BUSINESS REVIEW

Properties sold and rented by the Group increased considerably during the year

In 2003, the sales of properties in Hong Kong and Guangzhou amounted to HK$1,955 million and increased by 207 per cent when compared with 2002. Pre-sales and sales of properties by the Group during 2003 increased to 294,643 sq. meters. Major residential projects for sale included Grandcity Garden, Hua Cheng Mansion, Galaxy City, the first phase of Jiang Nan New Mansion, Run Hui Building, Tian Jun Court, Lingnan Garden, block 23 of Springland Garden, the first phase of Southern Le Sand in Nansha, Romantic Garden and Wen De Ya Xuan in Guangzhou City. These projects are of high quality and balanced mix. Jiang Nan New Mansion near Sun Yat-Sen University in Haizhu District is located at the entrance of a metro station and is easily accessible. Galaxy City of Zhu Jiang Estate was awarded five awards such as "Top Ten Brandname Community". Sales of luxury houses such as Grandcity Garden and Hua Cheng Mansion in Er Sha Island were robust. There was also strong demand for budget housing in Run Hui Building and Wen De Ya Xuan. In addition, owing to prosperous economic development in China, purchase and renting of the office buildings in Tianhe District by institutional customers were active resulting in strong sales of Fortune Plaza. Overall, market responses for new projects have been encouraging. Over 70 per cent of the urban projects, about 80 per cent of the completed projects and nearly 50 per cent of suburb projects were sold this year. In 2003, the property market of Hong Kong also started to recover. The Group sold the non-core residential site at Queen's Road West, with a site area of approximately 584 sq. meters.

City Development Plaza

Upon completion of Fortune Plaza, Victory Plaza and Xinchuangju Building, the rented area of properties in 2003 also increased sharply to 450,000 sq. meters. Other major rental projects include City Development Plaza, White Horse Commercial Building, Guangzhou Sports Stadium Building, Jin Han Building, Golden Arch Residence, Grandcity Commercial Plaza, Hong Fa Building, City Development Building and Guang Yuan Cultural Centre. The rental portfolios are diversified in grades, locations and land use, and covered Grade A offices, prime shopping malls, shops in residential complexes and car parks and generate a steady rental income. The rental income from properties in Hong Kong and Guangzhou amounted to HK$317 million for the year, and increased by 223 per cent when compared with 2002.

Substantial projects under construction and large land bank underpin development potentials in future

The Group completed the acquisition of a majority interest in Guangzhou City Construction & Development Holdings Limited ("Guangzhou Construction") by the end of 2002. The Group's land and project resources of different types increased sharply, with residential projects accounting for approximately 85 per cent.

In 2003, the gross floor area of property under construction increased by 187,117 sq. meters to 1,200,000 sq. meters at the end of the year. The majority of which are scheduled for completion in 2004 and 2005. This will underpin earnings growth in the coming years.

Furthermore, the Group's land bank held for medium term development also increased to 3.62 million sq. meters, 45 per cent of which is located in the urban area of Guangzhou and 55 per cent is located in the newly developed area of Nansha. The land bank in the urban area mainly included sites for commercial property developments in Tianhe district and the residential land in Haizhu District. As the Government has raised compensation for urban renewal projects in Guangzhou in the end of 2003, the supply of residential properties in urban areas will decrease in future. This will increase the future value of the Group's land bank in urban areas. The suburban land bank mainly for residential purposes is at the southeastern side of Nansha which is at the southern side of Guangzhou and the centre of the Pearl River Delta. It will be developed into an industrial, logistic and high technology centre. Upon completion of highways including the Eastern Expressway, the Central Expressway, the light railway linking Panyu and Nansha, the Guangzhou Metro Line Number 4 and a new passenger terminal for routes serving between Nansha and Hong Kong in the next one to two years, traveling time from Nansha to major cities of the Pearl River Delta will be further reduced. The Group's land bank in Nansha is large but was acquired at low cost. It is suitable for both short and medium term developments. 18,122 sq. meters of the first phase of Southern Le Sand, a residential project in Nansha, were sold in 2003. As multinational companies such as Toyota and JFE will establish factories in Nansha, additional development effort will be put to Southern Le Sand. Japanese architectural features will be added to the second phase to cater for the needs of Japanese expatriates.

