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BUSINESS REVIEW

Existing investments

Primary and secondary property markets in Guangzhou continued to expand

Total sales volume of the Guangzhou urban primary residential market in its eight districts was 4.75 million sq. meters in 2001 and decreased by 4.04 per cent compared with 2000 due to lower level of sales from low rise building although high rise building recorded growth of 7.8 per cent year on year. Average selling price was approximately Rmb4,923.8 per sq. meter and continued its gradual uptrend by 0.8 per cent compared with 2000. Total sales of the entire market including suburban areas of Guangzhou amounted to 7,140,000 sq. meters in 2001 with average price of Rmb4,230 per sq. meter. Secondary market transactions in the year were also exceptionally active. Volume was up significantly by 78.4 per cent to 2,230,000 sq. meters and price adjusted downward by 15.4 per cent compared with same period in 2000 to an average of Rmb3,587.4 per sq. meter.

These figures indicated that both the primary and secondary residential markets in Guangzhou remained active as underpinned by economic growth and improving affordability. The Group continues to strengthen efforts in development and marketing. Based on such efforts, the Group's total gross floor area under development and sales were 710,200 sq. meters and 68,000 sq. meters respectively in 2001. Major project for sale during the year, Galaxy City, has won numerous awards such as Top Ten Star Projects in Guangzhou and Best Development Concept Project in Guangzhou. The Group

Resident Garden and Amenities of Galaxy City

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now ranks one of the top 20th in terms of sales volume amongst major property developers in Guangzhou.

Market positioning and sales

The Group's future market positioning is to concentrate on development of middle and mass market residential properties located in urban area of Guangzhou such as Haizhu District and Tian He District with average selling price ranging between Rmb4,000 and Rmb7,000 per sq. meter. Selective development of suburban residential projects and urban office projects will also be pursued. In 2002, upon completion of the previously announced acquisition of a majority interest in Guangzhou Construction, major projects to be offered for sale will be expanded significantly to include Galaxy City, Run Hui Building, Glade Village, Ling Lang Garden and Romantic Garden etc.

Show Flat of Galaxy City

The Group expects the depth of the Guangzhou residential market will continue to expand in 2002 with increase in both supply and demand while Panyu District is emerging as a new residential region. Although competition may increase, property market in Guangzhou will have huge growth potential due to a low level of private home ownership, satisfactory rental yield, low mortgage cost, rising affluence underpinned by accession to the World Trade Organisation and a fast growing population which is already close to 10 million. Looking into the future, the Group's top priority after the above-mentioned acquisition is to reduce costs in the entire construction process through strengthening internal control and resources sharing with Guangzhou Construction.

An extension of Metro System in Guangzhou to connect the eastern Zhu Jiang New Estate and the southern Panyu suburban area is under planning. Such development is beneficial to the Group and will increase the value of its land bank located at Zhu Jiang New Estate. The Guangzhou Municipal People's Government has recently tightened regulations on property market. Developers must complete two third of the structural engineering works to qualify for preselling high rise properties, and land premium for acquiring sizable sites in land auction must be fully paid within 24 months. The Group believes that such policies would make property business in Guangzhou more capital intensive and benefit established developers with ample land and financial resources.

Newsprint business performed satisfactorily

Owing to full operation of a new production line to increase newsprint production capacity to 290,000 tonnes per annum, Guangzhou Paper was able to satisfy rising demand from major newspapers in Guangdong Province on time. In 2001, Guangzhou Paper sold 261,649.21 tonnes of newsprint which was 9.16 per cent higher than 2000. Average newsprint price of approximately Rmb4,900 per tonne remained steady year on year while unit cost was reduced due to lower price of imported raw material, producing more pulp and electricity in house, reduction of labour force by 12 per cent and overall improvement of operational efficiency. Although newsprint price started to ease in the second half, Guangzhou Paper still performed satisfactorily on a full year basis in 2001.

In the year, the plant continued to maintain one of the biggest market share in the domestically produced newsprint market and ranked amongst the top in China in terms of sales volume. As an indication of its product quality, the plant

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was rated as a User Satisfied Paper Producer again for the tenth consecutive year in 2001. Looking into 2002, the Group expects the market will become more competitive and has formulated various measures which included continuing cost reduction and supplying surplus electricity and providing maintenance service to third parties to maintain profitability. An ISO9000 management system will also be implemented in 2002 to institutionalise management practices.

