



越秀投資有限公司

GUANGZHOU INVESTMENT COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)

Interim Results For the Six Months Ended 30th June 2004

RESULTS

The directors of Guangzhou Investment Company Limited (the “Company”) announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30th June 2004 as follows:—

		Unaudited Six months ended 30th June	
	Note	2004 HK\$'000	As restated 2003 HK\$'000
Turnover	3	2,266,266	1,662,046
Cost of sales		(1,702,568)	(1,168,644)
Gross profit		563,698	493,402
Other revenues		9,795	53,496
Selling and distribution expenses		(63,168)	(63,664)
General and administrative expenses		(192,789)	(170,326)
Loss on deemed disposal of certain interests in a subsidiary		—	(62,998)
Profit from operations	4	317,536	249,910
Finance costs		(75,463)	(112,819)
Share of profits less losses of			
— Jointly controlled entities		2,000	(10,215)
— Associated companies		104,275	85,730
Profit before taxation		348,348	212,606
Taxation	5	(84,483)	(37,741)
Profit after taxation		263,865	174,865
Minority interests		(132,660)	(69,345)
Profit attributable to shareholders		<u>131,205</u>	<u>105,520</u>
Interim dividend	6	<u>52,531</u>	<u>49,257</u>
Earnings per share	7		
Basic		<u>HK2.08 cents</u>	<u>HK1.72 cents</u>
Fully diluted		<u>HK2.04 cents</u>	<u>HK1.71 cents</u>

Notes:

1 Basis of preparation and accounting policies

These condensed interim accounts should be read in conjunction with the 2003 annual accounts.

The accounting policies and methods of computation used in the preparation of these condensed accounts are consistent with those used in the annual accounts for the year ended 31st December 2003.

2. Restatement of comparatives — changes in accounting policies

(a) Goodwill/negative goodwill

Previously, goodwill/negative goodwill on acquisition of subsidiary/associated company/jointly controlled entity engaged in the operation of toll highways or bridges occurring on or after 1st January 2001 is amortised on the basis of a sinking fund calculation over the period for which the Group is granted the rights to operate the highways or bridges. For the year ended 31st December 2003, the Group changed its accounting policy by adopting straight-line amortisation on goodwill/negative goodwill. Comparatives presented have been restated to conform to the changed policy accordingly.

(b) Interests in toll highways and bridges

Previously, interests in toll highways and bridges are amortised using the sinking fund method. For the year ended 31st December 2003, the Group changed its accounting policy by adopting units-of-usage based depreciation and straight-line amortisation on tangible infrastructures and intangible operating rights respectively. Comparatives presented have been restated to conform to the changed policy accordingly.

(c) Deferred taxation

In prior years, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of the revised Hong Kong Statement of Standard Accounting Practice 12 represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

3 Turnover and segment information

The Group is principally engaged in development, operation and management of toll highways and bridges, development, selling and management of properties and holding of investment properties, manufacturing and trading of newsprint, corrugated paper.

Primary reporting format — business segments

The Group operates mainly in Hong Kong and the Mainland of China (“China”) and in three main business segments:

- Properties - development, selling and management of properties and holding of investment properties
- Toll operations - development, operation and management of toll highways and bridges
- Paper - manufacturing and selling of newsprint and corrugated paper

Other operations of the Group mainly comprise investment holding and supermarket operations, neither of which are of a sufficient size to be reported separately.

There are no significant sales between the business segments.

Secondary reporting format — geographical segments

The Group’s three business segments are mainly managed in Hong Kong and China:

- Hong Kong — properties
- China — properties, paper and toll operations
- Others — properties

There are no significant sales between the geographical segments.

