

## Chairman's Statement



“ It is my pleasure to report to the shareholders that the audited consolidated profit after taxation and minority interest of the Group for the year ended 31 December 2003 increased 15.5 times to approximately **HK\$688,918,000**. Earnings per share was **HK12.74 cents**. The Board of Directors recommends the payment of a final dividend of **HK3 cents** per share. ”

**Sun Wen Jie**  
Chairman

## Review of Operations

Year 2003 is a challenging year for the Group. Due to the outbreak of “SARS” and the war in Iraq, the global economy in the first half of year 2003 was badly affected and the Hong Kong economy hit the bottom. Following the implementation of the Closer Economic Partnership Arrangement (CEPA), there are strong signs of economy recovery in the second half of the year 2003. Problems in employment, deflation and fiscal deficits started to improve and the capital market as well as the property market in Hong Kong is seen to have strong momentum. The political situation in the PRC remains stable and despite the effect of the “SARS”, the PRC economy recorded a 9% growth. In the past 2 years, The PRC State Council and The People’s Bank of China have implemented new policies to control land supply and financing for property development. Some municipal authorities have lately implemented corresponding measures to better regulate the property market. The Board believes all these moves are aimed at promoting the healthy and persistent growth of the property market and provide promising opportunities to companies with financial capabilities and reputable brandname, and the Company is just one of the few such companies.

Under such a complex and ever-changing economic and business environment, the Group is proud to achieve satisfactory result. This confirms that the decision of the Board to keep increasing our investment in China after 1997 is correct. It also shows that the efforts of the Group in undergoing corporate and business reform, increasing our core competitiveness and profitability, tightening of cost control and cash flow as well as adopting prudent financial policies have started to have fruitful results.

## Review of Operations *(cont'd)*

### I. Property development

#### 1. Property sales

Last year, the Group recorded sales increase of 8% to HK\$4.3 billion while the corresponding gross floor area sold increased by 11% to 686,000 sq.m. Sales from Hong Kong were about HK\$282 million coming mainly from Ellery Terrace in Homantin.

The turnover of the Group's property sales in the PRC was about HK\$3.2 billion, representing an increase of 15% as compared to year 2002 while the corresponding gross floor area sold increased by 9% to 530,000 sq.m.

#### 2. Properties completed and ready for occupation during the year

During the year 2003, there were 5 projects completed in the PRC. These include The Seaview and The Sunny Palm Phase II in Shenzhen, The Elegant Town Phase II in Guangzhou, Phase I of Hai Yu Gardens in Shanghai and also the Zhonghai Fuyuan in Beijing. The total gross saleable area for these 5 projects was 520,000 sq.m. and about 81% (421,000 sq.m.) was sold by the end of last year, raising HK\$2.6 billion. Sales of properties held for sale was satisfactory. 109,000 sq.m. was sold for about HK\$620 million. As at end of last year, the Group has property held for sale of 245,000 sq.m., of which about 156,000 sq.m. was residential units and 66,000 sq.m. was residential units completed before end of year 2002.

During the year, Phase I of the Stanley Regalia Bay project was the only project in Hong Kong completed. Only a small number of units were sold by the end of last year.

In terms of operating profit, due to provisions write back, Hong Kong recorded a profit of HK\$226 million. Owing to 36% improvement in gross profit margin to 17%, PRC property development contributed HK\$509 million, representing an increase of 49% as compared to year 2002.

## Review of Operations *(cont'd)*

### I. Property development *(cont'd)*

#### 3. Properties to be completed for occupation in 2004

The Group plans to have 13 projects completed in 2004 in the PRC (including The Sunny Palm Phase II (remaining units) and III in Shenzhen, Cannes Garden Phase II A and Elegant Town Phase III in Guangzhou, Hai Yu Gardens Phase II and Peace Garden in Shanghai, Grandeur Vista Phase II and III and Riverward Palais (Commercial Portion) in Chengdu, Zhonghai Kaixuan and Zhonghai Faery Villa in Beijing and Sui An Chun Cheng Phase I and II in Changchun). The total gross saleable area is about 1,000,000 sq.m. 6 out of these 13 projects have started pre-sale and floor area of about 250,000 sq.m. has been pre-sold for HK\$1.5 billion by the end of the year.

