In the challenging year 2003, the Group continued to achieve satisfactory results and maintain solid growth, against an operating environment adversely affected by the outbreak of SARS in Mainland China and Hong Kong. The Group will continue to broaden its source of income through growth in its core businesses and investments in new projects. The Group is committed to build a sound business that can offer promising returns to its shareholders.

Turnover for the year totaled HK$1,861 million, an increase of 7% over 2002, reflecting the increased turnover in all core businesses except for the winery business which was affected relatively to a larger extent by the outbreak of SARS. Profit attributable to shareholders totaled HK$213 million, resulting in an increase of 17% compared to 2002. Except for the winery business, all the other core businesses reported growth in profit over last year.

An analysis of the results of the Group by principal activities is set out as follows:

Infrastructure Operations

Road Operation

Road operation remains to be one of the key segments of the Group and continues to contribute stable yet profitable income stream to the Group. Turnover and profit attributable to shareholders amounted to approximately HK$289 million and HK$108 million respectively, representing an increase of 11% and 37% over 2002 respectively, as the combined effects of the increased traffic flow and extension of the estimated useful life of the ring road. The useful life of the ring road is extended as a result of successful extension of the land use right and operation period of Jin Zheng Transportation Company from 30 years to 50 years.

Due to the renovation of the public transportation network for the purpose of improving transportation for vehicles in Tianjin, Tianjin Municipal People's Government has terminated the collection of toll fee directly by all toll stations situated at the urban areas of Tianjin City. The Company's toll stations of the Eastern Outer Ring Road ceased to collect toll fees directly with effect from 1st June 2003. On 20th August 2003, Jin Zheng Transportation Company entered into an Eastern Outer Ring Road Toll Collection Agency Agreement with Tianjin City Indebted Road Construction and Toll Collection Office, who was appointed as an agent to collect tolls with effect from 1st June 2003 and in return, a toll collection management fee would be payable.

With the implementation of the new toll collection arrangements, the smooth traffic flow within the transportation network in the urban areas of Tianjin City was enhanced. At the same time, the usage of the Eastern Outer Ring Road was stimulated.

The Group will strategically capture the road expansion opportunities and broaden the existing toll fee networks. This ambition is reinforced by the proposed spin-off of the Coastal Rapid Transit Company Limited, the holding company of the Group's road operation. A formal application for the separate listing of Coastal Rapid on the Main Board of the Stock Exchange of Hong Kong Limited was submitted in April 2004. The spin-off is subject to the approval from the Listing Committee of the Stock Exchange.

Container handling operation

Benefited from the growth of foreign and domestic trade in the PRC, the Group's container handling business reported both increments in turnover of 22% to HK$376 million and profit attributable to shareholders of 16% to approximately HK$80 million. During the year 2003, the Container Company achieved a handling volume of 1,351,137 TEUs, representing an increase of 19% over 2002.

As a result of both increases in average handling fee and handling capacity, the Container Company has achieved an encouraging result in 2003. With the enhanced operational efficiencies, modernised equipments, emphasis on marketing and the strategic plan of the Tianjin Municipality to emphasise on port and logistics services, the Container Company has been able to capture the expected increasing business opportunities.

Cargo handling operation

The turnover of the Second Stevedoring Company for the year amounted to HK$326 million, representing an increase of 25% over 2002. Loss attributable to shareholders for the year dropped to about HK$12 million, compared to HK$19 million recorded in 2002. In 2003, it reported a record-breaking total throughput of 16.32 million tonnes, representing an increase of 63% over last year.

During the transitional period of transferring the coke loading services to Nanjiang port area in 2003, the Second Stevedoring Company was adjusting its volume mix and was restructuring the port operations. In 2003, the newly introduced container handling service for the small to medium vessels recorded a throughput of 140,774 TEUs. The new line of business is expected to synergise with the existing cargo handling business in enhancing the competitiveness of the Second Stevedoring Company.

Consumer Products

Winery operation

The Group's winery operation reported a slight under performance in 2003 since the retail markets in Mainland China were adversely affected by the outbreak of SARS in the first half year. The performance in the second half year picked up quickly but the price competition in the market was severe. The consolidated turnover and consolidated profit attributable to the Group amounted to approximately HK$603 million and HK$63 million respectively, representing 3% and 9% decrease over 2002. Sales volume decreased from 32.9 million bottles to 32.3 million bottles, with a drop of 2%. Dry red wine continues to contribute over 80% of the sales mix.

As a result of the adverse effect of the outbreak of SARS on the retail markets and the intensified market competition, Dynasty incurred over HK$100 million promotional expenses in the year to enhance the product brandnames and explore potential markets. To maintain its well-established position in the PRC winery sector, Dynasty continues to emphasise on quality control and on matching market trend and demand.

In 2003, vintage wine has been launched in the market with encouraging response. Dynasty will continue to introduce high class wine in response to market demand.

