

MANAGEMENT DISCUSSION AND ANALYSIS

Summary Information on Operating Toll Roads and Bridges in first half of 2002

	Length (kms)	Width (lanes)	Attributable interest (%)	Road type	Toll traffic volume* (vehicle)	Toll fare per vehicle** (Rmb)
Guangshen Highway	23.1	6	80.00	Class I highway	6,968	6.56
Guangshan Highway	64.0	4	80.00	Class II highway	28,480	10.36
Guangcong Highway Section I	33.3	6	80.00	Class I highway	16,191	12.49
Guangcong Highway Section II	33.1	6	51.00	Class I highway	28,989	7.98
& Provincial Highway 1909	33.3	4	51.00	Class I highway		
Guanghua Highway	20.0	6	55.00	Class I highway	8,663	7.87
Xian Expressway	20.1	4	100.00	Expressway	16,602	11.33
Humen Bridge	15.8	6	25.00	Suspension bridge	29,026	38.10
Northern Ring Road	22.0	6	24.30	Expressway	119,331	9.96
Xiang Jiang Bridge II	1.8	4	75.00	Rigid frame bridge	4,210	9.63
GNSR Expressway	42.4	6	46.00	Expressway	5,441	28.74
Qinglian Highways						
National Highway 107	253.0	2	23.63	Class II highway	32,496	23.83
Highway between Qingyuan and Lianzhou cities	215.2	6	23.63	Class I highway		

* on daily average basis

** on weighted average basis

BUSINESS REVIEW

PERFORMANCE OF INDIVIDUAL PROJECTS

The Group's toll road portfolio comprises expressways and national highways mainly located in Guangdong Province. The Northern Ring Road, GNSR Expressway and Humen Bridge are located inside Guangdong Province, while Guangshen, Guangshan, Guangcong Section I and II, Guanghua and Qinglian Highways are national highways connecting traffic hub of major cities inside Guangdong Province and inter-provincial traffic between Guangdong, Hunan and Jiangxi Provinces. Xian Expressway and Xiang Jiang Bridge II are located outside Guangdong Province. Currently, all of the Group's toll roads and bridges are operating and generating toll revenue.

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.

Owing to diversion of traffic by the Guang Yuan Road East completed in September 2001 and the high base value in the first half of 2001, average daily toll traffic volume of Guangshen Highway declined by 74.46 per cent to 6,968 vehicles in the first half of 2002. Weighted average toll fare per vehicle during the period was Rmb6.56. It is expected that traffic diversion will ease in 2003.

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 the first half of 2002, the average daily toll traffic volume of Guangshan Highway decreased by 12.4 per cent to 28,480 vehicles due to diversion of traffic by the Guang Yuan Road East completed in September 2001. Weighted average toll fare per vehicle during the period was Rmb10.36. It is expected that traffic diversion will ease in 2003.

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 located in the suburban area.

Average daily toll traffic volume of Guangcong Highway Section I rose healthily by 6.31 per cent to 16,191 vehicles in the first half of 2002 due to natural traffic growth and completion of a section of Jing Zhu Expressway in September 2001 which improved the road network nearby. Weighted average toll fare per vehicle during the period was Rmb12.49.

Guangcong Highway connecting Tai Ping Chang and Wenquan (“Guangcong Highway Section II”) & Provincial Highway 1909

Guangcong Highway Section II mainly 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 mainly 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 2002 was 28,989 vehicles. It grew significantly by 15.43 per cent due to natural traffic growth and completion of a section of Jing Zhu Expressway in September 2001 which improved the road network nearby. Weighted average toll fare per vehicle in the period was Rmb7.98.

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.

With completion of construction works of the new Guangzhou International Airport Expressway, which caused traffic jam last year, the average daily toll traffic volume of Guanghua Highway rebounded and rose by 16.53 per cent to 8,663 vehicles in the first half of 2002. Weighted average toll fare per vehicle was Rmb7.87.

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.

Owing to the Central Government’s Western Region Development Policy to speed up economic development and full operation of the expressway connecting Xian Expressway through Tong Guan City to Zhengzhou City in Henan Province, average daily toll traffic volume of Xian Expressway recorded a healthy increase of 17.30 per cent to 16,602 vehicles in the first half of 2002. Weighted average toll fare per vehicle during the period was Rmb11.33.

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 the first half of 2002 continued to grow strongly by 15.03 per cent to 29,026 vehicles due to natural traffic growth of the Pearl River Delta Region. Weighted average toll fare per vehicle during the period was Rmb38.10.

