

## BUSINESS REVIEW

### Toll Projects Summary

The Company is principally engaged in investment and operation of expressways and national toll highways and bridges located in Guangdong Province mainly in Guangzhou area.

Since its listing on The Stock Exchange of Hong Kong Limited in January 1997, the Group has been expanding steadily and total attributable length of toll road and bridge projects had already increased from 146.9 kms at the time of listing to the current 315.2 kms. As at 31st December 2005, the Group had a total of 13 investments in its operating toll road and bridge projects portfolio which includes Guangzhou Northern Ring Road, Guangzhou Northern Second Ring Expressway, Guangzhou Western Second Ring Expressway, Guangdong Humen Bridge and Shantou Bay Bridge; Guangshen Highway, Guangshan Highway, Guangcong Highway Sections I and II, Guanghua Highway and Qinglian Highways all of which connect the traffic hub of Guangzhou City and inter-provincial traffic between Guangdong, Hunan and Jiangxi provinces; Xian Expressway in Shaanxi Province and Xiang Jiang Bridge II in Xiangtan City of Hunan Province are both located outside Guangdong Province. Apart from Guangzhou Western Second Ring Expressway that is now under construction, the other toll projects are already operating and generating toll income.

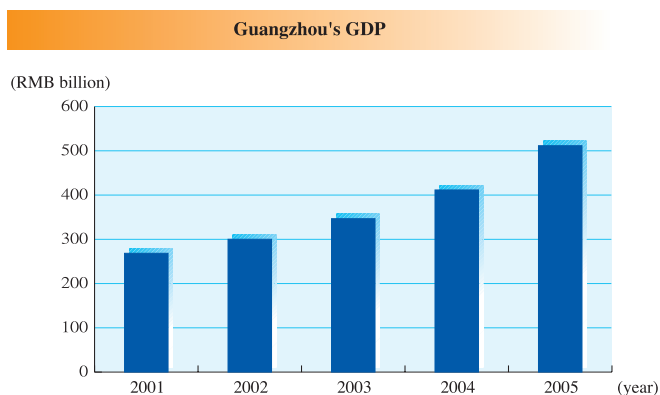
### SUMMARY INFORMATION ON OPERATING TOLL ROADS AND BRIDGES IN 2005

|   | Length<br>(kms) | Width<br>(lanes) | Toll<br>station | Road type          | Attributable<br>interest<br>(%) | Remaining<br>operating<br>year term |
|---|-----------------|------------------|-----------------|--------------------|---------------------------------|-------------------------------------|
| <b>Subsidiaries</b>                             |                 |                  |                 |                    |                                 |                                     |
| Guangshen Highway                               | 23.1            | 6                | 1               | Class I highway    | 80.00                           | 21                                  |
| Guangshan Highway                               | 64.0            | 4                | 2               | Class II highway   | 80.00                           | 21                                  |
| Guangcong Highway Section I                     | 33.3            | 6                | 1               | Class I highway    | 80.00                           | 21                                  |
| Guangcong Highway Section II                    | 33.1            | 6                | 1               | Class I highway    | 51.00                           | 21                                  |
| & Provincial Highway 1909                       | 33.3            | 4                | 1               | Class I highway    | 51.00                           | 21                                  |
| Guanghua Highway                                | 20.0            | 6                | 1               | Class I highway    | 55.00                           | 22                                  |
| Xian Expressway                                 | 20.1            | 4                | 3               | Expressway         | 100.00                          | 11                                  |
| Xiang Jiang Bridge II                           | 1.8             | 4                | 1               | Rigid frame bridge | 75.00                           | 16                                  |
| <b>Associates and Jointly Controlled Entity</b> |                 |                  |                 |                    |                                 |                                     |
| Humen Bridge                                    | 15.8            | 6                | 4               | Suspension bridge  | 25.00                           | 24                                  |
| Northern Ring Road                              | 22.0            | 6                | 11              | Expressway         | 24.30                           | 18                                  |
| <b>Qinglian Highways</b>                        |                 |                  |                 |                    |                                 |                                     |
| National Highway 107                            | 253.0           | 2                | 4               | Class II highway   | 23.63                           |                                     |
| Highway between Qingyuan<br>and Lianzhou cities | 215.2           | 4                | 5               | Class I highway    | 23.63                           | 23                                  |
| Shantou Bay Bridge                              | 6.5             | 6                | 1               | Suspension bridge  | 30.00                           | 23                                  |
| GNSR Expressway                                 | 42.4            | 6                | 9               | Expressway         | 40.00                           | 26                                  |

## Overview of Operating Performance

As at the end of 2005, the aggregate mileage of expressways in Guangdong Province ranked second nationwide reaching 3,140 kms. Guangdong Province's expressway network radiates from Guangzhou as the center. On average, there is at least one or more expressways channeling traffic from Guangdong to neighboring provinces or districts, enabling Guangdong Province's economy to move into a virtuous developing track with an aim to build up a solid foundation for the advancement of economic cooperation and development in Pan Pearl River Delta Region. Being a toll operator in Guangdong Province with major investments and operations in Guangzhou area, our Company directly benefited from substantial growth in the economic development and private vehicle ownership in Guangzhou area. In 2005, Guangzhou's GDP continued to climb upward reaching Rmb511.575 billion, ranking third among major cities nationwide, representing approximately 13.0 per cent growth over 2004. Along with the rising household income, consumption level for hot commodities such as vehicles continue to elevate and spending ratio being pushed up, private car ownership per 100 households in Guangzhou increased from 4.0 vehicles in 2004 to 6.3 vehicles in 2005, expressing an increase of approximately 57.5 per cent. Moreover, the Company persists to focus on toll management and in a move to heighten the efficiency level of toll collection and to drive up the provincial inter-road network toll collection system, Northern Ring Road, GNSR Expressway, Guangdong Humen Bridge and Shaanxi Xian Expressway had already completed the implementation of their respective inter-road network toll collection system.