City	Name of the property project	Location	Intended usage (Note1)	Percentage of interest	Development Area (Note2) ('000 sq.m.)	Status (Note3)
Shenzhen	Sunny Palm Phase II	Qianhai Road, Nanshan District	Residential	80%	18	Close to completion, sell from April
Shenzhen	Sunny Palm Phase III	Qianhai Road, Nanshan District	Residential	67%	92	Close to completion, sold 76%
Shanghai	Hai Yu Gardens Phase II	388 Luban Road, Luwan District	Residential	100%	86	Construction in progress, sold 57%
Shanghai	Peace Garden Phase II	1288 Dalian Road	Residential	95%	65	Construction in progress, sold 77%
Guangzhou	Cannes Garden Phase II A	Dong Pu Town, Tianhe District	Residential	100%	90	Construction in progress, sold 83%
Guangzhou	Elegant Town Phase III	1 Fangzhi Road, Haizhu District	Residential	100%	69	Construction in progress, sold 70%
Beijing	Zhonghai Kaixuan	Double Dragons Road, Xicheng District	Commercial/ Residential (2:8)	100%	82	Close to completion, sold 23%
Beijing	Zhonghai Faery Villa	Xibeiwang Town, Haidian District	Residential	100%	151	Construction in progress, sold 15%
Chengdu	Grandeur Vista Phase II	8 Shenxianshu South Road, Hi-tech Development Zone	Residential	100%	44	Completion, sold 79%
Chengdu	Grandeur Vista Phase III	8 Shenxianshu South Road, Hi-tech Development Zone	Residential	100%	97	Close to completion, pre-sale in April
Chengdu	Riverward Palais (Commercial)	8 Wangjiang Road, Wuhou District	Commercial	100%	23	Construction in progress, pre-sale in July
Changchun	Sui An Chun Cheng Phase I	Jingyuetan Economic Development Zone	Residential	100%	96	Close to completion, sold 56%
Changchun	Sui An Chun Cheng Phase II	Jingyuetan Economic Development Zone	Residential	100%	94	Construction in progress, pre-sale in July
Properties to be completed for occupation in 2004		<b>Total</b>			<b>1,007</b>	

Note: 1. The exact apportionment is not shown for properties with less than 10% commercial interest.

2. Development area includes non-saleable area like ancillary facilities & car parks etc.

3. The sold area was updated to 26/03/2004.

## Review of Operations *(cont'd)*

### I. Property development *(cont'd)*

#### 4. Land reserve

During the year 2003, the Group acquired 9 pieces of land in major cities providing gross development area of 1,660,000 sq.m. (mainly residential) for short term development. As at the end of last year, taking away the 5 projects completed during the year the Group had a total development area of 4,600,000 sq.m. under development and for development in the next two years, sufficient for development for the next 4 to 5 years.

City	Name of Project	Group's interest (%)	Gross
			development area ('000 sq.m.)
Shanghai	JianGuo Dong Road Phase I	98%	250
Guangzhou	Luoxi land parcel	99%	90
Guangzhou	Zhukong New City K2	60%	280
Guangzhou	Zhukong New City D7-6	100%	140
Chengdu	Riverward Palais	100%	200
Changchun	Sui An Chun Cheng Phase I, II	100%	190
Zhongshan	Shaxi land parcel	100%	300
Shenzhen	Bantian project	64.5%	70
Xian	HeungBoGuan project	100%	140
	<b>Total</b>		<b>1,660</b>

The Group adopts a policy of acquiring quality land banks in the PRC for short, medium and long term purposes. Agreements or letters of intent have been signed for several pieces of land held for long term development purposes, some of them are already at the stage of land requisition. If all these materialize, they could eventually provide to the Group not less than 5,000,000 sq.m. development area. During the year 2003, the newly acquired land banks for medium and long term development are set out below:

#### Changchun

A "Real Estate Project Development Contract" was entered into early 2003. The land use rights of 200,000 sq.m. land were obtained from the government in May 2003. The acquisition of the remaining lands is still in progress. The development area of the project is 1,000,000 sq.m. and the whole project is expected to last for 10 years.

#### Nanjing

A "Land Purchase Agreement" was signed for a big piece of land which could take more than 10 years to develop. Land requisition by stages has started.

## Review of Operations *(cont'd)*

### I. Property development *(cont'd)*

#### 4. Land reserve *(cont'd)*

##### Shanghai

An "Old Town Redevelopment Agreement" was made with the Luwan district government in the middle of 2003. The entire project could last for 7 years and has development area of about 510,000 sq.m. Negotiation for compensation to existing residents has started and it is expected that about HK\$1 billion be paid in year 2004.

