BUSINESS REVIEW

The Group recorded total revenue of approximately HK$4.658 billion in the year, representing an increase of 18% as compared to same period last year. Profit attributable to equity holders of the Company amounted to HK$713 million, representing an increase of 43% as compared to last year on the same basis[note 1]. Earnings per share (basic) amounted to approximately HK$0.1064, and recommended total dividend per share amounted to HK$0.0419 for the whole year.

Property Business

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

GFA of properties sold with for revenue recognized in the income statement for the current year amounted to approximately 261,600 sq. m., and revenue so booked amounted to approximately HK$1.967 billion. Major projects sold include Springland Garden, Xinghui Qing Xuan, Southern Le Sand Nansha, Glade Village Conghua, Yue Xiu New Metropolis Plaza and two warehouses in Tsuen Wan, Hong Kong. Compared to approximately 129,200 sq. m. in the last year, there is an increase of approximately 102.5%, reflecting the diminishing impact imparted by the change in accounting standards in relation to the booking of property sales from degree of completion accounting basis to completion basis in 2005.

GFA of properties under development pre-sold with revenue not yet recognized in the income statement amounted to approximately 240,300 sq. m., and the sale proceeds of such pre-sold properties amounted to approximately HK$1.7 billion. Major projects include Towers B1 and B2 of Jiang Nan New Mansion, Xinghuai Ya Yuan, Blocks 5-8 of Springland Garden and East Tower of Victory Plaza, etc.

With the addition of properties to replenish its investment property portfolio, including Guangzhou Eastern Train Terminal underground shopping mall, Yue Xiu New Metropolis Plaza, etc., total GFA of the Group's investment property portfolio increased by about 233,000 sq. m., to approximately 683,000 sq. m., representing an increase of approximately 51.56% compared to last year. Revenue generated from the investment property portfolio amounted to approximately HK$977 million, of which approximately HK$747 million represented gain on property revaluation.

As a result of the increase in its investment property portfolio, property management income amounted to approximately HK$213 million in the current year, representing an increase of about 56% as compared with last year.

The increases in GFA of its investment property portfolio and property management fee income brought along a stable revenue stream and a good foundation for interaction with GZI REIT.

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 400m in height with GFA exceeding 430,000 sq. m., the Group invested a total of approximately Rmb2.9 billion in the acquisition of 4 new sites, namely, the site of the original Guangzhou cement plant in Liwan, 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 with 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., which is expected to provide adequate supply for development for the next 3 to 5 years.

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.

Toll road business

The toll road business of the Group has achieved impressive results in the reporting year. Total revenue generated from jointly controlled entities and associated companies amounted to approximately HK$765 million, representing an increase of about 17.70% as compared to approximately HK$650 million recorded last year. Profit attributable to equity holders of GZT amounted to approximately HK$461 million, representing an increase of approximately 50.8% as compared to last year's performance of approximately HK$306 million. During the year, the Group shared approximately 34.3% results of GZT.

The Group acquired an additional 20% interest in GNSRE Company for the consideration of Rmb 666 million on 20 November 2006, 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. As the current level of traffic volume is still substantially below the designed capacity, we are confident that there is great growth potential in GNSR Expressway in the coming years despite the expressway has already recorded double-digit growth rates for the last 2 years.

GWSR Expressway, which connects with GNSR Expressway and in which the Group holds a 35% equity interest, opened for traffic ahead of schedule on 19 December 2006 and created synergy with the GNSR Expressway for increased traffic flow and revenue. It is expected that these two expressways will become a key growth driver for the Group's toll road business.

Newsprint business

In 2006, the newsprint business of the Group was affected by the drop in newsprint price in the PRC, while costs of raw materials and energy have soared significantly. Furthermore, with the building work of PM1 and PM9 in progress during the year, profit attributable to equity holders of the Company amounted to approximately HK$15.39 million only, indicating a drop of about 53% as compared to the previous year, despite an increase in sales volume and a 13% increase in revenue.

Guangzhou Northern Second Ring Expressway

REIT business

As a result of an increase in occupancy rate of its 4 properties from approximately 95.5% at the end of 2005 to approximately 98.8% at the end of 2006, GZI REIT, in which the Group holds around a 31.33% equity interest, outperformed its profit forecast as stated in its initial public offering circular dated 12 December 2005 by approximately 2.8%, and recorded a full year profit after taxation of approximately HK$206.7 million. According to the distribution policy of GZI REIT, 100% of this income is to be distributed to Unit Holders for the year 2006, 2007 and 2008, and thus will contribute a distribution of approximately HK$64 million profit to the Group.


