

## I. Business Environment

In respect of the outstanding problems existing in the economic operations in 2005, the Central Government appropriately launched a series of macro control measures in 2006, and effectively prevented the economic growth to turn from rapid to over-heated, thus avoiding a substantial economic fluctuation. The GDP in the whole year grew by 10.7% year on year. The CPI grew by 1.5% year on year, realizing a rapid and sound development of economy.

In 2006, national economy in Anhui Province saw a rapid growth, with continued enhancement in economic operations. The GDP for the whole year was RMB614 billion, up 12.9% from the previous year. Per capita GDP was RMB10,044, which has broken the RMB10,000 record. With the continued upgrading in the consumption of the residents, vehicle consumption maintained its rapid growing trend, and as at the end of 2006, Anhui Province had a total of 946,000 vehicles, a growth of 17.5% over the corresponding period last year, of which the number of private cars was 444,000 vehicles, a growth of 25.4%. The total mileage of expressways in Anhui Province has reached 1,745 kilometers, and accessibility of highway network is increasing.

## 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, the traffic volumes and toll income of all highways of the Group kept stable increase resulted from the good development situation of macro economy and steady improvement of expressway networks in the region. During the reporting period, the Group achieved the income from principal operations of RMB1,617,898,000, representing an increase of 5.19% over the corresponding period of the previous year, profit after taxation of RMB749,302,000, representing an increase of 13.66 % over the corresponding period of the previous year, earnings per share (fully diluted) of RMB0.4518, representing an increase of 13.66% over the corresponding period of the previous year.

Composition and percentage of revenue was as follows:

Projects	Revenue in 2006 (RMB'000)	Percentage of total revenue (%)	Increase over the corresponding period of the previous year (%)
Hening Expressway	617,016	38.13	9.14
New Tianchang Section of National Trunk 205	110,792	6.85	15.10
Gaojie Expressway	389,104	24.05	5.80
Xuanguang Expressway	273,517	16.91	-8.19
Lianhuo Expressway Anhui Section	226,885	14.02	7.66
Ninghuai Expressway Tianchang Section	584	0.04	Not applicable
Total	1,617,898	100	5.19

## Management Discussion and Analysis

### (II) Operations of toll highways

During the reporting period, benefiting from rapid economic development of the region and the rapid increase of vehicle ownership number, the Group achieved the income from principal operations of RMB1,617,898,000, representing an increase of 5.19% over last year, the income from core business in relation to toll roads increased by 5.19% 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	20
New Tianchang Section of National Trunk 205	30	4	1	—	1997	21
Gaojie Expressway	110	4	3	4	1999	23
Xuanguang Expressway	84	4	4	1	1997	22
Lianhuo Expressway Anhui Section	54	4	5	1	2002	27
Ninghuai Expressway Tianchang Section	14	6	1	1	2006	3

*Note:* The toll collection period of Ninghuai Expressway Tianchang Section is tentatively fixed at 3 years with effective from the date of collection of tolls. The formal toll collection period will be determined by the future evaluation.

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	617,016	147,727	73.01	9.14	-0.52	4.64
New Tianchang Section of National Trunk 205	110,792	25,584	73.86	15.10	-2.35	7.11
Gaojie Expressway	389,104	123,711	65.06	5.80	-8.49	10.23
Xuanguang Expressway	273,517	66,699	72.21	-8.19	-18.78	6.00
Lianhuo Expressway Anhui Section	226,885	88,297	58.03	7.66	9.23	0.40
Ninghuai Expressway Tianchang Section	584	2	96.75	—	—	—
Total	1,617,898	452,020	68.93	5.19	-4.40	5.74
Of which:						
Connected transactions	—	14,852	—	—	—	—

## Management Discussion and Analysis

Name of roads	Interests	Converted average daily traffic volumes for entire journey (vehicle)			Toll income per vehicle (RMB)		
		2006	2005	Change	2006	2005	Change
Hening Expressway	100%	14,695	12,479	17.76%	115	124	-7.26%
New Tianchang Section of National Trunk 205	100%	15,544	14,716	5.63%	19.5	18	8.33%
Gaojie Expressway	100%	8,291	7,446	11.35%	128.5	135	-4.81%
Xuanguang Expressway	55.47%	8,870	8,752	1.35%	84.4	93	-9.25%
Lianhuo Expressway Anhui Section	100%	8,723	7,632	14.31%	71.2	76	-6.32%
Ninghuai Expressway Tianchang Section	100%	4,457	—	—	9.36	—	—

*Note:* Ninghuai Expressway Tianchang Section was opened to traffic on 18 December 2006.

