

# MANAGEMENT DISCUSSION AND ANALYSIS

## I. Business Environment

The Chinese economy saw a favorable situation of high growth and low inflation in 2005. The GDP for the whole year grew by 9.9% year on year. The CPI grew by 1.8% year on year, far exceeding expectations at the beginning of the year. However, structural problems such as a slowdown in the growth of export, relatively slow consumption growth and excessive production capacity experienced by most industries have become potential worries for sustained fast growth of economy.

In 2005, the major economic indices of Anhui Province saw the highest growth in recent years, with a continued improvement in the operating quality of economy. The GDP for the whole year was RMB537,580 million, up 11.8% from the previous year, which continued to be higher than the average growth for the whole country. As at the end of 2005, Anhui Province had a total of 805,000 vehicles, representing a year-on-year growth of 11.87%. The total mileage of highways reached 1501 km.

A good external environment provided a favorable operating environment for the business development of the Group in 2005. However, the macroeconomic control and the existence of structural problems have also created unfavorable factors.

## II. Analysis of Business Operation (in accordance with the PRC Accounting Standards)

### (I) Results summary

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, the Group achieved the income from principal operations of RMB1,538,017,000, representing an increase of 23.74% over the corresponding period of the previous year, profit after taxation of RMB659,248,000, representing an increase of 63.02% over the corresponding period of the previous year, earnings per share (fully diluted) of RMB0.40, representing an increase of 63.04% over the corresponding period of the previous year.

Composition and percentage of revenue was as follows:

Projects	Revenue in 2005 (RMB'000)	Percentage of total revenue (%)	Increase over the corresponding period of the previous year (%)
Hening Expressway	565,324	36.76	18.57
New Tianchang Section of National Trunk 205	96,255	6.26	40.18
Gaojie Expressway	367,778	23.91	37.29
Xuanguang Expressway	297,922	19.37	36.46
Lianhuo Expressway Anhui Section	210,738	13.70	43.48
Total	1,538,017	100.00	23.74

# MANAGEMENT DISCUSSION AND ANALYSIS

## (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 vehicle ownership number, particularly the implementation of toll rates on goods vehicles with reference to their weight during the full period of 2005. During the reporting period, the Group achieved the revenue of RMB1,538,017,000, representing an increase of 23.74% over last year, the income from core business in relation to toll roads increased by 30.50% over last year.

### 1. Operation of various sections

Name of roads	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	4	1	1997	23
Lianhuo Expressway Anhui Section	54	4	5	1	2002	28

Name of roads	Income from principal operations (RMB'000)	Costs from principal operations (RMB'000)	Gross profit margin (%)	Change in income from principal operations (%)	Change in costs from principal operations (%)	Change in gross profit margin (%)
Hening Expressway	565,324	148,506	69.76	18.57	3.00	8.09
New Tianchang Section of National Trunk 205	96,255	26,200	68.96	40.18	-4.68	25.98
Gaojie Expressway	367,778	135,190	59.02	37.29	3.45	29.09
Xuanguang Expressway	297,922	82,118	68.12	36.46	-20.32	44.23
Lianhuo Expressway Anhui Section	210,738	80,833	57.80	43.48	30.59	9.76
Total	1,538,017	472,847	65.19	30.50	1.19	18.61

Of which:

Connected transactions — —

# MANAGEMENT DISCUSSION AND ANALYSIS

Name of roads	Interests	Converted average daily traffic volumes for entire journey (vehicle)			Toll income per vehicle (RMB)		
		2005	2004	Change	2005	2004	Change
Hening Expressway	100%	<b>12,479</b>	12,582	<b>-0.82%</b>	<b>124</b>	103	<b>20.39%</b>
New Tianchang Section of National Trunk 205	100%	<b>14,716</b>	12,910	<b>13.99%</b>	<b>18</b>	15	<b>20.00%</b>
Gaojie Expressway	51%	<b>7,446</b>	7,988	<b>-6.79%</b>	<b>135</b>	92	<b>46.74%</b>
Xuanguang Expressway	55.47%	<b>8,776</b>	8,338	<b>5.25%</b>	<b>93</b>	Not applicable	<b>Not applicable</b>
Lianhuo Expressway Anhui Section	100%	<b>7,632</b>	7,325	<b>4.20%</b>	<b>76</b>	58	<b>31.04%</b>

