

# CHAIRMAN'S STATEMENT



Mr. Pang Baogen

## CHAIRMAN'S STATEMENT

I have the pleasure to report to our shareholders the audited consolidated financial results of the Group for the year ended 31st December 2004. During the year, the Group achieved turnover of RMB4,378,434,000, representing an increase of 46% over the preceding year; profit attributable to shareholders amounted to RMB275,082,000, representing an increase of 145% over the preceding year; Earnings per share reached RMB0.518, representing an increase of 103% over the preceding year. The Board proposed a final dividend of RMB0.1436 per share for the year ended 31st December 2004, representing an increase of 126% as compared to the same period last year.

2004 set a key milestone for the development of the Group. In the past 30 years, the Group, through our dedication and expansion thrust, has been developed from a regional construction company into a conglomerate enterprise, comprising of construction, production and sales of modern building materials as well as property development on a nationwide basis. The Group's operating results will enter into a new era of growth resulting from the expansion thrust in the years to come. Simultaneously, sales from the relatively higher profit margin building materials operations and property development operations have increased, and constituted a higher proportion of the Group's turnover year-by-year, it is expected that the Group would be able to benefit from the enhancement of gross profit margin in the next few years.

In 2004, the Chinese economy had remained stable throughout; this was the result of prudent macroeconomic control measures implemented by the Chinese government, which have paved a sound macroeconomic environment for the future development of construction industry. In addition, the continuous increases in urbanization together with "industrialization of building materials" have become the driving force for the construction industry. Statistics show that every one percentage point of increase in urbanization rate induces a two

percentage point of growth in GDP. Assuming China's domestic urban population grew by 16 million per annum; and one person requires an average of 20 square meters living space, it will translate into an additional living space requirement of 320 million square meters, upon which would call for corresponding community facility and urban infrastructure requirements, to match with this increased housing demand. The "industrialization of building materials" also represents a revolutionary trend using modern materials to replace traditional materials in the construction industry, giving rise to a market potential of several trillions of RMB. Buoyed by the "industrialization of building materials" and urbanization, the Group's core businesses in construction, building materials, and property development will continue to foster and sustain high growth rates in the years to come.

Leveraging on the Group's financial strength and excellent "Baoye" brand, the three core businesses of the Group all achieved commendable operating results in 2004.

### CONSTRUCTION BUSINESS

Construction is the Group's primary core business. After 30 years of development, it has become one of the 43 construction companies, the first batch of construction companies receiving the premium class

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certificate of general contractors, allowing the Group to intake contracts of any size or any level of architectural complexity. In this connection, the Group is, among all other awardees, qualified to bid for over tens of thousands high-end construction projects in China every year. Over the past few years, the Group's competitive advantage in the industry was that large-size projects, projects with technical entry barriers, high-profit projects such as public works, city and town planning, and traffic projects undertaken by the Group have increased in numbers and registered higher percentages of the Group's construction business year-by-year. Macroeconomic control measures have made the construction business increasingly regulated, which have led a number of Baoye's competitors gone out from the market, allowing the Group to obtain ever greater market share and to pitch on high margin construction projects selectively. These, coupled with the significant increase in revenue of construction contracts, have made the profit margin of construction business to rise steadily. In addition, the Chinese government is currently promoting the policy of "State Retreat, People Forward." This policy provides tremendous opportunities for the Group to extend its foothold on a nationwide basis. In the next two years, the Group intends to acquire one or two sizable construction companies in Northern and Central China. Negotiations are underway and have already entered into advance stages.

### **BUILDING MATERIALS BUSINESS**

As one of the market leader in the "industrialization of building materials" in China, the Group has always dedicated itself to developing high quality semi-finished building materials which are both cost effective and in line with China's environmental friendly and energy conservation policies. To this end, the Group advocates its business mission "from

construction to manufacturing" in order to capture the revolutionary trend in the industry by introducing modern building materials to replace traditional ones. Expected market potential for these building materials will amount to several trillion RMB. For this reason, the building materials business will become the main driver of growth in profits for the Group. During the year, the Group's first housing industrial park in Shaoxing County, which is the nation's largest in size, has commenced commercial production; while the second industrial park in Hefei has begun construction. In the next few years, the Group will continue to build additional industrial parks in different areas across the country, in conjunction with the development of the Group's construction business road map. The Group is in talks with renowned international manufacturers in prefabricated building materials business on possible strategic cooperation in housing industrialization business, with an objective to realizing our goal "from construction to manufacturing" prior to 2010 and establishing a conglomerate enterprise that could generate revenue of tens of billions of RMB.

### **PROPERTY DEVELOPMENT BUSINESS**

In 2004, the property development business continued to gain momentum in China and the Group's also saw high growth in this business segment. From the longer term perspective, the increases in urbanization would definitely call for increase in demand for residential properties. To capture this growing demand, property developers will do two fundamental measures to preserve their continued successes, they are: first, to increase their land reserves at low cost; and second, to provide the market with good quality housing products. Land determines the size and cost of development of properties. The Group has constantly adopted

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strategies to accumulate or acquire land and projects in cities or towns in their initial phase of urbanization where the Group sees vibrant economic growth. From 2001 onwards, the Group has begun accumulating over 1 million square meters of high-quality land reserves in the areas of Zhejiang, Shanghai and Anhui, which will be sufficient for use in the next 3 to 5 years. By comparing the current market value, the costs for these land reserves are extremely inexpensive, which would provide assurance for higher profitability when properties prices rise. Even when properties prices fall, profitability level will remain higher than industry average, all of which would provide the Group with the necessary competitive advantages in the industry. Besides this, the Group can utilize its leading edge in construction technology, modern building materials, low-cost builder, environmental friendly and energy conserving housing, in meeting government policies requirements and the needs of communities at-large. Though there were some media discussions on real estate bubble in some major cities in China, the markets targeted by the Group have not been significantly impacted and would remain stable for future development.

As and when the Group begins to develop its businesses on a nationwide level, it will adopt the current "three-in-one" business model by positioning construction as the base, modern building materials as the centre of development and property development as the supplementary business. During the year, the Group's success business model had begun to pay off in Hefei, where the first "Cloning Baoye" was established. In 2002, the Group began its businesses in Hefei and up to 2004, Baoye had solicited construction contracts in a sum of RMB470 million in the Anhui Province with an aggregate build-up areas of 486,300 square meters,

including contracts for landmark buildings such as the CBD Central Business Plaza and the Anhui Telecommunications Engineering Co.'s General Production Management Building. From June 2004, the construction of the Hefei Baoye Housing Industrial Park has been underway. It is expected that the construction work will be completed by 2007, with a planned production capacity of over RMB1.5 billion. In December 2004, Baoye's "City Green Garden Phase I" in Hefei was up for pre-selling and was fully subscribed in a short while, which truly indicates that the "three-in-one" business model had been successfully launched in Hefei. The Group plans to establish two more new housing industrial parks, in Central and Northern China. The total output of these two new industrial parks is expected to exceed the current capacity of the Group by 2010.

Taking advantage of the continuing increases in urbanization in China and our unwavering effort and believe in realizing our mission "from construction to manufacturing", the Group intends to transform itself to become the largest private construction enterprise with highest earning capability in China. The Group will endeavor to achieve good operating results to reward its shareholders in return of their continuous support and patronage.

**Pang Baogen**  
*Chairman*

1st April 2005