

BUSINESS REVIEW

SUMMARY INFORMATION ON OPERATING TOLL ROADS AND BRIDGES IN 2002

	Length (kms)	Width (lanes)	*Attributable interest (%)	Road type	Average daily toll traffic volume (vehicle)	Weighted average toll fare per vehicle (Rmb)
Guangshen Highway	23.1	6	80.00	Class I highway	8,586	6.51
Guangshan Highway	64.0	4	80.00	Class II highway	29,024	10.36
Guangcong Highway Section I	33.3	6	80.00	Class I highway	15,799	12.53
Guangcong Highway Section II	33.1	6	51.00	Class I highway	27,743	8.13
& Provincial Highway 1909	33.3	4	51.00	Class I highway		
Guanghua Highway	20.0	6	55.00	Class I highway	9,066	7.87
Xian Expressway	20.1	4	100.00	Expressway	17,701	11.42
Xiang Jiang Bridge II	1.8	4	75.00	Rigid frame bridge	4,026	9.66
Humen Bridge	15.8	6	25.00	Suspension bridge	30,280	37.98
Northern Ring Road	22.0	6	24.30	Expressway	120,082	10.00
Qinglian Highways						
National Highway 107	253.0	2	23.63	Class II highway		
Highway between Qingyuan and Lianzhou cities	215.2	4	23.63	Class I highway	32,023	24.75
Shantou Bay Bridge	6.5	6	30.00	Suspension bridge	#11,938	30.82
GNSR Expressway	42.4	6	46.00	Expressway	6,908	26.94

* As at 31st December 2002

Shantou Bay Bridge became the Company's associated company on 16th July 2002. Figures shown are referring to the period from August to December of 2002 only.



Humen Bridge connecting the eastern and the western sides of the Pearl River Delta

Performance of Individual Projects

The Group's toll road portfolio is consisted of expressways, bridges and national highways mainly located in Guangdong Province. Northern Ring Road, Guangzhou Northern Second Ring Expressway, Humen Bridge and Shantou Bay Bridge are expressways and bridges located inside Guangdong Province, while Guangshen, Guangshan, Guangcong Section I and II, Guanghua and Qinglian 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 late 2001, average daily toll traffic volume of Guangshen Highway declined by 63.5 per cent to 8,586 vehicles in 2002. Weighted average toll fare per vehicle in the period was Rmb6.51. As Guang Yuan Road East started collecting toll since the end of 2002, traffic volume of Guangshen Highway has been rebounding significantly since early 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 2002, the average daily toll traffic volume of the two toll stations on Guangshan Highway decreased by 10.4 per cent to 29,024 vehicles due to diversion of traffic by the Guang Yuan Road East completed in late 2001. Weighted average toll fare per vehicle during the period was Rmb10.36. As Guang Yuan Road East started collecting toll since the end of 2002, traffic volume of Guangshan Highway has also been picking up significantly since early 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 suburb Conghua City.

Average daily toll traffic volume of Guangcong Highway Section I rose steadily by 2.1 per cent to 15,799 vehicles in 2002 due to natural traffic growth. Weighted average toll fare per vehicle during the period was Rmb12.53.

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 2002 was 27,743. It grew healthily by 7.4 per cent due to natural traffic growth and completion of a section of Jing Zhu Expressway in late 2001 which improved the road network nearby. Weighted average toll fare per vehicle in the period was Rmb8.13.

Guanghua Highway

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

Since the construction of related transport network for the new Guangzhou International Airport causing traffic jam had been completed in early 2002, average daily toll traffic volume of Guanghua Highway rebounded significantly by 14.1 per cent to 9,066 vehicles in 2002. Weighted average toll fare per vehicle during the period 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 implementation of the Central Government’s Western Region Development Policy, economic and tourism growth in this Region have been accelerating. Along with the formation of a regional network of expressways, a favourable business environment has been created for the Group. Average daily toll traffic volume of Xian Expressway recorded a healthy increase of 18.4 per cent in 2002 with 17,701 vehicles. Weighted average toll fare per vehicle during the period was Rmb11.42.

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.

Owing to natural traffic growth of the Pearl River Delta Region, average daily toll traffic volume of Humen Bridge in 2002 continued to grow strongly by 16.1 per cent to 30,280 vehicles. Weighted average toll fare per vehicle during the period was Rmb37.98.

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 Guangzhou Foshan Expressway in the west and Guangzhou Shenzhen Expressway in the east.

As traffic diversion by the Inner Ring Road and Guangzhou Northern Second Ring Expressway had diminished, average daily toll traffic volume of the Northern Ring Road only decreased slightly in 2002 by 1.4 per cent to 120,082 vehicles. The weighted average toll fare per vehicle during the period was Rmb10.00.