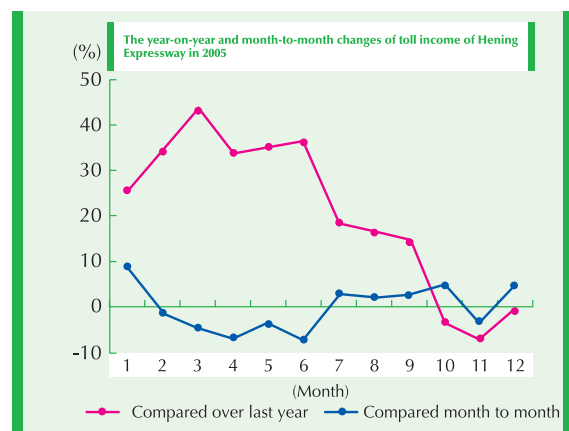
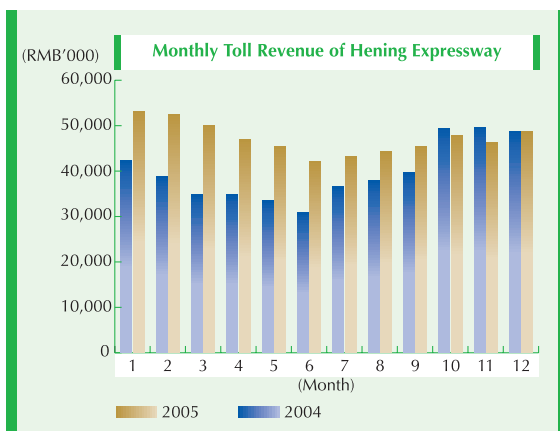
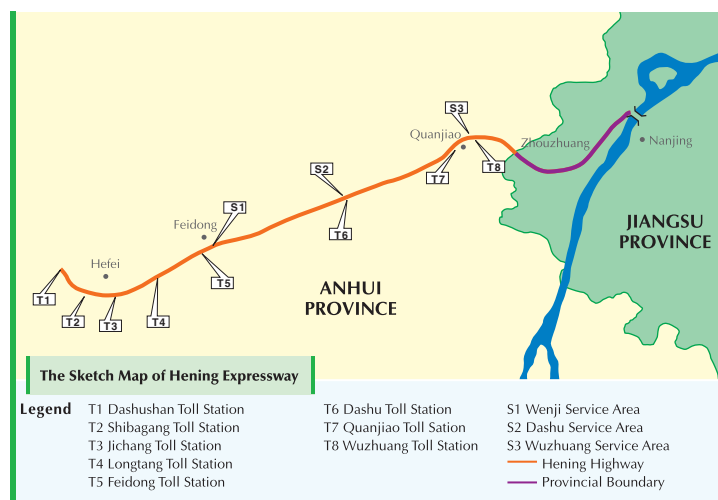
# MANAGEMENT DISCUSSION AND ANALYSIS

## 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 RMB565,324,000, representing an increase of 18.57% over last year, which was mainly due to the substantial increase of toll income per vehicle after the implementation of toll collection on goods vehicles with reference to their weight.

Average daily traffic volumes reached 12,479, representing a decrease of 0.82% over last year, which was mainly due to the decrease of goods vehicles' traffic volumes offsetting the natural increase of passenger vehicles' traffic volumes. The decrease of goods vehicles was mainly resulted from the structural adjustment of the small goods vehicles replaced by medium goods vehicles after the implementation of toll collection on goods vehicles with reference to their weight.