Despite the slight decline in traffic volume of a number of non-expressway projects in 2005, overall traffic volume and turnover especially expressway projects demonstrated an upward position. The total average daily toll traffic volume of the Company's subsidiaries for 2005 grew by 3.1 per cent to 132,400 vehicles as compared to 2004 and achieved a 6.2 per cent growth in turnover of HK\$424.8 million, being HK\$24.6 million higher than 2004. The aggregate average daily toll traffic volume of associates and jointly controlled entity grew by 8.2 per cent to 246,300 vehicles as compared to 2004 and attributable turnover amounted to HK\$466.6 million representing an increase of HK\$52.2 million and a growth rate of 12.6 per cent over 2004.



Source : 2001 to 2005 statistics from Guangzhou Municipal Bureau of Statistics



Shantou Bay Bridge

## Average daily toll traffic volume of toll highways and bridges

|  | Average daily toll traffic volume (vehicle) |                |             | Weighted average toll fare per vehicle (Rmb) |       |
|--|---|----------------|-------------|--|-------|
|  | 2005  | 2004           | Change      | 2005   | 2004  |
| <b>Subsidiaries</b>                                    |   |                |             |  |       |
| Guangshen Highway                                      | 30,729                                      | 32,795         | -6.3%       | 5.92   | 6.02  |
| Guangshan Highway                                      | 23,210                                      | 24,041         | -3.5%       | 10.26  | 9.95  |
| Guangcong Highway Section I                            | 12,754                                      | 13,605         | -6.3%       | 12.95  | 12.97 |
| Guangcong Highway Section II & Provincial Highway 1909 | 21,862                                      | 19,579         | 11.7%       | 8.08   | 7.72  |
| Guanghua Highway                                       | 11,070                                      | 11,132         | -0.6%       | 8.20   | 8.05  |
| Xian Expressway  | 27,288                                      | 22,654         | 20.5%       | 11.88  | 11.90 |
| Xiang Jiang Bridge II                                  | 5,494                                       | 4,566          | 20.3%       | 8.76   | 8.98  |
| <b>Total</b>   | <b>132,407</b>                              | <b>128,372</b> | <b>3.1%</b> |  |       |
| <b>Associates &amp; Jointly Controlled Entity</b>      |   |                |             |  |       |
| Humen Bridge   | 42,820                                      | 39,176         | 9.3%        | 42.66  | 42.79 |
| Northern Ring Road                                     | 133,443                                     | 124,535        | 7.2%        | 12.32  | 11.99 |
| Qinglian Highways                                      | 16,633                                      | 19,958         | -16.7%      | 20.84  | 18.85 |
| Shantou Bay Bridge                                     | 9,450                                       | 13,288         | -28.9%      | 37.10  | 33.47 |
| GNSR Expressway  | 43,965                                      | 30,791         | 42.8%       | 17.44  | 18.58 |
| <b>Total</b>   | <b>246,311</b>                              | <b>227,748</b> | <b>8.2%</b> |  |       |

## 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 City and Shenzhen City. The total length is approximately 23.2 kms, of which the section from Dashadi in Huangpu to Nangang measures approximately 11.7 kms long with six lanes and the section from Nangang to Xintang, measures approximately 11.4 kms long with four lanes.

During 2005, Guangshen Highway continued to be affected by the linkage of Guangyuan Road East and Dongguang section in addition to the upgrading of highway network in the vicinity causing some degree of traffic diversion, average daily toll traffic volume dropped by 6.3 per cent to 30,729 vehicles when compared with 2004. Weighted average toll fare per vehicle was Rmb5.92, slightly below 2004 by 1.6 per cent.

### Guangshan Highway Guangzhou Section (“Guangshan Highway”)

Guangshan Highway is a section of National Highway 324. It has a length of approximately 64.0 kms and is one of the major highways connecting Guangzhou Municipality and the eastern region of Guangdong Province.



Guangcong Highway Section I



Taihe Toll Station

During 2005, Guangshan Highway continued to be affected by the opening of Guangyuan Road East and Guanghui Expressway. As compared with 2004, the average daily toll traffic volume decreased by 3.5 per cent to 23,210 vehicles in 2005 and weighted average toll fare per vehicle increased by 3.1 per cent to Rmb10.26.

### **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 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 provinces in Eastern China such as Jiangxi. It is also the main access from Guangzhou City to Conghua City in the suburban area.

Since 2004 when Jingzhu Expressway directly connects the urban area of Guangzhou City, traffic performance of Guangcong Highway Section I was weakened, causing average daily toll traffic volume of 2005 decreased by 6.3 per cent to 12,754 vehicles when compared with 2004. Weighted average toll fare per vehicle was Rmb12.95 which was slightly below 2004 by 0.2 per cent.