Toll road traffic volume affected by construction works

As traffic volume growth was deterred by various factors including road maintenance works around Guangzhou City for preparing the Ninth National Games, prohibition of overloaded trucks travelling in the remote regions of Guangdong Province and opening of additional roads, GZI Transport Limited, the toll road subsidiary of the Company, achieved profit attributable to shareholders of HK$220.3 million in 2001. The Group believes that certain toll road projects may continue to be affected by some of the above factors. However, as the Group has a diversified portfolio, some other toll road projects will have steady growth in 2002.

Investments to be divested

In order to re-focus on the core Guangzhou property business, the Group's cement and RMC as well as high technology businesses will be disposed to Yue Xiu for a total consideration of HK$1.55 billion.

Cement and ready-mixed concrete business

In 2001, aggregate sales volume of cement and clinker of China Century Cement Limited ("CCC"), the cement subsidiary of the Company joint ventured with German cement group Heidelberger Zement, increased by approximately 12.4 per cent to approximately 2.85 million tonnes year on year due to capacity and market expansion. Cost of limestone produced in house was reduced significantly due to technological improvement and operational efficiency. These savings had offset a lower average cement selling price of approximately Rmb270 per tonne. In the year, performance of RMC in Guangzhou had improved due to overall cost reduction which also offset the lower price of RMC. The Hong Kong market remained slow as a result of fewer construction activities. CCC had sold a total of 990,000 cubic meters of RMC in the Guangzhou and Hong Kong markets in 2001. Construction of the new Guangzhou International Airport and Second Phase Metro System in Guangzhou will continue to create demand for cement and RMC in the Guangzhou market. CCC also plans to penetrate new markets in medium sized cities such as Shenzhen, Zhongshan, Jiangmen, etc. in Guangdong Province.

High technology businesses

The Group owns an effective interest of about 36.84 per cent in Guangzhou Jinpeng Group Co., Ltd. which is mainly engaged in (i) the sale and manufacture of telecommunication equipment (including mobile switching equipment and mobile phones) and (ii) investment in information-related industry (including information technology consulting services) in China. The Group also owns an effective interest of about 46.70 per cent in China Information Technology Industry

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Co., Limited ("China ITI") which is principally engaged in the provision of Geographic Information System, Global Position System and Remote Sensing tailored-made applications to help customers solve problems in using geographic data. China ITI and its subsidiaries can provide consultation and application services for land record management and property assessment, land use planning and zoning, public safety, civil engineering, census, property and facilities management. China ITI also provides application services on transportation, water/wastewater treatment, environmental and public utilities management.

Very substantial acquisition of property assets

In December 2001, the Group announced the acquisition of a majority interest in Guangzhou Construction and interests in some other property assets in China for approximately HK$5.0 billion from its controlling shareholder, Yue Xiu ("Acquisition").

These assets are consisted of firstly, 95 per cent interest in Guangzhou Construction (approximately HK$6.36 billion), and secondly, 49 per cent stake in Super Gain Development Limited ("Super Gain") (approximately HK$2.0 billion). Guangzhou Construction is one of the biggest and most reputable property developer in Guangzhou, and one of the best 100 property developers in China. Super Gain is a joint venture between the Company (51 per cent) and Yue Xiu (49 per cent) for development of property projects in China.

The consideration of approximately HK$5.0 billion represents a 40 per cent discount to the total attributable net tangible asset value of approximately HK$8.36 billion of the two property groups. The Company will pay HK$2.0 billion in cash, issue to Yue Xiu approximately 2.15 billion new shares at HK$0.68 each, and dispose to Yue Xiu its cement, RMC and hi-tech projects for HK$1.55 billion.

According to the related circular issued to the Company's shareholders on 31st December 2001, upon completion of the transaction, the Group's unaudited proforma net tangible asset as at 30th June 2001 and the unaudited proforma consolidated net profit for 2000 will be increased by 85 per cent to HK$11.68 billion and at least by 89 per cent to HK$212 million respectively. The corresponding net tangible asset per share and earnings per share will also be increased by approximately 21 per cent and 23 per cent respectively. Net gearing expressed as a ratio of net debts to net tangible assets will be increased moderately from 29 per cent to 36 per cent. Yue Xiu's shareholding in the Company will be increased from approximately 44 per cent to 63 per cent.

