

BUSINESS REVIEW

SUMMARY INFORMATION ON OPERATING TOLL ROADS AND BRIDGES IN 2004

	Length (km)	Width (lanes)	Attributable interest (per cent)	Road type	Average daily toll traffic volume (vehicle)	Weighted average toll fare per vehicle (Rmb)
Subsidiaries						
Guangshen Highway	23.1	6	80.00	Class I highway	32,795	6.02
Guangshan Highway	64.0	4	80.00	Class II highway	24,041	9.95
Guangcong Highway Section I	33.3	6	80.00	Class I highway	13,605	12.97
Guangcong Highway Section II & Provincial Highway 1909	33.1	6	51.00	Class I highway	19,579	7.72
	33.3	4	51.00	Class I highway		
Guanghua Highway	20.0	6	55.00	Class I highway	11,132	8.05
Xian Expressway	20.1	4	100.00	Expressway	22,654	11.90
Xiang Jiang Bridge II	1.8	4	75.00	Rigid frame bridge	4,566	8.98
Associated Companies and Jointly Controlled Entity						
Humen Bridge	15.8	6	25.00	Suspension bridge	39,176	42.79
Northern Ring Road	22.0	6	24.30	Expressway	124,535	11.99
Qinglian Highways						
National Highway 107	253.0	2	23.63	Class II highway	19,958	18.85
Highway between Qingyuan and Lianzhou cities	215.2	4	23.63	Class I highway		
Shantou Bay Bridge	6.5	6	30.00	Suspension bridge	13,288	33.47
GNSR Expressway	42.4	6	46.00	Expressway	30,791	18.58

Performance of Subsidiaries

Guangshen Highway Guangzhou Section (“Guangshen highway”)

Guangshen highway is a section of National Highway 107 and is one of the major roads connecting Guangzhou Municipality and Shenzhen City.

The average daily toll traffic volume of Guangshen Highway decreased slightly by 3.4 per cent to 32,795 vehicles in 2004 as compared with that of 2003. The proportion of light vehicles in traffic composition rose moderately. The weighted average toll fare per vehicle in 2004 declined by 2.1 per cent to Rmb6.02 as compared with that of 2003.

Guangshan Highway Guangzhou Section (“Guangshan Highway”)

Guangshan Highway is a section of National Highway 324 and is the major road connecting Guangzhou Municipality and Shantou City.

The average daily toll traffic volume of Guangshan Highway in 2004 decreased by 23.51 per cent to 24,041 vehicles in 2004 as compared with that of 2003. The weighted average toll fare per vehicle in 2004 declined by 3.9 per cent to Rmb9.95 as compared with that of 2003.



Guangshen Highway

Guangcong Highway connecting Guangzhou Institute of Foreign Language and Tai Ping Chang (“Guangcong Highway Section I”)

Guangcong Highway Section I is a section of National Highway 105 between Guangzhou Municipality and Conghua District in the northeast where a hot spring resort is located. Guangcong Highway Section I mainly connects inter-provincial traffic between Guangdong Province and provinces in Eastern China such as Jiangxi. It is also the main access from Guangzhou City to Conghua District in the suburban area.

In 2003, as Jing Zhu Expressway directly connecting the urban area of Guangzhou City has not yet been opened to traffic, the traffic volume of Guangcong Highway Section I grew remarkably. Since the opening of Jing Zhu Expressway in 2004, the traffic volume of Guangcong Highway Section I has dropped, resulting in a decrease of 26.3 per cent of the average daily toll traffic volume to 13,605 vehicles as compared with that of 2003. The weighted average toll fare per vehicle in 2004 was Rmb12.97, representing a slight decrease of 0.4 per cent as compared with that of 2003.



Guangcong Highway Section I

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 provinces in Eastern China, such as Jiangxi and intra-municipality traffic between Guangzhou Municipality and Conghua District in northeastern Guangzhou, where a hot spring resort is located. Provincial Highway 1909 connects inter-provincial traffic between Guangdong and Hunan provinces.

