

"It is my pleasure to report to the shareholders that the audited consolidated profit after taxation and minority interest of the Group for the year ended 31 December 2001 amounted to approximately HK\$ 411,492,000. Earning per share was HK 7.54 cents. The Board of Directors recommends the payment of a final dividend of HK 2 cents per share."



REVIEW OF OPERATIONS

In 2001, surrounded by the poor external factors such as the downturn of the US economy, the economy of Hong Kong redropped to the valley in face of a difficult restructuring after initial recovery. The SAR Government introduced a series of financial measures, including various large-scale infrastructure projects, to stimulate demand and prompt rate cuts to stabilise the property market. In face of the volatile market conditions, the Group firmly adhered to its proactive but prudent development policy and explored the construction market in Hong Kong aggressively. As a result, the Group successfully achieved a record-breaking aggregate amount of HK\$10 billion of new project contracts. In addition, sales of its stock floors were accelerated under its flexible promotion strategy. In view of the outstanding performance and robust growth of the PRC's economy, the Group continued to strengthen its investments in the PRC market. So far, the Group attained smooth progress in establishing a flagship in the PRC property market with a large premium land reserve, strong property sales and satisfactory performance. The overall operation of the Group is growing healthily in a continuous and rapid manner.

I. Property development

1. Property sales

During the year ended 31st December, 2001, the Group sold an aggregate of HK\$3,500 million properties with an attributable floor area of 3,920,000 sq. ft., representing a growth of 50% from that of 2,620,000 sq.ft. in the previous year. In particular, sales of HK\$1.83 billion were generated from Hong Kong, with an attributable floor area of 530,000 sq. ft. Such sales were mainly derived from Nerine Cove and Ellery Terrace. The Group's sales of properties in a number of cities in the PRC were also satisfactory, with a turnover of HK\$1.75 billion and an attributable floor area of 3,390,000 sq. ft.

As at 31st December, 2001, Phases I and II of Zhong Hai Xin Yuan in Shanghai, which were ready for occupation during the year, were 100% sold. A2-4 of Phase I in Elegant Town in Guangzhou was over 90% sold while Zhong Hai Zijin Yuan in Beijing was nearly 70% sold. Besides, Phase III of Zhong Hai Xin Yuan, which is ready for occupation in 2002, was 100% sold during the year. The launch of Phase I of Sunny Palm also went smoothly.

Taking advantage of the window of opportunity provided by the cut in interest rates, the Group employed a flexible promotion strategy to sell most of the remaining units of Nerine Cove, 40% of Ellery Terrace, the office premises (in which the Group has a 10% interest) on Site C of the Olympic Station and other joint development projects. As a result, the Group realized a cash amount of over HK\$2 billion.

REVIEW OF OPERATIONS (Cont'd)

I. Property development (Cont'd)

2. Properties completed and ready for occupation during the year

The Group had 7 property development projects completed for occupation during 2001.

District	Name and address of the property project	Usage	Percentage of interest attributable to the Group
Hong Kong	(a) Central Park Site B of Phase II of Olympic Station of Airport Railway	Residential	10%
Hong Kong	(b) Park Avenue (shopping arcade) Site B of Phase II of Olympic Station of Airport Railway	Commercial	10%
Shanghai	(c) Zhong Hai Xin Yuan, Phase I 111 Qin Zhou Nan Road, Xu Hui District	Residential	99.5%
Shanghai	(d) Zhong Hai Xin Yuan, Phase II 111 Qin Zhou Nan Road, Xu Hui District	Residential	99.5%
Beijing	(e) Zhong Hai Zijin Yuan The Purple Bamboo, Park Northwest, Hai Dian District	Residential	100%
Beijing	(f) Bauhina Court East of East Circle 3	Residential	35%
Guangzhou	(g) Elegant Town, Phase I, A2-4 1 Fang Zhi Road, Hai Zhu District	Residential	100%

REVIEW OF OPERATIONS (Cont'd)

I. Property development (Cont'd)

3. Properties to be completed and ready for occupation in 2002

The Group has 7 property projects due to be completed and ready for occupation in 2002.

