

The Directors submit their report together with the audited accounts for the year ended 31st December 2000.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its subsidiaries, jointly controlled entity and associated companies consist of investment in and development, operation and management of toll highways, expressways and bridges mainly in Guangdong Province, the Mainland of China ("China").

RESULTS AND APPROPRIATIONS

The results for the year are set out in the consolidated profit and loss account on page 31.

The Directors have declared and now recommend the following dividends in respect of the year ended 31st December 2000:

	HK\$'000
Interim dividend of 3.0 cents per share paid on 5th December 2000	31,125
Proposed final dividend of 1.0 cent per share	10,375
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	41,500
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RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 16 to the accounts.

FIXED ASSETS

Details of the movements in fixed assets of the Group and the Company are set out in note 11 to the accounts.

SHARE CAPITAL AND OPTIONS

Details of the movements in the issued share capital of the Company during the year are set out in note 15 to the accounts.

Details of the movements in the share options granted by the Company during the year and options outstanding as at 31st December 2000 are set out in note 15 to the accounts.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 17.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

During the year, the Company has not redeemed any of its shares. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

REPORT OF THE DIRECTORS

PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries as at 31st December 2000 are set out in the Group Structure section on pages 56 to 59.

DISTRIBUTABLE RESERVES

As at 31st December 2000, the distributable reserves of the Company available for distribution, net of dividends paid and proposed, amounted to HK\$1,920,558,000.

DIRECTORS

The Directors who held office during the year and up to the date of this report were:

Executive directors

Mr Liu Jinxiang

Mr Yin Hui

Mr Liang Ningguang

Ms Cao Shuzhao

Mr Xiao Boyan

Mr Chen Jiahong

Mr Cai Hanxiang

Mr Zhong Ming

(appointed on 12th January 2001)

Mr He Zili

(appointed on 1st April 2000)

Mr Zhang Siyuan

Mr He Yongxian

(resigned on 12th January 2001)

Mr Cheng Zhongyou

(resigned on 1st April 2000)

Non-executive directors

Mr Fung Ka Pun*

Mr Lau Hon Chuen Ambrose*

Mr Poon Jing

Mr Cheung Doi Shu*

** Independent non-executive directors*

Mr Liang Ningguang, Mr Cai Hanxiang, Mr Poon Jing and Mr Cheung Doi Shu retire by rotation in accordance with Bye-law 99 of the Company's Bye-laws and, being eligible, offer themselves for re-election. Mr Zhong Ming retires in accordance with Bye-law 102 of the Company's Bye-laws and, being eligible, offers himself for re-election.

The Directors' Profiles are set out on pages 18 to 20.

DIRECTORS (cont'd)

Messrs Liu Jinxiang, Liang Ningguang and Cai Hanxiang are directors of Yue Xiu Enterprises (Holdings) Limited ("Yue Xiu"), Guangzhou Investment Company Limited ("GZI"), Round Table Holdings Limited, GZI Transport (Holdings) Limited, Housemaster Holdings Limited, Power Head Limited, Delta Force Holdings Limited and Lawson Enterprises Limited. Mr Yin Hui and Ms Cao Shuzhao are directors of First Dynamic Limited, GZI Transport (Holdings) Limited, Housemaster Holdings Limited, Power Head Limited, Delta Force Holdings Limited and Lawson Enterprises Limited. Mr Xiao Boyan is a director of Yue Xiu and GZI. Mr Zhang Siyuan is a director of GZI Transport (Holdings) Limited, Housemaster Holdings Limited, Power Head Limited, Delta Force Holdings Limited and Lawson Enterprises Limited. Each of Yue Xiu, GZI, First Dynamic Limited, Round Table Holdings Limited, GZI Transport (Holdings) Limited, Housemaster Holdings Limited, Power Head Limited, Delta Force Holdings Limited and Lawson Enterprises Limited has an interest in the share capital of the Company as disclosed under the provisions of Part II of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance").

