

BUSINESS REVIEW

During 2004, each and every business of the Group achieved satisfactory results. Total sales of properties in Guangzhou and Hong Kong amounted to approximately HK\$1,987 million. Profit attributable to shareholders of GZI Transport Limited, a toll road business subsidiary of the Group, was HK\$276 million, representing an increase of 23.5 per cent as compared with that of 2003. Sales income from Guangzhou Paper Co., Ltd. (“Guangzhou Paper”) amounted to approximately HK\$1,241 million, representing an increase of 23.3 per cent as compared with that of 2003.

Property business

Tapping on excellent opportunities offered by the upward moving Guangzhou property prices in 2004, which was a breakthrough of the virtually flat pricing trend for the past years, and a robust rebound of the property market in Hong Kong, the Group promptly launched its properties projects for sale, which mitigated the effect of substantial increase in costs of construction raw materials, and obtained satisfactory results.



Southern Le Sand

Up to 311,500 sq. meters in the floor area of the Group's properties in Hong Kong and Guangzhou were sold, which mainly included the first and second phases of Jiang Nan New Mansion, phase 3 of Springland Garden, the first and second phases of Southern Le Sand in Nansha, Glade Village in Chonghua, and part of Xing Hui International. These properties were located adjacent to subway stations or superb community neighborhoods. Therefore sales were very active. During the period, remaining units in Run Hui Building, Ju Ya Mansion, Wen De Ya Xuan and Block 23 of Springland Garden were sold. The Group thus effectively reduced its number of completed properties pending for sale to a historical low level.

In Hong Kong, the Group launched the Pokfulam Terrace project in Pokfulam during the year under review, which was well received by the market. About 7,700 sq. meters of floor area were sold, with sales amounting to HK\$326 million.

In view of enhancing the competitiveness of the Company's core businesses and to reduce market risks, the business strategies for the Group's properties business was set as “emphasis in both development of residential properties and operation of commercial properties, so as to generate stable development and steady stream of revenue in the long term”.

In view of the macro-economic control measures imposed on the economy, by leveraging on the quality of its properties and the reputation of its brand, the Group gradually transformed from engaging in a single line of business of properties development to a comprehensive commercial properties operator with emphasis in both sales of and investment in properties. Through appropriate horizontal expansion in the scale of its operation in commercial properties, vertical integration of the upstream and downstream operations has been realized as a result of the radial nature of the operation of commercial properties. This in turn promoted further development of various supporting businesses. During the year, when new projects such as Victory Plaza and Fortune Square officially commenced operation, area of properties leased out by the Group increased to approximately 600,000 sq. meters, with rental income amounting to approximately HK\$367 million, representing an increase of 15 per cent as compared with that of 2003. The Group will pursue horizontal expansion and vertical integration for its property development, and bring long-term and steady income for the shareholders.

By allocating the Group's large land bank in an appropriate manner, the Group will expand the development for commercial properties and offices, so as to cope with the development trend of Guangzhou as the centre of Pan Pearl River Delta Economic Region.

As a result of the rapid growth in the economy of Guangzhou and the indirect benefits deriving from Guangzhou being the centre of Pan Pearl River Delta Economic Region, demand from the market as a whole with respect to high quality working environment, living conditions and infrastructure facilities continued to increase. By sufficiently leveraging on the advantage of the Group having a large land bank, it will expand the development of middle-tier and luxurious residential properties, shopping centers, offices and hotels as appropriate, whilst still focusing on the development of residential properties. The development of the tower building for Victory Plaza, Subway RJ-1, Tianhe Commercial 12-1, 5 will proceed successively. The Group will thus have different products to meet the needs of the market in future.

Other businesses

Earnings from the toll road business continued to grow, and the production and sales of newsprint business rose sharply.

Despite the traffic diversion effect caused by the new roads on the Group's certain non-expressway highways resulted in the fall of income for such highways in 2004, traffic volume for the expressways of the associated companies of GZI Transport, rose sharply, benefiting from the economic boom in Guangdong Province, in particular, Pan Pearl River Delta Economic Region, commencement of operation for Jingzhu Expressway, rise in living standards, and the substantial increase in car ownership by households. Compared with 2003, daily average traffic volume of GNSR Expressway, Humen Bridge and Xian Expressway increased by 147.9 per cent, 21.8 per cent and 37.4 per cent respectively. Profit attributable to shareholders from GZI Transport increased by 23.5 per cent to approximately HK\$276 million as compared with that of 2003.

