

# CHIEF EXECUTIVE OFFICER'S REPORT



**KO Yuk Bing**  
*Managing Director and  
Chief Executive Officer*

## 2005 Results

In 2005, the Group's profit attributable to shareholders was HK\$428.3 million, representing an increase of 16% as compared with that of 2004. Earnings per share increased from HK63 cents in 2004 to HK73 cents.

The increase in the Group's earnings revealed the profit growth from its core toll road business. During 2005, the Group's cash generated from the toll road business amounted to HK\$864 million, a growth of 26% over that of 2004.

## Business Review

Based on the size and level of investments, the Group's operations include the core business of investment, development, operation and management of toll road projects in China; and the non-core business of property development in China as well as the North American ginseng business in Canada.

## Toll Road Business

In 2005, the results of the Group's toll road business were rewarding. Total traffic volume and revenue of the toll road projects were 135.12 million vehicles and RMB2.25 billion respectively, representing an increase of 6% and 19% compared to those in 2004. The performance of the expressway projects was particularly outstanding.

The impressive results of the toll road projects reflected the continued economic growth in China, the surge of business communications among provinces and cities, the rapid increase in car ownership and the mounting trend towards leisure driving. All these favourable factors to toll road business are expected to prevail.

In line with the Group's strategy to refine the existing toll road portfolio, in January 2005 the Group disposed of its entire interest of the Changzhou-Caoqiao Highway project in Jiangsu Province. The transaction was completed during the year. In 2005, the Group completed the acquisition of 45% equity interest in Tangshan-Tianjin Expressway in Hebei Province. The project commenced its profit contribution to the Group in February 2005.

In relation to the arbitration plea requesting the PRC joint venture partners and related parties of Yulin City projects in Guangxi Zhuang Autonomous Region to honor the joint venture contracts and related agreements, the China International Economic and Trade Arbitration Commission had finalized its arbitral award in favour of the Group. It was held that the PRC joint venture partners were required to pay the Group a sum of approximately RMB243 million, and the local municipal government and her related parties were required to honour part of the awarded sum in case there was any shortfall in payment. At present, the Group is following up the related payment.

## Property Development Business

In 2005, there was substantial progress in the Group's property development business. During the year, the Group secured the development right of certain pieces of land located in Guangzhou, Guangdong Province and Changzhou, Jiangsu Province, boosting the Group's developable gross floor area to a total of 1.6 million square metres.

The structure of the property development project located at Tianhe District in Guangzhou, Parkrise, was completed by the end of 2005. Pre-sale was made in phases commencing from November 2005. Both the speed of sales and price achieved were better than expected. Construction works of the other two pieces of land in Guangzhou commenced in 2006.

Construction works of the Group's two residential and a shopping mall projects in Wujin District, Changzhou, Jiangsu Province, will commence in 2006. Pre-sale of certain residential units will be made in 2006.

It is expected that the property development business will start contributing profit to the Group in 2006.

## Ginseng Business

The Group's non-core business – Chai-Na-Ta Corp. ("CNT"), the world's largest supplier of North American ginseng, registered a net loss. This was resulted mainly from the substantial reduction in sales demand and gross margin.

## Financial Review

### Liquidity and Financial Resources

As at 31 December 2005, the shareholders' funds increased to HK\$5.23 billion (2004: HK\$4.97 billion). Net assets per share was HK\$8.85 (2004: HK\$8.48).

As at 31 December 2005, the Group's total assets and cash and bank balances were HK\$7.34 billion and HK\$421 million respectively.

### Financing Activities

In accordance with the Group's long term development strategy and operational position, a number of financing and refinancing activities were carried out in 2004, including the issuance of US\$200 million US\$ denominated long term guaranteed notes and the arrangement of US\$120 million US\$ denominated syndicated banking facility. These activities effectively fulfilled the Group's funding needs for 2005. Apart from the Group's early repayment of the HK\$306 million HK\$ denominated loan facility in January 2005, no material financing and refinancing activities were carried out during 2005.