## Management Discussion and Analysis

### Hening Expressway

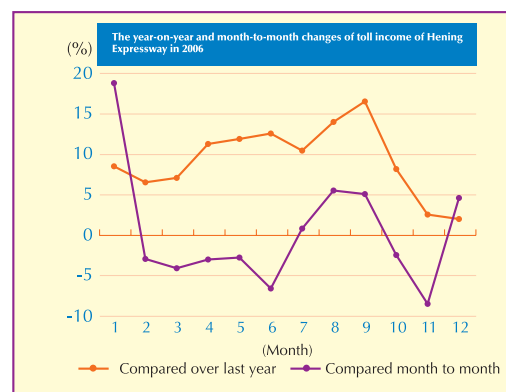
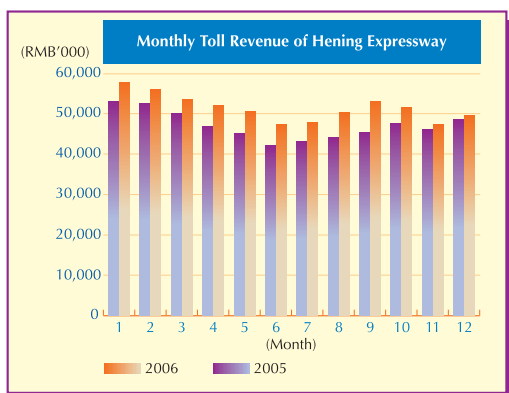
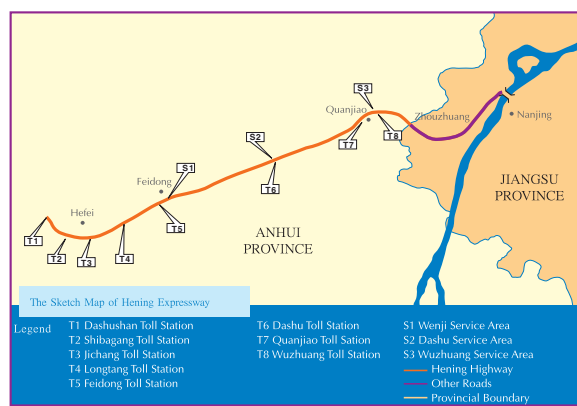
Hening Expressway is a 134-kilometer long dual carriageway four-lane toll expressway owned by the Company in Anhui Province linking Dashushan and Zhouzhuang. This expressway forms an integral part of the National Trunk Highway from Shanghai to Chengdu in Sichuan Province, which also forms part of the 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 RMB617,016,000, representing an increase of 9.14% over last year.

Average daily traffic volume reached 14,695, representing an increase of 17.76% over last year, of which passenger vehicles grew by 25.59%, while goods vehicles grew by 7.76%.

With the economy's development, the increase in the number of vehicles, in particular small vehicles and the impact on goods vehicles from the implementation of toll rates on goods vehicles with reference to their weight, the growth in the traffic volumes of passenger vehicles is faster than that of goods vehicles of all highways operated by the Company.

The Bangning Section of Nanjing-Luoyang Expressway which opened to traffic in April 2006 is an expressway linking Bangbu in Anhui to Nanjing in Jiangsu, and linking with Jiefubang Expressway to the south. As it is a shortcut from Henan to Nanjing in Jiangsu in the south, which is shorter by 60 kilometers from the original road section from Bangbu to Hefei to Nanjing, the operation of the road section has certain impact on the traffic volume of Hening Road, in particular volumes of trucks, and the Company is paying close attention over this.



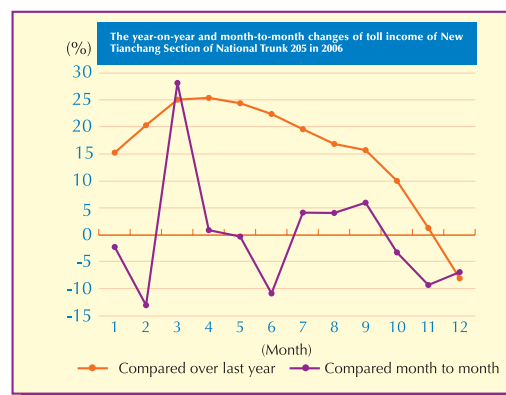
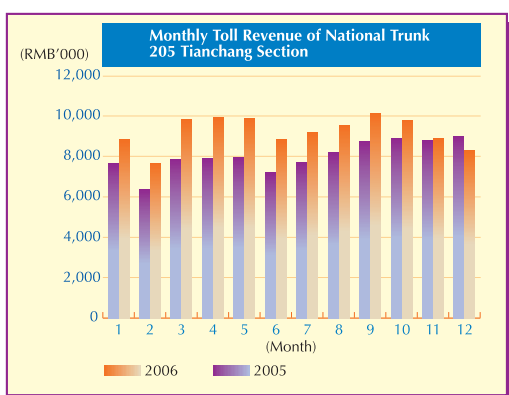
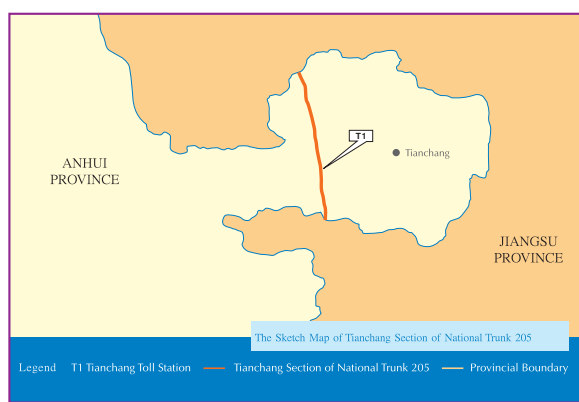
## New Tianchang Section of National Trunk 205