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.

Owing to expansion of road network in Guangzhou, average daily toll traffic volume of the Northern Ring Road decreased slightly during the first half of 2002 by 2.09 per cent to 119,331 vehicles. The weighted average toll fare per vehicle was Rmb9.96.

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 32,496 vehicles in the first half of 2002, which fell marginally by 2.76 per cent due to continuous administrative measures to deny access of overload trucks by local authorities. Weighted average toll fare per vehicle during the period was Rmb23.83.

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 linking the northern and southern river banks of Xiang Jiang along National Highway 107. The bridge primarily connects inter-provincial traffic between Guangdong Province and Hunan Province.

Average daily toll traffic volume of Xiang Jiang Bridge II decreased by 7.21 per cent in the first half of 2002 to 4,210 vehicles due to traffic diversion by the Xiang Geng Section of Jing Zhu Expressway. The weighted average toll fare per vehicle was Rmb9.63.

Guangzhou Northern Second Ring Expressway (“GNSR Expressway”)

The six-lane 42.4 kms GNSR Expressway is of total investment of Rmb2.7 billion and has nine intersections and nine toll stations. It links five expressways, four national and two provincial highways in the north of Guangzhou Municipality to facilitate southern bound traffic from the northern regions and connects the eastern and western bound traffic in the northern part of Guangzhou City. Construction of GNSR Expressway was completed at the end of 2001 and commenced toll collection in January 2002.

For the first half of 2002, average daily toll traffic volume of GNSR Expressway was 5,441 vehicles and the weighted average toll fare per vehicle was Rmb28.74. Although opened only eight months ago, GNSR Expressway's current daily toll revenue exceeded Rmb200,000. This indicates that the project achieves relatively satisfactory performance amongst expressways in the Guangdong Province.

NEW INVESTMENT

The Group is in the process of acquiring a 30 per cent stake in the Shantou Bay Bridge in the second half of 2002.

FUTURE STRATEGIES AND PROSPECTS

The Group's strategy is to continue acquiring new investments of toll roads and bridges selectively with promising return to raise its profit. In 2001, the Group disposed its 55 per cent stake of Xinfeng Highways and 82 per cent stake of Dongyang Highways. The amortisation rate was re-adjusted while vehicles are yet to adjust to GNSR Expressway which is in its initial stage of operation. These factors affecting toll revenue and profit in the first half of 2002 were regarded by the Group as temporary. Income from GNSR Expressway will increase gradually and overall highway transportation is being underpinned by the fast economic growth of China. With rising traffic volume, the Group's revenue and profit will continue to improve.

FINANCIAL REVIEW

ANALYSIS OF RESULTS

Turnover for the six months ended 30th June 2002 amounted to HK\$173.9 million which was 18.8 per cent lower than the same period in 2001 due to disposal of Xinfeng Highways and negative traffic growth in certain toll road projects. However, taking the disposal factor aside, turnover decline was only 6.8 per cent.

Other revenues declined by 86.1 per cent to HK\$2.3 million for the six months ended 30th June 2002 primarily due to loss of revenue from disposal of an other investment (Dongyang Highways) in December 2001.

Owing to adoption of new amortisation rates, amortisation of toll highways and bridges in the first half of 2002 was HK\$37.9 million and 43.1 per cent higher than same period last year (after ignoring the amount attributable to Xinfeng Highways). However, if the new amortisation rates were applied retrospectively to the first half of 2001, the average increment would only be 2.4 per cent which was in line with the Group's new amortisation rates.

Administrative expenses incurred during the first six months of 2002 amounted to HK\$13.9 million which was 18.7 per cent lower than same period last year. The decrease was mainly due to disposal of Dongyang Highways resulting in lower amortisation of an other investment and lower bank charges of loans obtained from banks in China during the current period as compared to loans raised in Hong Kong during same period in 2001.

In April 2002, the transfer of 5.0 per cent of the Group's interest in the jointly controlled entity, Guangzhou Northern Second Ring Expressway ("GNSR Expressway"), to a minority shareholder with a gain of HK\$6.2 million was recorded as reduction to other operating expenses.

Finance costs declined by 16.7 per cent to HK\$20.4 million for the first six months in 2002 mainly due to redemption of convertible bonds in December 2001 and repayment of US dollars bank loan in January 2002.