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## Debt and Gearing

The Group's financial position remained healthy. Gearing ratio fell slightly from 38% at the end of 2004 to 37% as at 31 December 2005. Interest coverage was 7.1 times (2004: 6.9 times).

As at 31 December 2005, the Group's total borrowings were HK\$1.92 billion (2004: HK\$1.91 billion). The maturity profile of the Group's total borrowings is set out as follows:

	<b>31 December 2005</b> HK\$ million	31 December 2004 HK\$ million
Repayable:		
Within one year	<b>362</b>	133
After one year but within two years	<b>2</b>	87
After two years but within five years	<b>1</b>	133
After five years	<b>1,559</b>	1,559
Total borrowings	<b>1,924</b>	1,912

The Group's borrowings were primarily denominated in US\$. Other than the US\$200 million fixed-rate US\$ denominated guaranteed notes, the Group's borrowings were on a floating rate basis.

The Group's toll road business contributed steady and strong cashflow to the Group. Together with its standby banking facilities and appropriate financial structure, the Group has adequate financial resources to meet its capital and operational requirements.

## Financing and Treasury Policies

The Group continued to adopt prudent financing and treasury policies. All the Group's financing and treasury activities are centrally managed and controlled. Implementations of the Group's related policies are made under collective but extensive consideration on refinancing risk, interest rate risk as well as exchange rate risk.

## Charges on the Group Assets

As at 31 December 2005, except the Canadian dollar denominated facilities with an outstanding balance of approximately CAD 8 million secured by inventories and certain real estate properties of an overseas subsidiary, the Group had no charged asset.

## Exposure on Foreign Exchange Fluctuations

The Group maintained a conservative treasury policy to minimize exposure to foreign exchange risks. As the Group's borrowings are principally denominated in US\$, but its cash flow generated from projects is denominated mainly in Renminbi, the announcement made by the People's Bank of China on the revaluation of Renminbi in July 2005 had a positive impact on the Group's financing position. Other than that, the Group has no significant exposure to foreign exchange fluctuation.

## Material Future Capital Commitments

As at 31 December 2005, the Group's major capital commitments amounted to approximately HK\$269.42 million. Out of this total balance, HK\$56.73 million will be required in 2006, HK\$177.83 million will be required during years 2007 to 2010, and the remaining will be required after the fifth year.

## Contingent Liabilities

As at 31 December 2005, the Group provided guarantees of approximately RMB7.4 million in favour of its customers for their purchases of the Group's properties. These guarantees provided by the Group will be released when the customers pledge their real estate certificates as securities to banks for the mortgage loans granted by banks.

## Employees

Excluding the staff of joint ventures, the total number of employees in the Group was 286 as at 31 December 2005. Expenditure on staff (excluding Directors' emoluments and amounts capitalised) amounted to HK\$53 million. Employees are remunerated according to their performance and contribution. Other employee benefits include but not limited to provident fund, insurance, medical cover, training program, as well as a share option scheme. In 2005, 15,460,000 share options were granted to Directors and employees under the Group's share option scheme.

## Outlook

Toll road operation is the Group's core business. Riding on the continued economic development of mainland China, the prospect of toll road business remains positive, and it is believed that the business will continue to contribute sizable and gratifying return to the Group. To pursue a higher return from toll road projects, the Group will capitalize its past successful experiences to further improve the governance on its existing toll road projects; strengthen the management of toll collection; block the traffic diversions; and raise the standards of repair and maintenance. Meanwhile, the Group will continue to strive to identify and secure potential expressway projects so as to fortify and enlarge its toll road portfolio as well as profitability.

The Group's property development business is still in a preliminary stage. The Group gained valuable experience from the successful pre-sale of the Guangzhou project. The Group will not only continue to develop the Guangzhou and Changzhou projects, but also to search and explore new business opportunities cautiously to secure another source of profit for the Group.

## Acknowledgement

I would like to extend my gratitude to our business partners and shareholders for their enduring support, and to thank all staff for their dedication and hard work.

**Ko Yuk Bing**

*Managing Director & CEO*

Hong Kong, 31 March 2006

