

Management Discussion and Analysis

BUSINESS REVIEW

Summary Information on Operating Toll Roads and Bridges						
	Length (kms)	Width (lanes)	Attributable interest (as at 31/12/2001) (%)	Road type	Year 2001	
					Average daily toll traffic volume (vehicle)	Weighted average toll fare per vehicle (Rmb)
Guangshen Highway	23.1	6	80.0	Class I highway	23,497	6.83
Guangshan Highway	64.0	4	80.0	Class II highway	32,383	10.49
Guangcong Highway						
Section I	33.3	6	80.0	Class I highway	15,470	12.19
Guangcong Highway						
Section II	33.1	6	51.0	Class I highway	25,841	7.67
& Provincial Highway 1909	33.3	4	51.0	Class I highway		
Guanghua Highway	20.0	6	55.0	Class I highway	7,949	7.94
Xian Expressway	20.1	4	100.0 #	Expressway	14,950	11.20
Humen Bridge	15.8	6	24.0 *	Suspension bridge	26,082	37.51
Northern Ring Road	22.0	6	24.3	Expressway	121,817	9.85
Xiang Jiang Bridge II	1.8	4	75.0	Rigid frame bridge	4,061	10.88
GNSR Expressway	42.4	6	51.0 **	Expressway	##9,051	##16.00
Qinglian Highways						
National Highway 107	253.0	2	15.6 @	Class II highway		
Highway between Qingyuan					31,762	24.65
and Lianzhou cities	215.2	6	15.6 @	Class I highway		

Increased attributable interest to 100 per cent in February 2001.

* Will increase attributable interest to 25 per cent pursuant to a conditional agreement signed on 12th April 2002.

** Will reduce attributable interest to 46 per cent pursuant to a conditional agreement signed on 12th April 2002.

@ Increased attributable interest to 23.63 per cent in January 2002.

GNSR Expressway started toll collection in January 2002. Figures shown are referring to the first three months of 2002 only.

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Operating Toll Roads and Bridges

Toll roads in different locations tend to be used by different types of vehicles. Major vehicles travelling on intra-provincial routes passing traffic hub of major cities are mostly Class II vehicles (small sized passenger vehicles and trucks). Major vehicles travelling on the more remote inter-provincial routes such as Xinfeng Highways, Qinglian Highways and Xiang Jiang Bridge II are mostly Class III vehicles (medium sized passenger vehicles and trucks).

Guangshen Highway Guangzhou Section ("Guangshen Highway")

Guangshen Highway is a part of National Highway 107 connecting Guangzhou Municipality and Shenzhen City, which are two of the main growth engines of Guangdong Province.

Average daily toll traffic volume of Guangshen Highway declined by 10.40 per cent to 23,497 vehicles in 2001. Weighted average toll fare per vehicle in the year was Rmb6.83, which was 0.73 per cent lower than 2000.

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 5.34 per cent to 15,470 vehicles in 2001. Weighted average toll fare per vehicle in the year was Rmb12.19, which was 0.57 per cent higher than 2000.

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 2001 was 25,841 and grew by 6.56 per cent compared with 2000. Weighted average toll fare per vehicle in the year was Rmb7.67 which was 1.16 per cent lower than 2000 due to changing traffic mix.

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Guangshan Highway connecting Guangzhou Municipality and Shantou City

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 major cities in Guangdong Province.

In 2001, the average daily toll traffic volume of the two toll stations on Guangshan Highway decreased slightly by 4.56 per cent to 32,383 vehicles due to road upgrading works related to the Ninth National Games. Weighted average toll fare per vehicle in the year was Rmb10.49, which was 3.14 per cent lower than 2000.

Guanghua Highway

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

Owing to traffic jam caused by construction of related transport network for the new Guangzhou International Airport, the average daily toll traffic volume of Guanghua Highway dropped by 15.76 per cent to 7,949 vehicles in 2001. Weighted average toll fare per vehicle in the year was Rmb7.94, which increased by 1.53 per cent compared with 2000.