Fortune Square

Brand name effect and market positioning of property business

The acquisition of interests in Guangzhou Construction by the Group is beneficial to property brand name promotion. Guangzhou Construction is a well known property brand name in Guangzhou market, which has over 20 years of track record in property development. It has established related ancillary companies such as property agency and property management. It has sound financial position and has been accredited as the number one in integrated capability of property development in Guangzhou many times. The awards it has received over the years included "Number one of the top ten corporations in development, construction and investment of real estate in Guangzhou" in 2001, one of the "Ten most popular developers" in Guangzhou in 2002, the "Top twenty credible real estate enterprises" in Guangdong in 2001, 2002 and the "Enterprise which respects contracts and keeps promises" award for the last ten consecutive years. In 2003, it was ranked the first for the "150 most credit-worthy enterprises", the second for the "Top ten of the most competitive real estate enterprises in Guangzhou", "Top twenty Credible real estate enterprises for two consecutive years" and the "Top ten real estate enterprises with brand names most beloved by Guangzhou citizens".

The Guangzhou property market has developed for some time and the industry consolidation is intensifying . Area sold in Guangzhou by the top ten property groups in 2003 was about 2.5 million sq. meters, accounting for about 25 per cent of the total saleable area of the city. To capitalize on the brand name of Guangzhou Construction, the positioning of the Group's property business will focus on the development and sales of medium-priced residential properties ranging from RMB5,500 to RMB6,500 per sq. meter. The Group will also selectively develop premium offices, shopping malls and up market residential properties for rental purpose. For future development, priority will be given to the land bank in urban area and the land bank in suburban area will be retained for medium term developments. Moreover, by leveraging on a sizable portfolio of rental properties and land bank, the Group is able to achieve the objectives of both high growth and steady income.

Victory Plaza

Other businesses: Toll road earnings recovered while newsprint business continued to see cyclical adjustment

Negative factors in 2002 such as traffic diversion by other new roads, Guangzhou Northern Second Ring Expressway recorded losses in the first year of its operation and expiry of tax holiday of certain toll road projects had all been gradually eased in 2003. With prosperous development in the economy of the Pearl River Delta, traffic volume continued to increase. In 2003, GZI Transport Limited, the toll road subsidiary of the Company recorded a 57.1 per cent increase year-on-year in profit attributable to shareholders of HK$223,822,000.

Guangzhou Paper Co., Ltd. ("Guangzhou Paper") continued to maintain bigger market shares in the domestically produced newsprint market. However, owing to lower international newsprint price and expansion of capacity in China, Guangzhou Paper faced a challenging environment in 2003. During the year, Guangzhou Paper sold 260,195 tonnes of newsprint, which increased by 2.34 per cent compared with 2002. Average newsprint price was down by 5.70 per cent to RMB3,969 per tonne and turnover was reduced by 12 per cent to HK$1.006 billion. Increase in prices of raw materials such as wood and imported waste paper resulted in a lower gross margin. However, by implementing stringent cost control measures such as downsizing and early repayment of bank loans, administrative and finance costs were reduced and considerably offset part of the increases in raw material cost. Looking forward to 2004, the Group expects the newsprint market will remain competitive in China. However, as the price of imported newsprint becomes steady, price of newsprint may increase slightly in the second half of 2004. Guangzhou Paper is exploring new regional markets in Eastern and Western China to increase sales volume.

Jiang Nan New Mansion

Grandcity Garden

FINANCIAL REVIEW

Analysis of Results

In December 2002, the Group acquired interests in Guangzhou Construction and disposed of its non-core cement and ready-mixed concrete and high technology businesses. Since the 2003 full year results of the interests in Guangzhou Construction were incorporated into the results of the Group, the Group's turnover experienced a significant growth of 21 per cent to HK$3,901,803,000, of which, approximately 60 per cent was contributed by the property sales and rental income derived from properties located in China and Hong Kong.

