

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Analysis of Results

Although traffic volume and toll revenue of certain toll road projects were affected by the construction of road networks, higher oil price and changes of traffic mix, the Group's turnover and gross profit in 2000 were similar to 1999 figures. Other income also decreased by 29.3 per cent mainly due to termination of the business tax rebate policy. However, administrative expenses were reduced by approximately 10.3 per cent to HK\$46.0 million mainly due to lower bank charges and amortization in 2000. Finance costs also lowered remarkably by approximately 19.2 per cent due to debt repayments and lower interest rate of Rmb loan. Share of profits from associated companies recorded an increase of 6.4 per cent year on year driven by traffic volume growth of Humen Bridge. Taxation was reduced by 16.2 per cent from a higher base in 1999. Profit attributable to shareholders recorded a 5.7 per cent increase from HK\$267.4 million in 1999 to HK\$282.5 million in 2000.

Basic Earnings Per Share

	2000	1999
Profit attributable to shareholders	HK\$282,513,000	HK\$267,403,000
Weighted average number of shares in issue	1,037,503,530	1,037,503,521
Basic earnings per share	27.23 cents	25.77 cents

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders divided by the weighted average number of shares in issue which had basically no change in the year. With net profit increased by 5.7 per cent, basic earnings per share increased accordingly to 27.23 cents in 2000.

Dividend

To capture toll road investment opportunities and economic benefits of China's accession to the World Trade Organisation, the Directors recommended the payment of a final dividend of 1.0 cent (1999: 5.0 cents) per share to shareholders whose names appeared on the register of members of the Company on 19th June 2001. Subject to the approval of shareholders at the Annual General Meeting to be held on 19th June 2001, the final dividend will be paid on 10th July 2001. Together with the interim dividend of 3.0 cents (1999: 2.0 cents) per share, total dividends for the year ended 31st December 2000 will amount to 4.0 cents (1999: 7.0 cents) per share.

Analysis of cash flows and borrowings

As at 31st December 2000, the Group had bank balances and cash of approximately HK\$385.8 million. The Group had generated net cash inflow of approximately HK\$337.60 million from operating activities and net cash inflow of HK\$34.2 million from returns on investments. These internally generated cash were largely applied to repayment of bank borrowings and funding capital expenditures.

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As at 31st December 2000, the Group had bank borrowings and convertible bonds outstanding of approximately HK\$600.0 million and HK\$95.0 million respectively. The Group had repaid bank borrowings in aggregate sum of approximately HK\$135.0 million from internal funds. A new US dollars four-year term loan was also obtained to re-finance part of the outstanding US dollars loan matured in April 2000 and the remaining amount was repaid. This US dollars term loan is secured by the Group's interest in one toll road project in China.

Approximately 29.9 per cent of the Group's bank borrowings was denominated in US dollars and approximately 70.1 per cent in Rmb. The convertible bonds were denominated in HK dollars. The following is a maturity profile table of the Group's bank borrowings and convertible bonds:

	Repayable within		Total HK\$'000
	one year HK\$'000	two to five years HK\$'000	
Bank borrowings			
US dollars loans	39,000	140,400	179,400
Rmb loans	355,140	65,420	420,560
	<u>394,140</u>	<u>205,820</u>	<u>599,960</u>
Convertible bonds	95,000	–	95,000
	<u>489,140</u>	<u>205,820</u>	<u>694,960</u>

Approximately 84.4 per cent of the Rmb bank borrowings will be repayable within one year. The management has confidence that these Rmb bank borrowings will be refinanced. The convertible bonds are redeemable on 14th December 2001. On maturity, those bonds which have not been converted into ordinary shares at a price of HK\$2.0424 per share are to be repaid at their principal amount with accrued interest. Details of the convertible bonds are set out in note 18 to the audited accounts on page 51. Other than the new US dollars term loan disclosed above, all the bank borrowings are unsecured.

Analysis of Capital Commitments and Expenditures

The details of the Group's and the Company's capital commitments as at 31st December 2000 are set out in note 21(d) to the audited accounts on page 54. These capital commitments are mainly for the construction and expansion of toll roads.

In 2000, the Group's capital expenditures and investments which amounted to approximately HK\$196.8 million were funded internally. In February 2001, the Group completed the acquisition of the remaining 49 per cent interests in Xian Expressway. This acquisition was mainly financed by a HK\$170.0 million five-year term loan raised in 2001 and secured by the Group's interest in Xian Expressway. The Group's strategy is to use as much as practicable re-invested profits and debt financing denominated in Rmb to match the Rmb capital expenditure and take advantage of the prevailing low interest rate in China. Equity and debt financing denominated in foreign currency will be used selectively as supplementary funds.

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Treasury Policies

The Group's overall treasury and funding policy is that of risk management and liquidity control. Bank balances are generally placed in short term fixed rate deposits in bank accounts in Hong Kong and China. No fund is placed in non-bank institutions or invested in securities. The management believes that the steady inflow of HK dollars and US dollars funds repatriated from the Group's subsidiaries and associated companies in China are sufficient to meet the Group's short to medium term HK dollars and US dollars borrowings, finance costs and dividend payments.