### **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 and Conghua City in the northeast, where a hot spring resort is located. Provincial Highway 1909 connects inter-provincial traffic between Guangdong and Hunan provinces.

The completion of the widening works of National Highway 105 connecting Guangcong Highway Section II and its commencement in January 2005 had attracted vehicles from provinces such as the Jiangsu Province to travel in that highway section. Average daily toll traffic volume had increased by 11.7 per cent to 21,862 vehicles when compared with 2004. Weighted average toll fare per vehicle increased by 4.7 per cent to Rmb8.08 when compared with 2004.

### **Guanghua Highway**

Guanghua Highway is the major highway connecting the urban area of Guangzhou City and the suburb of Huadu District where the New Guangzhou Airport is located.



# Management Discussion and Analysis

The opening of the New Guangzhou Airport in August 2004 had brought positive impact to Guanghua Highway; however, with the upgrading of the highway network connecting the urban area section of the Airport Expressway and the opening of Guangqing Expressway conjunction in the second half of 2005, average daily toll traffic volume of Guanghua Highway for 2005 was 11,070 vehicles which is relatively similar to 2004 level and weighted average toll fare per vehicle was Rmb8.20, which was up by 1.8 per cent when compared with 2004.

## Xian Expressway in Shaanxi Province (“Xian Expressway”)

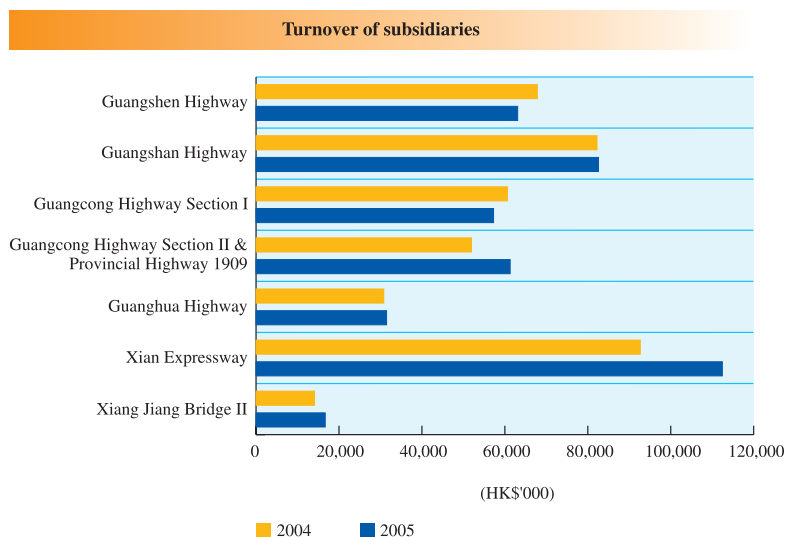
Xian Expressway is an expressway connecting Xian City and Lintong County where the world famous historical relic Terra-Cotta Warriors is located.

The commencement in operation of Xian City Express Highway connecting Xian Expressway coupled with the redevelopment of that road section linking Xian and Lintong had induced more vehicles traveling Xian Expressway. Average daily toll traffic volume of Xian Expressway for 2005 was 27,288 vehicles which increased significantly by 20.5 per cent when compared with 2004. Weighted average toll fare per vehicle was slightly below 2004 amounted to Rmb11.88.

## 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.

The upgrading of highway facilities in a way to improve the operating environment had led average daily toll traffic volume of Xiang Jiang Bridge II to increase significantly by 20.3 per cent to 5,494 vehicles in 2005. The rise of small passenger vehicles had caused weighted average toll fare per vehicle declined by 2.5 per cent to Rmb8.76 when compared with 2004.

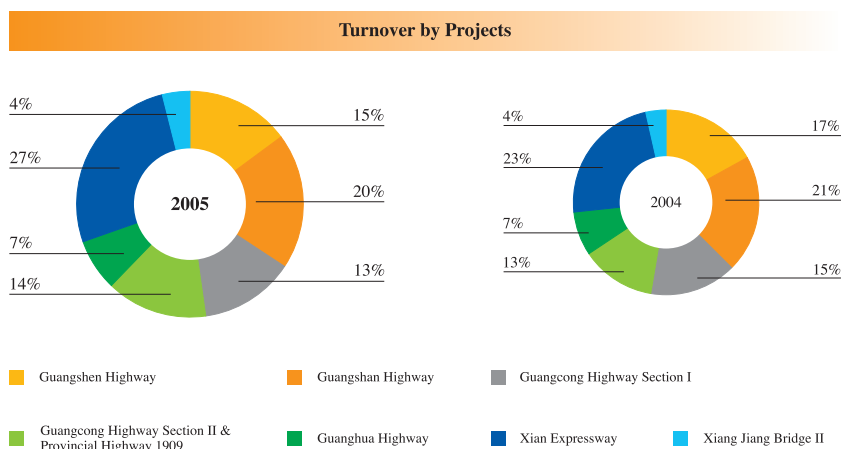


## Performance of Associates

### 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.

Being benefited from the natural growth in traffic volume brought forth by the continuous rapid economic growth of the Pearl River Delta Region, average daily toll



## Management Discussion and Analysis

traffic volume of Humen Bridge for 2005 increased by 9.3 per cent to 42,820 vehicles when compared with 2004. Weighted average toll fare per vehicle slightly decreased by 0.3 per cent to Rmb42.66 when compared with 2004.

