

Chairman's Statement

STRENGTHEN CORE COMPETITIVENESS ENHANCE SHAREHOLDERS' VALUE

"It is my pleasure to report to the shareholders that the audited consolidated profit after taxation and minority interests of the Group for the year ended 31 December 2005 increased by 42.9% to HK\$1.54 billion. Earning per share was HK24 cents. The total shareholders' funds increased by 10.0% to HK\$11.08 billion, net asset per share was HK\$1.73, an increase of 9.5% from 2004, and return on equity reached 13.9%. The Board recommends the payment of a final dividend of HK4 cents per share for 2005."



Kong Qingping
Chairman and Chief Executive

I have pleasure to report to the shareholders that:

ANNUAL RESULTS

The profit after taxation and minority interests of the Group for the year ended 31 December 2005 amounted to HK\$1.54 billion, representing an increase of 42.9% from the profit of HK\$1.07 billion in the same period last year. Earning per share was HK24.0 cents, representing an increase of 40.4% from HK17.1 cents per share last year.

PAYMENT OF DIVIDEND

The Board recommended a payment of final dividend of HK4 cents per share for the year ended 31 December 2005, together with an interim dividend of HK3 cents per share, the total dividend for the whole year amounted to HK7 cents per share, representing an increase of 16.7% compared with the total dividend of HK6 cents per share for the previous year. During the year, the Group distributed a special dividend in specie of 1 share in China State Construction International Holdings Limited ("CSCIHL") for every 18 shares in the Company.

BUSINESS REVIEW

In line with the trend of development, the Group underwent an overall consolidation of the businesses, focusing its resources on the development of property business in Mainland China, which attained robust growth with a rapid rise in profit. Profit of the Group sustained a growth of over 20% for three consecutive years as part of its promise to the investors, successfully enhancing the value for shareholders of the Company.

Land Reserve

The Group had been maintaining a land reserve of good quality and diversified resources in major cities. As at 31 December 2005, without taking into account its equity interest in syndicated projects, the Group had a total land reserve of 10,750,000 sq.m. to be developed in near future and under development in 12 mainland cities, Hong Kong and Macau, of which 9 parcels of land were newly acquired in 2005 in cities such as Chengdu, Shenzhen and Ningbo, providing an aggregate Gross Floor Area ("GFA") of 1,750,000 sq.m..

Property Development

Building on its strong brand equity, project management capability and cost control experience, the Group attained rapid growth in sales. The Group recorded satisfactory property sales for the year. Without taking into account its

attributable interest in syndicated projects, the gross property sales amounted to HK\$9.5 billion, an increase of 76% from 2004. Total GFA of properties sold was 1,210,000 sq.m., an increase of 40% from 2004.

Among which, property sales in Macau and Hong Kong recorded significant growth, amounted to HK\$1.96 billion, representing an increase of more than 9 times from 2004. Total sales of properties in Mainland China remained robust growth, amounted to HK\$7.5 billion, an increase of 45% from the previous year; GFA sold was 1,130,000 sq.m., representing an increase of 31% from 2004.

There are 16 projects completed in Mainland China for occupation during the year, including Phase I of Primrose Villa, Sunshine Aloha in Shenzhen; Phase II of Peace Garden and Phase I of Jade Laguna Villa in Shanghai; Phase III of Cannes Garden, Sapphire Cove, Phase IV of Elegant Town in Guangzhou; Zhonghai Faery Villa and Phase I of St. Andrews in Beijing; Area A of Greenwich Village in Chengdu; Phase III of Marbella Villa and Phase I of Der Rhein in Changchun; Phase I of Fairyland in Zhongshan; Phase I of Classic Palais in Xi'an; A Zone of Seine Elysee in Nanjing and Phase I of The Royal Peninsula in Suzhou, with total GFA of these projects amounted to 1,250,000 sq.m., 80% of which has been sold out by the end of 2005, with an area of 980,000 sq.m., raising HK\$5.60 billion.

Further, sales of properties held for sale was satisfactory. An area of 170,000 sq.m. was sold at an amount of HK\$1.80 billion.

During the year, the Group withdrew its application for the separate listing of the spun-off China Overseas Property Group Co., Ltd. ("**COP**") on the A shares market of Shanghai Stock Exchange. The Group turned COP into a wholly-owned subsidiary by acquiring the then outstanding 21% minority equity interest in COP.

