

MANAGEMENT DISCUSSION & ANALYSIS

BUSINESS REVIEW

Investment, development and management of highway projects is the Group's core business as well as the Group's major revenue and profit source.

In the first half of 2002, the total traffic and toll revenue derived from highway projects were 50 million vehicles and RMB600 million respectively. Excluding the impact of the Jieyang Highway Network project (the Group disposed of its interests in the project in September 2001), the Group's total traffic and toll revenue had increased by 11% and 13% as compared to the same period in 2001.

The Group's 2002 unaudited interim net profit was HK\$172.5 million, representing a decrease of 7% as compared with that of 2001. The profit is not increased in proportion to that of toll revenue because some of the Group's projects are in their second stage of income distribution where the joint venture partners are entitled to a higher income sharing ratio. After the joint venture partners having received their income distribution up to their original investment amount, the Group's income sharing ratio will be adjusted upward and will be consistent with the overall growth of toll revenue and profit.

Toll increment for the old road of Changsha-Yiyang Expressway project in Hunan Province was approved in April.

The construction progress of the Anhui Bengbu Chaoyanglu Bridge is on schedule and will be operational and generating cash flow by early 2003.

On 17 May, the Group signed a conditional agreement to operate and manage the Baoding-Tianjin Expressway in Hebei Province. Negotiation of detailed terms and conditions and documentation for regulatory approval by the relevant authorities are currently under progress.

The Group disposed of its Chinese medicine business in April and June 2002. The Group continued to hold over 60% interest in Chai-Na-Ta Corp., the global largest North American ginseng supplier. This business is currently developing at a healthy pace.

MANAGEMENT DISCUSSION & ANALYSIS *(Continued)*

FINANCIAL REVIEW

As at 30 June 2002, the Group's net assets were HK\$4,415 million and net assets per share was HK\$8.56. Total assets were HK\$5,757 million which included cash and bank deposits of HK\$1,178 million. During the six months ended 30 June 2002, the Group received HK\$267 million of cash distribution from highway projects, an increase of 10% as compared to that of 2001. Total borrowings and net debt amounted to HK\$1,214 million and HK\$36 million respectively. The Group maintained a very low net gearing ratio at less than 1% as compared to 19% in 2001.

The Group's major borrowings include a US dollar denominated transferable loan facility with an outstanding balance equivalent to HK\$585 million, US dollar denominated Guaranteed Notes with an outstanding balance equivalent to HK\$616 million, a Hong Kong dollar denominated term loan with an outstanding balance of HK\$12.5 million, and Canadian dollar denominated loan facilities with an aggregate outstanding balance equivalent to HK\$1 million. Of which, HK\$196 million and HK\$390 million will be due within one year and two years respectively.

With the exception of the fixed-rate US dollar denominated Guaranteed Notes, all the borrowings of the Group are on a floating rate basis. The Group kept a substantial portion of bank deposits in US dollars and HK dollars for new investment opportunities. To minimize the Group's Renminbi exchange risk, the Group had provided guarantees in the amount of approximately HK\$134 million to banks in Hong Kong for arranging RMB banking facilities provided by local banks in the PRC to the Group's various infrastructure joint ventures.

During the period, the Group injected HK\$15.5 million of capital into the Anhui Bengbu Chaoyanglu Bridge Project to finance the on-going construction. For the remaining half of 2002, approximately HK\$28.6 million will be required.

Throughout the past six months, the Group disposed of a number of non-core investments for an aggregate consideration of HK\$59 million.

EMPLOYEES

Excluding joint ventures, the Group has a total of 158 staff as at 30 June 2002. The pay levels of employees are commensurate with their responsibilities, performance and contribution.

PROSPECTS

The Board expects that the highway business will continue to generate a reliable profit and cash income in the remaining half year of 2002.

In consideration of the increasing investment opportunities in the PRC highway projects, the Group is committed to pursue good projects aggressively in order to strengthen its business size and profitability.

The Group will continue to seek for new investment opportunities on infrastructure related projects such as transport related business.