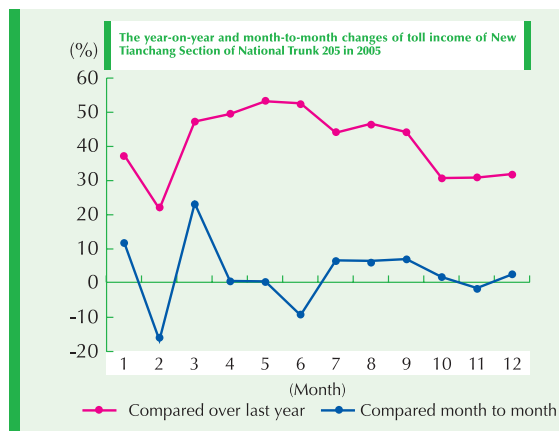
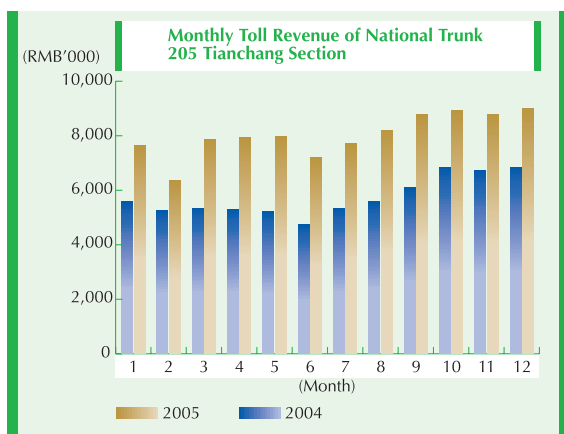
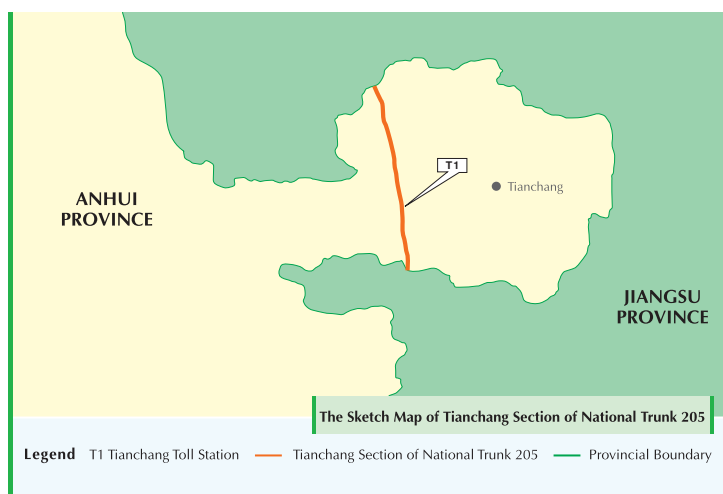
# MANAGEMENT DISCUSSION AND ANALYSIS

## *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 RMB96,255,000 representing an increase of 40.18% over last year, which was due to, on one hand, the increase of traffic volumes and the other hand, of the substantial increase of toll income per vehicle after the implementation of toll collection on goods vehicles with reference to their weight on 1 June 2005.

Average daily traffic volumes reached 14,716, representing an increase of 13.99% over last year, which was mainly due to the fast increase of north-south traffic volumes as well as the short impact of the implementation of toll collection on goods vehicles with reference to their weight.



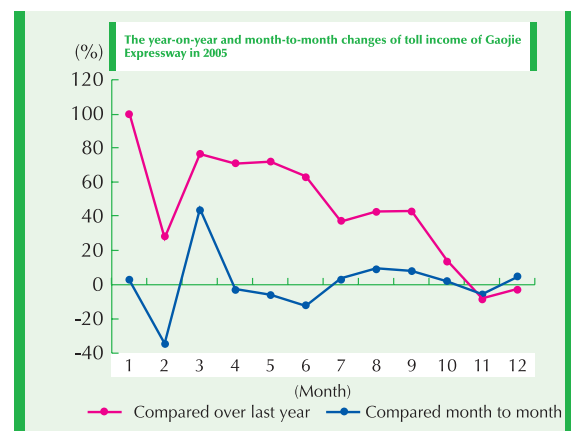
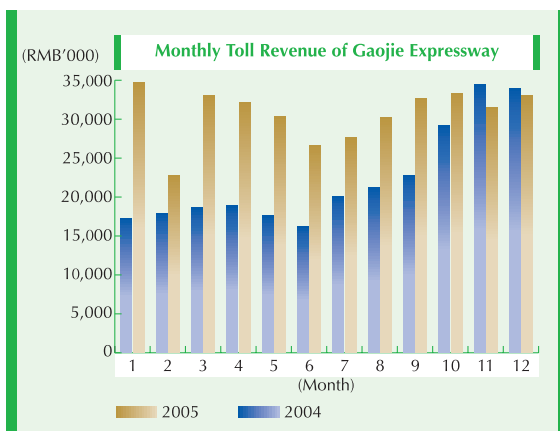
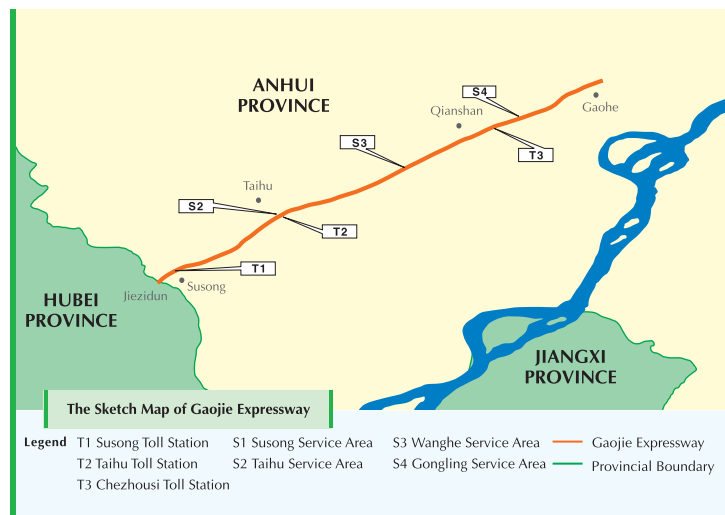
# MANAGEMENT DISCUSSION AND ANALYSIS

