

## MANAGEMENT DISCUSSION AND ANALYSIS

### Summary Information on Operating Toll Roads and Bridges

	Length (kms)	Width (lanes)	Attributable interest (%)	Road type	Average daily toll traffic volume (vehicle)	Weighted average toll fare per vehicle (Rmb)
<b>Guangshen Highway</b>	23.1	6	80.0	Class I highway	27,278	6.78
<b>Guangshan Highway</b>	64.0	4	80.0	Class II highway	32,513	10.52
<b>Guangcong Highway Section I</b>	33.3	6	80.0	Class I highway	15,230	12.05
<b>Xinfeng Highways</b>						
National Highway 105	30.5	4	55.0	Class I highway	10,618	15.39
Provincial Highway 1912	15.3	2	55.0	Class II highway		
<b>Guanghua Highway</b>	20.0	6	55.0	Class I highway	7,434	7.81
<b>Dongyang Highways</b>						
Provincial Highway 37	13.0	4	82.0	Class II highway		(Fixed Return)
Provincial Highway 39	32.0	4	82.0	Class II highway		
<b>Guangcong Highway Section II &amp; Provincial Highway 1909</b>	33.1 33.3	6 4	51.0 51.0	Class I highway Class I highway	25,115	7.53
<b>Xian Expressway</b>	20.1	4	51.0	Expressway	14,153	11.12
<b>Xiang Jiang Bridge II</b>	1.84	4	75.0	Rigid frame bridge	4,537	11.63
<b>Humen Bridge</b>	15.8	6	24.0	Suspension bridge	25,234	37.43
<b>Guangzhou City Northern Ring Road</b>	22.0	6	24.3	Expressway	121,874	9.96
<b>Qinglian Highways</b>						
National Highway 107	253.0	2	15.6	Class II highway	33,418	25.69
Highway between Qingyuan and Lianzhou cities	215.2	6	15.6	Class I highway		

## **BUSINESS REVIEW**

The Group's toll road projects primarily provide connections for intra-provincial traffic within Guangdong Province and inter-provincial traffic between Guangdong and eastern provinces such as Hunan and Jiangxi. The major vehicles travelling on intra-provincial routes passing traffic hub of major cities are mostly small sized passenger vehicles and trucks or Class II vehicles. Major vehicles travelling on the more remote inter-provincial routes such as Xinfeng Highways, Qinglian Highways and Xiang Jiang Bridge II are mostly medium sized passenger vehicles and trucks or Class III vehicles. The revenue of certain toll road projects in the first half of 2001 was affected by the road construction and repairing works for preparing the Ninth National Games and changes of traffic mix in the remote regions of Guangdong Province.

As hindered by the road upgrading work for preparing the Ninth National Games, revenue and traffic volume of certain highways around Guangzhou City were reduced in the first half of 2001. Reduction of toll traffic volume of Class III vehicles which dominates traffic on the highways in the remote regions of Guangdong Province was due to implementation of stringent traffic safety measures by local governments in Guangdong Province to deny access of overloaded vehicles. On the other hand, there was an increase in traffic volume of Class I vehicles (motorcycles). Consequently, toll traffic volumes of the highways in these remote regions increased at a faster rate than toll revenue because toll fare of Class I vehicles is lower than Class III vehicles. Weighted average toll fare per vehicle of most projects in the first half of 2001 was also lower than the same period in 2000, despite toll fare of all the Group's projects remained unchanged.

### ***Guangshen Highway Guangzhou Section ("Guangshen Highway")***

Guangshen Highway is a part of National Highway 107 connecting Guangzhou Municipality and Shenzhen City in Guangdong Province. Both are growth engines of southern China.

Owing to completion of modification work in the adjacent Huangpu Road, average daily toll traffic volume of Guangshen Highway accelerated by 7.54 per cent to 27,278 vehicles in the first half of 2001. Weighted average toll fare per vehicle in the period was Rmb 6.78, which was 1.02 per cent lower than same period last year.

