieved a revenue of RMB1,178,528,000, representing 94.82% of the total revenue and an increase of 41.99% over last year.

During the reporting period, the income from principal operations and gross profits for the Group's various toll roads are set out as follows:

Key Items	Income from principal operations (RMB'000)	Costs of principal operations (RMB'000)	Gross profit margin	Change in income from principal operations	Change in costs of principal operations	Change in gross profit margins
Hening Expressway National Trunk 205	476,792	144,176	64.54%	31.89%	8.03%	11.91%
New Tianchang Section	68,664	27,485	54.74%	4.32%	31.42%	-12.79%
Gaojie Expressway	267,878	130,684	45.72%	34.05%	42.95%	-6.31%
Xuanguang Expressway	218,318	103,054	47.23%	62.52%	97.83%	-15.21%
Lianhuo Expressway						
Anhui Section	146,876	61,900	52.66%	114.36%	20.75%	166.23%
Total	1,178,528	467,299	54.96%	41.99%	33.78%	43.69%
Of which: Connected transactions	0	0				

1. Toll policy

Toll rates for expressways

For the reporting period and until the date of this annual report, there were three major adjustments to the toll collection method and rates for the expressways operated by the Group.

- (1) Pursuant to the Notice of the Toll Rates for the Standardized Vehicles Classification on Expressways, Wan Jia Fei [2004] No.168, issued by the Commodity Price Bureau of Anhui Province and Anhui Provincial Department of Communications effective from 1 July 2004 the tolls collected from the expressways owned by the Group will be based on the new vehicles classification and toll rates.

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Specific adjustments to the vehicles classification and toll rates are as follow:

Original toll rates:

Unit: RMB/km

Vehicles type	Type and specification		Toll rates
	Passenger vehicles	Goods vehicles	
Small	20 seats or below	2.5 tons or below	0.40
Medium	Between 20 and 35 seats	Between 2.5 tons and 7 tons	0.70
Large	Above 35 seats	Between 7 tons and 15 tons	1.00
Special		Between 15 tons and 40 tons	1.80
Special Large		Above 40 tons	1.80

Note: Special large goods vehicles will be charged an additional RMB 10 per km for every 10 tons in excess.

New toll rates:

Unit: vehicle km

Vehicles type	Type and specification		Toll rates
	Passenger vehicles	Goods vehicles	
Type 1	7 seats and below (including 7 seats)	2 tons and below (including 2 tons)	0.40RMB
Type 2	Between 8 seats and 19 seats	Between 2 tons and 5 tons (including 5 tons)	0.70RMB
Type 3	Between 20 seats and 39 seats	Between 5 tons and 10 tons (including 10 tons)	1.00RMB
Type 4	40 seats and above (including 40 seats)	Between 10 tons and 15 tons (including 15 tons)	1.40RMB
Type 5		20 feet container	1.20RMB
		Above 15 tons	1.60RMB
		40 feet container	1.40RMB

- (2) In order to strengthen the management of overloaded vehicles, to effectively protect the facilities of the roads and bridges, and to practically ensure the safety and smooth running of expressway, the current method of toll collection in relation to goods vehicles will be changed on expressways operated by the Company. Effective from 10th October 2004, the method of toll collection on goods vehicles will be changed from a method based on vehicle types to a method based on weight, which means extra tolls will be imposed according to the excess of the weight of the vehicle and the cargo over the loading limit of the vehicle's shaft. The toll collection method of passenger vehicles will remain unchanged and is still based on the original vehicles classification and toll rates standard remains unchanged.

Toll rates for normal goods vehicle (non-overloaded) based on weight:

Gross weight of goods vehicle	≤ 10 tonnes	10 tonnes < Gross weight of goods vehicle ≤ 40 tonnes	> 40 tonnes
Basic toll rate	RMB0.08/tonne km	RMB0.08 / tonne km decreasing linearly to RMB0.05 / tonne km	RMB0.05 / tonne km
Notes:	<ol style="list-style-type: none"> For gross weight of goods vehicle less than 5 tonnes will be charged for 5 tonnes For any charge calculated to be less than RMB20 will be charged at RMB20 The toll charges will be rounded up. For expressways, less than RMB2.5 will be rounded down to the nearest RMB10, for RMB2.51-RMB7.5 will be rounded down to the nearest RMB5, and for RMB7.51-RMB9.99 will be rounded up to the nearest RMB10. 		

Surcharge toll rates for overloaded good vehicles:

1. Excess is less than 30% (including 30%)	2. Excess is between 30% and 50% (including 50%)	3. Excess is between 50% and 100% (including 100%)	4. Excess is over 100%	If the weight of the vehicle and the cargo is over the loading limit of the total mass (55 tonnes) and the vehicle's shaft, the higher overloaded rate will be collected
Toll applicable to normal goods vehicles will be imposed as per the weight	The first 30% will be subject to a toll applicable to normal goods vehicles as per the weight			
	The remaining balance will be subject to a toll equivalent to 1.5 times of the basic rate	The remaining balance will be subject to a toll equivalent to 2 times of the basic rate	The remaining balance will be subject to a toll equivalent to 3 times of the basic rate	

