

Report of the Directors

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

Principal activities and geographical analysis of operations

The principal activities of the Company remain investment holding of the four major businesses: toll roads, properties, paper and cement. The principal activities of its principal subsidiaries, jointly controlled entities, associated companies are set out in the Group Structure section on pages 82 to 94.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 3 to the accounts.

Results and appropriations

The results of the Group for the year are set out in the consolidated profit and loss account on page 29.

The Directors do not recommend the payment of a dividend.

Reserves

Movements in the reserves of the Group and the Company during the year are set out in note 28 to the accounts.

Donations

Charitable and other donations made by the Group during the year amounted to HK\$1,056,000.

Fixed assets

Details of the movements in fixed assets of the Group and the Company are set out in note 14 to the accounts.

Major property projects

Details of the major property projects held for/under development, for sale and for investment purposes of the Group in Guangzhou are set out in the List of Major Property Projects in Guangzhou section on pages 100 to 103.

Share capital

Details of the movements in share capital of the Company during the year are set out in note 27 to the accounts.

Convertible bonds

Details of the movements in convertible bonds of the Group and the Company during the year are set out in note 31 to the accounts.

Report of the Directors

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.

	Year ended 31st December				
	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000	1997 HK\$'000
Results					
Profit attributable to shareholders	39,782	111,554	18,826	100,288	319,282
Group's share of provision for impairment of goodwill#	—	(57,972)	(157,539)	—	—
Restated profit/(loss) attributable to shareholders	39,782	53,582	(138,713)	100,288	319,282
Assets and liabilities					
Total assets	19,961,555	19,604,175	19,402,347	18,886,961	14,322,367
Total liabilities including minority interests	(13,431,017)	(13,118,629)	(12,773,252)	(12,343,091)	(7,798,006)
Net assets	6,530,538	6,485,546	6,629,095	6,543,870	6,524,361

Provision for impairment of goodwill for GZI Transport Limited, a non wholly-owned subsidiary, 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.

Purchase, sale and redemption of the Company's shares

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

Interest capitalised

During the year, interest capitalised as development cost in respect of properties held for/under development and investment in a jointly controlled entity amounted to approximately HK\$11,092,000.

Report of the Directors

Directors

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

Mr Liu Jinxiang	
Mr Zhang Bohua	- resigned on 1st August 2001
Mr Xie Shuwen	
Mr Chen Guangsong	- appointed on 19th June 2001
Mr Li Fei	- appointed on 18th January 2002
Mr Liang Ningguang	
Mr Xiao Boyan	
Mr Cai Hanxiang	
Mr Luo Guoqing	- appointed on 18th January 2002
Mr Dong Huiyan	
Mr Li Jiaqiang	
Mr Shi Jinling	
Mr Yin Hui	- appointed on 19th June 2001
Mr Wu Yiyue	- appointed on 19th June 2001
Mr Wang Hongtao	- appointed on 18th January 2002
Mr Wong Chi Keung	
Ms Yan Yuk Fung	
Mr Yu Lup Fat Joseph*	
Mr Lee Ka Lun*	

* Independent non-executive directors

Mr Liang Ningguang, Mr Cai Hanxiang, Ms Yan Yuk Fung and Mr Yu Lup Fat Joseph retire by rotation in accordance with Article 91 of the Company's Articles of Association at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election. Messrs Chen Guangsong, Li Fei, Luo Guoqing, Yin Hui, Wu Yiyue and Wang Hongtao retire in accordance with Article 97 of the Company's Articles of Association at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

The Directors' Profiles are set out on pages 14 to 16.

Mr Liu Jinxiang is a director of Yue Xiu Enterprises (Holdings) Limited ("Yue Xiu"), Excellence Enterprises Co., Ltd., Bosworth International Limited, Sun Peak Enterprises Ltd. and Novena Pacific Limited. Mr Xie Shuwen is a director of Yue Xiu, Excellence Enterprises Co., Ltd., Bosworth International Limited and Sun Peak Enterprises Ltd. Messrs Chen Guangsong and Xiao Boyan are directors of Yue Xiu and Excellence Enterprises Co., Ltd. Mr Li Fei is a director of Yue Xiu. Messrs Liang Ningguang, Cai Hanxiang and Dong Huiyan are directors of Yue Xiu, Excellence Enterprises Co., Ltd. and Bosworth International Limited. Messrs Shi Jinling and Wong Chi Keung are directors of Bosworth International Limited. Mr Wong Hongtao is a director of Bosworth International Limited, Sun Peak Enterprises Ltd. and Novena Pacific Limited. Each of Yue Xiu, Excellence Enterprises Co., Ltd., Bosworth International Limited, Sun Peak Enterprises Ltd. and Novena Pacific 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").

Report of the Directors

Directors' service contracts

Each of Messrs Liu Jinxiang, Xie Shuwen and Chen Guangsong has entered into a service agreement with GZI Transport Limited ("GZI Transport"), a subsidiary of the Company, which is for an initial fixed term of one year commencing on 1st August 1999, 12th September 2001 and 26th October 2001 respectively unless terminated sooner by GZI Transport giving to him three months' prior written notice and thereafter, extendable for a further term of two years unless terminated sooner by GZI Transport giving to him three months' prior written notice or by him giving to GZI Transport six months' prior written notice.

