



# 越秀投資有限公司

## GUANGZHOU INVESTMENT COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock code: 123)

### UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2007

	For the six months ended		Percentage change
	30 June 2007 (HK\$'000) Unaudited	30 June 2006 (HK\$'000) Unaudited	
Revenue	2,780,689	2,414,205	↑15%
Profit attributable to equity holders of the Company	416,740	318,716	↑31%
Basic earnings per share (HK cents)	6.12	4.80	↑28%
Dividend per share - interim (HK cents)	2.30	1.89	↑22%
As at			
	30 June 2007 (HK\$'000) Unaudited	31 December 2006 (HK\$'000) Audited	Percentage Change
Total assets	37,430,350	29,621,544	↑26%
Shareholders' equity*	12,059,966	11,136,887	↑8%
Shareholders' equity per share (HK\$)*	1.77	1.64	↑8%
Gearing ratio	33%	21%	↑12 percentage point

\* excluding minority interests

The directors of Guangzhou Investment Company Limited (the “Company”) are pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2007 as follows:

**CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT  
FOR THE SIX MONTHS ENDED 30 JUNE 2007**

	<i>Note</i>	<b>Six months ended 30 June</b>	
		<b>2007</b>	2006
		<b>HK\$'000</b>	HK\$'000
		<b>Unaudited</b>	Unaudited
Revenue	3	<b>2,780,689</b>	2,414,205
Cost of sales		<b>(2,131,781)</b>	(1,731,277)
Gross profit		<b>648,908</b>	682,928
Revaluation surplus on investment properties		<b>91,529</b>	68,975
Loss on disposal of investment in an associated company		—	(2,470)
Selling and distribution expenses		<b>(82,985)</b>	(81,956)
General and administrative expenses		<b>(208,115)</b>	(190,419)
Profit from operations	4	<b>449,337</b>	477,058
Interest income		<b>14,808</b>	30,440
Finance costs		<b>(162,002)</b>	(82,908)
Share of profits less losses of			
- Jointly controlled entities		<b>1,870</b>	39,209
- Associated entities		<b>196,183</b>	153,010
Profit before taxation		<b>500,196</b>	616,809
Taxation	5	<b>95,704</b>	(141,159)
Profit for the period		<b><u>595,900</u></b>	<u>475,650</u>
Attributable to			
Equity holders of the Company		<b>416,740</b>	318,716
Minority interests		<b>179,160</b>	156,934
		<b><u>595,900</u></b>	<u>475,650</u>
Earnings per share for profit attributable to the equity holders of the Company (expressed in HK cents per share)			
- Basic	6	<b><u>6.12</u></b>	<u>4.80</u>
- Diluted		<b><u>6.07</u></b>	<u>4.69</u>
Interim dividend	7	<b><u>163,616</u></b>	<u>127,649</u>

**CONDENSED CONSOLIDATED INTERIM BALANCE SHEET  
AS AT 30 JUNE 2007**

		<b>As at</b>	
	<i>Note</i>	<b>30 June</b>	<b>31 December</b>
		<b>2007</b>	<b>2006</b>
		<b>Unaudited</b>	<b>Audited</b>
		<b>HK\$'000</b>	<b>HK\$'000</b>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Interests in toll highways and bridges		6,645,340	1,943,681
Property, plant and equipment		2,541,451	2,354,331
Investment properties		6,121,448	5,625,185
Leasehold land and land use rights		5,008,599	4,737,407
Interests in jointly controlled entities		459,862	898,170
Interests in associated entities		3,138,806	2,995,294
Deferred tax assets		121,203	135,689
Goodwill		117,352	—
Other non-current assets		260,084	324,096
Available-for-sale financial assets		<u>513,545</u>	<u>418,269</u>
		<b>24,927,690</b>	<b>19,432,122</b>
<b>Current assets</b>			
Properties held for/under development		2,476,713	2,230,173
Properties held for sale		691,092	728,951
Leasehold land and land use rights		2,727,326	2,182,789
Prepayments for land use rights and properties		2,557,689	1,272,233
Other assets held for sale		—	15,000
Inventories		314,858	233,895
Trade receivables	8	623,586	585,226
Other receivables, prepayments and deposits		552,812	420,630
Tax recoverable		103,396	142,062
Charged bank deposits		230,708	72,609
Bank balances and cash		<u>2,224,480</u>	<u>2,305,854</u>
		<b>12,502,660</b>	<b>10,189,422</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade payables	9	287,775	198,428
Land premium payables		1,474,852	637,134
Other payables and accrued charges		5,677,785	5,220,253
Borrowings		2,668,287	2,076,346
Tax payable		<u>213,825</u>	<u>189,657</u>
		<b>10,322,524</b>	<b>8,321,818</b>