MANAGEMENT CONTRACTS

Details of contracts of significance for the provision of services by the Company's ultimate holding company and a related party to the Group are set out in note 22 to the accounts.

Save as disclosed herein, no contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

DIRECTORS' SERVICE CONTRACTS

Each of Messrs Liu Jinxiang, Zhang Siyuan, He Zili and Zhong Ming has entered into a service agreement with the Company which is for an initial fixed term of one year commencing on 1st August 1999, 1st August 1999, 1st April 2000 and 12th January 2001 respectively unless terminated sooner by the Company giving to the executive director three months' prior written notice and thereafter, extendable for a further term of two years unless terminated sooner by the Company giving to the executive director three months' prior written notice or by the executive director giving to the Company six months' prior written notice.

Save as disclosed herein, none of the directors of the Company has a service contract with the Company which is not determinable by the employer within one year without payment of compensation, other than statutory compensation.

INDEPENDENT NON-EXECUTIVE DIRECTORS' FEES

The independent non-executive directors of the Company received HK\$114,000 as directors' fee for the year ended 31st December 2000.

REPORT OF THE DIRECTORS

PENSION SCHEME ARRANGEMENTS

The Group operates a pension scheme for Hong Kong employees. The scheme is a defined contribution scheme and is administered by independent trustees. In relation to each employee, the employee contributes 5 per cent and the Group contributes 5 per cent to 8 per cent respectively of employee's basic salary to the scheme.

Subsidiaries of the Company in China are required to participate in a government-sponsored pension scheme for the benefits of their staff members and contribute annually to the scheme an amount not more than 20 per cent of the total basic salary of their staff members, except for a substantial number of staff members of five subsidiaries in China, who are employed by Guangzhou Highways Development Company ("GHDC"), the local partner, pursuant to fixed cost services agreements (the "Services Agreements") executed between these subsidiaries and GHDC. Pursuant to the Services Agreements, details of which are disclosed in note 22(b) to the accounts, GHDC assumes full responsibility for the salaries and all statutory benefits, insurance and welfare funds required to be paid pursuant to relevant laws and regulations of China to the staff members and workers employed by GHDC to perform their duties required under the Services Agreements.

The Group's contribution is charged to its profit and loss account and expenses incurred by the Group for the year amounted to HK\$781,000.

DIRECTORS' INTEREST IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company, its subsidiaries, its holding companies or its fellow subsidiaries was a party and in which any director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

CONNECTED TRANSACTIONS

- (a) Significant related party transactions entered by the Group during the year ended 31st December 2000, which do not constitute as connected transactions under the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), are included in note 21(a) to the accounts;
- (b) Other related party transactions, which also constitute as connected transactions under the Listing Rules, required to be disclosed in accordance with Chapter 14 of the Listing Rules, are disclosed in notes 21(b), 21(c), 22(a) and 22(b) to the accounts. In respect of transactions disclosed in note 22(b), Messrs Fung Ka Pun, Lau Hon Chuen Ambrose and Cheung Doi Shu, the independent non-executive directors of the Company, have confirmed that the transactions had been performed in accordance with the terms of the agreements covering such transactions.

ANALYSIS OF BANK LOANS AND OTHER BORROWINGS

As at 31st December 2000, the Group had bank loans and other borrowings which are repayable over the following periods:

	Bank loans	Convertible	Loans from	Total
	HK\$'000	bonds	minority	HK\$'000
		HK\$'000	shareholders	
			HK\$'000	
Within one year	394,140	95,000	–	489,140
In the second year	116,120	–	–	116,120
In the third to fifth year	89,700	–	–	89,700
No fixed terms of repayment	–	–	41,505	41,505
	<u>599,960</u>	<u>95,000</u>	<u>41,505</u>	<u>736,465</u>

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

As at 31st December 2000, the interests of directors of the Company in the equity or debt securities of GZI, the ultimate holding company of the Company, as recorded in the register maintained under Section 29 of the SDI Ordinance were as follows:

Name of director	Personal interest
Mr He Zili	240,000 shares

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES (cont'd)