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.

Although traffic in the first half of the year was affected by continuous administrative measures to deny access of overload trucks by local authorities, average daily toll traffic volume of the nine toll stations on Qinglian Highways recovered in the second half and full year traffic volume was 32,023 vehicles in 2002, which achieved growth of 0.8 per cent. Weighted average toll fare per vehicle during the period was Rmb24.75.

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 only decreased slightly by 0.9 per cent in 2002 to 4,026 vehicles as traffic diversion by the Xiang Geng Section of Jing Zhu Expressway had diminished. Weighted average toll fare per vehicle during the period was Rmb9.66.

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 City. Construction was completed as scheduled and GNSR Expressway commenced toll collection in January 2002.

In 2002, average daily toll traffic volume of GNSR Expressway was 6,908 vehicles and weighted average toll fare per vehicle during the period was Rmb26.94. Such levels are considered normal for newly opened expressways. After the completion of Jing Zhu Expressway Southern Section in Guangdong Province in the first quarter of 2003, the toll road network nearby is expected to improve which should boost the average daily toll traffic volume of GNSR Expressway.



The recently completed Guangzhou Northern Second Ring Expressway

Major Investment

Shantou Bay Bridge

As a progressive toll road investor and operator, the Group continues to invest selectively in quality toll road projects. To replenish its toll road portfolio after disposing investments including Xinfeng Highways and Dongyang Highways in late 2001, the Group acquired a 30 per cent stake in Shantou Bay Bridge for Rmb322 million in July 2002.

Shantou Bay Bridge is located in the eastern entrance of Shantou Harbour linking Powai and Muishan Expressways in the east and Shenshan Expressway in the west. It crosses over Huangsha Bay Main Sea Route of Shantou Harbour. This two-way six lanes bridge with total length of 6.495 kilometers has started operation since December 1995. Annual growth rate of toll traffic volume has been satisfactory. From August to December of 2002, average daily toll traffic volume was 11,938 vehicles and weighted average toll fare per vehicle was Rmb30.82. This project with a cooperative period of 27 years starting from July 2002 is a more attractive investment with higher returns when compared with the toll road projects disposed in 2001.



Shantou Bay Bridge acquired in July 2002

FINANCIAL REVIEW

Analysis of Results

Turnover of the Group for the year ended 31st December 2002 amounted to HK\$355.6 million was 15.0 per cent lower than 2001 due to disposal of Xinfeng Highways and negative growth in certain toll roads such as Guangshen and Guangshan Highways which were affected by temporary traffic diversion. Taking the disposal factor aside, turnover decline was 4.9 per cent.

Other revenues declined by 86.8 per cent to HK\$3.6 million for the year ended 31st December 2002 primarily due to loss of revenue from disposal of an other investment (Dongyang Highways) in December 2001.

Amortisation of toll highways and bridges in 2002 was HK\$75.7 million which was 4.9 per cent lower than 2001. Taking aside the amount attributable to Xinfeng Highways, amortisation was 2.4 per cent higher and was in line with the Group's amortisation rates.

Toll highways and bridges maintenance expenses for the year ended 31st December 2002 were reduced by 19.8 per cent to HK\$61.8 million due to disposal of Xinfeng Highways and negative traffic growth in the above toll road projects, whose maintenance expenses are linked to toll revenue. Taking aside the disposal factor, the decline was 9.2 per cent.

Administrative expenses incurred in 2002 amounted to HK\$30.3 million which was 24.3 per cent lower than 2001. The decrease was mainly due to disposal of an other investment (Dongyang Highways) resulting in lower amortisation; reduction of Directors' discretionary bonus; and lower bank charges of loans obtained from banks in China during the year as compared to loans raised in Hong Kong in 2001.

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

Provision for impairment of other investments amounted to HK\$33.5 million had been made in 2002.

Finance costs in 2002 declined by 25.8 per cent to HK\$36.4 million 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 year amounted to HK\$150.7 million and increased by 25.9 per cent as compared to HK\$119.7 million in 2001. Traffic volume of Humen Bridge increased substantially in the year. Contribution from Qinglian Highways rose remarkably due to traffic flow picking up in the second half of the year, lower finance costs from debt refinancing and increased stake by the Group. The recently acquired Shantou Bay Bridge also started profit contribution to the Group in July 2002.

The Group's jointly controlled entity, GNSR Expressway Ltd. with total investment of Rmb2.7 billion, commenced toll collection in January 2002. For full year of 2002, GNSR Expressway Ltd. was operating at an attributable loss of HK\$36.1 million, approximately two third of which was incurred in first half. Such performance was typical for expressway at its initial stage of operation when traffic flow has not yet reached its optimal level.