	As at	
	30 June	31 December
<i>Note</i>	2007	2006
	<b>Unaudited</b>	Audited
	<b>HK\$'000</b>	HK\$'000
<b>Net current assets</b>	<u>2,180,136</u>	<u>1,867,604</u>
<b>Total assets less current liabilities</b>	<u>27,107,826</u>	<u>21,299,726</u>
<b>Non-current liabilities</b>		
Borrowings	6,246,926	3,762,647
Deferred tax liabilities	<u>2,999,511</u>	<u>2,560,921</u>
	<u>9,246,437</u>	<u>6,323,568</u>
<b>Net assets</b>	<u>17,861,389</u>	<u>14,976,158</u>
<b>EQUITY</b>		
Capital and reserves attributable to the Company's equity share holders		
Share capital	682,099	680,354
Other reserves	7,562,003	6,897,267
Retained earnings		
- Proposed dividend	163,616	156,781
- Others	<u>3,652,248</u>	<u>3,402,485</u>
	12,059,966	11,136,887
Minority interests	<u>5,801,423</u>	<u>3,839,271</u>
<b>Total equity</b>	<u>17,861,389</u>	<u>14,976,158</u>

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

### 1. Basis of preparation

This condensed consolidated interim financial information for the six months ended 30 June 2007 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants and should be read in conjunction with the audited financial statements for the year ended 31 December 2006.

### 2. Accounting policies

The accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 December 2006. Although there are new standards, amendments to standard and interpretations for the financial year ending 31 December 2006, the adoption of these new standards, amendments to standard and interpretations has no material impact to the condensed consolidated interim financial information of the Group.

### 3. Segment information

#### Primary reporting format - business segments

	Properties		Toll operations		Paper		Group	
	Six months ended 30 June							
	2007	2006	2007	2006	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
Revenue	<u>1,699,079</u>	<u>1,656,037</u>	<u>348,346</u>	<u>211,362</u>	<u>733,264</u>	<u>546,806</u>	<u>2,780,689</u>	<u>2,414,205</u>
Segment results	<u>308,478</u>	<u>387,280</u>	<u>176,123</u>	<u>90,003</u>	<u>(19,430)</u>	<u>20,348</u>	<u>465,171</u>	<u>497,631</u>
Unallocated operating costs							(15,834)	(20,573)
Interest income							14,808	30,440
Finance costs							(162,002)	(82,908)
Share of profits less losses of:								
- Jointly controlled entities	—	8,720	1,870	30,489	—	—	1,870	39,209
- Associated entities	37,170	33,159	159,013	119,851	—	—	196,183	153,010
Profit before taxation							500,196	616,809
Taxation							95,704	(141,159)
Profit for the period							<u>595,900</u>	<u>475,650</u>
Capital expenditure	1,126,452	106,654	1,168	749	148,492	358,968	1,276,112	466,371
Depreciation and amortisation	<u>107,822</u>	<u>113,614</u>	<u>93,795</u>	<u>54,904</u>	<u>44,441</u>	<u>33,208</u>	<u>246,058</u>	<u>201,726</u>

	Properties		Toll operations		Paper		Group	
	As at 30 June 2007 HK\$'000 Unaudited	As at 31 December 2006 HK\$'000 Audited	As at 30 June 2007 HK\$'000 Unaudited	As at 31 December 2006 HK\$'000 Audited	As at 30 June 2007 HK\$'000 Unaudited	As at 31 December 2006 HK\$'000 Audited	As at 30 June 2007 HK\$'000 Unaudited	As at 31 December 2006 HK\$'000 Audited
Segment assets	22,521,731	19,794,688	7,259,600	2,530,249	3,738,540	3,063,982	33,519,871	25,388,919
Interests in jointly controlled entities	227,000	227,000	232,862	671,170	—	—	459,862	898,170
Interests in associated entities	1,304,036	1,249,478	1,834,770	1,745,816	—	—	3,138,806	2,995,294
Unallocated assets							<u>311,811</u>	<u>339,161</u>
Total assets							<u>37,430,350</u>	<u>29,621,544</u>
Segment liabilities	6,839,715	5,642,690	139,488	57,308	455,064	334,373	7,434,267	6,034,371
Unallocated liabilities							<u>12,134,694</u>	<u>8,611,015</u>
Total liabilities							<u>19,568,961</u>	<u>14,645,386</u>

#### Secondary reporting format - geographical segments

	Revenue		Capital expenditure		Total assets	
	For the six months ended 30 June				As at 30 June	As at 31 December
	2007 HK\$'000 Unaudited	2006 HK\$'000 Unaudited	2007 HK\$'000 Unaudited	2006 HK\$'000 Unaudited	2007 HK\$'000 Unaudited	2006 HK\$'000 Audited
Hong Kong	34,330	649,621	—	14,460	1,010,179	991,199
China	2,732,700	1,764,076	1,276,112	451,911	36,068,822	28,252,008
Overseas	<u>13,659</u>	<u>508</u>	<u>—</u>	<u>—</u>	<u>39,538</u>	<u>39,176</u>
	<u>2,780,689</u>	<u>2,414,205</u>	<u>1,276,112</u>	<u>466,371</u>	<u>37,118,539</u>	29,282,383
Unallocated assets					<u>311,811</u>	<u>339,161</u>
Total assets					<u>37,430,350</u>	<u>29,621,544</u>

