Managing Director's Report

2001 Results

For the fiscal year of 2001, the Group's profit was HK$240.8 million. Excluding the one-off provision for doubtful receivables due to the disposal of interests in Jieyang Highway Network project, the operating profit of the Group and share of joint ventures would be HK$535 million, representing a decrease of 7.8% as compared to HK$580 million in 2000. The decrease reflects the fact that certain toll road projects, which the Group has already recovered its original investment amount, are in the second stage of profit distribution in which PRC joint venture partners share a higher percentage of income. Upon the recovery of the partners' investment amounts, the Group's income distribution sharing ratio will increase again.

Business Review

Investment, development and management of highway projects remains the Group's core business.

Highway Projects

The Group has experienced a steady growth in total traffic flow and toll revenue from its toll road projects. In 2001, the total traffic and toll revenue derived from highway projects reached 103 million vehicles and RMB1,182 million respectively, representing 4.9% and 6.7% increase from that of 2000. Excluding the impact due to the disposal of the Group's interests in Jieyang Highway Network project, the Group's total traffic and toll revenue would demonstrate a growth of 9.3% and 11% respectively in 2001.

With the exception of the Anhui Bengbu Chaoyanglu Bridge project, all projects are operational and generating cash flow to the Group. The construction progress of the Chaoyanglu Bridge is on schedule and will be completed by the end of 2002. By the end of 2001, 65% of construction works was completed.

In 2001, the toll rates for highway projects in Guangxi and Henan Provinces were adjusted. In January 2001, Guangxi Yulin City Ring Road project was approved to raise its toll rate by 20%. In April, Henan Xunan Highway project raised its toll rate by 36%.

In September 2001, the Group completed the disposal of its interests in Jieyang Highway Network project. This transaction generated a gain of HK$34 million to the Group. However, the Group decided to take a prudent approach to make a full provision against the outstanding receivables of approximately HK$126 million in respect of the minimum income undertakings due from the PRC joint venture partners.

Performance of individual toll road projects was, in general, considered to be satisfactory with the exception of Guangxi Yulin Highway, Jiangsu Changcao Highway and Shanxi projects. The previous problems concerning Guangxi remained unresolved. However, the Guangxi Government had taken a helpful attitude to improve the project performance. Jiangsu Changcao Highway was increasingly faced with competition from parallel roads. The Changcao joint venture was striving to improve the situation through various measures. Although the performance of the Shanxi projects was below the Group's expectation, Shanxi projects had been improving in terms of both traffic flow and toll revenue as compared to previous years.

With persistent growth in traffic flow and toll revenue and the fact that some of the Group's projects had already recovered their original investments, the Group's turnover from minimum income undertakings in 2001 was only HK$137 million, representing a 38% decrease from that of 2000.

Despite the fact that the global economy was accelerating a downturn in 2001, the PRC remained as one of a few countries to achieve a steady GDP growth. Thanks to the expanding and booming local economy in the PRC, the Group had maintained a satisfactory performance because of a well-diversified highway project portfolio with 22 projects spreading over 8 provinces. The Group's diversification strategy greatly enhances its stability and limits its vulnerability to individual project risk.

Due to the adoption of a more prudent management strategy, the Group had not committed to any new toll road project in 2001. The Group has maintained its stringent investment standards in order to ensure that only high-quality and profitable investment projects are undertaken by the Group. Whenever the project is good and the timing is mature, the Group is ready to make new investments.

Medical and Health Products

In 2001, the North American ginseng business primarily focused on cost control. With several effective measures, the business was able to reduce corporate overhead by more than 39% during 2001. The Group was not required to provide any funding to support the operation. On the contrary, the North American operation was able to repay a significant portion of shareholder's loans due to the Group during the year. In the year, the North American business continued to improve its operation to suit the market changes.

In the Chinese medicine business, the Group had gradually reduced its investments. During the year, the Group had not invested new projects in this business sector.

Financial Review

In February 2002, Standard & Poor's upgraded the Group's corporate credit rating and rating on the Guaranteed Notes from BB+ to BBB- with stable outlook. According to Standard & Poor's, the rating upgrade has reflected the improving performance of the Group's diversified portfolio of toll road projects, its conservative capital structure with low debt level and relatively strong liquidity, and an experienced management team.

