

Chairman's Statement



The Group's businesses are mainly focused on Guangzhou, the political and economic centre of Pearl River Delta which is fastest growing economic region of the PRC. In 2006, the economy of Guangzhou grew at a high speed, and according to statistics based on registered resident population, gross domestic product ("GDP") per capita in Guangzhou exceeded USD10,000 for the first time. As a result, revenue of the Group amounted to HK\$4.658 billion for the year ended 31 December 2006, representing an increase of 18% as compared with the previous year. Profit attributable to equity holders of the Company reached approximately HK\$713 million, representing an increase of 43% as compared with last year on the same basis^(note 1). Earnings per share (basic) is approximately HK\$0.1064, and the recommended total dividend per share is HK\$0.0419 for the year.

The Group regards property business as its core business. While striving to satisfy the eager demand for housing of the different walks of life in Guangzhou, the Group fully understands the series of macro economic revision measures targeting at the property market implemented by the Central Government in 2006, and adopts the strategy of accelerating property development and further strengthening commercial property portfolio and proactively increases the Group's land bank at the same time, with the aim of ensuring a healthy, stable and sustainable development for the Group.



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Total GFA of properties sold and pre-sold and property allocated to the investment property portfolio in the year amounted to approximately 734,900 sq. m., of which:

GFA of properties sold with revenue recognised in the income statement amounted to approximately 261,600 sq. m., representing an increase of approximately 102.5% as compared with last year's approximately 129,200 sq. m. Relevant sales revenue reached approximately HK\$1.967 billion, representing an increase of approximately 58% as compared with last year.

GFA of properties under development pre-sold with revenue not yet recognised in the income statement amounted to approximately 240,300 sq. m., and the corresponding pre-sale proceeds amounted to approximately HK\$1.7 billion.

With the addition of properties to replenish its investment property portfolio, the total GFA of the Group's investment property portfolio increased by approximately 233,000 sq. m. to approximately 683,000 sq. m, representing an increase of 51.56% as compared to previous year. Revenue generated from investment properties reached approximately HK\$977 million, of which approximately HK\$747 million represented gain on revaluation.

Following last year's success in bidding for West Tower of Pearl River New City, the landmark project in Guangzhou for the construction of a mega tower exceeding 400 m. in height with GFA exceeding 430,000 sq. m., the Group invested approximately Rmb 2.9 billion in aggregate in the acquisition of 4 new sites, namely, the original Liwan cement plant site, the plot D3-7 at Pearl River New City and two plots 06NJY-1 and 06NJY-2 at Nansha District, Guangzhou; through open auctions and as a result increased its land bank by approximately 1.169 million sq. m. in GFA, as to approximately 780,000 sq. m. are earmarked for residential purposes and the balance for commercial and office purposes. The GFA of the total land bank of the Group increased to approximately 4.5 million sq. m.

The toll road business of the Group has achieved significant growth in the reporting year, profit attributable to equity holders of GZT amounted to approximately HK\$461 million, representing an increase of approximately 50.8% as compared to approximately HK\$306 million in last year. During the year, the Group shared approximately 34.3% results of GZT.

Meantime, the Group acquired an additional 20% equity interest in Guangzhou Northern Second Ring Expressway Company Limited ("GNSRE Company") for a consideration of Rmb666 million, and increased the Group's overall equity interest in that company to 60%, thus securing its first controlling equity interest in an expressway project in Guangdong Province.

Guangzhou Western Second Ring Expressway ("GWSR Expressway"), in which the Group holds an equity interest, opened for traffic ahead of schedule on 19 December 2006, creating a synergy with the Guangzhou Northern Second Ring Expressway ("GNSR Expressway"). It is expected that these two projects together will become the key growth driver of the Group's toll road business.

Last year, the newsprint business of the Group was affected by the drop in newsprint price in the PRC, while costs of raw materials and energy increased significantly. Furthermore, due to the construction of PM1 and PM9 in progress during the year, profit attributable to equity holders of the Company amounted to only HK\$15.39 million, representing a drop of 53% as compared to the previous year, despite an increase in sales volume and a 13% increase in sales revenue.

GZI REIT, in which the Group holds around 31.33% interest, outperformed its profit forecast as stated in its initial public offering circular by 2.8% with profit after taxation amounted to approximately HK\$206.7 million, and this brought along distribution in excess of HK\$64 million to the Group.

Looking into the future, the Group is well positioned to benefit from the continued economic growth of Guangdong Province, and we are full of confidence for the overall prospects of the Group's business.

For the property business, the Group will devote greater effort to both development and sales. It is expected that the GFA of properties under development would increase to approximately 2.44 million sq. m. from approximately 1.7 million sq. m. in 2006. In 2007, total GFA of properties completed is expected to exceed 500,000 sq. m. The Group plans to launch no less than eight projects for sale in the market. In the meantime, the Group will closely monitor the supply of land in the market, and will further increase its land bank whenever suitable projects are identified in terms of price and location.



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For toll road business, many expressways of the Group's portfolio are gradually maturing into the high growth phase, and it is expected that toll revenue would increase substantially. While continuing to properly manage its existing projects, the Group will take advantage of the excellent growth opportunities afforded by the planned regional development of the expressway network in Guangdong as outlined in the 11th Five Year Plan, and utilize various ways and means of corporate financing to increase our participation in various projects in order to build a solid foundation for long-term development and sustainable growth for our toll road business.

Following the gradual stabilization of PM1 since its trial run from the middle of 2006 and with the construction of PM9 going according to schedule, which is expected to be ready for trial production by the end of 2007, performance and competitive edge of our newsprint business is expected to improve with substantial additional production capacity.

It is expected that GZI REIT will proactively work out win-win business transactions with the Group.

The Group will maintain its focus on property business, and will further strengthen development of its toll road business. It will continue to increase operating efficiency, further reduce costs and seize market opportunities. We are confident that we will bring forth better return to investors in the coming year.

May I take this opportunity to thank you to all the directors, senior management and all the front line officers, for their hard work over the last year, and their contribution to the Group's development. I would also like to thank all the shareholders, relationship banks, partners in the business and the investment community for their continued strong support to our Group.

Ou Bingchang

Chairman

Note 1: Excluding the gain of approximately HK\$2,029 million on disposal of subsidiaries in relation to the spin-off and separate listing of GZI REIT in 2005.