- (3) According to the Notice of Opinions on Reducing the Toll Rates of Vehicles, issued by Ministry of Communications and the State Development and Reform Commission (Jiao Gong Lu Fa [2004] No. 622), approved by Anhui Provincial Government Mi Han [2004] No. 218, the adjustment to the vehicles classification of expressways owned by the Company will take effect from 1st January 2005 whereas the adjustment to the toll rates on goods vehicles will be effective from 10th January 2005. Specific adjustments to toll rates are as follows:

Adjustment to toll rate of vehicles classification

Unit: vehicle km

Vehicles type	Classification		Toll rates
	Passenger vehicles	Goods vehicles	
Type 1	7 seats and below (including 7 seats)	2 tons and below (including 2 tons)	0.40 RMB
Type 2	Between 8 seats and 19 seats	Between 2 tons and 5 tons (including 5 tons)	0.70 RMB
Type 3	Between 20 seats and 39 seats	Between 5 tons and 10 tons (including 10 tons)	1.00 RMB
Type 4	40 seats and above (including 40 seats)	Between 10 tons and 15 tons (including 15 tons)	1.20 RMB (originally 1.40) RMB
Type 5		20 feet container	1.20 RMB
		Above 15 tons	1.40 RMB (originally 1.60) RMB
		40 foot container	1.40 RMB

Adjustment to the toll rate of goods vehicles with reference to their weight:

Gross weight of goods vehicle	≤ 10 tonnes	10 tonnes < Gross weight of goods vehicle ≤ 40 tonnes	> 40 tonnes
Basic toll rate	RMB0.08/tonnes for every km	RMB0.08/tonnes for every km and will be linearly reduced to RMB0.043/tonnes for every km (originally RMB0.05/tonnes for every km)	RMB0.043/tonnes for every km (originally RMB0.05/tonnes for every km)
Notes:	<ol style="list-style-type: none"> 1. Vehicles, which weight less than 5 tonnes, shall be charged according to 5 tonnes scale 2. If the toll chargeable is less than RMB20, RMB20 shall be charged 3. The toll charges will be rounded up. For expressways, less than RMB2.5 will be rounded down to the nearest RMB10, for RMB2.51-RMB7.5 will be rounded down to the nearest RMB5, and for RMB7.51-RMB9.99 will be rounded up to the nearest RMB10. 		

Extra toll rate to be imposed on overloaded goods vehicles remains unchanged.

Toll rates for other sections

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 tonnes (including 2 tonnes) and passenger wagons below 20 seats	RMB10 each
Trucks between 2 and 5 tonnes (including 5 tonnes) and passenger wagons between 20 and 50 seats (including 50 seats)	RMB15 each
Trucks between 5 and 10 tonnes (including 10 tonnes) and passenger wagons over 50 seats	RMB25 each
Trucks over 10 tonnes	RMB3 per tonnes

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

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2. Operation of various sections

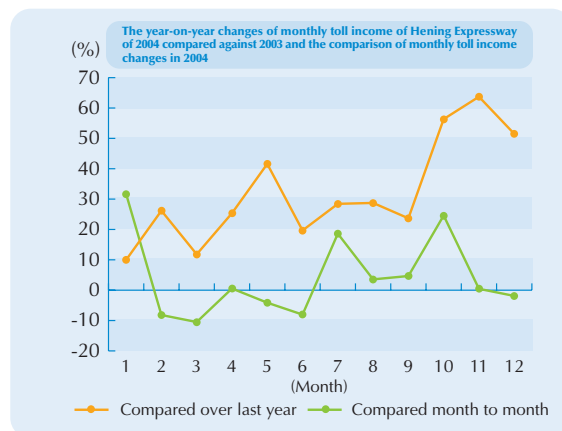
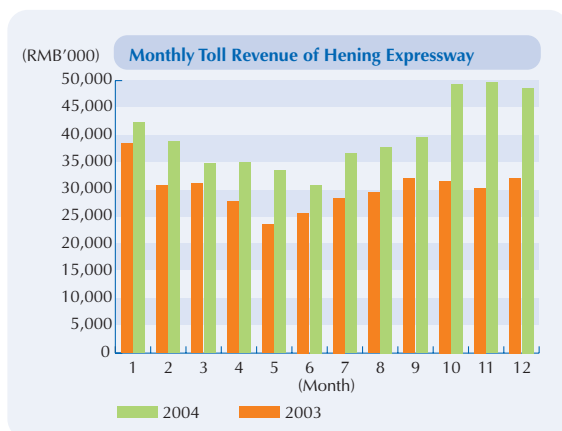
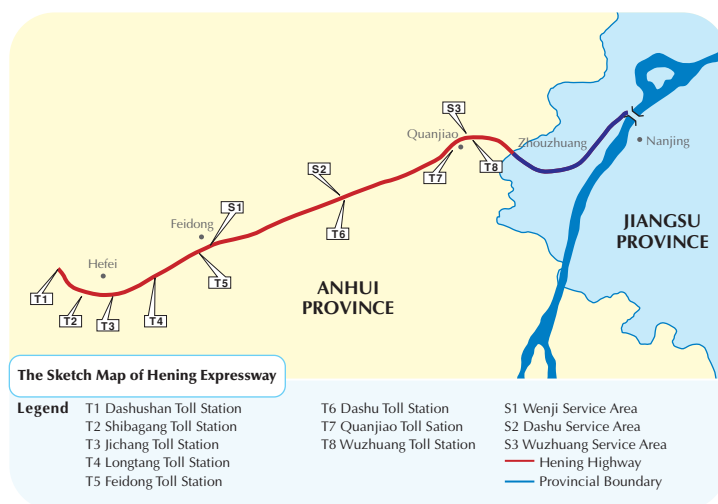
Name of projects	Length (km)	Number of lanes	Number of toll stations	Number of service areas	Commencement of operation	Remaining term of operation
Hening Expressway	134	4	8	3	1991	21
New Tianchang Section of National Trunk 205	30	4	1	—	1997	22
Gaojie Expressway	110	4	3	4	1999	24
Xuanguang Expressway	84	4	3	1	1997	23
Lianhuo Expressway						
Anhui Section	54	4	5	1	2002	28

