



Mr. Pang Baogen, Chairman

Chairman's statement

For Baoye Group Company Limited (the "Company") and its subsidiaries (the "Group" or "Baoye Group"), the year of 2003 was an exciting year because we have been established for 29 years and is now preparing to celebrate its 30th anniversary. With hearts of union and unyielding team spirit, the H shares of the Company have successfully been listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 30th June 2003 – an important milestone for the Group.

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The Baoye Group is based in Zhejiang Province and the Yangtze River Delta. The Group's core business is the undertaking and implementation of construction projects. Together with research, development and sale of semi-finished building materials, and real estate development, the Group has extended its business upstream and downstream and emerged as a vertically integrated construction enterprise. The Group is one of China's distinctive one-stop construction enterprises, and with our commitment to the development of high-quality major construction projects in more than two decades since our establishment, we become a symbol of excellence in the construction industry in China. With sustained rapid growth, Baoye has become one of the leading privately-owned construction enterprises in China.

In 2002, Baoye Group became one of China's 43 construction enterprises to obtain the premium class certificate for general building construction contracting works, the highest qualification issued by the Ministry of Construction. This qualification allows the Group to contract for construction projects of any size and any complexity. Since attaining this certificate, the number of projects undertaken by the Group has increased while many of the completed projects have received awards. In 2003, on top of achieving the record of winning the "Lu Ban Award for Chinese Construction Projects" six times, the Group won a total of 59 quality awards for its completed projects, including "Silver Medal of the State Outstanding Construction Projects", "National Construction Decoration Award", "Zhejiang Province's Qianjiang Cup", "Shanghai's Bai Yulan Cup", and "User Satisfaction Award for Shanghai Residential Projects". These qualifications and accolades further affirm the Group's lofty status within the industry, giving us an absolute competitive advantage when bidding for large-scale and high-profit projects. The general contracting for construction projects is the platform from which the Group develops its three main businesses, and is driven by the high growth brought about by urbanisation.



The Group is actively developing high-quality semi-finished building materials that are cost-effective and in line with the concept of energy conservation in China. To tie in with the government policy of 'Building Materials Industrialisation', the Group started to build a building materials industrial park in the Kexi Industrial Park in the Keqiao Economic Development Zone of Shaoxing County, Zhejiang Province in 2002. The development was named "Baoye Residential Industry (Building Materials) Park" ("Building Materials Park"). During the year, the Group actively accelerated the construction of the Building Materials Industrial Park, the construction of two of the projects was completed, the construction of two of the projects has commenced, while one project is in the planning stage. The quality building materials researched and developed by the Group received enthusiastic response and the Group has become the leader in the industrialisation of building materials in Zhejiang Province. Sales growth of ready-mix concrete and concrete piles was outstanding with sales growing steadily and rapidly. The building materials business represents the Group's evolution "from building to manufacturing", and has special historical significance. Although this



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business contributed only a limited portion of the Group's total revenue, the Group firmly believes that led by this revolutionary business development, the building materials business will be an important point of business and profit growth.

China continued to implement its proactive financial policy in 2003 and the Chinese economy maintained its robust growth. The growth in the people's income has stimulated the demand for residential property, resulting in constantly rising property prices. During the year, the Group maintained stable development in real estate business. The kick-off of key national projects, the construction projects related to the large-scale development of Western China, China's urbanisation process and the sustained property development boom have resulted in the development of the China construction industry at unprecedented speeds. According to statistics, Zhejiang Province ranked first in China's construction industry in 2003, with an output value of RMB310.0 billion, an increase of 21.4% over the previous year. These have provided vast business opportunities for the Group.

With our unwavering faith and our commitment to continuous improvement in our construction business, Baoye Group has obtained satisfactory results and gained market recognition, and becoming a leader in China's construction industry. In future, the Group will continue to focus on developing its construction business. Based on a 'vertical integration' model, the Group will develop both its upstream building materials business and downstream real estate business, capitalising on the synergy among the three businesses and leveraging the 'Baoye' brand – now a symbol of excellence in the construction industry – to bring all its business activities into harmony. Our objective is to ride on the advantage of 'click and brick' to realise the target of "from building to manufacturing", and to capitalise on the inevitable trend of urbanisation in China to consolidate our Group's leadership in China's construction industry. The Group will try its best to repay our shareholders.



The great achievements of Baoye Group were the results of the accumulated effort of its staff. I would like to express my heartfelt thanks to our devoted staff and would like to share with them our success with great pleasure.



Pang Baogen
Chairman

28th May 2004

