

# Management Discussion and Analysis

## BUSINESS REVIEW

The Group is principally engaged in the provision of logistic services and expressway-related services. The four main business segments of the Group are set out below:-

- planning, procurement and logistics management of construction materials mainly for expressway and infrastructure projects in Guangdong Province;
- operation of expressway service zones and provision of the related auxiliary services including gas stations, convenience stores, restaurants, car maintenance and outdoor advertisement in Guangdong Province;
- provision of transportation intelligence services including development, construction and maintenance of intelligent transportation system ("ITS"), installation and construction of safety and toll collection facilities for the expressways mainly in Guangdong Province; and
- provision of cross-border coaching services between Hong Kong and Guangdong Province.

### Material Logistics Services

The Group is one of the leading material logistics service providers for the development of large-scale expressway projects in Guangdong Province. The provision of material logistics services of the Group consists of planning, procurement, purchase, storage, and transportation management of construction materials mainly for expressway constructions and other infrastructure construction projects.

In 2005, the Group established an integrated management platform for production material logistics which enhanced its management efficiency. Through collective procurement, the Group was able to select high quality materials at low cost for its projects to achieve better control over procurement costs. The Group also strengthened its logistics services and ensured the smooth operation of its supply chain by improving its warehouse facilities and buildings and better management of its delivery fleet. In view of the growing number of non-expressway projects in Guangdong Province, in particular the railway and metro rail construction projects, the Company has successfully participated in subway and railway infrastructure projects by capitalizing its expertise.

For the year ended 31 December 2005, the Group has participated in 14 expressway construction projects in Guangdong Province. At the same time, the Group also participated in certain non-highway infrastructure projects in Guangzhou, including the Guangzhou Metro Project and the Guangzhou University City Project. During the year ended 31 December 2005, the Company provided construction materials including approximately 2,200,000 tonnes of cement, 655,000 tonnes of steel bar, 23,000 tonnes of steel strand and 130,000 tonnes of asphalt, hitting an annual record high as compared to previous years in respect of these material supply categories.

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## **Expressway Service Zones**

As a leading operator of expressway service zones in Guangdong Province, the Group has been continuously expanding its operations by way of obtaining the rights of operation and management of new expressway service zones. The number of service zones operated by the Group increased from 27 pairs in 2004 to 40 pairs in 2005. During 2005, the Group has completed the supporting facilities for 13 pairs of newly-built service zones which provides a steady growth in revenue of the Group.

Regarding the operations in the service zones, apart from improvement of level of services, the Company adopted a strategy of comprehensive development of the service zone resources. Accordingly, it has gradually established an expressway service zone network comprising of the operations of convenience stores, catering restaurants, gas stations, automotive repair shops, and highway advertisements.

During 2005, the Group committed immense efforts to improve its logistics distribution system. In this regard, the Group streamlined the operations in procurement, storage and distribution for products sold in its convenience stores, by centralizing the procurement and account settlement functions and developing standard operation and management manual.

The Group focuses on building its own catering and fast food services that are differentiated from its competitors. The Group strives also to provide new catering choices and menus to meet market demands.

The Group and the Guangdong branch of Sinopec established a joint venture to collaborate in gas retailing.

## **Transportation Intelligence Services**

Through Guangdong Xinyue and Guangdong Oriental Thought Technology Company Limited ("Guangdong Oriental Thought"), the two major operating subsidiaries of the Company, the Group provided transportation intelligence services such as research and development, installation and construction of transportation intelligence systems and other electro-mechanical systems for expressways.

The Group reinforced the research, development and promotion of its expressway toll system products. Portable and handheld toll collection devices for road and bridge were introduced to markets in and out of Guangdong Province. In addition, the Group also made significant headway in the research, development and marketing of other products and systems, including large-scale information displays, licensed plate identifiers, toll displays, radar speed detection systems and unattended automatic card issuing machines. Anti-virus and anti-toll evasion systems have also been successfully promoted to and deployed in the expressways in the Guangdong Province.

During the year, the Group undertook and completed the construction of 11 major electro-mechanical system projects and 7 safety facility projects.