### ***Guangshan Highway Guangzhou Section ("Guangshan Highway")***

Guangshan Highway is a part of National Highway 324 and is the major road connecting Guangzhou Municipality and Shantou City which are the major cities in Guangdong Province.

In the first half of 2001, the average daily toll traffic volume of the two toll stations on Guangshan Highway decreased slightly by 4.47 per cent to 32,513 vehicles due to road upgrading works related to the Ninth National Games. Weighted average toll fare per vehicle in the period was Rmb 10.52, which was 3.13 per cent lower than same period last year.

### *Guangcong Highway connecting Guangzhou Institute of Foreign Language and Tai Ping Chang ("Guangcong Highway Section I")*

Guangcong Highway Section I comprises a section of National Highway 105 between Guangzhou City and Conghua City in the northeast where a hot spring resort is located. Guangcong Highway Section I mainly connects inter-provincial traffic between Guangdong Province and eastern provinces such as Jiangxi. It is also the main access from Guangzhou City to Conghua City.

Average daily toll traffic volume of Guangcong Highway Section I rose satisfactorily by 6.54 per cent to 15,230 vehicles in the first half of 2001. Weighted average toll fare per vehicle in the period was Rmb 12.05, which was 0.74 per cent lower than same period last year.

### *Xinfeng Highways*

Xinfeng Highways comprise part of National Highway 105 and Provincial Highway 1912 located in northern Guangdong Province. They primarily connect inter-provincial traffic between Guangdong Province and eastern provinces such as Jiangxi.

In the first half of 2001, the average daily toll traffic volume of Xinfeng Highways increased satisfactorily by 7.04 per cent to 10,618 vehicles due to the change of traffic mix. Weighted average toll fare per vehicle in the period was Rmb 15.39 which was 8.17 per cent lower than same period last year due to the growth in traffic volume which mainly came from Class I and II vehicles.

### *Guanghua Highway*

Guanghua Highway mainly connects traffic between the urban area of Guangzhou City and suburb Huadu District, where the new Guangzhou International Airport will be located.

Owing to traffic jam caused by construction of related transport network for the Guangzhou International Airport, the average daily toll traffic volume of Guanghua Highway dropped by 22.45 per cent to 7,434 vehicles in the first half of 2001. Weighted average toll fare per vehicle in the period was Rmb 7.81, which was at the similar level compared with same period last year.

### *Dongyang Highways in Zhejiang Province ("Dongyang Highways")*

Dongyang Highways are consisted of part of Provincial Highway 37 and part of Provincial Highway 39 in Dongyang City of Zhejiang Province. These highways, which were opened in early 1995, connect Hangzhou, Dongyang and Jinhua cities in the eastern Zhejiang Province. The Group received a fixed return from this project. To concentrate on core projects, the Group has decided to dispose its 49 per cent interest in this project. Completion of this transaction is delayed and it is currently seeking government approval, which is expected to be obtained in several months.

***Guangcong Highway connecting Tai Ping Chang and Wenquan ("Guangcong Highway Section II") & Provincial Highway 1909***

Guangcong Highway Section II connects inter-provincial traffic between Guangdong Province and eastern provinces such as Jiangxi and intra-municipality traffic between Guangzhou City and Conghua City where a hot spring resort is located. Provincial Highway 1909 connects inter-provincial traffic between Guangdong and Hunan provinces.

Average daily toll traffic volume of Guangcong Highway Section II and Provincial Highway 1909 in the first half of 2001 was 25,115. The growth rate accelerated by 5.08 per cent compared with first half of 2000. Weighted average toll fare per vehicle in the period was Rmb 7.53 which was 3.95 per cent lower than same period last year due to the changing traffic mix.

***Xian Expressway in Shaanxi Province ("Xian Expressway")***

Xian Expressway connects local traffic between Xian City and Lintong County where the world famous historical relic Terra-Cotta Warriors is located.