#### 4. Profit from operations

The following items have been charged / (credited) to the profit from operations during the period:

	Six months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
	Unaudited	Unaudited
Amortisation/depreciation of interests in toll highways and bridges	92,001	53,728
Amortisation of leasehold land and land use rights	88,232	70,754
Depreciation:		
- Owned property, plant and equipment	65,809	77,227
- Leased property, plant and equipment	16	17
Reversal of provision for doubtful debts	(78,094)	—
Reversal of provision for impairment of properties under development and properties held for sale	<u>(11,556)</u>	<u>(9,691)</u>

#### 5. Taxation

- (a) Hong Kong profits tax has been provided at the rate of 17.5 per cent (2006: 17.5 per cent) on the estimated assessable profit for the period.
- (b) China enterprise income taxation is provided on the profits of the Group's subsidiaries, jointly controlled entities and associated entities in China in accordance with the Income Tax Law of China for Enterprises with Foreign Investment and Foreign Enterprises ("China Tax Law") at rates ranging from 18 per cent to 33 per cent (2006: 18 per cent to 33 per cent). Under the China Tax Law, certain of the Group's subsidiaries, jointly controlled entities and associated entities in China are entitled to an income tax holiday for two to five years from its first profit making year followed by a 50 per cent reduction in income tax for the next three to five years.
- (c) China land appreciation tax is levied at progressive rates ranging from 30 per cent to 60 per cent (2006: 30 per cent to 60 per cent) on the appreciation of land value, being the proceeds of sales of properties less deductible expenditure including costs of land, development and construction.

- (d) The amount of taxation charged / (credited) to the condensed consolidated income statement comprises:

	<b>Six months ended 30 June</b>	
	<b>2007</b>	<b>2006</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>Unaudited</b>	<b>Unaudited</b>
Current taxation		
- Hong Kong profits tax	<b>1,685</b>	1,927
- China enterprise income tax	<b>124,418</b>	41,461
- China land appreciation tax	<b>30,151</b>	4,009
Under provision in prior years	—	47,738
Deferred taxation		
- Origination and reversal of temporary differences	<b>(999)</b>	46,024
- Effect of change in tax rate	<b>(250,959)</b>	—
	<b><u>(95,704)</u></b>	<b><u>141,159</u></b>

Share of China enterprise income taxation attributable to the following are included in the condensed consolidated income statement as share of results of jointly controlled entities and associated entities:

	<b>Six months ended 30 June</b>	
	<b>2007</b>	<b>2006</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>Unaudited</b>	<b>Unaudited</b>
Jointly controlled entities		
- current taxation	—	—
- deferred taxation	<b>1,044</b>	1,037
Associated entities		
- current taxation	<b>10,617</b>	9,489
- deferred taxation	<b><u>5,102</u></b>	<b><u>15,882</u></b>



## 6. Earnings per share

### Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company over the weighted average number of ordinary shares in issue during the period.

	<b>Six months ended 30 June</b>	
	<b>2007</b>	<b>2006</b>
	<b>Unaudited</b>	<b>Unaudited</b>
Profit attributable to equity holders of the Company (HK\$'000)	<u><b>416,740</b></u>	<u>318,716</u>
Weighted average number of ordinary shares in issue ('000)	<u><b>6,813,691</b></u>	<u>6,636,625</u>
Basic earnings per share (HK cents)	<u><b>6.12</b></u>	<u>4.80</u>

### Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has share options outstanding during the period which are dilutive potential ordinary shares. Calculation is performed to determine the number of shares that could have been acquired at fair value (determined as the average daily market price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options.

	<b>Six months ended 30 June</b>	
	<b>2007</b>	<b>2006</b>
	<b>Unaudited</b>	<b>Unaudited</b>
Profit attributable to equity holders of the Company (HK\$'000)	<u><b>416,740</b></u>	<u>318,716</u>
Weighted average number of ordinary shares in issue ('000)	<u><b>6,813,691</b></u>	<u>6,636,625</u>
Adjustments for share options ('000)	<u><b>57,220</b></u>	<u>160,641</u>
Weighted average number of ordinary shares for diluted earnings per share ('000)	<u><b>6,870,911</b></u>	<u>6,797,266</u>
Diluted earnings per share (HK cents)	<u><b>6.07</b></u>	<u>4.69</u>