Primary reporting format — business segments

	Six months ended 30th June									
	Properties		Toll operations		Paper		Other operations		Group	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	As restated 2003 <i>HK\$'000</i>
Turnover	<u>1,396,165</u>	<u>986,795</u>	<u>183,258</u>	<u>191,580</u>	<u>562,857</u>	<u>483,671</u>	<u>123,986</u>	<u>—</u>	<u>2,266,266</u>	<u>1,662,046</u>
Segment results	<u>212,433</u>	<u>220,278</u>	<u>70,925</u>	<u>78,818</u>	<u>52,493</u>	<u>20,283</u>	<u>2,312</u>	<u>6,455</u>	<u>338,163</u>	<u>325,834</u>
Interest income									<u>3,077</u>	<u>6,383</u>
Unallocated operation costs									<u>(23,704)</u>	<u>(19,309)</u>
Loss on deemed disposal of certain interests in a subsidiary									<u>—</u>	<u>(62,998)</u>
Finance costs									<u>(75,463)</u>	<u>(112,819)</u>
Share of profits less losses of:										
- Jointly controlled entities			<u>2,000</u>	<u>(10,215)</u>					<u>2,000</u>	<u>(10,215)</u>
- Associated companies	<u>935</u>	<u>(1,711)</u>	<u>103,340</u>	<u>87,441</u>					<u>104,275</u>	<u>85,730</u>
Profit before taxation									<u>348,348</u>	<u>212,606</u>
Taxation									<u>(84,483)</u>	<u>(37,741)</u>
Profit after taxation									<u>263,865</u>	<u>174,865</u>
Minority interests									<u>(132,660)</u>	<u>(69,345)</u>
Profit attributable to shareholders									<u>131,205</u>	<u>105,520</u>

Secondary reporting format — geographical segments

	Six months ended	
	30th June	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Turnover		
- Hong Kong	<u>392,883</u>	<u>58,800</u>
- China	<u>1,848,514</u>	<u>1,602,627</u>
- Others	<u>24,869</u>	<u>619</u>
	<u>2,266,266</u>	<u>1,662,046</u>

4 Profit from operations

Six months ended	
30th June	
	As restated
2004	2003
HK\$'000	HK\$'000

Profit from operations is stated after crediting and charging the following:

Crediting

Amortisation of negative goodwill	16,553	109,007
Gain on disposal of fixed assets	523	821

Charging

Cost of inventories sold	1,496,836	1,078,675
Depreciation:		
Owned fixed assets	68,966	57,325
Leased fixed assets	13	13
Amortisation/depreciation of interests in toll highways and bridges	50,696	47,985
Amortisation of goodwill	4,966	4,966

5 Taxation

- (a) Hong Kong profits tax has been provided at the rate of 17.5 per cent (2003: 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, associated companies and jointly controlled entities in China in accordance with the Income Tax Law of China for Enterprises with Foreign Investment and Foreign Enterprises ("China Tax Law") at 18 per cent to 33 per cent. Under the China Tax law, certain of the Group's subsidiaries, associated companies and jointly controlled 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 on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures including costs of land and development and construction expenditure.

- (d) The amount of taxation charged to the condensed consolidated profit and loss account represents:

	Six months ended	
	30th June	
	2004	As restated 2003
	HK\$'000	HK\$'000
Current taxation		
Hong Kong profits tax	1,086	3,245
China enterprise income tax	60,531	58,580
China land appreciation tax	8,695	—
Deferred taxation in relation to the origination and reversal of temporary differences	<u>(509)</u>	<u>(29,760)</u>
	69,803	32,065
Share of taxation attributable to:		
Jointly controlled entities	1,748	761
Associated companies	<u>12,932</u>	<u>4,915</u>
Taxation charges	<u>84,483</u>	<u>37,741</u>

6 Dividend

	Six months ended	
	30th June	
	2004	2003
	HK\$'000	HK\$'000
2004 interim, proposed of HK\$0.0083 (2003: HK\$0.008) per share	<u>52,531</u>	<u>49,257</u>

7 Earnings per share

The calculation of basic earnings per share for the period ended 30th June 2004 is based on the consolidated profit attributable to shareholders of approximately HK\$131,205,000 (2003: HK\$105,520,000) and the weighted average number of approximately 6,300,120,794 shares (2003: 6,118,305,482 shares) in issue during the period.