As at 31st December 2000, the following directors of the Company had interests recorded in the register maintained under Section 29 of the SDI Ordinance being options granted under the share option schemes of (1) the Company and (2) GZI to subscribe for ordinary shares in the respective companies:

(1) The Company

Name	Exercise price per share HK\$	Balance outstanding as at 1st January 2000	Number of options granted during the year	Balance outstanding as at 31st December 2000
Mr Liu Jinxiang	0.9984	10,000,000	–	10,000,000
Mr Yin Hui	2.4080	600,000	–	600,000
	0.9984	4,000,000	–	4,000,000
Mr Liang Ningguang	2.4080	500,000	–	500,000
	0.9984	8,670,000	–	8,670,000
Ms Cao Shuzhao	2.4080	500,000	–	500,000
	0.9984	3,000,000	–	3,000,000
Mr Xiao Boyan	2.4080	500,000	–	500,000
Mr Chen Jiahong	2.4080	500,000	–	500,000
	0.9984	3,000,000	–	3,000,000
Mr Cai Hanxiang	2.4080	500,000	–	500,000
Mr He Yongxian*	2.4080	500,000	–	500,000
	0.9984	3,000,000	–	3,000,000
Mr He Zili	2.4080	2,000,000	–	2,000,000
	0.7632	3,000,000	–	3,000,000
	0.7520	–	450,000	450,000
Mr Zhang Siyuan	2.4080	980,000	–	980,000
	0.7632	980,000	–	980,000
Mr Fung Ka Pun	2.4080	400,000	–	400,000
Mr Lau Hon Chuen Ambrose	2.4080	400,000	–	400,000
Mr Poon Jing	2.4080	400,000	–	400,000

* Mr He Yongxian resigned as director of the Company with effect from 12th January 2001

The share options are exercisable from the first anniversary of the date of grant to the business day preceding the sixth anniversary of the date of grant, of which a maximum of 30 per cent, 60 per cent and 100 per cent thereof are exercisable from the first, second and third anniversaries of the date of grant respectively. The consideration paid by each director of the Company for each grant of option by the Company was HK\$10.

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES (cont'd)

(2) GZI

Name	Notes	Exercise price per share HK\$	Balance outstanding as at 1st January 2000	Number of options exercised during the year	Balance outstanding as at 31st December 2000
Mr Liu Jinxiang	(c)&(d)	0.5008	1,400,000	–	1,400,000
Mr Liang Ningguang	(a)	1.0016	550,000	–	550,000
	(b)	0.7344	1,000,000	–	1,000,000
	(c)&(d)	0.5008	1,200,000	–	1,200,000
Mr Xiao Boyan	(b)	0.7344	1,000,000	–	1,000,000
	(c)	0.5008	1,000,000	–	1,000,000
Mr Cai Hanxiang	(a)	1.0016	550,000	–	550,000
	(c)	0.5008	1,000,000	–	1,000,000
Mr He Zili	(c)	0.5008	800,000	240,000	560,000
Mr Zhang Siyuan	(c)	0.5008	700,000	–	700,000

Notes:

- (a) The share options were expired on 5th March 2001.
- (b) The share options are exercisable from the date of grant to the business day preceding 21st November 2002.
- (c) The share options are exercisable from the first anniversary of the date of grant to the business day preceding the sixth anniversary of the date of grant, of which a maximum of 30 per cent and 100 per cent thereof are exercisable from the first and second anniversaries of the date of grant respectively.
- (d) These interests include options to subscribe for 200,000 shares in GZI granted to each of their spouse.
- (e) The consideration paid by each director of the Company for each grant of option by GZI was HK\$10.