Average daily toll traffic volume of Xian Expressway recorded a healthy increase of 13.65 per cent in the first half of 2001 to 14,153 vehicles due to implementation of the Western Region Development Strategy by the Chinese Government to speed up economic development of this region. The completion of Northern Xian Rao Cheng Expressway in October 2000 changed the original traffic mix. Weighted average toll fare per vehicle in the period was Rmb11.12, which was 7.0 per cent lower than same period last year.

***Xiang Jiang Bridge II in Xiang Tan City of Hunan Province ("Xiang Jiang Bridge II")***

Xiang Jiang Bridge II is located in Xiang Tan City of Hunan Province. It has been in operation since 1993 and is part of National Highway 107 linking the northern and southern banks of Xiang Jiang. The bridge primarily connects inter-provincial traffic between Guangdong Province and Hunan Province.

Average daily toll traffic volume of Xiang Jiang Bridge II recorded negative growth of 53.91 per cent in the first half of 2001 to 4,537 vehicles due to traffic diversion by the Xiang Geng Section of Jingzhu Expressway. The weighted average toll fare per vehicle in the period was Rmb 11.63, which was 13.3 per cent lower than same period last year.

***Humen Bridge***

Humen Bridge is an expressway with a six-lane suspension bridge linking Panyu District of Guangzhou Municipality and Dongguan City both located in the heart of the Pearl River Delta. Its two ends are connected to the Guangzhou Shenzhen Expressway and Guangzhou Zhuhai Eastern Expressway.

The average daily toll traffic volume of Humen Bridge in the first half of 2001 continued to grow healthily by 8.37 per cent to 25,234 vehicles from a high base in 2000. Weighted average toll fare per vehicle in the period was Rmb 37.43, which was 2.7 per cent higher than same period last year.

### ***Guangzhou City Northern Ring Road ("Ring Road")***

The Ring Road located in Guangzhou City has been in operation since January 1994. It links the Guangzhou Foshan Expressway in the west and the Guangzhou Shenzhen Expressway in the east.

Owing to traffic diversion by the recently completed Inner Ring Road, average daily toll traffic volume of the Ring Road decreased in the first half of 2001 by 18.27 per cent to 121,874 vehicles. The weighted average toll fare per vehicle in the period was Rmb 9.96, which was 0.3 per cent lower than same period last year.

### ***Qinglian Highways***

Qinglian Highways are located in the northwestern part of Guangdong Province. They primarily connect inter-provincial traffic between Guangdong Province and Hunan Province.

The average daily toll traffic volume of the nine toll stations on Qinglian Highways was 33,418 vehicles in the first half of 2001, which decreased by 4.54 per cent compared with same period in 2000 due to the administrative measures to deny access of overloaded trucks by the local authorities. Weighted average toll fare per vehicle in the period was Rmb 25.69, which was 8.2 per cent lower than same period last year.

### ***Guangzhou Northern Second Ring Expressway ("GNSR Expressway")***

The six-lane 42.4 kilometers GNSR Expressway which has nine intersections and nine toll stations, connects eleven provincial, national highways and expressways in the north of Guangzhou Municipality. It will serve southern bound traffic from the northern regions and connects the eastern and western bound traffic in the northern part of Guangzhou City. Construction work is close to completion, and GNSR Expressway is expected to be operational in the fourth quarter of 2001 as scheduled.

### ***Future Strategy and Prospects***

In the Group's view, restriction of access of overloaded trucks as well as road construction and repairing works for preparing the Ninth National Games are temporary factors affecting traffic conditions of the Group's projects. Various local factors will contribute to traffic volume growth of individual toll road projects in 2002. For example, completion of Tong Guan Luo Yang Expressway Section of the National Highway 310 connecting Xian City and Henan Province in late 2001 is expected to boost traffic volume of Xian Expressway. Traffic volume of Humen Bridge will experience strong growth due to additional traffic channelled by the imminent completion of Taiyang Section of the West Coast Expressway in early 2002. GNSR Expressway, the Group's biggest project, will be completed in October 2001 and contribute to the revenue growth. The Group is also expected to benefit from China's access to the World Trade Organization which will speed up economic development of China.

