

Report of the Directors

The Directors submit their report together with the audited accounts for the year ended 31st December 2001.

Principal activities

The Company is an investment holding company. The principal activities of its subsidiaries, a 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 32.

The Directors have declared and now recommend the following dividends in respect of the year ended 31st December 2001:

	HK\$'000
Interim dividend of 3.0 cents per share paid on 22nd November 2001	31,408
Proposed final dividend of 2.5 cents per share	26,115
	<hr/>
	57,523
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Reserves

Movements in the reserves of the Group and the Company during the year are set out in note 21 to the accounts.

Donations

Charitable and other donations made by the Group during the year amounted to HK\$936,000.

Fixed assets

Details of the movements in fixed assets of the Group and the Company are set out in note 15 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 20 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 2001 are set out in note 20 to the accounts.

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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 below.

	2001 HK\$'000	Year ended 31st December			
		2000 HK\$'000	1999 HK\$'000	1998 HK\$'000	1997 HK\$'000
Results					
Profit attributable to shareholders	<u>220,304</u>	282,513	267,403	<u>242,276</u>	<u>186,115</u>
Provision for impairment of goodwill #		<u>(157,243)</u>	<u>(427,306)</u>		
Restated profit/(loss) attributable to shareholders		<u>125,270</u>	<u>(159,903)</u>		
		As restated	As restated	As restated	As restated
Assets and liabilities					
Total assets	5,053,719	4,855,621	4,778,412	4,656,948	3,780,212
Total liabilities *	(2,029,390)	(1,946,005)	(2,068,309)	(2,152,406)	(872,760)
	<u>3,024,329</u>	<u>2,909,616</u>	<u>2,710,103</u>	<u>2,504,542</u>	<u>2,907,452</u>

Provision for impairment of goodwill was made as a result of adoption of Statement of Standard Accounting Practice 30 "Business combinations". Details are set out in note 4 to the accounts.

* The total liabilities have been restated in respective years as a result of adoption of revised Statement of Standard Accounting Practice 9 "Events after the balance sheet date". Details are set out in note 2(p) to the accounts.

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.

Subsidiaries

Details of the Company's subsidiaries as at 31st December 2001 are set out in the Group Structure section on pages 71 to 74.

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Distributable reserves

As at 31st December 2001, the distributable reserves of the Company available for distribution amounted to HK\$1,443,127,000 (2000 as restated: HK\$1,346,384,000).

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 Xie Shuwen	(appointed on 12th September 2001)
Mr Li Xinmin	(appointed on 19th June 2001)
Ms Cao Shuzhao	(resigned on 19th June 2001)
Mr Chen Guangsong	(appointed on 26th October 2001)
Mr Chen Jiahong	
Mr Liang Ningguang	
Mr Xiao Boyan	
Mr Cai Hanxiang	
Mr Du Liangying	(appointed on 26th October 2001)
Mr Du Xinrang	(appointed on 12th September 2001)
Mr Zhong Ming	(appointed on 12th January 2001)
Mr He Zili	
Mr Zhang Siyuan	
Mr He Yongxian	(resigned on 12th January 2001)

Non-executive directors

Mr Fung Ka Pun *
Mr Lau Hon Chuen Ambrose *
Mr Poon Jing
Mr Cheung Doi Shu *

* *Independent non-executive directors*

Messrs Chen Jiahong, He Zili, Fung Ka Pun and Lau Hon Chuen Ambrose retire by rotation in accordance with Bye-law 99 of the Company's Bye-laws and, being eligible, offer themselves for re-election. Messrs Xie Shuwen, Li Xinmin, Chen Guangsong, Du Liangying and Du Xinrang retire in accordance with Bye-law 102 of the Company's Bye-laws and, being eligible, offer themselves for re-election.

The Directors' Profiles are set out on pages 17 to 19.

Report of the Directors

Messrs Liu Jinxiang, Chen Guangsong and Xiao Boyan are directors of Yue Xiu Enterprises (Holdings) Limited ("Yue Xiu") and Guangzhou Investment Company Limited ("GZI"). Mr Yin Hui is a director of GZI, First Dynamic Limited, GZI Transport (Holdings) Limited, Housemaster Holdings Limited, Power Head Limited, Delta Force Holdings Limited and Lawson Enterprises Limited. Messrs Xie Shuwen, Liang Ningguang and Cai Hanxiang are directors of Yue Xiu, GZI, Round Table Holdings Limited, GZI Transport (Holdings) Limited, Housemaster Holdings Limited, Power Head Limited, Delta Force Holdings Limited and Lawson Enterprises Limited. Mr Li Xinmin is a director of First Dynamic Limited, GZI Transport (Holdings) Limited, Housemaster Holdings Limited, Power Head Limited, Delta Force Holdings Limited and Lawson Enterprises Limited. 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 27 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, Zhong Ming, Li Xinmin, Xie Shuwen, Du Xinrang, Chen Guangsong and Du Liangying 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, 12th January 2001, 19th June 2001, 12th September 2001, 12th September 2001, 26th October 2001 and 26th October 2001 respectively unless terminated sooner by the Company giving to him three months' prior written notice and thereafter, extendable for a further term of two years unless terminated sooner by the Company giving to him three months' prior written notice or by him 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 2001.

