



*Upon* completing the acquisition of interests in Guangzhou City Construction & Development Holdings Limited ("Guangzhou Construction") at the end of 2002, operational strengths of the Group's property business have been greatly enhanced. The profit attributable to shareholders of the Group surged to HK\$300,653,000 in 2003.

GDP of Guangzhou grew 15.0 per cent in 2003 and has been growing rapidly for eight consecutive years. The population of Guangzhou exceeds 12 million which comprises local population and the immigrants from other provinces. Coupled with growing urbanization, expansion of the middle class and upgrading needs, sales of residential properties has been continuously rising over the past few years. In 2003, the sales of commodity properties in the primary market of the ten districts in Guangzhou increased by 12.7 per cent to 10.47 million sq. meters and inventory fell substantially to 3.83 million sq. meters. At the same time, most of the purchases were from end users with few from investors. Rational demand has been driving steady development of the whole market. Property prices of urban area in 2003 were similar to that of 2002 and there was no sign of overheating. The transactions in the secondary market of the eight districts in Guangzhou were also active. Area sold reached 4.17 million sq. meters and the transaction amounts reached RMB13.2 billion, representing an increase of 36.72 per cent and 29.41 per cent respectively when compared with those of 2002. Size of the secondary market increased from 29.2 per cent in 2002 to 36.1 per cent of the total transaction amount of the property market. As there is no overheating in the Guangzhou property market, adjustment in the lending policy of China will lead to healthier development of the market. The Group, being regarded as a premier property developer in terms of brand name, credit quality and funding, will receive continuous support from the banking sector.

After the acquisition of interests in Guangzhou Construction, the business structure of the Group is more clearly defined with major focuses on Guangzhou property businesses. In 2003, the Hong Kong and Guangzhou property sales and rental business contributed approximately a total of HK\$2.27 billion in turnover. The Group has also finished the preparation of reorganization and adjustment of its business model to shorten the construction and sales cycle. In 2004, it is expected to realize the synergies between the Group and Guangzhou Construction and enhance return on net assets. The price of certain construction raw materials has increased considerably. Nevertheless, the Group will reduce the impact of such cost increase by bulk purchase. Looking into the future, it is anticipated that the property transaction volume will go up along with increasing demand and decreasing inventory. As at the end of 2003, the area of the Group's properties under development reached 1.2 million sq. meters, which will underpin earnings growth for the coming few years. Along with the increasing integration of transportation network in the Pearl River Delta and the regional economy, the Group will seek to increase its land bank within the Guangzhou Municipality and capture opportunities to expand property businesses in other cities of the Pearl River Delta.

The Group's toll road business generated enormous steady cash flow, which would be complementary to the property business which is capital intensive in nature. 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. The cooperative joint venture contract of new investments, namely, the Eastern Second Ring Road, Western Second Ring Road and the Guangming Expressway (Eastern Second Ring Road Extension Line) are now being studied.

Looking ahead, economic environment in the Pearl River Delta is very favourable. Upon implementation of the Closer Economic Partnership Arrangement (CEPA) signed between Hong Kong and China, and the proposed construction of the Hong Kong/Macau/Zhuhai Bridge, integrated development amongst 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 steer up development of heavy industry and expedites 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. The Group's property and toll road businesses based in Guangzhou will become major beneficiaries under the above-mentioned developments. The Group will continue to strengthen its operational, administrative and cash flow controls on its prevailing properties and toll road projects so as to generate higher return to its shareholders.

Lastly, I would like to thank our shareholders, directors and staff members for their support, hard work and dedication in 2003.

**Ou Bingchang**

*Chairman*

Hong Kong, 15th April 2004