



## Performance

The Group reported a net profit of HK\$67.4 million for the year ended 31 December 2002, representing an increase of 5.5% as compared with HK\$63.9 million in 2001. The increase was primarily attributable to the profit contribution from the Group's investment in Western Harbour Tunnel. Earnings per share were HK\$0.33, the same as for 2001.

## Final Dividend

A fourth and final dividend of HK\$0.05 per share has been proposed and, if approved by the Shareholders, will result in total dividends of HK\$0.20 per share for the year, the same as for 2001. Total dividends paid and proposed for the year will be HK\$41.5 million.

## Business Review and Outlook

During 2002, the Hong Kong economy staged a mild recovery mainly driven by exports of goods and services, but domestic consumption and private investment remained sluggish. The persistent deflationary pressure on profit margins, the lingering threat of unemployment and the resultant downward adjustment in wages has continued to undermine people's confidence and suppress demand for non-essential consumer goods. Despite the disappointing performance of the economy and a sagging retail market, we are pleased that the Group was still able to achieve satisfactory results for the past financial year.

2003 is expected to be another volatile year and the outlook of the economy remains gloomy in a post-bubble environment. The war in the Middle East has also imposed uncertainty on economic recovery from the global doldrums. The deflationary spiral is likely to continue as Hong Kong continues its economic restructuring. Businesses will continue to be cost-conscious in the face of falling prices and weak demand. However, the biggest uncertainty affecting domestic economic recovery comes from the implementation of new fiscal policies by the Government to tackle the problem of the budget deficit in the years to come.

### *Autopass - 70% owned*

#### *Autotoll Limited ("Autotoll") - effectively 35% owned*

The main asset of Autopass is its 50% stake in Autotoll Limited, which provides electronic toll clearing facilities in Hong Kong covering eleven different toll roads and tunnels. Two new lanes were installed during the year and there are forty-seven auto-toll lanes in operation at present. During 2002, Autotoll recorded a steady growth in the number of subscribers achieving 194,000 at the end of the current year. This growth is expected to slow down due to the stagnant economy. To mitigate this trend, Autotoll is committed to enhancing its operational capability by embracing new technology for toll and transport management in order to sustain its competitive advantage as the first-mover and, at the same time, to prepare for further market penetration and meeting the challenges of new business opportunities ahead.



### *Hong Kong School of Motoring Limited ("HKSM") - 70% owned*

Despite the continuous shrinking of the market size and the further contraction in the demand for driving lessons as compared with previous years, there was a welcomed increase in income from motorcycle training courses as a result of extensive marketing programs. Moreover, due to the continuing efforts by the management in implementing various cost rationalization measures, the gross profit margin improved.

In addition, HKSM was awarded a three-year contract, with an option of renewal upon expiry, by the Transport Department in August 2002 to operate a new designated Driving Improvement Centre for licensed motorists in the Kowloon West District. The new scheme is designed to provide education to improve drivers' attitudes and, ultimately, contribute to road safety in Hong Kong.

The year of 2003 will still be a challenging year for the driving school business as consumer spending continues to be cautious as a result of the high unemployment rate and operating margins will be vulnerable to severe price competition. Moreover, the re-issuance of private instructor licences is expected to intensify the competition in the industry. Despite an even tougher business environment ahead, the management will continue to strive for steady contributions to the Group by further product development and diversification. More proactive sales strategies will also be adopted to secure a larger market share.

### *Western Harbour Tunnel Company Limited ("WHTCL") - 37% owned*

Since its opening in 1997, the infrastructure of this HK\$7 billion tunnel has been under-utilized because of the toll differential with other cross-harbour tunnels and the capacity limitation on the approach roads leading to and from this tunnel. Despite a reduction in the total market because of the economic downturn, the daily throughput and market share of the Western Harbour Tunnel ("WHT") in 2002 stayed at the previous year's level. During the year under review, the management has actively liaised with the Government to explore various solutions to reduce traffic congestion as well as the construction of more approach roads in order to improve the accessibility of the WHT. Moreover, to improve the cashflow position in the long run, WHTCL successfully re-financed its loans in August 2002 at a lower interest cost for a longer loan tenor.

The rapid residential development on the West Kowloon Reclamation and the completion of Cyberport are both factors which will encourage higher utilization of the WHT in the long run. In addition, the management of WHTCL will continue to focus on enhancing the quality of services to the public through various measures to mitigate congestion and to improve accessibility.

As a measure to maximize its revenue, the WHT raised its tolls for certain categories of vehicles with effect from 16 February 2003. This is expected to reduce its accumulated losses and generate cash to repay its loans.



## *Hong Kong Tunnels and Highways Management Company Limited ("HKTHMCL") - 37% owned*

HKTHMCL managed the busiest Cross-Harbour Tunnel ("CHT") at Hunghom under a Management, Operation and Maintenance ("MOM") Contract with the Government for a period of three years up to 31 August 2002. In May 2002, HKTHMCL was awarded a new MOM contract for a period of two years to 31 August 2004, with an option for the Government to extend for further periods of up to twenty-four months upon expiry. HKTHMCL, possessing readily available management and operation experience of CHT, is again committed to providing a reliable, quality and professional tunnel service to the public.

### Looking Forward

Looking forward to 2003, whilst acknowledging that there is skepticism regarding the strength of the global and local economic recovery, the Group will continue to pursue suitable investments in a prudent and pragmatic manner under its long-term growth strategy. We are also confident that by building on the Group's fundamentals and last year's efforts, the Group will continue to perform steadily in the years to come.

### Staff

Last but not least, I would like to take this opportunity to extend my gratitude and sincere appreciation to all the directors and staff for all their dedicated hard work and contributions to the Group throughout the year.

**Cheung Chung Kiu**

*Chairman*

Hong Kong, 28 March 2003