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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. There were forfeited contributions in respect of employees who left the scheme prior to vesting fully in the contributions during the year amounted to HK\$10,000.

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 27(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\$745,000.

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

Significant related party transactions, which also constitute as connected transactions under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), required to be disclosed in accordance with Chapter 14 of the Listing Rules, are disclosed in notes 26(b), 27(a), 27(b), 27(c) and 27(d) to the accounts. In respect of transactions disclosed in note 27(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.

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Analysis of bank loans and other borrowings

As at 31st December 2001, the Group had bank loans and other borrowings which are repayable over the following periods:

	Bank loans	Loans from minority shareholders	Total
	HK\$'000	HK\$'000	HK\$'000
Within one year	307,720	—	307,720
In the second year	441,265	—	441,265
In the third to fifth year	139,576	—	139,576
No fixed terms of repayment	—	39,380	39,380
	<u>888,561</u>	<u>39,380</u>	<u>927,941</u>

Directors' interests in equity or debt securities

As at 31st December 2001, the interests of directors of the Company in the equity or debt securities of the Company and GZI, the ultimate holding company of the Company, as recorded in the register maintained under Section 29 of the SDI Ordinance were as follows:

	Personal Interests	Family Interests
The Company		
(Ordinary shares of HK\$0.10 each)		
Mr Yin Hui	290,000	—
Mr Li Xinmin	264,000	—
Mr Chen Jiahong	314,000	—
Mr Du Liangying	314,000	—
Mr Du Xinrang	314,000	—
Mr Zhong Ming	314,000	—
Mr He Zili	120,000	—
GZI		
(Ordinary shares of HK\$0.10 each)		
Mr Liu Jinxiang	360,000	—
Mr Xie Shuwen	300,000	—
Mr Li Xinmin	50,000	—
Mr Liang Ningguang	200,000	60,000
Mr Cai Hanxiang	300,000	—
Mr He Zili	240,000	—

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As at 31st December 2001, 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 of Director	Date of grant	Exercise price per share HK\$	Number of options		
			outstanding as at 1st January 2001	exercised during the year	outstanding as at 31st December 2001
Mr Liu Jinxiang	22/12/1999	0.9984	10,000,000	324,000	9,676,000
Mr Yin Hui	06/08/1997	2.4080	600,000	—	600,000
	22/12/1999	0.9984	4,000,000	390,000	3,610,000
Mr Xie Shuwen	07/04/2000	0.7520	560,000**	—	560,000
Ms Cao Shuzhao*	06/08/1997	2.4080	500,000	—	N/A
	22/12/1999	0.9984	3,000,000	628,000	N/A
Mr Chen Jiahong	06/08/1997	2.4080	500,000	—	500,000
	22/12/1999	0.9984	3,000,000	628,000	2,372,000
Mr Liang Ningguang	06/08/1997	2.4080	500,000	—	500,000
	22/12/1999	0.9984	8,670,000	270,000	8,400,000
Mr Xiao Boyan	06/08/1997	2.4080	500,000	—	500,000
Mr Cai Hanxiang	06/08/1997	2.4080	500,000	—	500,000
Mr Du Liangying	22/12/1999	0.9984	1,356,000**	—	1,356,000
Mr Du Xinrang	06/08/1997	2.4080	980,000**	—	980,000
	04/09/1998	0.7632	782,000**	—	782,000
Mr He Zili	06/08/1997	2.4080	2,000,000	—	2,000,000
	04/09/1998	0.7632	3,000,000	—	3,000,000
	07/04/2000	0.7520	450,000	120,000	330,000
Mr Zhang Siyuan	06/08/1997	2.4080	980,000	—	980,000
	04/09/1998	0.7632	980,000	—	980,000
Mr Fung Ka Pun	06/08/1997	2.4080	400,000	—	400,000
Mr Lau Hon Chuen					
Ambrose	06/08/1997	2.4080	400,000	—	400,000
Mr Poon Jing	06/08/1997	2.4080	400,000	—	400,000

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

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and 100 per cent thereof are exercisable from the first, second and third anniversaries of the date of grant respectively. The cash consideration paid by each director of the Company for each grant of option by the Company was HK\$10.