Projects	interests	Converted average daily traffic volumes for entire journey (number)			Average daily toll income (RMB'000)		
		2004	2003	Change	2004	2003	Change
Hening Expressway	100%	12,582	11,076	13.59%	1,306	990	31.89%
New Tianchang Section of National Trunk 205	100%	12,910	12,544	2.92%	188	180	4.32%
Gaojie Expressway	51%	7,988	7,936	0.65%	734	547	34.05%
Xuanguang Expressway	55.47%	8,338	5,716	45.88%	598	366	62.52%
Lianhuo Expressway							
Anhui Section	100%	7,325	4,345	68.59%	402	188	114.36%

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 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. It is currently a major source of profit and cash flow for the Company.

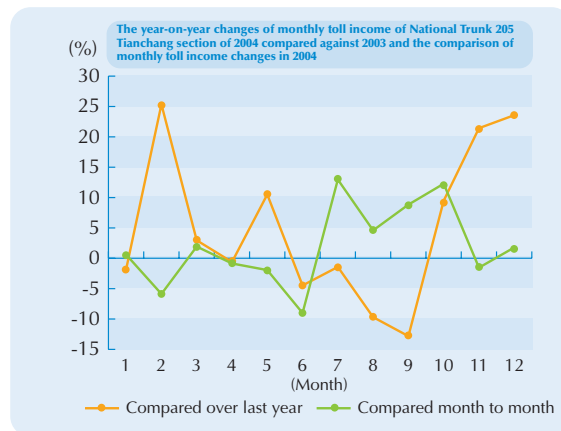
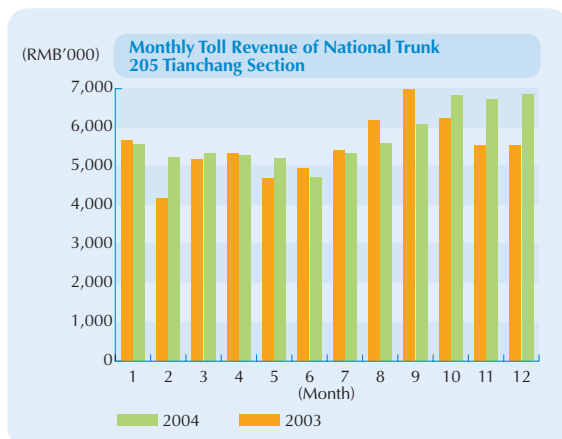
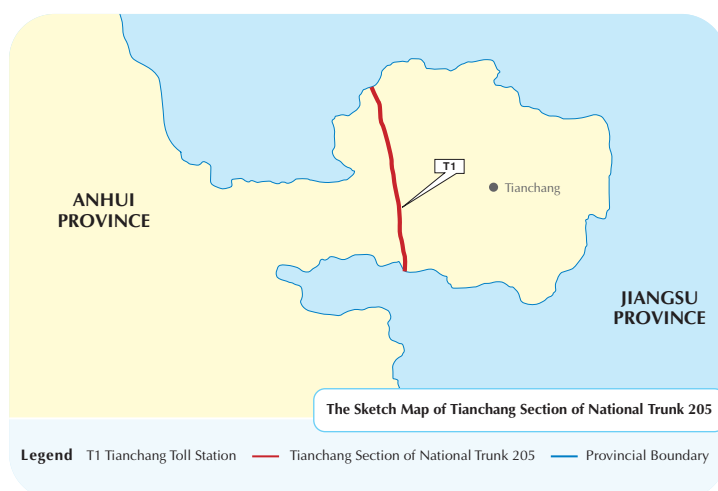
During the year, toll revenue amounted to RMB476,792,000, representing an increase of 31.89% over last year. The increase was mainly due to the adjustment in toll rates, the implementation of toll collection on goods vehicles and completion of the reconstruction works along the expressway. During the reporting period, the reconstruction works along Hening Expressway was completed and enhanced the driving condition. At the same time, this section intersects in a north-south direction with Jingfu Expressway (Hefei to Xuzhou Section). The rapid growth in the flow of goods in a north-south direction brought forth the increase in traffic volume.



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. During the year, toll revenue amounted to RMB68,664,000 representing an increase of 4.32% over last year.