In spite of lower pre-tax profit, taxation during the year rose by 18.0 per cent to HK\$35.2 million mainly due to expiration of the "tax" concession period of certain subsidiaries.

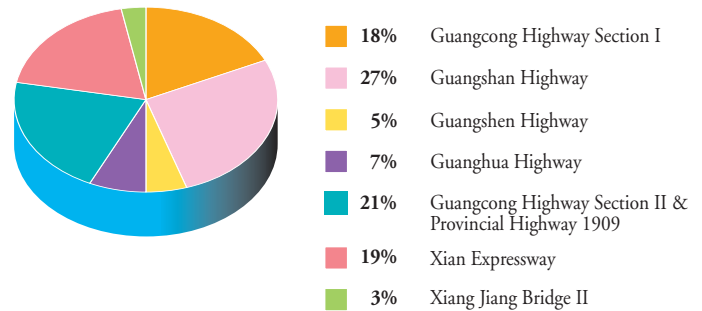
Minority interest for 2002 amounted to HK\$44.4 million which was 31.6 per cent lower than 2001 mainly due to lower operating profit. In addition, disposal of Xinfeng Highways and acquisition of the remaining 34.0 per cent stake in a subsidiary holding Qinglian Highways also reduced total minority interest by HK\$13.9 million.

For the year ended 31st December 2002, the Group achieved attributable profit to shareholders of HK\$156.1 million as compared to HK\$220.3 million in 2001. Basic earnings per share for the two years amounted to 14.92 cents and 21.14 cents respectively.

Final Dividend

The Directors recommended the payment of final dividend of 3.0 cents (2001: 2.5 cents) per share to shareholders whose names appeared on the register of members of the Company on 19th June 2003. Subject to the approval of shareholders at the Annual General Meeting to be held on 19th June 2003, the final dividend will be paid on 16th July 2003. Together with the interim dividend of 3.0 cents (2001: 3.0 cents) per share, total dividends for the year ended 31st December 2002 will amount to 6.0 cents (2001: 5.5 cents) per share.

BREAKDOWN OF TURNOVER BY PROJECTS



Liquidity and Financial Resources

Cash flows and borrowings

Owing to disposal of Xinfeng Highways and lower traffic volume of certain projects, net cash inflow generated from operations during the year amounted to approximately HK\$264.9 million (2001: HK\$311.4 million). Lower interest payments during the year amounted to HK\$39.5 million (2001: HK\$52.2 million) mainly due to redemption of convertible bonds in December 2001 and repayment of US dollars bank loan in January 2002. In spite of lower pre-tax profit, overseas taxation paid in China during the year amounted to HK\$23.6 million (2001: HK\$10.2 million) due to expiration of the “tax” concession period of certain subsidiaries.

During the year, there was a net cash outflow from investing activities amounted to HK\$336.1 million (2001 restated: HK\$4.9 million). It was made up of total cash inflow amounted to HK\$139.8 million (2001 restated: HK\$445.9 million) and total cash outflow amounted to HK\$475.9 million (2001: HK\$450.8 million). HK\$92.2 million (2001: HK\$131.3 million) of the total cash inflow of HK\$139.8 million were dividends received from associated companies and other investments. The entire HK\$475.9 million of total cash outflow were capital expenditures and investments (2001: HK\$428.4 million). Their details were stated under “Capital expenditures and investments”.

Financing activities during the year had resulted in net cash outflow of HK\$387.6 million (2001 restated: net cash inflow HK\$100.3 million). During the year, cash inflow from financing were mainly new bank loans in total amount of approximately HK\$130.8 million (2001: HK\$403.6 million). Cash outflow in financing during the year were mainly repayment of bank loans of approximately HK\$425.5 million (2001: HK\$115.0 million); dividend payment in total amount of HK\$57.7 million (2001: HK\$103.7 million); and repayment of amount due to a minority shareholder of HK\$39.1 million (2001: nil).

As at 31st December 2002, the Group had bank balances and cash of approximately HK\$215.2 million which decreased by 71.5 per cent compared with those on 31st December 2001. The figure included a charged deposit account amounted to HK\$17.8 million in respect of the Group’s HIBOR based HK dollars floating rate loan.

As at 31st December 2002, the Group had outstanding bank borrowings of approximately HK\$593.9 million, which declined by 33.2 per cent compared with those on 31st December 2001.

