

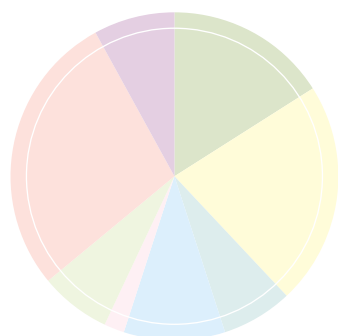
Management Discussion & Analysis – Financial Review

(A) Financial Results

Summary of Consolidated Income Statement

HK\$ million	2001	2000	Changes
Turnover: Group and share of infrastructure joint ventures			
Toll revenue	733	725	+ 1%
Minimum income undertakings	137	222	- 38%
Sales of goods	76	26	+ 192%
	946	973	- 3%
Less: Share of infrastructure joint ventures' toll revenue	(701)	(697)	+ 1%
Turnover: Group	245	276	- 11%
Net income recognised in respect of goodwill and negative goodwill	19	12	+ 58%
Gain on disposal of interests in infrastructure joint ventures	34	–	N/A
Other income	18	26	- 31%
Cost of inventories sold	(64)	(22)	+ 191%
Provision for doubtful receivables	(126)	–	N/A
Operating expenses	(117)	(115)	+ 2%
Share of operating profit of joint ventures	399	403	- 1%
Operating profit: Group and share of joint ventures	408	580	- 30%
Finance costs	(111)	(131)	- 15%
Profit before taxation	297	449	- 34%
Taxation	(56)	(21)	+ 167%
Profit for the year	241	428	- 44%
Weighted average number of issued shares	506,014,065	510,565,725	- 1%
Basic earnings per share	HK\$0.40	HK\$0.76	- 47%
Dividend per share in respect of current year	HK15.8 cents	HK26.0 cents	- 39%
HK\$ million			
Dividend in respect of current year			
Interim dividend	35	96	- 64%
Proposed final dividend	45	35	+ 29%
Dividend on convertible preference shares	39	39	–

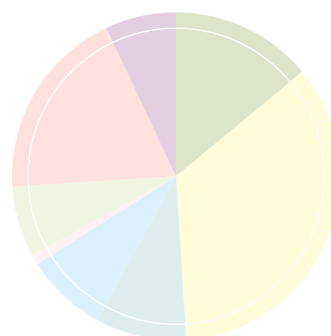
Profit Contribution by Geographic Region



2001

22%	Guangdong	35%
7%	Jiangsu	9%
10%	Henan	8%
2%	Guangxi	1%
7%	Shanxi	7%
28%	Anhui	19%
8%	Hebei	7%
16%	Hunan	14%

Profit Contribution by Geographic Region



2000

Group's share of toll revenue

Group's share of toll revenue increased by 1% mainly attributable to the increase in total traffic and toll rates in certain projects but was offset by the loss of toll revenue as a result of the disposal of interests in four infrastructure co-operative joint ventures in Jieyang Highway Network ("Jieyang JVs") in 2001. Excluding the effect of the disposed Jieyang JVs, the increase in toll revenue would be 11%.

Minimum income undertakings

The decrease was mainly due to the fact that some of the Group's projects had already reached the stage to recover their original investment amounts and, therefore, the provision of minimum income undertakings for some projects had been expired.

Sales of goods

The amount mainly represented sales of goods from the North American ginseng business.

Net income recognised in respect of goodwill and negative goodwill

The amount mainly represented the amortisation of negative goodwill arising from the acquisition of approximately 62% shareholding of Chai-Na-Ta Corp. The negative goodwill is being recognised as income over three years which is the weighted average useful life of the non-monetary assets.

Other income

Other income mainly consisted of interest income. Although the Group's bank and cash position improved during the year, interest income decreased substantially due to the reduction of bank deposit rates in 2001.

Provision for doubtful receivables

A full provision was made in respect of the outstanding receivables in relation to the minimum income undertakings due from the joint venture partners of Jieyang Highway Network project for approximately HK\$126 million.

Operating expenses

A slight increase of operating expenses was due to the inclusion of current year's operating expenses of the ginseng and medicine businesses. The ginseng business was acquired by the Group in May 2000.

Share of operating profit of joint ventures

Share of joint ventures' operating profit decreased by 1% due to the fact that some projects had reached their second stage of income distribution where the PRC joint venture partners were entitled to have a higher income sharing ratio. Also, the Group would no longer share the profit from the Jieyang JVs after their disposal. Excluding the effect of the disposed Jieyang JVs, share of operating results of joint ventures would increase by 6%.

Finance costs

Finance costs mainly represented interest of secured loans, the Guaranteed Notes less interest income on repurchased portion and the up-front finance costs in association with the refinancing exercise during the year. The decrease in finance costs was consistent with the falling US interest rates during 2001.