Save as disclosed herein, none of the Directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

Directors' interests in contracts

No contracts of significance in relation to the Group's business to which the Company, its subsidiaries or its fellow subsidiaries was a party and in which a 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 35(b), 36(b) and 38(a) to (c) to the accounts. In respect of transactions as referred in note 38(a) to the accounts, Messrs Yu Lup Fat Joseph and Lee Ka Lun, the independent non-executive directors of the Company, have confirmed that the transactions have been performed in accordance with the terms of the agreements covering such transactions.

Directors' interests in equity or debt securities

As at 31st December 2001, the interests of the Directors in the equity or debt securities of the Company and its associated corporations (within the meaning of SDI Ordinance), as recorded in the register maintained by the Company under Section 29 of the SDI Ordinance or as notified to the Company were as follows:

	Personal Interests	Family Interests
The Company		
(Ordinary shares of HK\$0.10 each)		
Mr Liu Jinxiang	360,000	—
Mr Xie Shuwen	300,000	—
Mr Liang Ningguang	200,000	60,000
Mr Cai Hanxiang	300,000	—
Mr Wong Chi Keung	500,000	—
Ms Yan Yuk Fung	500,000	—
GZI Transport, a subsidiary of the Company		
(Ordinary shares of HK\$0.10 each)		
Mr Yin Hui	290,000	—
Mr Wong Chi Keung	158,000	—
Ms Yan Yuk Fung	100,000	—

Report of the Directors

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 (i) the Company and (ii) GZI Transport to subscribe for ordinary shares in the respective companies :

(i) The Company

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 Zhang Bohua *	06/03/1995	1.0016	600,000	600,000	—	—
	23/02/1998	0.7344(b)	1,200,000	—	—	N/A
	14/12/1999	0.5008(c)	1,100,000	—	—	N/A
Mr Xie Shuwen	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 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(e)	840,000 (f)
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 Dong Huiyan	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)	1,000,000	—	300,000	700,000
Mr Li Jiaqiang	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 Shi Jinling	14/12/1999	0.5008(c)	1,000,000	—	—	1,000,000
Mr Wong Chi Keung	14/12/1999	0.5008(c)	1,000,000	—	300,000	700,000
Ms Yan Yuk Fung	14/12/1999	0.5008(c)	800,000	—	—	800,000

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 the Company held by his spouse.
- (e) These interests include options to subscribe for 60,000 shares in the Company exercised by his spouse during the year.
- (f) These interests include options to subscribe for 140,000 shares in the Company held by his spouse.
- (g) The cash consideration paid by each director of the Company for each grant of option by the Company was HK\$10.

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(ii) GZI Transport

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 Zhang Bohua *	07/04/2000	0.7520	900,000	270,000	N/A
Mr Xie Shuwen	07/04/2000	0.7520	800,000	240,000	560,000
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 Dong Huiyan	07/04/2000	0.7520	800,000	240,000	560,000
Mr Li Jiaqiang	07/04/2000	0.7520	450,000	134,000	316,000
Mr Shi Jinling	07/04/2000	0.7520	450,000	—	450,000
Mr Yin Hui	06/08/1997	2.4080	600,000**	—	600,000
	22/12/1999	0.9984	3,610,000**	—	3,610,000
Mr Wong Chi Keung	07/04/2000	0.7520	450,000	134,000	316,000
Ms Yan Yuk Fung	07/04/2000	0.7520	450,000	—	450,000

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 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 GZI Transport was HK\$10.

* Mr Zhang Bohua resigned as director of the Company with effect from 1st August 2001

** Balance as at 19th June 2001, date of appointment of Mr Yin Hui as director of the Company

Save as disclosed herein at no time during the year, the directors of the Company (including their spouse and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for 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, its subsidiaries, or its fellow subsidiaries a party to any arrangement 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.

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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	Note
Yue Xiu	1,702,182,734	(a)
Excellence Enterprises Co., Ltd.	1,669,474,734	(b)
Bosworth International Limited	774,772,574	(c)
Sun Peak Enterprises Ltd.	565,683,000	(c)
Novena Pacific Limited	565,683,000	(d)

Notes:

- (a) This interest represents the total number of ordinary shares of the Company held by Yue Xiu and its subsidiaries where Yue Xiu is taken to be interested in such shares under Section 8 of the SDI Ordinance.
- (b) Subsidiary of Yue Xiu and its interest in the ordinary shares of the Company is duplicated in the interest of Yue Xiu.
- (c) Subsidiaries of Excellence Enterprises Co., Ltd. and their interests in the ordinary shares of the Company are duplicated in the interest of Excellence Enterprises Co., Ltd.
- (d) Subsidiary of Sun Peak Enterprises Ltd. and its interest in the ordinary shares of the Company is duplicated in the interest of Sun Peak Enterprises Ltd.

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.