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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 11.35 per cent in 2001 to 14,950 vehicles due to implementation of the Western Region Development Strategy by the Chinese Government to speed up economic development of the Western Region. The completion of Northern Xian Rao Cheng Expressway in October 2000 changed the original traffic mix. Weighted average toll fare per vehicle in 2001 was Rmb11.2, which was 6.04 per cent lower than 2000.

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.

Average daily toll traffic volume of Humen Bridge in 2001 continued to grow healthily by 8.07 per cent to 26,082 vehicles from a high base in 2000. Weighted average toll fare per vehicle in the year was Rmb37.51, which was 1.19 per cent higher than 2000.

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

The Northern 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.

Average daily toll traffic volume of the Northern Ring Road decreased in 2001 by 15.56 per cent to 121,817 vehicles. The weighted average toll fare per vehicle in the year was Rmb9.85, which was 0.2 per cent higher than 2000.

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.

Average daily toll traffic volume of the nine toll stations on Qinglian Highways was 31,762 vehicles in 2001, which decreased by 11.27 per cent compared with 2000 due to the administrative measures to deny access of overloaded trucks by the local authorities. It is also affected by the recently completed Northern Guangdong Section of Jing Zhu Expressway in September 2001. Weighted average toll fare per vehicle in the year was Rmb24.65, which was 12.25 per cent lower than 2000.

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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 58.21 per cent in 2001 to 4,061 vehicles due to opening of the Xiang Geng Section of Jing Zhu Expressway. The weighted average toll fare per vehicle in the year was Rmb10.88, which was 18.87 per cent lower than 2000.

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 serves southern bound traffic from the northern regions and connects the eastern and western bound traffic in the northern part of Guangzhou Municipality. Construction was completed as scheduled and GNSR Expressway commenced toll collection in January 2002. For the period from January to March 2002, average daily toll traffic volume of GNSR Expressway was 9,051 vehicles and the weighted average toll fare per vehicle was Rmb16.00.



GNSR Expressway prior to its Grand Opening

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Investments and Divestments

In February 2001, the Group had increased its attributable interests in Xian Expressway from 51 per cent to 100 per cent for HK\$173,000,000. In November and December 2001, the Group's entire 55 per cent interest in Xinfeng Highways and entire 82 per cent interest in Dongyang Highways were respectively divested for total sales proceeds of Rmb325 million. Apart from income received over the past years, the disposal of these two projects achieved exceptional profit of HK\$12 million.

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 eleven months of 2001, the average daily toll traffic volume of Xinfeng Highways increased by 5.58 per cent to 9,883 vehicles. Weighted average toll fare per vehicle in the period was Rmb15.41 which was 7.1 per cent lower than 2000 due to the growth in traffic volume which mainly came from Class I and II vehicles. Although the remaining cooperation period of this project still has 21 years, its future return becomes less promising as Guangdong Province has tightened criteria for setting up toll station. Two of the three toll stations of Xinfeng Highways, the distance of which is only 2.0 kms, may be required to merge and affect their revenue growth potential.

Dongyang Highways in Zhejiang Province ("Dongyang Highways")

Dongyang Highways consist of part of Provincial Highway 37 and part of Provincial Highway 39 in Dongyang City of Zhejiang Province. These highways, which opened in early 1995, connect Hangzhou, Dongyang and Jinhua cities in the eastern Zhejiang Province. As parallel highways will be constructed along Dongyang Highways and the remaining cooperation period is only 14 years, the Group considers the return of this project become less promising.

In January 2002, the Group had increased its attributable interest in Qinglian Highways from 15.60 per cent to 23.63 per cent. On 12th April 2002, the Group entered into a conditional agreement to reduce its interest in GNSR Expressway from 51 per cent to 46 per cent for a consideration of Rmb51.1 million. Part of the consideration of Rmb16.22 million will be received in cash and the balance will be satisfied by the procurement of the transfer of an aggregate of 0.995 per cent effective interest in Humen Bridge to the Group, thereby increasing the Group's interest in this project to 25 per cent.

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Analysis of Results

In 2001, toll revenue slipped by 10.6 per cent to HK\$418.6 million as traffic growth of certain toll projects was adversely affected by the maintenance and construction of toll road networks around Guangzhou City. The implementation of stringent traffic safety measures in the rural area of Guangdong Province to deny access of overloaded vehicles to selected roads has also hindered traffic growth.