Share of profits of associated companies for the current period amounted to HK\$70.7 million and increased slightly by 0.8 per cent as compared to HK\$70.2 million for last period. Traffic volume of Humen Bridge increased substantially in the period. However, the lower traffic volume growth of Qinglian Highways and adoption of new amortisation rates by associated companies had reduced the overall attributable contribution from associated companies.

The Group's jointly controlled entity, GNSR Expressway with total investment of Rmb2.7 billion, commenced toll collection in January 2002. For the period up to 30th June 2002, GNSR Expressway was operating at an attributable loss of HK\$24.8 million. Such loss, which had reduced the Group's attributable profit to shareholders, was typical for expressway at its initial stage of operation when traffic flow was far from normal level yet.

In spite of lower pre-tax profit caused by adoption of new amortisation rates and disposal of investments, taxation during the current period rose by 13.5 per cent to HK\$17.2 million mainly due to expiration of the "tax" concession period of certain subsidiaries.

Minority interest for the first half of 2002 amounted to HK\$22.0 million which was 44.0 per cent lower than same period last year mainly due to reduced operating profit. In addition, disposal of Xinfeng Highways and acquisition of the remaining 34.0 per cent shareholdings in a subsidiary holding Qinglian Highways had also reduced total minority interest by HK\$9.9 million.

For the six months ended 30th June 2002, the Group achieved attributable profit to shareholders of HK\$77.7 million as compared to HK\$132.5 million for same period last year. Basic earnings per share for the two periods amounted to 7.44 cents and 12.75 cents respectively.

INTERIM DIVIDEND

The Board of Directors has resolved to declare an interim dividend for 2002 of 3.00 cents (2001: 3.00 cents) per share payable on 28th November 2002 to shareholders whose names appear on the register of members on 15th November 2002. Interim dividend pay out ratio will be 40.38 per cent (2001: 23.66 per cent).

LIQUIDITY AND FINANCIAL RESOURCES

Cash flows and borrowings

As at 30th June 2002, the Group had bank balances and cash of approximately HK\$538.9 million which decreased by 28.7 per cent compared with 31st December 2001. Net cash inflow from operating activities for the first half of 2002 amounted to approximately HK\$132.0 million (2001: HK\$220.2 million) due to disposal of Xinfeng Highways and lower traffic volume of certain projects, HK\$117.6 million (2001: HK\$161.3 million) was generated from operating profit after payment of tax of HK\$12.2 million (2001: HK\$0.8 million) and HK\$35.2 million (2001: HK\$86.2 million) was cash dividends received from associated companies.

Net cash used in investing activities for the first half of 2002 amounted to HK\$113.3 million (2001: HK\$306.0 million). During the period, an amount of Rmb16.2 million (approximately HK\$15.2 million) was received being proceeds from reduction in interests in GNSR Expressway and an aggregate sum of HK\$150.5 million (2001: HK\$284.5 million) was applied to investments with details summarised below under “Capital expenditures”.

While the Group was negotiating new investments; to maximize the value of its financial resources in the transition process, the Group had reduced its foreign currency debts and net cash used in financing activities amounted to HK\$213.8 million. As at 30th June 2002, the Group had outstanding bank borrowings of approximately HK\$709.5 million, which declined by 20.2 per cent compared with 31st December 2001.

The maturity profile of outstanding bank borrowings as at 30th June 2002 were shown below:

Bank borrowings	Repayable within		Total
	one year	two to five years	
	HK\$'000	HK\$'000	HK\$'000
HK dollars loan	25,500	123,250	148,750
Rmb loans	420,561	140,187	560,748
	446,061	263,437	709,498

As at 30th June 2002, bank borrowings were denominated in HK dollars and Rmb in the proportion of 21.0 per cent and 79.0 per cent respectively which is in line with the Group's hedging strategy in using primarily Rmb loans as stated below under “Treasury Policies”. As corporate loans are commonly short to medium term in China, approximately 75.0 per cent of the outstanding Rmb loans will be repayable within one year. The relative liquidity risk is considered to be insignificant because the management is confident that short term Rmb loans could be further extended by one to three years upon maturity due to the Group's credit standing with its major bankers in China and the high level of liquidity in the Chinese banking system.

With 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, the management believes that the Group is able to meet its short to medium term HK dollars borrowing, finance costs and dividend payments.

Capital expenditures

During the first half of 2002, the Group had capital expenditures and investments amounted to approximately HK\$150.5 million which primarily include (a) balance consideration for the acquisition of the remaining 34.0 per cent interests in the Group's non wholly owned subsidiary holding Qinglian Highways amounted to HK\$135.6 million (total consideration was US\$23.1 million (approximately HK\$179.7 million) and a deposit of HK\$44.1 million was already paid in 2001); and (b) additional capital injection to an existing other investment amounted to Rmb15.3 million (approximately HK\$14.3 million). These capital expenditures and investments were financed both by bank borrowings and internal funds.