Yue Xiu New Metropolis Plaza

FUTURE OUTLOOK AND STRATEGY

The Group's businesses are mainly located in Guangzhou, the political and economic centre of Guangdong Province. In 2006, GDP of Guangdong Province amounted to approximately Rmb2,600 billion, accounting for approximately 12.4% of the corresponding national total of Rmb20,940 billion. Guangzhou, with its GDP of approximately Rmb600 billion, representing approximately 23.4% of that of Guangdong Province, is regarded as the region of strongest economic growth in the PRC. For the coming year, we believe that Guangzhou, as well as the whole of Guangdong Province, will continue to develop and grow in a healthy manner. With the continued improvement in the standard of living, there is growing demand for residential property, shopping mall and office buildings. The number of privately owned vehicles in Guangzhou increased substantially, from 6.3 vehicle per 100 households in 2005 to 10.0 vehicles per 100 households last year. Rapid growth in outbound tourism would continue to increase traffic volume of highways. On this basis, we are fully confident about the development of our property and toll road businesses. Our operating emphasis is as follows:

For the property business, we 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. Total GFA of properties completed would exceed 500,000 sq. m. The Group plans to launch no less than 8 projects for sale in the market, including Xinghui Ya Yuan, Springland Garden, Binjiang Yiyuan phase 2, Fu Hai Garden, Yue Xiu City Plaza, East Tower of Victory Plaza, Southern Le Sand Nansha and Glade Village Conghua, and revenue should increase significantly. 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 maturity of location to ensure a sustainable development.

For toll road business, our strategy is to focus on expressway projects. Many expressways of the Group's portfolio are gradually maturing into the high growth phase and it is expected that revenue would increase substantially. While continuing to properly manage its existing projects, we will take advantage of the excellent opportunities afforded by planned regional development of the new expressway network of up to 2700 km by 2010 in Guangdong as outlined in the 11th Five Year Plan. When these new expressways are completed, Guangdong Province will have total expressway mileage of over 5,000 km, basically forming a well-developed expressway network. The Group considers this a good investment opportunity not to be missed. The Group will strive to seize this opportunity, 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 trial run began in the middle of 2006 with the construction of PM9 going according to schedule, which is expected to be ready for trial operation by the end of 2007, and taking into consideration of further upgrade to other production lines as and when appropriate during the year, we expect that performance and competitive edge of our newsprint business will improve with substantial additional annual production capacity from approximately 450,000 tonnes to approximately 850,000 tonnes.

GZI REIT is expected to aggressively seek a win-win situation with the Group through business interaction.

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, with the aim of securing better return for all shareholders in the coming year.

FINANCIAL REVIEW

Analysis of results

Benefiting from the continued strong fixed assets investment and general economic development in the PRC and rebounce of the Hong Kong economy, the Group capitalised on the growing momentum and secured promising results for the year 2006.

Profit for the year of the Group amounted to approximately HK$1,020 million, representing a decrease of approximately 65% as compared with 2005. The substantial decrease in profit for the year was affected by the gain of approximately HK$2,029 million on disposal of subsidiaries that held 4 investment properties by way of a spin-off and separate listing of GZI REIT last year. Excluding such gain, the Group achieved a promising growth of approximately 19% in profit for the year. For the same reason, the profit attributable to equity holders of the Company amounted to approximately HK$713 million, representing a decrease of approximately 72% as compared with 2005. Excluding such gain, the Group achieved a cheering growth of approximately 43% in profit attributable to equity holders of the Company. Total assets of the Group and shareholders' equity increased to approximately HK$29,622 million and HK$11,137 million respectively, representing a growth of approximately 9% and 7% respectively.

Revenue

Revenue of the Group for the year ended 31 December 2006 was approximately HK$4,658 million, increased by approximately 18% as compared with 2005. This was mainly attributable to the effect of an increase of revenue from property business and newsprint business.