The calculation of diluted earnings per share for the six months ended 30th June 2004 is based on the consolidated profit attributable to shareholders of approximately HK\$131,205,000 (2003: HK\$105,520,000) and the diluted weighted average number of approximately 6,431,511,000 shares (2003: 6,171,185,972 shares) in issue during the period after adjusting for the potential dilutive effect in respect of outstanding share options.

ANALYSIS OF RESULTS

During the six months ended 30th June 2004, the Group's turnover rose sharply by 36 per cent to HK\$2,266,266,000. Despite the turnover from toll business slightly decreased, the other two core businesses, property and newsprint, had all recorded remarkable growth.

Same as last year, approximately 60 per cent of the turnover was contributed from the property sales and rental income.

For the Group's property business, overall turnover had soared by 41 per cent despite that the property sales in China remained steady as compared to the first half of last year. Favoursing the recovery of property market in Hong Kong, Pokfulam Terrace reaped a good response when it was launched to the market early this year and contributed HK\$332,862,000 sales revenue in the first half of 2004. On the other hand, following the completion and launch of certain premier office and commercial buildings to the market during 2004, overall rental income generated from China increased by 71 per cent to HK\$145,798,000. For the Group's toll road business, despite Xian Expressway being positively affected by its linkage with the Xian City Express Highway, the overall turnover fell by 4.3 per cent to HK\$183,258,000 due to the formation of new highway network which negatively affected the traffic volume of some major subsidiary toll roads. For the Group's newsprint business in China, despite a slight decrease in sales price, sales revenue in the first half of 2004 recorded a growth of 16 per cent compared with same period of last year due to rising demand in newsprint market.

Compared with same period of 2003, the Group's gross profit grew by 14 per cent to HK\$563,698,000 this year, of which property and newsprint businesses rose by 21 per cent and 32 per cent respectively. The management is committed to continuously implementing stringent cost control to ensure that overall costs are maintained at lower level.

Selling expenses remained comparable to that for the first half of last year.

Administrative expenses had increased by 13 per cent to HK\$192,789,000. The major reason was due to the full six months contribution of supermarket operation acquired in October 2003.

For the first half of the year, the Group's overall finance costs amounted to HK\$75,463,000, representing a decrease of 33 per cent compared with same period of last year. Finance costs incurred by the three core businesses had all been dropped as a result of the Group's repayment of its bank borrowings and debts during the period.

The increase in the Group's share of profit of associated companies was mainly attributable to toll road business which shown a 18.5 per cent increase. Except for Qinglian Highways which had a negative contribution, the other associated companies' toll projects such as Humen Bridge, the Guangzhou City Northern Ring Road and Shantou Bay Bridge, had all recorded positive growth for the six months ended 30th June 2004.

The Group's major share of profit in a jointly controlled entity, which invested in Guangzhou Northern Second Ring Expressway, with a continuous strong traffic volume growth of 135.8 per cent in the first half of 2004, recovered from a loss position to positive contribution to the Group of HK\$2.0 million since its operation commenced in 2002.

The three core businesses had all recorded a growth in profit before taxation as compared to the same period of last year, the Group's consolidated profit before taxation rose substantially by 64 per cent to HK\$348,348,000. Taxation has accordingly increased by 124 per cent to HK\$84,483,000 as compared to the same period of last year in line with the growth in profit before taxation.

Minority interests rose by 91 per cent due to the growth in profit from both the property and newsprint businesses.

Given the above, during the six months ended 30th June 2004, the Group achieved an increase of 24 per cent in profit attributable to shareholders to HK\$131,205,000 as compared to the same period of last year. Basic earnings per share were HK2.08 cents, representing an increase of 21 per cent compared to the same period of last year.