## Gaojie Expressway

The Gaohe to Jiezidun Expressway, 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, operated by the Company, through the Hefei-Anqing Highway and terminates at the border between Hunan and Anhui at Jiezidun, 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 RMB367,778,000, representing an increase of 37.29% over last year, which was mainly due to the substantial increase of toll income per vehicle after the implementation of toll collection on goods vehicles with reference to their weight.

Average daily traffic volumes reached 7,446, representing a decrease of 6.79% over last year, which was mainly because that the implementation of toll collection on goods vehicles with reference to their weight resulted in the decrease of goods vehicles' traffic volumes and that Gaijie Expressway is far away from the central city, which results in slow increase of cars' traffic volumes.



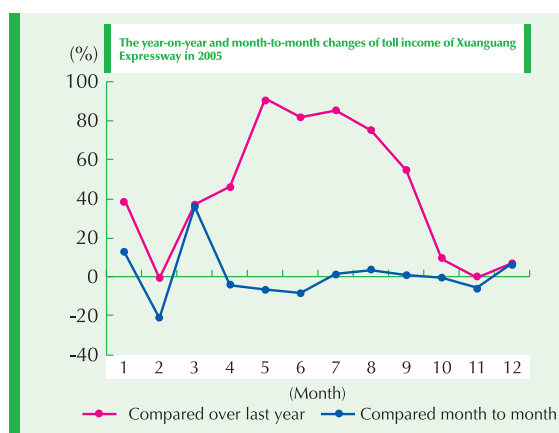
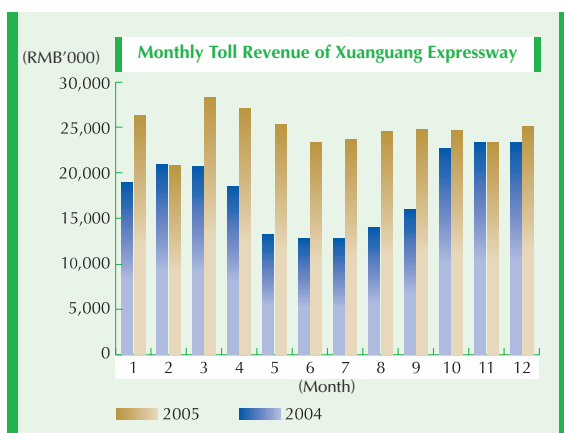
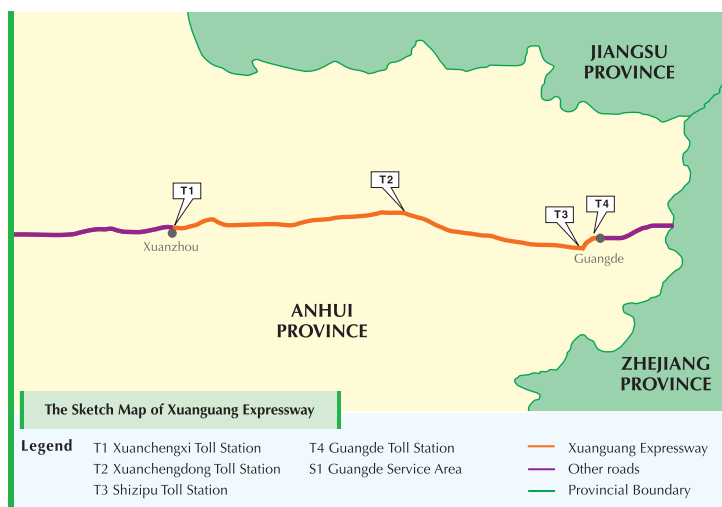
# MANAGEMENT DISCUSSION AND ANALYSIS

## *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 total mileage of 84km constructed in two phases. Xuanzhou-guangde section, which is about 67 kilometers long, was opened to traffic in September 1997. Xuanzhou south ring road is a 17km long expressway, which links 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 RMB297,922,000, representing an increase of 36.46% over last year, which was mainly due to the substantial increase of toll income per vehicle after the implementation of toll collection on goods vehicles with reference to their weight.

Average daily traffic volumes reached 8,776, representing an increase of 5.25% over last year. The rate of increase was lower than that of last year was mainly due to the implementation of toll collection on goods vehicles with reference to their weight, apart from which, the increase was normal.