### Shantou Bay Bridge

Shantou Bay Bridge is a six-lane bridge located in the eastern entrance of Shantou Harbour which had started operation since December 1995. It connects Shenshan Expressway in the west and stretches over Shantou Harbour Huangsha Bay Sea Route linking Shanfen Expressway. It has a total length of approximately 6.5 kms.

Since the Queshi Bridge located near Shantou Bay Bridge had joined the “year pass policy” of Shantou City in January 2005, traffic volume was greatly affected as a major portion of Shantou City vehicles originally traveling through Bay Bridge were diverted to Queshi Bridge. Average daily traffic volume for 2005 had decreased by 28.9 per cent to 9,450 vehicles when compared with 2004. As the diverted traffic was mainly small passenger vehicles, weighted average toll fare per vehicle increased by 10.8 per cent to Rmb37.10 when compared with 2004.



Guangshan Highway

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

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

Being benefited from the natural growth in traffic volume brought forth by the continuous rapid economic growth of the Pearl River Delta region, average daily toll traffic volume for 2005 increased by 7.2 per cent to 133,443 vehicles when compared with 2004. On the other hand, the development of the logistics sectors had driven more large size vehicles to the traffic; as a result, weighted average toll fare per vehicle for 2005 increased by 2.7 per cent to Rmb12.32 when compared with 2004.

### Qinglian Highways

Qinglian Highways are located in the northwestern part of Guangdong Province connecting Guangdong Province and Hunan Province. Qinglian Highways consist of a Class II Highway with 253.0 kms and a Class I Highway with 215.2 kms. In an aim to bring Qinglian Highways into full play, redevelopment work had commenced in December 2005 to re-construct Qinglian Class 1 Highway into an expressway. The funds for the reconstruction amounting to approximately Rmb4.2 billion (including interests) will be satisfied through bank borrowings by Qinglian Company. The reconstruction is expected to complete and be open to traffic in 2008. After redevelopment, Qinglian Expressway will become the most convenient passage way between Guangdong Province and Hunan Province. It will be the arterial expressway connecting the northern and southern highway network in Guangdong Province and will promote the economic activities from Pearl River Delta region towards the inland regions.

Meanwhile, the Jingzhu Expressway continued to divert the traffic volume from Qinglian Highways in 2005. Traffic flow of Qinglian Highways was also affected by the substantial decrease of coal trucks within Hunan region in April 2005 as well as the increasing traffic in Lianzhou intersection. The average daily toll traffic volume for 2005 had decreased by 16.7 per cent to 16,633 vehicles when compared with 2004. Due to decrease of medium size vehicles and increase of large size vehicles in the traffic mix, weighted average toll fare per vehicle for 2005 had risen by 10.6 per cent to Rmb20.84.

## Performance of Jointly Controlled Entities

### Guangzhou Northern Second Ring Expressway (“GNSR Expressway”)

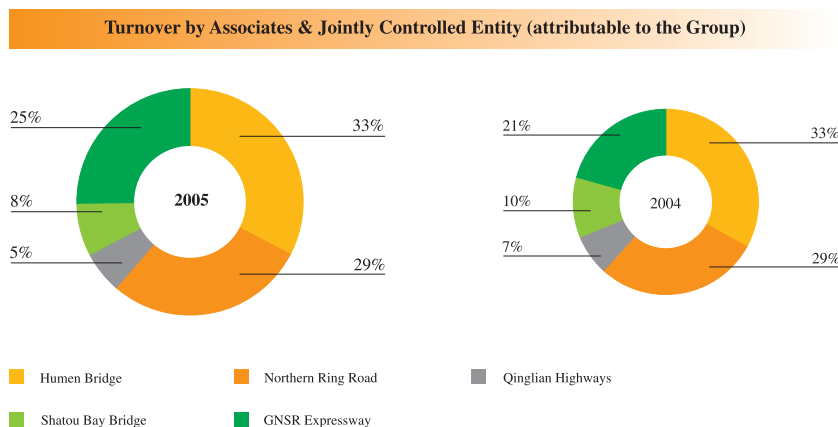
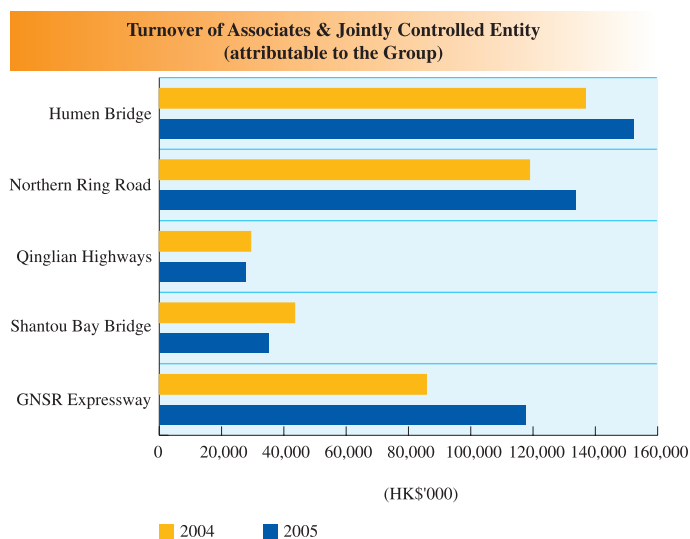
The six-lane 42.4 kms GNSR Expressway has nine intersections and nine toll stations. It connects eleven provincial, national highways and expressways in the north of Guangzhou Municipality. GNSR Expressway was completed and commenced toll collection in January 2002.