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 RMB110,792,000 representing an increase of 15.10% over last year, which was due to both the increase of traffic volumes and 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 15,544, representing an increase of 5.63% over last year, out of which passenger vehicles increased by 7.21% and goods vehicles increased by 2.52%.

On 18 December 2006, Ninghuai Expressway Tianchang Section was opened to traffic. It is anticipated that the operation of this road section will diversify the traffic volumes of the new Tianchang Section of National Trunk 205. The actual impact is yet to be observed, but in view that the interests of Ninghuai Expressway Tianchang Section belongs to the Company, the diversification of the road section will not cause substantial impact on the Company's overall incomes.



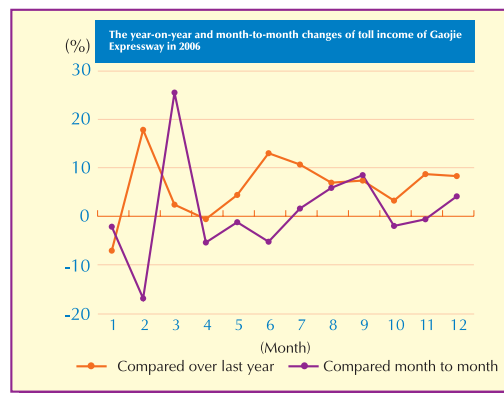
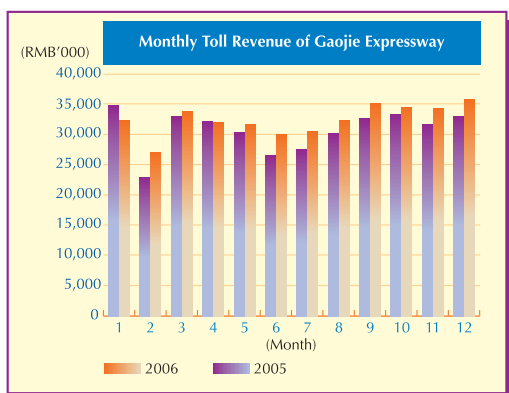
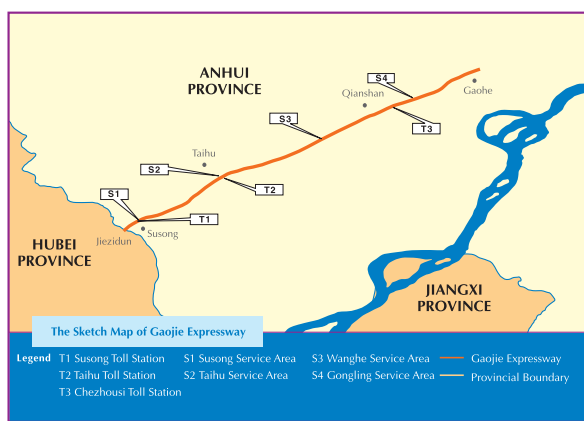
## Management Discussion and Analysis

### 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 Heife-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 RMB389,104,000, representing an increase of 5.80% over last year. The toll income per vehicle represented a decreased trend, which showed that the main driver for the increase in toll revenue was the increase in traffic volumes

Average daily traffic volumes reached 8,291, representing an increase of 11.35% over last year, out of which passenger vehicles increased by 24.08% and goods vehicles increased by 4.96%.