7. **Interim dividend**

	<b>Six months ended 30 June</b>	
	<b>2007</b>	<b>2006</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>Unaudited</b>	<b>Unaudited</b>
2007 interim, proposed of HK2.30 cents (2006: HK1.89 cents) per share	<u><b>163,616</b></u>	<u><b>127,649</b></u>

8. **Trade receivables**

The Group has defined credit policies for different business segments and markets. The credit terms of the Group were generally within three months. The ageing analysis of the trade receivables was as follows:

	<b>30 June</b>	<b>31 December</b>
	<b>2007</b>	<b>2006</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>Unaudited</b>	<b>Audited</b>
0 - 30 days	<b>195,529</b>	123,068
31 - 90 days	<b>124,508</b>	113,451
91 - 180 days	<b>42,100</b>	83,952
181 - 365 days	<b>88,876</b>	102,683
Over 1 year	<u><b>172,573</b></u>	<u><b>162,072</b></u>
	<u><b>623,586</b></u>	<u><b>585,226</b></u>

9. **Trade payables**

Trade payables included trade balances with creditors and retention money payable on construction contracts. The ageing analysis of the trade payables was as follows:

	<b>30 June</b>	<b>31 December</b>
	<b>2007</b>	<b>2006</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>Unaudited</b>	<b>Audited</b>
0 - 30 days	<b>201,344</b>	61,916
31 - 90 days	<b>40,511</b>	69,648
91 - 180 days	<b>25,920</b>	49,640
181 - 365 days	<b>11,223</b>	7,965
Over 1 year	<u><b>8,777</b></u>	<u><b>9,259</b></u>
	<u><b>287,775</b></u>	<u><b>198,428</b></u>

## **BUSINESS REVIEW AND FINANCIAL HIGHLIGHTS**

### **Business Review and Prospects**

The Group's major businesses include property, toll roads and newsprint. Most of these business operations are located in Guangdong Province around the Guangzhou Municipality area. The Group completed in March 2007 the acquisition of an additional 20% equity interest in Guangzhou Northern Second Ring Expressway Co., Ltd. ("GNSRE Co") increasing the Group's equity interest in that company from 40% to 60% and that company became a subsidiary of the Group. Benefiting from the high economic growth in the region, revenue up to 30 June 2007 was HK\$2.781 billion, representing an increase of 15% as compared to the same period last year which recorded a revenue of HK\$2.414 billion. Profit attributable to equity holders was HK\$417 million, an increase of 31% as compared to HK\$319 million for the same period in 2006.

### **Property Business**

Up to 30 June 2007, the Group has accumulated sales in gross floor area ("GFA") of approximately 386,660 sq. m., of which 146,300 sq. m. were sold and the revenue of GFA of 148,800 sq. m. was recognized during the period, representing 38.5% of the accumulated sales. Also, the GFA of the Group's investment property increased from approximately 683,000 sq. m. at the end of 2006 to 731,000 sq. m. due to conversion of approximately 48,000 sq. m. from "property under development", and the total number of car parking spaces exceeded 5,300 units. The property business for the current period recorded a revenue of HK\$1.791 billion, of which revaluation gain of investment properties accounted for approximately HK\$92 million. Revenue of sales recognized during the current period were mainly contributed from the following sites — Jiangnan Xinyuan B1 and B2 towers, Xinghui Yayuan, Glade Villa B & C zone, Nansha Le Sand and Yue Xiu City Plaza.

### **Toll Road Business**

During the period, the Group acquired a further 20% equity interest in GNSRE Co for the consideration of approximately RMB667 million, thus increasing the Group's interest from 40% to 60% in that company, transforming it from a "jointly controlled entity" to "subsidiary" since April 2007. The toll revenue generated by Guangzhou Northern Second Ring Expressway, which was the only asset held by GNSRE Co, was higher than the forecast for the period as stated in the traffic study report obtained at the time of the acquisition. Coupled with the increase in toll traffic on other expressways, the Group's toll revenue increased 65% to approximately HK\$348

million as compared to the same period last year, and profit attributable from associated entities increased 33% to approximately HK\$159 million as compared to same period last year with overall profit attributable to GZI Transport Limited's equity holders increased 26% to approximately HK\$250 million as compared to same period last year.

### **Newsprint Business**

During the period, market competition for newsprint became increasingly intense due to substantial increase in both capital investment and production capacity in mainland China, and newsprint sales price was under pressure despite costs of raw materials like waste paper and energy continued to increase, resulting in an operating loss, and attributable loss to equity holders amounted to approximately HK\$10.16 million.

### **Real Estate Investment Trust**

During the period, GZI Real Estate Investment Trust's ("GZI REIT") property leasing operations performed well, maintaining a high and stable occupancy rate and a slight increase in rental revenue. Total distributable income for the period was approximately HK\$111 million, representing HK\$0.1107 per unit and an increase of 7.16% as compared to the same period last year. The Group was entitled to an interim distribution of \$34.69 million.

