

### 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 utility services, in 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, and the rights and privileges granted to the Subsidiary have expired on 1 December 2006.

## (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.

In respect of the improvement of service provision to facilitate more motorists using the Expressway, particularly from the opening of the Suvarnabhumi Airport in September 2006, the Company added two toll booths at Srinagarindra Toll Plaza and two double-deck toll booths at Asoke 4 Toll Plaza (inbound), including installation of one reversible lane toll booth at Asoke 3 Toll Plaza (outbound) so as to resolve the problem of accumulated queuing for paying tolls at the front of the Toll Plazas and to accommodate the traffic volume to increase in the future.

The Company also continuously conducted feasibility study on improvement of the Expressways so as to facilitate and ensure safety for motorists. In the year 2006, the Company expanded the entrance of Bang Sue Toll Plaza and improved the exit of Ngam Wong Wan 2 Toll Plaza to facilitate motorists in conveniently making a u-turn to the Khae Rai Intersection, as well as cooperating 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, documentary programs on radio, radio spot, leaflets, signboards on the Expressways introducing Expressway routes heading to various destinations, types of other services on the Expressways, introducing new on- and off-ramps and connection routes between various Expressways, and discount on tolls, as well as Si Rat bimonthly newsletters as a medium for sharing information and

news between the Company and motorists. In addition, in the year 2006, the Company improved its website and the content therein for convenient and rapid use, with more useful information in relation to traveling by the Expressways, introduction of on- and off-ramps and nearby places in response to the website viewers' needs.

Furthermore, the Company also provided off-ramp number signboards, signboards introducing the routes to the Suvarnabhumi Airport and signboards regarding the Expressway usage on the at grade 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 2006, the Company 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. The Subsidiary also provided discount at the rate between 12.5% - 50% to users of the Udon Rattaya Expressway.

Furthermore, during the remarkable festivals, such as, Songkran Festival and New Year's Festival, the Company also holds activities promoting the use of the Expressways by cooperating with the Expressway and Rapid Transit Authority of Thailand to distribute gifts to motorists, including arranging for motorist service tents at the destination toll plazas. Despite the fact that such activities did not substantially increase the traffic volume, they constituted positive image and relationship with motorists.

### **Target Customers and Characteristics**

Target customers of the Chalerm 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 Chalerm 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 Chalerm 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 48 locations, 18 toll plazas of the Chalerm Mahanakorn Expressway and 30 toll plazas of the Si Rat Expressway. Payment of tolls for use of the Chalerm 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 Chalerm Mahanakorn Expressway and the Si Rat Expressway, as well as the Chalong Rat Expressway (Ramindra - At Narong) cover the areas from the North to the South and from the West to the East of Bangkok. In addition, the Third Stage Expressway, Southern Route S1 (Bang Na - At Narong), connecting to the Burapha Withi Expressway (Bang Na - Bang Pli - Bang Pakong), and the Chalerm Mahanakorn Expressway and the Chalong Rat Expressway, renders the service of the Expressway Systems to become more complete 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 2006 showed a continued growth from the year 2005. Despite the fact that the transport industrial sector, in overall, was affected by the continued high oil price since the year 2005, as well as the financial impact from the increased interest rate, such events did not affect the traffic volume on the First and Second Stage Expressway Systems which increased by 3.1 percent in the year 2006 as compared to that of the year 2005. This is because motorists consider that the Expressway

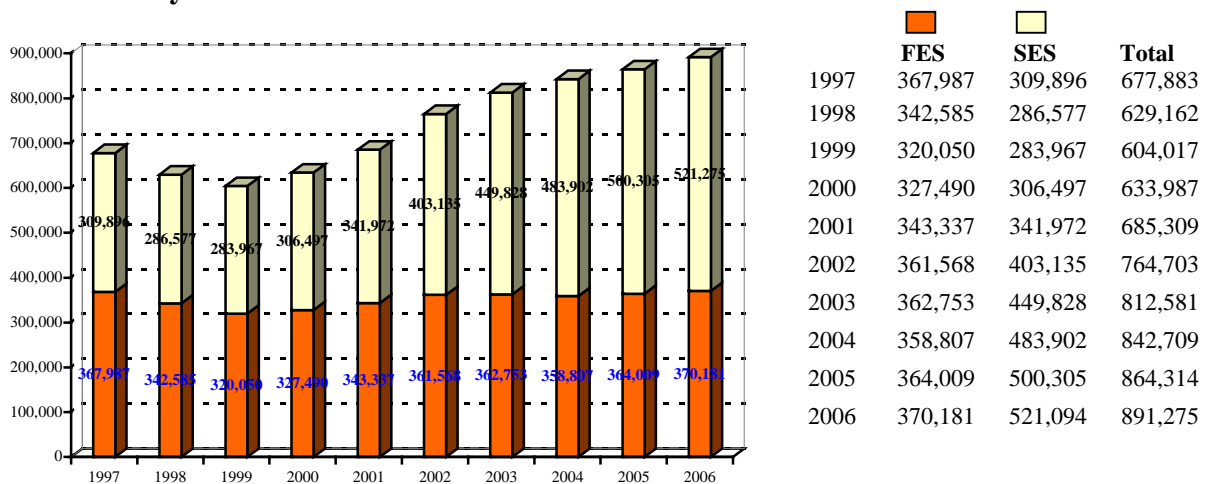
Systems help more effectively shorten their commute time and minimize fuel consumption. Furthermore, this should also be a result of the Company’s sales promotion implemented since the year 2000.

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**

Vehicles/day



**(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 its 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)

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 the measures and procedures as appropriate without any records of environment related offenses.

In addition, the Company has recognized the significance of the Expressway users' life quality and communities surrounding the Expressways. In the year 2007, the Company would make preparations for application for ISO 14001:2004 Standard Environmental Management System.