During the reporting period, the traffic flow for New Tianchang Section of National Trunk 205 was nearly equal to its capacity, and remained relatively stable. It was expected that for a certain period in the future, the traffic flow of this road section will remain at its current level. At the same time, the toll rate for this section was not adjusted. Therefore the rate of increase in toll rate was less than other road sections of the Company.

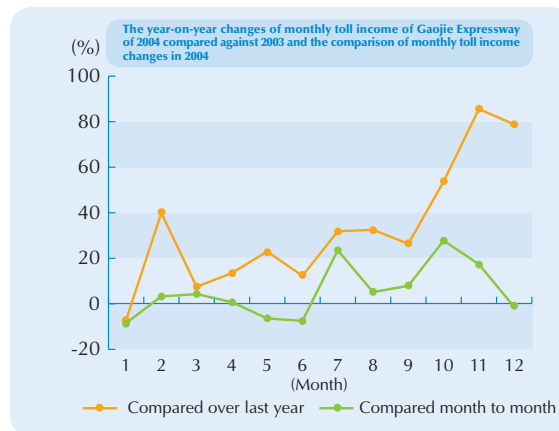
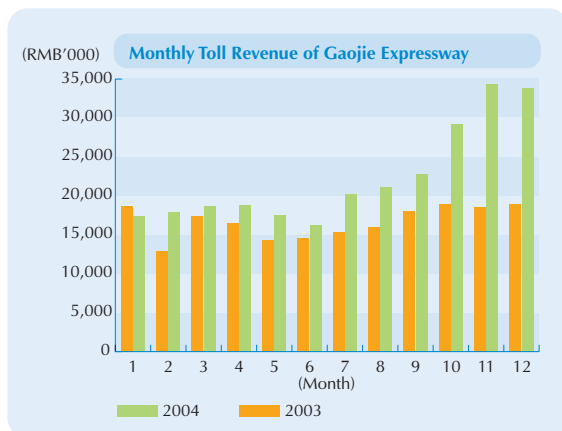
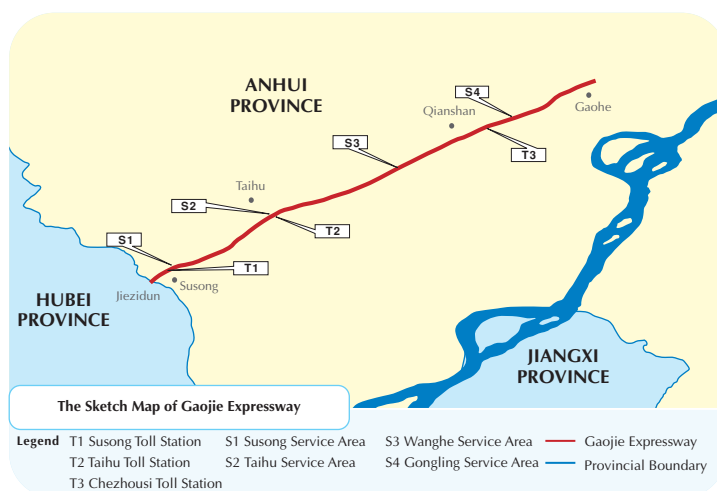


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Gaojie Expressway

The expressway linking Gaohe and Jiezhidun, with a length of approximately 110 kilometers, is an existing dual carriageway four-lane expressway that forms part of the National Trunk System between Shanghai to Chengdu in Sichuan. The Expressway, originating from Gaohe Town, Huaining County, Anhui Province, links up with the Hening Expressway which is operated by the Company, through the Heife-Anqing Highway and terminates at the border between Hunan and Anhui at Jiezhidun, Susong County, Anhui Province. It further runs westward to link up with cities like Wuhan, Chongqing and Chengdu and is an important trunk road that links up the central and western region with the south-eastern coastal region. During the year, toll revenue amounted to RMB267,878,000, representing an increase of 34.05% over last year.

During the reporting period, the traffic volume of Gaojie Expressway increased slightly. Yet there was a strong growth in toll income because of a faster rate of growth for medium and large vehicles and a higher proportions of goods vehicles – both benefited from the adjustment in toll rates.