Report of the Directors

Share Options

(i) The Company

Pursuant to share option schemes ("Share Option Schemes") approved by shareholders on 21st November 1992 and 23rd June 1998, 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 Schemes are designed to act as an incentive to employees and executives of the Group and shall expire at 5:01 p.m. on the business day preceding 21st November 2002 and 23rd June 2008 respectively. The maximum number of Shares in respect of options may be granted under the Share Option Schemes (including Shares issued or issuable under the Share Option Schemes) 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 Schemes). The maximum entitlement of each participant is 25 per cent of the aggregate number of Shares issued or issuable under the Share Option Schemes. The exercise price was determined by the board of directors of the Company and being equal to the higher of (a) the nominal value of the Share; and (b) 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 (in the case of the share option scheme adopted on 21st November 1992) the date of offer or (in the case of the share option scheme adopted on 23rd June 1998) the date of grant of an option. 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 Schemes, during the year were as follows:

	Number of options				Exercise price per share HK\$	Date of grant	Exercisable period (3)	Weighted average closing price (4) HK\$
	outstanding as at 1st January 2001	lapsed during the year	exercised during the year	outstanding as at 31st December 2001				
Directors	2,250,000	2,250,000	—	—	1.0016	06/03/1995	06/03/1995-05/03/2001	N/A
	5,000,000	—	—	5,000,000	0.7344	23/02/1998	23/02/1998-20/11/2002	N/A
	10,400,000	—	2,520,000	7,880,000	0.5008	14/12/1999	14/12/2000-13/12/2005	0.77
Employees	16,598,000	16,598,000	—	—	1.0016	06/03/1995	06/03/1995-05/03/2001	N/A
	17,600,000	—	—	17,600,000	0.7344	23/02/1998	23/02/1998-20/11/2002	N/A
	70,000,000	—	—	70,000,000	0.3936	04/09/1998	04/09/1999-03/09/2004	N/A
	53,626,000	—	9,132,000	44,494,000	0.5008	14/12/1999	14/12/2000-13/12/2005	0.73
Total	<u>175,474,000</u>	<u>18,848,000</u>	<u>11,652,000</u>	<u>144,974,000</u>				

Notes :

- No options have been granted or cancelled during the year.
- The options granted on 4th September 1998 and 14th December 1999 are exercisable in 2 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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(ii) GZI Transport

Movements during the year of the options granted under the share option scheme of GZI Transport to the employees of the Group other than the directors of the Company as disclosed on page 22 were as follows :

	Number of options			Exercise price per share HK\$	Date of grant	Exercisable period (3)
	outstanding as at 1st January 2001	exercised during the year	outstanding as at 31st December 2001			
Employees	21,400,000	—	21,400,000	2.4080	06/08/1997	06/08/1998 - 05/08/2003
	23,502,000	—	23,502,000	0.7632	04/09/1998	04/09/1999 - 03/09/2004
	15,060,000	2,854,000	12,206,000	0.9984	22/12/1999	22/12/2000 - 21/12/2005
	13,550,000	2,414,000	11,136,000	0.7520	07/04/2000	07/04/2001 - 06/04/2006

Notes:

1. No options have been granted, cancelled or lapsed during the year.
2. All options are exercisable in 3 tranches.
3. If the last day of the exercisable period is not a business day, the exercisable period will expire on the business day preceding thereof.

Independent non-executive directors' fees

Two independent non-executive directors of the Company each received HK\$38,000 as directors' fees for the year ended 31st December 2001.

Management contracts

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.

Major customers and suppliers

No disclosures 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 respectively.

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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 15 per cent of the employee's basic salary to the scheme. There were no significant forfeited contributions in respect of employees who left the scheme prior to vesting fully in the contributions during the year and as at 31st December 2001.

The Group also participates in the Mandatory Provident Fund Scheme ("MPF" Scheme) for Hong Kong employees. The Group's MPF Scheme contributions are at 5 per cent of the employee's relevant income as defined in the Hong Kong Mandatory Provident Fund Schemes Ordinance up to a maximum of HK\$1,000 per employee per month. The employees also contribute a corresponding amount to the MPF Scheme from 31st December 2000 if their relevant income is more than HK\$4,000 per month. The MPF contributions are fully and immediately vested in the employees as accrued benefits once they are paid.

Certain subsidiaries of the Company in Mainland China ("China") are required to participate in a defined contribution retirement plan organised by the Guangzhou Municipal People's Government. All Chinese workers are entitled to a pension equal to a fixed proportion of their ending basic salary amount at their retirement date 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 38(a) 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 other subsidiaries are required to make contributions to the retirement plan at the rates of 16 per cent to 24 per cent of the basic salaries of their staff members.

The Group's contribution is charged to its profit and loss account and expenses incurred by the Group for the year amounted to HK\$40,825,000.

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 independent non-executive directors are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's Articles of Association.

Report of the Directors

Audit committee

Pursuant to the Listing Rules, an audit committee (the "Audit Committee"), comprising two independent non-executive directors, namely Mr Yu Lup Fat Joseph and Mr Lee Ka Lun, 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 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 39 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, 19th April 2002