

## FINANCIAL ANALYSIS

There had been no material changes to the Company's funding and treasury policies during the Period.

### Earnings per Share

Since the listing of its shares, the Company has maintained an annual growth in earnings per share (namely profit distributable to shareholders over number of shares issued) of more than 10% for five consecutive years. With further enhancements in the profitability of the Shanghai-Hangzhou-Ningbo Expressway and the Shangsang Expressway, the core assets of the Company, earnings per share for the Period amounted to Rmb10.3 cents, representing a year-on-year growth of 21.2%.

### Return on Equity

Return on equity (profit distributable to shareholders as a fraction of share capital) is an important indicator of investment return for the Company's shareholders. Maximizing return on equity has always been a priority of the Company. The return on equity for the Period was 4.7%, representing an increase of 0.6 percentage points over the corresponding period in 2001.

The Directors believe that the best way to return value to shareholders is to maintain steady growth in earnings per share and return on equity, which are the most direct indicators of the Company's performance.

## FINANCIAL ANALYSIS (CONT'D)

### Financial Gains

Financial gains represented gains in capital value mainly as a result of the Group's effective management of funds through financial management strategies. Financial gains specifically include interest income, exchange gains and short-term investment gains.

Foreign currencies held by the Group, including US Dollar, Euro and HK Dollar, are all held as deposits with various commercial banks. The substantial reduction in the Company's cash and cash equivalents after the advanced repayment of the World Bank loans for the Hangzhou-Ningbo Expressway in July 2001, coupled with a declining US Dollar interest rate, resulted in significantly less interest income for the Company during the Period.

As a means of cash management, the Group's short-term investment strategy in the first half of the year was largely oriented towards risk control. Close to 90% of the Group's cash was held in treasury bonds and corporate bonds while investments in securities funds were reduced. However, yields generated from such investments were also significantly reduced.

	For the six months ended June 30	
	2002	2001
	Rmb'000	Rmb'000
Interest income	7,147	29,848
Revenue from short term investments	37,382	74,819
Exchange gains	1,962	53,172*
Total	46,491	157,839

\* The sizable exchange gain in 2001 was the result of an early repayment of a World Bank loan in July 2001, a one-off event.

## FINANCIAL ANALYSIS (CONT'D)

### Financial Resources

As at June 30, 2002, the Group held Rmb1,940,270,000 in cash and cash equivalents, time deposits and short-term investments, with cash and cash equivalents accounting for 21.4%, time deposits for 23.0% and short-term investments for 55.6%.

	As at June 30, 2002 Rmb'000	As at December 31, 2001 Rmb'000
Cash and cash equivalents	<b>415,478</b>	434,771
Renminbi	<b>412,529</b>	365,110
US dollar equivalent	<b>2,566</b>	7,393
Euro equivalent	<b>377</b>	56,991
HK dollar equivalent	<b>6</b>	5,277
Fixed deposits	<b>446,812</b>	384,255
Renminbi	<b>229,850</b>	260,579
US dollar equivalent	<b>204,916</b>	92,731
Euro equivalent	<b>0</b>	24,259
HK dollar equivalent	<b>12,046</b>	6,686
Short term investments	<b>1,077,980</b>	1,012,186
Renminbi	<b>1,077,980</b>	1,012,186
Total	<b>1,940,270</b>	1,831,212
Renminbi	<b>1,720,359</b>	1,637,875
US dollar equivalent	<b>207,482</b>	100,124
Euro equivalent	<b>377</b>	81,250
HK dollar equivalent	<b>12,052</b>	11,963

The average interest rates for bank deposits in RMB, US Dollars, Euro and Hong Kong Dollars during the Period were approximately 1.1%, 3.4%, 0.7% and 1.5%, respectively. The average yield of short-term investments was approximately 7.6%.

## FINANCIAL ANALYSIS (CONT'D)

### Financial Resources (Cont'd)

Furthermore, the domestic commercial banks have given the Group available credit to the amount of approximately Rmb3,050 million. As of June 30, 2002, the Group has credit line on reserve to the amount of approximately Rmb1,200 million.

The Directors do not expect to experience any problem with liquidity in the foreseeable future.

### Borrowings and Debt Repayment Ability

The structure of the Group's portfolio of interest-bearing bank loans was changed as a result of the early repayment of the World Bank loans by the Company in July 2001. As at June 30, 2002, borrowings with floating interest rates amounted to Rmb911,983,000, a 2.5% reduction compared to the end of 2001, while borrowings with fixed interest rates amounted to Rmb2,402,600,000, an increase of 14.8% over that at the year-end of 2001.