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### **Cross-border Coaching Services**

To implement the Group's plan of engaging in the cross-border coaching services between Hong Kong and Guangdong Province, the Company successfully acquired 62% equity interests in GD-HK Company in December 2005. The Group has benefited from the increased flow of cross-border passengers between Hong Kong and Guangdong Province. Since its incorporation in May 1980, GD-HK Company has been seen as, in Hong Kong and Guangdong Province, the first and the largest coach operator in the cross-border coaching services between Hong Kong and Guangdong Province. With its 25 years operating history, GD-HK Company is one of the major cross-border coach operators in Hong Kong by fleet size, bus frequency and routes operated. On 17 June 2005, GD-HK Company was given two daily two-way quotas by the Hong Kong Transport Department to operate bus services between Hong Kong Disneyland and Guangdong Province. During 2005, GD-HK Company's bus fleet carried a total of 3,740,000 passengers on its cross-border and domestic routes.

The acquisition of GD-HK Company was accounted for using merger accounting under Hong Kong Financial Reporting Standards ("HKFRS"). Please refer to Note 2.1 of the accounts for details of the basis of presentation.

### **Others**

The Group owns the operating and toll collection right of Tai Ping Interchange in Guangdong Province from 28 December 1999 to 1 July 2027.

The Group also generated revenues from advertising services, tendering services, computer hardware and software sales and etc.

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## FINANCIAL REVIEW

### Turnover

The Group generates turnover mainly from four core business segments, including provision of material logistics services, operations of expressway service zones, provision of transportation intelligence services, and cross-border coaching services. Income from other operations including toll fee collection at Tai Ping Interchange are also included in turnover of the Group.

The following table shows a breakdown of the Group's turnover by business segments for the years ended 31 December 2005 and 31 December 2004.

	For the year ended 31 December			
	2005		2004	
	RMB'000	% of total	RMB'000 Restated	% of total
Material logistics services	3,243,842	74.54%	2,720,499	75.64%
Expressway service zones	278,535	6.40%	172,091	4.78%
Transportation intelligence services	474,303	10.90%	346,762	9.64%
Cross-border coaching services	256,806	5.90%	249,210	6.93%
Tai Ping Interchange	84,826	1.95%	77,243	2.15%
Others	13,710	0.31%	30,828	0.86%
Total	4,352,022	100%	3,596,633	100%

### Material Logistics Services

Revenue generated from material logistics services is one of the major income sources of the Group. It attributed to approximately 74.54% of the Group's total turnover for 2005. The increase was principally due to the Group's increased business volume for material logistics services as a result of its business expansion, and the increase in the overall supply volume of construction materials as compared to 2004.

### Expressway Service Zones

During 2005, revenue generated from the operation of expressway service zones represented approximately 6.40% of the Group's total turnover during the year. The increase in revenue was due to the increase in the number of service zones subcontracted by the Group in 2005, change of modes of operation from sub-contracting to self-operation, increased flow of customers, and increased sales relating to catering and convenience stores resulting from enhanced network of the service zones. The revenue increased from approximately RMB172,091,000 in 2004 to approximately RMB278,535,000 in 2005, representing a 61.85% annual growth.

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### **Transportation Intelligence Services**

Approximately 10.90% of the Group's total turnover during the year was contributed by the provision of transportation intelligence services, including the research and development of ITS and other expressway electro-mechanical systems and facilities. Turnover generated from this segment increased from approximately RMB346,762,000 in 2004 to approximately RMB474,303,000 in 2005. The increase was mainly due to the larger scale of projects launched and implemented in 2005 as compared to 2004.

### **Cross-border Coaching Services**

The revenue generated from cross-border coaching services for 2005 increased slightly by 3% as compared with 2004, which was mainly due to increase in the number of in-land routes passengers.

### **Others**

Others mainly include Tai Ping Interchange and other services.

During 2005, approximately 1.95% of the Group's total turnover was contributed by the collected toll fees from Tai Ping Interchange. Due to increased traffic flow during 2005, the revenue contributed by the Tai Ping Interchange toll fee increased from approximately RMB77,243,000 in 2004 to approximately RMB84,826,000 in 2005.