Guangzhou Paper continued to maintain bigger market share in the domestic newsprint market during the year. As the boom in demand for newsprint in China continued, through cost controls and strengthening management, improvement in production programs, more than 301,800 tonnes of newsprint were produced by Guangzhou Paper for the year, with 311,200 tonnes of newsprint sold, representing an increase of 19.6 per cent as compared with that of 2003. Meanwhile, by adopting a series of management measures, such as reducing consumption and wastage of various types of raw materials, extensive downsizing of staff and reduction of finance costs by early repayment of bank loans, the pressure on the substantial increase in costs brought by the surge in price of raw materials and energy was relieved to a significant extent. The operation of Guangzhou Paper maintained its steady development. During the year under review, Guangzhou Paper recorded a turnover of approximately HK1,241 million, representing an increase of 23.3 per cent as compared with that of 2003.



Binjiang Yiyuan

FINANCIAL REVIEW

Analysis of results

During 2004, the Group's turnover rose sharply by 15.3 per cent to HK\$4,526,679,000, of which income from properties sale and leasing business accounted for 52 per cent of the turnover. The increase in turnover was mainly attributable to the sale of Pokfulam Terrace in Hong Kong by its property arm.

For the Group's property business, despite competition in the property market of Guangzhou remained keen in 2004, income from properties sales and leasing business from the Group's properties in Guangzhou and Hong Kong still recorded growth at various rates, with sales income recorded a slight increase of 1.6 per cent to HK\$1,987,231,000, and rental income recorded a sharp increase of 15 per cent to HK\$367,050,000, reflecting a continuous growth in contribution from the Group's rental properties. As for the Group's toll road business, despite the adverse impact on the traffic of Class 1 and Class 2 highways occasioned by the evolution of the highway network in Guangzhou and continuous diversion effect brought about by the new expressways, which resulted in the decrease of the Group's turnover from toll road business by 6.7 per cent to HK\$400,212,000, certain expressways of the Group benefited from the commencement of operation of Jingzhu Expressway and Guanghui Expressway, and witnessed rapid growth in traffic and income. For the newsprint business, turnover rose sharply by 23.3 per cent to HK\$1,240,693,000 due to continued rising demand for newsprint in China.

Due to increased costs of raw materials in China and increased costs of sales for certain projects of the property business in 2004, gross profit margin of the Group decreased by 9.7 per cent to HK\$1,052,767,000.

The Group implemented stringent costs control measures in 2004. However, as the selling and administrative expenses for Guangzhou City Construction & Development HomeCity Supermarket was accounted for for the full year, the Group's selling and administrative expenses slightly increased by 5.4 per cent to HK\$570,594,000. In addition, surplus in the revaluation of investment properties amounted to HK\$76,750,000, impairment provision on projects under construction of HK\$44,546,000 and a provision for doubtful debt of HK\$104,942,000 made in prior years were written back in 2004.

The Group's finance costs decreased by 49.9 per cent to HK\$112,512,000 in 2004, which was mainly attributable to the continual repayment of bank borrowings by the Group and capitalization of interests for projects under construction of the property business.

The Group's share of profit of associated companies rose sharply by 17.9 per cent to HK\$214,382,000, which was mainly attributable to the growth in earnings on the toll road projects of the Group's toll road business, including Humen Bridge, Northern Ring Expressway and Shantou Bay Bridge. Notwithstanding an earning of HK\$13,772,000 attributable to GNSR Expressway, a jointly controlled entity of the toll road business, the Group's share of loss of jointly controlled entities was HK\$23,021,000 in 2004, resulting from provision on impairment for the property business attributable to jointly controlled entities.

The Group's taxation charge in 2004 was HK\$210,565,000, representing an increase of 83.7 per cent as compared with that of 2003, which was mainly attributable to the increase in profit before taxation for the year.

Minority interests of the Group in 2004 increased by 31.5 per cent to HK\$280,947,000, which was mainly attributable to the increase in profit before taxation for the year, which resulted in a corresponding increase in minority interests.

For the year ended 31st December 2004, the Group's profit attributable to shareholders increased by 10 per cent to HK\$330,823,000, and basic earnings per share was HK5.24 cents.



Jiang Nan New Mansion

Final dividend

The Directors recommended the payment of final dividend of HK\$0.009 (2003: HK\$0.0108) per share to shareholders whose names appear on the register of members of the Company on 26th May 2005. Subject to the approval of shareholders at the Annual General Meeting to be held on 26th May 2005, the final dividend will be paid on 16th June 2005. Together with the interim dividend of HK\$0.0083 (2003: HK\$0.008) per share, total dividends for the year ended 31st December 2004 will amount to HK\$0.0173 (2003: HK\$0.0188) per share, representing a dividend pay out ratio of 33 per cent.

Earnings per share

	For the year ended 31st December	
	2004	2003
Weighted average number of shares in issue	6,318,186,352	6,146,494,166
Profit attributable to shareholders (HK\$)	330,823,000	300,653,000
Basic earnings per share (HK cents)	5.24	4.89
Fully diluted earnings per share (HK cents)	5.15	4.83

During the year, 102,880,000 shares were issued upon exercise of share options. Total issued shares outstanding as at 31st December 2004 was 6,351,597,914 shares.