Save as disclosed herein, none of the directors of the Company (including their spouse and children under 18 years of age) had, as at 31st December 2000, any interests in the equity or debt securities of the Company or its associated corporations (within the meaning of the SDI Ordinance) which were required to be notified to the Company and the Stock Exchange pursuant to Section 28 of the SDI Ordinance (including interests which they were deemed or taken to have under Section 31 or Part I of the Schedule to the SDI Ordinance) or which were required, pursuant to Section 29 of the SDI Ordinance, to be entered in the register referred to therein or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

Save as disclosed herein, at no time during the year was the Company, or its holding company, or its subsidiaries, or its fellow subsidiaries a party to any arrangements to enable the directors of the Company (including their spouse and children under 18 years of age) to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS

As at 31st December 2000, those persons or corporations having an interest in 10 per cent or more of the issued share capital of the Company as recorded in the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance were as follows:

Substantial shareholders	Number of ordinary shares held
Yue Xiu	768,016,000 (a)
GZI	750,394,000 (b)
First Dynamic Limited	750,000,000 (b)
Round Table Holdings Limited	750,000,000 (b)
GZI Transport (Holdings) Limited	750,000,000 (b)
Housemaster Holdings Limited	367,500,000 (b) (c)
Power Head Limited	157,500,000 (b) (c)
Delta Force Holdings Limited	112,500,000 (b) (c)
Lawson Enterprises Limited	112,500,000 (b) (c)

Notes:

- (a) This interest represents the total number of ordinary shares of the Company held by subsidiaries and investee companies of Yue Xiu where Yue Xiu is taken to be interested in such shares under Section 8 of the SDI Ordinance.
- (b) Investee companies and a subsidiary of Yue Xiu and their interests in the ordinary shares of the Company are duplicated in the interest of Yue Xiu.
- (c) Subsidiaries of GZI Transport (Holdings) Limited and their interests in the ordinary shares of the Company are duplicated in the interest of GZI Transport (Holdings) Limited.

Save as disclosed herein, no other person is recorded in the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance as having an interest in 10 per cent or more of the issued share capital of the Company.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws and there are no restrictions against such rights under the laws of Bermuda.

MAJOR CUSTOMERS AND SUPPLIERS

No disclosure with regard to the Group's major customers and suppliers are made since the aggregate percentages of sales and purchases attributable to the Group's five largest customers and suppliers are less than 30 per cent of the Group's total sales and purchases during the current and previous years.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

In the opinion of the Directors, the Company has complied with the Code of Best Practice as set out in appendix 14 of the Listing Rules throughout the year ended 31st December 2000. The non-executive directors of the Company are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's Bye-laws.

AUDIT COMMITTEE

Pursuant to the Listing Rules, an audit committee (the "Audit Committee"), comprising two independent non-executive directors, namely Mr Lau Hon Chuen Ambrose and Mr Cheung Doi Shu, was established.

By reference to "A Guide for The Formation of An Audit Committee" published by the Hong Kong Society of Accountants, written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted by the board of directors of the Company (the "Board"). The principal activities of the Audit Committee include the review and supervision of the Group's financial reporting process and internal controls.

PRACTICE NOTE 19 OF THE LISTING RULES

As at 31st December 2000, the Group had provided a guarantee in connection with bank loans granted to Guangzhou Northern Second Ring Expressway Co., Limited ("GNSR Expressway Co."), a jointly controlled entity of the Group, of an amount in proportion to the Group's shareholding in GNSR Expressway Co. to the extent of Rmb1,020,000,000 (approximately HK\$953,271,000). Such guarantee represented approximately 32.9 per cent of the consolidated net asset value of the Group as at 31st December 2000. The total aforementioned bank loan facilities granted to GNSR Expressway Co. amount to Rmb2,000,000,000 (approximately HK\$1,869,200,000). As at 31st December 2000, GNSR Expressway Co. had drawn a total of Rmb1,090,000,000 (approximately HK\$1,018,692,000) of the bank loan facilities granted. In accordance with the requirements of Practice Note 19 of the Listing Rules, details of the guarantee is included in note 21(a) to the accounts and the balance sheet of GNSR Expressway Co. as at 31st December 2000 is set out on page 61.

AUDITORS

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Liu Jinxiang
Chairman

Hong Kong, 6th April 2001