The nominal property sales area recognised for the year 2006 was approximately 261,600 square meters (2005: approximately 129,200 square meters) and the property sales revenue recognised was approximately HK$1,967 million, representing an increase of approximately 58% as compared with 2005. As several large property estates/commercial buildings of the Group were delivered to customers during the year such as Springland Garden, Glade Village District C, Southern Le Sand Phase 2, Yue Xiu New Metropolis Plaza and Yue Xiu City Plaza, the portfolio size of the properties engaging our property management services increased accordingly. On the other hand, the Group strengthened the asset enhancement of investment properties to continuously increase or retain the value of the investment properties which enhance the significant growth of the property management income by approximately 56% to approximately HK$213 million. The decrease in rental income for the year by approximately 56% to approximately HK$230 million was caused by the decrease in the portfolio size of investment properties through the spin off and separate listing of GZI REIT in last year.

Despite traffic diversion and surging oil prices affecting traffic volume and toll revenue of certain Class I and II highways, expressways such as Xian Expressway and Xiang Jiang Bridge II both performed remarkably. Toll revenue for 2006 grew by approximately 6% over 2005 to approximately HK$449 million.

For the newsprint business, sales revenue for the year increased by approximately 13% to approximately HK$1,352 million over 2005. Sales tonnage of newsprint increased by approximately 31% to 360,000 tonnes.

Gross profit

Although there was an increase in the overall revenue of the Group for the year 2006, the decrease in rental income of the Group has netted off the growing trend and led to a small decrease in the overall gross profit of the Group to approximately HK$1,002 million, decreased by approximately 5% as compared to last year. Overall profit margin has decreased by 5 percentage points as compared to last year.

Operating expenses

Operating expenses of the Group for 2006 were approximately HK$712 million, representing a decrease of 29% from 2005. Excluding certain specific provisions for impairment of certain assets in last year which amounted to approximately HK$202 million, operating expenses in the current year generally decreased by approximately 11% as a result of tighter cost control.

Victory Plaza

Valuation of investment properties

In 2006, the Group proactively replenishes and maintains a balanced level of portfolio of investment properties. In 2006, the Group revalued its investment properties and recorded a revaluation surplus of approximately HK$747 million (2005: HK$799 million), mainly from the newly replenished properties.

Finance costs

The decrease in finance costs of approximately 36% to approximately HK$194 million was mainly resulted from the decrease in average balance of borrowings over the year. Furthermore, finance costs capitalised as properties under development during the year have increased to approximately HK$70 million.

Share of results of jointly controlled entities and associated entities

During the year, the Group's share of results of jointly controlled entities and associated entities have increased by approximately 81%, which is mainly attributable from the toll road business. Owing to the rapid economic development in Guangdong Province as well as an increase in cargo and passenger turnover, the share of results from jointly controlled entities and associated entities of toll business grew by approximately 41%. Furthermore, there was contribution of distribution from GZI REIT of approximately HK$64 million.

Taxation

As the overall taxable profits for the year were more than last year, taxation for the year increased to approximately HK$355 million.

Final dividend

The Directors recommended the payment of final dividend of HK$0.023 per share (2005: HK$0.02) per share to shareholders whose names appear on the register of members of the Company on 21 June 2007. Subject to the approval of shareholders at the Annual General Meeting to be held on 21 June 2007, the final dividend will be paid on 28 June 2007. Together with the interim dividend of HK$0.0189 per share (2005: HK$0.01), total dividends for the year ended 31 December 2006 will amount to HK$0.0419 per share (2005: HK$0.08, excluding dividend in specie).

Liquidity and financial resources

The Group recognises the importance of healthy liquidity position to sustainability of the operations 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 31 December 2006:

	2006	2005
	HK$'000	HK$'000
Net cash inflow from operating activities	**1,209,701**	1,079,930
Net cash (outflow)/inflow from investing activities	**(2,134,006)**	1,853,281
Net cash outflow from financing activities	**(38,577)**	(540,405)
Net (decrease)/increase in cash and cash equivalents	**(962,882)**	2,392,806
Cash and cash equivalents at year end	**2,305,639**	3,198,953

Net cash inflow from operating activities

During 2006, the net cash inflow from operating activities was approximately HK$1,210 million, representing an increase of approximately HK$130 million. This increase was in line with the Group's operating profit before gain on disposal of subsidiaries and mainly the result of better management in working capitals.

Net cash (outflow)/inflow from investing activities

During 2006, the net cash outflow from investing activities was approximately HK$2,134 million. The change in cash outflow was mainly used for the purchase of property, plant and equipment and leasehold land and land use rights and prepayments for land use rights.