### **Future Strategy and Business Outlook**

Guangdong Province and Guangzhou area, where the Group's major businesses are located, recorded a favourable trend of economic development. GDP of Guangdong Province for the period reached RMB1,354.45 billion, an increase of approximately 14.3% compared to the same period last year, and 2.8 percentage points above the national average. GDP of Guangzhou also reached RMB319.8 billion, representing an increase of 14% over same period last year. These brought about increases in disposable personal income in Guangdong Province and Guangzhou which amounted to RMB9,238 and RMB11,560 respectively. As a result of this economic development and the improved standard of living, the demand for residential property was much augmented, resulting in an average selling price of RMB7,550/sq.m., an increase of 24.53% over the same period last year. At the same time, according to the Guangdong Province Comprehensive 11th Five Year Plan Transport Development blueprint, by 2010, the Province planned to invest up to RMB228.8 billion to construct 2,773 km of expressways, and this created a good investment opportunity for the toll road business of the Group.

In light, the Group will continue to increase its investment and quicken the pace of development in the property business, increase the sales GFA, and in response to market conditions, to dispose of some of the investment properties when appropriate. At the same time, the Group will closely monitor on new policies to be promulgated by the central and local governments from time to time that are intended to cool down the overheating property market and the Group noted that the latest land auction in Guangzhou fetched a price of more than RMB10,000 per sq.m. of permitted GFA. However, the Group also noted that the number of transactions in the Guangzhou property market had been reduced following the recent price hikes, which could be seen as a tell tale sign of a forthcoming rational market correction. In the circumstances, the Group will take caution in increasing its land bank at a rational price level and in a prudent manner.

For toll road business, we seized the opportunity made available by massive expressway development plan of Guangdong Province, on the one hand successfully completed an open offer on 28 August 2007 to increase the Group's interest in GZI Transport Limited ("GZT") from 34.29% to 45.28%, further increasing future income from this division, and on the other hand increased cash reserve of more than HK\$2.1 billion for investments and acquisition of expressway projects in Guangdong by and increase the ratio of expressways in the portfolio of GZT, and enable us to bring along long-term stable income for equity holders.

On newsprint business, full commercial production commenced for PM1 (which produces 45gsm newsprint) following its successful trial run in the 2nd half of 2006, together with the technical upgrade of PM8 to produce 45gsm newsprint during the period and the targeted trial production commencement of PM9 by the year end, it is expected that the benefits of economy of scale, the improved product quality and the larger market share would substantially increase the market competitiveness of the business, and return to a profitable operation for our equity holders.

For the REIT business, it is expected that a stable income will continue for the Group. Apart from that, the Group will also make good use of this platform, and in compliance with relevant laws and regulations, to execute interactive transactions between the two entities.

## **FINANCIAL REVIEW**

### **Results**

For the six months ended 30 June 2007, the Group recorded total revenue of approximately HK\$2,781 million (6 months ended 30 June 2006: HK\$2,414 million), representing an increase of approximately 15% as compared with the same period last year. The increase was mainly contributed from the toll road business and newsprint business.

**Property Business:**

The total revenue from the property business recorded an increase of 3% to approximately HK\$1,699 million for the six months ended 30 June 2007. During the period, properties with about 149,000 sq. m. gross floor area were recognised as sales, which represented a decrease of about 11% in gross floor area as compared to the same period last year. Included in total revenue, the Group recorded an increase of approximately 31% and 28% in rental income and property management fees to approximately HK\$132 million and HK\$122 million respectively as a result of the restoration of the portfolio of investment properties in the past year.

**Toll road business:**

Benefiting from the natural growth in traffic volume brought forth by the continuous rapid economic growth in the Pearl River Delta Region, average daily toll traffic volume in first half of 2007 increased by 8% to 159,737 vehicles as compared to same period in 2006. The total revenue derived from toll roads increased sharply to approximately HK\$348 million, representing an increase of 65% as compared to same period in 2006 as a result of the consolidation of the results of GNSRE Co which became a subsidiary of the Group upon completion of the acquisition of an additional 20% interest at the end of March 2007.

**Newsprint business:**

Because of keen market competition, newsprint price was under pressure despite continued rise in the costs of raw materials such as waste paper and energy, the overall performance of the newsprint business for the current period was less than promising. However, the Group intended to increase its market share by improving its marketing strategy and recorded an increase in revenue to approximately HK\$733 million, representing an increase of 34% as compared with the same period last year. The tonnage of newsprint sold in the first half year 2007 increased by 43%, as compared to the same period in 2006.

