BUSINESS REVIEW

Mainly benefiting from the spin-off of approximately 160,000 square meters of investment properties including White Horse Building on 21st December 2005 through the listing of a real estate investment trust, apart from still owing approximately 31% of unit of the REIT, there was also a receipt of HK$3.3 billion in cash; attributable profit to shareholders increased by 827% to HK$2.528 billion; earning per share increased by 815% over last year to HK$0.39 and NAV per share increased by 40% over last year to HK$1.59. The overall financial position of the Group has been substantially improved. The Board recommended total dividend for the year at HK$0.08 per share, an increase of 362% compared to last year; of which interim dividend was HK$0.01 and final dividend being HK$0.02 and a special dividend of HK$0.05.

Property business

According to the changes in the Hong Kong financial reporting standard in 2005, the Group's property sales recognition basis was changed from percentage of completion method to recognition upon full completion of the project. As a result, floor space book sales during the period decreased to 129,200 square meters from 311,500 square meters last year, while sales proceeds decreased to HK$1.247 billion from HK$1.987 billion last year, representing a drop of 58.52% and 37%, respectively.

However, taking into account the unrecognized pre-sold floor space of 152,100 square meters and sales proceeds of HK$882 million, as well as the sales to GZI REIT of 160,000 square meters at a sales proceeds of approximately HK$4.362 billion, actual floor space sold for the period amounted to 441,300 square meters and sales proceeds was HK$6.491 billion, representing an increase of 41.67% and 226.67%, respectively.

Starting from last year, the Group had been implementing a policy of "balanced development in residential and commercial property", and appropriately expanded its commercial property portfolio, apart from realizing the true value of the investment properties through the spin-off of GZI REIT, rental income also reached HK$520 million, representing an increase of 20% compared to last year.

Other businesses

During the period, the Group's toll road operation realized a turnover of HK$425 million, an increase of 6.2% compared to last year, the attributable profit in associated companies amounted to HK$184 million, representing an increase of 20.9% compared to last year; the jointly controlled entity GSNR had outstanding performance, contributing HK$40 million to the Group's attributable profit from the entity, representing a 295.7% increase compared to last year. The GWSR project which the Group participated 35%, is expected to be in operation by the end of 2006 ahead of schedule; by that time the Groups' operating income is expected to further increase.

During the period, despite the competition from increased newsprint production in the country affecting sales dropping to 275,000 tons, representing a drop of 11.58% compared to last year, but with the increase in market price and the strengthening of cost control by the Group and improvements made to production, attributable profit to shareholders increased by 3.09% to HK$33.00 million for the period.

Future development strategy and business outlook

In 2005 Guangzhou Municipality, where most of the Group's businesses are located, has a GDP reaching RMB511.575 billion, representing an increase of 13% compared to the previous year. Economic development remained positive, and fixed assets investments continued to be strong; with keen internal demand, overall property price increased by 10.7% compared to the previous year, and average transaction price reached RMB5,114 per square meter, a breakthrough of the RMB5,000 mark for the first time since 2000.

At the same time, with full awareness of the series of measures implemented by the Central Government to prevent overheating in the property market, the Group would accordingly implement a consistent business strategy in line with the changes in market conditions. The future strategy would be: streamlining of organization, increase transparency, and on the basis of mainly developing residential property, making best use of the interaction in commercial properties between the Group and GZI REIT, to pursue a win/win situation while at the same time paying high attention to operating risk prevention. And looking into the future:

1. the Group is actively investigating to spin-off the newsprint operation in Hong Kong at an appropriate time, allowing the Group to concentrate its attention on property and infrastructure business and improve transparency; at the same time allowing the newsprint operation to have an independent platform, which is advantageous to its own development.

2. the Group will make use of the advantage of the vast land reserve: planned property development floor space for 2006 would expand gradually to 2.6 million square meters. Seizing the opportunity of robust market condition in Guangzhou with a rising property price, and in response to the keen demand for residential properties, appropriate sales expansion plan is adopted to increase sale. The expected floors space sales target would be approximately 550,000 square meters for 2006, mainly on residential units and an appropriate portion of villas. Major projects on sale include: Jiangnan New Mansion, Springland Garden, Xing Hui Ya Yuan (Happy Valley), Binjiang Yiyuan, Glade Village and Southern Le Sand. Between 2006 and 2007, the target is to complete approximately 1.2 million square meters of GFA, and the increase in sales would mainly come from residential projects like Jiang Nan New Village Phase 4, sector 1.4 Jiang Nan New Village Phase 3 section 7.