The average daily toll traffic volume of Guangcong Highway Section II & Provincial Highway 1909 declined slightly by 0.6 per cent to 19,579 vehicles in 2004 as compared with that of 2003. The weighted average toll fare per vehicle in 2004 was Rmb7.72, dropped by 2.4 per cent as compared with that of 2003.

Guanghua Highway

Guanghua Highway is the major highway connecting the urban area of Guangzhou City and the suburb of Huadu District where the new airport in Guangzhou is located.

The new airport of Guangzhou commenced operation in August 2004, bringing a natural increase in traffic volume. The average daily toll traffic volume of Guanghua Highway grew steadily by 12.3 per cent to 11,132 vehicles in 2004 as compared with that of 2003. The weighted average toll fare per vehicle was Rmb8.05 in 2004, representing an increase of 1.6 per cent over that of 2003.



Guanghua Highway

Xian Expressway in Shaanxi Province (“Xian Expressway”)

Xian Expressway is an expressway connecting Xian City and Lintong County where the world famous historical relic Terra-Cotta Warriors is located.

Due to the commencement in operation of Xian City Express Highway connecting Xian Expressway at the end of 2003 and the robust tourism in Xian, average daily toll traffic volume of Xian Expressway increased by 31.4 per cent to 22,654 vehicles in 2004 as compared with that of 2003. The weighted average toll fare per vehicle in 2004 was Rmb11.90, representing a growth of 4.3 per cent over that of 2003.

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 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.

Owing to natural growth in small vehicles in Xiang Jiang Bridge II, the average daily toll traffic volume in 2004 increased by 2.89 per cent to 4,566 vehicles as compared with that of 2003. However, after the completion of maintenance works for Chang Tan Section of Jing Zhu Expressway in 2003, traffic of some large vehicles has been diverted. The weighted average toll fare per vehicle in 2004 declined by 13.3 per cent to Rmb8.98 as compared with that of 2003.



Xian Expressway

Performance of Associated Companies

Humen Bridge

Humen Bridge is an expressway with a six-lane suspension bridge linking Panyu District of Guangzhou City 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.

Benefiting from the continuous rapid growth in traffic volume in the Pearl River Delta Region, average daily toll traffic volume of Humen Bridge in 2004 increased substantially by 12.48 per cent to 39,176 vehicles. Since the implementation of the unified vehicle classification standards on 1st October 2003, the weighted average toll fare per vehicle in 2004 increased by 8.0 per cent to Rmb42.79 as compared with that of 2003.

Guangzhou City Northern Ring Road (“Northern Ring Road”)

The Northern Ring Road located in Guangzhou City links the Guangzhou Foshan Expressway in the west and the Guangzhou Shenzhen Expressway in the east.

Benefiting from the growth in traffic volume brought forth by economic growth, average daily toll traffic volume of the Northern Ring Road in 2004 increased by 5.68 per cent to 124,535 vehicles as compared with that of 2003. Since the implementation of the unified vehicle classification standards on 15th August 2003, the weighted average toll fare per vehicle in 2004 increased by 8.9 per cent to Rmb11.99 as compared with that of 2003.

Qinglian Highways

Qinglian Highways are located in the northwestern part of Guangdong Province connecting Guangdong Province and Hunan Province.

Average daily toll traffic volume in 2004 decreased by 19.03 per cent to 19,958 vehicles as compared with that of 2003. This was attributable to the effects of traffic diversion by Jing Zhu Expressway and the major repair and maintenance work of class one highway. The weighted average toll fare per vehicle in 2004 declined by 9.9 per cent to Rmb18.85 as compared with that of 2003. The Group is considering to conduct a preliminary feasibility study on modifying Qinglian Highways to become an expressway.