* Ms Cao Shuzhao resigned as director of the Company with effect from 19th June 2001

** Balances as at the respective dates of appointment of the named directors of the Company during the year

(2) GZI

Name of Director	Date of grant	Exercise price per share HK\$	Number of options			
			outstanding as at 1st January 2001	lapsed during the year (a)	exercised during the year	outstanding as at 31st December 2001
Mr Liu Jinxiang	14/12/1999	0.5008(c)	1,400,000	—	360,000	1,040,000(d)
Mr Xie Shuwen	23/02/1998	0.7344(b)	1,000,000(e)	—	—	1,000,000
	14/12/1999	0.5008(c)	700,000(e)	—	—	700,000
Mr Liang Ningguang	06/03/1995	1.0016	550,000	550,000	—	—
	23/02/1998	0.7344(b)	1,000,000	—	—	1,000,000
	14/12/1999	0.5008(c)	1,200,000	—	360,000(f)	840,000(g)
Mr Xiao Boyan	23/02/1998	0.7344(b)	1,000,000	—	—	1,000,000
	14/12/1999	0.5008(c)	1,000,000	—	300,000	700,000
Mr Cai Hanxiang	06/03/1995	1.0016	550,000	550,000	—	—
	14/12/1999	0.5008(c)	1,000,000	—	300,000	700,000
Mr He Zili	14/12/1999	0.5008(c)	560,000	—	—	560,000
Mr Zhang Siyuan	14/12/1999	0.5008(c)	700,000	—	210,000	490,000

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 held by his spouse.
- (e) Balance as at the date of appointment of Mr Xie Shuwen as a director of the Company during the year.
- (f) These interests include options to subscribe for 60,000 shares in GZI exercised by his spouse during the year.
- (g) These interests include options to subscribe for 140,000 shares in GZI held by his spouse.
- (h) The cash consideration paid by each director of the Company for each grant of option by GZI was HK\$10.

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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 2001, 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 of Hong Kong Limited (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.

Substantial shareholders

As at 31st December 2001, 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	772,312,076 (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 includes 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.

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Share options

Pursuant to a share option scheme ("Share Option Scheme") approved by shareholders on 3rd January 1997, the directors of the Company may, at their discretion, offer to directors and employees of the Company or any of its subsidiaries options to subscribe for ordinary shares ("Shares") in the Company. The Share Option Scheme is designed to act as an incentive to employees and executives of the Group. It will expire at 5:01 p.m. on the business day preceding 3rd January 2007. The maximum number of Shares in respect of options may be granted under the Share Option Scheme (including Shares issued or issuable under the Share Option Scheme) is 10 per cent of the issued share capital of the Company from time to time (excluding Shares issued upon exercise of the options under the Share Option Scheme). The maximum entitlement of each participant is 25 per cent of the aggregate number of Shares issued or issuable under the Share Option Scheme. The exercise price was determined by the board of directors of the Company but was not less than 80 per cent of the average closing prices of the Shares on the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of offer of an option or the nominal value of the Share, whichever is higher. The cash consideration to be paid for each grant of option is HK\$10, with full payment of the exercise price to be made upon exercise of an option.

Movements of the options of the Company, which have been granted under the Share Option Scheme, during the year were as follows :

	Number of options			Exercise price per share	Date of grant	Exercisable period (3)	Weighted average closing price (4)
	outstanding as at 1st January 2001	exercised during the year	outstanding as at 31st December 2001				
Directors	7,760,000	—	7,760,000	2.4080	06/08/1997	06/08/1998 - 05/08/2003	N/A
	3,782,000	—	3,782,000	0.7632	04/09/1998	04/09/1999 - 03/09/2004	N/A
	27,654,000	2,240,000	25,414,000	0.9984	22/12/1999	22/12/2000 - 21/12/2005	1.75
	1,010,000	120,000	890,000	0.7520	07/04/2000	07/04/2001 - 06/04/2006	1.44
Employees	15,740,000	—	15,740,000	2.4080	06/08/1997	06/08/1998 - 05/08/2003	N/A
	19,918,000	198,000	19,720,000	0.7632	04/09/1998	04/09/1999 - 03/09/2004	1.85
	9,686,000	1,208,000	8,478,000	0.9984	22/12/1999	22/12/2000 - 21/12/2005	1.85
	16,210,000	3,312,000	12,898,000	0.7520	07/04/2000	07/04/2001 - 06/04/2006	1.48
Total	101,760,000	7,078,000	94,682,000				

Notes:

- No options have been granted, cancelled or lapsed during the year.
- All options are exercisable in 3 tranches.
- If the last day of the exercisable period is not a business day, the exercisable period will expire on the business day preceding thereof.
- The weighted average closing price of the shares of the Company immediately before the dates on which the options are exercised.

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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 2001. 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.

Subsequent events

Details of subsequent events are set out in note 28 to the accounts.

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, 16th April 2002