The opening of Jingzhu Expressway and Guanghui Expressway, both of which connecting GNSR Expressway, together with the opening of New Guangzhou Airport in August 2004 had significantly boosted the traffic volume of GNSR Expressway. Average daily toll traffic volume for 2005 had continued to increase steadily by 42.8 per cent to 43,965 vehicles. With the increase in proportion of small size vehicles, weighted average toll fare per vehicle decreased by 6.1 per cent to Rmb17.44 when compared with 2004.

### Guangzhou Western Second Ring Expressway (“GWSR Expressway”)

The GWSR Expressway (under construction), of which the Group has 35.0 per cent shareholding, connects GNSR Expressway, extends from Guangzhou Sanshui Expressway near Xiaotan Town in Nanhai District of Foshan City and ends at Maoshan Village, Baiyun District of Guangzhou City, had a total length of 39.13 kms and with a dual direction six-lane route. After completion, it will be connected to such highways as GNSR Expressway, Jing Zhu Expressway, Guanghua Expressway, New Airport Expressway, Guangsan Expressway and National Highways 324, 321, 105, 106 and 107. It is also a convenient route for accessing the new Guangzhou Baiyun International Airport in the western region of Guangzhou.

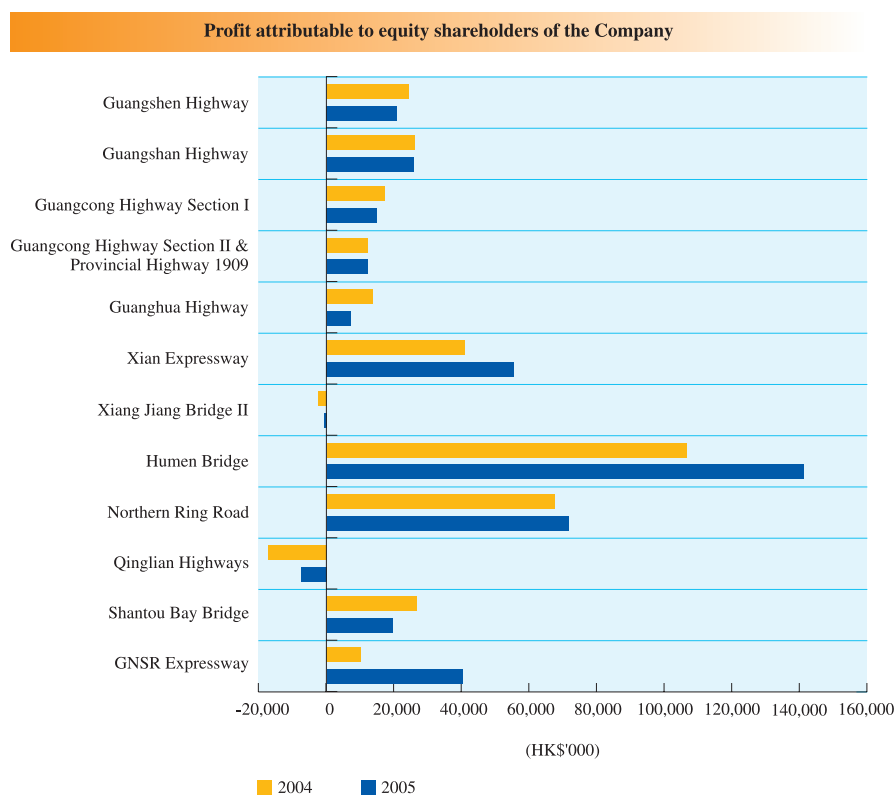
The total investment of the project amounted to Rmb2.97 billion, of which registered capital amounted to Rmb1.0 billion, whilst the remaining was raised in the form of project finance. Construction had officially commenced on 16th September 2004. The accumulated construction costs as at the end of March 2006 amounted to Rmb1.725 billion, representing approximately 58.0 per cent of the estimated investment. The project is expected to be completed ahead of schedule by December 2006. The Group had contributed a total of Rmb143.5 million as at 31st December 2005.



## FINANCIAL REVIEW

### Results Highlights

| (HK\$'000)   | 2005             | Restated<br>2004 | % of change |
|--|------------------|------------------|-------------|
| Profit attributable to equity holders of the Company                                     | <b>305,898</b>   | 277,029          | 10.4        |
| Turnover   | <b>424,845</b>   | 400,212          | 6.2         |
| Operating profit   | <b>133,688</b>   | 158,938          | -15.9       |
| Profits after tax and interest income from associates<br>and jointly controlled entities | <b>264,527</b>   | 193,038          | 37.0        |
| Interest coverage  | <b>53 times</b>  | 32 times         |             |
| Basic earnings per share   | <b>HK\$0.274</b> | HK\$0.249        | 10.0        |
| Dividend per share   | <b>HK\$0.10</b>  | HK\$0.0975       |             |
| Return on shareholders' funds (excluding minority interests)                             | <b>8.15%</b>     | 7.95%            | 2.5         |





