

FINANCIAL REVIEW

The Group will endeavour to achieve maximum return for its shareholders while maintaining a sound and prudent investment strategy. In particular, in the medium to long-term, the Company will focus on investing in highways and other infrastructure projects while striving to maintain an appropriate level of borrowings and gearing ratio. In the short-term, the Group will continuously review its portfolio of borrowings and make any necessary adjustments in a timely manner. The continuous cash inflow generated from the Group's toll road operations will be invested in short-term investments with low risk exposure, which is in line with the Group's objective of achieving maximum return for shareholders.

BORROWINGS AND DEBT REPAYMENT ABILITY

As at 30 June 2001, the Group's interest-bearing borrowings increased slightly from 31 December 2000 to Rmb3,611,425,000 (31 December 2000: Rmb3,446,598,000), of which 59% represented short-term borrowings repayable within a year (31 December 2000: 53%), whereas the balance represented medium to long-term borrowings and corporate bonds, with details as follows:

	Total	Fixed rates	Floating rates	Percentage	Commitment
	Rmb'000	Rmb'000	Rmb'000	%	Rmb'000
Loans from World Bank(US Dollars)	1,788,570	—	1,788,570	49.53	185,784
Loans from commercial banks	1,400,000	1,400,000	—	38.77	40,000
Loans from government	222,855	222,855	—	6.17	—
Corporate bonds	200,000	200,000	—	5.53	—
Total as at 30 June 2001	3,611,425	1,822,855	1,788,570	100.00	225,784
Total as at 31 December 2000	3,446,598	1,668,069	1,778,529	—	863,564

During the Period, interest rates to which the Group's borrowings were subject did not experience any significant change compared with 2000. In particular, the annual floating rates of the World Bank loans ranged from 5.11% to 8.76%, while the annual interest rates of commercial banks were approximately 5.022%-5.643% for short-term borrowings.

The maturity profile for the Group's interest-bearing borrowings is as follows:

	Total	Within 1 year	2-5 years (inclusive)	Over 5 years
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Floating rates				
Loans from the World Bank	1,788,570	899,194	286,624	602,752
Fixed rates				
Loans from commercial banks	1,400,000	1,220,000	180,000	—
Loans from government	222,855	12,255	204,800	5,800
Corporate bonds	200,000	—	200,000	—
Total as at 30 June 2001	3,611,425	2,131,449	871,424	608,552
Total as at 31 December 2000	3,446,598	1,831,817	948,328	666,453

EARNINGS TO INTEREST MULTIPLE

Interest expense for the Period under review was about Rmb141,914,000 (six months ended 30 June 2000: Rmb 97,881,000), whilst the earnings before interest and tax was about Rmb741,675,000 (six months ended 30 June 2000: Rmb521,872,000). The Group's consolidated earnings to interest multiple for the Period was approximately 5.0 times. (six months ended 30 June 2000: 5.3 times).

LIQUIDITY RATIO

During the Period, the cash flow generated from the Group's operating activities amounted to approximately Rmb686,024,000. As a group principally engaged in toll road operations, the Group has maintained a strong cash inflow from its ordinary operating activities since its establishment.

As at 30 June 2001, of the current assets of Rmb2,351,921,000 in aggregate, prepayments to expressway contractors, accounts receivable and inventory represented only about 5% (31 December 2000: 6%). In the foreseeable future, the Directors anticipate that the Group will not experience any difficulty in liquidity.

FINANCIAL REVIEW (cont'd)

CAPITAL EXPENDITURE COMMITMENTS AND FINANCIAL RESOURCES

As at 30 June 2001, the capital expenditure commitments planned for the Group amounted to Rmb3,331,985,000, with details as follows:

	As at 30 June 2001 Unaudited Rmb'000	As at 31 December 2000 Audited Rmb'000
Contracted, but not provided for:		
– Construction of expressways	579,651	622,684
– Proposed investments in Shangsang Co	485,000	485,000
– Others	—	1,886
Authorised, but not contracted for:		
– Construction of expressways	2,267,334	2,500,980
	3,331,985	3,610,550

Among the total capital commitments, Rmb1,209,129,000 for the widening project of Hangzhou-Ningbo Expressway will be financed by the net proceeds arising from the A Share Issue. The remaining capital commitments, comprising mainly the residual construction work of the Shangsang Expressway, and the proposed further investment in Shangsang Co will be financed by cash generated from operating activities, any profits generated from short term investments and, if necessary, commercial bank loans.