Shantou Bay Bridge

Shantou Bay Bridge is a six-lane bridge located in the strategic Shantou Harbour Huangsha Bay Sea Route. It connects the eastern entrance of Shantou Harbour linking Powai and Muishan Expressways in the east and Shenshan Expressway in the west. It has a total length of approximately 6.5 km and has started operation since December 1995. The Group completed the acquisition of Shantou Bay Bridge in 2002.

Benefiting from the increase in traffic volume brought by economic growth, the average daily traffic volume of Shantou Bay Bridge in 2004 increased by 7.65 per cent to 13,288 vehicles as compared with that of 2003. Since the implementation of the unified vehicle classification standards on 1st July 2003, the weighted average toll fare per vehicle in 2004 increased by 5.7 per cent to Rmb33.47 as compared with that of 2003.



Northern Ring Road

Performance of Jointly Controlled Entity

Guangzhou Northern Second Ring Expressway (“GNSR Expressway”)

The six-lane 42.4 km GNSR Expressway has nine intersections and nine toll stations. It connects eleven provincial, national highways and expressways in the north of Guangzhou City. GNSR Expressway was completed and commenced toll collection in January 2002.

Benefiting from the opening of Guanghui Expressway and Airport Expressway and Jing Zhu Expressway connecting GNSR Expressway, the peripheral expressway network has gradually expanded, which in turn boosted the traffic volume of GNSR Expressway. The average daily traffic volume of GNSR Expressway in 2004 increased significantly by 147.85 per cent to 30,791 vehicles as compared with that of 2003. The weighted average toll fare per vehicle in 2004 was Rmb18.58, representing a decrease of 23.2 per cent as compared with that of 2003.

New Investment Projects

During the period under review, the Group participated in the investment of Guangzhou Western Second Ring Expressway, the total investment of which amounted to Rmb2.97 billion, of which registered capital will amount to Rmb1.0 billion, whilst the remaining will be raised in the form of project finance. The first installment of registered capital to be contributed to the project will be Rmb250 million. The Group’s attributable interest in the project is 35 per cent, and has contributed Rmb87.5 million. Construction has officially commenced on 16th September 2004. It is expected that it will be completed and opened to traffic in 2007.



Northern Ring Road

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Analysis of Results

The evolution of highway network within Guangzhou area and the continuous diversion effect brought about by new expressways had adversely affected the traffic volume of class I and II highways which are mostly the Group's major subsidiary toll roads. Guangshen Highway was affected by the opening of Guang Yuan Road East connecting Dongguan region. Guangcong Highway Section I and II, Provincial Highway 1909 and Xiang Jiang Bridge II were continued to be affected by Jing

Zhu Expressway. Guangshan Highway was affected by Guanghui Expressway which commenced operation at the end of 2003. All these toll highways and bridge had dragged down the Group's net turnover by 13.50 per cent in 2004. However, the opening of the Guangzhou New Baiyun Airport in August 2004 greatly boosted the traffic of Guanghua Highway. Owing to the positive impact from flourishing tour routes and opening of Xian City Express Highway connecting the entrance of Xian Expressway, traffic of Xian Expressway rebounded substantially in 2004. These two aforementioned toll roads in total increased the Group's 2004 net turnover by 6.8 per cent. Consequently, overall net turnover of the Group in 2004 dropped by 6.7 per cent to HK\$378.5 million.

The amortization/depreciation of interests in toll highways and bridges amounted to HK\$96.1 million in 2004 which was similar with 2003. Improvements to interests in toll highways and bridges were amortized for 5 months in 2003 (amounted to HK\$2.2 million) and full year in 2004 (amounted to HK\$5.3 million). In aggregate, amortization/depreciation of interests in toll highways and bridges amounted to HK\$101.4 million in 2004 which was 3.3 per cent higher than 2003.

The total toll highways and bridges maintenance expenses incurred in 2004 increased by a mere 0.7 per cent to HK\$75.1 million which was mainly due to the slight increase in toll maintenance expense of Xian Expressway while the toll maintenance expenses of other subsidiaries were maintained at 2003 level.