Net cash outflow from financing activities

During 2006, the net cash outflow from financing activities was approximately HK$39 million. The decrease in net cash outflow was resulted from the increase of net borrowings and the payment of 2005 special dividend.

During the year, the decrease in cash and cash equivalents was mainly used for the capital expenditure in relation to the purchase of property, plant and equipment and the prepayments for land use rights.

Yue Xiu City Plaza

Working capital

As at 31 December 2006, the Group's working capital (current assets minus current liabilities) amounted to approximately HK$1,868 million which was decreased by approximately 59% as compared to the end of 2005. The decrease was mainly attributable to a decrease in bank balances and cash and significant increase in receipt-in-advance in relation to pre-sold properties included in other payables. As at 31 December 2006, the Group's cash and cash equivalents amounted to approximately HK$2,306 million.

Springland Garden

Indebtedness

The indebtedness as at 31 December 2006 and 2005 was as follows:

	2006	2005
	HK$'000	HK$'000
Secured bank borrowings	**2,844,093**	3,371,645
Unsecured bank borrowings	**2,493,196**	1,571,725
Unsecured other borrowings	**501,353**	509,396
Obligations under finance leases	**136**	92
Bank overdrafts	**215**	27,285
Total indebtedness	**5,838,993**	5,480,143
Repayable:		
Within one year	**2,076,346**	1,526,901
In the second year	**1,142,596**	812,512
In the third to fifth year	**2,170,313**	2,718,866
Other period but not repayable within one year	**449,738**	421,864
	5,838,993	5,480,143

By the end of 2006, the Group's total indebtedness was approximately HK$5,839 million, representing an increase of approximately 6.5% compared to 2005. Most of the new loans raised were used to finance the new production plant for newsprint business and new property projects. Since majority of the new loans were drawn-down only near the end of the year while the average borrowings balance for the year has decreased, finance costs for the year have reduced.

Capital structure

The Group's capital structure as at 31 December 2006 and 2005 are summarised below:

	2006		2005	
	HK$'000	**%**	HK$'000	%
Bank borrowings and overdrafts (floating rates):				
Denominated in Renminbi	**4,388,349**		3,077,170	
Denominated in Euro	**204,253**		—	
Denominated in United States dollars	**37,242**		37,205	
Denominated in Hong Kong dollars	**707,660**		1,856,280	
Total bank borrowings and overdrafts	**5,337,504**		4,970,655	
Less: Charged bank deposits	**(72,609)**		(164,892)	
Bank balances and cash	**(2,305,854)**		(3,226,238)	
Net bank borrowings and overdrafts	**2,959,041**	**21**	1,579,525	13
Shareholders' equity (excluding minority interests)	**11,136,887**	**79**	10,388,761	87
Total capitalisation	**14,095,928**	**100**	11,968,286	100
Gearing ratio	**21%**		13%	

As a result of expansion of the Group's business and the increase in the required working capital, total net bank borrowings and overdrafts share larger portion of the total capitalisation of the Group as at 31 December 2006, which increased from 13% to 21%. As at 31 December 2006, total net bank borrowings and overdrafts has increased by approximately 87% to approximately HK$2,959 million. The ratio of net bank borrowings and overdrafts to total capitalisation (gearing ratio) has increased to 21% from 13% in 2005.

As at 31 December 2006, shareholders' equity excluding minority interests amounted to approximately HK$11,137 million and accounted for about 79% of the Group's total capitalisation. The increase in shareholders' equity by approximately 7%, or approximately HK$748 million, was mainly represented by the net profit retained for the year after appropriation of 2005 final and special dividend, 2006 interim dividend and the increase in exchange fluctuation reserve.

Capital expenditure commitments

As at 31 December 2006, the Group has a committed equity capital balance payable to a jointly controlled entity, Guangzhou Western Second Ring Expressway Co., Ltd ("GWSRE Co.") of Rmb105 million (equivalent to approximately HK$105 million). This balance would be paid by stages in such amount and by such date as to be determined by the board of directors of GWSRE Co.