Taxation

Taxation mainly represented share of PRC income tax attributable to the PRC infrastructure joint ventures and a deferred tax provision arising from timing differences between depreciation policy for toll highway operation rights adopted by the Group and that adopted by the PRC infrastructure joint ventures. The substantial rise of taxation was due to an increase of the provision of deferred tax as a result of the increase in cumulative timing difference on depreciation.

(B) Cash Flow

Summary of Consolidated Cash Flow Statement

HK\$ million	2001	2000	Changes
Net cash inflow (outflow) from operating activities	40	(71)	111
Net cash outflow from returns on investment and servicing of finance	(62)	(291)	229
Net cash inflow from investing activities	840	140	700
Net cash inflow (outflow) before financing	818	(222)	1,040
Net cash outflow from financing	(195)	(226)	31
Increase (decrease) in cash and bank balances	623	(448)	1,071

Net cash inflow from operating activities was mainly attributable to decrease of debtors, deposits and prepayments by HK\$66 million and decrease of inventories and ginseng crops by HK\$21 million in the current year.

Net cash outflow from returns on investment and servicing of finance mainly consisted of dividends received from joint ventures of HK\$140 million (last year: HK\$66 million); dividend payment of HK\$110 million (last year: HK\$248 million), interest income of HK\$15 million (last year: HK\$29 million) and interest payment of HK\$107 million (last year: HK\$138 million).

Net cash inflow from investing activities mainly comprised a net proceeds of HK\$482 million (last year: Nil) from disposal of interests in Jieyang JVs, repayment of shareholder loans from joint ventures of HK\$298 million (last year: HK\$363 million), and decrease of charged deposits of HK\$106 million (last year: decrease of HK\$39 million).

Net cash outflow from financing principally consisted of the full repayment of the outstanding US\$ transferable loan facility of HK\$768 million (last year: HK\$146 million) and the arrangement of a new transferable loan facility of HK\$581 million (last year: Nil) in August 2001.

Capital Expenditure Commitments

As at the end of 2001, the Group's outstanding capital commitments in respect of toll road projects were as follows:

	HK\$ million
Within one year	43
In the second to fifth year inclusive	3
After the fifth year	42
	<hr/> 88 <hr/>

The commitments will be funded by the Group's working capital.

Contingent Liabilities

As at the end of 2001, the Group had the following contingent liabilities:

	HK\$ million
Guarantees indirectly given to banks in respect of bank facilities utilised by infrastructure joint ventures	<hr/> 151 <hr/>

(C) Financial Position

Summary of Consolidated Balance Sheet

HK\$ million	2001	2000	Changes
ASSETS			
Property, plant and equipment	57	69	- 12
Interests in joint ventures	3,955	4,463	- 508
Other non-current assets	285	327	- 42
Current assets	1,329	869	+ 460
Total assets	5,626	5,728	- 102
LIABILITIES			
Current liabilities	158	236	- 78
Long-term liabilities	1,099	1,239	- 140
Minority interests	81	85	- 4
Total liabilities	1,338	1,560	- 222
CAPITAL			
Shareholders' funds	4,288	4,168	+120

Property, plant and equipment mainly comprised the fixed assets of subsidiaries including Zhongshan Qijiang Highway Company Limited and Chai-Na-Ta Corp.

Interests in joint ventures decreased to HK\$3,955 million mainly due to the disposal of interests in the Jieyang JVs during the year.

Other non-current assets mainly comprised toll highway operation right, goodwill, negative goodwill, debtors due after one year, investments in securities and charged deposits.

Current assets mainly comprised bank balances and cash, charged deposits, receivables, inventories and ginseng crops. Bank balances, cash and charged deposits aggregated to HK\$925 million (last year: HK\$391 million), partly including the net proceeds from the disposal of interests in the Jieyang JVs.

Current liabilities mainly comprised HK\$99 million of the short-term portion of the secured loans (last year: HK\$149 million) and HK\$24 million (last year: HK\$50 million) of interest payables.

Non-current liabilities comprised the long term portion of the Group's secured loans and guaranteed notes of HK\$1,099 million (last year: 1,239 million).

The increase in **shareholders' funds** was attributable to the change of the retained profit, adjusted for cancellation of repurchased shares during the year.

Capital Structure

HK\$ million	2001	2000
Shareholders' funds	4,288	4,168
Secured loans	1,199	1,388
Total capital employed	5,487	5,556
Gearing ratio	28%	33%

The reduction of the Group's gearing ratio from 33% to 28% was mainly attributable to the full repayment of the US dollars transferable loan certificate of HK\$768 million together with the refinancing of a new transferable loan certificate of HK\$581 million. The Group's net gearing ratio had then decreased to 5% (last year: 22%).

Interest Coverage

HK\$ million	2001	2000
Earnings before interest, taxation, depreciation and amortisation ("EBITDA")	536	703
Finance costs	111	131
Interest coverage	4.8 times	5.4 times