As shown by the above figures, the Acquisition has obvious positive financial impact to the Group. More importantly, the Group will increase land resources significantly with total attributable project gross floor area and attributable land bank site area increased by 3.5 times and 20.3 times respectively to 1.67 million sq. meters and 4.19 million sq. meters and will rank the biggest developer in Guangzhou.

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Analysis of results

In the year of 2001, the Group's cement and newsprint businesses both performed satisfactorily due to expansion of production capacity and sales as well as improved operational efficiency which offset lower turnover from the toll road and property businesses. Toll road business was affected by temporary factors such as construction of road networks and prohibition of access of overloaded trucks in certain remote regions in Guangdong Province. Property business recorded lower sales area as a result of the Government's tightening of pre-sale regulations.

The Group's turnover in 2001 was at a similar level of that of 2000 amounting to HK$3,374,335,000 (2000:HK$3,380,717,000) and represented a 0.2 per cent decline. This was mainly caused by the above-mentioned varying performance of the Group's businesses. Overall gross profit decreased by 4.6 per cent to HK$1,250,078,000 (2000:HK$1,310,880,000) for similar reasons. Selling, distribution and administrative expenses amounted to HK$644,954,000 in 2001 and remained at similar levels of 2000 (2000:HK$636,859,000).

While the Guangzhou market was expanding steadily, Hong Kong continued to be affected by a slow economy and created further impact on the value of the Group's remaining portfolio of Hong Kong investment and development property projects. Revaluation deficits and provisions made amounted to HK$28,404,000 and HK$14,000,000 respectively in 2001 mainly related to these properties.

In accordance with the transitional provisions of Statement of Standard Accounting Practice 30 which becomes effective on 1st January 2001, the Group has retrospectively restated the profit attributable to shareholders for 2000 to HK$53,582,000 to conform with the new accounting policy after performing an assessment of the fair value of its goodwill arising from previous acquisitions of toll road projects that had already been eliminated against reserves.

In 2001, the Group achieved profit attributable to shareholders amounted to HK$39,782,000 (2000 as restated: HK$53,582,000).

Earnings per share

	2001	As restated 2000
Weighted average number of shares in issue	**3,976,268,141**	3,936,567,892
Profit attributable to shareholders (HK$)	**39,782,000**	53,582,000
Basic earnings per share (cent(s))	**1.00**	1.36

The weighted average number of shares in issue of 2001 was increased compared with that of 2000 because 59,014,267 shares were issued upon conversion of convertible bonds into ordinary shares of the Company and 11,652,000 shares were issued upon exercise of share options during 2001.

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Final dividend

The Directors do not recommend the payment of final dividend for 2001 (2000: nil). There was no payment of interim dividend for the year (2000: nil).

Analysis of cash flows

In 2001, the Group had net cash inflow of HK$488 million from operating activities and net cash inflow of HK$348 million from financing activities which was mainly from net bank loans raised. During the year, the Group had disposed its entire interests in two highways and fixed assets with cash inflow of approximately HK$282 million and HK$49 million respectively. Together with other cash inflows, the total available cash flow was applied to repayment of bank loans, redemption of convertible bonds, funding of investment projects and business expansions as well as dividend payments. As at 31st December 2001, the Group's bank balances and cash (excluding bank deposits) were increased by 27 per cent to HK$1,388 million (2000: HK$1,095 million).

Capital expenditures

In February 2001, the Group increased its interest in Xian Expressway from 51 per cent to 100 per cent through GZI Transport Limited for a consideration of HK$173 million. During the year, the Group had made a capital contribution of approximately HK$172.2 million to a jointly controlled entity of GZI Transport Limited, of which approximately HK$92.5 million was financed by a minority shareholder of this entity. The Group had also acquired new fixed assets amounted to HK$223 million in 2001.

Capital and other commitments

As at 31st December 2001, the Group had commitment of approximately HK$136 million for the acquisition of the remaining 34.0 per cent interest in the Group's non-wholly owned subsidiary holding Qinglian Highways. At the same time, the Group had other commitments of HK$888 million, of which HK$186 million is for the addition of fixed assets for technological improvement of its industrial businesses, the balance of HK$702 million is for the construction of properties under development in China and Hong Kong.

Pursuant to the Acquisition as described under the "Very substantial acquisition of property assets" of the "BUSINESS REVIEW" section, the Company will pay HK$2,000 million in cash to Yue Xiu upon completion of the transaction.

