

MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)

Notes:

- The interest rates for World Bank Loans were floating rates, with US\$97,733,910 charged at the cost of qualified borrowings as reasonably determined by the World Bank plus a margin of 0.5%, and US\$117,133,332 charged at LIBOR plus 0.5%;
- The fixed rates of the commercial bank loans range from 5.022% to 5.94% per annum (1999: from 5.022% to 6.327% per annum);
- Policy loans bear interest ranging from 3% to 5.5% per annum (1999: from 3% to 5.5% per annum); and
- The bonds issued by Shangsang Co bear a fixed interest rate of 3.78% per annum (1999: Nil). The interest will be repaid upon the expiry of the bonds.

The respective maturity profiles of the Group's interest bearing borrowings are shown below:

Maturity Profiles				
	Gross Amount RMB'000	Within 1 year RMB'000	2-5 years, inclusive RMB'000	Beyond 5 years RMB'000
Floating rates				
World Bank loan (US\$)	1,778,529	838,348	286,328	653,853
Fixed rates				
Commercial bank loans	1,230,000	970,000	260,000	—
Policy loans	238,069	23,469	202,000	12,600
Bonds	200,000	—	200,000	—
Total	3,446,598	1,831,817	948,328	666,453

Further details on the interest bearing borrowings of the Group, together with 1999 comparative figures, are set out in note 25 to the financial statements.

Being engaged in the toll road operations, the Group has generated strong positive cash inflows from the operating activities since its establishment, and the management does not envisage any liquidity problem for the Group.

	2000	1999	1998	1997
	RMB mil.	RMB mil.	RMB mil.	RMB mil.
Operating cash inflows	1,040	1,048	611	454

Capital Expenditure Commitments and Financial Resources

As at December 31, 2000, the Group and the Company had capital expenditure commitments of approximately RMB3,610,550,000 and RMB1,741,080,000, respectively, details of which are set out below:

	Group	Company
	RMB'000	RMB'000
1st stage of the project to widen the Shanghai-Hangzhou-Ningbo Expressway (Hongken to Guzhu section)	394,194	394,194
2nd stage of the project to widen the Shanghai-Hangzhou-Ningbo Expressway (Shenshi to Hongken section)	860,000	860,000
Acquisition of additional 18.4% equity interest in Shangsang Co.	485,000	485,000
Remaining construction works of the Shangsang Expressway	1,816,980	—
Construction works under Contract No.11 of the Shanghai-Hangzhou Expressway	52,490	—
Others	1,886	1,886
Total	3,610,550	1,741,080

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As disclosed in the press announcement dated February 2, 2001, the Company intends to apply to the CSRC and the Shanghai Stock Exchange of the PRC for the issue by way of public offer and placement of not more than 300 million A Shares in 2001. The total amount of proceeds from the proposed A Share issue is expected to be approximately RMB1 billion.

Subject to obtaining the requisite shareholder approval and government and regulatory approvals, the Company intends to fund the two projects to widen the Shanghai-Hangzhou-Ningbo Expressway with the proceeds from the proposed A Share issue. The balance of the proceeds will be used to fund the proposed acquisition of an additional 18.4% equity interest in Shangsang Co. If the proceeds from the A share issue are not sufficient for funding the above projects/transaction, internal resources and/or bank loans will be used.

The remaining construction works of the Shangsang Expressway and construction works under Contract No.11 of the Shanghai-Hangzhou Expressway will be funded by the internal resources and/or bank loans.

Capital Structure

The Group's capital structure as at December 31, 2000 and comparative figures in 1999 are summarized below:

	As at December 31, 2000		As at December 31, 1999	
	Gross Amount	Percentage	Gross Amount	Percentage
	RMB'000	%	RMB'000	%
Shareholders' equity	8,658,117	59.4	8,433,840	60.6
Fixed rate liabilities	1,668,069	11.4	1,408,069	10.1
Floating rate liabilities	1,778,529	12.2	1,751,828	12.6
Interest-free liabilities	2,481,705	17.0	2,331,951	16.7
Total	14,586,420	100.0	13,925,688	100.0
Gearing ratio 1	68.5%		65.1%	
Gearing ratio 2	18.7%		24.3%	

Note: The computation of gearing ratio 1 represents the sum of fixed rate liabilities, floating rate liabilities and interest-free liabilities vs. the equity. The computation of gearing ratio 2 represents the total amount of the long-term liabilities vs. the equity.