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## Cost of Sales

Cost of sales of the Group mainly represents the operating costs of the five core business segments of the Group. Total operating costs increased by approximately RMB645,160,000 or 20.3% from approximately RMB3,177,896,000 for the year ended 31 December 2004 to approximately RMB3,823,056,000 for the year ended 31 December 2005. The increase in total operating costs was contributed to the corresponding increase in turnover.

The following table shows a breakdown of the Group's cost of sales by business segments for the years ended 31 December 2005 and 31 December 2004.

	For the year ended 31 December			
	2005		2004	
	RMB'000	% of total	RMB'000	% of total
			Restated	
Material logistics services	3,081,935	80.61%	2,627,616	82.68%
Expressway service zones	139,951	3.66%	79,736	2.51%
Transportation intelligence services	389,698	10.19%	253,081	7.96%
Cross-border coaching services	189,391	4.95%	191,642	6.03%
Tai Ping Interchange	13,291	0.35%	14,188	0.45%
Others	8,790	0.24%	11,633	0.37%
Total	3,823,056	100%	3,177,896	100%

Cost of sales of the Group mainly consists of the followings:

- (i) Cost of sales for the provision of material logistics services mainly includes purchase cost and related transportation cost paid for construction materials purchased from suppliers.
- (ii) Cost of sales for the operation of expressway service zones mainly includes purchase cost for goods to be sold in convenience stores; labour cost for services provided in restaurants and car maintenance centers; expenditure incurred for building up gas stations and amounts paid to the expressway owners for the subcontracting of the expressway service zones.
- (iii) Cost of sales for the provision of transportation intelligence services mainly includes the labour cost for design, installation and inspection of the ITS and other systems and the purchase cost for hardware, software and construction materials procured for the system integration and construction, and the cost for subcontracting part of the services to other contractors.
- (iv) Cost of sales of cross-border coaching services mainly includes fuel costs, road maintenance cost, staff cost, and bridge tolls, etc.

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- (v) Cost of sales of Tai Ping Interchange mainly includes maintenance and management fee, leasing cost of the land use rights and depreciation of Tai Ping Interchange.
- (vi) Cost of sales for other types of revenue mainly includes the cost of labour for other services provided and other expenditures.

### Gross Profit Margin

Due to the increase in turnover, the Group recorded a significant increase in gross profit by approximately RMB110,229,000 or 26.32% to approximately RMB528,966,000 in 2005. Gross profit margin was 12.15%, representing an increase of 0.44% from 11.64% in 2004.

The following table set out the gross profit and gross profit margin of the Group for the years ended 31 December 2005 and 31 December 2004.

	For the year ended 31 December			
	2005		2004	
	RMB'000	Gross Profit Margin	RMB'000 Restated	Gross Profit Margin
Material logistics services	161,907	4.99%	92,883	3.41%
Expressway service zones	138,584	49.75%	92,355	53.67%
Transportation intelligence services	84,605	17.84%	93,681	27.02%
Cross-border coaching services	67,415	26.25%	57,568	23.10%
Tai Ping Interchange	71,535	84.33%	63,055	81.63%
Others	4,920	35.89%	19,195	62.26%
Total	<u>528,966</u>	<u>12.15%</u>	<u>418,737</u>	<u>11.64%</u>

### Selling Expenses

The selling expenses of the Group increased from approximately RMB63,141,000 in 2004 to approximately RMB98,564,000 in 2005, representing an increase of 56.10%. The increase in selling expenses was mainly due to the increase in transportation, storage and marketing costs as a result of the business expansion in the Group's material logistics services and transportation intelligence services.

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## Administrative Expenses

The administrative expenses of the Group increased from approximately RMB157,021,000 in 2004 to approximately RMB203,352,000 in 2005, representing an increase of 29.51%. The increase was mainly due to the increase in the number of administrative staffs and the increase in average staff cost pursuant to the Group's business expansion.

## Taxation

Due to the increase in profit before taxation for 2005, income tax expenses also increased for the year.