**Results from jointly controlled entities and associated entities**

There was a significant decrease in the share of results of jointly controlled entities as a result of completion of the acquisition of the additional 20% interest in GNSRE Co. Upon completion of the acquisition at the end of March 2007, the results of GNSRE Co was consolidated in the Group's result and no longer recorded as a share in the result of a jointly controlled entity. The results from associated entities recorded an increase of about 28% to HK\$196 million which were mainly contributed from the toll road business.

## **Taxation**

As a result of the new China Income Tax Law and the reduction of the corporate income tax rate, deferred taxation on temporary differences that are expected to be reversed after 1 January 2008 have been reduced with approximately HK\$251 million being credited to the income statement during the six months ended 30 June 2007. Apart from this, the Group recorded a taxation charge of approximately HK\$155 million (2006: HK\$141 million) for the six months ended 30 June 2007.

## **Profit for the period attributable to equity holders of the Company**

The Group recorded a significant increase in profit for the period attributable to equity holders of about 31% to approximately HK\$417 million (2006: HK\$319 million) for the six months ended 30 June 2007.

## **Earnings per share**

The Group recorded a significant increase in earnings per share of about 28% to approximately HK cents 6.12 (2006: HK cents 4.8) for the six months ended 30 June 2007.

## **Interim dividend**

The board of directors of the Company resolved to declare an interim dividend for 2007 of HK2.30 cents (2006: HK1.89 cents) per share payable on 8 November 2007 to shareholders whose names appear on the Register of Members of the Company on 24 October 2007.

## **Liquidity and financial resources**

The Board believed in the importance of healthy liquidity position to the 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. As at 30 June 2007, the Group had net current assets of approximately HK\$2,180 million (31 December 2006: HK\$1,868 million). The Group generally financed its operations with internally generated resources and bank borrowings. As at 30 June 2007, the Group had free cash reserves of approximately HK\$2,455 million (31 December 2006: HK\$2,378 million) for general working capital purposes.

## Cash flow

The following table summarised the Group's cash flows for the six months ended 30 June 2007 and 2006:

	Six months ended	
	30 June	
	2007	2006
	HK\$'000	HK\$'000
	Unaudited	Unaudited
Net cash generated from operating activities	537,810	531,123
Net cash used in investing activities	(2,398,216)	(273,129)
Net cash generated from / (used in) financing activities	<u>1,715,398</u>	<u>(1,068,997)</u>
Net decrease in cash and cash equivalents	<u>(145,008)</u>	<u>(811,003)</u>
Cash and cash equivalents at period end	<u>2,224,252</u>	<u>2,387,950</u>

### Net cash generated from operating activities

For the six months ended 30 June 2007, the net cash generated from operating activities was approximately HK\$538 million, representing an increase of approximately HK\$7 million from approximately HK\$531 million for the six months ended 30 June 2006, which indicated a steady operating cash stream of the Group.

### Net cash used in investing activities

For the six months ended 30 June 2007, the Group acquired additional plant and equipment and further invested significantly in toll road operation. Net cash used in investing activities increased significantly to HK\$2,398 million, representing an increase of HK\$2,125 million as compared to the six month ended 30 June 2006.

### Net cash generated from financing activities

For the six months ended 30 June 2007, the net cash generated from financing activities was HK\$1,715 million, which was primarily due to the significant increase in bank borrowings (net of repayments) of HK\$1,552 million as compared to the six months ended 30 June 2006.

During the six months ended 30 June 2007, the cash and cash equivalents decreased by approximately HK\$81 million as the Group spent the majority of its financial resources to expand its business operations.



## Working capital

As at 30 June 2007, the Group's net current assets amounted HK\$2,180 million (31 December 2006: HK\$1,868 million). The increase of approximately HK\$312 million was mainly attributable to the net increase in the prepayments for land use rights and properties and short-term borrowings. As at 30 June 2007, the Group's cash and cash equivalents amounted to HK\$2,224 million (31 December 2006: HK\$2,306 million).

## Indebtedness

The indebtedness of the Group was summarised as follows:

	<b>30 June 2007 HK\$'000 Unaudited</b>	31 December 2006 HK\$'000 Audited
Secured bank borrowings	<b>4,839,582</b>	2,844,093
Unsecured bank borrowings	<b>3,558,656</b>	2,493,196
Unsecured other borrowings	<b>516,627</b>	501,353
Obligations under finance leases	<b>120</b>	136
Bank overdrafts	<b><u>228</u></b>	<u>215</u>
	<b><u>8,915,213</u></b>	<u>5,838,993</u>
Ageing analysis:		
Repayable within one year	<b>2,668,287</b>	2,076,346
In the second year	<b>1,598,487</b>	1,142,596
In the third to fifth year	<b>4,184,756</b>	2,170,313
Other period but not repayable within five year	<b><u>463,683</u></b>	<u>449,738</u>
	<b><u>8,915,213</u></b>	<u>5,838,993</u>

As at 30 June 2007, the Group's total indebtedness was approximately HK\$8,915 million, an increase of HK\$3,076 million from HK\$5,839 million as at 31 December 2006. The main reasons for the increase were the consolidation of the borrowings of GNSRE Co as a result of the completion of the acquisition of the additional 20% equity interest of that company and the increase in bank borrowings for the business expansion of the Group.