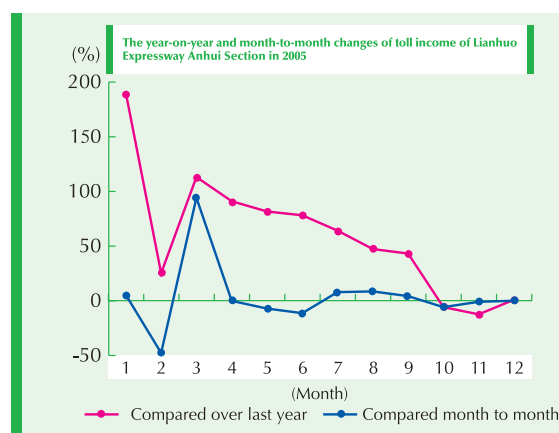
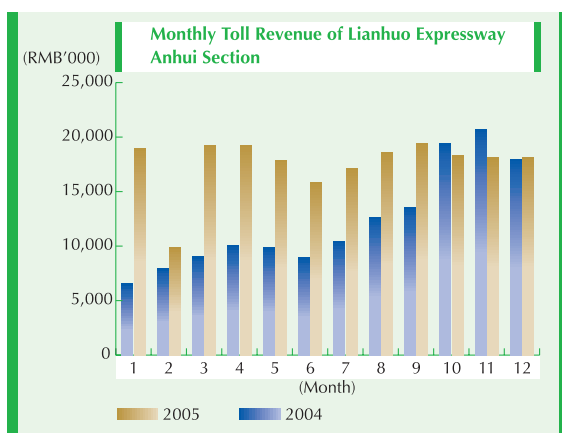
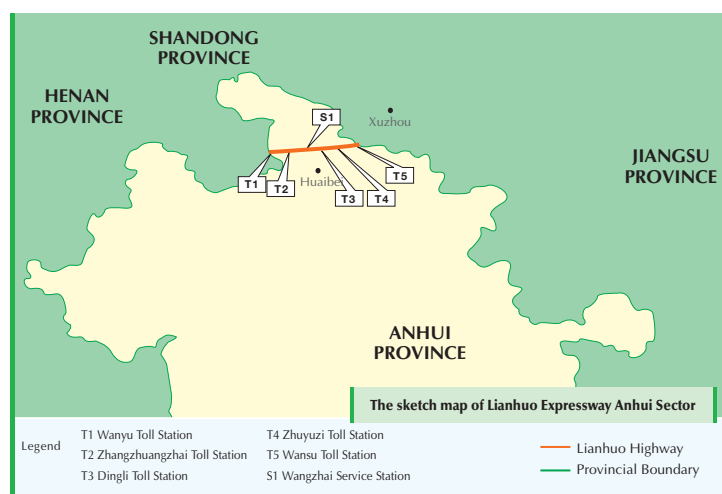
# MANAGEMENT DISCUSSION AND ANALYSIS

## Lianhuo Expressway Anhui Section

Lianhuo Expressway Anhui Section is a 54-kilometer long dual carriage four-lane toll expressway, part of the highway between Lianyungang and Huoerguosi in Anhui Province. Connecting with 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 RMB210,738,000, representing an increase of 43.48% over last year which was mainly due to the substantial increase of toll income per vehicle after the implementation of toll collection on goods vehicles with reference to their weight.

Average daily traffic volumes reached 7,632, representing an increase of 4.20% over last year. The rate of increase was lower than that of last year was mainly due to the implementation of toll collection on goods vehicles with reference to their weight, apart from which, the increase was normal.



# MANAGEMENT DISCUSSION AND ANALYSIS

## 2. Adjustment to Toll Rates and Toll policy

After the reduction of toll rates on expressways in January 2005, New Tianchang Section of National Trunk 205, which was operated by the Company, implemented the Toll Rates on Goods Vehicles with reference to their weight on 1 June 2005. As at the end of the reporting period, all the roads operated by the Group have implemented the Toll Rates on Goods Vehicles with reference to their weight.

### Toll rates for expressways

#### *Toll rate of vehicles classification*

Unit: RMB/ km

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

# MANAGEMENT DISCUSSION AND ANALYSIS

## Toll rates in terms of 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	RMB0.043/tonnes for every km
Notes:	<ol style="list-style-type: none"> <li>Vehicles, which weight less than 5 tonnes, shall be charged according to 5 tonnes scale</li> <li>If the toll chargeable is less than RMB20, RMB20 shall be charged</li> <li>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.</li> </ol>		

## Extra tolls to be imposed on overloaded goods 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 tons) and the vehicle's shaft, the higher overloaded rate will be collected.
Toll applicable to normal goods vehicles 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 2 times of the basic rate.	The remaining balance will be subject to a toll equivalent to 3 times of the basic rate.	