Since the Group's principal operations are in China and most of the income is denominated in Rmb, the management is aware of possible exchange rate exposure. As a hedging strategy, the management emphasizes on using Rmb borrowings to finance the Group's future investments and capital expenditures.

The management is also aware of the prevailing interest rate differential and the associated borrowing costs difference between Rmb loans and US dollar loans. To take advantage of the low interest rate and the low borrowing costs of Rmb loans, the management strictly adheres to its Rmb based borrowing policy. The following summary of the Group's average loan interest rates indicates that interest rate differentials between US dollars loans and Rmb loans widened from negative 1.1 per cent in 1999 to positive 3.0 per cent in 2000:

	2000 (% per annum)	1999 (% per annum)
US dollars loan	9.0	6.6
Rmb loans	6.0	7.7
Interest rate differential	3.0	-1.1

Return on Shareholders' Equity

As at 31st December 2000, the Group's shareholders' equity increased from approximately HK\$2.7 billion in 1999 to approximately HK\$2.9 billion mainly due to the increase in retained earnings. The returns on shareholders' equity for the last three years are as follows:

	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000
Profit attributable to shareholders	282,513	267,403	242,276
Shareholders' equity	2,899,241	2,658,228	2,483,792
Return on shareholders' equity	9.7%	10.1%	9.8%

The Group was able to achieve satisfactory returns on shareholders' equity over the years despite the impacts of the Asian financial crisis. Adhering to principles of long-term stability and continuous development, the management has been focusing on investing in operational toll road projects or projects with immediate cash flow. As a result, the Group achieved return on shareholders' equity of about 9.7 per cent in 2000, which is relatively high amongst toll road companies listed on The Stock Exchange of Hong Kong Limited.

Capital Structure and Interest Coverage

The following table summarises the components of the Group's capital structure:

	2000			1999		
	HK\$'000	%	Average rate of interest (% per annum)	HK\$'000	%	Average rate of interest (% per annum)
Convertible bonds	95,000	2.6	7.0	95,000	2.7	7.0
Fixed rate loans	420,560	11.6	6.0	500,935	14.2	7.7
Floating rate loan (LIBOR)	179,400	4.9	9.0	234,000	6.6	6.6
Interest free loans	41,505	1.2	–	45,809	1.3	–
Total debts	736,465	20.3		875,744	24.8	
Shareholders' equity	2,899,241	79.7		2,658,228	75.2	
Total capitalization	3,635,706	100.0		3,533,972	100.0	
Gearing Ratio	20.3%			24.8%		

The share of shareholders' equity in total capitalization increased from 75.2 per cent in 1999 to 79.7 per cent in 2000 mainly due to increase in current year's retained earnings amounting to HK\$241.0 million. Fixed rate loans are all in Rmb. The share of fixed rate loans in total capitalization decreased from 14.2 per cent in 1999 to 11.6 per cent in 2000. Floating rate loan is in US dollars and its share in total capitalization also decreased from 6.6 per cent in 1999 to 4.9 per cent in 2000. The interest free loans are non-interest bearing loans from the minority shareholders of a subsidiary. The share of interest free loans in total capitalization decreased from 1.3 per cent in 1999 to 1.2 per cent in 2000. The decrease in the share of fixed rate loans, floating rate loan and interest free loans was mainly due to repayments made during the year out from the Group's internally generated funds.

The increase in shareholders' equity and the decrease in debts resulted in a reduction of gearing ratio from 24.8 per cent in 1999 to 20.3 per cent in 2000.

	2000	1999
	HK\$'000	HK\$'000
Profit before taxation, interests and non-cash items	538,862	547,436
Interest expenses	52,995	65,598
Interest coverage	10 times	8 times

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Overall interest expenses in 2000 amounted to approximately HK\$53.0 million as compared to HK\$65.6 million in 1999. The decrease in interest expenses of 19.2 per cent was attributable to the aggregate effects of decline in average interest rates and repayment of loan principals. Interest coverage increased from about 8 times in 1999 to about 10 times in 2000.

Financial Assistance and Guarantees

As at 31st December 2000, the Group had provided a guarantee in connection with bank loans granted to Guangzhou Northern Second Ring Expressway Co., Limited, a jointly controlled entity of the Group, of Rmb 1,020,000,000 (approximately HK\$953,271,000), which is in proportion to the Group's shareholding in that entity. Such guarantee represented approximately 32.9 per cent of the consolidated net asset value of the Group as at 31st December 2000.

Employees

As at 31st December 2000 the Group had 455 employees of which 399 are directly engaging in the supervision and management of toll projects. The Group remunerates its employees largely based on industry practice, including contributory provident funds and other staff benefits. The Group has also adopted a share option scheme which awards its employees according to the performance of the Group and individual employees.