BUSINESS REVIEW

Core Business

Guangzhou Property Market Continued to Expand

The primary residential market in Guangzhou Municipality continued to grow steadily in 2002. Total sales volume of the entire ten districts in Guangzhou Municipality increased by 11.3 per cent to 7.95 million sq. meters while average selling price decreased marginally by 1.85 per cent to Rmb4,151.7 per sq. meter. Urban properties accounted for 64.7 per cent (5.14 million sq. meters) of total sales volume with average selling price of approximately Rmb4,869.0 per sq. meter. They were respectively 8.2 per cent higher and 1.1 per cent lower than 2001. Apart from an active primary market, transactions in the secondary market continued to grow. Sales volume was up remarkably by 36.5 per cent to 3.05 million sq. meters. Price moved downward by 6.78 per cent compared with 2001 to an average of Rmb3,344.3 per sq. meter, reflecting the qualities of these properties.

In 2002, the Group increased sales area of primarily residential properties by 17.6 per cent to approximately 80,000 sq. meters with Galaxy City as the anchor project.

Galaxy City in Tianhe District

Very Substantial Acquisition of Property Assets and Market Positioning

On 20th December 2002, the Group completed the acquisition of a controlling interest in Guangzhou City Construction and Development Holdings Limited ("Guangzhou Construction"), a leading property developer in Guangzhou Municipality, and some other property assets in China of total net asset value of approximately HK$8.35 billion from its controlling shareholder, Yue Xiu Enterprises (Holdings) Limited ("Yue Xiu") for a consideration of approximately HK$4.983 billion. This price is particularly beneficial to the Group and represents a 40 per cent discount to the attributable net asset value of these assets. The Group also achieved a balanced post acquisition capital structure by paying Yue Xiu a combination of new shares (approximately 2.108 billion new shares at HK$0.68 each), cash (HK$2.0 billion) and swapping assets for value of HK$1.55 billion. For accounting purposes, the market price of the Company's shares as at 20th December 2002 was used in the books of account for this transaction and the consideration was accordingly recorded as HK$4.544 billion.

Hong Cheng Garden in Er Sha Island

With the completion of this transaction, which has increased the Group's land resources significantly, the Group will rank amongst the biggest developers in Guangzhou Municipality. Total attributable gross floor area increased by approximately 4.2 times to 8.95 million sq. meters. Most of the projects are located in six major areas within Guangzhou Municipality, namely Baiyun, Haizhu, Er Sha Island, Tianhe Districts in the urban area, and Conghua City and Nansha District in the suburb. Major projects to be offered for sale in 2003 will also increase substantially to include Southern Le Sand in Nansha District, Galaxy City in Tianhe District, Run Hui Building, Phase II of Greenland Garden, Jiangnan New Mansion in Haizhu District, and Hong Cheng Garden in Er Sha Island with total expected sales area of approximately 220,000 sq. meters.

Jiang Nan New Mansion in Haizhu District

Newsprint Business Affected by Global Decline of Newsprint Prices

As a result of intensified competition amongst newsprint producers, Guangzhou Paper Limited ("Guangzhou Paper") operated in a challenging environment. In 2002, two obsolete production lines ceased operation and reduced production volume. Guangzhou Paper sold 254,243 tonnes of newsprint which decreased by 10.3 per cent compared with 2001 but sales ratio remained at a satisfactory level of close to 100 per cent. The paper mill's control measures on both fixed and variable costs had more than offset lower production volume. However, average newsprint price of Guangzhou Paper following the downward trend of international newsprint price was substantially down by 14.0 per cent to Rmb4,208.8 per tonne and affected its performance negatively.

Nevertheless, Guangzhou Paper continued to maintain one of the biggest market share in the domestically produced newsprint market and was ranked amongst the top in China in terms of sales volume in 2002. Looking forward to 2003, it is likely that international newsprint price will stabilize as raw material price has already been edging up. Guangzhou Paper's annual production reaching 260,000 tonnes will be the major profit driver in the coming year. The Group would continue to increase effort in gaining market share in a competitive domestic market.