# MANAGEMENT DISCUSSION AND ANALYSIS

## Toll rates of New Tianchang Section of National Trunk 205

### Toll rate of vehicles classification

#### Type of Vehicles

#### Toll Rates

Motor bicycles and tricycles	RMB3 per vehicle
Small tractors (including manual tractors) and other four-wheeled small and simple mechanical vehicles	RMB5 per vehicle
Passenger wagons below 20 seats	RMB10 per vehicle
Passenger wagons between 20 and 50 seats (including 50 seats)	RMB15 per vehicle
Passenger wagons over 50 seats	RMB25 per vehicle

### Toll rates in terms of weight

Gross weight of goods vehicle	≤ 10 tonnes	10 tonnes < Gross weight of goods vehicle < 40 tonnes	> 40 tonnes
Basic toll rate	RMB1.5/ton vehicle	RMB1.5/ton vehicle and will be linearly reduced to RMB1.1/ ton vehicle	RMB1.1/ton vehicle
Notes:	1. If the toll chargeable is less than RMB10, RMB10 shall be charged 2. 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 tolls to be imposed on overloaded goods 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 tons) and the vehicle's shaft, the higher overloaded rate will be collected.
Toll applicable to normal goods vehicles 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. Adjustment of Business Tax Rate

According to the notice, issued by the Ministry of Finance and the State Administration of Taxation, business tax rate on toll income of expressways imposed on road enterprises will be reduced to 3%, effective from 1 June 2005. Before that, the Company is subject to business tax at the rate of 5%. During the reporting period, the Group reduced the business tax of RMB11,913,000.

### (III) Other businesses

Apart from toll roads, the Group's other operating income was mainly from the business operations of Kangcheng Pharmaceutical, during the reporting period, the new medicine of Kangcheng Pharmaceutical was in development without income, so there was no other operating income.

# MANAGEMENT DISCUSSION AND ANALYSIS

## (IV) Operating conditions and results of principal subsidiaries and investee companies of the Company

As at 31 December 2005, the Group'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
Gaojie Company	51%	300,000	1,536,466	120,081	Construction, management and operation of Gaojie Expressway
Xuanguang Company	55.47%	111,760	1,111,250	122,587	Construction, management and operation of Xuanguang Expressway
Kangcheng Pharmaceutical	65%	10,000	5,530	-3,010	Research, development and transfer of Western and Chinese medicine and scientific research results of medical apparatus and instruments
Expressway Advertisement	38%	3,800	23,863	2,796	Design, making, release and agency of domestic advertisements
Hefei Information Investment Company Limited	18%	100,000	114,400	7,378	Information infrastructure investment, information technology service, information engineering consultation and supervision

Notes: all the above companies are incorporated in the PRC

### (V) 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 further information on principal customers and suppliers to be disclosed.

### III. Project Investment

#### 1. The acquisition of 49% interests in Gaojie Company

Please see “Material Acquisition, Disposals of Assets and Mergers” in Major Events.

#### 2. Reconstruction of Xuanguang Expressway

The reconstruction of Xuanguang Expressway is expected to be finished in 2 years with the planned investment of RMB380,000,000. The Company commenced the reconstruction on 15 August 2005. During the reporting period, reconstruction of 12.50 km in length was completed with total investment of RMB68,231,000.

#### 3. Investment in Anhui Section for Maba-Liuhe Highway

The investment cost will amount to about RMB559 million. The construction is expected to complete within a period of four years commencing from the end of 2004. After the construction of the project is completed, the Group will be responsible for the operation management and relevant activities. During the reporting period, investment of RMB263,159,000 were completed and the whole investment amounted to RMB293,670,000.



## MANAGEMENT DISCUSSION AND ANALYSIS

### 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 RMB6,970,438,000, which was increased by 6.39% from RMB6,551,915,000 in 2004. This was mainly due to the increase of toll income, the construction of Maliu Expressway Anhui Section, and reconstruction of Xuanguang Expressway.

##### **Current liabilities**

As at the end of the reporting period, the Group's current liabilities were RMB936,187,000, of which RMB350,000,000 were short term borrowings, RMB263,693,000 were accounts payables, RMB146,777,000 were tax payables, RMB110,452,000 were other payables, (including RMB32,913,000 of toll income collected on behalf of the inter-network settlement center and RMB9,714,000 of pension funds), and RMB21,849,000 were provision on repair and maintenance expenses. Pursuant to the Group's current working capital conditions and future funding arrangements, the Group expects that it will have sufficient funds to repayment the amounts due to as mentioned above.

