

FINANCIAL ANALYSIS

During the Period, the Group continued to follow financial policies adopted in previous financial years without making significant changes.

Profitability

Earnings per Share

The Group was able to maintain double-digit growth in earnings per share at 10.3% to Rmb11.3 cents during the Period.

Return on Equity

Return on equity was 5.02% during the Period, representing an increase of 6.1% over the same period last year. The Group follows a policy of maintaining steady growth in dividends, while seeking continued growth in return on equity, thereby increasing shareholder value.

Profitability of Main Assets

Toll income from the Shanghai-Hangzhou-Ningbo Expressway, a main asset of the Group, grew at a slower rate during the Period than the same period last year, due to traffic diversion by Hangzhou City Ring Road and the SARS outbreak. However, return on asset for the expressway, calculated by dividing the net profit contribution from the expressway by its value, was maintained at a relatively high rate of 9.81% during the Period.

The Shangsang Expressway, another main asset of the Group, continued to experience more than 20% growth in toll income during the Period. With continued improvement in profitability, return on asset for the expressway increased from 5.23% last year to the Period's 6.53%. Share of net profit of the Group attributable to the Shangsang Expressway increased from 16% for the same period last year to 20% for the Period.

FINANCIAL ANALYSIS (CONT'D)

Financial Resources and Liquidity

Financial Resources

As at June 30, 2003, the Group held Rmb949,319,000 in cash, cash equivalents and time deposits, and Rmb1,114,449,000 in short-term investments, totaling Rmb2,063,768,000. 93.4% of the short-term investments are treasury bonds, and the remaining investments are mostly close-ended security investment funds.

	As at June 30, 2003 Rmb'000	As at December 31, 2002 Rmb'000
Cash and cash equivalents	666,918	666,291
Renminbi	572,451	532,358
US dollar equivalent	93,983	131,744
Euro equivalent	59	22
HK equivalent	425	2,167
Fixed deposits	282,401	282,779
Renminbi	151,311	192,824
US dollar equivalent	120,354	79,967
Euro equivalent	0	0
HK equivalent	10,736	9,988
Short-term investments	1,114,449	858,114
Renminbi	1,114,449	858,114
Total	2,063,768	1,807,184
Renminbi	1,838,206	1,583,296
US dollar equivalent	214,337	211,711
Euro equivalent	59	22
HK equivalent	11,161	12,155

The Group has fully taken financial risks into account in its cash management, hence its short-term investments mainly comprise products available domestically that are relatively stable in returns and low in investment risk, such as treasury bonds.

FINANCIAL ANALYSIS (CONT'D)

Financial Resources and Liquidity (Cont'd)

Cash Flow and Liquidity

During the Period, the Group's net cash flow from operating activities was Rmb902,770,000. The main assets of the Group, the Shanghai-Hangzhou-Ningbo Expressway and the Shangsang Expressway, consistently generated strong and steady cash inflow from their daily operations.

As at June 30, 2003, among the current assets of the Group, totaling Rmb2,163,278,000, account receivables, other receivables and inventories accounted for only 5.1% of the current assets, representing a decrease compared with previous years (as at December 31, 2002: 7.4%).

Considering the performance of the Group, the Directors believe the Group has sufficient financial resources to continue operations in the foreseeable future.

Borrowings and Debt Repayment Ability

Interest-bearing Borrowings

By the end of the Period, the Group had Rmb3,112,290,000 interest-bearing borrowings, representing an increase of Rmb74,090,000 from the level at the beginning of the Period. The structure of the Group's interest-bearing borrowing changed during the Period as a result of the issuance of Rmb1 billion of 10-year corporate bonds. Short-term interest-bearing borrowings with a maturity term of under one year decreased by 40.5% from the level at the beginning of the Period, while interest-bearing borrowings with a maturity term of one year or above increased by 72.3%.

FINANCIAL ANALYSIS (CONT'D)

Borrowings and Debt Repayment Ability (Cont'd)

Interest-bearing Borrowings (Cont'd)

The annual coupon rate for the 10-year Rmb1 billion corporate bonds is fixed at 4.29%, with interests payable annually. The interest rates of the domestic commercial bank loans, US Dollar loans extended by the World Bank and the government loans were the same as those applicable on December 31, 2002. Financing cost for the Group decreased as a result of the issuance of corporate bonds by the Company.

