



Kong Qingping
*Vice Chairman &
Chief Executive*

OVERALL PERFORMANCE

The Board considered the overall performance of the Group for year 2004 satisfactory. Turnover increased by 13% to HK\$8.62 billion (2003: HK\$7.62 billion). Mainly due to the good performance of our PRC property development and also provisions write-back for Hong Kong property projects, the consolidated profit attributable to shareholders increased 56% to HK\$1,075 million. Even taking out the relevant provisions or provisions write-back and non-recurrent exceptional items, the consolidated profit attributable to shareholders and operating profits of the Group still have satisfactory growth. Basic earnings per share was HK17.1 cents (2003: HK12.7 cents) and diluted earnings per share was HK16.9 cents (2003: HK12.6 cents). The increase in shareholder's attributable profit plus the receipt of HK\$80,798,000 from the exercise of share options and the net proceeds from share placement of HK\$1,497,453,000, after the payment of dividends in the amount of HK\$319 million and repurchase of shares in the amount of HK\$36,856,000, resulted in the Group's total shareholders' funds increased to HK\$10.43 billion (2003: HK\$8.09 billion) [including net asset value of construction business in Hong Kong amounted to HK\$388,173,000 (2003: HK\$314,293,000)], representing an increase of 29%. The net asset value per share was HK\$1.64 as at 31 December 2004 (2003: HK\$1.49 per share).

INCOME

Total operating income of the Group for the year was HK\$8.62 billion, representing an increase of 13% from the previous year, in which:

Property sales was in the amount of HK\$4.64 billion, accounting for 54% of the total turnover and representing an increase of 33% from the previous year. The sales of mainland property was a record high of HK\$4.46 billion, accounting for 52% of the total turnover. Property sales in Hong Kong was HK\$175 million, mainly came from the Ellery Terrace project.

Faced with the intensive competition in construction market in Hong Kong, contracting revenue was in the amount of HK\$3.34 billion, accounting for 39% of the total turnover and representing a decrease of 11% from the previous year.



INCOME *(Cont'd)*

Owing to a general drop of rental rate in Hong Kong, revenue from property rental was in the amount of HK\$134 million, representing a decrease of 21% from the previous year.

Infrastructure investment revenue was in the amount of HK\$29 million, representing a decrease of 42% from the previous year. This is attributable to the early repayment of the Group's investment in Guangxi infrastructure projects in 2003, leading to a decrease in the infrastructure investment revenue.

Turnover from other operations amounted to HK\$486 million.

OPERATING PROFIT

The operating profit of the Group (being the profit from operations less unallocated finance costs) for the year was HK\$1,369 million, representing an increase of 50% from the previous year. This is mainly attributable to profit contribution before tax by the PRC property development business of HK\$907 million, Hong Kong provisions write-back (net) of HK\$352 million, property investment business of HK\$95 million and construction business of HK\$166 million.

ADMINISTRATIVE EXPENSES

The administrative expenses of the Group were HK\$392 million in 2004, representing an increase of 46% from the previous year. This is mainly attributable to increase in the scale of businesses and the salary adjustment in line with the market.

TAXATION

The Group's taxation charge for the year increased by 86% to HK\$221 million. This is mainly attributable to the increase in the operating profit generated from the PRC and hence tax thereon.

LIQUIDITY, FINANCIAL RESOURCES AND GEARING

As at 31 December 2004, the Group's consolidated bank debts was HK\$4.86 billion of which HK\$1,806 million will mature in 2005, HK\$859 million is due for repayment in 2006 and HK\$2.2 billion is due for repayment after 2006. As at 31 December 2004, the Group's bank balances and cash were HK\$2.71 billion. The Group also had unutilised banking facilities of about HK\$2.2 billion.

The Group continues to adhere to a relatively prudent financial policy and watch the cash flow of the Group closely. Owing to the continued increase in the scale of the Group's property development business in the PRC, the net current assets of the Group as at 31 December 2004 decreased by 17.9% to HK\$3.74 billion and the current ratio decreased from 1.81 times in 2003 to 1.41 times. The net gearing ratio of the Group was also increased from 3% to 21% (basis: total bank debts net of bank balances and cash, and divided by shareholders' funds).

The Group's bank borrowings as at 31 December 2004 was HK\$4.86 billion of which 50.66% was denominated in Renminbi and 49.34% was denominated in Hong Kong dollars.



LIQUIDITY, FINANCIAL RESOURCES AND GEARING *(Cont'd)*

The Group's bank balances and cash as at 31 December 2004 was HK\$2.71 billion of which 32.84% was denominated in Renminbi, 9.96% was in US dollars and 57.20% was denominated in Hong Kong dollars.

All of the Group's bank borrowings were made on a floating-rate basis except for the amount of HK\$900 million out of the HK\$1.80 billion syndicated loan. In February 2003, the Group entered into an interest rate swap arrangement to fix the interest rate for the loan amount of HK\$600 million at an all-in rate of about 4.30% starting 23 April 2003 all through to its final maturity on 23 July 2007. In July 2003, another interest swap arrangement was made (commencing on 23 October 2003 and expiring on 23 July 2007), pursuant to which the interest rate of a HK\$300 million loan was fixed at about 4.00%. The Group has no other derivative exposure for hedging or speculative purpose.

SEGMENTAL INFORMATION

As at 31 December 2004, contributions to the results by business segments were: a profit of HK\$1,292 million from property development business (an increase of HK\$557 million from 2003, mainly attributable to the remarkable performance of the PRC business), HK\$166 million from construction business (a slight increase of HK\$4 million from last year, mainly attributable to the implementation of effective cost control measures), HK\$94.5 million from property investment business (a decrease of HK\$38 million from last year, mainly attributable to a general decrease in rental rate in Hong Kong) and HK\$28.5 million contribution from infrastructure project investment (a decrease of HK\$20 million from last year mainly due to early repayment of certain investment costs in 2003).

EMPLOYEES

As at 31 December 2004, the Group had a total number of 9,561 staffs, including 3,402 in Hong Kong, 6,146 in the PRC and 13 in overseas.

The target responsibility system for each department launched last year has confirmed to have positive effect. In order to enable the Group to face the fierce competition in the Hong Kong construction market, our policy of "Compete with low costs and manage for higher quality" has to be pervasively applied. To improve the employment chance of our staff and also to reduce redundancy cost, we have strengthened internal transfer arrangement. To enhance the quality and capability of our human resources as well as their team spirit and the corporate culture, the Group has organized many training programme during the period.

CHARGES ON ASSETS

The Group provided guarantees for the bank mortgage loans granted to certain purchasers of its properties and pledged a very small portion of our bank deposits as security.



EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

The Group believes that the HK\$/US\$ linked exchange rate will not change and that the exchange rate of Renminbi will remain stable in the short term. Approximately 50.66% of the Group's loans were denominated in Renminbi and which in turn was backed up by sufficient assets denominated in Renminbi. Since the Group believes that in the medium to longer term Hong Kong dollar is a weak currency relative to Renminbi, the Group adopted no other related hedges.

CONTINGENT LIABILITIES

As at 31 December 2004, the Group had contingent liabilities relating to guarantees given and indemnities provided in respect of the credit facilities granted to certain associates amounted to HK\$16,533,000. The Group also had outstanding counter indemnities amounted to HK\$747,800,000 for surety bonds issued in respect of construction projects. The Group provided buy back guarantees to banks which granted the mortgage loan facilities to purchasers of the Group's properties in the PRC amounted to HK\$2,461,144,000.