The expansion plan to build wine cellars and workshops has already commenced in 2003 and is expected to be finished in late 2005. On the other hand, the high-quality unprocessed wine production plant in Ningxia invested by Dynasty in 2002 has met the expected production level in 2003. Continuous investment will be made to double its production capacity to meet the future demand.

Strategic Investments

Elevator and escalator operation

The consolidated turnover for OTIS China group in 2003 amounted to approximately HK$2,688 million, representing a 39% growth over 2002. Profit attributable to shareholders amounted to HK$52 million, representing a 37% increase over last year. The increase reflects the growth of the subsidiaries in Tianjin and Jiangsu, as well as the additional contribution after the reorganisation of the OTIS China group in 2003.

OTIS China group underwent a reorganisation in the last quarter of 2003 to rationalise the operation in China. As part of the reorganisation, a profitable business situated in Eastern China, Hangzhou Xizi Otis Elevator Co., Ltd., was consolidated into and became part of OTIS China group. At the same time, OTIS has increased its equity stake in the business. This was an important step to facilitate our business development in the Yangtze River Delta. After the reorganisation, the Group's indirect interest in OTIS China group was reduced from 40.3% to 20%.

Looking ahead, the Group believes that the reorganisation will enhance the efficiency of the operation as a whole and undoubtedly lead to better returns to our shareholders.

Property development operation

Tianjin Gang Ning is strategically positioned by the Group to pursue its property business. Turnover recorded a 46% increase to about HK$199 million in 2003 and profit attributable to shareholders was HK$4 million, representing an increase of 100% over last year. Up to the year end, approximately 66% of the total saleable area have been sold.

The Group acquired the remaining 49% equity interest in Tianjin Gang Ning in March 2004 which became a wholly owned subsidiary of the Group. By acquiring full control of Tianjin Gang Ning, the Group will be able to penetrate into the property market of Tianjin and possibly other locations in Mainland China through Tianjin Gang Ning.

Gas fuel supply operation

Wah Sang Gas Holdings Limited has delayed the release of the third quarter results for the nine months ended 31st December 2003 to end of April 2004. It is also currently under an enquiry by the Securities and Futures Commission which has directed that the trading in its shares be suspended until further notice. The Group has only equity accounted for HK$19,882,000, representing the Group's share of profit after taxation of Wah Sang Gas Holdings Limited for the first six months of results up to 30th June 2003 which had been taken up in the interim results previously announced by the Group. The directors consider it appropriate not to equity account for any of the results of Wah Sang Gas Holdings Limited for the six months ended 31st December 2003 until its audited financial information is available.

Bio-pharmaceutical operation

During the year, "M-Lexidronate", the medicine of Walfen has substantially completed the clinical trial and is in the process of applying for relevant approval and recognition. The Group believes that the bio-pharmaceutical industry is a promising and dynamic field with huge untapped potential. The Group will continue to give full support to this business by providing resources for its research and development.

Trading operation

Since the Group disposed of its entire interests in the Trading operation in June 2003, the turnover of Trading operation attributable to the Group in 2003 amounted to HK$67 million, representing a decrease of 57% over 2002. Loss attributable to shareholders for 2003 was approximately HK$22 million, compared to HK$55 million loss incurred last year.

Liquidity and Capital Resources Analysis

As at 31st December 2003, the Group's cash on hand and total bank borrowings stood at about HK$1,439 million and HK$2,646 million respectively (2002: HK$1,079 million and HK$1,694 million respectively) of which HK$735 million bank borrowings will be matured in 2004. 3% convertible bonds amounted to HK$140.4 million (2002: HK$156 million) will be matured in 2005.

The gearing ratio as measured by total borrowings less cash on hand to shareholders' funds is about 34% in 2003, compared to a gearing at about 22% in 2002.

Of the total HK$2,646 million bank borrowings outstanding at the end of 2003, HK$1,733 million was fixed rate debts with annual interest rate ranging from 4.8% to 6.6%. The remaining HK$913 million of bank loans were subject to floating rates with spread of 0.8% to 0.9% over LIBOR of relevant interest periods.

As at the end of 2003, 65% (2002: 69%) of the Group's total bank borrowings were denominated in Renminbi while the remaining portion was denominated in US dollars. As of 31st December 2003, the Group had no material exposure to foreign exchange contracts, interest or currency swap or other financial derivatives.

Charge on Assets

As at 31st December 2003, the following assets have been pledged to its bankers to secure banking facilities granted to the Group:

(i) Completed properties held for sale of HK$70 million (2002: nil);

(ii) Bank balances amounting to about HK$15 million (2002: HK$17 million); and

(iii) Equity interests in certain subsidiaries of the Group (2002: nil).

Employee and Remuneration Policies

The Group had a total of approximately 8,800 employees at the end of the year, of which about 2,700 were management and technical staff, with the balance being production workers.

The Group contributes to an employee pension scheme established by the Tianjin Municipal People's Government which undertakes to assume the retirement benefit obligations of all existing and future retired employees of the Group in the People's Republic of China. The Group also contributes to a mandatory provident fund scheme for all Hong Kong employees. The contributions are based on a fixed percentage of the members' salaries.