MANAGING DIRECTOR'S REPORT

2002 Results

The Group attained a net profit of HK$312.8 million in fiscal year 2002, representing an increase of 30% on that of 2001. Its earnings per share was HK55 cents, a growth of 37% as compared to HK40 cents in 2001.

Business Review

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

In 2002, highway projects of the Group recorded a total traffic of 103.8 million vehicles and toll revenue of RMB1,278 million, an increase of 9.7% and 14% respectively as compared to 2001 (the traffic and toll revenue from Jieyang Highway Network project was excluded). Traffic volume in China recorded significant growth in 2002. This salient increase accelerated in January 2003, the Group recorded a growth of 15% and 24% in traffic volume and toll revenue compared to that of the same period in 2002. Traffic flow to the Group's highway projects also took a shorter time to recover to normal after the Chinese New Year.

Toll rate increase approval for Hunan Changyi old road of the Changsha to Yiyang Expressway project was given in April 2002, raising the revenue of the Changyi old road and Changyi Expressway. In August, an increase on the toll rates of all the projects in Shanxi Province was approved, improving the performance of the projects. In September, Guangdong Foshan-Guangzhou-Sanshui Expressway gained the approval to adjust the classification of toll vehicles, thus boosting the toll revenue.

In December 2002, the construction of Anhui Bengbu Chaoyanglu Bridge was completed on schedule. With its commencement of operation, all of the Group's projects are now in operation and are generating toll revenue.

The Group reached an agreement to dispose of its interest in Shanxi Provincial Highway Huanggu Route Xiaodian Fenhe Bridge project to its PRC partner in December 2002. The proceedings are expected to be completed in the first half-year of 2003. This disposal was made in accordance with the Group's business development strategy.

In May 2002, the Group signed a conditional agreement to invest in and operate the Baoding-Tianjin Expressway project in Hebei Province. After months of negotiations and processing, agreement to the investment from the Hebei Provincial Government was obtained and the project is being reviewed and approved by relevant government authorities. Subject to the fulfillment of all the conditions, the Group will sign an unconditional contract with the relevant party, and details will be announced accordingly.

During 2002, the Group disposed its non-core Chinese medicine business. At present, the Group still holds more than 60% of Chai-Na-Ta Corp., the world's largest supplier of North American ginseng. The business performance of Chai-Na-Ta Corp. is satisfactory and a moderate profit was recorded in 2002.

Financial Review

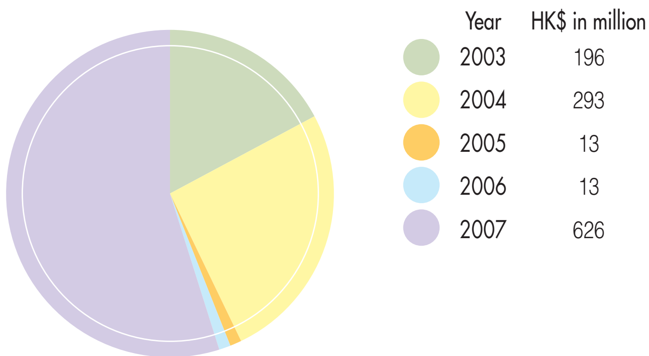
Liquidity and Financial Resources

As at 31 December 2002, the Group's net assets increased to HK$4,440 million and net assets per share was HK$8.61. Total assets reached HK$5,726 million, while cash and bank balances were HK$1,088 million. Total cash receipts from highway projects in 2002 amounted to HK$590 million.

The Group continued to adopt prudent financial policies in cash management and bank borrowing. As at 31 December 2002, the Group's consolidated borrowings and net debt were HK$1,141 million and HK$53 million respectively. Net gearing ratio was at 1% only. The Group's major borrowings included a US dollar denominated transferable loan facility with an outstanding loan balance equivalent to HK$488 million, a US dollar denominated guaranteed notes with an outstanding balance equivalent to HK$620 million, a HK dollar denominated term loan facility with an aggregate outstanding balance equivalent to HK$32 million, and a Canadian dollar denominated loan with an aggregate outstanding balance of HK$1 million.