Other revenues dropped by 39.6 per cent to HK\$27.1 million in 2001 due to lower dividend income and bank interest income. The former declined by 37.8 per cent to HK\$20.5 million due to planned reduction in the interest of an other investment (Dongyang Highways) which was wholly disposed of in December 2001. The latter was reduced by 38.8 per cent due to declining deposit interest rate.

Amortisation of interests in toll highways and bridges is one major cost components of the Group's business. The Group reviews its amortisation rate policy regularly to ensure overall amortisation provided is in line with the usage of the respective toll highways and bridges. New amortisation rates ranging from 0.8 per cent to 4.8 per cent (2000: 3.9 per cent to 7.0 per cent) were adopted as the result of a review completed in the second half of 2001. Consequently, the effect on the financial statements for the year ended 31st December 2001 is to increase the amortisation charge for the year by HK\$21.1 million.

Administrative expenses for 2001 went down by 13.0 per cent to HK\$40.0 million, of which amortisation of other investment was reduced by HK\$4.7 million due to reduction in dividend income as mentioned above. Amortisation of goodwill from acquisition of the remaining 49 per cent interest in a non wholly owned subsidiary (Xian Expressway) amounted to HK\$1.8 million.

For 2001, other operating expenses recorded a net decrease of 39.7 per cent to HK\$4.4 million. Included in these expenses was a net gain from the disposal of interests in a non wholly owned subsidiary (Xinfeng Highways) and an other investment (Dongyang Highways) amounted to HK\$12.0 million while withholding tax for 2001 increased by 138.4 per cent to HK\$19.4 million to reflect provisions and payments for prior years.

In accordance with the transitional provisions of Statement of Standard Accounting Practice ("SSAP") 30 "Business combinations", the Group has retrospectively restated the profit for 2000 to conform with the new accounting policy after performing an assessment of the fair value of its goodwill arising from acquisition of toll roads that had already been eliminated against reserves. The opening retained earnings for 2000 have been reduced by HK\$427.3 million which is the amount of adjustment relating to periods prior to 2000. The profit for the year ended 31st December 2000 had also been reduced by HK\$157.2 million as a result of the change.

Finance costs declined by 7.3 per cent to HK\$49.1 million for 2001. In spite of outstanding bank loans increased by 48.1 per cent to HK\$888.6 million, net finance costs were reduced by the capitalisation of finance costs amounted to HK\$5.5 million coupled with the consecutive cuts in loan interest rates.

In 2001, share of profits of associated companies dropped by 18.3 per cent to HK\$119.7 million due to negative growth in toll traffic brought about by external factors mentioned earlier and additional amortisation charge of HK\$10.0 million resulted from adoption of new amortisation rates.

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Taxation during the year increased by 1.6 per cent amounted to HK\$29.8 million (2000: HK\$29.3 million) which mainly included overseas taxation of HK\$25.3 million as compared to HK\$22.1 million for 2000. This increment of 14.2 per cent in overseas taxation was due to the expiration of tax holiday of two subsidiaries in 2001 which was partially offset by the lower tax liabilities resulted from lower net profit of certain subsidiaries and an associated company.

Minority interest for 2001 declined by 39.2 per cent to HK\$64.9 million due to lower net profit of certain non wholly owned subsidiaries and reduction of minority interest in a non wholly owned subsidiary (Xian Expressway) in which the Group's interest was increased to 100 per cent in February 2001.

For the year ended 31st December 2001, the Group recorded a profit attributable to shareholders and basic earnings per share amounted to HK\$220.3 million and 21.14 cents respectively. The corresponding restated figures in accordance with the above-mentioned transitional provision of SSAP 30 were HK\$125.3 million and 12.07 cents respectively for 2000.

Final Dividend

The Directors recommended the payment of final dividend of 2.5 cents (2000: 1.0 cent) per share to shareholders whose names appeared on the register of members of the Company on 25th June 2002. Subject to the approval of shareholders at the Annual General Meeting of the Company to be held on 25th June 2002, the final dividend will be paid on 17th July 2002. Together with the interim dividend of 3.0 cents (2000: 3.0 cents) per share, total dividends for the year ended 31st December 2001 will amount to 5.5 cents (2000: 4.0 cents) per share.