##### **Long-term liabilities**

As at the end of the reporting period, the Group's long term liabilities were RMB1,197,984,000 (2004: RMB1,183,073,000), which were mainly comprised of a shareholder's loan of RMB728,582,000 payable to another shareholder of Gaoje 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.

# MANAGEMENT DISCUSSION AND ANALYSIS

## (II) Analysis of Operating Results

### Income from principal operations

The Group's income from principal operations in 2005 was RMB1,538,017,000, which was increased by 23.74% from that in 2004 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 18.57%, 40.18%, 37.29%, 36.46% and 43.48% respectively from that in 2004.

#### Percentage of each road's toll income to the total revenue (%)

Road	Hening Expressway	New Tianchang Section of National Trunk 205	Gaojie Expressway	Xuanguang Expressway	Anhui Section of Lianhuo Expressway	Total
2005	36.76	6.26	23.91	19.37	13.70	100
2004	40.46	5.83	22.73	18.52	12.46	100

### Costs of principal operations

During 2005, the Group's costs of principal operations in relation to toll roads were RMB472,847,000, representing a decrease of 10.09% from that in 2004, which was mainly because that the reconstruction of Hening Expressway and part of Xuanguang Expressway has been completed, the maintenance expenses of new road surface was lower than that of old one and the costs of principal operations of Wantong Technology was not included in the Group's consolidated statements.

#### Percentage of specific costs to the Costs of principal operations (%)

Project of Costs	Depreciation and amortization	Highways maintenance expenses	Other costs of operations	Total
2005	63.33	28.68	7.99	100
2004	58.61	24.59	16.80	100



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### **Management expenses**

During 2005, the Group's management expenses were RMB128,104,000, representing an increase of 10.57% from that in 2004, which was mainly due to the increase in staff wages and relevant expenses.

### **Investment income**

During 2005, the Group recorded RMB4,076,000 as investment income, which was mainly due to the income from Expressway Advertisement.

### **Net profit**

During 2005, the Group's net profit was RMB659,248,000, representing an increase of 63.02% from that in 2004, which was mainly due to the substantial increase of toll income and decrease of costs from principal operations.

### **(III) Cash flow analysis**

During 2005, the Group's net operating cash flow was RMB1,004,517,000, which was increased by 9.48% from RMB917,544,000 in 2004. The increase was mainly due to the substantial increase in toll income.

During 2005, net cash outflow from investment was RMB822,106,000, which was mainly used for the construction of Malu Expressway Anhui Section, reconstruction of Xuanguang Expressway and the acquisition of 49% interests in Gaojie Company.

During 2005, net cash outflow from financing activities was RMB278,350,000, which was mainly resulted from the net of bank loans, payment of dividends and interests.

During 2005, the Group's borrowed bank loans of RMB500,000,000 in aggregate. As at the end of the reporting period, the balance of bank loans was RMB350,000,000. Interest rates for the bank loans above was 4.698%, (as at 31 December 2004: RMB450,000,000, interest rates was 4.698%). 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 RMB1.96 billion, and the facilities not yet utilized was RMB1.61 billion.

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## (IV) Analysis on capital expenditures

During 2005, the Group's capital expenditure was mainly comprised the construction of Maliu Expressway Anhui Section, reconstruction of Xuanguang Expressway and the acquisition of 49% interests in Gaojie Company, 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 is investing in the construction of Maba-Liuhe Expressway Anhui Section, with RMB265,600,000 authorized but not contracted for;
2. Xuanguang Company is reconstructing Xuanguang Expressway, with RMB311,770,000 authorized but not contracted for.
3. The Company acquired 49% interests in gaojie Company from AEHC, with RMB950,000,000 contracted but not paid.

## (V) Capital structure analysis

In terms of capital liquidity:

	<b>31 December 2005 (%)</b>	31 December 2004 (%)
Current liabilities	<b>13.43</b>	15.64
Long-term liabilities	<b>17.19</b>	18.06
Shareholders' equities	<b>66.51</b>	63.23
Minority interests	<b>2.87</b>	3.07

## (VI) Solvency analysis

As at 31 December 2005, the Group's gearing ratio (total liabilities/total assets) was 30.62%, representing a decrease of 3.08 per cents points from that of 2004, which was mainly attributable to the reasonable use of funds and decrease of toll income collected on behalf of inter-network center.