The chart below shows the maturity profile of the Group's borrowings as at 31 December 2002:

Maturity Profile



The Group's cash position continued to be strong in 2002 and this allowed the Group to make a principal prepayment in February 2003 for the US dollar denominated transferable loan of HK$488 million which would be due in 2003 and 2004.

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The low gearing position, steady and strong cash receipts, together with the Group's investment corporate credit rating facilitated the arrangement of low-cost financing. In December 2002, banks agreed to grant a loan of HK$350 million for new project investments.

Finance Cost and Interest Rate

The refinancing exercise and gradual repayment of existing debts lowered the total finance costs of the Group from HK$111 million in 2001 to HK$81 million in 2002, a drop of 27%.

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

Disposals

In April 2002, the Group made a sale and purchase agreement to dispose of its entire equity interest in CNT Life Science, Inc. which was primarily engaged in research and development of manufacturing technology of pharmaceutical products.

Capital Investment

In 2002, the Group injected HK$44 million of capital into the Anhui Bengbu Chaoyanglu Bridge Project which commenced operation on 8 December 2002.

Contingent Liabilities and Future Commitment

The Group provided a range of guarantees in an amount of approximately HK$117 million to banks in Hong Kong for arrangements of RMB banking facilities provided by PRC banks to various joint ventures of the Group in China.

The Group had major capital commitments of approximately HK$44.7 million, of which approximately HK$2.6 million will be required in 2003.

Charges on the Group Assets

The transferable loan facility, which was fully prepaid in February 2003, was mainly secured by charged deposits, the mortgage over the shares of some subsidiaries of the Group and the joint and several guarantees by the Company and a number of subsidiaries. Upon prepayment, these charges will be released. The Guaranteed Notes were secured by a floating charge over all the assets of a subsidiary including a charge over deposits, and were jointly and severally guaranteed by the Company and some of its subsidiaries. In respect of the Canadian dollar financing, the credit facilities were secured by inventories and certain real properties of an overseas subsidiary. As at 31 December 2002, total charged deposits of the Group were approximately HK$114 million.

Exposure on Foreign Exchange Fluctuations

The Group kept a substantial portion of bank deposits in both US dollars and HK dollars to reduce its overall exposure to exchange risks. To further minimize the Renminbi exchange risk, the Group obtained more than RMB300 million project finance facilities for its highway projects. Renminbi has become more stable against other currencies at China's accession to WTO.

Share Repurchase

In 2002, under the mandate given by the shareholders and the Board, the Group repurchased 389,000 shares of its own on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") for an aggregate consideration of HK$1.2 million.

Employees

As at 31 December 2002, the Group had a total number of 158 employees (not including the staff of the joint ventures). Expenditure on staff (excluding emoluments of the directors) amounted to HK$33.8 million. In 2002, no share option was issued to employees under the share option scheme.

The Group strongly believes that talented and dedicated employees and an effective organization structure are its key success factors. The Group ensures that its employee remuneration is competitive and commensurate with the responsibilities and performance of its staff.

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Outlook

The Group believes China's highway business has a bright future. The Group will continue to develop toll road business as its core business and will stride to expand its operational size and to specialize its expertise.

In the coming years, China's highway constructions will continue to grow rapidly. There will be a great demand for non-governmental funding and this will create plenty of business opportunities and room for development. Car ownership in China has been growing rapidly since 2002. According to the authoritative research, the average annual growth rate will be more than 15% until 2010. The increase in car ownership together with vigorous flow of logistic and trading activities resulting from economic developments will lead to significant increase in traffic volume. This will bring benefits to the toll road industry and the Group's projects are certainly expected to have better performance.

In 2003, the Group will not only further streamline its existing projects, but will also pro-actively pursue the successful negotiation of new toll road projects, which the Group believes, will bring fruitful result within this year.

The economic reforms in China create plenty of business opportunities to investors. The Group will monitor closely the market movements and capture new valuable business opportunities for its further development.

Acknowledgement

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

Ko Yuk Bing
Managing Director & CEO

Hong Kong, 27 March 2003