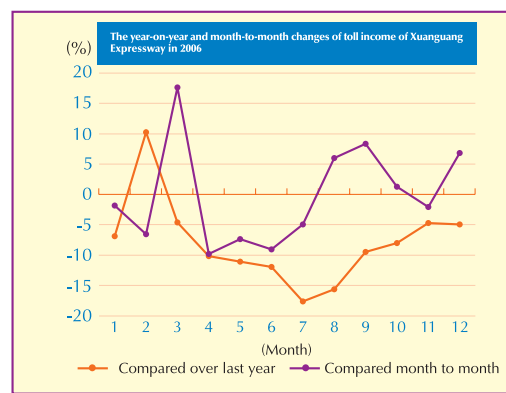
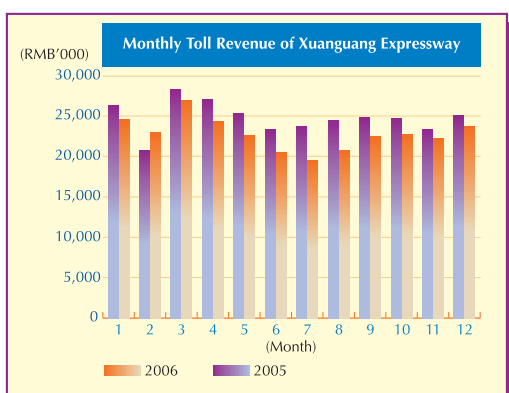
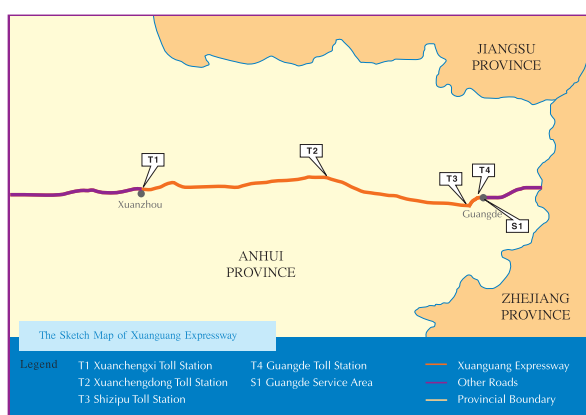


## Xuanguang Expressway

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, and 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 RMB273,517,000, representing a decrease of 8.19% over last year, which was mainly due to both the decrease of traffic volumes of goods vehicles and toll income per vehicle.

Average daily traffic volumes reached 8,870, representing an increase of 1.35% over last year, out of which passenger vehicles increased by 10.71% and goods vehicles decreased by 4.77%. The rate of increase was lower than that of other highways was mainly due to the reconstruction during the year. At present, the reconstruction was finished and the negative impact was gradually removed.



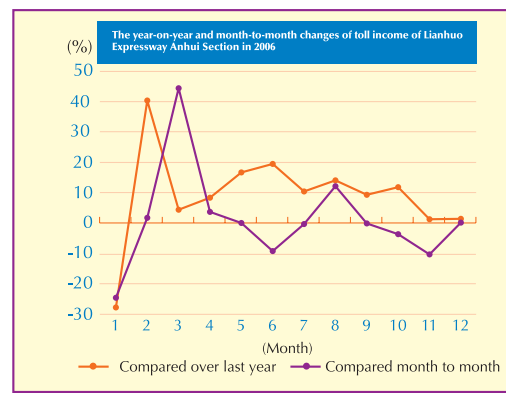
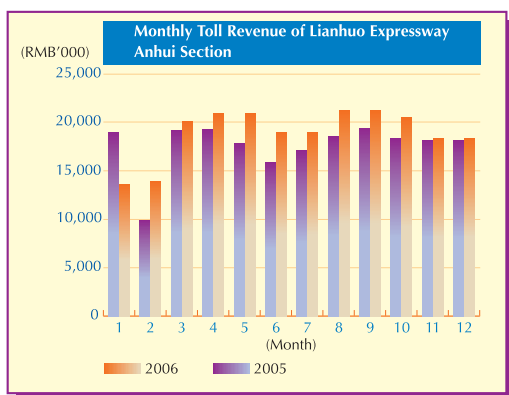
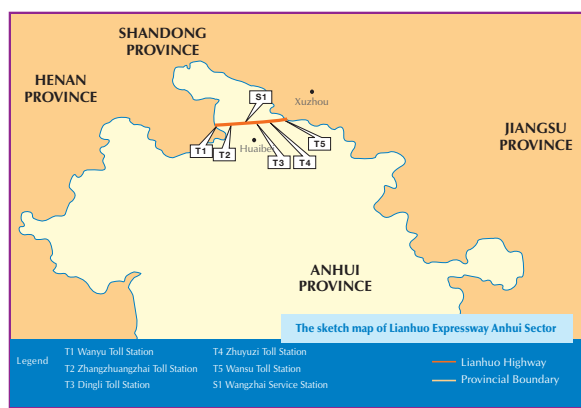
## Management Discussion and Analysis

### *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 RMB226,885,000, representing an increase of 7.66% over last year, which was mainly due to the substantial increase in traffic volumes.

Average daily traffic volumes reached 8,723, representing an increase of 14.31% over last year, out of which passenger vehicles increased by 28.03% and goods vehicles increased by 9.41%.