Investment Properties

Occupancy rate of the Group's properties in Hong Kong and Guangzhou was satisfactory. For the Group's 80,000 sq.m. of investment properties in Hong Kong and Mainland China, total rental income for the period amounted to HK\$127.6 million, representing a decrease of 4.6% from 2004; segment results amounts to HK\$501.4 million which includes increase in fair value of investment properties of HK\$391.5 million. Operating profit amounts to HK\$109.9 million, representing an increase of 15.2% compared to that of prior year.

Property-Related Business

Design

During the year, the Group acquired Hua Yi Designing Consultants Limited, thereby completing its one-stop business chain comprising all elements from design, development, sales, property management and customer service. This enabled the Group to provide comprehensive and integrated services of premium quality.

Property Management

As one of leading brands in the property management sector in the PRC, China Overseas Property Management provides "five-star" grade services under the motto of "Excellent Services, Splendid Living". The Group has won the trust and compliment from property owners and established a good reputation among the community. Winner of accolades including "The Best Management Company" for three years in a row. The Group has property management operations spanning cities across Hong Kong, Macau, Shanghai and Guangzhou.

During the year, China Overseas Property Club organised various activities successfully promoting the spirit of "Splendid Living, Premier Lifestyle" among members, enhancing the brand of the Group and reinforcing the member's awareness of, satisfaction with and loyalty to China Overseas Property Management.

Infrastructure Business

In order to strengthen its core businesses, the Group disposed of major associates of industrial projects as non core business it has previously invested in. The infrastructure provided the Group with long-term stable income stream and cash flow. During the year, infrastructure projects recorded an operating income of HK\$27.0 million and an operating profit of HK\$20.9 million.

Construction Business

In June 2005, the Group spun off its construction businesses. On 8 July 2005, CSCIHL was listed on The Stock Exchange of Hong Kong Limited ("**Stock Exchange**") by way of introduction.

Group Finance

External financing and capital management activities of the Group are subject to centralised management and supervision. Leveraging on its strong repayment capability, the Group is able to secure clean bank facilities of mid to long terms, thus minimising its financing and liquidity risks.

The Group adhered strictly to the principle of prudent financial management by maintaining the cash on hand at a level of 10% (cash/total assets), central treasury and financial management and maintaining a healthy gearing ratio. As at 31 December 2005, the bank loans and guaranteed notes payable of the Group were HK\$5,201 million and HK\$2,320 million respectively. Cash on hand amounted to HK\$3,175 million, while net gearing ratio stood at 39%. Cash on hand together with available banking facilities of HK\$1,880 million, the total funds available to the Group amounted to HK\$5,055 million.

In May 2005, the Group was awarded Baa3/stable and BBB-/stable investment grade ratings by Moody's and Standard & Poor's respectively. As such, the Group became the first real estate corporation in Mainland China to be awarded two investment grade ratings. In July, the Group successfully issued US\$300 million 7-year guaranteed notes.

During the year, a financial analysis meeting was held within the Group to conduct strategic evaluation and financial analysis on the overall financial operations of the Group. The meeting had profound meanings in directing the financial management and various operational activities of the Group. At the same time, the Group has also been aggressively pushing ahead with the implementation of ERP system, which will further help to lower management costs and enhance management efficiency.

Corporate Governance

During the year, the Company has strengthened the governance structure of the Board of Directors. With the effective fulfillment of functions and responsibilities of respective Board Committees, the Company's governance efficiency has been significantly improved.

The Company not only complies with the obligatory disclosure requirement set out in the Code on Corporate Governance issued by Stock Exchange, but also fully addresses relevant issues recommended by the Code, hence allows Corporate Governance mechanism more transparency throughout the year under review.

Investors and shareholders could understand and review Corporate Governance by the information released by the Company through various channels, which will further enhance the Company's governance status.

During the year, the Company has further carried out systematic approaches to evaluate risks and effectiveness of internal control at different levels of companies in the Group, which emphasizes the Company's adherence to risk management.

PROSPECTS

2006 will be a year filled with both opportunities and challenges. The Board is cautiously optimistic towards the future development of the Group.

