



3. Business Operations of the Company

(1) Nature of Services

The nature of business operations of the Company and the Subsidiary is to provide services and convenience in the transport through the Expressway network, comprising the Chalerm Mahanakorn Expressway which was invested, constructed and operated by the Expressway and Rapid Transit Authority of Thailand; the Si Rat Expressway which was invested, constructed and operated by the Company; the Udon Rattaya Expressway which was invested, constructed and operated by the Subsidiary; and Sector D of the Si Rat Expressway (Rama IX – Srinagarindra) which connected to the Chalong Rat Expressway (Ramindra – At Narong) of the Expressway and Rapid Transit Authority of Thailand. The entire network system covers the areas in Bangkok and the surrounding provinces, rendering it convenient for motorists to travel from the North of Bangkok and the surrounding provinces to the South and the East without being required to pass through the congested traffic in the downtown and also ensuring that motorists can reach their destinations faster than using normal routes.

The provision of such services constitutes a form of public services, which the government sector is usually required to provide to the public. Due to the limited budget of the government sector, the private sector is given the opportunity to jointly invest in such services subject to the conditions set forth by the government. The Company and the Subsidiary entered into the relevant Agreements with the Expressway and Rapid Transit Authority of Thailand and all Projects of the Company and the Subsidiary are on the BTO (Build, Transfer and Operate) basis, i.e., upon completion of the Expressway construction, the title to various permanent constructions shall be vested in the Expressway and Rapid Transit Authority of Thailand while the Company is granted the right to operate and receive toll revenue based on the ratio as specified in the Agreements. The Agreements have a term of 30 years which may be renewed two times for 10 years each, subject to further negotiation with the Expressway and Rapid Transit Authority of Thailand.

The Company is granted an investment promotion certificate from the Board of Investment in the operation and construction of the Second Stage Expressway Project, Category 6.28: Concession Road, and the rights and privileges granted to the Company have expired on 1 September 2001.

The Subsidiary is granted an investment promotion certificate from the Board of Investment in the operation and construction of the Bang Pa-in – Pak Kret Expressway Project, Category 7.3: Concession Road, such Project has been granted permission to open for service since 2 December 1998.

The rights and privileges granted to the Subsidiary remain effective and the conditions to be fulfilled may be summarized as follows:

**Rights and Privileges of the Subsidiary:**

1. Exemption from corporate income tax on net profit derived from the operation of the promoted business activity for a period of 8 years commencing the first date of deriving revenue from such business operation, which shall expire in the year 2006.
2. Exemption from inclusion of dividend from the promoted business activity in the calculation of income tax throughout the period of the corporate income tax exemption.
3. Permission to remit or deliver foreign currency funds out of the Kingdom of Thailand.

Significant Conditions to Be Fulfilled by the Subsidiary:

1. Upon opening for operation, the Subsidiary shall report on the project performance and arrangements in relation to every change in the shareholding ratio between Thai nationals and foreigners and every change in the foreign shareholding, as well as report on financial position and performance, and other matters, from time to time, in accordance with the form and within the time as specified by the Office.
2. Thai nationals shall collectively hold shares representing not less than 51 percent of the registered capital of the Subsidiary.

(2) Marketing and Competition**A. Marketing Policy and Circumstances
Marketing Strategies**

In view of various marketing strategies to boost sales or the number of Expressway users, the Company arranged for improvement of the provisions of services and implemented the marketing promotion.

Regarding the improvement of the provision of services, the Company completed the installation of additional toll booths at Prachachuen Toll Plaza and improvement of the Expressway off-ramps to the Mahanakorn Road and Rama IX Road, thereby facilitating motorists and alleviating the traffic congestion in such areas. During the current improvement of the Expressway around the off-ramps at Prachachuen 2 by constructing a flyover crossing Prachachuen Road to Ratchadapisek Road, including the installation of an additional toll booth, as well as the installation of the three toll booths on the inbound route around Asoke 4 Toll Plaza to resolve traffic problems and accommodate an increase in the traffic volume in the future. These projects were expected to be completed in the year 2005. Furthermore, the Company also continuously conducted feasibility study on improvement of on- and off-ramps of the Expressways, and coordinated with the Expressway and Rapid Transit Authority of Thailand to enhance the efficiency of the toll collection, particularly during rush hours.

As part of the marketing promotion, the Company implemented public relations to target customers with an aim to:

1. Keeping them informed of the convenient, rapid, economical and safe usage of the Expressways;
2. Keeping them informed of various quality services on the Expressways;
3. Keeping them informed of various sales promotion of the Company, such as, discount on tolls, extension of various Expressway routes to facilitate motorists.

