

## Managing Director's Report



### 2000 Results

The Group's profit for 2000 was HK\$ 428 million, an increase of 7.4% compared to that of 1999 by excluding the exceptional gain. Earnings per share was HK\$ 0.76.

### Business Review

Investment, development and management of highway projects remains the Group's core business. Up to date, the Group has invested 23 high quality road projects covering 8 provinces in China with a total road length of 1,087.4 km. Apart from Chaoyanglu Huaihe Highway Bridge which is still under construction, all of the Group's projects are fully operational and contributing to the Group's cash income. In particular, a new project, Hefei - Yeji Highway in Anhui, commenced operation from April 2000.

The Group invested HK\$ 64 million in traditional Chinese medicine and health products and North American ginseng business. In May 2000, the Group, by acquisition of over 60% interest, became the major shareholder of Chai-Na-Ta Corp. which is the world's largest grower of North American ginseng. Chai-Na-Ta Corp. is listed on the Toronto Stock Exchange and traded on the NASDAQ OTC Bulletin Board.

### Highway Projects

In 2000, the total traffic volume and toll revenue of the Group's projects reached 98 million vehicles and RMB 1,108 million respectively, a growth of 8.4% and 10.8% compared to 1999, or 13.4% and 16.7% growth by excluding the Meiguan Expressway (The Group disposed the interest of Meiguan Expressway to third party in July 1999).

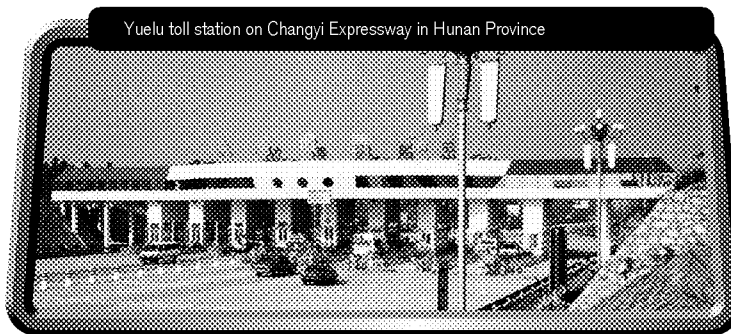
In the past years, China has been injecting substantial amount of capital into the infrastructure sector especially highways construction. With the continuing economic development and improving living standards, it translates persistent growth of transport movement from which the infrastructure providers will enjoy the benefit. Most of the Group's highway projects recorded steady growth of traffic volume except individual projects which were affected by special external factors. Greater rise in traffic movement is anticipated due to increasing business activities generated from the China's impending accession to World Trade Organization.

Two road projects in Henan and Hunan Provinces successfully obtained toll increase approval in Year 2000. As some projects have maintained same toll rates for years, the Group plans to proceed applications of toll adjustment according to the actual situation in Year 2001.

The performance of new highway project, Hefei - Yeji Highway in Anhui, was satisfactory. The recorded traffic volume and toll revenue since its inception from April 2000 were both meeting expectation.

Poorer performance of the Group's Shanxi projects due to closure of many small scale coal mines and poorer demand of coal in Year 1999 was recovered slightly in Year 2000 but was still not up to expectation. The Group endeavours, by closely monitoring the local economic development, to look for other initiatives to further improve the returns on these projects.

Yuelu toll station on Changyi Expressway in Hunan Province



The problems concerning the toll collection and minimum returns of projects in Guangxi Yulin were still under negotiation. With the support and assistance from the Guangxi Zhuang Autonomous Region government, new toll rates have been implemented since January 2001 with a weighted average increase of 20%.

After years of dedicated operation, some of the Group's projects have already recovered or close to recovering their projects' original investment amounts. In accordance with the provision of relevant agreements, the initial stage of preferential distribution and provision of minimum income would subsequently be expired. This change of income distribution will affect the Group's profit for a short period of time. However, with our quality investment portfolio, highway projects will continue to bring reliable cash income to the Group.

## Medical and Health Products

In 2000, the Group acquired interests in mainland medical enterprises and also completed the acquisition of over 60% equity interest in Chai-Na-Ta Corp., the world's largest supplier of North American ginseng.

By acquisition of interests in those enterprises, the Group gains access to the Chinese medicine and health products market. It is expected that after a period of practice and development, the Group may develop, when it is mature, a conglomerate medical enterprise with business in research, development, production, sales and distribution.