CAPITAL STRUCTURE

Compared to 31 December 2000, there was no significant change in the capital structure of the Group as at 30 June 2001.

	As at 30 June 2001		As at 31 December 2000	
	Total Rmb'000	Percentage %	Total Rmb'000	Percentage %
Shareholders' equity	9,026,016	61.1	8,658,117	59.4
Fixed interest - bearing liabilities	1,822,855	12.4	1,668,069	11.4
Floating interest - bearing liabilities	1,788,570	12.1	1,778,529	12.2
Zero coupon liabilities	2,132,591	14.4	2,481,705	17.0
Total	14,770,032	100.0	14,586,420	100.0
Gearing 1	63.6%		68.5%	
Gearing 2	16.5%		18.7%	

Notes: Gearing 1 = Fixed interest-bearing liabilities + Floating interest-bearing liabilities + zero coupon liabilities / Shareholders' equity

Gearing 2 = Total long term liabilities / Shareholders' equity

The Directors are of the view that the current gearing ratio is relatively low, thus providing more room for obtaining debt financing for the future development of the Company.

FINANCIAL REVIEW (cont'd)

CASH AND LIABILITIES MANAGEMENT

As at 30 June 2001, the Group had in possession cash and cash equivalents, fixed deposits and short-term investments in the amount of Rmb2,014,842,000, with details as follows:

	As at 30 June 2001 Group Rmb'000	As at 31 December 2000 Group Rmb'000
Cash and cash equivalents		
Renminbi	446,847	390,449
US dollar equivalent	992,285	932,337
HK dollar equivalent	5,201	727
EURO equivalent	23,790	—
Fixed deposits		
Renminbi	137,997	273,764
US dollar equivalent	—	111,754
HK dollar equivalent	6,582	5,303
Short term investments		
Renminbi	402,140	377,965
Total		
Renminbi	986,984	1,042,178
US dollar equivalent	992,285	1,044,091
HK dollar equivalent	11,783	6,030
EURO equivalent	23,790	—
Borrowings		
Renminbi	1,822,855	1,668,069
US dollar equivalent	1,788,570	1,778,529

CASH AND BANK DEPOSIT RATES

The average interest rates during the Period for bank deposits in US dollars, Euro, Hong Kong dollars and Renminbi were 5.1%, 9.0%, 4.5% and 1.3% respectively.

SHORT TERM INVESTMENTS

The short-term investments made by the Group principally comprised convertible bonds and closed-end equity funds as follows:

	As at 30 June 2001 unaudited Rmb'000	As at 31 December 2000 audited Rmb'000
Government bonds	62,246	156,525
Convertible bonds	220,025	99,485
Closed-end equity funds	119,869	121,955
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Total	402,140	377,965
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During the Period, profit before taxation derived from short-term investments was approximately Rmb74,819,000 (six months ended 30 June 2000: Rmb67,806,000), and the corresponding average rate of return on investments was approximately 11% (six months ended 30 June 2000: 9.8%).

EXCHANGE RATE EXPOSURE

As at 30 June 2001, the interest-bearing borrowings and cash deposits denominated in US dollars of the Group were US\$216,097,000 and US\$119,869,000, respectively. Upon the completion of the aforesaid early repayment of the World Bank loan in the amount of US\$91,636,000 at the end of July 2001, the interest-bearing borrowings and cash deposits of the Group denominated in US dollars decreased to approximately US\$124,461,000 and US\$28,233,000 respectively.