Interest Coverage

In spite of the lower finance costs, lower profit applicable for interest payments had reduced interest cover from 10 times for 2000 to 8 times for 2001.

Return on Shareholders' Funds

The return on shareholders' funds for the year ended 31st December 2001 was 7.3 per cent. Based on restated profit, return on shareholders' funds for 2000 was 4.3 per cent.

Earnings per Share

	2001	As restated 2000
Weighted average number of shares in issue	1,041,941,262	1,037,503,530
Profit attributable to shareholders (HK\$)	220,304,000	125,270,000
Basic earnings per share (cents)	21.14	12.07

The calculation of basic earnings per share was based on the Group's profit attributable to shareholders divided by the weighted average number of shares in issue during the year. With the issue of 7,078,000 ordinary shares of the Company upon exercise of share options during the year, the weighted average number of shares in issue during 2001 had increased by 4,437,732 shares.

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Analysis of Cash Flows and Borrowings

During the year, operational cash flow amounted to approximately HK\$311.4 million (2000: HK\$337.6 million) and net cash dividend received from investments amounted to approximately HK\$33.9 million (2000: HK\$34.2 million). The cash proceeds of HK\$301.6 million (2000: HK\$ nil) and HK\$420.4 million (2000: HK\$5.4 million) from disposal of investments and financing activities respectively and the internally generated cash were applied to repayment of bank loans, redemption of convertible bonds, funding of investment projects and business expansions as well as dividend payments. As at 31st December 2001, the Group increased bank balances and cash by 96.0 per cent to approximately HK\$756.0 million (2000: HK\$385.8 million).

As at 31st December 2001, the Group had outstanding bank loans of approximately HK\$888.6 million (2000: HK\$600.0 million). The following table shows the maturity profile and currency denomination of the Group's bank borrowings as at 31st December 2001:

Bank borrowings	Repayable within		Total
	one year	two to five years	
	HK\$'000	HK\$'000	HK\$'000
US dollars loan	50,700	89,700	140,400
HK dollars loan	23,375	136,001	159,376
Rmb loans	233,645	355,140	588,785
	<u>307,720</u>	<u>580,841</u>	<u>888,561</u>

As at 31st December 2001, the Group's total bank borrowings were denominated in US dollars, HK dollars and Rmb in the proportion of 15.8 per cent, 17.9 per cent and 66.3 per cent respectively. Approximately 39.7 per cent (2000: 84.4 per cent) of the Rmb bank borrowings will be repayable within one year. Owing to the Group's high credit standing with its major bankers in China, the management is confident that these borrowings could be further extended by one to three years upon maturity. 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, whose equity was funded by HK dollars or US dollars, are sufficient to meet the Group's short to medium term HK dollars and US dollars borrowings, finance costs and dividend payments.

Capital Expenditure

During the year, the Group had capital expenditures and investments amounted to approximately HK\$428.4 million (2000: HK\$196.8 million). These capital expenditures and investments largely include (a) an acquisition of the remaining 49.0 per cent interests in Xian Expressway at a consideration of HK\$173.0 million; (b) additional capital investment to a jointly controlled entity (GNSR Expressway) of Rmb183.6 million (approximately HK\$172.2 million), of which Rmb99.0 million (approximately HK\$92.5 million) was financed by a minority shareholder; (c) deposit of HK\$44.1 million for the acquisition of the remaining 34.0 per cent interests in the Group's non wholly owned subsidiary holding Qinglian Highways (this transaction was completed in January 2002 for total consideration of US\$23.1 million (approximately HK\$179.7 million)); (d) capital injection of Rmb80.0 million (approximately HK\$74.8 million) and Rmb28.3 million (approximately HK\$26.4 million) to a long term investment and existing investments respectively.

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Apart from (a), (c) and a portion of (b), the rest of the capital expenditure fundings were derived internally.

Treasury Policies

The Group's overall treasury and funding policy is that of risk management and liquidity control. The Group will maintain banking relationship with financial institutions both in Hong Kong and China to capitalise on the different levels of liquidity offered by these two markets. 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.