The channels of public relations used by the Company to disseminate information, news and activities comprise documentary programs on television for Expressway routes heading to various tourist attractions, documentary programs on radio for Expressway usage and other services on the Expressways, leaflets, advertising boards, signboards on the Expressways introducing new on- and off-ramps and connection routes between various Expressways, and discount on tolls, the Company's website providing the Company data, Expressway routes leading to tourist attractions and restaurants, and newsletters every two months for sharing information and news between the Company and motorists.

Furthermore, the Company also provided additional signboards and changed signboard locations and wording leading to various landmarks on the Expressways and signboards at grade regarding the Expressway usage on the main road and various alleys in Bangkok and other provinces in the North of Bangkok, so as to facilitate motorists to access the Expressways.

In the sales promotion activities, the Company provided discount on tolls on certain routes within a limited period of time, aimed at attracting target customers to continue to use the Expressway services and eventually become regular customers. In the year 2004, the Subsidiary provided discount at the rate between 25-50 percent to users of the Udon Rattaya Expressway, which resulted in an increase in traffic volume by a daily average of approximately 6,700 vehicles or by approximately 16 percent. Moreover, the Company also provided discount at the connection from the Chalong Rat Expressway to Sector D of the Si Rat Expressway at Rama 9-1 Toll Plaza (Si Rat) and at the connection from the Chalong Rat Expressway to the Chalerm Mahanakorn Expressway at At Narong 1 Toll Plaza only on the route to Bang Na.

Additionally, during the festivals, such as, Songkran Festival and New Year's Festival, the Company also cooperated with the Expressway and Rapid Transit Authority of Thailand to distribute gifts to motorists, despite the fact that such activity did not increase the traffic volume, it constituted positive image and relationship with customers.

Target Customers and Characteristics

Target customers of the Chaleram Mahanakorn Expressway and the Si Rat Expressway refer to those motorists who desire a convenient and rapid transportation of the Expressway Systems or who desire to shorten the traveling distance to their destinations as well as to avoid the traffic congestion along the normal roads, which is a major problem in Bangkok.

Target customers of the Udon Rattaya Expressway refer to those motorists who desire a convenient and rapid transportation around the North of Bangkok, including convenient and rapid access to the Chaleram Mahanakorn Expressway and the Si Rat Expressway by avoiding the traffic congestion on Phaholyothin Road or Vibhavadi – Rangsit Road.

Based on the foregoing target customers of the Expressway Systems, it can be seen that the characteristics of the Expressway customers are broad depending their transportation needs. In this respect, the revenue of the Expressway Systems will not rely on any particular group of customers.

Distribution/Service Channels

Users of the Chaleram Mahanakorn Expressway and the Si Rat Expressway may choose to use the Expressway services from various on- and off-ramps covering major areas in Bangkok. Expressway users shall pay tolls at the toll plazas, totaling 47 locations, 17 toll plazas of the Chaleram Mahanakorn Expressway and 30 toll plazas of the Si Rat Expressway. Payment of tolls for use of the Chaleram Mahanakorn Expressway services can be made in cash, coupon or Expressway TAG for toll booths equipped with automatic toll collection system. Payment of tolls for use of the Si Rat Expressway services can be made in cash and coupon at all toll plazas, except Sectors D and C.

As for users of the Udon Rattaya Expressway services, payment of tolls will be made at the on-ramps for the inbound direction and at the off-ramps for the outbound direction. There are five on-ramps and five off-ramps, and tolls must be paid in cash only.

The marketing highlight is that the Chaleram Mahanakorn Expressway and the Si Rat Expressway cover the areas from the North to the South and from the West to the East of Bangkok and the connection of the entire Expressway network. Furthermore, these Expressways are also connected to the Chalong Rat Expressway and will be later connected to the Burapha Withi Expressway (Bang Na – Bang Pli – Bang Pakong) in the future so as to establish full service of the Expressway Systems for users to reach their destinations more conveniently and rapidly than using at-grade roads.

The marketing disadvantage is that the convenience and rapidity of the Expressways are limited by the traffic flow around the Expressway exits which depends on the traffic on at-grade roads and is beyond the Company's control.