Southern Le Sand

3. the Group will accelerate the development of commercial properties. Currently the properties under construction is approximately 1.1 million square meters, including mainly the 2 office towers of Victory Plaza, Yue Xiu City Plaza, Yue Xiu New Metropolis Plaza, Asian Pacific Century Plaza and Nansha Commercial Centre etc. With the securing of the West Tower of the Mega Twin Towers project in Pearl River New City (estimate total GFA would amount to approximately 400,000 square meters), together with the Group's current portfolio of investment properties of over 400,000 square meters, over the next few years, the Group is able to own or complete around 2 million square meters of investment commercial properties and offices. At the time of the spin-off of GZI REIT, the Group granted a first right of refusal to the GZI REIT, and the Group will consider to make full use of those properties that fulfill the acquisition conditions in interaction with the GZI REIT; under similar terms and conditions, those properties shall be firstly considered by the GZI REIT for acquisition and mutual growth, thus achieving a win/win situation.

Jiang Nan New Mansion

4. on the toll road operation: the Group will continue to focus on the investment on expressways, and with the high growth in highway network for the Guangdong Province in the coming years, as long as the return is appropriate, the Group will actively seek to participate in such investments.

5. the Group will also reorganize some of its businesses with good potentials, such as supermarket operation and car park operations etc., to grow these businesses, and at the appropriate time realize their potential value.

FINANCIAL REVIEW

Analysis of results

For the year ended 31st December 2005, profits attributable to shareholders of the Group were approximately HK$2,528 million, increased by 826.8% from 2004. The significant increase in profits attributable to shareholders was mainly attributable to the fact that the Company established GZI REIT by injection of four high quality investment properties, including White Horse Building, and successfully spun off from the Group and separate listed on the main board of the Stock Exchange to raise tremendous funds and release a huge amount of profits. Basic earnings per share of the Group were HK$0.39, increased by 815% from 2004.

Turnover

Turnover of the Group for the year ended 31st December 2005 was approximately HK$3,955 million, decreased by 13.0% from 2004. This was mainly attributable to the effect of a change in the accounting policy for recognising revenue from the sales of development properties of the property business.

Pursuant to the new Hong Kong Financial Reporting Standards implemented in 2005, revenue recognition for the sale of properties has been changed from the percentage of completion method to recognition upon full completion. Under the new method, the nominal sales area recognised for the year 2005 was approximately 129,200 square meters and the property sales income recognised was approximately HK$1,247 million. For 2004, the sales area recognised based on the percentage of completion method was approximately 311,500 square meters. The property sales income recognised was approximately HK$1,987 million. Despite the effect of the change in the accounting policy, property sales income for 2005 increased slightly over 2004. As the Group strengthened the asset enhancement of investment properties to continuously increase the value of investment properties, property rental income increased by 20%, to approximately HK$520 million, over 2004. This initially reflected the achievement of the successful transformation of the single-line property business into the comprehensive commercial property business.

For the toll road business, despite the performance of certain Class I and II highways were compromised by overall enhancement of toll road services' quality, intensify toll inspection strength, heighten collection effectiveness, exploration of new toll road network in the Guangdong Province and surrounding provinces, the toll road's turnover for 2005 grew 6.2% over 2004 to approximately HK$425 million.

For the newsprint business, because of intense competition in the industry, turnover for the newsprint business for the year slightly decreased by 3.7% to approximately HK$1,194 million over 2004.

Gross profit

The property and newsprint businesses of the Group have been respectively affected by the changes in new Hong Kong Financial Reporting Standards and the intensive competition in the industries. Nevertheless, through strengthening corporate management and actively and effectively reducing costs, the Group recorded a gross profit of approximately HK$1,053 million, increased by 9.9% from 2004.

Operating expenses

Operating expenses of the Group for 2005 were approximately HK$1 billion, increased by 70.7% from 2004. The increase was related to the direct recognition of expenses of new projects for the previous period in the profit and loss account and was also affected by an increase in the share option expenses.

Valuation of investment properties

In 2005, benefiting from a pickup in the property market, the investment properties of the Group were revalued and recorded a surplus on revaluation of approximately HK$799 million.

Finance costs

As affected by continuous increase in interest rates, the finance costs of the Group for 2005 increased by 168.2% to approximately HK$302 million over 2004. However, following the separate listing of GZI REIT on the Stock Exchange, the funds raised were mainly used for repayment of bank borrowings. In December 2005, the Group repaid bank borrowings of HK$1.5 billion, thereby significantly reducing the Group's bank borrowings. The interest expenses saving will be reflected in subsequent years, which would effectively offset the financial pressure created as a result of rising interest rates.

Xing Hui Ya Yuan

Share of results of associated companies and jointly controlled entities

During the period, the Group's share of profits of associated companies increased by 33.0% to approximately HK$202 million. This was mainly attributable to the toll road business benefiting from an increase in the income from toll road and a reduction in the operating tax rate since June 2005. Because of the positive impact of an improvement in surrounding highway networks on the GNSR Expressway, the Group's share of profits of jointly controlled entities amounted to approximately HK$38 million.