On 20 November 2006, the Group entered into an Equity Transfer Agreement with an independent third party, Guangzhou Development Infrastructure Investments Co., Ltd. ("Vendor") to acquire an additional 20% equity interest in a jointly controlled entity, GNSRE Co. for a consideration of Rmb666 million. On the same date as the Equity Transfer Agreement was signed, i.e. on 20 November 2006, the Group remitted the deposit of HK$132,580,000 (equivalent to approximately Rmb133,906,000) from its internal funds to the Vendor. As at 31 December 2006, the balance of the consideration of this acquisition was approximately Rmb532 million which will be payable in the equivalent HK dollars at the prevailing exchange rate within five days of attaining the relevant authority's approval of the equity transfer. On 9 March 2007, the Group has obtained a bank loan facility of HK$400 million to finance part of the consideration of the acquisition. On 15 March 2007, the acquisition was approved by the relevant authority. On 19 March 2007, the Group remitted HK$543.8 million to settle the balance of the consideration of which HK$143.8 million was from internal funds.

At 31 December 2006, the Group's share of capital commitments of a jointly controlled entity not included in the above amounted to approximately HK$244 million (2005: HK$599 million).

Other than the above, capital expenditure committed on the purchase of non-current assets amounted to approximately HK$2,238 million (2005: HK$266 million). Except for the aforementioned capital commitments, the Group has no other material capital commitments as at 31 December 2006.

Contingent liabilities

During the year, the Group has arranged bank financing for certain buyers of the Group's properties and provided guarantees to secure obligations for repayment of loans. As at 31 December 2006, the total contingent liabilities exposure amounted to approximately HK$494 million (2005: HK$264 million).

Treasury policies

The Group's overall treasury and funding policy is that of risk management and liquidity control. The Group has centralised surplus fund and financing requirements to achieve better treasury control and lower cost of funds. Cash at banks are generally placed as short-term fixed rate deposits in bank accounts in Hong Kong and the PRC. The Group has neither placed fund in non-bank financial institutions nor invested in trading of marketable securities.

Interest rate exposure

Interest expenses accounted for a significant proportion of the Group's finance costs. The Group's policy on interest rate management involves close monitoring of interest rate movements and replacing and entering into new banking facilities when favourable pricing opportunities arise. Interest rate swaps to hedge exposure to floating rates are used when appropriate.

Foreign exchange exposure

Since the business of the Group is mainly operated in the PRC, revenue and cash flows are primarily denominated in Rmb. Financing arranged by the Group in Hong Kong was mainly denominated in Hong Kong dollars. In respect of the Group's business activities in the PRC that are conducted through its PRC subsidiaries, borrowings were mainly denominated in Rmb to fund their operation in the PRC during the period under review. In order to mitigate any possible foreign exchange exposure on borrowings arising from Renminbi appreciation, the Group will proactively consider new foreign currency borrowings while maintaining an appropriate level of gearing in anticipation of new investments in the PRC. At present, the trend of the change in the rate of exchange between Rmb and Hong Kong dollar is relatively forthright and the Group's currency exposure is therefore minimal. The Group will review and monitor the risks relating to foreign exchange from time to time and will employ currency swaps when appropriate to manage its currency exposure.

Employees and remuneration policy

As at 31 December 2006, the Group employed approximately 8,450 employees (31 December 2005: 8,080 employees), of whom approximately 8,310 employees (31 December 2005: 7,950 employees) were primarily engaged in the property, toll road and newsprint business. The Group remunerates its employees largely based on industry practice, including contributory provident funds and other staff benefits. Other employee benefits include provident fund, insurance and medical cover, educational allowances and training programs. The Group has also adopted share option schemes, with options awarded to employees according to their performance. Promotion and salary adjustments are based on performance.

Disclosures Pursuant to Rule 13.21 of the Listing Rules

Reference is made to a HK$2,500 million loan agreement dated 18 December 2006 ("Loan Agreement") with a final maturity in December 2009. In accordance with the terms of the Loan Agreement, it shall be an event of default if (A) Yue Xiu Enterprises (Holdings) Limited ("Yue Xiu") ceases to maintain (i) its status as the single largest beneficial shareholder of the Company, or (ii) (whether directly or indirectly) a shareholding interest of not less than 35% in the issued voting share capital of the Company or (iii) an effective management control over the Company; or (B) Yue Xiu (with the Company) cease to maintain (i) their status as the single largest beneficial shareholder of GZT, or (ii) (whether combined directly or indirectly) a shareholder interest of not less than 35% in the issued voting share capital of GZT. This obligation has been duly complied with for the year ended 31 December 2006.