	Gross amount Rmb'000	Within 1 year Rmb'000	Maturity profiles	
			2-5 years inclusive Rmb'000	Beyond 5 years Rmb'000
Floating rates				
World Bank loan	869,690	41,820	375,997	451,873
Fixed rates				
Commercial bank loans	970,000	840,000	130,000	—
Corporate bonds	1,200,000	200,000	—	1,000,000
Government loans	72,600	37,000	35,600	—
Total as at June 30, 2003	<u>3,112,290</u>	<u>1,118,820</u>	<u>541,597</u>	<u>1,451,873</u>
Total as at December 31, 2002	<u>3,038,200</u>	<u>1,881,553</u>	<u>681,064</u>	<u>475,583</u>

Debt Capital Structure

The Group's debt capital structure changed considerably from the structure at the end of 2002. Short-term interest-bearing liabilities decreased from Rmb1,881,553,000 at the beginning of 2003 to Rmb1,118,820,000, representing a decrease in the percentage of total interest-bearing liabilities from 61.9% to 35.9% by the end of the Period. Long-term interest-bearing liabilities increased from Rmb1,156,647,000 at the beginning of 2003 to Rmb1,993,470,000, representing an increase from 38.1% to 64.1%.

FINANCIAL ANALYSIS (CONT'D)

Borrowings and Debt Repayment Ability (Cont'd)

Debt Capital Structure (Cont'd)

The Group has the characteristics of its industry, that is a substantial majority of assets are long-term assets such as fixed assets, and most of current assets are cash. The management reviews the maturity profile of the Group's debt portfolio from time to time, seeking to match its debt structure with its asset characteristics, and makes corresponding adjustments when necessary so as to ensure the Group has sufficient financial resources to meet the needs of debt repayment and operations. The Directors believe that the adjustment in debt capital structure during the Period is more suitable to the Group's present asset structure.

Gearing Ratio

During the Period, interest-bearing liabilities, non-interest-bearing liabilities and shareholders' equity amounted to Rmb3,112,290,000, Rmb1,895,030,000 and Rmb9,803,058,000, respectively. As at June 30, 2003, the gearing ratio (total liabilities over shareholders' equity) was 51.1% (December 31, 2002: 49.5%).

Profit to Interest Ratio

The Group's profit to interest ratio increased during the Period, due to lower financing costs resulted from the corporate bonds issued by the Company at a lower cost than domestic bank borrowings.

During the Period, interest expense was approximately Rmb80,691,000 (for the six months ended June 30, 2002: Rmb83,544,000). With profit before interest and taxation at approximately Rmb806,675,000, the profit to interest expense ratio was 10.0 (for the six months ended June 30, 2002: 9.5).

Capital Expenditure Commitments and Utilization

As at December 31, 2002, capital expenditure committed by the Group was Rmb5,454 million, among which Rmb189 million was mainly used on the Expressway Widening Project during the Period.

With another Rmb57.6 million used for the acquisition of an additional 2% ownership interest in Shangsang Co, the total capital expenditure for the Group during the Period was Rmb247 million.

As at June 30, 2003, the Group had Rmb5,265 million capital expenditure commitments, of which Rmb4,300 million was committed to the Expressway Widening Project.

FINANCIAL ANALYSIS (CONT'D)

Contingent Liabilities and Pledge of Assets

Contingent Liabilities

Other than a loan guarantee of Rmb30 million provided in favor of Shida Co, a jointly controlled entity, in respect of a commercial bank loan of the same amount extended to Shida Co from September 2001 to September 2009, the Group did not have any contingent liabilities as at June 30, 2003.

Pledge of Assets

The Group had no pledge of assets during the Period.

Foreign Exchange Exposure

The Group's liabilities in foreign currencies mainly comprise a World Bank loan of approximately US\$100 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 Hong Kong Dollars.

As the exchange rate between Renminbi and US Dollar remains stable, and the operating income and cost of the Group are limited to the activities within the PRC, the Directors do not foresee any material foreign exchange exposure for the Group, although there is no assurance that any foreign exchange exposure will not affect the operating results of the Group.

Human Resources

In addition to providing training for existing employees and recruiting new talents, the Group increased its effort in outsourcing professional advisories during the Period. The strategy has led to technological solutions that successfully reduced costs in major construction and maintenance works carried out by the Group.

Other than the above, the Group had no significant changes in the number of employees, remuneration policies and training schemes during the Period.