In spite of the outbreak of SARS during the first half of 2003, total property sales and rental income in China and Hong Kong still recorded a remarkable increase of 207 per cent and 223 per cent to HK$1,955,105,000 and HK$317,000,000 respectively. Turnover of the Group's toll road business also increased by 14 per cent to HK$405,567,000 due to the strong rebound of traffic volumes achieved by two major toll roads, Guangshen and Guangshan Highways during 2003. Turnover of the Group's newsprint business was marginally decreased by 12 per cent to HK$1,006,263,000 due to the decreasing newsprint price during 2003. Having said that, the Group's newsprint business continued to be regarded as one of the major paper producers in China.

The Group's gross profit increased by 20 per cent to HK$1,166,136,000. Both the property and toll road businesses recorded higher gross profit although the newsprint business had lower gross profit due to higher raw material cost.

Selling expenses decreased by 14 per cent to HK$127,154,000 mainly due to the disposal of the non-core cement and ready-mixed concrete business which incurred selling expenses of HK$71,000,000 during 2002.

Administrative expenses were also decreased by 21 per cent to HK$414,033,000 which was caused by the disposal of the non-core cement and ready-mixed concrete business with administrative expenses of HK$194,000,000 during 2002. The tight cost control procedures adopted by the Group during 2003 also led to significant decrease of the administrative expenses. Net revaluation surplus on investment properties was recorded for HK$165,840,000 in 2003 and a loss on deemed disposal of a subsidiary for HK$94,942,000 was incurred due to the issuance of new shares by GZI Transport Limited, the toll road subsidiary of the Company.

Finance costs increased by 21 per cent to HK$224,733,000. The increase was mainly due to the higher level of borrowings subsequent to the acquisition of interests in Guangzhou Construction at the end of 2002.

Share of profit in associated companies surged 81 per cent to HK$181,767,000 due to a provision made in 2002 and an increase in profitability of the toll roads operated by the associated companies of GZI Transport Limited in 2003. Share of loss of the jointly controlled entities increased by 93 per cent to HK$49,693,000 which was mainly caused by an impairment provision despite improving performance of Guangzhou Northern Second Ring Expressway.

Taxation increased to HK$114,599,000 due to higher pre-tax profit of the Group.

Minority interests increased by 31 per cent to HK$213,680,000. Such increase was less than the increase of operating profit because the Group owns a majority (mainly 95 per cent) stake in the property business which was the growth driver in 2003.

After the restructuring completed at the end of 2002, the Group's performance was turned around from net loss in 2002 to profit attributable to shareholders of HK$300,653,000 and basic earnings per share of 4.89 cents in 2003.

Southern Le Sand

Final Dividend

The Directors recommended the payment of final dividend of HK$0.0108 (2002: nil) per share to shareholders whose names appeared on the register of members of the Company on 2nd June 2004. Subject to the approval of shareholders at the Annual General Meeting to be held on 2nd June 2004, the final dividend will be paid on 8th July 2004. Together with the interim dividend of HK$0.008 (2002: nil) per share, total dividends for the year ended 31st December 2003 will amount to HK$0.0188 (2002: nil) per share, representing a dividend pay out ratio of 39.1 per cent.

Earnings Per Share

	For the year ended 31st December	
		As restated
	2003	2002
Weighted average number of shares in issue	**6,146,494,166**	4,017,138,450
Profit/(loss) attributable to shareholders (HK$)	**300,653,000**	(960,230,000)
Basic earnings/(loss) per share (cent(s))	**4.89**	(23.90)
Fully diluted earnings per share (cent(s))	**4.83**	N/A

The weighted average number of shares in issue in 2003 was increased by 53 per cent compared to 2002. 2,107,688,555 shares were issued in December 2002 in connection with the acquisition of a controlling interest in Guangzhou Construction and some other property assets in China, 31,385,692 shares were issued in November 2003 for the acquisition of a subsidiary, and 99,230,000 shares were issued upon exercise of share options during 2003. Total issued shares outstanding as at 31st December 2003 was 6,248,717,914 shares.