INTERIM DIVIDEND

The Board of Directors has resolved to declare an interim dividend for 2004 of HK\$0.0083 (2003: HK\$0.008) per share payable on 8th November 2004 to shareholders whose names appear on the register of members on 21st October 2004. Interim dividend pay out ratio will be 40 per cent.

BUSINESS REVIEW

During the first half of 2004, various businesses of the Group developed in a satisfactory manner. For the property business, sales of properties in China and Hong Kong have been satisfactory. Both saleable area and sales amount continued to rise. Toll road business continued to grow steadily as a result of the surge in traffic flow of its expressways. Paper business has been benefited from the continuous boom in demand for newsprint in China, whilst sales of newsprint rose significantly.

Property business

Area of properties sold and leased by the Group continued to increase

During the period under review, the sales of properties amounted to HK\$1,108 million, with 150,278 sq. meters of the gross floor area sold, which was increased by 43 per cent and 13 per cent when compared with the same period in 2003, respectively. Of which, turnover from the sales of properties in China was HK\$751 million, with 142,535 sq. meters of the gross floor area sold, and was similar to the level for the same period in 2003. Major residential projects for sale included the first phase of Jiang Nan New Mansion, the first phase of Southern Le Sand in Nansha, Lingnan Garden, Galaxy City, Grandcity Garden, Run Hui Building, Romantic Garden, as well as the phase 1 of Binjiang Yiyuan and block 24 of Springland Garden recently launched into the market. The projects introduced into the market lately were well-received. Vacancy rate of the property projects was the lowest for the recent years. The Group's property projects are of high quality. For example, Jiang Nan New Mansion near Sun Yat-Sen Univeristy in Haizhu District is located at the entrance of a metro station and is easily accessible. Binjiang Yiyuan is situated at the luxurious property district to the east of Binjiang, and is a rare second tier premium property project with river veiw. Galaxy City of Zhu Jiang Estate was awarded five major awards including the "Top Ten Brandname Community". Luxurious property project such as Grandcity Garden in Er Sha Island was sold out. There was also strong demand for budget housing in Run Hui Building.

Upon the continuous recovery of the property market in Hong Kong during the first half of 2004, the Group capitalized on the momentum in the market, and launched the Pokfulam Terrace project in Pokfulam, Hong Kong during the period. Market response for this project had been encouraging. During the period, turnover from the sales of the Group's properties in Hong Kong was HK\$333 million, with about 7,700 sq. meters of the gross floor area sold, which was derived from the residential property project in Pokfulam.

During the first half of this year, the rental income from properties in Hong Kong and Guangzhou amounted to HK\$203 million, which was increased by 44 per cent when compared with the same period in 2003. As Victory Plaza, Fortune Plaza and Xinchuangju Building were completed and commenced operation, area of properties leased by the Group rose 11 per cent to about 500,000 sq. meters. Other major rental projects include City Development Plaza, White Horse Commercial Building, Jin Han Building, Golden Arch Residence, Grandcity Commercial Plaza, Hong Fa Building, City Development Building and Guang Yuan Cultural Centre in Guangzhou, and Yue Xiu Plaza in Hong Kong. The rental portfolios are diversified in grades, locations and land use, and covered Grade A offices, prime shopping malls, shops in residential complexes and car parks and generate a steady rental income. Occupancy rate of the properties for leasing were increased partly as a result of comprehensive marketing research as well as superb operation and planning activities.