As at 31 December 2003, excluding the 13 projects scheduled to be completed in 2004, the Group had 20 other projects in the PRC which were under or for short term development, total floor area of about 3.6 million sq.m. was available for development. Details of the respective projects are set out below:

City	Name of the property project	Location	Intended usage (Note1)	Percentage of interest	Expected year for completion	Development Area (Note2) ('000 sq.m.)	Status
Shenzhen	Primrose Villa	Henggang Town, Longgang District	Residential	100%	2005-06	285	Construction in progress
Shenzhen	Bantian Project	Bantian Village, Longgang District	Residential	65%	2005	72	Land being acquired
Shenzhen	Yumachang Project	Henggang, Longgang District	Residential	100%	2006-07	350	Under planning
Shenzhen	Yantiangang Project	Yantian District	Residential	60%	2006-07	84	Under planning
Shanghai	Old Town Development Project.Phase I	Jiangguo Dong Road, Luwan District	Residential	98%	2006-08	253	Under planning
Shanghai	Jade Laguna	Zhaoxiang Town, Qingpu District	Residential	100%	2005	93	Construction in progress
Shanghai	Zhonghai Laiyin	Longwu Road	Residential	99.5%	2006-07	270	Under planning
Guangzhou	Luoxi Project	Dashi Village, Panyu District	Residential	92.3%	2005	88	Construction in progress
Guangzhou	Cannes Garden Phase IIb	Dong Pu Town, Tianhe District	Residential	100%	2005	116	Construction in progress
Guangzhou	Elegant Town Phase IV	1 Fangzhi Road, Haizhu District	Residential	100%	2005	75	Under planning
Guangzhou	K2 Project Newcity of Zhujiang	Newcity of Zhujiang	Commercial/Residential (1:2:8:8)	60%	2006-08	277	Land being acquired
Guangzhou	D7-6 Project Newcity of Zhujiang	Newcity of Zhujiang	Residential	100%	2006	139	Land being acquired
Guangzhou	Glorious City Garden	1 Zhongshan Road, Dongshan District	Residential	94%	2006	42	Land being acquired
Chengdu	Riverward Palais (Residential)	Wuhou District	Residential	100%	2005-06	173	Under planning
Zhongshan	Shaxi Project	Shaxi Town	Residential	100%	2005-07	325	Under planning
Xian	Classic Palais	Southern Second-ring Road, Yanta District	Residential	100%	2005	162	Under planning
Beijing	Zhonghai Plaza	Chaoyang District	Commercial	75%	2007-08	147	Land being acquired
Beijing	Zhonghai Tiandi Project	Chongwen District	Residential	79%	2006-08	306	Land being acquired
Beijing	Zhonghai Golf Garden	Chaoyang District	Residential	100%	2005-06	229	Land being acquired
Beijing	Zhonghai Haiyang Huayuan	Changping District	Residential	72%	2007	105	Land being acquired
	Respective Projects excluding the projects scheduled to be completed in 2004	<b>Total</b>				<b>3,591</b>	

Note: 1. The exact apportionment is not shown for properties with less than 10% commercial interest.

2. Development area includes non-saleable area like ancillary facilities & car parks etc.

The Group's new project in Macau has development area of 140,000 sq.m. and is expected to be completed in 2006. Also, the Group's major land bank in Hong Kong is a piece of land situated in Fanling, the New Territories. It has a development area of 30,000 sq.m. and is expected to be completed in 2007.

## Review of Operations *(cont'd)*

### II. Construction and Contracting Business

During the year 2003, the Group secured 26 new projects with total contract sum of HK\$7.69 billion of which 8 projects with total contract sum of HK\$3.9 billion were management contracts for China State Construction Engineering Corporation and China State Construction Engineering (Hong Kong) Limited. The Group was awarded 18 projects with total contract sum of HK\$3.79 billion. New contracts include the Central Reclamation Phase III, Deep Bay Link – Southern Section, Cyberport Residential Development Phase RIII & RIVa, Substructure and Superstructure for Hong Kong Movie City, Junk Bay MTR Superstructure, Disney Hotel and Fantasyland etc.