Cash and Debt Management

As of December 31, 2000, the Group held (in RMB equivalent) RMB2,092,299,000 in cash and cash equivalents, time deposits and other short-term investments, and had RMB3,446,598,000 in borrowings.

	As at December 31, 2000		As at December 31, 1999	
	Group	Company	Group	Company
	RMB'000	RMB'000	RMB'000	RMB'000
Cash and cash equivalent				
RMB	390,449	221,444	294,025	173,403
US\$ (in RMB equivalent)	932,337	890,215	1,461	1,384
HK\$ (in RMB equivalent)	727	727	4,768	4,761
Time deposits				
RMB	273,764	168,764	127,931	127,931
US\$ (in RMB equivalent)	111,754	53,807	934,628	934,628
HK\$ (in RMB equivalent)	5,303	5,303	5,867	5,867
Short term investments				
RMB	377,965	180,294	1,083,394	801,766
Total				
RMB	1,042,178	570,502	1,505,350	1,103,100
US\$ (in RMB equivalent)	1,044,091	944,022	936,089	936,012
HK\$ (in RMB equivalent)	6,030	6,030	10,635	10,628
Borrowings				
RMB	1,668,069	800,000	1,403,569	1,090,000
US\$ (in RMB equivalent)	1,778,529	808,902	1,756,328	894,490

The average interest rates for bank deposits in US dollars, HK dollars and RMB were 7.0%, 5.5% and 2.1%, respectively.

MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)

Interest expenses during the year amounted to approximately RMB224,318,000 (including interest capitalized as part of the cost of construction in progress amounting to approximately RMB27,235,000). With profit before interest and taxation at approximately RMB849,659,000, the interest cover provided was approximately 4.3 (1999: 4.5).

Short-term Investments

Short-term investments in treasury notes and close-ended security investment funds were carried out by the Group as part of its cash management scheme to maximize returns on funds temporarily uncommitted while limiting investment risks.

Pre-tax income from short-term investments in 2000 amounted to approximately RMB153,566,000 (1999: RMB77,577,000), representing an average investment return rate of 12.0% (1999: 8.2%).

Foreign Exchange Exposure

The substantial portion of bank deposits was maintained in US dollars to reduce the Group's exposure to foreign exchange risks. Due to relatively high interest rates charged on the Group's outstanding World Bank loans, the Company decided to use its US dollar bank deposits for the early repayment of approximately US\$94.2 million in World Bank loans, settlement of which is expected to be completed during the first half of 2001.

OUTLOOK FOR 2001

Economic outlook in 2001 for Zhejiang Province and its neighboring cities and provinces continue to be optimistic.

The provincial government recently announced a 9% annual GDP growth target for the next five years from 2001 to 2005, while accelerating the urbanization process already underway in many parts of Zhejiang Province. With the pending accession of the PRC to the World Trade Organization, Zhejiang Province is well positioned both geographically and economically to enter a new stage of rapid economic growth.

Steady growth in personal wealth and decrease in passenger car prices over the past few years have created a sizeable demand in private vehicle ownership, especially in the economically dynamic East Coast region of the PRC. This potential demand will lead to a surge in road traffic, benefiting toll road operators such as the Company.

Preparation for introduction of a fuel tax designed to replace certain administrative fees has been completed, and the new tax is expected to be launched later in 2001. The elimination of fixed administrative fees is likely to provide another push to unleash the potential demand in private vehicle ownership.

The first stage of the project to widen the Shanghai-Hangzhou-Ningbo Expressway (approximately 44km, from Hongken to Guzhu) which commenced on October 18, 2000 will see relevant roadbeds prepared in 2001. The construction is not expected to affect the normal operation of existing roadways in any significant way.

The Shangsang Expressway was successfully opened to traffic before the end of 2000, bringing the Group's toll road mileage from approximately 285 km to approximately 390 km. Toll income from the newly opened Shangsang Expressway will become a major revenue contributor to the Group in 2001, in addition to the network effect created by its direct linkage with the Shanghai-Hangzhou-Ningbo Expressway. The Company is confident about the continued strong growth in traffic volume on these expressways in 2001.

The Company intends to apply to the CSRC and the Shanghai Stock Exchange of the PRC for the issue by way of public offer and placement of not more than 300 million A Shares in 2001. Details of the proposed application and proposed use of proceeds were disclosed in the Company's announcements dated January 10, 2001 and February 2, 2001, respectively.

The Company will strive to seize the moment to further expand its business operations in the toll road sector, while continuing to seek investment opportunities in other infrastructure sectors with maximizing shareholder value as the ultimate objective.