Substantial projects under construction and large land bank underpin development potentials in future

During the first half of this year, the gross floor area of the Group's properties under development amounted to 1,100,000 sq. meters, and was attributable to projects in China. This will underpin the Group's earnings in the coming few years. In addition, the Group's land bank held for medium term development in China as at the end of June this year has gross floor area of about 3,580,000 sq. meters. The land bank in the urban area mainly included the residential land in Haizhu District. As the Government has raised compensation for urban renewal projects in Guangzhou in the end of 2003, the supply of residential properties in urban areas will decrease in future. This will further increase the value of the Group's land bank in urban areas. The land bank mainly for residential purposes in Nansha is at the southeastern side of Nansha, which is a newly emerged industrial, logistics and hi-tech centre at the southern side of Guangzhou and in the centre of the Pearl River Delta. Upon completion of infrastructure facilities for auxiliary logistics purpose in the peripheral area included the Eastern Expressway, the Central Expressway, the light railway linking Panyu and Nansha, the Guangzhou Metro Line Number 4 and a new passenger terminal for routes serving between Nansha and Hong Kong successively within the next one to two years, traveling time from Nansha to major cities of the Pearl River Delta will be further reduced. 15,635 sq. meters of the first phase of Southern Le Sand, a residential project in Nansha, was sold in the first half of 2004. With Nansha commencing

development in a substantial scale, numerous esteemed multinational companies will establish factories in Nansha. Additional development efforts will be put to Southern Le Sand, accelerating the development of the second phase to cater for the needs in the market.

Other businesses: Toll road earnings grew steadily while sales of newsprint business surged significantly

Notwithstanding the traffic diversion effect caused by the new roads on the toll road projects for the first half of 2004, traffic volume of Guangzhou Northern Second Ring Expressway grew rapidly by 135.8 per cent when compared with the same period last year. This, together with the booming economy of the Pearl River Delta Region, will accelerate the growth rate of private car ownership. This will in turn boost traffic volume for Humen Bridge, Guangzhou City Northern Ring Road and Shantou Bay Bridge. During the first half of 2004, GZI Transport Limited, the toll road subsidiary of the Company, recorded a 22 per cent increase in profit attributable to shareholders of HK\$129 million when compared with the same period in 2003.

Guangzhou Paper Co., Ltd. (“Guangzhou Paper”) continued to maintain bigger market shares in the domestically produced newsprint market. During the first half of this year, boom in demand for newsprint in China continued. Through implementation of measures such as exploring underutilized resources and strengthening management, improvement in production techniques, extensive downsizing and reduction of finance costs by early repayment of bank loans, 150,506 tonnes of newsprint was sold by Guangzhou Paper during the period, which was increased by 23 per cent when compared with the same period in 2003. Notwithstanding the fall in selling price of newsprint by 2.8 per cent to RMB3,922 per tonne for the first half of the year as a result of intense competition in the market as well as substantial increase in the cost of raw materials in China during this year, profit attributable to shareholders was HK\$19 million, representing a considerably high rate of increase when compared with the same period last year. Looking forward for the full year, the Group expects the competition in the newsprint market will be intense in China. However, demand for newsprint in the market will still be high. With the price of paper in the international market becoming steady, price of newsprint in China will recover and increase in the second half of 2004.

Future Strategies and Prospects

GNP of Guangzhou grew 16.4 per cent for the first half of 2004, which was highest for the last nine years. Coupled with growing urbanization, expansion of the middle class and upgrading needs, sales of residential properties in Guangzhou has been continuously rising over the past few years. During the first half of 2004, the sales of properties in the primary market of the eight districts in Guangzhou increased by 37.4 per cent to 3.94 million sq. meters, whilst the supply of properties in the primary market of the eight districts in Guangzhou for the same period was about 3.03 million sq. meters, evidencing substantial fall in inventory. At the same time, most of the purchasers were from end users with few from investors. Rational demand has been driving steady development of the whole market. During the first half of 2004, the price of properties in the primary market of the urban area in Guangzhou mildly surged for about 6.3 per cent. The transactions in the secondary market of the eight districts in Guangzhou were also active. Area sold through the secondary market during the period increased by 35.6 per cent when compared with the same period in 2003. It is believed by the Group that the austerity measures being implemented in China and the adjustment in credit policies will result in the development of property market in a healthier and more regulated manner. Meanwhile, the auction of the land use right as a market-oriented mechanism will lift the entry barrier to the property industry, where the competition environment in future will be more favourable to major developers.