Binjiang Yiyuan

Management Discussion and Analysis

Analysis of cash flows

In 2004, the Group's net cash inflow from operating activities increased significantly to HK\$1,150 million (2003: HK\$648 million). The increment was continuously contributed by the Group's Property and Newsprint businesses. In addition, interest paid reduced by approximately 31 per cent as a result of repayment of bank borrowings. Net cash outflow from investing activities of HK\$143 million (2003: net cash inflow HK\$105 million) was mainly caused by further capital injection and advances to the Group's associated companies and jointly controlled entities and purchase of fixed assets during the year. Net cash outflow from financing activities amounted to HK\$1,166 million (2003: HK\$763 million) mainly due to net repayment of bank and other borrowings, payment of dividends and repayment to minority shareholders during the year of 2004.

Liquidity and capital resources

The Group continues to maintain a stable liquidity position. As at 31st December 2004, the Group had bank deposits, cash and bank balances of approximately HK\$902 million (2003: HK\$1,075 million). Same as last year, the majority of the bank balances and cash were RMB dollars deposits and cash.

As at 31st December 2004, the Group had outstanding bank borrowings excluding bank overdrafts ("Bank Borrowings") of approximately HK\$5,170 million (2003: HK\$6,038 million), representing a remarkable decrease of 14 per cent compared with last year. Approximately 52 per cent of Bank Borrowings was denominated in HK dollars, 46 per cent in RMB and 2 per cent in US dollars.

No new term financing was put in place during the year with the focus being repayment and prepayment of existing Bank Borrowings. The management believes that the cash in hand, balance with bank and/or dividends 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 term working capital and other short term RMB, HK dollars and US dollars Bank Borrowings, finance costs and dividend payments. The management will consider new bank financing at more competitive terms while maintaining an appropriate level of gearing in anticipation of new investments or maturity of Bank Borrowings.

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

Repayable within	HK\$'000
One year	2,022,062
One to two years	1,324,388
Two to five years	1,823,277
Total	<u>5,169,727</u>



Guangzhou Yue Xiu Building

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 liquidity risk of the Group has been further reduced by early refinancing and extension of the loan tenure. 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.

Financing arranged by the Group were mainly denominated in HK dollars. In respect of the Group's business activities in China that are conducted through its China subsidiaries, a portion of its borrowings was denominated in RMB to fund its property projects in China during the financial year under review. As a whole, the core operations of the Group are therefore considered to be not exposed to foreign exchange rate risk to any significant extent. The Group did not enter into any currency hedging agreement during the financial year under review.

Capital expenditures

During the year, the Group had aggregate capital expenditure totalling HK\$82.2 million for the initial equity capital contribution to a new investment project, the GWSR Expressway. Capital expenditure incurred on the purchase of fixed assets amounted to approximately HK\$202 million.



Glade Village

Management Discussion and Analysis

Capital and other commitments

On 24th May 2004, the Group's subsidiary, GZI Transport Limited, had entered into a joint venture agreement to establish Guangzhou Western Second Ring Expressway Company Limited ("GWSR Expressway Company") for a shareholding of 35.0 per cent, the outstanding committed equity capital contribution of the Group was HK\$248 million as at 31st December 2004.

Contingent liabilities

During the year, the Group had arranged bank financing for certain purchasers of property units and provided, guarantees to secure obligations for repayment of loans amounted to HK\$250 million (2003 : HK\$117 million).

Capital structure

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

	31st December 2004		31st December 2003	
	HK\$'000	%	HK\$'000	%
Bank Borrowings (floating rates)				
Denominated in RMB	2,382,496	18	2,687,883	20
Denominated in US dollars	117,000	1	125,067	1
Denominated in HK dollars	2,670,231	21	3,225,383	23
Bank Borrowings	5,169,727	40	6,038,333	44
Shareholders' funds plus negative goodwill	7,761,040	60	7,545,066	56
Bank capitalization	12,930,767	100	13,583,399	100
Gearing Ratio	40%		44%	

As at 31st December 2004, Bank Borrowings reduced by approximately 14 per cent to HK\$5,170 million resulting in an improvement of Gearing Ratio from 44 per cent to 40 per cent.

Interest coverage

Interest coverage was 5.80 times (2003: 4.47 times) for the year of 2004 measuring on the operating profit after share of profit less losses of associated companies and jointly controlled entities and adjusted for non-cash items. The improvement was due to the increase in profit from operations after share of profit less losses of associated companies and jointly controlled entities, together with the decline in interest expenses.

Employees

As at 31st December 2004, the Group had approximately 7,080 employees, of whom approximately 6,980 employees were primarily engaging in the properties, toll roads 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.