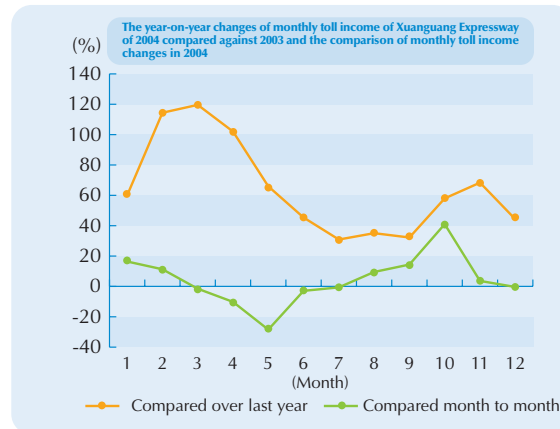
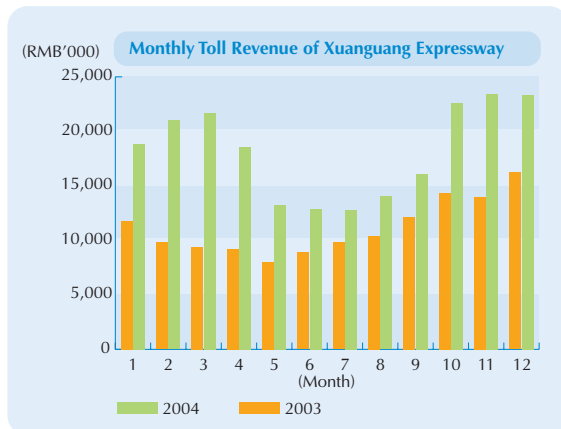
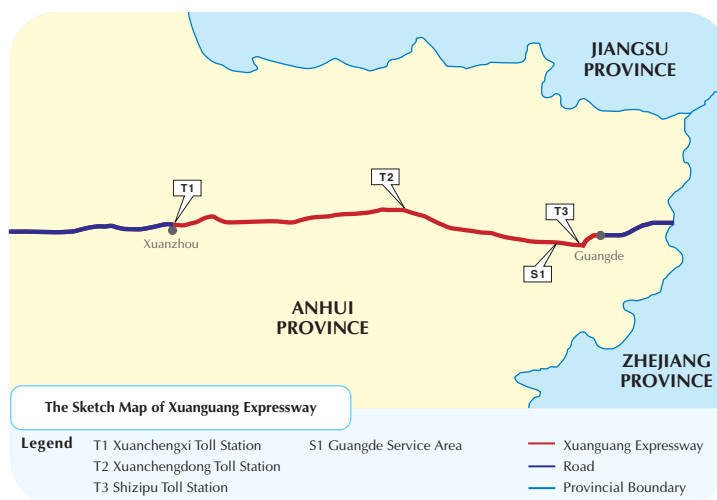


Xuanguang Expressway

The Xuanzhou-to-Guangde Expressway is an existing dual carriageway four-lane expressway located in the south-eastern part of Anhui Province with a total mileage of 84km constructed in two phases. Xuanzhou-guangde section, which is about 67 kilometers long, was opened to traffic in November 1997. Xuanzhou south ring road is a 17km long expressway, which links with Xuanguang Expressway near Shuangqiao, Xuanzhou, was opened to traffic in July 2001 and merged into the Company in August 2003. This expressway starts from 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 inland and the western boarder of the PRC. During the year, toll revenue amounted to RMB218,318,000, representing an increase of 62.52% over last year.

During the reporting period, Guangci Expressway, connecting Xuanguang Expressway and the highways within Zhejiang Province, was completed in construction and commenced operation. The Traffic pressure between Anhui Province and Zhejiang Province was substantially relieved. At the same time, it also contributed to the growth of traffic flow for this section. On the other hand, half of the carriage for Hechaowu Expressway, connecting this road section with Hening Expressway, was closed for road surface improvement. The traffic flow of this road section was adversely affected thereby. The improvement works almost completed during the year. More important, the adjustment in toll rates and the implementation of toll collection on goods vehicles substantially increased the toll income.

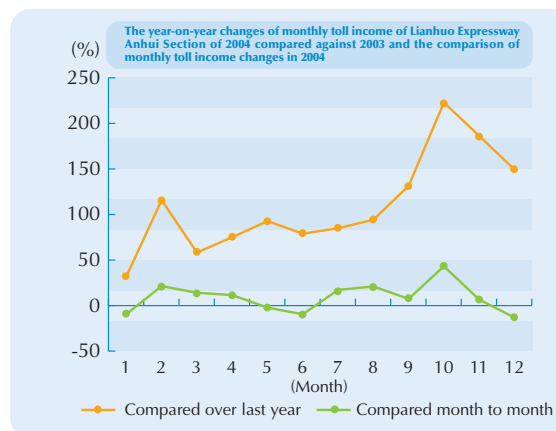
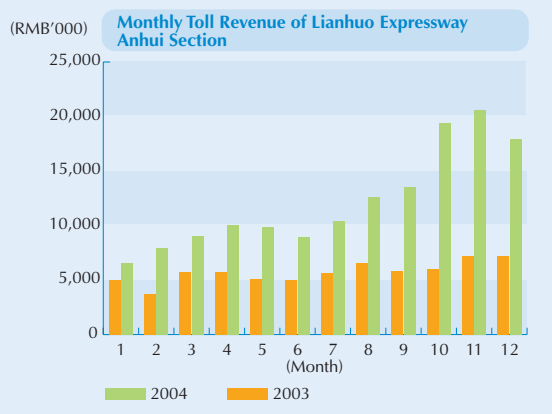
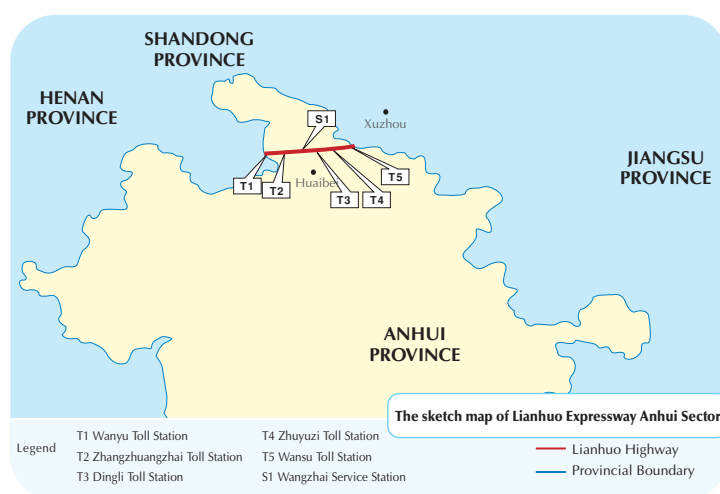
MANAGEMENT DISCUSSION AND ANALYSIS