Taxation

After the elimination of the taxation impact of the separate listing of GZI REIT, the tax expense of the Group increased from approximately HK$110 million in 2004 to approximately HK$270 million. This was mainly attributable to the deferred tax provided as a result of the revaluation of investment properties.

Final dividend

The Directors recommended the payment of final dividend of HK$0.02 (2004: HK$0.009) per share and a special dividend of HK$0.05 (2004: nil) per share to shareholders whose names appear on the register of members of the Company on 15th June 2006. Subject to the approval of shareholders at the Annual General Meeting to be held on 15th June 2006, the final dividend and special dividend will be paid on or about 26th June 2006. Together with the interim dividend of HK$0.01 (2004: HK$0.0083) per share, total dividends for the year ended 31st December 2005 will amount to HK$0.08 (2004: HK$0.0173) per share.

Adoption of new and revised financial reporting standards

Due to the requirement to adopt the new and revised Hong Kong Financial Reporting Standards with effect from 1st January 2005, the Group has incorporated prior year and opening balances restatements in the financial statements included in this annual report. These restatements mainly related to the changes in accounting policy in respect of rental income recognition, leasehold land and land use rights, deferred taxation, shares-based payment and negative goodwill. The shareholders' equity on 31st December 2004 was adjusted downward by approximately HK$213 million to HK$7,021 million which does not have any impact on the Group's cash flow position.

Glade Village

Treasury policies

Southern Le Sand

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 trading securities.

Financing arranged by the Group was mainly denominated in Hong Kong 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 Renminbi to fund its operation in China during the financial year under review. As a whole, the core operation 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.

Liquidity and financial resources

The Group believes the importance of healthy liquidity position to sustainability of the operation of the Group. The Group's major sources of liquidity are from recurring cash flow of the business and committed banking facilities.

Cash flow

The following table summaries the Group's cash flows for each of the two years ended 31st December 2005:

	2005	2004
	HK$'000	HK$'000
Net cash inflow from operating activities	**1,079,930**	1,157,745
Net cash inflow from investing activities	**1,853,281**	(213,396)
Net cash outflow from financing activities	**(540,405)**	(1,174,010)
Net increase / (decrease) in cash and cash equivalents	**2,392,806**	(229,661)
Cash and cash equivalents at year end	**3,198,953**	806,147

Net cash inflow from operating activities

In 2005, the net cash inflow from operating activities was approximately HK$1,080 million, a decrease of HK$78 million from HK$1,158 million in 2004. Decrease in net cash inflow from operating activities was mainly due to the decrease in the revenue generated from the sales of properties.

Net cash inflow from investing activities

In 2005, net cash inflow from investing activities was HK$1,853 million. The cash used in capital expenditure was overwritten by the cash generated from disposal of interest in subsidiaries.

Net cash outflow from financing activities

In 2005, the net cash outflow from financing activities was approximately HK$540 million, mainly represented by the repayment of bank borrowings of approximately HK$5,910 million which were mainly financed by the new bank loans of approximately HK$5,684 million. As a result, there was a decrease in net cash outflow from financing activities of approximately HK$634 million from approximately HK$1,174 million in 2004.

During the past year, cash inflow of approximately HK$89 million was raised from the issuance of approximately 167 million ordinary shares of HK$0.01 upon exercise of share options. Furthermore, the Group raised approximately HK$3,300 million in cash through the spin-off GZI REIT in December 2005. The majority of the net proceeds from spin-off transaction after related expenses together with the new loans were applied to repay bank borrowings of approximately HK$5,910 million.

Working capital

As at 31st December 2005, the Group's working capital (current assets minus current liabilities) amounted approximately HK$4,543 million which was increased by approximately HK$2,144 million as compared to the end of 2004. The increase was mainly attributable to an increase in bank balances and cash. As at 31st December 2005, the Group's cash and cash equivalents amounted to approximately HK$3,199 million.

Indebtedness

The indebtedness as of the end of the two years ended 31st December 2005 was as follows:

	2005	2004
	HK$'000	HK$'000
Secured bank borrowings	**3,371,645**	3,825,780
Unsecured bank borrowings	**1,571,725**	1,343,947
Unsecured other borrowings	**509,396**	890,694
Obligations under finance leases	**92**	78
Bank overdrafts	**27,285**	24,763
Total indebtedness	**5,480,143**	6,085,262
Ageing analysis:		
Repayable within one year	**1,526,901**	2,046,850
In the second year	**812,512**	1,324,413
In the third to fifth year	**2,718,866**	2,090,764
With no fixed repayment terms	**421,864**	623,235
	5,480,143	6,085,262

By the end of 2005, the Group's total indebtedness was approximately HK$5,480 million representing a decrease of approximately 10% compared to 2004. The main reason for the decrease was the repayment of certain bank borrowings with the net proceeds from the spin-off transaction. As a consequence, the Group's ratio of total indebtedness to total assets decreased from 25% in 2004 to 20% in 2005. Given the substantial decrease in indebtedness and corresponding future finance cost, the management is confident that the Group will achieve an improving liquidity and capital structure which will result in an improving gearing ratio.

