Chairman's Statement

Performance

The Group reported a net profit of HK$87.2 million for the year ended 31 December 2003, representing an increase of 41.3 % as compared with HK$61.8 million (restated) in 2002. The increase primarily resulted from a decrease in provisions for impairment in value of investment securities in the current year. Earnings per share were HK$0.37 against HK$0.31(restated) for 2002.

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 2002. Total dividends paid and proposed for the year will be HK$49.9 million.

Business Review and Outlook

2003 was indisputably a difficult year for the Hong Kong economy. It weathered the devastations of the outbreak of Severe Acute Respiratory Syndrome ("SARS") during the first half of the year. The persistent deflationary pressures on asset prices and wages, coupled with a record high unemployment rate of 8.7% and Government's budget deficits, further dampened people's confidence in the pace of economic recovery. However, business confidence has since been gradually restored upon the conclusion of the Closer Economic Partnership Arrangement (CEPA) in the second half of the year and the relaxation on individual visits of Mainlanders to Hong Kong by the Central Government, which was conducive to the rebound of the retail industry. Moreover, the prolonged low interest rate environment and bumper bank liquidity have also provided favourable conditions for the long-awaited recovery in domestic demand.

Looking forward to 2004, recovery is gradually gaining momentum in most Asian countries. Hong Kong's economy is expected to continue its recovery path with notable improvement to end a six-year slump. The property sector is poised to extend its rebound, helped by faster economic growth and a rising local stock market. The unemployment rate has declined after reaching its peak and private consumption is expected to increase. Deflation is expected to narrow steadily and retail sales will continue to be bolstered by tourist spending. Interest rates, which may have bottomed out, are projected to remain relatively stable though expected to increase moderately in the latter part of the year. The overall business environment, however, continues to be challenging, though the economic outlook appears to be more optimistic. The containment of the SARS outbreak and other epidemics is also crucial. The fear that SARS will return annually raises doubts as to the sustainable growth of the economy since another outbreak will almost definitely have a negative impact on local and tourist's spending as well as confidence.

The Autopass Company Limited ("Autopass") - 70% owned
Autotoll Limited ("Autotoll") - effectively 35% owned

Autotoll Limited, being 50% owned by Autopass, provides electronic toll clearing facilities in Hong Kong covering eleven different toll roads and tunnels. There are forty-seven auto-toll lanes in operation at present. During the past year, the net growth in the number of subscribers has plateaued due to the poor economic situation in general. In view of this, aggressive marketing strategies such as development of a corporate sales channel, joint promotion with other consumer outlets in lining up extra benefits for Autotoll users and tunnel toll rebates were employed to stimulate sales. However, in the long run, the scope of services, as well as the operation capability, has to be extended in order to improve market penetration. A membership program has been designed and will be implemented in the near future to provide subscribers with more value-added services such as fuel purchases, car park fee payments. Apart from improving customer service, the enhancement of the toll collection system is on the verge of completion to cope with the radical changes in the operating environment.

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

Despite the difficult economic environment, severe market competitions and the outbreak of SARS in the first half of 2003, HKSM has been able to maintain a stable performance with improved operating margin. Though the demand for driving lessons has contracted as compared with previous years, income from motorcycle training courses, however, has slightly increased. Due to the continuation of various cost-saving measures and quality improvement programs, the cost structure of HKSM has become more flexible and productivity has been enhanced.

In view of the intensified competition among driving school operators and private instructors after the re-issuance of private instructor licences by the Transport Department in 2003, HKSM will continuously review its operating costs so as to increase flexibility in coping with varying business level. Moreover, to be well-prepared for the resilience of the driving school market driven by the robust domestic demand and the accelerating economic integration between Hong Kong and Mainland China, for example, the Mainland China reciprocal driving licences scheme, HKSM will continue to strive to maintain its market leading position through better market segmentation, product innovation, brand building and customer relation programs.

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

Due to the prolonged global economic downturn since its opening in 1997 and intense competition from other tunnel operators, the traffic volume of the Western Harbour Tunnel ("WHT") fell short of that projected. Despite notable progress in its daily throughput and market share during the past few years, the throughput of the WHT in 2003 was seriously affected by the outbreak of SARS and the resultant reduction in total cross harbour traffic. However, those adverse impacts on WHTCL's performance were mitigated by the persistently low interest rates and the latest increase in toll effective from 16 February 2003 for certain categories of vehicles.

Due to its strategic location at the West Kowloon Reclamation, the WHT is expected to benefit from the shift of population and business activities to the west in the near future. However, under the Government's long-term rail development plans for the coming ten years, the increase in supply of rail transport will no doubt create negative impacts on the demand for vehicular traffic and this might in turn impact on the cross harbour tunnels. The opening of the West Rail in late 2003 is furthermore expected to compete against the franchised bus routes linking the northwestern New Territories and the urban areas. The impact of this on the total cross harbour traffic, in particular to the WHT, is anticipated to be negative although it is not yet fully reflected in the WHT throughput of 2003.

In respect of value enhancement to its shareholders, WHTCL will continue to formulate more effective marketing strategies and promotion programs to encourage higher utilisation and, at the same time, to apply stringent cost controls for better allocation of resources. On the other hand, the toll revenue of the WHT in the coming year is expected to improve in light of the gradual recovery of total cross harbour traffic.

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

HKTHMCL, an associate undertaking the management contract for the Hunghom Cross-Harbour Tunnel, maintained stable income during the year under review. The two-year contract will expire on 31 August 2004 and is due for extension.

Looking Forward

The market outlook appears to be promising in the coming year and the Group will continue its prudent management to cope with its long-term growth strategy. In view of the reviving business environment, we have confidence that each business segment of the Group will continue to perform steadily in the years to come and create long-term value for our shareholders.

Acknowledgement

I would like to take this opportunity to extend my sincere appreciation to all the directors and staff for their dedication and perseverance in achieving satisfactory results in the face of the most challenging and difficult operating environment. Last but not least, I would also like to express my gratitude to our shareholders for their support to the Group in the past years.

Cheung Chung Kiu
Chairman

Hong Kong, 19 March 2004