District	Name and address of the property	Usage	Percentage of interest attributable to the Group
Hong Kong	(a) Central Park Site B of Phase II of Olympic Station of Airport Railway	Commercial/ Residential	10%
Shenzhen	(b) Sunny Palm Phase I Qianhai Road, Nanshan District	Residential	80%
Guangzhou	(c) Cannes Garden Dong Pu Town, North of Guangshen Railway	Residential	100%
Guangzhou	(d) Elegant Town, Phase I, A1, 5-6 1 Fang Zhi Road, Hai Zhu District	Residential	100%
Shanghai	(e) Zhong Hai Xin Yuan, Phase III 111 Qin Zhou Nan Road, Xu Hui District	Residential	99.5%
Shanghai	(f) Die Cui Villa Xu Jing Xiang, Qingpu County	Residential	100%
Chengdu	(g) Grandeur Vista, Phase I Zijing West Road, Hi-Tech Development Zone	Residential	100%

REVIEW OF OPERATIONS (Cont'd)

I. Property development (Cont'd)

4. Newly acquired land

During the year, the Group acquired 7 sites in major cities in the PRC, which increased the floor area available for development by 10,250,000 sq. ft.

District	Name and address of the property project	Intended Usage	Percentage of interest attributable to the Group	Gross Floor Area sq.ft.
Shenzhen	(a) Yan Tian Gang Project Land Lot No. 26, Yan Tian Gang Road	Residential	60%	554,034
Shenzhen	(b) Sunny Palm Phase III Qianhai Road, Nanshan District	Residential	52%	635,090
Shenzhen	(c) Heng Gang Project Heng Gang Horse Breeding Farm	Residential	100%	2,305,627
Shanghai	(d) He Ping Garden, Phase II Junction of Da Lian Road, and Kong Jang Road	Residential	95%	900,409
Shanghai	(e) Zhong Hai Lai Yin Garden 1270 Long Wu Road, Xu Hui District	Residential	99.5%	3,415,686
Shanghai	(f) Haiyu Garden East of Street 88, Luwan District	Residential	99%	1,736,642
Chengdu	(g) Grandeur Vista Phase IV Zijing West Road, Hi-Tech Development Zone	Residential	100%	700,693
			Total	10,248,181

REVIEW OF OPERATIONS *(Cont'd)*

I. Property development *(Cont'd)*

4. Newly acquired land *(Cont'd)*

As at 31st December, 2001, the Group had an aggregate of 28.77 million sq. ft. of properties under and for development in major cities with a robust economy and established property market. 98% or 28.09 million sq. ft. of such projects were located in the mainland. Among these, 6.96 million sq. ft. was in Shenzhen, 7.12 million sq. ft. in Shanghai, 8.29 million sq. ft. in Guangzhou and 5.72 million sq. ft. was in Chengdu. All these projects were in prime location or had a bright growth prospect. At the year end, the Group has an aggregate of 10,300,000 sq. ft. of properties under development.

The Group has been active in acquiring and reserving quality land bank for short, medium and long term development. As at 31st December, 2001, the Group had 18.47 million sq. ft. of properties for development. The Group is currently engaged in active discussions regarding the acquisitions of various competitive land banks with premium quality. Such acquisitions will play a positive role in the continued brand building and business development of the property operations of the Group.

II. Construction and contracting business

In face of the keen competition in the construction market in Hong Kong, the Group adopted a proactive policy to adjust its development strategy according to changes of market conditions. The Group was dedicated to lean on the civil engineering and private construction fields. At the same time, it was exploring the viability of trans-regional operation. For the year 2001, the Group successfully secured 39 new contracts with contract value totalling HK\$11.1 billion, which represented a growth of over 30% over last year. Private projects secured by the Group during the year include a residential project of Cheung Kong (Holdings) Limited in Hoi Fan Road, Tai Kwok Tsui, a low density housing project of True Gold Investment Ltd in Chun Shan, Tuen Mun, and a residential project of K. Wah Group in Waterloo Road, Kowloon; The Group secured various Hong Kong Housing Authority projects during the year. In addition, the Group also won large-scale government contractual projects including a site formation project for Disneyland in Penny's Bay, the formation of sites in Choi Wan Road and Jordan Valley and the Castle Peak Road improvement project between Area 2 and Ting Kau, Tsuen Wan. In the mean time, the Group achieved smooth progress in its aggressive expansion in the PRC contracting market. Projects secured in the PRC include those for 業聚醫療器械廠房 and 錦繡香江一期 in Shenzhen.