Guangzhou's role as the traffic hub of Guangdong Province is increasingly important. The Group's future strategy is to concentrate on development of expressways around the Guangzhou Hub on which the Group has in-depth knowledge. The Group is currently conducting feasibility studies on the investment potential of the Guangzhou Eastern Second Ring Expressway and the Guangzhou Western Second Ring Expressway. These two planned expressways will have significant synergy with GNSR Expressway in channelling traffic. In terms of financing, the Group will make use of non-recourse Rmb project financing as much as practicable to reduce exchange and liquidity risks.

## *FINANCIAL REVIEW*

### *Analysis of Results*

For the six months ended 30th June 2001, the Group's turnover and gross profit which amounted to approximately HK\$214.2 million and HK\$145.4 million decreased by 7.4 per cent and 10.9 per cent respectively. The decline in turnover and gross profit were mainly the result of the lower traffic volume as affected by the construction and repairing of road networks around Guangzhou City for preparing the Ninth National Games, changes of traffic mix in certain remote regions of Guangdong Province and the firm oil price. These factors also affected the traffic volume of some associated companies, and share of profits from associated companies decreased by 7.9 per cent to HK\$70.2 million. The management expects that these unfavourable factors are just temporary in nature. Other revenues decreased from HK\$24.0 million in the same period of last year to HK\$16.3 million in this period due to a planned reduction of stake in other investment and termination of business tax rebate by the government.

Administrative expenses for this period amounted to HK\$17.1 million which was 12.5 per cent lower than HK\$19.6 million in the first half of 2000. This was mainly due to lower amortization cost which was in line with reduction of stake in other investment. Finance costs dropped by 12.0 per cent to HK\$24.5 million, and was caused by the recent decline of US dollars and HK dollars prime rates. Profit attributable to shareholders was HK\$132.5 million which dropped by 9.1 per cent as compared to the same period last year. Basic earnings per share decreased accordingly by 9.3 per cent to 12.75 cents.

### *Interim Dividend*

The Board of Directors has resolved to declare an interim dividend for 2001 of 3.0 cents (2000: 3.0 cents) per share payable on 22nd November 2001 to shareholders whose names appear on the register of members on 7th November 2001. Interim dividend pay out ratio will be 23.66 per cent (2000: 21.36 per cent).

### *Group Liquidity and Financial Resources*

As at 30th June 2001, the Group had bank balances and cash of approximately HK\$482.2 million as compared to the balance on 31st December 2000 of approximately HK\$385.8 million. During the first half of 2001, cash inflow generated from operations and returns on investments of the toll road business amounted to approximately HK\$162.1 million and HK\$86.2 million respectively. These internally generated cash were being applied to repayment of the Group's bank loans, funding of capital expenditures and dividend payments.

As at 30th June 2001, the Group had bank loans and convertible bonds of approximately HK\$754.4 million and HK\$95.0 million respectively. Of the total bank loans, 36.3 per cent, 39.1 per cent and 24.6 per cent are repayable within one year, in the second year and in the third to fifth year respectively.

During the six months ended 30th June 2001, the Group had capital expenditures and investments amounted to approximately HK\$306.0 million which were financed from both internally generated cash and bank loan. Major capital expenditures and investments during the period include: (a) completion of acquisition of the remaining 49 per cent interest in Xian Expressway at a consideration of HK\$173.0 million, details of which were already disclosed in the Company's 2000 annual report; (b) capital injection of Rmb80.0 million (approximately HK\$74.8 million) to a long term investment; and (c) capital injections to existing investments totalling Rmb19.6 million (approximately HK\$18.3 million). Regarding future capital expenditures and investments, the Group's main sources of finance would derive from the Group's existing cash on hand, recurring cash inflow from operations and returns from investments. Apart from these internally generated cash, the Group has other financial resources such as debt and equity to finance its acquisitions and investments.

