

# Chairman's Statement



**Mr. Pang Baogen**  
*Chairman*




2005 was a year of robust economic growth for China, which recorded a GDP growth rate of 9.9%. According to the Government Work Report delivered by Premier Wen Jiabao at the Fourth Session of the Tenth National People's Congress, the PRC's annual average economic growth rate is targeted at 7.5% under the "11th Five-Year Plan", while per capita income will increase simultaneously. At present, the per capita income in China is increasing rapidly from USD1,000 to USD3,000. This, coupled with the world's largest level of urbanisation scale in China, has set an unprecedented golden era for the China construction industry.

Such golden era has enabled the Group to expand its business rapidly. Following 31 years of development, the Group established its unique "three-in-one" business model by positioning construction as the base, industrialisation of construction (prefabricated building materials) as the centre of development and property development as the supplementary business. The Group will continue to adopt the

current "three-in-one" business model to develop its business on a nationwide level. Such expansion model was proved to be successful in Anhui, Hefei and will be implemented in Central China region following the Group's acquisition of the Hubei Construction Group in early 2006. The Group has also planned to extend its reach to areas such as Beijing, Tianjin, Hebei, Shandong and Jiangxi in the coming five years and completed its strategic positioning in five to six major areas in China, with the view to expanding the similar business scale of the Group in each of these areas.

2005 was the first year for the Group to implement its new development strategy. As the only Hong Kong-listed conglomerate engaging in the businesses of construction, production of building materials as well as property development, based on its prominent strength and the prestigious brand of "Baoye", the Group achieved satisfactory performance in both its business operations and management of financial resources.



I have the pleasure to report to our shareholders the audited consolidated financial results of the Group for the year ended 31 December 2005. The Group's turnover was RMB4,723,797,000, up 8% over last year; profit attributable to shareholders amounted to RMB304,226,000, soared 11% as compared to same period last year; and earnings per share reached RMB0.537, an increase of 4% from the previous year. The Board proposed a final dividend of RMB0.12 per share for the year ended 31 December 2005.

## Business Operation

### Construction Business

During 2005, due to the Group's unique and superior qualification as a general contractor in the construction industry and the "Baoye" reputable brand, the Group's construction business witnessed a significant increase in the amount of contracts, in which high-end projects, such as public works, municipal and traffic projects have been increased in proportion to overall increase. As at 31 December 2005, the contract amount of the Group's construction projects on hand reached approximately RMB12 billion.

As the base of the Group's "three-in-one" business model and the Group's pioneer in business expansion, the Group's construction business fully capitalised on the opportunities brought by government policies on increased urbanisation and privatisation and mastered expansion thrust to the major regional markets on one hand while rapidly penetrating into high-end construction segments such as railway, water infrastructure, traffic and bridges through merger and acquisition on the other hand. With the increase in high-end construction projects, it is expected that the overall profit margin of the construction business would be gradually enhanced.

On 21 February 2006, the Company had successfully completed the acquisition of the Hubei Construction Group, which possesses excellent reputation and qualities. There are 12 operating units under the Hubei Construction Group, of which 7 are construction enterprises, 5 are general contractors with first class qualifications and the other 2 are general contractors with second class qualifications. In addition, the Hubei Construction Group has a land bank of approximately 500,000 square meters, the majority of which is located in the metropolitan area of Wuhan and may be used for residential and commercial property development purposes as soon as approval has been obtained from the relevant Chinese government authorities. Wuhan, located at the heart of Central China, is the major city with development priority under the "11th Five-year Plan" of the Chinese government. The Group believes that the economy of Wuhan and the entire Hubei Province, will experience robust growth in the coming five years, which will bring enormous business opportunities for the construction and related industries. Leveraging on its prevailing excellent reputation and qualities, as well as economic business model, the Hubei Construction Group is set to be a substantial contributor of the Group's future turnover and profitability.