## Analysis of Results

The profit attributable to equity holders of the Company for the year ended 31st December 2005 grew by 10.4 per cent to HK\$305.9 million as compared to 2004. Turnover of subsidiaries grew by 6.2 per cent to HK\$424.8 million. However, 2005 operating profit was HK\$25.2 million below 2004 amounting to HK\$133.7 million, representing a drop of 15.9 per cent due to increase in toll road maintenance expenses of certain subsidiaries and impairment losses newly incurred in 2005 on available-for-sale financial assets of HK\$44.3 million. Ignoring the impairment losses, operating profit growth will be 12.0 per cent. With the strong growth in turnover of expressways and downward adjustment of business tax rate, share of after tax profits less losses plus interest income of associates and jointly controlled entity was up by 37.0 per cent from 2004 level to HK\$264.5 million. Basic earnings per share increased by HK2.5 cents over 2004 to HK27.4 cents and return on shareholders' funds had increased from 7.95 per cent in 2004 to 8.15 per cent in 2005.



Xian Expressway in Shaanxi Province

### *Turnover*

Through enhancement of toll road services' quality, intensify toll inspection strength, heighten collection effectiveness, exploration of new toll collection potential and mitigation of unfavorable effects brought about from the continuing formation of new toll road network in Guangdong and surrounding provinces to partial Class I and II toll highways, the Group's turnover for 2005 grew 6.2 per cent over 2004 to HK\$424.8 million. Xian Expressway recorded a 21.4 per cent growth; Xiang Jiang Bridge II and Guangcong Highway Section II grew 18.4 per cent and 18.0 per cent respectively; Guanghua Highway and Guangshan Highway grew slightly by 2.2 per cent and 0.4 per cent respectively; while Guangshen Highway and Guangcong Highway Section I declined by 7.0 per cent and 5.5 per cent respectively.

### *Other gains*

In 2005, the Group had other gains amounted to HK\$17.0 million, which was HK\$16.4 million higher than 2004. There was a gain on disposal of a partial interest in a jointly controlled entity of HK\$11.7 million (the estimated gain on disposal was disclosed in the circular dated 20th January 2006 to be approximately HK\$13.4 million based on the carrying value as at 31st October 2005). Investment properties in 2005 had a fair value gain of HK\$1.3 million whereas in 2004, there was a fair value loss of HK\$1.7 million. With the upward adjustment of bank interest rate since March 2005, bank interest income in 2005 was up by HK\$1.7 million to HK\$3.0 million.

### *Amortisation / depreciation of interests in toll highways and bridges*

Except for one subsidiary which adopts the unit of usage method of depreciation, the rest adopt the straight line method. The Group's amortization / depreciation of interests in toll highways and bridges for the year ended 31st December 2005 amounted to HK\$106.1 million which was 1.3 per cent slightly higher than 2004.

### *Toll highways and bridges maintenance expenses*

In 2005, toll highways and bridges maintenance expenses amounted to HK\$93.0 million, which was HK\$18.0 million or 23.8 per cent higher than 2004. The increase was mainly due to the restoration works carried out on certain toll road sections of the Group's five subsidiaries' with an aggregated extra cost incurred totaled approximately HK\$25.6 million. Ignoring the restoration costs, normal maintenance expenses would be 10.3 per cent below 2004.

# Management Discussion and Analysis

## *General and administrative expenses*

General and administrative expenses incurred in 2005 amounted to HK\$44.2 million, being 9.6 per cent higher than 2004 which was mainly due to exchange loss arisen from translating monetary assets and liabilities.

## *Impairment losses on available-for-sale financial asset*

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to other investments which are classified as available-for-sale financial assets and are carried at fair value. Unrealised gains and losses arising from changes in their fair values are recognized in equity. If there is a significant or prolonged decline in the fair values below the costs, the assets are impaired and the shortfall is then charged to income statement. In 2005, the Group had charged impairment losses on available-for-sale financial assets of HK\$44.3 million to the income statement apart from the decrease in fair value of HK\$36.1 million which was charged to equity.

## *Finance costs*

Finance costs in 2005 amounted to HK\$25.9 million, of which, had included an adjustment on interest free loans from minority shareholders of subsidiaries amounted to HK\$15.6 million as required by HKAS 39 effectively on 1st January 2005 and onwards. Finance costs related to interest on bank borrowings amounted to HK\$8.1 million representing a decline of HK\$5.3 million or 39.4 per cent below 2004 due to repayment of bank borrowings equivalent to approximately HK\$39.8 million in 2005; and finance costs related to interest bearing loans from minority shareholders of subsidiaries for 2005 and 2004 were relatively similar.

## *Share of after tax profits less losses and interest income of associates*

Being benefited from the turnover growth of expressways and downward adjustment of business tax rate since June 2005, share of after tax profits less losses and interest income of associates in 2005 totaled HK\$224.5 million which was 22.7 per cent higher than 2004. Humen Bridge and Northern Ring Road was benefited from the continuous economic growth in Pearl River Delta Region, their after tax profit and interest income attributable to the Group grew by 32.5 per cent and 6.3 per cent respectively as compared to 2004. Despite of Jingzhu Expressway's traffic diversion effect continuously affecting Qinglian Highways, the level of loss attributable to the Group had narrowed down from HK\$17.4 million in 2004 to HK\$7.4 million in 2005 due to its strict maintenance cost control policy. Shantou Bay Bridge was affected by both the "year pass policy" implemented by the Shantou Municipal People's Government and the expiration of tax holiday, its after tax profit and interest income attributable to the Group dropped by 27.0 per cent as compared to 2004.