In terms of interest rates:

	<b>31 December 2005 (%)</b>	31 December 2004 (%)
Fixed rate liabilities	<b>5.02</b>	6.87
Interest-free liabilities	<b>25.60</b>	26.83
Shareholders' equities	<b>66.51</b>	63.23
Minority interests	<b>2.87</b>	3.07

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.



## MANAGEMENT DISCUSSION AND ANALYSIS

### V. Problems arising from the operation and countermeasures

#### 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. Uncertainty of toll policy

In the current two years, toll methods and toll rates on roads operated by the Group have adjusted a few times, the Company can not be certain that whether the toll methods or toll rates will adjust and the specific adjustment.

The Company will properly explain and communicate with the government and the public to let them have a good knowledge on the industry status. The Company will also strive for positive public opinion environment for industry development to establish reasonable price standard.

#### 3. 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 be increased.

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.

#### 4. 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 for project construction will be increased while the progress of projects will be deteriorated.

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 analyzed from the macroeconomic situation or the industry development trend, the overall economic environment has provided very favorable conditions for the future development of the Group:

The regional economy will continue to develop fast. According the plan of Anhui Province, in 2006, the GDP will increase by 10%, fiscal income will increase by 12%, investment in fixed assets will increase by 20%, the total retail amount of consumption will increase by 12%, the total import and export will increase by 15%, disposable income of each town resident will increase by 8% and net income of each peasant will increase by 6%.

To strengthen to establish modern integrated transportation system. Anhui Province plans to build 8 expressways, such as Bengbu-Huainan Expressway, Fuyang-Xincai, Henan Expressway and Tongling-Nanling-Xuancheng Expressway. During the “11th five-year” period, Anhui Province will invest about RMB100 billion to construct expressways of Anhui Section in the State’s Expressway Network to realize the “Three Verticals and Seven Horizons” of the “Four Verticals and Eight Horizons”. Besides, Anhui Province will build 2000km expressways, and the total mileage will reach more than 3500km in 2010. To reconstruct and newly-build 60,000km roads in country to realize the expressways to penetrate through counties and cement roads to penetrate through villages.

The vital China economy has offered a good environment for the development of the Company. The Company will adopt the following measures to capture opportunities, normalize management and eliminate problems and risks encountered in the course of operation, thereby rewarding all shareholders with even better results.

#### 1. Improving the means for toll management, increasing the toll collection efficiency.

Through the rational allocation of staff, improve the technical skills of staff engaged in collecting tolls, formulate emergency precautions, increase tolled roadways, implement the system for collecting tolls for specific time periods, and increase the rapid transit capability of toll stations to the greatest extent. Meanwhile, further improve the upgrading of the toll system so as to provide technical support to increasing the toll collection efficiency.

#### 2. Stepping up efforts in maintenance management, strengthening road maintenance

Explore new techniques and new technologies for maintenance, strengthen early period preventive maintenance for asphalt and concrete road surfaces; further establish a system for strengthening all businesses, create files on road health examination and testing, strengthen basic maintenance work, change passive maintenance to preventive maintenance.



## MANAGEMENT DISCUSSION AND ANALYSIS

### 3. Normalizing the operations of service areas, improving the service standard

Make great efforts in promoting centralized operations of service areas, actively and reliably improve the operation management of service areas, further improve the service area system, refine management measures, increase the service standard, earnestly give play to the function and effectiveness of service areas, and drive the growth of income from non-principal businesses.

### 4. Focusing on principal businesses, increasing core competitiveness of the enterprise, achieving sustained development

The Company will acquire quality highway projects through continued discoveries, continue to follow the path of expanding principal businesses, achieve the steady and healthy development of the Company on a sustained basis, and strive to make the Company a large infrastructure company with clear principal businesses, stable operations, sound governance structure and excellent management standard.

### 5. Persisting in “human-oriented”, sparkplugging harmonious development

Improve all internal management systems, offer a good atmosphere and opportunity for the self-development of staff, stimulate the working enthusiasm and initiative of staff, lead staff to merge their individual development objectives with those of the enterprise, create a good atmosphere with human resources construction as the basis and harmonious development as the objective.

## 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.



## MANAGEMENT DISCUSSION AND ANALYSIS

### 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 RMB12,421,000) 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 31 December 2005 the Group contributed RMB9,714,000 to the scheme.

### 4. Loans, Overdrafts and Other Borrowings

Details of bank loans, overdrafts and other borrowings for the year ended 31 December 2005 are set in note 20 to the financial statements, which were prepared in accordance with HKFRS.

**Li Yungui**

*General Manager*

Hefei, Anhui, the PRC

21 April 2006