## Borrowings

As at 31 December 2005, total outstanding borrowings of the Group was in the form of unsecured short-term bank loans which amounted to approximately RMB139,929,000. The debt-to-equity ratio as at the end of 2005 was 65.36%. The debt to equity ratio was the ratio of the aggregate liability to the total of aggregate liability and owner's equity as at 31 December 2005. All of the Group's bank borrowings are denominated in RMB and are at floating rates. The weighted average effective interest rates at 31 December 2005 was 4.849% per annum.

## Liquidity, Financial Resources and Capital Structure

The Group's principal sources of liquidity have been the cash flow from operations, proceeds from the offer of the Company's shares and bank borrowings.

## Net Current Assets

As at 31 December 2005, the Group's net current assets amounted to approximately RMB664,950,000.

Current assets of the Group of approximately RMB2,873,575,000 were mainly comprised of inventories of approximately RMB298,139,000, amounts due from customers on construction contracts of approximately RMB233,341,000, trade and other receivables of approximately RMB1,501,915,000, and cash and cash equivalents of approximately RMB840,180,000.

Current liabilities of the Group of approximately RMB2,208,625,000 were mainly comprised of amounts due to customers on construction contracts of approximately RMB47,222,000, trade and other payables of approximately RMB1,991,484,000, taxation payable of approximately RMB29,990,000, and short-term bank borrowings of approximately RMB139,929,000.

## Cash Flows (Cash Flows from Operating Activities, Cash Flows from Investing Activities and Cash Flows from Financing Activities)

During 2005, the Group has been meeting its cash needs, including contractual commitments, expansion and development of its core businesses and general working capital requirements, principally through cash generated from operations and the net proceeds of the offer of the Company's shares.

In 2005, the net cash flow from operating activities was approximately RMB374,233,000, representing an increase of RMB166,579,000 from RMB207,654,000 in 2004. The increase was attributable to the enhanced management of the Group's trade and other receivables, which shortened the turnover period of such receivables.



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Net cash used in investing activities of approximately RMB118,634,000 in 2005 were mainly comprised of amount for fixed assets including buildings and transportation facilities of approximately RMB81,979,000, amount for establishment of Shenzhen Man Kam To Coach Company Limited (深圳文錦渡巴士有限公司) and Guangdong Zhong Yue Tong Oil Products Operation Co., Ltd. (廣東中粵通油品經營有限公司) of approximately RMB45,800,000, representing an increase of approximately RMB30,687,000 from approximately RMB87,947,000 of 2004.

Net cash generated from financing activities was approximately RMB202,602,000 in 2005, representing an increase of approximately RMB169,594,000 when compared to RMB33,008,000 in 2004. The significant increase in the cash inflow from financing activities was mainly attributable to the net proceeds of approximately RMB408,194,000 raised upon the successful listing of the Group in Hong Kong in October 2005.

### **Foreign Exchange Risk and Hedging**

Most of the revenue and expenditure of the Group are settled or denominated in RMB, except for the revenue and expenditure related to GD-HK Company. In 2005, the Group's operation or liquidity were not materially affected by the fluctuations in currency exchange rate. The directors of the Company believe that the Group will have sufficient foreign exchange to meet its foreign exchange requirements. Meanwhile, the Group will continue to pay close attention to the currency fluctuations of RMB. The Group will consider appropriate measures including making hedging arrangements (e.g. forward exchange contracts), based on its operating needs to mitigate the Group's currency exposures.

### **Capital Expenditure**

In 2005, capital expenditure for the purchase of fixed assets such as buildings and transportation facilities and intangible assets was approximately RMB84,813,000. The main reasons for such capital expenditure were (i) the need for purchase of operating vehicles for the cross-border coaching services, (ii) the Tai Ping Interchange's improvement project for toll collection system, and (iii) the purchase of real estate for expansion of office space. In addition, the capital expenditure for the acquisition of GD-HK Company was RMB143,847,000. Currently, the Group is not bound by any contractual arrangements to invest in its future expansion.

### **Acquisitions**

In December 2005, the Company completed the acquisition of 62% equity interest in GD-HK Company to expand the Group's cross-border coaching services.

### **Contingent Liabilities**

As at 31 December 2005, the Group did not have any material contingent liabilities.