As at the end of last year, the Group has 60 projects in progress with total contract sum of HK\$26.6 billion (HK\$13.7 billion to be completed). Among which, 27 projects with total contract sum of HK\$7.3 billion (HK\$4.2 billion to be completed) were operated by the Group, and 33 projects with total contract sum of HK\$19.3 billion (HK\$9.5 billion to be completed) were management contracts. The major projects are related to the East Rail and the Disney Park.

The works of all the contracting projects on hand were progressing smoothly. Regarding the works undertaken for Villa Pinada and the Aegean of the Gold Face Group, the Group has taken legal actions against each of the developer and its guarantor. As legal actions are undergoing, specific details are not to be disclosed. However, the Board has made appropriate provision for these two projects and it is expected that the final outcome will not have material adverse impact on the results of the contracting business.

Confronting with a very fierce competitive construction market in Hong Kong, the Group's construction business can still contribute profit of HK\$162 million, a rise of 25% as compared with the result in 2002.

### III. Infrastructure Investments

During the year, infrastructure related investment contributed profit of HK\$48,531,000, a decrease of 16% as compared to the result in year 2002. In May 2003, the Group invested US\$40,080,000 to own 55.24% equity interest in the Nanchang Bridge. This project has started to provide return better than forecasted. In November 2003, the Group invested HK\$200 million in the Shengyang HuangGu thermo electric project. During the year, the Group reached agreement with the PRC counterparties on reducing our infrastructure investment in Guangxi further and the investment costs of about US\$20,000,000 has been received in full.

### IV. Property Investments and Management

During the year, rentals of the leasing properties in Hong Kong continued to drop but at a slower manner. The Group's investment properties including The China Overseas Building and the shopping arcade in Horae Place remained a high occupancy rate, whereas the Shanghai Square in Shanghai and the Dongshan Square in Guangzhou has satisfactory occupancy rate. Mainly due to the disposal of the China Overseas Building in Shanghai in 2002 and also the gradual disposal of all the office areas in the Shanghai Square during the year 2003, the Group's rental income dropped by 4% to HK\$132million, of which 52% was from the PRC.

### V. Other Investments

The Group is actively looking for exit for our investment in China Digital satNet Limited and China Bidding International Limited. During the year, the Group invested HK\$44,000,000 to own 35.88% in the Shenzhen Novophalt Asphalt High Technology Co., Ltd.

## Prospects

The Board is optimistic about the future of the Group. The global economy is expected to do well in year 2004. While it takes time to resolve the structural problems for the Hong Kong economy, the Board expects that the economy and the real estate market in Hong Kong will perform well in the near future. The PRC economy will continue to outperform the rest of the world and maintain its rapid growth for the next few years at least. All these factors are favorable to the business operation of the Group.

Within the framework of strategic management, the Group will endeavour to accelerate the pace of management reform and business development, to improve the consolidated strengths and competitiveness of our various business segments and to increase the return on shareholders' fund to above 10%. In order that the business performance of the Group can have another breakthrough, the following detailed strategies and measures are to be implemented:

- I. The PRC property market is in the period of renovation, consolidation and reorganization. The Board is of the view that the market will continue to grow while being regulated and amid various adjustments. Captured on the competitive advantages of the Group in financial and manpower capabilities, excellent management style and in the reputable brandname, we will continue to increase our scale of investment in the PRC property market. The Board is capable, confident and determined to become one of the best nationwide property developers in the PRC. To achieve such target, we will
  - a. Understand correctly the needs and wants of the customers and continue to produce elite products to the satisfaction of customers at different levels and in different cities.
  - b. Increase our land reserve at the pace of not less than 1,000,000 sq.m. gross development area for short term development. Our expansion strategy is to do better and bigger in the 4 core cities (namely Beijing, Shanghai, Guangzhou and Shenzhen) and hence with the major bulk of the profit coming from these 4 cities for the next few years. At the same time, we will actively expand to cities adjoining to these 4 cities and also to strategic second-tier cities in order that we can secure big pieces of land at relatively lower price and for medium and long term development purposes. This will ensure the best scale of operation and financial benefit for the Group in the short, medium and long term.

In year 2003, the Group has developed 4 new points in Changchun, Nanjing, Zhongshan and Xian. It is planned that we will develop few more new points and the target cities are Dongguan, Zhuhai, Yantai, Suzhou and Tianjin.

- c. Endeavour to improve the return on funds employed in every project through stringent control of payments and receipts, active promotion of sales of all projects at the best time and maintaining our good policy of "low" inventory at all times.