	<b>Gross amount Rmb'000</b>	<b>Maturity profiles</b>		
		<b>Within 1 year Rmb'000</b>	<b>2-5 years inclusive Rmb'000</b>	<b>Beyond 5 years Rmb'000</b>
Floating rates				
World Bank loan	911,983	42,710	353,610	515,663
Fixed rates				
Commercial bank loans	1,970,000	1,670,000	300,000	
Corporate bonds	200,000		200,000	
Government loans	232,600	27,000	200,800	4,800
Total as at June 30, 2002	<u>3,314,583</u>	<u>1,739,710</u>	<u>1,054,410</u>	<u>520,463</u>
Total as at December 31, 2001	<u>3,029,009</u>	<u>1,620,778</u>	<u>842,492</u>	<u>565,739</u>

## FINANCIAL ANALYSIS (CONT'D)

### Borrowings and Debt Repayment Ability (Cont'd)

The People's Bank of China lowered the interest rate for domestic commercial bank loans again during the Period. Consequently, the interest rate of commercial bank loans of the Group was lowered to a range between 4.54% and 4.94%, with an average rate of 4.60%. The interest rate of the US Dollar loan extended by the World Bank was lowered to 5.01% as affected by movements in LIBOR. Save as the aforesaid, the interest rates of the Group's corporate bonds and those of government loans were not materially different compared to those applicable in 2001.

Interest expenses during the Period amounted to approximately Rmb83,544,000, whereas profit before interest and taxation amounted to approximately Rmb795,754,000, giving rise to a profit to interest ratio (profit before taxation and interest to interest expenses) of 9.5 (corresponding period in 2001: 5.0).

### Capital Structure

There have been no significant changes in the Group's capital structure and gearing ratios since the end of 2001. With the smooth progress of the widening works of the Shanghai-Hangzhou-Ningbo Expressway and the commitments in other capital expenditure, the Group will capitalize on the current opportunities for debt financing as appropriate, with a view to improving the Group's existing capital structure and to lower its capital costs.

## FINANCIAL ANALYSIS (CONT'D)

### Capital Expenditure: Commitments and Utilization

As at June 30, 2002, capital expenditure commitments planned by the Group and the Company for widening of the Shanghai-Hangzhou-Ningbo Expressway, completion of the remaining works at the Shangsang Expressway, and acquisition of additional interests in subsidiary companies, among others, amounted to Rmb3,029,800,000 and Rmb2,509,100,000, respectively. Based on the progress of capital expenditure in relevant projects, capital expenditure of Rmb636,800,000 was utilized during the Period.

Details of committed capital expenditures	As at June 30, 2002	
	Group Rmb million	Company Rmb million
1st stage of the project to widen the Shanghai-Hangzhou-Ningbo Expressway	273.6	273.6
2nd stage of the project to widen the Shanghai-Hangzhou-Ningbo Expressway	1055.0	1055.0
Acquisition of additional 18.4% equity interest in Shangsang Co	485.0	485.0
Remaining construction works of the Shangsang Expressway	485.3	
Construction works under contract No. 11 of the Shanghai-Hangzhou Expressway	35.4	
Acquisition of additional stake in Shangsang Co	302.8	302.8
Acquisition of additional stake in Jiaying Co	387.0	387.0
Others	5.7	5.7
Total	3,029.8	2,509.1

## FINANCIAL ANALYSIS (CONT'D)

### Contingent Liabilities and Pledge of Assets

Save for a guarantee provided by the Company in favor of Shida Co, a jointly controlled entity, in respect of a commercial bank loan of Rmb30 million extended to that entity from September 2001 and maturing in September 2007, the Group had not provided any other pledges or guarantees to any other third parties as at June 30, 2002.

### Foreign Exchange Exposure

The Group's liabilities in foreign currencies mainly represent a World Bank loan of approximately US\$113 million borrowed for the construction of the Zhejiang section of the Shanghai-Hangzhou Expressway. In addition, dividends for H Shares payable by the Company are settled in HK Dollars.

The Group is currently holding deposits in foreign currencies amounting to US\$26,570,000, mainly for the purpose of hedging foreign exchange risks. While the Directors do not anticipate any material foreign exchange risks for the Group given substantial reduction of the Group's liabilities in foreign currencies compared to the corresponding period in the previous year, there can be no assurance that foreign exchange risks will not affect the operating results of the Group.

### Human Resources

The number of employees employed by the Group and the Group's remuneration, incentive and training policies have not changed significantly during the Period.