## Financial Review

As at 31 December 2000, net assets of the Group increased to HK\$ 4,168 million and net assets per share was HK\$ 8.23. The Group's total assets were HK\$ 5,728 million. Total borrowings were HK\$ 1,388 million. The Group's net gearing

ratio was 22%. The major borrowings include US dollar denominated transferable loan facility with an outstanding balance equivalent to HK\$ 768 million, US dollar denominated Guarantee Notes with an outstanding balance equivalent to HK\$ 615 million and Canadian dollar denominated loan facilities with an outstanding balance equivalent to HK\$ 5 million. Of which, HK\$ 149 million will be due in 2001 and HK\$ 624 million will be due in 2002, the rest will be due in 2007.

The transferable loan facility was mainly secured by mortgage over the shares of certain of the Group's subsidiaries and was jointly and severally guaranteed by the Company and certain of its subsidiaries. The Guarantee Notes were secured by a floating charge over all assets of a subsidiary and were jointly and severally guaranteed by the Company and certain of its subsidiaries. In respect of the Canadian dollar financing, the credit facilities were secured by inventories and certain real property of an overseas subsidiary. In addition, the Group had also provided a guarantee indirectly to a bank for approximately HK\$ 155 million in respect of RMB banking facilities.

In April 2000, the Group injected HK\$ 200 million of capital into the Hefei-Yeji Highway in Anhui. In May 2000, the Group acquired over 60% of the shares of Chai-Na-Ta Corp. During the year, the Group also injected HK\$ 22 million into Bengbu Chaoyanglu Huaihe Highway Bridge project, which is currently under construction.

During the year of 2000, under the mandate given by shareholders and the Board, the Group repurchased 19,629,000 shares of its own on the Stock Exchange in an aggregate amount of HK\$ 78,193,525.

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To minimize the RMB currency exchange risk, the Group had successfully assisted its new project to obtain RMB project finance facilities for more than RMB 300 million.

In June 2000, Standard & Poor's upgraded the Group's corporate credit rating and rating on the Guaranteed Notes from BB to BB+ with stable outlook. According to Standard & Poor's, the upgrade reflected a more established operating and financial performance as well as an improvement of the capital structure and interest coverage ratios of the Group since 1997.

During 2000, the Group received HK\$ 567 million of cash distributions from its toll road projects. As at 31 December 2000, the Group's cash and bank balances were HK\$ 452 million (including pledged deposits of HK\$ 238 million in favour of the agents of the existing long-term debts). Undrawn banking facilities amounted to HK\$ 60 million. The Group also has major capital commitment of approximately HK\$ 104 million, of which approximately HK\$ 34 million will be required in 2001.

## Employees

Excluding joint ventures, the Group has a total of 194 staff as at 31 December 2000. Employees' cost (excluding directors' emoluments) amounted to HK\$ 41.76 million. In the past year, the Group granted a number of total 3,045,000 option shares to the staff of the Group (excluding directors) under the staff share option scheme.

The Group's emphasis on talented, dedicated and key employees together with an effective organization structure are main factors to its own success. The Group ensures that the pay levels of its employees are competitive and commensurate with their responsibilities and performance.

## Prospects and Planning

Following years of business development and consolidation, the Group gains tremendous wealth of experience on project operation, financial management and business development. The Group is well-equipped to handle problems and to take more challenges.

Looking forward, China's impending admission to World Trade Organization and economy reforms will drive the market growth. The surge of economic growth and boost of business activities will benefit the Group's existing business and provide rooms for our growth and expansion.

In Year 2001, under the theme of "Enhance Profit Potential and Broaden Business Spectrum", we shall:

- continue to reinforce project management and find ways to improve lackluster projects;
- proceed financing exercise to prepare for future business development;
- seek new highway projects and explore other transport related business;
- closely monitor market development to grasp new investment opportunities.

We firmly believe, with our dedicated and diligent efforts, the Group will overcome any possible difficulties and continue to grow.

Finally, I would like to extend my heartfelt gratitude to our business partners, shareholders and my colleagues for their support, valuable and dedicated contribution to the Group.

### **Ko Yuk Bing**

Managing Director & CEO

Hong Kong, 28 March 2001