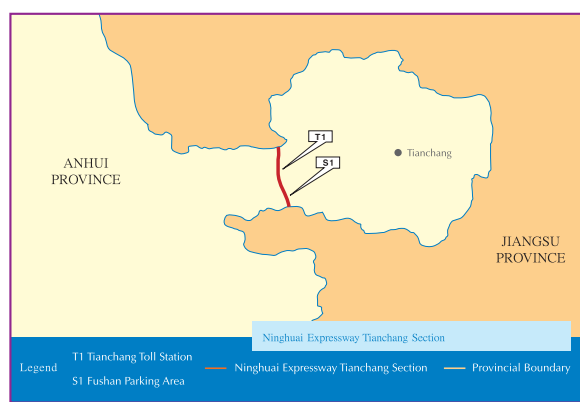




### *Ninghuai Expressway Tianchang Section*

Ninghuai Expressway Tianchang Section is an important road section of Ninghuai Expressway, with a whole length of 13.989 kilometers, and has the standard of dual carriageway six-lane expressway. It was completed and opened to traffic on 18 December 2006. The road runs through Tianchang city east of Anhui Province, starting from the terminal of the Jiangsu Nanjing Section of Ninghuai Expressway in Tianchang city, and ends at the Jiangsu Huaian Section of the Ninghuai Expressway. It is an important part in the key highway and national “7918” expressway network from Changchun to Shenzhen for the economic development of the eastern Anhui and the whole of northern Jiangsu, at the same time is also an important part in the key backbone in the trunk road network in Anhui Province. It directly or indirectly links various National Trunks of Hurong, Jinghu, Tongshan, Lianhuo, Ninghang and national key planned highway constructions of Jiayin to Nanping, Shanghai to Luoyang.

Currently, Ninghuai Expressway Tianchang Section is operating well, and from the date of its operation to 31 December 2006, toll incomes of the Tianchang Section of Ninghuai Expressway amounted to RMB584,000.



## 2. Toll Rates for newly-added Road

All highways operated by the Group have implemented toll rates on goods vehicles with reference to their weight. The toll rates during the reporting period kept unchanged compared to that in previous year. The toll rates of Ninghuai Expressway Tanchang Section, which opened to traffic on 18 December 2006, is same to that of Jiangsu Ninghuai Expressway, detailed rates are as follows:

### Vehicles Classification and Toll Rates of Ninghuai Expressway Tianchang Section

Vehicles type	Classification		Toll rates (RMB/km)	Minimum toll collection
	Passenger vehicles	Goods vehicles		
Type 1	7 seats or below (including 7 seats)		0.45	15
		2 tons or below (including 2 tons)	0.675	15
Type 2	Between 8 seats and 19 seats		0.675	15
		Between 2 tons and 5 tons (including 5 tons)	0.90	20
Type 3	Between 20 seats and 39 seats		0.90	20
		Between 5 tons and 10 tons (including 10 tons)	1.125	20
Type 4	40 seats or above (including 40 seats)		0.90	20
		Between 10 tons and 15 tons (including 15 tons) 20 foot container	1.35	30
Type 5	Above 15 tons 40 foot container		1.575	30

## Toll rates applicable to goods vehicles with reference to their weight of Ninghuai Expressway Tianchang Section (non-overloaded vehicles)

Vehicles type	Gross weight of goods vehicle ≤ 10 tonnes	10 tonnes < Gross weight of goods vehicle < 40 tonnes	Gross weight of goods vehicle > 40 tonnes	The toll charges will be rounded up. For expressways, less than
Toll rates applicable to goods vehicles with reference to their weight on expressways: 1. Basic toll rate RMB0.09/tonnes for every km 2. Vehicles, which weight less than 5 tonnes, shall be charged according to 5 tonnes scale 3. If the toll chargeable is less than RMB20, RMB20 shall be charged	RMB0.09/tonnes for every km	RMB0.09/tonnes for every km and will be linearly reduced to RMB0.04/tonnes for every km	RMB0.04/tonnes for every km	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 of Ninghuai Expressway Tianchang Section

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 (46 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 2 times of the basic rate.	The remaining balance will be subject to a toll equivalent to 3 times of the basic rate.	The remaining balance will be subject to a toll equivalent to 4 times of the basic rate.	

### 3. Adjustment to the distribution of interests in Xuanguang Company

Pursuant to the contract entered into by the Company and Xuancheng Highway Management on 18 July 1998, 100% of Xuanguang Company's profit (net of administrative costs and daily operational expenses after tax and excluding depreciation and amortization) will be distributed to the Company until it has recovered its total investment. Thereafter, the net profit will be distributed pursuant to their interests in Xuanguang Company. In Xuanguang Company's liquidation, any undistributed profit will be distributed in proportion to their respective contributions to Xuanguang Company's registered capital. Thereafter, any remaining assets and management right should belong to Xuancheng Highway Management without preconditions.

According to the contracts and agreements mentioned above, Xuancheng Highway Management has begun to be entitled to the distribution of Xuanguang in the year 2006. For the year ended 31 December 2006, the profit of Xuanguang attributable to XHMC amounted to RMB12,646,549 and the depreciation and amortization portion attributable to XHMC amounted to RMB5,948,078.