## *Share of profit after tax of a jointly controlled entity*

GNSR Expressway was benefited from the opening of Jingzhu Expressway, Guanghui Expressway and New Guangzhou Airport, its after tax profit attributable to the Group increased remarkably from HK\$10.1 million in 2004 to HK\$40.0 million in 2005.

## *Taxation*

As the tax rates of subsidiaries in 2005 and 2004 were the same and that overall taxable profit for both years was at similar level, taxation for 2005 and 2004 were almost the same amounted to HK\$34.4 million and HK\$33.6 million respectively.

## **Interest Coverage**

The interest coverage is measured by the ratio of earnings before interests, tax, depreciation and amortisation ("EBITDA") to interest expenses. For the year ended 31st December 2005, interest coverage increased to 53 times (2004: 32 times) due to increase in EBITDA and decline in interest expenses.

# Management Discussion and Analysis

## Final Dividend

The Directors recommended the payment of final dividend of HK\$0.05 (2004: HK\$0.0525) per share payable to shareholders whose names appeared on the register of members of the Company on 30th May 2006. Subject to the approval of shareholders at the Annual General Meeting to be held on 30th May 2006, the final dividend will be paid on 9th June 2006. Together with the interim dividend of HK\$0.05 (2004: HK\$0.045) per share, total dividends for the year ended 31st December 2005 will amount to HK\$0.10 (2004: HK\$0.0975) per share, representing a dividend pay out ratio of 36.5 per cent (2004: 39.3 per cent).

## Liquidity and Financial Resources

### Financial Highlights

| (HK\$'000)   | 2005             | Restated<br>2004 | % of change |
|--|------------------|------------------|-------------|
| Bank balances and cash                             | <b>368,883</b>   | 188,850          | 95.0        |
| Bank borrowings                                    | <b>144,231</b>   | 184,038          | -21.6       |
| Current ratio                                      | <b>190%</b>      | 105%             | 81.0        |
| Shareholders' funds (excluding minority interests) | <b>3,752,559</b> | 3,484,308        | 7.7         |
| Gearing ratio                                      | <b>13.1%</b>     | 16.2%            | -19.1       |
| Net asset per share                                | <b>HK\$3.36</b>  | HK\$3.13         | 7.3         |

### Cash flows

The Group's bank balances and cash as at 31st December 2005 was approximately HK\$368.9 million and was 95.0 per cent higher than HK\$188.8 million as at 31st December 2004. The net increase in bank balances and cash was derived from surpluses in cash flow from operating and investing activities over cash used in financing activities for the year ended 31st December 2005.

Net cash inflow from operating activities for the year ended 31st December 2005 amounted to HK\$222.1 million (2004: HK\$190.9 million). Cash flow under operating activities mainly were cash from operations of HK\$272.0 million (2004: HK\$237.9 million) less interest paid of HK\$16.7 million (2004: HK\$13.6 million) and China enterprise income taxation paid of HK\$33.5 million (2004: HK\$33.4 million).

Investing activities in 2005 had generated a net surplus of HK\$219.3 million (2004: HK\$97.4 million). Cash flow from investing activities mainly were repayments from associates of HK\$206.9 million (2004: HK\$178.9 million) reduced by cash used in capital expenditures and investments of HK\$54.1 million (2004: HK\$82.8 million). In December 2005, a proceed of approximately HK\$63.6 million from disposal of partial interest in a jointly controlled entity was added to the Group's cash flow.

Net cash used in financing activities in 2005 amounted to HK\$259.8 million (2004: HK\$348.4 million). Cash flow under financing activities were mainly used in repayment of bank loans of HK\$39.8 million (2004: HK\$161.5 million), repayments to minorities of subsidiaries of HK\$106.3 million (2004: HK\$86.9 million) and dividends paid of HK\$114.3 million (2004: HK\$100.3 million).

### Bank borrowings

Outstanding bank borrowings of the Group as at 31st December 2004 amounted to approximately HK\$184.0 million. During 2005, the Group had repaid bank borrowings equivalent to approximately HK\$39.8 million. As at 31st December 2005, the outstanding bank borrowings amounted to approximately HK\$144.2 million and are repayable within one year. The management is in the opinion that with adequate cash balance, stable stream of operating cash flow and steady cash return from investments, liquidity risk is not an imminent issue of the Group. In January 2006, the Group had repaid an aggregate of Rmb100.0 million (equivalent to HK\$96.2 million) bank borrowings from its internal funds. The current ratio as at 31st December 2005 was 190.0 per cent (2004: 105.0 per cent).