The Group's competence as to its brand name, integrity and funding has been ranked equivalent to a premier property developer, and is also a well known property brand name in Guangzhou market, which has over 20 years of experience in property development. It has related ancillary companies such as property agency and property management, and has sound financial position. It has been accredited as the number one in integrated capability of property development in Guangzhou many times. The awards it has received over the years included "Number one of the top ten corporations in development, construction and investment of real estate in Guangzhou" in 2001, one of the "Ten most popular developers" in Guangzhou in 2002, and the "Enterprise which respects contracts and keeps promises" award for the last ten consecutive years. In 2003, it was ranked the first for the "150 most credit-worthy enterprises in Guangzhou", the second for the "Top ten of the most competitive real estate enterprises in Guangzhou", "Top twenty Credible real estate enterprises in Guangdong Province" for the third consecutive year and the "Top ten real estate enterprises with brand names most beloved by Guangzhou citizens".

To capitalize on the excellent brand name of Guangzhou City Construction & Development Holdings, the positioning of the Group's property business will focus on the development of medium-priced residential properties in Guangzhou ranging from RMB5,500 to RMB6,500 per sq. meter. The Group will also selectively develop premium offices, shopping malls and up market residential properties for rental purpose. Priority will also be given to the land bank in urban area for development and the land bank in suburban area will be retained for medium term development. This will optimally reflect the potential value of our land bank and the possibility in value appreciation.

The Group believes investment in expressway projects in the centre of the Pearl River Delta will underpin future growth potential of the Group's toll road investment portfolio. Guangzhou Western Second Ring Expressway, a project recently invested will commence construction in September 2004. It is expected construction will be completed in three years for commissioning operation. Investment in Guangzhou Eastern Second Ring Expressway and Guangming Expressway situated in the Pearl River Delta centre are now being studied.

Looking ahead, economic environment in the Pearl River Delta is very favourable. Upon gradual finalization of the Pan-Pearl River Delta and implementation of the Closer Economic Partnership Arrangement (CEPA) signed between Hong Kong and China, integrated development among the Pearl River Delta, Guangzhou and Hong Kong will be further speeded up. In addition, the Guangdong Province is going through a second industrialization which will expedite the economic development of Guangdong. Household registration policy in the Guangdong Province will also be adjusted. Citizens from other provinces, who have stayed for long period and have a fixed residential address will be able to move their household registration to the actual residential address within the Guangdong Province. This new policy is expected to increase property demand substantially. Sales of properties will be driven up by an increase in demand, a fall in inventory and further reduction in supply of new projects to the market. The Group's businesses based in Guangzhou will become major beneficiaries under the above-mentioned developments. The Group will continue to enhance the competitiveness of its businesses under such an ever-changing operating environment, so as to generate greater return in investment for its shareholders.

AUDIT COMMITTEE

The unaudited interim accounts for the six months ended 30th June 2004 had been reviewed by the Audit Committee.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 19th October 2004 to Thursday, 21st October 2004, 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, Abacus Share Registrars Limited at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, not later than 4:00 p.m. on Monday, 18th October 2004.

DISCLOSURE OF INFORMATION ON THE WEBSITE OF THE STOCK EXCHANGE

A detailed interim results announcement for the six months ended 30th June 2004 containing all the information required by paragraphs 46(1) to 46(6) of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") will be published on the website of the Stock Exchange in due course.

By order of the Board
Ou Bingchang
Chairman

Hong Kong, 16th September 2004

As at the date of this announcement, the Board of the Company comprises Mr. Ou Bingchang, Mr. Chen Guangsong, Mr. Li Fei, Mr. Liang Ningguang, Mr. Xiao Boyan, Mr. Liang Yi, Mr. Wong Chi Keung, Mr. Yu Lup Fat, Joseph and Mr. Lee Ka Lun.

Please also refer to the published version of this announcement in The Standard.