Lianhuo Expressway Anhui Section

Lianhuo Expressway Anhui Section is a 54-kilometer long dual carriage four-lane toll expressway and is part of the highway between Lianyungang and Huoerguosi in Anhui Province. Connecting the highways located in Henan and Jiangsu Province and the expressways between Beijing and Fuzhou, it plays an important role in China's politics, economy, military affairs and National Truck Networks. During the year, toll revenue amounted to RMB146,876,000, representing an increase of 114.36% over last year.

During the reporting period, newly completed highways and ancillary expressway networkings helped increase the traffic volume of Lianhuo Expressway Anhui Section. At the same time, since goods vehicle shared a relatively high proportion in the traffic volume, growth in toll income doubled as a result of the adjustment in toll rates and the implementation of toll collection on goods vehicles.



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(3) Other businesses

During the reporting period, apart from toll roads, the Group recorded other operating income amounted to RMB64,371,000, and accounted for 5.18% of the total income.

(4) Operating conditions and results of principal subsidiaries and investee companies of the Company (In accordance with the PRC Accounting Standards)

As at 31st December 2004, the Company's subsidiaries and associated companies were as follows:

Unit: RMB'000

Name of companies	Share of equity interests attributable to the Group	Registered capital	Total assets	Net profit	Principal operations
Anhui Gaojie Expressway Company Limited	51%	300,000	1,615,216	71,263	Construction, management and operation of Gaojie Expressway
Xuanguang Expressway Company Limited	55.47%	111,760	1,112,026	56,890	Construction, management and operation of Xuanguang Expressway
Anhui Kangcheng Pharmaceutical Company Limited	65%	10,000	8,531	-921	Research, development and transfer of Western and Chinese medicine and scientific research results of medical apparatus and instruments
Anhui Expressway Advertisement Company Limited	38%	3,800	15,633	3,187	Design, making, release and agency of domestic advertisements
Hefei Information Investment Company Limited	18%	100,000	118,362	6,676	Information infrastructure investment, information technology service, information engineering consultation and supervision

Notes: all the above companies are incorporated in the PRC

(5) Principal customers and suppliers

As the principal customers of the Company are users of toll highways, whereas the principal suppliers of the Company are contractors of toll highways, there is no information on principal customers and suppliers to be further disclosed.

III. Project Investment

1. The use of proceeds from A shares issue

In January 2003, the Company settled the balance of consideration amounted to approximately RMB526,960,000 for the acquisition of Lianhuo Expressway Anhui Section due to Anhui Expressway Holding Corporation ("AEHC"). On 28th June 2004, the last installment of RMB59,000,000 was paid to AEHC. As at to date, the Company has paid the consideration of RMB1,180,000,000 in full to AEHC for the acquisition pursuant to the Acquisition Contract.

2. Reconstruction of Hening Expressway

The Company commenced the reconstruction throughout Hening Expressway in 2003. During the reporting period, reconstruction of 46 km in length was completed with total investment of RMB284,810,000. The reconstruction of Xiaoxichong Flyover-Zhouzhuang section was completed on 6th November 2004, with total investment of RMB762,091,000. With the majority of reconstruction along Hening Expressway completed, the driving condition and operation capabilities were enhanced.

3. Investment in Anhui Section for Maba-Liuhe Highway

The investment in the construction of Anhui Section of Maba-Liuhe Highway was unanimously approved in the thirteenth meeting of the third board held by the Company on 17th November 2004.

The project is an important section of Ninghuai Expressway. It starts from the neighbourhood of Baoying Village at the border of Jiangsu and Anhui Province, passing through Tianchang at eastern Anhui and ends in the neighbourhood of Shiwan Village at the border of Jiangsu and Anhui Provinces. Its southern end connects to Liuhe Section of Ninghuai Expressway and its northern end connects to Xuyu Section of Ninghuai Expressway. It has a total length of 13.989 km, and there will be an intersecting flyover and two blocks of bridges. The whole section will adopt the standard of a six-lane dual carriageway expressway. There will be comprehensive safety and protection facilities, administration facilities and service facilities. The investment cost will amount to about RMB559 million. The construction is expected to complete within a period of four years. After the construction of the project is completed, the Group will be responsible to operation management and relevant activities.

During the reporting period, an investment of RMB30,512,000 was made.

IV. Analysis of Financial Condition and Operating Results (In accordance with the PRC Accounting Standards)

(I) Analysis of Financial Condition

Total assets

As at the end of the reporting period, the Group's total assets were RMB6,551,915,000, which was increased by 5.42% from RMB6,214,885,000 in 2003. This was mainly because of the increase of bank balances and fixed assets at the end of this year relative to previous year. The increase of bank balances was mainly due to the large cash flows generated from operating activities, which was a result of the increase of toll revenue of the Group and the net cash flows generated from investment and financing activities. The increase of fixed assets was mainly because of the transfer to the fixed assets at the completion of the reconstruction of Hening Expressway (the third stage).