## Capital structure

The Group's capital structure as at 30 June 2007 and 31 December 2006 were summarised below:

	<b>30 June 2007 HK\$'000 Unaudited</b>		31 December 2006 HK\$'000 Audited	
		%		%
Bank borrowings and overdrafts (floating rates):				
Denominated in Renminbi	<b>6,541,279</b>		4,388,348	
Denominated in Euro dollars	<b>209,869</b>		204,253	
Denominated in United States dollars	<b>38,395</b>		37,243	
Denominated in Hong Kong dollars	<b><u>1,608,695</u></b>		<u>707,660</u>	
Total bank borrowings	<b>8,398,238</b>		5,337,504	
Less: Charged bank deposits	<b>(230,708)</b>		(72,609)	
Bank balances and cash	<b><u>(2,224,480)</u></b>		<u>(2,305,854)</u>	
Net bank borrowings	<b>5,943,050</b>	33	2,959,041	21
Shareholders' funds (excluding minority interests)	<b><u>12,059,966</u></b>	<u>67</u>	<u>11,136,887</u>	<u>79</u>
Total capitalisation	<b><u>18,003,016</u></b>	<u>100</u>	<u>14,095,928</u>	<u>100</u>
Gearing ratio	<b>33%</b>		21%	

As a result of the expansion of the Group's business and the increase in the demand of the required working capital, total net bank borrowings shared a larger portion of the total capitalisation of the Group as at 30 June 2007. As at 30 June 2007, total net bank borrowings increased by approximately 101% to HK\$5,943 million. The ratio of net borrowings to total capitalisation (gearing ratio) increased from 21% as at 31 December 2006 to 33% at 30 June 2007.

As at 30 June 2007, shareholders' fund (excluding minority interests) amounted to approximately HK\$12.1 billion which accounted for about 67% of the Group's total capitalisation. The increase in shareholders' funds by approximately 8% or approximately HK\$907 million, was mainly, attributable to the net profit retained for the year after appropriation of 2006 final dividend and the increase in exchange fluctuation reserve.

## **Treasury policies**

The Group's overall treasury and funding policy was that of risk management and liquidity control. The Group had centralised surplus fund and financing requirements to achieve better treasury control and lower cost of funds. Cash at banks were generally placed as short-term fixed rate deposits in bank accounts in Hong Kong and Mainland China. The Group had neither placed fund in non-bank financial institutions nor invested in trading 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 involved 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 were used when appropriate.

## **Foreign exchange exposure**

Since the business operations of the Group were mainly based in mainland China, revenue and cash flow were primarily denominated in Renminbi, the currency exposure was therefore minimal. Finance arranged by the Group in Hong Kong was mainly denominated in Hong Kong dollars. In respect of the Group's business activities in Mainland China that are conducted through its Mainland China subsidiaries, borrowings were mainly denominated in Renminbi to fund their operations in China during the period under review. In order to mitigate any possible Renminbi appreciation, the Group will consider new foreign currency borrowings while maintaining an appropriate level of gearing in anticipation of new investments in Mainland China. At present, the Group was holding significant assets denominated in Renminbi which the Group was facing positive currency exposure as Renminbi was keeping a relatively appreciation trend in the past. The Group will review and monitor the risks relating to foreign exchange and will employ currency swaps when appropriate to hedge its currency exposure.

## **Capital expenditure**

During the six months ended 30 June 2007, the Group had capital expenditure totalling approximately HK\$1,276 million (six months ended 30 June 2006: HK\$466 million), excluding for the acquisition of the additional 20% equity interest in GNSRE Co.

## **Capital expenditure commitments**

At 30 June 2007, the Group had financial commitments in respect of equity capital to be injected to jointly controlled entities of approximately HK\$108 million (31 December 2006: HK\$637 million). Other than the above, the Group also has capital commitments in respect of property, plant and equipment amounted to approximately HK\$3,619 million as at 30 June 2007 (31 December 2006: HK\$3,772 million).

## **Contingent liabilities**

During the six months ended 30 June 2007, the Group had arranged bank financing for certain purchasers of property units and provided guarantees to secure obligations for repayment of loans. As at 30 June 2007, the total contingent liabilities exposure amounted to HK\$620 million (31 December 2006: HK\$494 million).

## **Significant events after the balance sheet date**

- (1) On 29 June 2007, GZI Transport Limited (“GZT”), an subsidiary of the Company, proposed to raise approximately HK\$2,192 million, before expenses, by issuing 557,720,765 new offer shares at the subscription price of HK\$3.93 per offer share by way of an open offer on the basis of one offer share for every two existing shares, with the Company acting as underwriter of the open offer.