Liquidity and Financial Resources

As at 31 December 2001, the Group's net assets increased to HK$4,288 million and net assets per share was HK$8.5. The Group's total assets were HK$5,626 million, while cash and bank deposits were HK$969 million. During 2001, the Group received HK$1,023 million including regular cash distribution from highway projects and the net proceeds from the disposal of Jieyang Highway Network project. Its consolidated borrowings and net debt amounted to HK$1,199 million and HK$230 million respectively. The Group maintained a very low net gearing ratio at 5% as compared to 22% in 2000.

The Group's major borrowings include a US dollar denominated transferable loan facility with an outstanding loan balance equivalent to HK$581 million, US dollar denominated Guaranteed Notes with an outstanding balance equivalent to HK$615 million and Canadian dollar denominated loan facilities with an aggregate outstanding balance equivalent to HK$3 million. Of which, HK$99 million will be due in 2002, HK$194 million and HK$290 million will be due in 2003 and 2004 respectively. The remaining balance will be due in 2007.

The Group's financial position is sound and healthy. With its total cash and bank deposits of HK$969 million, the Group is in an excellent position to capture new investment opportunities.

Material Acquisitions and Disposals

The Group completed the disposal of its interests in Jieyang Highway Network project in September 2001. As a result of the disposal, the Group received a net proceeds of approximately HK$482 million.

Capital Investment in 2001

In March 2001, the Group injected HK$15.5 million of capital into the Anhui Bengbu Chaoyanglu Bridge project to finance the on-going construction.

Contingent Liabilities and Future Commitments

The Group provided various guarantees in the amount of approximately HK$151 million to banks in Hong Kong for arranging RMB banking facilities which were provided by the PRC banks to the Group's various joint ventures in PRC. These guarantees were partly secured by charged deposits of the Group.

The Group has major capital commitment of approximately HK$88 million, of which approximately HK$43 million will be required in 2002.

Interest Rate

With the exception of the fixed-rate US dollar denominated Guaranteed Notes, all the borrowings of the Group are on a floating rate basis.

The Group's consolidated finance costs in 2001 dropped by 15%. It was mainly attributed to the Group's refinancing exercise in August and the gradual repayment of existing debt. Based on the refinancing terms, the interest margin under the new facility had dropped by more than 36% as compared to that of the previous loan facility.

Charges on the Group Assets

The transferable loan facility was mainly secured by charged deposits, mortgage over the shares of certain of the Group's subsidiaries and joint and several guarantee by the Company and certain of its subsidiaries. The Guaranteed Notes were secured by a floating charge over all assets of a subsidiary including a charge over deposits 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. As at 31 December 2001, total charged deposits of the Group were approximately HK$132 million.

Exposure on Foreign Exchange Fluctuations

The Group kept a substantial portion of bank deposits in US dollars and HK dollars to reduce the Group's overall exposure to exchange risks. To minimize the Group's Renminbi exchange risk, the Group had successfully assisted its highway projects to obtain RMB project finance facilities for more than RMB300 million.

Share Repurchase

During 2001, under the mandate given by the shareholders and the Board, the Group repurchased 1,849,000 shares of its own on The Stock Exchange of Hong Kong Limited for an aggregate consideration of HK$5.37 million.

Employees

Excluding joint ventures, the Group had a total of 181 staff as at 31 December 2001. Employees' cost (excluding directors' emoluments) amounted to HK$35.4 million. During 2001, no share option was issued by the Group to the staff of the Group under the share option scheme for employees.

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

Outlook

The Group believes that the toll road sector in the PRC will remain as promising and the performance of the existing projects will continue to perform satisfactorily. There are a number of favourable factors emerging for the toll road business in the PRC. They include:

- Economic environment will further improve with China's accession to WTO.
- Vehicle ownership has been increasing and is expected to grow tremendously due to expected reduction of imported car tariff over next few years. Car ownership has gradually become a more affordable choice for many local residents in the PRC.
- Freight traffic volume is expected to rise and demand for logistics services are escalating in the PRC.

With extensive and consolidated experience in the PRC toll road business, the Group is at a great advantage in seeking new investment opportunities in this sector and developing other infrastructure related projects such as transport and logistics business.

We are confident that, with our dedicated and diligent efforts, the Group will continue to grow.

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

Ko Yuk Bing

Managing Director & CEO

Hong Kong, 20 March 2002