For 2001, the Group had 76 projects under construction with an aggregate contract value of HK\$25.9 billion attributable to the Group. 35 of such projects, with a total contract value of HK\$8.1 billion, were operated by the Group, including that of Cheung Kong Group at Tung Chung Station (contract value: HK\$1.06 billion), a residential project in Wong Ma Kok Road in Stanley (contract value: HK\$798 million) and residential project KIL11107 in Hoi Fan Road, Tai Kwok Tsui (contract value: HK\$438 million). The remaining 41 projects were management contracts with an aggregate contract value of HK\$17.8 billion. The major components of these projects include the site formation project for Disneyland (contract value: HK\$2.87 billion) and the formation of sites in Choi Wan Road and Jordan Valley (contract value: HK\$1.338 billion), Police Headquarters Phase III (contract value: HK\$1.043 billion), Superstructure for Tsing Yi Area 10 (contract value: HK\$673 million) and Tin Shui Wai Area 101 Phase II (contract value: HK\$578 million).

REVIEW OF OPERATIONS *(Cont'd)*

II. Construction and contracting business *(Cont'd)*

As at 31st December, 2001, projects with an aggregate contract value of HK\$17.7 billion, which were carried forward, were still under development. Among which, there were 35 projects, with a contract value of HK\$5.2 billion, operated by the Group, and 41 projects were management projects with an aggregate contract value of HK\$12.5 billion.

The Group attaches great importance to aspects such as the quality of construction work, safety, and environmental protection. It optimised its cost control model through the deployment of an enhanced internal information management system. Besides, it ensures the technical level of its construction projects through continuous upgrade of its technologies, materials and skills. Currently, all projects under development are going on smoothly.

III. Infrastructure investments

In 2001, the Group obtained consents from its PRC partners regarding the early repayment of investment made to certain infrastructure projects in the PRC. Consequently, the Group successfully received repayment of US\$61.4 million (equivalent to HK\$480 million) which was attributable to an infrastructure project in Nanning amounted to US\$27.5 million, US\$27.2 million to one in Wuzhou and US\$6.7 million to one in Guilin.

During the year, the Group received satisfactory return from its infrastructure projects in the PRC, which continued to provide return according to the return rate of the original investment plan. As a result of its early retrieval of investment principal, the future return from infrastructure projects will be gradually lowered.

IV. Property investments and management

As at 31st December, 2001, the Group had an aggregate floor area of 2,060,000 sq.ft. of investment properties. During the year, rental properties of the Group amounted to an attributable floor area of 1.7 million sq. ft., among which 240,000 sq. ft. was in Hong Kong and 1.46 million sq. ft. was in the PRC. Nearly all rental properties were occupied, generating a rental income of HK\$198 million for the year. Occupancy of China Overseas Building and Horae Place Shopping Mall in Hong Kong were over 95%, and that of the PRC office space such as China Overseas Building in Shanghai and Dongshan Plaza in Guangzhou were over 90%. With the increase in activity in the office rental market in mainland, there was a satisfactory growth in the rental income for the year.

The Group had property management operations in Hong Kong and major PRC cities such as Shanghai and Guangzhou. As at 31st December, 2001, the management operation of the Group maintained its outstanding performance covering a floor area of 11.65 million sq. ft. in Hong Kong and 39 million sq. ft. in the PRC. The Group disposed of its interests in Zhonghai Property Managing (Shenzhen) Co., Ltd. during the year at a consideration of HK\$8 million.

During 2001, the Group maintained its leading position in the property management industry by optimising its management team, establishing the information network between the Group and the suppliers and the property owners, and strengthening its service quality and innovation.

REVIEW OF OPERATIONS *(Cont'd)*

V. Other Investments

In 2001, the related operations of Hong Kong Concrete Company Limited, Shenzhen Hailong Cement Co. Ltd and building material companies in which the Group has invested ran smoothly and brought in profits to the Group.

