Financial Analysis

The Group adopts a prudent financial policy with an aim to provide shareholders with sound returns over the long-term.

During the Period under review, profit attributable to equity holders of the Company recorded a growth of 8.9% to Rmb688.7 million (2005 restated: Rmb632.7 million), while earnings per share was Rmb15.86 cents (2005 restated: Rmb14.57 cents), resulting in an increase in return on equity from 5.7% for the same period last year to 6.1% for the Period.

LIQUIDITY AND FINANCIAL RESOURCES

As at June 30, 2006, current assets of the Group amounted to Rmb1,738.9 million, amongst which Rmb600.0 million held as other receivables was capital contribution to Kinghing Securities (subsequently renamed as Zheshang Securities Co., Ltd.). This has increased the percentage of account receivables, other receivables and inventories amongst total current assets from 24.0% as at the start of the Period to 41.1% as at the end of the Period.

As at June 30, 2006, the Group had adequate net cash inflow generated from operating activities amounting to Rmb1,106.9 million, representing an increase of 4.2% over the same period last year.

The Group's financial position remained healthy. As at June 30, 2006, the Group's cash and cash equivalents amounted to Rmb846.9 million as compared with Rmb723.5 million as at December 31, 2005. In addition, the Group held Rmb149.6 million in time deposits and Rmb10.0 million in money market funds as at June 30, 2006. Details of these balances are as follows:

	As at June 30, 2006 Rmb'000	As at December 31, 2005 Rmb'000
Cash and cash equivalents	**846,949**	723,513
Renminbi	**846,718**	723,452
US dollar equivalent	**2**	2
Euro equivalent	—	—
HK equivalent	**229**	59
Time deposits	**149,624**	105,632
Renminbi	**149,624**	105,632
US dollar equivalent	**—**	—
Euro equivalent	**—**	—
HK equivalent	**—**	—
Short term investments	**10,000**	612,097
Renminbi	**10,000**	612,097
Total	**1,006,573**	1,441,242
Renminbi	**1,006,342**	1,441,181
US dollar equivalent	**2**	2
Euro equivalent	**—**	—
HK equivalent	**229**	59

The Directors do not expect the Company to experience any problem with liquidity and financial resources in the near future.

BORROWINGS AND SOLVENCY

As at June 30, 2006, the Group's total interest-bearing borrowings stood at approximately Rmb2,247.5 million (December 31, 2005: Rmb2,434.7 million), of which Rmb1,502.8 million were not repayable within one year (December 31, 2005: Rmb1,548.2 million). The borrowings mainly comprised outstanding balances of the World Bank loans of Rmb699.9 million in Renminbi equivalent, loans from several domestic commercial banks totaling Rmb475.0 million and corporate bonds amounting to Rmb1 billion that were issued by the Company in 2003 for a term of 10 years. Details of these balances are as follows:

		Maturity profiles		
	Gross amount Rmb'000	**Within 1 year** Rmb'000	**>1 year to 5 years** Rmb'000	**Beyond 5 years** Rmb'000
Floating rates				
World Bank loan	699,909	199,905	381,060	118,944
Fixed rates				
Commercial bank loans	475,000	475,000	—	—
Corporate bonds	1,000,000	—	—	1,000,000
Government loans	72,600	69,800	2,800	—
Total as at June 30, 2006	2,247,509	744,705	383,860	1,118,944
Total as at December 31, 2005	2,434,737	886,540	377,615	1,170,582

During the Period, the interest rates of the Group's semi-annual and annual domestic commercial bank borrowings, totaling Rmb475.0 million, were fixed between 5.022% and 5.58% per annum; the interest rate for Rmb72.6 million government loans remained fixed at 3.00% per annum; and the annual coupon rate for the Rmb1 billion corporate bonds was fixed at 4.29%, with interest payable annually. During the Period, the floating rate of the Group's Rmb699.9 million World Bank loans, denominated in US dollar was 4.51% per annum.

During the Period, interest expenses amounted to Rmb54.8 million and profit before interest and tax amounted to Rmb1,180.4 million. The interest cover ratio (profit before interest and tax over interest expenses) stood at 21.6 (2005 restated: 22.3).

The asset-liability ratio (total liabilities over total assets) was 23.2% as at June 30, 2006 (December 31, 2005: 24.2%).

CAPITAL STRUCTURE

The total equity of the Group as at June 30, 2006 amounted to Rmb12,361.9 million (December 31, 2005: Rmb12,363.9 million), while fixed-rate liabilities of the Group amounted to Rmb1,547.6 million, floating-rate liabilities of the Group amounted to Rmb699.9 million and interest-free liabilities of the Group amounted to Rmb1,480.1 million, representing 76.8%, 9.6%, 4.4% and 9.2% of the Group's capital, respectively.

The gearing ratio, which represents the sum of fixed-rate liabilities, floating-rate liabilities and interest-free liabilities over total equity, was 30.2% as at June 30, 2006 (December 31, 2005: 31.9%).

CAPITAL EXPENDITURE COMMITMENTS AND UTILIZATION

Total capital expenditures of the Group and the Company for the Period amounted to Rmb741.3 million and Rmb215.1 million, respectively, with Rmb468.9 million incurred by the investment in Kinghing Securities and Rmb226.0 million incurred by the Widening Project.

As at June 30, 2006, capital expenditures committed by the Group and the Company were Rmb3,836.7 million and Rmb2,934.3 million, respectively. Of the total capital expenditure commitments of the Group, 55.6% will be used on the Widening Project and 28.9% will be used on the construction of Jiashao Expressway.

The above capital expenditure needs will mainly be financed by the Group's internal financial resources, with a preference for debt financing to meet any shortfalls thereof.

CONTINGENT LIABILITIES AND PLEDGE OF ASSETS

As at June 30, 2006, the Group did not have any contingent liabilities nor any pledge of assets.

FOREIGN EXCHANGE EXPOSURE

As at June 30, 2006, except for the World Bank loans of approximately Rmb699.9 million, denominated in US dollar, and dividends for H shares payable by the Company that are settled in HK dollar, the Group's principal operations are transacted and booked in Renminbi. Therefore, the Group's exposure to foreign exchange fluctuations is limited and the Group has not entered into any financial instrument for hedging purposes.

Although the Directors do not foresee any material foreign exchange risks for the Group, there is no assurance that any further changes in the foreign exchange environment will not adversely affect the operating results of the Group in the future.