China Overseas Property Group Co Ltd ("**COP**"), in which the Group has 79% interest, has ended its A share pre-listing nurture period in August 2003. To comply with the regulatory requirements of the listing of COP, an assets restructure exercise was required and the said exercise was approved by the shareholders of the Company in an extraordinary general meeting held on 30 January 2004. The Board would like to remind all shareholders that the final timetable for the listing and the commercial consideration are yet to be determined. As soon as the spin-off application of COP is made, the Group will publish further announcement and seek shareholders' approval (if required) in accordance with the Listing Rules.

## Prospects *(cont'd)*

- II. In the announcement made by the Company on 19 January 2004, the Board confirmed our consideration to combine all or part of the Group's construction related businesses with those of China Overseas Holdings Limited, the controlling shareholder of the Company. The combined businesses will be put under a new company ("**NEWCO**") and it is intended that NEWCO will apply for listing by way of introduction to The Stock Exchange of Hong Kong Limited following by a special dividend in kind of the Group's interest in NEWCO to the shareholders of the Company. The Board believes that the restructure if materialized will clear the lines of business for the Group. The Board would like to inform shareholders that the restructure is actively in progress. When the official application for the listing of NEWCO is made, the Group will make further announcement and seek shareholders' approval in compliance with the Listing Rules.
- III. The Group will continue to look actively for infrastructure related projects to offset the effects of repurchase by Chinese counterparties of our interests in the Guangxi infrastructure projects. The Board believes that it is important for the Group to have stable long term income to offset the cyclical nature of property development business.
- IV. Into year 2004, the Hong Kong property market has rebounded strongly, particularly in the luxury sector. The sale of the Stanley Regalia Bay project (in which the Group has 30% interest) has a breakthrough. Over 50% of the project has been sold so far and provisions have been written back this financial year. Assuming that the current favorable market condition can maintain, the Board expects further provisions write back can be made in future. The Group will continue to watch the Hong Kong property market closely and for opportunities in City Redevelopment projects cautiously. In the short term, our focus is to accelerate sale of inventory.

The Board is optimistic about the economy and property market in Macau. In February this year, the Group has secured a piece of land in Macau with gross development area of about 140,000 sq.m. The project is expected to be completed by 2006.

- V. The Group will continue to adopt a prudent financial policy to ensure the persistent and healthy growth of the Group. Taking into consideration the business operation of the Group, we will endeavour to control our gearing level to no more than 50% at all times. Due to the effective control of payments and receipts and notwithstanding the rapid expansion of the PRC property business, the net gearing ratio of the Group as at the end of year 2003 was decreased further to 3%. In line with the strategic expansion, it is expected that the capital expenditure of the Group could be substantial. The Group seized the opportunity in the capital market and raised HK\$1.5 billion by placing 850 million shares of the Company at the price of HK\$1.8 per share to institutional investors on 26 January 2004. At present, we have cash on hand of HK\$3.8 billion and unutilized banking facilities of HK\$3.7 billion. The Group is hence financially sound and has adequate financial resources to meet internal requirements and new business opportunities.

On behalf of the Board, I would like to take this opportunity to express our gratitude for the support of the shareholders and our business partners and the contribution of our staff.

**Sun Wen Jie**

*Chairman*

Hong Kong, 26 March 2004

# Properties

Occupied in 2003



Elegant Town Phase II, Guangzhou



Regalia Bay Phase I, Hong Kong



Sunny Palm Phase II, Shenzhen



Hai Yu Gardens Phase I, Shanghai



The Sea View, Shenzhen



Zhonghai Fuyuan, Beijing

# Construction

Projects Under Progress in 2003



Central Reclamation Phase III



New Campus Development (Community College) of Lingnan University



Substructure and superstructure works for Hong Kong Movie City



Deep Bay Link — Southern Section



Hang Hau Station Development (Residence Oasis)

# Major Construction Projects Completed in 2003



Caribbean Coast



Hampton Place



Ocean View



Site Formation Contract for Cyberport Residential Development

# Major Construction Projects Completed in 2003 *(cont'd)*



Tin Shui Wai Further Development — Road D3 and Constructed Wetland



Redevelopment of Tsing Yi Area 10, Phase 2



Development of Tsz On Estate, Phase 3



Building 4, Science Park at Pak Shek Kok Phase 1b