General and administrative expenses incurred in 2004 amounted to HK\$42.3 million which was HK\$3.5 million higher than that of 2003 (9.0 per cent increment). Due to the Group's new acquisition in 2004 and in compliance with certain new listing rules that came into effect in first quarter of 2004, relevant administrative expenses were comparatively higher than that of 2003.

Net other operating expenses in 2004 amounted to HK\$9.6 million, a 3.2 per cent higher than that of 2003. In 2004, the Group's wholly-owned office premise was reclassified to investment property and a professional valuation was made on an open market value basis which resulted in a deficit in valuation of HK\$1.7 million. Other operating expenses include additional withholding tax provided for in 2004 due to the increase in repayment of shareholders loan interest to the Group. The upward movement of other operating expenses in 2004 (due to deficit in valuation and withholding tax) was offset by the reduction of exchange difference.

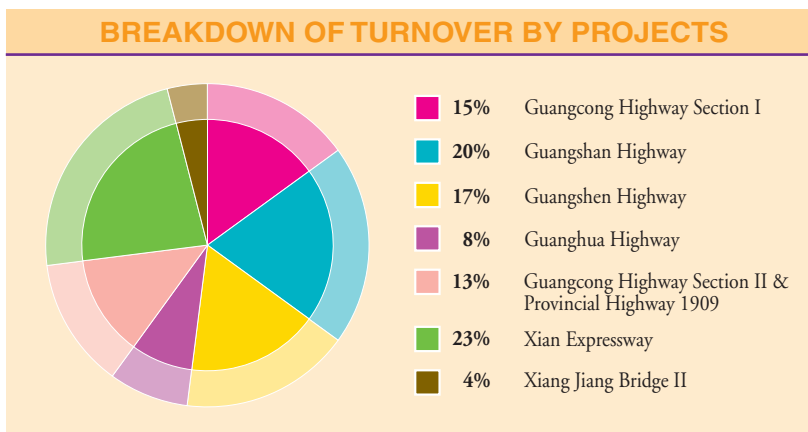
Finance costs were reduced by 35.9 per cent to HK\$15.5 million in 2004 as the Group continued to repay its bank borrowings and debts.

Share of profits of associated companies in 2004 increased strongly by 18.0 per cent to HK\$215.0 million. Except for Qinglian Highways with negative growth due to traffic diversion from Jing Zhu Expressway; the rest of the associated companies, namely, Humen Bridge, Northern Ring Road and Shantou Bay Bridge were all contributing positively to the Group with attributable profit increment of 27.3 per cent, 30.8 per cent and 20.5 per cent respectively in 2004.

Benefiting from the opening of Guanghui Expressway by end of 2003 and linkage with Jing Zhu Expressway, the traffic and turnover of GNSR Expressway increased tremendously and recorded its first full-year positive contribution to the Group in 2004. The profit attributable to the Group amounted to HK\$13.8 million as compared to the attributable loss of HK\$20.4 million in 2003, a tremendous increase of 167.4 per cent.

Taxation in 2004 amounted to HK\$63.3 million, an increase of 3.5 per cent over that of 2003. This was due to the expiration of tax concession period of two subsidiaries and an associated company at the end of 2003.

BREAKDOWN OF TURNOVER BY PROJECTS



Minority interest decreased by 38.9 per cent to HK\$25.8 million in 2004 as a result of the overall negative growth in profit of the Group's subsidiaries.

For the year ended 31st December 2004, the Group achieved a 23.5 per cent growth in profit attributable to shareholders which was HK\$276.4 million. Basic earnings per share for the two years ended 31st December 2004 and 2003 were HK\$0.248 and HK\$0.207 respectively.