Toll Road Performance Affected by Once-Off Factors

2002 was a year of transformation for GZI Transport Limited ("GZI Transport"), the toll road subsidiary of the Company. Owing to disposal of certain projects the future yields of which will be leveling off and temporary diversion of traffic from certain toll road projects, GZI Transport recorded 29.1 per cent decline in profit attributable to shareholders to HK$156.1 million in 2002. However, these negative impacts will no longer affect the Group's performance in 2003. The Group has replenished its portfolio by acquiring Shantou Bay Bridge in July 2002. Toll traffic volume of those toll roads previously affected by diversion of new roads have also rebound significantly since early 2003. With rapidly rising car ownership in China as a result of growing affluence, toll traffic volume is expected to grow further in the foreseeable future. Thus, the Group believes that the performance of its toll road business will turnaround in 2003.

Business Divested

Cement and Ready-Mixed Concrete Businesses

In 2002, aggregate sales volume of cement and ready-mixed concrete ("RMC") of China Century Cement Limited ("CCC"), a joint venture with German cement group Heidelberger Zement, increased by 13.7 per cent and 4.5 per cent to approximately 3.075 million tonnes and 1,035,000 cubic meters respectively. Such increase in sales volume was due to CCC's penetration into new markets such as Shenzhen City and expansion of construction activities in the Guangdong Province. Construction works of various infrastructure projects such as the new Guangzhou International Airport, Phase Two of the Metro System in Guangzhou Municipality and the Western Guangzhu Expressway etc. have also begun and increased volume demand for both cement and RMC. Inspite of a weaker market in Hong Kong in the period, the overall performance of CCC improved substantially in 2002 due to firstly, expansion of cement sales in Guangdong Province. Secondly, cement sale price in Guangdong Province remained firm at Rmb265.0 per tonne which was up by 2.5 per cent compared with 2001. Thirdly, costs of cement production such as the in house produced limestone and externally sourced electricity had declined considerably during the period.

High Technology Business

The Group owned 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) the investment in information-related industry (including information technology consulting services) in China. The Group also owned an effective interest of about 46.70 per cent in China Information Technology Industry 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 solving problems in using geographic data. China ITI and its subsidiaries provide consultation and application services for land records 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.

As a result of business restructuring, the cement, RMC and high technology businesses were swapped with Yue Xiu's property assets in December 2002 for value of HK$1.55 billion.

FINANCIAL REVIEW

Results Analysis

In 2002, the Group's turnover amounted to HK$3,225,473,000 and represented a 4.4 per cent decrease compared with the same period of 2001.

Turnover of property sales in China increased by 59 per cent to HK$636,514,000 as the Group sold more residential units in Guangzhou Municipality and consolidated one month's property sales turnover from Guangzhou Construction & Development Holdings (China) Limited and its subsidiaries upon completion of its acquisition in December 2002. Despite the downturn of the Hong Kong rental market, turnover from rental income increased by approximately 8 per cent to HK$152,943,000 also due to rising rental income from the Group's investment properties in Guangzhou Municipality and consolidation of one month's rental turnover from Guangzhou Construction & Development Holdings (China) Limited and its subsidiaries. Inspite of higher sales volume, turnover of the cement business amounted to HK$916,020,000 and decreased by 10 per cent. This business was disposed of in December 2002 and only contributed eleven months' turnover. Falling newsprint price globally affected the newsprint operation of the Group and turnover decreased by 14 per cent to HK$1,141,688,000. Turnover of the Group's toll road business declined by 15 per cent to HK$355,638,000 due to temporary factors including disposal of Xinfeng Highways and diversions of traffic volume in selective toll roads.