Liquidity and capital resources

The Group maintains a stable financial position. As at 31st December 2001, the Group had bank deposits, cash and bank balances of approximately HK$1,622 million, of which approximately 65 per cent was in Rmb, 20 per cent in US dollars, 11 per cent in HK dollars and the rest in other currencies.

As at 31st December 2001, the Group had bank borrowings excluding bank overdrafts ("Bank Borrowings") and outstanding convertible bonds of approximately HK$3,497 million and HK$450 million respectively (collectively "Total Borrowings"). The net increase in Total Borrowings was HK$248 million compared with the last year end balance sheet date, of which HK$194 million was attributable to GZI Transport Limited. 43 per cent of the Bank Borrowings was denominated in Rmb, 33 per cent in US dollars and 24 per cent in HK dollars. The convertible bonds were denominated in HK dollars.

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The management believes that the steady inflow of Rmb, HK dollars and US dollars funds generated and/or repatriated from the Group's subsidiaries, associated companies and jointly controlled entities in Hong Kong and China are sufficient to meet the Group's short to medium term Rmb, US dollars and HK dollars borrowings, finance costs and dividend payments.

The following table shows the repayment schedule of the Total Borrowings:

	Repayable within				
	one year	one to two years	two to five years	over five years	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Bank Borrowings	1,259,363	1,491,032	745,002	1,137	3,496,534
Convertible bonds	249,450	200,623	—	—	450,073
Total Borrowings	1,508,813	1,691,655	745,002	1,137	3,946,607

Approximately 36 per cent of the Bank Borrowings will be repayable within one year. The management is confident that Bank Borrowings will be refinanced. Approximately 55 per cent and 45 per cent of the convertible bonds are redeemable in one year and one to two years respectively. All convertible bonds were issued by the Company. On maturity, those bonds which have not been converted into ordinary shares of the Company at the respective price of HK$0.7600 and HK$0.6168 per share are to be redeemed at 105 per cent of their principal amount with accrued interest.

Approximately 45 per cent of the Bank Borrowings were secured by (i) the Group's fixed deposits of HK$175 million, and (ii) a small portion of the Group's property portfolio.

Treasury policies

The Group's overall treasury and funding policy is that of risk management and liquidity control. Bank balances are generally placed as short term fixed rate deposits in bank accounts in Hong Kong and China. No fund is placed in non-bank institutions or invested in securities. The Group will maintain a balance banking relationship in both Hong Kong and China to take advantage of different liquidity of these two markets.

Since the Group's principal operations are in China and most of the income is denominated in Rmb, the management is aware of possible currency exchange exposure. As a hedging strategy, the management emphasises on mainly using Rmb borrowings to finance the Group's Rmb investments. Equity and debt financing in foreign currencies will also be used selectively.

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Capital structure

The following table summarises the components of the Group's capital structure:

	2001		2000	
	HK$'000	**%**	HK$'000	%
Fixed rate loans				
Convertible bonds	**450,073**	**4**	581,473	6
Floating rate loans				
Denominated in Rmb	**1,505,863**	**15**	1,203,028	12
Denominated in US dollars	**1,155,818**	**11**	1,183,710	11
Denominated in HK dollars	**834,853**	**8**	730,866	7
Total Borrowings	**3,946,607**	**38**	3,699,077	36
Shareholders' funds	**6,530,538**	**62**	6,485,546	64
Total capitalisation	**10,477,145**	**100**	10,184,623	100
Gearing Ratio	**38%**		36 %	

The Group continues to maintain a healthy capital structure with Gearing Ratio (expressed as a percentage of Total Borrowing to total capitalisation) of 38 per cent as at 31st December 2001, which increased moderately from 36 per cent as at 31st December 2000.

Interest Coverage

Interest cover for 2001 is 3.6 times which is higher than that of 3.4 times for 2000, calculated based on operating profit adjusted for non-cash items.

Employees

As at 31st December 2001, the Group had approximately 13,120 employees, of whom approximately 12,560 employees were primarily engaging in the supervision and management of toll roads and the operations of the six cement and paper plants. The Group remunerates its employees largely based on industry practice, including contributory provident funds and other staff benefits. The Group has also adopted share option schemes which award its employees according to performance of the Group and individual employees.