Final Dividend

The Directors recommended the payment of final dividend of HK\$0.0525 (2003: HK\$0.045) per share to shareholders whose names appeared on the register of members of the Company on 25th May 2005. Subject to the approval of shareholders at the Annual General Meeting to be held on 25th May 2005, the final dividend will be paid on 1st June 2005. Together with the interim dividend of HK\$0.045 (2003: HK\$0.04) per share, total dividends for the year ended 31st December 2004 will amount to HK\$0.0975 (2003:HK\$0.085) per share, representing a dividend pay out ratio of 39.3 per cent.

Liquidity and Financial Resources

Cash flows and borrowings

In year 2004, the Group generated net cash inflow from operating activities amounted to approximately HK\$237.9 million which was below the 2003 level due to lower profits from subsidiaries during the year (2003 : HK\$324.3 million). Interest paid during the year was HK\$13.6 million (2003: HK\$24.1 million) as a result of repayments of bank borrowings. China enterprise income taxation paid in the Mainland of China ("China") during the year ended 31st December 2004 amounted to HK\$33.4 million (2003: HK\$31.7 million) as tax concession period of two subsidiaries and an associated company expired at the end of 2003.

Net cash inflow from investing activities during the year ended 31st December 2004 amounted to HK\$94.3 million (2003: HK\$142.3 million) being made up of total cash inflow of HK\$180.2 million (2003: HK\$172.3 million) less total cash used of HK\$85.9 million (2003: HK\$30.0 million). Total cash inflow from investing activities largely included dividends received and shareholders' loan repayment from associated companies amounted to HK\$178.9 million (2003: HK\$150.2 million). Total cash used mainly were capital expenditures and investments.

Net cash used in financing activities during the year ended 31st December 2004 amounted to HK\$348.4 million (2003: HK\$357.2 million) with total cash inflow of HK\$0.3 million (2003: HK\$65.7 million) and total cash used of HK\$348.7 million (2003: HK\$422.9 million). Total cash inflow from financing activities during 2004 mainly were proceeds from issuance of new shares through exercise of share options (2003: HK\$56.3 million) and no new bank loans were drawn in 2004 (2003: HK\$9.4 million). Total cash used in financing activities in 2004 included repayments of bank loans in aggregate of approximately HK\$161.5 million (2003: HK\$259.9 million); dividends of HK\$100.3 million (2003: 76.9 million); and total repayments to minority shareholders of approximately HK\$86.9 million (2003: HK\$86.0 million).

As at 31st December 2004, the Group had bank balances and cash of approximately HK\$188.8 million (2003: HK\$251.7 million), being 25.0 per cent below the 2003 balance.

The outstanding bank borrowings of the Group as at 31st December 2004 amounted to approximately HK\$184.0 million, which declined by 46.7 per cent compared with 31st December 2003.

The maturity profiles of outstanding bank borrowings as at 31st December 2004 and 2003 are shown below:

Bank borrowings (wholly in Rmb loans)		
	2004	2003
	HK\$'000	HK\$'000
Repayable:		
Within one year	71,362	189,671
in the second to fifth year	112,676	155,868
Total	184,038	345,539

Management Discussion and Analysis

Bank borrowings as at 31st December 2004 and 2003 were wholly in Rmb denomination. Approximately 38.8 per cent of the total bank borrowings as at 31st December 2004 (2003: 54.9 per cent) mature within one year. In the opinion of the management, liquidity risk is not an imminent issue of the Group as witnessed from practices in the past years when even a higher percentage of the total bank borrowings was repayable within one year, upon maturity, the management was able to renew the short term Rmb bank borrowings for another one to three years' term owing to the Group's credit standing with its major bankers in China. All bank borrowings as at 31st December 2004 were unsecured.