Since the Group's principal operations are in China and most of the income is denominated in Rmb, the management is aware of possible currency exchange risk exposure. As a hedging strategy, the Group's strategy is to use as much as practicable re-invested profits and debt financing denominated in Rmb to match with the Rmb capital expenditure requirements. Equity and debt financing denominated in foreign currency will be used selectively as supplementary funds.

Capital Structure

The Group's capital structure as at 31st December 2001 is summarized below:

	2001			As restated 2000		
	HK\$'000	Average rate of interest (% per annum)		HK\$'000	Average rate of interest (% per annum)	
Convertible bonds	—	—	—	95,000	2.6	7.0
Floating rate loan (Rmb)	588,785	14.9	5.3	420,560	11.5	6.0
Floating rate loan (LIBOR)	140,400	3.6	7.0	179,400	5.0	9.0
Floating rate loan (HIBOR)	159,376	4.0	6.1	—	—	—
Interest-free loans	39,380	1.0	—	41,505	1.1	—
Total debts	927,941	23.5		736,465	20.2	
Shareholders' funds	3,024,329	76.5	—	2,909,616	79.8	—
Total capitalisation	3,952,270	100.0		3,646,081	100.0	
Gearing Ratio	23.5%			20.2%		

Total capitalisation of the Group as at 31st December 2001 amounted to approximately HK\$4.0 billion as compared to the restated figure in 2000 of HK\$3.6 billion. The increase in total capitalisation was caused by increase of total debts and shareholders' funds.

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As at 31st December 2001, the ratio of total debts to total capitalisation ("Gearing Ratio") was 23.5 per cent as compared to the restated ratio in 2000 of 20.2 per cent. In dollar amount, total debts as at 31st December 2001 increased to HK\$927.9 million from HK\$736.5 million in 2000 due to new loans of HK\$170.0 million and Rmb250.0 million (approximately HK\$233.6 million) obtained in February and December 2001 respectively. The addition of new bank loans to total debts was partially offset by the redemption of convertible bonds in December 2001 of HK\$95.0 million and repayments of bank loans with aggregate sum of HK\$115.0 million which included Rmb70.0 million, US\$5.0 million and HK\$10.6 million.

Rmb loans accounted for 63.5 per cent of the total debts as at 31st December 2001 (2000: 57.1 per cent). This increase in proportion of Rmb loans to total debts was in line with the Group's treasury policy as mentioned earlier. All Rmb loans are unsecured. In January 2002, the Group had partially prepaid outstanding loans of Rmb80.0 million (approximately HK\$74.8 million).

The US dollars and HK dollars floating rate loans based on LIBOR and HIBOR accounted for 32.3 per cent of the Group's total debts in 2001 (2000: 24.4 per cent). They are secured by the Group's interests in two toll road projects in China separately. On 3rd January 2002, the Group prepaid all the outstanding US dollars term loan of US\$18.0 million (approximately HK\$140.4 million).

The interest-free loans are non-interest bearing loans from the minority shareholders of a subsidiary which are denominated in Rmb. The proportion of interest-free loans to the Group's total capitalisation dropped from 1.2 per cent in 2000 to 1.0 per cent in 2001 due to the repayments of Rmb2.2 million (approximately HK\$2.1 million) in 2001.

As at 31st December 2001, shareholders' funds accounted for 76.5 per cent of the Group's total capitalisation which was lower than the restated ratio as at 31st December 2000 of 79.8 per cent. This decrease was mainly due to the increase in total capitalisation with higher levels of both total debts and shareholders' funds.

Capital Commitments

After paying deposit of HK\$44.1 million in December 2001 to increase the Group's attributable interest in Qinglian Highways from 15.6 per cent to 23.63 per cent, the Group had remaining capital commitment in this transaction amounted to approximately HK\$135 million as at 31st December 2001, of which HK\$121 million and HK\$14 million were paid in January and April 2002 respectively. This acquisition was mainly funded by bank loans of Rmb180.0 million obtained in December 2001.

Employees

As at 31st December 2001 the Group had 264 employees of whom 202 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.