Other revenue decreased by 73 per cent to HK$19,110,000 due to disposal of certain highways by GZI Transport Limited and less interest income caused by declining interest rate.

Total gross profit amounted to HK$1,033,548,000 and decreased by 17 per cent due to similar reasons mentioned in paragraph two.

Total expenses including selling, distribution, administrative and other net operating income decreased slightly by approximately 6 per cent to a total of HK$666,747,000.

As the Group is shifting its property focus to the Guangzhou market, a total provision of HK$891,736,000 had been made on the Group's remaining interests in certain development and investment properties in Hong Kong and Macau and fixed assets of Guangzhou Paper Limited to reflect the intended divestment strategy at appropriate time. The above provision also included impairment on other investments of GZI Transport Limited of HK$33,462,000.

Finance costs decreased enormously by 27 per cent to HK$185,986,000 as a result of declining interest rate and repayment of certain bank loans.

Provision for impairment of interest in a jointly controlled entity and an associated company amounted to HK$164,155,000. This also reflects the intended divestment strategy of a pulp plant in Fujian Province and property interests in Macau at appropriate time.

Minority interests decreased by 45 per cent to HK$170,633,000 due to lower profits from the paper and toll road businesses.

For the year ended 31st December 2002, the Group's loss attributable to shareholders amounted to HK$989,041,000. (2001: profit attributable to shareholders of HK$39,782,000). Taking aside the non-recurrent provisions of HK$1,055,891,000 (2001: HK$43,621,000), the Group's results in 2002 amounted to HK$66,850,000 (2001: HK$83,403,000).

Earnings Per Share

	2002	2001
Weighted average number of shares in issue	**4,017,138,450**	3,976,268,141
(Loss)/profit attributable to shareholders (HK$)	**(989,041,000)**	39,782,000
(Loss)/earnings per share (cent(s))		
Basic	**(24.62)**	1.00
Fully diluted	**N/A**	0.99

The weighted average number of shares in issue in 2002 was increased by 1 per cent compared to 2001. 2,107,688,555 shares were issued in connection with the acquisition of a controlling interest in Guangzhou City Construction and Development Holdings Limited ("Guangzhou Construction") and some other property assets in China and 2,120,000 shares were issued upon exercise of share options during 2002. Total issued shares outstanding as at 31st December 2002 was 6,118,102,222 shares.

Final Dividend

The Directors do not recommend the payment of final dividend for 2002 (2001: nil). There was no payment of interim dividend for the year (2001: nil).

Analysis of Cash Flows

In 2002, the Group had net cash inflow of HK$500 million (2001: HK$174 million) from operating activities. This increased substantially compared with 2001 due to lower level of cash expenses required by property projects under development and lower level of cement accounts receivable. During the year, the Group had net cash outflow from investing activities of approximately HK$2,183 million (2001: HK$229 million) mainly due to acquisition of interest in Guangzhou Construction. To finance this acquisition, net cash inflow of HK$1,339 million (2001: HK$348 million) from financing activities consisting of bank loans were raised.

Capital Expenditures

During the year of 2002, the Group's major capital expenditure included acquisition of a 30 per cent stake in Shantou Bay Bridge and the remaining 34 per cent interest in the Group's non-wholly owned subsidiary holding Qinglian Highways for the considerations of HK$305 million and HK$135.6 million respectively through GZI Transport Limited. In December 2002, HK$2,000 million was paid in cash as part of the consideration pursuant to the completed acquisition as described under the "Very Substantial Acquisition of Property Assets".

Capital and Other Commitments

As at 31st December 2002, the Group had capital commitments of HK$473 million mainly for the construction of properties under development in China and Hong Kong.

Liquidity and Capital Resources

The Group's liquidity position remains strong and stable. As at 31st December 2002, the Group had pledged deposits, bank balances and cash of approximately HK$1,077 million (2001: HK$1,622 million), of which approximately 74 per cent was in Rmb, 23 per cent in HK dollars and the rest in US dollars and other currencies.