### (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.

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

As at 31 December 2006, the Group's subsidiaries and associated companies were as follows:

Unit: RMB'000

Name of companies	Interests held by the Group	Registered capital	Assets	Net Profit (loss)	Principal business
Xuanguang Company	55.47%	111,760	1,361,785	114,827	Construction, management and operation of Xuanguang Expressway
Kangcheng Pharmaceutical	65%	10,000	5,090	-448	Research, development and transfer of Western and Chinese medicine and scientific research results of medical apparatus and instruments
Expressway Advertisement	38%	3,800	25,485	695	Design, making, release and agency of domestic advertisements
Information Investment	18%	100,000	117,512	7,882	Information infrastructure investment, information technology service, information engineering consultation and supervision
Expressway Real Estate	20%	12,000	61,545	510	Development of Real Estate, Real Estate management, construction, sales of building materials and decorating materials.

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 and its de-recognition

On 4 March 2005, the Company entered into an agreement with AEHC to acquire the long term payables to AEHC and AEHC's 49% equity interest in Gaojie Company for a total consideration of RMB1,350,000,000 (the "Transaction"). Pursuant to the agreement, the Company paid the consideration of RMB400,000,000 and RMB950,000,000 to AEHC on 28 December 2005 and 6 January 2006 respectively. Gaojie Company was de-registered and merged all of its assets and liabilities to the Company on 16 May 2006, when the Transaction was completed.

#### 2. Reconstruction of Xuanguang Expressway

The reconstruction of Xuanguang Expressway was finished in October 2006. During the reporting period, RMB341 million was invested and the accumulated investment was RMB409 million. At present, traffic volumes and toll income of the section resumed.

#### 3. Ninghuai Expressway Tianchang Section opens to traffic

Ninghuai Expressway Tianchang Section is a dual carriageway six-lane expressway with total mileage of 13.989 km. It was opened to traffic on 18 December 2006. During the reporting period, RMB182 million was invested with accumulated investment of RMB476 million.

#### 4. Widening of four-lane to eight-lane of Hening Expressway

The widening of four-lane to eight-lane of Hening Expressway with the section of Dashushan to inter-connected interchange of Longxi commenced in August 2006. The widening works is to be completed within 3 years with a total length of 42.64 km. A plan of "Principally merging on both sides and partial segregation" is adopted for the widening works. During the widening works in process, Hening Expressway will be operated as usual. The total investment of the widening works is expected to be approximately RMB1,964 million.

As at 31 December 2006, RMB134 million was invested in the widening works.



## 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 RMB7,232,967,000, which was increased by 3.77% from RMB6,970,438,000 of 2005. This was mainly due to the increase of toll income, the construction of Ninghuai Expressway Tianchang Section, widening of four-lane to eight-lane of Hening Expressway and reconstruction of Xuanguang Expressway.

#### **Current liabilities**

As at the end of the reporting period, the Group's current liabilities were RMB1,767,639,000, of which RMB1,261,000,000 was short term borrowings, RMB297,384,000 was accounts payables, RMB42,657,000 was tax payables, RMB114,872,000 was other payables, (including RMB32,236,000 of toll income collected on behalf of the inter-network settlement center, RMB45,468,000 of deposit from engineering projects and RMB4,492,000 of pension funds), and RMB22,264,000 was provision on repair expenses. Pursuant to the Group's current working capital conditions, the facilities not yet utilized and future funding arrangements, the Group expects that it will have sufficient funds to repay 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 RMB479,346,000, which represented Xuancheng Highway Management Company Limited's investment in Xuanguang Company in excess of the share of its registered capital, and from the remaining of the Group's provision of 1% for enterprise safety fund, which is based on the toll income since 2004.

# Management Discussion and Analysis

## (II) Analysis of Operating Results

### Income from principal operations

The Group's income from principal operations in 2006 was RMB1,617,898,000, which was increased by 5.19% from that in 2005, 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 9.14%, 15.10%, 5.80%, -8.19% and 7.66% respectively from that in 2005.

### 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	Ninghuai Expressway Tanchang Section	Total
2006	38.13	6.85	24.05	16.91	14.02	0.04	100
2005	36.76	6.26	23.91	19.37	13.70	0	100

### Costs of principal operations

In 2006, the Group's costs of principal operations were RMB452,021,000, representing a decrease of 4.40% from that in 2005, which was mainly due to the decrease of maintenance expenses resulted from the reconstruction of Xuanguang Expressway.

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

Project of Costs	Depreciation and amortization	Highways maintenance expenses	Other costs of operations	Total
2006	70.57	19.74	9.69	100
2005	63.33	28.68	7.99	100

### Management expenses

In 2006, the Group's management expenses were RMB122,620,000, representing a decrease of 4.28% from that in 2005, which was mainly due to strengthening management resulting in decrease of relevant expenses.