Analysis of Cash Flows

During the year of 2003, net cash inflow from operating activities amounted to HK$648 million (2002: HK$500 million) of which 41 per cent was derived from toll road business and the remaining was contributed by property and newsprint businesses. In 2003, a net cash inflow generated from investing activities amounting to HK$105 million was mainly derived from dividends received from associated companies and disposal of a jointly controlled entity. This represented a substantial increase compared with the net cash outflow of HK$2,076 million in 2002 which was mainly due to the acquisition of interests in Guangzhou Construction. Net cash outflow from financing activities amounted to HK$763 million (2002: cash inflow of HK$1,232 million) which was mainly due to the Group's strategy to improve gearing by the increase in repayment of bank loans.

Liquidity and Capital Resources

The Group maintained a stable liquidity position. As at 31st December 2003, the Group had bank deposits, cash and bank balances of approximately HK$1,075 million (2002: HK$1,077 million). Approximately 75 per cent of the bank deposits, cash and bank balances was in RMB, 16 per cent in HK dollars and the rest in US dollars and other currencies.

As at 31st December 2003, the Group had outstanding bank borrowings excluding bank overdrafts ("Bank Borrowings") of approximately HK$6,038 million (2002: HK$6,763 million) which represented a decrease of 11 per cent as compared to those of 31st December 2002. All outstanding convertible bonds were redeemed on 31st July 2003. Approximately 53 per cent of Bank Borrowings was denominated in HK dollars, 45 per cent in RMB and 2 per cent in US dollars.

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 Bank Borrowings:

Repayable within	HK$'000
one year	2,395,883
one to two years	878,627
two to five years	2,763,823
Total	6,038,333

Approximately 40 per cent of the Bank Borrowings will be repayable within one year, of which 64 per cent was contributed to RMB loans whilst the remaining balance included loans in connection with property projects scheduled to be sold in 2004. Approximately 82 per cent of the Bank Borrowings was related to property projects and was secured by the Group's property portfolio.

Given its improved financial position subsequent to the business restructuring at the end of 2002, 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.

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. The Group is exploring the feasibility of increasing the ratio of HK dollar bank borrowing as supplementary funds. The Hong Kong dollar loan market may offer unexploited potential currently due to low interest rate, longer maturity and flexible features such as interest rate swap.

Capital Expenditures

During the year, the Group incurred capital expenditure of HK$230 million which mainly related to acquisition of new fixed assets including production facilities under construction, plant and machinery and tools in the property and newsprint business. An expenditure of approximately HK$11 million was incurred in respect of certain improvement in physical structure of toll highways and bridges.

Capital and Other Commitments

As at 31st December 2003, the Group had capital commitments in respect of purchasing fixed assets amounted to HK$17 million .

Contingent Liabilities

There was no significant contingent liabilities since the last annual balance sheet date.

Capital structure

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

	31st December 2003		As restated 31st December 2002	
	HK$'000	**%**	HK$'000	%
Convertible Bonds (fixed rate)	—		200,623	1
Bank Borrowings (floating rates)				
Denominated in RMB	**2,687,883**	**20**	3,058,150	22
Denominated in US dollars	**125,067**	**1**	546,000	4
Denominated in HK dollars	**3,225,383**	**23**	3,158,923	22
Total Borrowings	**6,038,333**	**44**	6,963,696	49
Shareholders' Funds plus Negative Goodwill	**7,545,066**	**56**	7,385,003	51
Total Capitalization	**13,583,399**	**100**	14,348,699	100
Gearing Ratio		**44%**		49%

The Group's capital structure has slightly improved with Gearing Ratio (expressed as a percentage of Total Borrowings to Total Capitalization) of 44 per cent as at 31st December 2003 (2002: 49 per cent as restated). Shareholders' fund plus negative goodwill as at 31st December 2002 has been restated subsequent to the adoption of SSAP 12 (revised) "Income Taxes" issued by the Hong Kong Society of Accountants which is effective for accounting periods commencing on or after 1st January 2003. The Group's opening balance of negative goodwill and retained profits at 1st January 2003 has been reduced by HK$3,148 million and HK$306 million respectively.

Interest Coverage

Interest cover for 2003 was 4.47 times which was at a similar level of 4.22 times for 2002 and the calculation of which was 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 30th June 2003, the Group had approximately 6,900 employees, of whom approximately 6,800 employees were primarily engaging in the property, toll road and newsprint businesses.

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.