During the same period, the Group had increased its effective interest in an associated company as part of the consideration in respect of a disposal transaction. In April 2002, the Group had transferred 5.0 per cent of its interest in a jointly controlled entity, GNSR Expressway, to Guangzhou Highways Development Company for Rmb51.1 million (approximately HK\$47.8 million). The total considerations received were in the form of cash amounted to Rmb16.2 million (approximately HK\$15.2 million) and an aggregate of 0.995 per cent effective interest in an existing associated company, Guangdong Humen Bridge Co., Ltd., which is equivalent to an amount of Rmb34.9 million (approximately HK\$32.6 million).

CAPITAL STRUCTURE

The Group's capital structure as at 30th June 2002 is summarised below:

	30th June 2002			31st December 2001		
	<i>HK\$'000</i>	<i>%</i>	<i>Average rate of interest (% per annum)</i>	<i>HK\$'000</i>	<i>%</i>	<i>Average rate of interest (% per annum)</i>
Floating rate loans (Rmb)	560,748	14.7	5.26	588,785	14.9	5.3
Floating rate loan (LIBOR)	—	—	—	140,400	3.6	7.0
Floating rate loan (HIBOR)	148,750	3.9	4.27	159,376	4.0	6.1
Interest free loans	38,493	1.0	—	39,380	1.0	—
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Total debts	747,991	19.6		927,941	23.5	
Shareholders' funds	3,077,054	80.4		3,024,329	76.5	
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Total capitalisation	3,825,045	100.0		3,952,270	100.0	
Gearing Ratio	19.6%			23.5%		

Total capitalisation of the Group as at 30th June 2002 amounted to approximately HK\$3.8 billion which was slightly below the total capitalisation as at 31st December 2001 due to the reduction of total debts in the first half of 2002.

As at 30th June 2002, the ratio of total debts to total capitalisation (Gearing Ratio) was 19.6 per cent as compared to 23.5 per cent as at 31st December 2001. Total debts declined from approximately HK\$927.9 million as at 31st December 2001 to approximately HK\$748.0 million as at 30th June 2002 mainly due to prepayment of the LIBOR based US dollars floating rate loan in January 2002 amounted to US\$18.0 million (approximately HK\$140.4 million).

Floating rate loans in Rmb accounted for 75.0 per cent of the total debts as at 30th June 2002 (31st December 2001: 63.5 per cent). During the first half of 2002, the Group had repaid a net sum of Rmb30.0 million Rmb loans (approximately to HK\$28.0 million). All Rmb loans are unsecured.

The HIBOR based HK dollars floating rate loan which accounted for 19.9 per cent of total debts as at 30th June 2002 (31st December 2001: 17.2 per cent) was secured by the Group's interests in a toll road project in China.

The interest free loans are non-interest bearing loans from the minority shareholders of a subsidiary which are denominated in Rmb. During the period Rmb0.95 million (approximately HK\$0.88 million) was repaid.

As at 30th June 2002, shareholders' funds amounted to HK\$3.1 billion and accounted for 80.4 per cent of the Group's total capitalisation. As at 31st December 2001, being 76.5 per cent of the total capitalisation, shareholders' funds were HK\$3.0 billion. The slight increase in shareholders' funds represented net profit retained for the period after appropriation of 2001 final dividend.

INTEREST COVERAGE

Interest coverage for the six months ended 30th June 2002 was 9 times which was similar to same period in 2001. The interest coverage was measured by the ratio of profit before taxation, interests and non-cash items to interest expenses.

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

There were no material capital commitments as at 30th June 2002. The contingent liabilities as at 30th June 2002 were not significantly different from those disclosed in the 2001 annual report.

TREASURY POLICIES

The Group continues to adopt the following treasury policies and hedging strategy similar to those disclosed in the 2001 annual report.

The Group's overall treasury and funding policy is that of risk management and liquidity control. The Group will maintain relationship with financial institutions both in Hong Kong and China to capitalize 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 Rmb capital expenditure requirements. Equity and debt financing denominated in foreign currency will be used selectively as supplementary funds.

EMPLOYEES

As at 30th June 2002, the Group had 259 employees of whom 204 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 share option schemes which award it employees according to the performance of the Group and individual employees.