### Investment income

In 2006, the Group recorded RMB1,446,000 as investment income, which was mainly due to the dividends payable to the Company from Information Investment.

### Net profit

In 2006, the Group's net profit was RMB749,302,000, representing an increase of 13.66% from that in 2005, which was mainly due to the increase of toll income.

### (III) Cash flow analysis

In 2006, the Group's net operating cash flow was RMB1,088,885,000, which was increased by 8.40% from RMB1,004,517,000 in 2005. The increase was mainly due to the substantial increase in toll income.

In 2006, net cash outflow from investment was RMB1,658,906,000, which was mainly used for the construction of Ninghuai Expressway Tianchang Section, reconstruction of Xuanguang Expressway, Widening of Hening Expressway and the acquisition of 49% interests in Gaojie Company.

In 2006, net cash inflow from financing activities was RMB389,510,000, which was mainly resulted from the net of bank loans, payment of dividends and interests.

In 2006, the Group's bank loans were RMB3,326,000,000 in aggregate. As at the end of the reporting period, the balance of bank loans was RMB1,261,000,000. Interest rates for the bank loans above was 4.86-5.022%, (as at 31 December 2005: RMB350,000,000, interest rates was 4.698%). All bank loans were repayable within 6 months.

The Group is awarded with good credit ratings. As of 31 December 2006, the total credit facilities granted during the year was RMB2,560 million, and the facilities not yet utilized was RMB1,299 million.

### (IV) Analysis on capital expenditures

In 2006, the Group's capital expenditure totaled RMB1,663 million, which was mainly comprised the construction of Ninghuai Expressway Tianchang Section, reconstruction of Xuanguang Expressway, Widening of Hening Expressway and the acquisition of 49% interests in Gaojie Company, which was funded by internal resources and current capital from bank loans.

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

The widening of Hening Expressway with RMB1,830,000,000 authorized but not contracted for;

## Management Discussion and Analysis

### (V) Capital structure analysis

In terms of capital liquidity:

	<b>31 December 2006 (%)</b>	31 December 2005 (%)
Current liabilities	<b>24.44</b>	13.43
Long-term liabilities	<b>6.63</b>	17.19
Shareholders' equities	<b>68.03</b>	66.51
Minority interests	<b>0.90</b>	2.87

In terms of interest rates:

	<b>31 December 2006 (%)</b>	31 December 2005 (%)
Fixed rate liabilities	<b>17.43</b>	5.02
Interest-free liabilities	<b>13.64</b>	25.60
Shareholders' equities	<b>68.03</b>	66.51
Minority interests	<b>0.90</b>	2.87

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 and countermeasures

#### 1. 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.

At present, the Company can not give clear expectation of policy's changes, but 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.

#### 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 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.

#### 3. Competitions of other highways

At present, highways in China are in the stage of rapid developments, and impact of network effect on traffic volumes is positive. However, according to the rules of growth in traffic volume, when formation and upgrading of highway networks have reached a certain stage, the converging and diversifying effect of highway networks shall appear simultaneously. Following the basic formation of expressway networks in the whole province within a future period, its dual impact on the existing road section will also appear gradually. This means that the upgrading of highway networks can stimulate demands for communication, but may also lead to diversification of traffic volumes.

The Company will make analysis in time on the possible impact of changes in the highway network in the region to the road sections under its control, maintain good road surface and improve service quality so as to strengthen the competitiveness of the existing road sections.

### 4. Project improvements and expansions

Improvement project of Xuanguang Expressway has been completed during the year, and the “Four to eight” expansion project of Hening Expressway has just been commenced. By judging from the past experience, improvements and expansions will increase the cost expenditures of the Company, and will affect traffic volumes. But after completion of the improvements, the traffic volumes of the road section will in general have a rapid rebounding growth. Cost of maintenance will also drop significantly with strong sustainability. The Company considers that improvements and expansions will effectively breakthrough the bottlenecks of the various road sections, and enhance the long-term growth of the Company.

### 5. Reform of fuel taxes

At present, there is still no clear notice as to the standard for the charge of fuel taxes and the time for the launching, and recently, the relevant authorities indicated that they will actively promote reforms of fuel taxes according to the market situation and development changes.

As fuel taxes are to replace road maintenance fees instead of replacing toll fees of expressways, its short-term and long-term impact on the expressway industry are not the same. In the short-term, the number of vehicles traveling may reduce due to the increase of oil prices, and may cause some vehicles to be diversified to parallel ordinary roads. But in the long-run, with the fuel saving advantage of expressways gradually emerging, it will certainly have the effect of causing return of traffic volumes as well as attracting new traffic volumes in the mid to long term.