As at 31st December 2002, the Group had bank borrowings excluding bank overdrafts ("Bank Borrowings") and outstanding convertible bonds of approximately HK$6,763 million and HK$201 million respectively (collectively "Total Borrowings"). The net increase in Total Borrowings was HK$3,017 million as compared to 2001 mainly due to consolidation of the assets and liabilities from the Guangzhou Construction & Development Holdings (China) Limited and its subsidiaries, and a syndicated loan of HK$2,630 million raised during the year to finance the acquisition of such assets and liabilities. For the Bank Borrowings, approximately 47 per cent was denominated in HK dollars, 45 per cent in Rmb and 8 per cent in US dollars. The convertible bonds were denominated in HK dollars with coupon of 3 per cent per annum and conversion price of HK0.6168 per share.

The management believes that the steady inflow of Rmb, HK dollars and US dollars funds generated and/or repatriated from the enlarged 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, HK dollars and US dollars borrowings, finance costs and dividend payments.

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

	Repayable within				
		one to	two to	over five	
	one year	two years	five years	years	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Bank Borrowings	3,216,424	754,853	2,791,328	468	6,763,073
Convertible Bonds	200,623	—	—	—	200,623
Total Borrowings	3,417,047	754,853	2,791,328	468	6,963,696

Approximately 48 per cent of the Bank Borrowings will be repayable within one year, of which 72 per cent is contributed by Rmb loans. Given its improved financial position subsequent to the "Very Substantial Acquisition of Property Assets", the Group's credit has become significantly more attractive to the banking community. The relative liquidity risk is considered to be insignificant because the management is confident that short term loans, especially Rmb loans, could be refinanced or further extended as planned by one to three years upon maturity. All convertible bonds are redeemable within one year.

Approximately 69 per cent of the Bank Borrowings were related to property projects and secured by a part 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 emphasizes on mainly using Rmb borrowings to finance the Group's Rmb investments. Equity and debt financing in foreign currencies will also be used selectively.

Capital Structure

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

	2002		2001	
	HK$'000	**per cent**	HK$'000	per cent
Convertible Bonds (fixed rate)	**200,623**	**1**	450,073	4
Bank Borrowings (floating rates)				
Denominated in Rmb	**3,058,150**	**17**	1,505,863	14
Denominated in US dollars	**546,000**	**3**	1,155,818	11
Denominated in HK dollars	**3,158,923**	**18**	834,853	8
Total Borrowings	**6,963,696**	**39**	3,946,607	37
Shareholders' Funds plus Negative Goodwill	**10,839,920**	**61**	6,609,073	63
Total Capitalisation	**17,803,616**	**100**	10,555,680	100
Gearing Ratio	**39 per cent**		37 per cent	

The Group's capital structure continues to maintain at a comfortable level with Gearing Ratio (expressed as a percentage of Total Borrowing to Total Capitalisation) of 39 per cent as at 31st December 2002 which was at similar level when compared with that as at 31st December 2001. Negative Goodwill in the above table represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition, the majority of which has been created from the original 40 per cent discount achieved by the Company as a result of the "Very Substantial Acquisition of Property Assets".

Interest Coverage

Interest cover for 2002 is 4.2 times which was at similar level of 4.1 times for 2001. Its calculation is based on operating profit after share of profit/(loss) from associated companies and jointly controlled entities and adjusted for non-cash items.

Employees

As at 31st December 2002, the Group had approximately 7,900 employees, of whom approximately 7,700 employees were primarily engaged in the properties, toll roads and paper businesses.

The substantial 40 per cent net decrease in the number of headcounts as compared to those as at 31st December 2001 was mainly due to the disposal of the Group's cement and ready-mixed concrete businesses as a result of the "Very Substantial Acquisition of Property Assets" and the implementation of cost saving and efficiency enhancement policy of the Group.

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.