



KO Yuk Bing

Managing Director and Chief Executive Officer

2003 Results

The Group achieved a net profit of HK\$318.3 million for the year 2003 (2002: HK\$312.8 million), representing an increase of 1.8%. Earnings per share was HK55 cents, same as 2002.

Business Review

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

During 2003, highway projects of the Group recorded a total traffic of 107 million vehicles and annual toll revenue of RMB1.445 billion, an increase of 7% and 11% respectively as compared to 2002 (the traffic and toll revenue from Baoding-Tianjin Expressway project in Hebei Province and disposed projects were excluded). The outbreak of SARS slowed down the traffic growth in the second and third quarter. However, both traffic flow and toll revenue in the late third quarter and the fourth quarter increased significantly compared to the same period of 2002.

In 2003, the Group received HK\$614 million from toll road business (excluding the disposal proceeds from Guangdong Zhongshan Qijiang Highway project), a moderate increase of 4% over 2002. Currently some of the Group's PRC joint venture partners are entitled to a higher profit sharing ratio. Upon the recovery of the partners' investment amounts, the Group's profit sharing ratio will increase again.

In line with the Group's long-term business development strategy, the Group completed the disposal of its entire interest in Guangdong Zhongshan Qijiang Highway project in June 2003.

After consulting with legal counsel's opinion, in August 2003, the Group applied for an arbitration plea to China International Economic and Trade Arbitration Commission requesting the PRC joint venture partners and related parties of Yulin City projects in Guangxi Zhuang Autonomous Region to honor their payment of minimum income undertakings according to the joint venture agreements. The plea has been formally accepted and is in progress.

In September 2003, the Group completed the acquisition of 40% interest in toll collection and operation rights of Baoding-Tianjin Expressway project in Hebei Province. This project had made profit contribution to the Group since October 2003.

In October 2003, the toll rate increase of Xunan Highway project in Henan Province was approved.

In March 2004, the Group signed a conditional agreement with a PRC partner to acquire 45% of toll collection and operation rights of Tangshan-Tianjin Expressway in Hebei Province. The transfer application was already submitted to relevant government authorities for approval.

For the year of 2003, the Group's subsidiary Chai-Na-Ta Corp. which is the world's largest supplier of North American ginseng, recorded a net profit of C\$2.6 million (2002: C\$0.3million). In December 2003, the Group exercised the option to convert 10,000,000 preferred shares of Chai-Na-Ta Corp. into ordinary shares. After conversion, the Group's shareholding of Chai-Na-Ta Corp. increased to 78%.

Financial Review

Liquidity and Financial Resources

As at 31 December 2003, the Group's net assets increased to HK\$4.715 billion and net assets per share was HK\$8.07. Total assets reached HK\$5.828 billion, while cash and bank balances were HK\$488 million. During 2003, the Group received a total of HK\$677 million from highway projects which included the proceeds of HK\$63 million from the disposal of Guangdong Zhongshan Qijiang Highway project.

The Group continued to adopt prudent financial policies in cash management and bank borrowing. During the year, the Group underwent certain debt reduction and financing exercises to better improve our cash management as well as reducing financing cost. In February 2003, the US\$75 million transferable term loan facility was fully repaid for the outstanding of HK\$488 million. In addition, two standby letter of credit facilities for a total amount of HK\$117 million were early retired during the year. While in June 2003, the Group arranged two new banking facilities, one of which was a HK\$350 million banking facility for financing Baoding-Tianjin Expressway project and the other one was a HK\$100 million standby short term revolving facility.

The Group's consolidated borrowings and net borrowings were HK\$1.015 billion and HK\$528 million respectively as at 31 December 2003. Gearing ratio was at 22% improving from 26% in 2002. The Group's major borrowings included a US dollar denominated Guaranteed Notes with an outstanding balance equivalent to HK\$622 million, HK dollar denominated loan facilities with an aggregate outstanding balance equivalent to HK\$382 million, and Canadian dollar denominated loan facilities with an aggregate outstanding balance of HK\$11 million.

The table below shows the maturity profile of the Group's borrowings as at 31 December 2003: -

Year of Maturity	HK\$ million
Due within one year	55
Due in 1 to 2 years	100
Due in 2 to 5 years	860

In August 2003, Standard and Poor's reaffirmed the Group's corporate rating to be of investment grade with a "BBB-" rating with a stable outlook.

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 2003, the Group gave mandate to banks to arrange a syndicated loan of US\$100 million for general working capital and future project investments.

Finance Cost and Interest Rate

The total finance costs of the Group reduced from HK\$81 million in 2002 to HK\$66 million in 2003, a drop of 19%.

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

Capital Investments

During the year, the Group's total capital investments were approximately HK\$909 million of which HK\$906 million was capital investments in the Baoding-Tianjin Expressway project.

Future Commitments

As at 31 December 2003, the Group had major capital commitments of approximately HK\$37 million of which HK\$3 million will be required in 2004 and the remaining will be required after the fifth year.

The Group's current financial resources are able to meet the expenditure for the aforesaid capital commitments.

Charges on the Group Assets

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 2003, total charged deposits of the Group were approximately HK\$56 million.

Exposure on Foreign Exchange Fluctuations

The Group maintained a conservative treasury policy to minimize exposure to foreign exchange risks. To reduce the overall exposure to exchange risk, the majority of the Group's bank deposits are held in both US dollars and HK dollars.

Corporate Governance

The Company believes a high standard of corporate governance and transparency is very important. The Group's Audit Committee comprised of two Independent Non-executive Directors and one Non-executive Director and it supervises the Group's financial and operational management and control.

Employees

As at 31 December 2003, the Group had a total of 163 employees (excluding staff of the joint ventures). Staff costs (excluding emoluments of the directors) amounted to HK\$35 million. Employees are remunerated according to their performance and responsibility. Other employee benefits include provident fund, insurance, medical cover, training programs as well as a share option scheme. In 2003, 4,870,000 share options were issued to employees under the new share option scheme.



Outlook

Car ownership in China has been growing rapidly, resulted in significant increase in traffic volume in highways. The Group's business will continue to be benefited. To enhance profit potential, the Group will take this valuable opportunity to further strengthen and improve its existing project management.

Following the economic developments in China, the business environment of toll road operation has also been changing. The Group will not only focus on capturing new quality projects, but also make suitable adjustment to its existing project portfolio to suit its long-term development strategies.

China is a market with ample business and development opportunities. With more than 10 years of accumulated operational resources, the Group is confident to further enlarge its business base and scope. The Group will endeavor to follow this direction to become one of the best investor and operator in China.

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, 26 March 2004