On 28 August 2007, the Group subscribed for 375,067,000 shares of GZT and effectively holds approximately 45.28% of the entire issued share capital of GZT thereafter.

- (2) On 9 July 2007, the Group entered into agreements with certain subsidiaries of YXE, a substantial shareholder of the Company, for acquiring equity interests in two YXE’s subsidiaries and leasehold land and certain units of a building in Hong Kong at a total consideration of approximately HK\$670.7 million. The consideration shall be satisfied by the issuance of 257 million shares of the Company at a price of HK\$1.995 per share together with a cash consideration of approximately HK\$158 million.

The transaction was completed on 16 August 2007. YXE and its subsidiaries hold approximately 47.117% of the entire issued share issued capital of the Company.

## **Employees and remuneration policy**

As at 30 June 2007, the Group employed approximately 8,600 employees (31 December 2006: 8,450 employees), of whom approximately 8,450 employees (31 December 2006: 8,310 employees) were primarily engaged in the properties, toll roads and newsprint business.

The Group remunerated its employees largely based on industry practice, including contributory provident funds and other staff benefits. Other employee benefits included 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**

The following information was disclosed in accordance with Rule 13.21 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited:

1. GZI entered into a term loan agreement for HK\$2,500 million on 18 December 2006 (“Loan Agreement”) with a final maturity in December 2009. Under 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, a subsidiary of the Company, or (ii) (whether combined directly or indirectly) a shareholding interest of not less than 35% in the issued voting share capital of GZT. These obligations had been complied with for the six months ended 30 June 2007.
2. GZT entered into a HK\$400 million loan agreement dated 9 March 2007 (“GZT Loan Agreement”) with a final maturity in March 2012. Under the terms of GZT Loan Agreement, it shall be an event of default if Yue Xiu and the Company, the controlling shareholders of GZT who together beneficially own an aggregate of about 70.5% of the issued share capital of GZT, cease to maintain (i) their status as the single largest beneficial shareholder of GZT (ii) (whether together directly or indirectly) a shareholding interest of not less than 35% in the issued voting share capital of GZT or (iii) an effective management control over GZT. It is also an event of default if Yue Xiu ceases to be wholly owned, directly or indirectly, by Guangzhou Municipal People’s Government without the prior written consent of the lender. These obligations had been complied with for the six months ended 30 June 2007.

## **CORPORATE GOVERNANCE**

The Company has complied with the code provisions of the Code on Corporate Governance Practices (“Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the six months ended 30 June 2007, except for the following deviations:

### **Code Provision A.2.1**

Code Provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

Mr. Ou Bingchang is the Chairman and General Manager of the Company. The Chairman is responsible for overseeing the operation of the Board and providing leadership and direction towards achieving the Company’s objectives. In contrast the General Manager of the Company is responsible for the operation of the business under the direction of the Board and the implementation of the policies and strategies set by the Board. The combination of the roles of the Chairman and the General Manager in one person is intended to ensure that the Board is in full control of the affairs of the Company and that the policies and strategies set by the Board would be efficiently and effectively implemented.

### **Code Provision A.4.1**

Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election. None of the non-executive directors of the Company is appointed for a specific term. However, all the non-executive directors of the Company are subject to retirement by rotation at the annual general meeting of the Company in accordance with the Company’s Articles of Association. All the non-executive directors of the Company had retired by rotation during the past 3 years. They have been re-elected.

The Audit Committee and the Company’s auditors, PricewaterhouseCoopers, have reviewed the unaudited condensed consolidated financial statements for the six months ended 30 June 2007.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S SHARES**

The Company has not redeemed any of its shares during the six months ended 30 June 2007. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company’s shares during the period.

## **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members of the Company will be closed from Monday, 22 October 2007 to Wednesday, 24 October 2007, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfers of shares accompanied by the relevant share certificates must be lodged for registration with the Company's Share Registrar, Tricor Abacus Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong, not later than 4:00 p.m. on Thursday, 18 October 2007.

## **ACKNOWLEDGEMENT**

I would like to take this opportunity to express our sincere appreciation of the support from our customers, suppliers and shareholders. I would also like to thank my fellow directors for their valuable contribution and the staff members of the Group for their commitment and dedicated services throughout the period.

By order of the Board  
**Ou Bingchang**  
*Chairman*

Hong Kong, 24 September 2007

*As at the date of this announcement, the Board of the Company comprises:*

*Executive Directors:* OU Bingchang (Chairman), LIANG Yi, LI Fei, TANG Shouchun, WANG Hongtao, LI Xinmin, HE Zili and ZHOU Jin

*Independent Non-executive Directors:* YU Lup Fat Joseph, LEE Ka Lun and LAU Hon Chuen Ambrose