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## Building Materials Business

As a pioneer in the “industrialisation of construction” in China setting out the industry standards, the Group has always dedicated itself to developing high quality building materials which are both cost effective and in line with China’s environmental friendly and energy conservation policies, in bridging the industry’s revolutionary trend of replacing traditional building materials with modern materials. During the year, with tremendous contribution from its first housing industrial park in Shaoxing County, which is the largest in size in the country, the Group experienced a significant growth in its building materials business, which marked a solid foundation for the development “from construction to manufacturing”.

The “11th Five-year Plan” clearly mapped out the priorities of building and developing resource-saving society, and environmental friendly and energy conserving housing, which indicates that the industry will soon enter into high growth period. The current industrialisation rate of Japan in construction has already exceeded 70% compared to that of just about 20% in China, the upsurge in demand for modern building materials would call for several trillion RMB in terms

of capacity requirement in the coming years. The Group entered into an agreement with Japan’s Daiwa House Industry Co., Ltd (“Daiwa House”) on 8 March 2006 in relation to forming a strategic alliance in the co-development of technological skills for the manufacture of industrialised residential units for a term of ten years. Daiwa House is regarded as one of the world’s top 500 corporations. Listed in Japan in 1961, Daiwa House now has a market capitalization exceeding USD 10 billion. It is one of the pioneers in the manufacture of industrialised residential units and the most advanced enterprises in Japan. Its business model is similar to the “three-in-one” business model of the Group. Therefore, the Group is of the view that it will follow the footsteps of Daiwa House. The only difference is that the Chinese market where the Group is positioning is much larger and hence the pace and scale of development will be much faster and larger. In future, the Group will cooperate with the world’s leading enterprises in the area of “industrialisation of building materials” on longer term basis and at higher level. It will also speed up the process of establishing industrial parks across the country, in conjunction with the development of the Group’s construction business, with the view to achieving the Group’s business expansion mission “from construction to manufacturing” as soon as possible.

### Property Development Business

In an attempt to cool down the overheated property sector in certain regions and maintain economic stability and the healthiness of the financial sector, the Chinese government had increased its regulated efforts on the real estate industry in the first half of 2005 by exercising more stringent control over real estate credit and land supply. The regulated and control measures included the cancellation of preferential rates for mortgage loans and the imposition of business tax on the transfer of property, aiming to curbing speculative demands, encouraging demand for self-use, stabilizing property prices and ensuring long term prudent and stable growth and development of the real estate industry. In the long run, the continuous and rapid growth of the economy and the acceleration of urbanisation will definitely lead to a continuous growth in the demand for housing in the coming years. Those premium enterprises, with adequate land and capital resources, would benefit from these regulated and control measures. Their cost control measures would be key determinant for future profitability growth.

The competitive edge of the Group's property development business lies in the resources and networks that have long been established by its construction business, which enable the Group to secure a large scale of quality land at low cost. On the other hand, the synergy created by the "three-in-one" business model results in an effective cost control for the property development business.

The Company will acquire large scale of quality land at low cost in cities during their initial phases of economic growth and urbanisation. The Group will focus on the development and acquisition of land reserve in areas such as Zhejiang, Wuhan and Hefei. Leveraging on its sufficient land reserve and effective cost control, the Group is confident in becoming as one of the most profitable enterprises in the China real estate industry.

### Conclusion

To ensure greater accountability to our shareholders, investors, staff, customers, suppliers and the communities-at-large, the Company shall adhere to the principle of honesty and integrity. While committed to maximising profitability, the Company also takes due diligence care to ensure full compliance with applicable laws, regulations and environmental protection ordinances in pursuing various aspect of businesses. Efforts are also made in enhancing its corporate governance, and participating in charity and environmental protection activities in discharging its social responsibility. The Group believes that a healthy social environment is instrumental to the continuous development of an enterprise, and it is the Group's responsibility and obligation to improve the well-being of society and environment to make it a better one to live. The Group is therefore committed to developing energy conserving and environmental friendly prefabricated building materials, exercising stringent control over construction quality and safety and developing low-cost quality residential complex. Concurrently, taking the advantage of accelerated level of urbanisation in China, the Group aims to enhance shareholders value and create excellent returns for its shareholders.

Pang Baogen  
Chairman  
7 April 2006