The maturity profile of outstanding bank borrowings as at 31st December 2002 are shown below:

Bank borrowings	Repayable		Total HK\$'000
	within one year HK\$'000	in the second to fifth year HK\$'000	
HK dollars loan	27,625	108,375	136,000
Rmb loans	457,944	—	457,944
	<u>485,569</u>	<u>108,375</u>	<u>593,944</u>

As at 31st December 2002, bank borrowings were denominated in HK dollars and Rmb in the proportion of 22.9 per cent and 77.1 per cent respectively which is in line with the Group’s hedging strategy in using primarily Rmb loans as stated under “Treasury Policies”. As corporate loans are commonly short to medium term in China, all 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 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 and investments

During the year, the Group had capital expenditures and investments amounted to approximately HK\$475.9 million which primarily included (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); (b) additional capital injection to an existing other investment amounted to Rmb15.3 million (approximately HK\$14.3 million); and (c) purchase of an interest in an associated company holding Shantou Bay Bridge for a total consideration of Rmb322.0 million (approximately HK\$304.5 million). These capital expenditures and investments were financed principally by 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 disposed 5.0 per cent of its interest in the jointly controlled entity, Guangzhou Northern Second Ring Expressway Co., Limited, 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 31st December 2002 is summarized below:

	2002			2001		
	HK\$'000	%	Average rate of interest (% per annum)	HK\$'000	%	Average rate of interest (% per annum)
Floating rate loans (Rmb)	457,944	12.0	5.3	588,785	14.6	5.3
Floating rate loan (LIBOR)	—	—	—	140,400	3.5	7.0
Floating rate loan (HIBOR)	136,000	3.6	4.0	159,376	3.9	6.1
Amount due to a minority shareholder	53,468	1.4	4.0	92,523	2.3	4.0
Interest free loans	37,591	1.0	—	39,380	1.0	—
Total debts	685,003	18.0		1,020,464	25.3	
Shareholders' funds	3,127,492	82.0		3,024,329	74.7	
Total capitalisation	3,812,495	100.0		4,044,793	100.0	
Gearing Ratio	18.0%			25.3%		

Total capitalisation of the Group as at 31st December 2002 amounted to approximately HK\$3.8 billion which was approximately 5.7 per cent below the total capitalisation amount as at 31st December 2001 due to reduction of total debts .

Management Discussion and Analysis

As at 31st December 2002, the ratio of total debts to total capitalisation (“Gearing Ratio”) was 18.0 per cent as compared to 25.3 per cent as at 31st December 2001. Total debts declined from HK\$1,020.5 million as at 31st December 2001 to HK\$685.0 million as at 31st December 2002 mainly due to full prepayment of the LIBOR based US dollars floating rate loan in January 2002 amounted to US\$18.0 million (approximately HK\$140.4 million), net decline in floating rate Rmb loans amounted to approximately HK\$130.8 million and repayment of amount due to a minority shareholder of approximately HK\$39.1 million.

Floating rate loans in Rmb accounted for 66.9 per cent of the total debts as at 31st December 2002 (2001: 57.7 per cent). During the year, the Group had drawn down total new loans of Rmb140.0 million (approximately HK\$130.8 million) and repaid existing loans totalling Rmb280.0 million (approximately HK\$261.6 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 31st December 2002 (2001: 15.6 per cent) was secured by the Group’s interests in the charged deposit account of a toll road project in China.

The amount due to a minority shareholder which represented part of the capital injection into a jointly controlled entity in 2001 is denominated in Rmb and unsecured. Repayment of approximately Rmb 41.8 million (approximately HK\$39.1 million) was made in 2002.

The interest free loans are non-interest bearing loans denominated in Rmb from the minority shareholders of a subsidiary. During the year, Rmb1.9 million (approximately HK\$1.8 million) was repaid.

As at 31st December 2002, shareholders’ funds amounted to approximately HK\$3.1 billion (2001: approximately HK\$3.0 billion) which accounted for 82.0 per cent (2001: 74.7 per cent) of the Group’s total capitalisation. The increase in shareholders’ funds represented net profit retained for the year after appropriation of 2001 final dividend and 2002 interim dividend.

Interest Coverage

The interest coverage was measured by the ratio of earnings before interests, tax, depreciation (including amortisation) and provision for impairment loss (“EBITDA”) to interest expenses. In spite of lower EBITDA for the year ended 31st December 2002, interest coverage was 11 times (2001: 8 times) due to tremendous decline in interest expenses.

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 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 with the Rmb capital expenditure requirements. Equity and debt financing denominated in foreign currency will be used selectively as supplementary funds.

Capital Commitments and Contingent Liabilities

There were no material capital commitments as at 31st December 2002. The contingent liabilities as at 31st December 2002 were not significantly different from those disclosed in the Company’s 2001 annual report (see note 24 to the accounts).

Employees

As at 31st December 2002, the Group had 278 employees of whom 219 were 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.