### 6. Reform of taxation policies

The Company is a high-tech company registered in the Hefei High Technology Industry Development Zone. Pursuant to the relevant provisions under the “Notice regarding certain preferential policies on enterprise income taxes” (Cai Shui [1994] No. 001) issued by the Ministry of Finance and the State Tax Bureau on 29 March 1994, the applicable EIT rate for the Company is at a reduced rate of 15%. In 2006, Company has passed reviews, and obtained the certification as a high-tech company on 17 March 2006. The Company will actively pay attention on the changes in taxation policies of the State and Anhui Province, and proactively maintain communication with Anhui Provincial Government and the tax authorities, so as to respond to various situations which may happen.

On 16 March 2007, the Enterprise Income Tax Law (the “new EIT law”) was passed at the Fifth Session of the Tenth National People’s Congress of the People’s Republic of China. The new EIT law will be effective as of 1 January 2008, and the “Income Tax Law of the People’s Republic of China for Enterprises with Foreign Investment and Foreign Enterprises” and “Provisional Regulations of the People’s Republic of China on Enterprise Income Tax” both of which the Group was originally subjected to will be abrogated simultaneously. The Group has already commenced an assessment of the impact of the new EIT law but is not yet in a position to state the accurate impact on the Group’s results of operations in the future.



### 7. Changes in interest rates

In the recent years, capital expenditures of the Group increased substantially, of which, proportion of bank loans to the capital expenditure in the past years also increased year on year, causing the increasing impact of fluctuations in interest rates on the Group's turnover. At present, the Company is planning to issue short-term finance notes of not exceeding RMB1,500 million so as to reduce financial costs.

### 8. Impact of the implementation of new accounting principles to the Company.

The Company has since 1 January 2007 commenced the implementation of the "Enterprise Accounting Principles" (hereinafter referred to as the "New Accounting Principles") issued by the Ministry of Finance on 15 February 2006. Currently, the Company is assessing the impact of the implementation of the New Accounting Principles to the Company's financial situation, operation results and cash-flow, and after prudent considerations and reference to the explanations of the Ministry of Finance on the New Accounting Principles, the Company has made disclosures on the adjustments on material discrepancies based on the relevant requirements on tracing adjustment and notice, partly by way of discrepancy reconciliation table in the "Supplementary information" to the 2006 financial report as required under Articles 5 to Article 19 of "Enterprise Accounting Principles 38 — Initial Implementation of Enterprise Accounting Principles". Adjustments involved in such discrepancy reconciliation table include the Group's confirmation on deferred taxes and the re-classification of minority interests.

## VI. Business Development Plans and Outlook

The continued booming economy in China has driven the rapid growth in the passenger and freight transportation volumes, vehicle volumes, urbanization level and the logistics industry, providing very favorable development environment for the development of the industry and the Group.

In 2006, highway freight turnover in the whole country increased by 8.4% compared with the corresponding period last year. And passenger turnover increased by 9.9% compared with the corresponding period last year, maintaining a strong growing trend.

At the end of 2006, mileage of expressways in China has reached 45,400 kilometers, and according to the planning of the national expressway network, by 2010, there will be 50,000-55,000 kilometers of expressways constructed in China, representing about 60% of the total mileage, of which there will be approximately 16,000-17,000 kilometers in the Central District, and basically linking 14 roads of the "Five Radiations, Two Verticals and Seven Horizontals" in the national "7918" network, as will be indicated in the target of "Eastern Networks, Central Links, Western Connections" of the national expressway network. In the Eastern district, an upgraded expressway network will be basically formed, linking the cities in the Yangtze River Delta, Pearl River Delta, Huan-Bohai region. In the Central district, a more convenient link will be formed linking the east and the west, south and the north, linking Dongbei with Huabei and internally within Dongbei. In the Western district, eight inter-provincial highways will be developed to link with other districts, and far up to the various Rivers and the coastal cities.

Regional economy will continue to develop rapidly, creating strong demands for high efficiency highway distribution system between the cities in the region, and promoting toll incomes of the various road sections to continue to main growing trends.



## Management Discussion and Analysis

At the end of 2006, expressway mileage in Anhui Province has exceeded 1,745 kilometers. During the whole of the “Eleventh Five-Years Plan” period, billions will be invested to accomplish the construction duty of the Anhui Section of the national expressway network, realizing the backbone network of “Three Verticals and Seven Horizontals” from the future layout of “Four Verticals and Eight Horizontals” expressway network. There will be 2,000 kilometers of newly constructed expressways, and by the end of 2007, 17 cities in the province will be accessible by expressway links, and expressway mileage will reach over 2,500 kilometers. By 2010, total mileage will reach over 3,500 kilometers, realizing the target of connection of expressways to counties, and asphalt roads or cement roads to administrative villages.

The vigorous economy in China has provided favorable environment for the Company’s development. The Company will capture opportunities through the following measures, regularize management, solve problems and risks faced in its operations, so as to provide returns with better results to all shareholders.

### **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.

### **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”, sparkplug 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.

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