Current liabilities

As at the end of the reporting period, the Group's current liabilities were RMB1,024,967,000, of which RMB450,000,000 were short term borrowings, RMB232,013,000 were accounts payables, RMB96,535,000 were tax payables, RMB194,081,000 were other payables (including RMB118,288,000 of toll income collected on behalf of the inter-network settlement centre and RMB26,388,000 of pension funds), and RMB21,611,000 were provision on repair expenses. Pursuant to the Group's current working capital conditions and future funding arrangements, the Group expects that it will have sufficient funds to repay the amounts due as mentioned above.

Long-term liabilities

As at the end of the reporting period, the Group's long term liabilities were RMB1,183,073,000 (2003: RMB1,176,899,000), which were mainly comprised of a shareholder's loan of RMB728,582,000 payable to another shareholder of Gaojie Company, AEHC, which was interest free and did not have fixed repayment terms, and a shareholder's loan of RMB447,916,000 payable to another shareholder of Xuanguang Company, Xuancheng Highway Management Company, which was also interest free and did not have fixed repayment terms.

(II) Analysis of Operating Results

Income from principal operations

The Group's income from principal operations in 2004 was RMB1,242,899,000, which was increased by 38.63% from that in 2003, of which income from Hening Expressway, New Tianchang Section of National Trunk 205, Gaojie Expressway, Xuanguang Expressway and Anhui Section of Lianhuo Expressway were increased by 31.89%, 4.32%, 34.05%, 62.52% and 114.36% respectively from that in 2003.

Costs of principal operations

During 2004, the Group's costs of principal operations were RMB525,912,000, which was increased by 29.67% from that in 2003, of which the depreciation of fixed assets and amortization of intangible assets increased by RMB53,129,000, an increase of 20.83% from that in 2003 which was mainly because of the completion of the reconstruction of Hening Expressway as it increased the depreciation costs and the full year depreciation accrued for Xuanzhou South Ring Road. Highways repair expenses increased by RMB48,702,000, which was increased by 60.39% from that in 2003, which was mainly because the repair expenses of Xuanguang Expressway and Gaijie Expressway increased substantially due to heavy damage of road surface.

General and administration expense

During 2004, the Group's general and administrative expenses were RMB115,854,000, which was increased by 28.57% from that in 2003 and was mainly attributable to the natural increase in staff wages.

Investment income

During 2004, the Group recorded RMB119,000 as investment income, which was mainly derived from RMB725,000 of share of losses from associates and RMB844,000 of investment income upon the disposal of Wantong Technology.

(III) Cash flow analysis

During 2004, the Group's net operating cash flow was RMB917,544,000, which was increased by 65.95% from RMB552,906,000 in 2003. The increase was mainly due to the substantial growth in toll income from the toll roads operated by the Group.

Net cash outflow from investment was RMB466,989,000, which was mainly used for acquisition and construction of fixed assets.

Net cash outflow from financing activities was RMB272,693,000, representing a substantial increase compared with RMB64,846,000 in 2003, which was mainly attributable to cash outflow for the repayment of debts.

During 2004, the Group's bank loans were RMB580,000,000 in aggregate. As at the end of the reporting period, the balance of bank loans was RMB450,000,000. Interest rates for the bank loans above was 4.698%, (as at 31st December 2003: RMB627,000,000, interest rates was between 4.535% and 4.779%). All bank loans were repayable within 6 months.

The Group is awarded with good credit ratings. The total credit facilities granted during the year was RMB860,000,000, and the facilities not yet utilized was RMB560,000,000.

(IV) Analysis on capital expenditures

During 2004, the Group's capital expenditure was mainly comprised of the third stage of the reconstruction of Hening Expressway, construction of Maba-Liuhe Highway Anhui Section, investment in construction of auxiliary work of service areas, reconstruction of toll gates in step with implementation of toll collection on goods vehicles and continual construction of projects in New and hi-tech industry park, which was funded by internal resources and bank loans.

As at the end of the reporting period, outstanding capital commitments of the Group were as follows:

1. The Company intended to invest in the construction of Maba-Liuhe Highway, with RMB528,000,000 authorised but not contracted for;
2. Xuanguang Company intended to reconstruct Xuanguang Expressway, with RMB380,000,000 authorised but not contracted for.

(V) Solvency analysis

	2004	2003	2002
Current ratio	0.695	0.573	5.30
Quick ratio	0.694	0.554	5.20
Gearing ratio	33.70%	34.89%	25.05%

The current ratio and quick ratio of the Group rose, which was mainly because the acquisition and construction of fixed assets in 2004 was less than that in 2003 and the substantial increase of net cash flows arising from the increase of net profit.