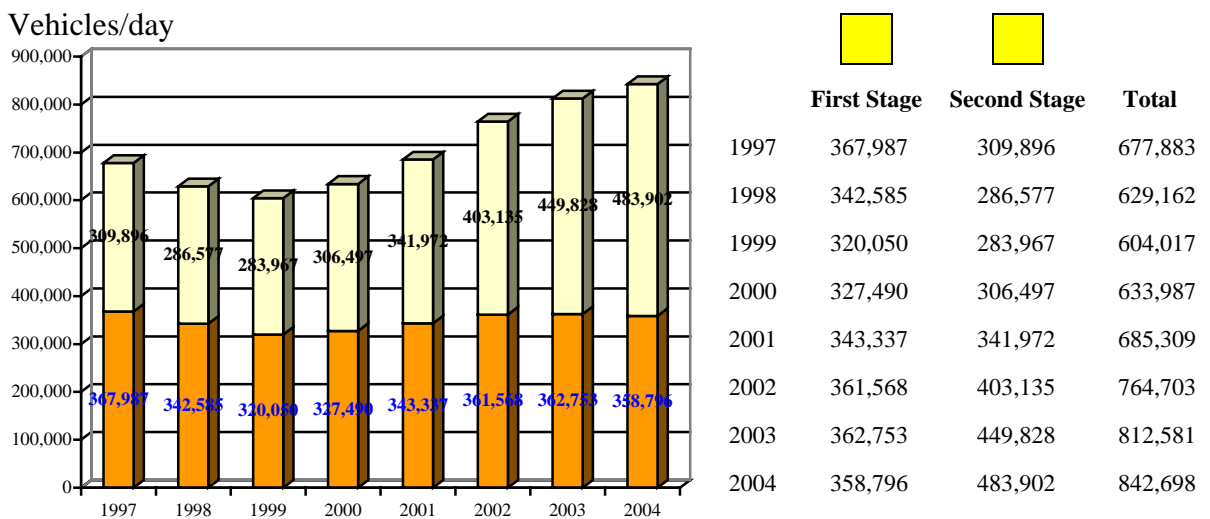
B. Competition

The circumstances in relation to the Expressway Systems in the year 2004 showed a continued growth from the year 2003 due to the economic recovery evidenced by the growth of new car sales and the number of newly registered cars in Bangkok and its surrounding provinces, and also as a result of the Company’s continued sales promotion since the year 2000.

In view of the competition situation, the Company would be affected by several land traffic system projects, other than the present Expressway Systems which are parallel to or have the same directions as the Expressways, resulting in a reduced volume of vehicles on the Expressway Systems.

However, the Bangkok Transit System (BTS) of the Bangkok Metropolitan Administration and the subway of the Mass Rapid Transit Authority of Thailand (MRTA), which were opened for service, were not the cause of such reduced volume of vehicles using the Expressways because the majority of customers using these transportation systems previously used the mass transit system and they are in a different group to those using the Expressway Systems.

Traffic Volume of the First and the Second Stage Expressway Systems



(3) Procurement of Products and Services

A. Nature of Procurement of Products

The Expressway and Rapid Transit Authority of Thailand (ETA) is an authority responsible for the construction of expressways to provide facilities and rapid traffic and transport in respect of projects in Bangkok and surrounding provinces. ETA invites interested parties to participate in the preparation of proposals or accepts bids, in which the Company conducts a project feasibility study and submits proposals or bids to be awarded the project, subject to appropriate return and conditions.

The Expressway Projects under the Second Stage Expressway Agreement, the Bang Pa-in – Pak Kret Expressway Agreement and the Agreement for Extension of the Second Stage Expressway (Sector D) Agreement are implemented on a BTO basis. According to the essence of the Agreements, ETA shall have the duty to determine the characteristics of the Expressways, Expressway routes and areas to be used for construction and arrange for land expropriation for delivery to the Company for construction within the time specified in the Agreements. Thereafter, the Company would carry out construction in accordance with the designs approved by ETA, subject to the supervision of the quality of construction work by the ETA's Consulting Engineer, Independent Certification Engineer and Independent Design Checker. Upon completion of the construction, the Independent Certification Engineer shall inspect the work and issue Certificate of Completion to evidence that the construction work is complete in accordance with the specified standards and is ready for service, at which time, the Company shall be entitled to obtain toll revenue under the conditions of the Agreements.

In the previous constructions, the Company engaged project managers to carry out construction and operate the Expressway Projects on a lump sum turnkey basis and on a subcontract basis. This was due to the fact that the Expressway Projects are large scale projects which may sustain costs overrun issues and untimely completion of the construction. The lump sum turnkey engagement is intended to prevent such risk. In the engagement of project managers, the Company will select specialists with experience to act as project managers and construction contractor to ensure the accomplishment of quality work on a timely basis.

B. Environmental Impact

In the construction of the Expressways under the Second Stage Expressway Agreement and the Bang Pa-in – Pak Kret Expressway Agreement, the Company and the Subsidiary shall comply with the measures to prevent pollutions in accordance with the regulations of the National Environment Committee and other relevant laws, which form an integral part of the Agreements.

The Company and the Subsidiary implemented measures and procedures as appropriate without any records of environment related offenses.