The Group's capital structure is set out below:

	30th June 2001			31st December 2000		
	<i>HK\$'000</i>	<i>Average rate of interest %</i>	<i>Average rate of interest (% per annum)</i>	<i>HK\$'000</i>	<i>Average rate of interest %</i>	<i>Average rate of interest (% per annum)</i>
Convertible bonds	95,000	2.4	7.0	95,000	2.6	7.0
Fixed rate loans	420,560	10.7	6.0	420,560	11.5	6.0
Floating rate loan (LIBOR)	163,800	4.3	8.0	179,400	4.9	9.0
Floating rate loan (HIBOR)	170,000	4.3	5.2	—	—	—
Interest free loans	40,347	1.0	—	41,505	1.2	—
<b>Total debts</b>	<b>889,707</b>	<b>22.7</b>		<b>736,465</b>	<b>20.2</b>	
<b>Shareholders' equity</b>	<b>3,037,828</b>	<b>77.3</b>		<b>2,909,616</b>	<b>79.8</b>	
<b>Total capitalization</b>	<b>3,927,535</b>	<b>100.0</b>		<b>3,646,081</b>	<b>100.0</b>	

Convertible bonds and floating rate loan based on HIBOR are denominated in HK dollars. This floating rate loan was obtained in February 2001 to finance acquisition of the remaining 49 per cent interest in Xian Expressway. The floating rate loan based on LIBOR is denominated in US dollars. All floating rate loans are secured by the Group's interests in two toll road projects in China. The fixed rate loans are denominated in Rmb and are unsecured. The interest free loans are non-interest bearing loans from the minority shareholders of a subsidiary. Gearing ratio, as measured by the ratio of total debt to total capitalization, as at 30th June 2001, was 22.7 per cent as compared to the restated ratio (to conform with the current period's new presentation requirement) as at 31st December 2000 of 20.2 per cent. This slight increase in gearing ratio was mainly due to new bank loan obtained.

Interest coverage for the six months ended 30th June 2001 was 9 times as compared to 10 times for the same period in 2000. The interest coverage was measured by the ratio of profit before taxation, interests and non-cash items to interest expenses.

The Group continues to adopt the same treasury policy and hedging strategy as disclosed in the 2000 annual report.

Bank balances are generally placed as short term fixed rate bank deposits. 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 is 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 primarily using Rmb borrowings to finance the Group's future investments and capital expenditures.

#### *Financial Assistance and Guarantees*

As at 30th June 2001, the Group had provided a guarantee in connection with bank loans granted to Guangzhou Northern Second Ring Expressway Co., Limited ("GNSR Expressway Co.") which is a jointly controlled entity of the Group, of an amount in proportion to the Group's shareholdings in GNSR Expressway Co. to the extent of Rmb1,020,000,000 (approximately HK\$953,271,000). Such guarantee represented approximately 31.4 per cent of the consolidated net asset value of the Group as at 30th June 2001. The total aforementioned bank loan facilities granted to GNSR Expressway Co. amounted to Rmb2,000,000,000 (approximately HK\$1,869,200,000). As at 30th June 2001, GNSR Expressway Co. had drawn down a total of Rmb1,450,000,000 (approximately HK\$1,355,140,000) of the bank loan facilities granted. In accordance with the requirements of Practice Note 19 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the balance sheet of GNSR Expressway Co. as at 30th June 2001 is set out on page 21.

In August 2001, the aforementioned guarantee was cancelled by the creditor bank, thereby releasing the Group of its obligation thereunder.

#### *Employees*

As at 30th June 2001, the Group had 450 employees of which 383 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.