(VI) Capital structure

In terms of capital liquidity:

	31st December 2004 (%)	31st December 2003 (%)
Current liabilities	15.64	15.95
Long-term liabilities	18.06	18.94
Shareholders' funds	63.23	61.75
Minority interests	3.07	3.36

In terms of interest rates:

	31st December 2004 (%)	31st December 2003 (%)
Fixed rate liabilities	6.87	10.09
Interest-free liabilities	26.83	24.80
Shareholders' funds	63.23	61.75
Minority interests	3.07	3.36

The Group's current bank borrowings are all fixed rate liabilities. 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.

V. Problems arising from the operation

1. Acquisition policies are tightened following changes of legislative environment

Following the promulgation of the relevant rules and regulations, the transfer of state-owned assets become formally and strictly governed.

The Company will pay closer attention to the recent changes of policies and foster communications with the relevant authorities. Taking advantages of the national highways constructed and operated by its parent company, the core business of the Company will be further enhanced.

2. Diversified investment and intensified competition

With China easing its restrictions on investments, the economic entities strengthening their competitive power and the growing interest towards the industry, there is a greater array of companies actively invested in the industry. As the transfer of state-owned assets by auction has drawn a greater interest, the Company anticipates that the acquisition costs will increase.

The Company will fully utilize the privileges granted by the government. By capitalizing on the benefits of its parent company, project construction and the Company's management experience, the Company is undeniably entitled to the combined advantages.

3. Risks of project construction

The Company will participate in the highway construction in a planned and direct manner. Due to the changes of design and demolishing and moving regulations, and also the escalating demand for environmental protection, the costs of project construction will increase while the progress and quality of projects will deteriorate.

The Company and its parent company have extensive experience in the industry. They are well-equipped with diverse project construction and management talents experienced in managing risks. In addition, the Company will acquire contractor agreement by tender in order to minimize risks.

VI. Business Development and Outlook

Whether from a macro-economic perspective or an analysis of the industrial development trend, the overall economic environment has provided favorable advantages to the future development of the Group.

The economies of China and Anhui province are expected to improve constantly and the regional economic environment will become more favorable.

In 2005, the expansion of the highway network of Anhui province will be a top priority and highlight of the national transportation construction, with an estimated gross investment of more than RMB11.7 billion. Four new highways will be completed in 2005 with an additional 310 kilometers. The network will offer benefits to most of the highway projects of the Group in the future.

The flourishing Chinese economy has provided a favorable environment for the development of the Company. The following measures will be introduced to help it pursue development opportunities, control management and resolve operating problems and risks in order to provide better return to all the shareholders.

1. Strengthening fee management and improving quality of service to maintain continual growth of toll income

Continuing to strengthen and improve vehicle classification for the toll roads and the charge of toll rates in terms of weight, resolving and dealing with disputes and problems immediately; committing to create a contemporary window image and improve the quality of charging service, taking efforts to widen the source of income and increase the usage of vehicles for return trip; incorporating the idea of building a highway customer service center into the overall highway composite information management system, providing up-to-date transportation, highway traffic, weather and other information services for the purpose of maximizing travelers' convenience and pursuing the high-speed and comfort of highways.

2. Enhancing road maintenance and compiling road-check records

Conducting researches and studies on new maintenance technique, materials, skills and facilities continually; introducing market mechanism and implementing market principles to improve qualities and minimize costs of maintenance; sustaining basic maintenance and compiling road-check records to prevent danger, extend life of roads and minimize major renovation costs.

3. Strengthening the management of service regions and exploring operating methods to improve quality

Promoting integrated operation and improving management of service regions in a proactive and effective way and introducing a competitive system for the purpose of maximizing the effect and functions of the service regions and increasing the income of non-core business.

4. Focusing on core business to increase competitiveness and sustain development

The Company will commit to expand its core business through seeking and acquiring highway projects. By securing stable and constant development, the Company will become a major infrastructure company renowned for its originality, stability, sustainability and quality management.

5. Refining its corporate culture to enhance quality of employees

Creating a favorable environment based on “care, understanding, respect, assistance and training” for the purpose of implementing a well-developed structure and through which the core values and behavior of employees are unified. By enhancing the knowledge, skills and corporate spirit of employees, the Company sustains its integrity and team spirit.

VII. Other Major Events

1. Basic Medical Insurance

During the reporting period, the enterprises and institutions in Hefei should contribute the amount equal to 8% of the basic wages to 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 starting from 2005 the insurance fees will be provided from the welfare funds of the staff and this will not exercise significant influence on the operating results of the Company. The Company will not be required to contribute medical insurance prior to 2005.

Anhui Gaojie Expressway Company Limited and Xuanguang Expressway Company Limited, both of which are subsidiaries of the Company, contributed 6.5% of the basic wages to its staff from 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; therefore the relevant policies do not have any material effect on the Group.

During the period under review, the Company contributed the amount equal to 20% to the basic wages of its staff (approximately RMB4,038,000) to the Housing Fund in accordance with the society insurance scheme implemented by Anhui Provincial Government. There is no further obligation of the Group apart from contributions to the Housing Fund.

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 2004 the Group contributed RMB11,957,000 to the scheme.

4. Loans, Overdrafts and Other Borrowings

Details of bank loans, overdrafts and other borrowings for the year ended 31st December 2004 are set in note 18 to the financial statements, which were prepared in accordance with Hong Kong Accounting Standards

Li Yungui

General Manager

Hefei, Anhui, the PRC

17th March 2005