During the year, the Group invested HK\$17 million to acquire 20% interests in 蒙特利實業有限公司, an industrial company which develops new construction materials. The primary products of the company include a series of polymer solid surface materials and construction materials such as unsaturated polyester resin. This investment had a lot of synergy with the core operations of the Group and provided satisfactory results.

PROSPECTS

There are initial signs of a global economic recovery. This coupled with the accession of the PRC into the World Trade Organisation, the PRC economy maintains a strong upward development trend. These factors are beneficial for the Group's operations of property development, construction and contracting business, infrastructure investment and rental business. They are also positive for the Group's dedication to enhance its capital structure. All signs indicate that the economy of Hong Kong is bottoming out. In view of such market conditions, and having considered its own strengths and weaknesses, the Group has the following strategies for 2002;

Mainland properties: the Group will continue to concentrate its capital and management resources on acquiring land banks in the PRC for short, medium and long term development, so as to improve the development of its property operation in the PRC and to broaden the Group's profit base. Leveraging on its advantages in management model, land reserve, sales and marketing and branding, the Group will strive to secure a leading position in the PRC residential development industry in two years. The Group aims at achieving an annual sales of floor area of 10 million sq. ft. after two years with a growth of 40% in terms of annual sales of floor area;

Construction and contracting business: in anticipation that the Hong Kong construction market will remain at a size of over HK\$100 billion, the Group will continue to consolidate its leading position in the construction and contracting market in Hong Kong and will expand its profit margin through cost control and exploration of new income sources. The Group will also further explore the construction market in the PRC so as to increase its market share and the weighting of this segment in the Group's construction operation;

Property investments: while maintaining the performance of its rental business in Hong Kong, boost its rental efforts in the blooming PRC rental market by further increasing the floor area leased in order to expand profit margin;

Infrastructure and other investments: while maintaining the investment return of its existing infrastructure projects, seek for new infrastructure and construction related projects in the PRC to secure more stable income sources;

PROSPECTS (Cont'd)

Hong Kong properties: with signs of bottoming out of the Hong Kong property market among a recovering economic environment, the Group will keep a close eye on market developments and strengthen its efforts in disposing the property stock in Hong Kong and promoting the development and sales of the project in Stanley;

Financing arrangements: through active participation in international capital markets and capital market in the PRC, improve its gearing structure and boost its efforts in RMB financing so as to invest with RMB capital in PRC businesses. At present, the Group is financially sound.

The Group's mission and objective has been to pursue for realising the maximum benefits to the shareholders. The key to its future development lies in enhancing its competitiveness and maintaining its strong drive to push forward on an ongoing basis. The Group will make an active effort in recruiting high caliber management talents and constantly improve its management methods, so as to take advantage of the opportunities emerging from the PRC's entry into the WTO to realise steady, healthy and rapid growth on all fronts.

On behalf of the Board, I would like to take this opportunity to express our gratitude for the support of the shareholders and our business partners and the contribution of our staff.

Sun Wen Jie

Chairman

Hong Kong, 18th April, 2002

PROPERTIES OCCUPIED IN 2001

Elegant Town, Guangzhou



Central Park, Hong Kong



Zhong Hai Xin Yuan, Shanghai



Zhong Hai Zijin Yuan, Beijing

PROPERTIES EXPECTED FOR OCCUPATION IN 2002

Sunny Palm, Shenzhen



Cannes Garden, Guangzhou



Grandeur Vista, Chengdu

MAJOR CONSTRUCTION PROJECTS COMPLETED IN 2001

Superstructure for Commercial/Residential Development
at C.W.I.L. 152, Siu Sai Wan



Construction of HOS Development at
Fung Cheung Road, Yuen Long



Hotel Development at 148-160,
Tung Lo Wan Road



155 Argyle Street

CONSTRUCTION PROJECTS UNDER PROGRESS IN 2001



Construction of Building 4 Science Park at Pak Shek Kok, Phase 1b

Proposed Hotel Development at STTL 461 Ma On Shan



Foundation for Shatin Area 4C/38A, Phase I & II

Infrastructure for Penny's Bay Development, Contract 1



East Rail Extensions -Tai Wai to Shek Mun
-Shek Mun to Lee On