

## Chairman's Statement

# → Annual Report 2003

To better distinguish the various operation strategies and market directions, South Sea Holding Company Limited ("South Sea") and Sino-i Technology Limited ("Sino-i") jointly decided a series of restructure plans. On 16 April 2004, the plans were voted and approved at the shareholders' meeting. After implementation of the planned issuance of shares and merger procedures, Sino-i will become the investment arm of South Sea. This restructure will allow Sino-i to concentrate in the IT and cultural publishing business sectors, while South Sea will focus on property development sector. Through its investment and shareholding in Sino-i, South Sea will benefit from the IT and publishing business sectors' income.

In the past years, due to procedural impediments, South Sea was unable to proceed with the development of land reserves in mainland China. Nevertheless, in the first quarter of this year, we formally completed all the procedures required by the relevant government authorities in relation to the Liu Wan Project, and received approval for initiation of the Project. The complex procedures of unifying various land properties of the Liu Wan Project were completed, and construction works will launch within two months. Even though the procedural delay negatively impacted our interest costs, the Shenzhen western corridor construction has fully progressed, therefore advancing the advantage of the Liu Wan Project. We forecast net sales from the Project will be higher than originally estimated, which will in turn provide shareholders with more positive returns.

Due to the delay in the development of the new Guangzhou international airport, the development project in Guangzhou at Huadu District was postponed. We are in the process of expediting all application and development procedures, and plan to begin construction once the new airport is in operation. We do expect that the logistical effect of the airport will enhance this project's location advantage, and will boost the sales price.

We have decided to dispose of the electronic manufacturing facilities that were in existence prior to the shareholding change in 2000. Due to the severe competition and uncertainties in the market, we were unable to have any positive return in the past few years. The disposal of the manufacturing facilities will allow us to eliminate the losses in the past.

After a series of restructure, South Sea will become the flagship holding company of CITIC Group and I. With the injection of Sino-i, its IT and developing cultural publishing businesses will be the foundation of our positive performance. As our property development business matures, South Sea will seek to develop in multiple directions and achieve balanced performance.

I would like to thank all shareholders for your confidence in our management, and sincerely look forward to your continuous support in the future.

**Yu Pun Hoi**  
*Chairman*

Hong Kong, 29 April 2004