## Management Discussion and Analysis

The maturity profiles of outstanding bank borrowings as at 31st December 2005 and 31st December 2004 are shown below:

### Bank Borrowings (wholly unsecured Rmb loans)

|                             | 2005           |              | 2004           |              |
|-----------------------------|----------------|--------------|----------------|--------------|
|                             | HK\$'000       | %            | HK\$'000       | %            |
| Repayable:                  |                |              |                |              |
| Within one year             | 144,231        | 100.0        | 71,362         | 38.8         |
| In the second to fifth year | —              | —            | 112,676        | 61.2         |
|                             | <u>144,231</u> | <u>100.0</u> | <u>184,038</u> | <u>100.0</u> |

### Capital expenditures and investments

In 2005, the Group had capital expenditures and investments amounted to approximately HK\$54.1 million (2004: HK\$82.8 million), of which approximately HK\$53.8 million was the equity capital contribution to a jointly controlled entity under construction, the GWSR Expressway, further to the initial contribution in early 2004 of HK\$82.2 million.

### Capital Structure

The Group's capital structures as at 31st December 2005 and 31st December 2004 are summarized below:

|   | 2005             |              |  | Restated<br>2004 |              |  |
|---|------------------|--------------|--|------------------|--------------|--|
|   | HK\$'000         | %            | Average rate<br>of interest<br>(% per annum) | HK\$'000         | %            | Average rate<br>of interest<br>(% per annum) |
| Floating rate loans (Rmb)                             | 144,231          | 3.3          | 4.94   | 184,038          | 4.4          | 5.9  |
| Amount due to a minority shareholder                  | —                | —            | —  | 53,719           | 1.3          | 4.0  |
| Loans from minority shareholders                      |                  |              |  |                  |              |  |
| - interest bearing                                    | 120,561          | 2.8          | 6.12   | 120,561          | 2.9          | 5.9  |
| - interest free                                       | 301,303          | 7.0          | —  | 317,986          | 7.6          | —  |
| Total debts   | <u>566,095</u>   | <u>13.1</u>  |  | <u>676,304</u>   | <u>16.2</u>  |  |
| Shareholders' funds<br>(excluding minority interests) | <u>3,752,559</u> | <u>86.9</u>  |  | <u>3,484,308</u> | <u>83.8</u>  |  |
| Total capitalisation                                  | <u>4,318,654</u> | <u>100.0</u> |  | <u>4,160,612</u> | <u>100.0</u> |  |
| Gearing ratio   | 13.1%            |              |  | 16.2%            |              |  |

Total capitalisation of the Group as at 31st December 2005 and 31st December 2004 amounted to approximately HK\$4.32 billion and HK\$4.16 billion respectively. The net increase of approximately HK\$158.0 million in total capitalisation was a result of drop in total debts and rise in shareholders' funds.

# Management Discussion and Analysis

The ratio of total debts to total capitalisation (“Gearing Ratio”) as at 31st December 2005 and 31st December 2004 was 13.1 per cent and 16.2 per cent respectively. The composition of total debts had been adjusted to include minority shareholders’ loans to conform to the reclassification of long term loans in the consolidated balance sheet, resulting in a higher recalculated gearing ratios. The decline in total debts was mainly due to repayment of bank borrowings during 2005 and full settlement of amount due to a minority shareholder in December 2005.

Rmb floating rate loans are bank borrowings in China which accounted for 25.5 per cent of the total debts as at 31st December 2005 and 27.2 per cent as at 31st December 2004. During 2005, the Group had repaid approximately HK\$39.8 million from internal funds and no new loan had been drawn. All Rmb loans are unsecured.

Amount due to a minority shareholder represented part of the capital injection into a jointly controlled entity in 2001 which is denominated in Rmb and unsecured. This debt was fully settled in December 2005.

Loans from minority shareholders are part of the capital contributions from minority shareholders in respect of their respective equity shareholdings in certain subsidiaries which are unsecured and denominated in Rmb. Except for one subsidiary which minority shareholder’s loan is interest bearing, the rest are non-interest bearing. The interest-free loans are stated at fair values based on cash flows discounted by a borrowing rate of 5.0 per cent. In 2005, the Group had repaid approximately HK\$1.06 million.

As at 31st December 2005, shareholders’ funds amounted to HK\$3.75 billion which accounted for 86.9 per cent of the Group’s total capitalisation. As at 31st December 2004, shareholders’ funds amounted to HK\$3.48 billion being 83.8 per cent of the Group’s total capitalisation. The increase in shareholders’ funds in 2005 was mainly represented by two factors, namely: net profit retained for the year after appropriation of 2004 final dividend and 2005 interim dividend and increase in exchange fluctuation reserve due to appreciation of Rmb currency in the second half of 2005.

## 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 capitalise 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.

The Group’s principal operations are in China and most of the income is denominated in Rmb, with the recent appreciation of Rmb currency, management is now monitoring its potential impact to the Group. Since Rmb loan interest rate is at present comparatively higher than foreign currency loan interest rate, management will consider reducing the debt financing in Rmb and increase equity and debt financing denominated in foreign currency unless capital expenditure required Rmb funding. Consequently, management would adopt appropriate currency hedging measures to minimize any possible foreign currency risks.

## Capital Commitments and Contingent Liabilities

As at 31st December 2005, the Group had a committed equity capital balance to Guangzhou Western Second Ring Expressway Company Limited (“GWSR Expressway Company”) of Rmb206.5 million (equivalent to approximately HK\$198.6 million). This balance 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 this equity capital commitment, the Group had no other capital commitments as at 31st December 2005.

There were no significant contingent liabilities since the year ended 31st December 2004.

## Employees

As at 31st December 2005, the Group had approximately 743 employees of which about 613 were directly engaging in the daily operation, management and supervision 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.