Capital expenditures and investments

During 2004, the Group had capital expenditures and investments amounted to approximately HK\$85.9 million (2003: HK\$30.0 million), of which approximately HK\$3.0 million (2003: HK\$11.2 million) were improvement costs to toll highways and bridges; approximately HK\$0.67 million (2003: HK\$9.5 million) was purchase of fixed assets; and approximately HK\$82.2 million was initial equity capital contribution to a new investment project, the GWSR Expressway (2003: HK\$9.3 million being additional capital injection to an existing other investment).

Capital Structure

The Group's capital structures as at 31st December 2004 and 2003 are summarized below:

	2004			2003		
	HK\$'000	%	Average rate of interest (% per annum)	HK\$'000	%	Average rate of interest (% per annum)
Floating rate loans (Rmb)	184,038	4.9	5.9	345,539	9.2	5.1
Amount due to a minority shareholder	53,719	1.4	4.0	53,719	1.4	4.0
Other loans	35,061	1.0	—	36,377	1.0	—
Total debts	272,818	7.3		435,635	11.6	
Shareholders' funds	3,483,722	92.7		3,310,406	88.4	
Total capitalisation	3,756,540	100.0		3,746,041	100.0	
Gearing Ratio	7.3%			11.6%		

Total capitalisation of the Group as at 31st December 2004 and 2003 were almost similar being approximately HK\$3.76 billion and HK\$3.75 billion respectively.

As at 31st December 2004, the ratio of total debts to total capitalisation (Gearing Ratio) was reduced to 7.3 per cent from 11.6 per cent in 2003. Total debts declined by 37.4 per cent to HK\$272.8 million in 2004.

Floating rate loans in Rmb accounted for 67.5 per cent of the total debts as at 31st December 2004 (2003: 79.3 per cent). In 2004, no new loan was drawn and an aggregate of Rmb172.0 million (approximately HK\$161.5 million) was repaid from the Group's internal funds. All Rmb loans are unsecured.

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.

Other loans are non-interest bearing loans denominated in Rmb.

As at 31st December 2004, shareholders' funds amounted to HK\$3.48 billion which accounted for 92.7 per cent of the Group's total capitalisation. As at 31st December 2003, shareholders' funds amounted to HK\$3.31 billion being 88.4 per cent of the Group's total capitalisation. The increase in shareholders' funds mainly represented the net profit retained for the year after appropriation of 2003 final dividend and 2004 interim dividend.

Interest Coverage

The interest coverage is measured by the ratio of earnings before interests, tax, depreciation (including amortisation) and provisions for impairment loss ("EBITDA") to interest expenses. For the year ended 31st December 2004, interest coverage was 32 times (2003: 19 times) due to increase in EBITDA and decline in interest expenses.

Treasury Policies

The Group continues to adopt the following treasury policies and hedging strategy similar to those disclosed in the 2003 annual report.

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 such, the Group's hedging 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. Nevertheless, during the period when interest rate of Rmb loan stands higher than foreign currency loan, the management may consider equity and debt financing denominated in foreign currency as an alternative source of funding investment projects, in which case, appropriate currency hedging measures will be adopted.

Capital Commitments and Contingent Liabilities

On 24th May 2004, the Group had entered into a joint venture agreement to establish Guangzhou Western Second Ring Expressway Company Limited ("GWSR Expressway Company") for a shareholding of 35.0 per cent. The committed equity capital contribution of the Group was Rmb350.0 million (equivalent to approximately HK\$330.19 million). In 2004, the Group had injected the required first installment of the equity capital contribution of Rmb87.5 million (equivalent to approximately HK\$82.2 million). In February 2005, the Group injected the required second installment of the equity capital contribution of Rmb56.0 million (equivalent to approximately HK\$52.6 million). The balance of the committed equity capital would be paid by stages in such amount and by such date as to be determined by the board of directors of GWSR Expressway Company. Save for the aforesaid equity capital commitments, the Group had no other capital commitments as at 31st December 2004.

There were no significant contingent liabilities since the year ended 31st December 2003.

Employees

As at 31st December 2004, the Group had 299 employees of which 240 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.