Capital structure

The Group's capital structure as at 31st December 2005 and 2004 are summarised below:

	2005		2004	
	HK$'000	%	HK$'000	%
Bank borrowings (floating rates)				
Denominated in Renminbi	**3,077,170**	**20.1**	2,382,496	18.7
Denominated in United States dollars	**37,205**	**0.2**	117,000	0.9
Denominated in Hong Kong dollars	**1,828,995**	**11.9**	2,670,231	21.0
Total bank borrowings	**4,943,370**	**32.2**	5,169,727	40.6
Shareholders' funds plus negative goodwill	**10,388,761**	**67.8**	7,547,445	59.4
Total capitalisation	**15,332,131**	**100.0**	12,717,172	100.0
Gearing ratio	**32%**		41%	

As a result of improving capital efficiency of the Group, total bank borrowings share smaller portion of the total capitalisation of the Group, which is reduced from 41% to 32%. As at 31st December 2005, total bank borrowings was reduced by HK$226 million to HK$4,943 million. The ratio of total borrowings to total capitalisation (gearing ratio) was reduced from 41% to 32% in 2005.

As at 31st December 2005, shareholders' fund amounted to approximately HK$10,389 million which accounted for about 68% of the Group's total capitalisation. The increase in shareholders' funds of approximately HK$3,368 million mainly represented by the net profit retained for the year after appropriation of 2004 final dividend and 2005 interim dividend.

Details of the borrowings of the Group are set out in the notes to the financial statements of this annual report.

Interest rate exposure

Interest expenses accounted for a significant proportion of the Group's total expenses. As a result of this, the Group monitors its interest rate exposures closely and appropriate interest rate hedging measures will be adopted.

Foreign exchange exposure

Since the Group's principal operations are in China and most of the income is denominated in Renminbi, the Group is aware of possible currency exchange risk exposure. As such, the Group's hedging strategy is to use as much as practicable re-invested profits and debt financing denominated in Renminbi to match with the Renminbi capital expenditure requirements. Therefore, the Group aims to have minimal mismatches in currency and does not speculate in currency movements. Nevertheless, during the period when interest rate of Renminbi loan stands higher than foreign currency loan, the Group may consider equity and debt financing denominated in foreign currency as an alternative source of funding investment projects, in which the case, appropriate currency hedging measures will be adopted.

Capital expenditure

During the year, the Group had aggregate capital expenditure and investments totalling approximately HK$54.1 million (2004: HK$82.8 million) of which HK$53.8 million was the initial equity capital contribution to a new investment project, the Guangzhou Western Second Ring Expressway. Other than the above, capital expenditure incurred on the purchase of non-current assets amounted to approximately HK$860 million (2004: HK$202 million).

Capital expenditure commitments

During the year 2004, the Group's subsidiary, GZI Transport Limited, had entered into a joint venture agreement to establish Guangzhou Western Second Ring Expressway Company Limited for a shareholding of 35.0 per cent., the outstanding committed equity capital contribution of the Group amounted to approximately Rmb206.5 million (equivalent to approximately HK$198.6 million) as at 31st December 2005. Other than the above, the Group also has capital commitments in respect of property, plant and equipment amounted to approximately HK$266 million as at 31st December 2005 (2004: HK$14 million).

Pledge of assets

As at 31st December 2005, certain banking facilities and loans granted to the Group were secured by assets of the Group. Details of the pledge of assets are set out in note 40 to the financial statements.

Contingent liabilities

During the year, the Group had arranged bank financing for certain buyers of the Group's properties and provided guarantees to secure obligations for repayment of loans. As at 31st December 2005, the total contingent liabilities exposure amounted to approximately HK$264 million (2004: HK$251 million).

Employees and Remuneration Policy

As at 31st December 2005, the Group employed approximately 7,900 employees (2004: 7,080 employees), of whom approximately 7,750 employees (2004: 6,980 employees) were primarily engaging in the properties, toll roads and newsprint business.

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 it employees according to the performance of the Group and individual employees. Promotion and salary adjustments are based on a performance related basis.

Disclosures Pursuant to Rule 13.21 of the Listing Rules

Reference was made to a HK$3,800 million loan agreement dated 30th May 2005 ("Loan Agreement") with a final maturity in June 2010. In accordance with the terms of the Loan Agreement, it shall be an event of default if Yue Xiu Enterprises (Holdings) Limited ceases to maintain shareholding interest (whether directly or indirectly) of not less than 35 per cent in the issued voting share capital of the Company or an effective management control over the Company. And this obligation has been duly complied with.