On the International Front

While there are some uncertainties and increasing international competition, on a lighter note, it is a global trend that all countries are pursuing economic continuous development. It is believed that the global economy will maintain a steady growth.

On Mainland China Front

2006 is the opening year of the 11th Five-Year Plan for National Economic and Social Development. Given the backdrop of State measures of driving economic development through encouraging domestic demand, increasing affluence of the people and general improvement of living standard, upgrade of consumption and growth of disposable income, coupled with accelerating urbanization, it is believed that the development of the property industry will be well positioned to benefit from this economical trend.

Hong Kong and Macau

These two places stand to benefit from the thriving economic development and preliminary success in economic transformation of Mainland China. With strong local consumption and active property and stock markets, the economy of Hong Kong will continue its growth momentum. On the other hand, the economy of Macau will continually be stimulated by the further de-regulation of the casino market.

Property Market in Mainland China

In recent years, Mainland China implemented policies to monitor investment in property investment and regulate land supply. These include measures to stabilise property price, rationalise property supply structure and encourage rational consumption, which will continue throughout 2006. The Group welcomes the healthy, rational and sustained development of the property market, which will be beneficial for enterprises with strong brand name and integrated strengths.

Management Philosophy

Holding on the philosophy of "Excellent Management Integrity, Excellent Quality Products", the Group will continue to reinforce its internal management and maintain a pool of experienced professionals to implement its business deployment strategy in major cities of Mainland China, with an aim of strengthening its brand influence and providing quality products and services to the customers.

Land Reserve

The existing land reserve of the Group is sufficient to support its development in the coming three to four years and is expanding at the target rate of over 20% per year. In response to the economic development of Mainland China and requirements of the investors, the Group has set up a development plan and goals for long term growth, so as to expand its growth potential and provide higher return for investors. The Group will continue to acquire premium land resources at attractive prices in an efficient manner through various channels. Without taking into account its equity interest in syndicated projects, it is intended that the expansion of land reserve for 2006 will be more than 3,000,000 sq.m..

Project Development

The Group will aggressively adjust its development philosophy and accelerate the diversification of growth models for higher growth. These models include joint venture, cooperation with funds and merger & acquisition. By working with leading strategic investors and enhancing its governance standard, the Group aims to acquire higher market share and attain a higher rate of development. By the end of 2006, total GFA of properties in progress will be more than 6,000,000 sq.m.. It is expected that 22 projects will be ready for occupation, an area of 2,100,000 sq.m. will be completed during the year.

Sales & Marketing Management

The Group will step up its marketing and sales efforts in a bid to enhance its cash flow. It is expected that 18 residential projects available for pre-sale, totalling GFA of 1,680,000 sq.m., to be launched in 2006.

Financial Management

The Group will continue to adopt innovative financing approaches to tap the international and Hong Kong capital markets. Capitalising on the advantages and opportunities of the domestic capital market in terms of sufficient funds, convenient procedures and low costs, the Group will also keep a close eye on the capital market of Mainland China, so as to reduce capital costs.

Corporate Governance

The Group will ensure that it is governed and managed with sound corporate governance policies and practices. Committing to high standard of corporate governance, the Group aims to achieve sustainable development on a rapid growth track, through consistent enhancement of its governance transparency, risk management awareness, and internal control framework.

Property Management

China Overseas Property Management has grown into one of the leading brands in the property management industry of Mainland China. In order to cater for the needs of residential development and growth of investment property portfolio, and to optimise and consolidate its internal resources, the Group is studying the feasibility of consolidation of its property management operations through acquisition, so as to provide satisfactory services for customers, enhance the brand value of China Overseas Property Management and improve its core competitiveness.

Infrastructure Business

Infrastructure investment provided the Group with a steady income stream and cash flow. Given the rapid growth of its property business in Mainland China and formation of a balancing mechanism through a nationwide presence, as well as investors' clamour for a further focus on property business, the Group is considering the possibilities of restructuring its infrastructure businesses, including possible spin off or separate listing, so as to attain further rapid growth and development of the Group's property business in Mainland China.

Prospects

In 2005, the Group received a number of awards, such as being acknowledged by "China Real Estate Top 10 Research Team" as having the best integrated strengths among the top 100 PRC real estate enterprises in 2005, with a leading brand value at RMB3,311 million. In 2006, the Group will persist in reinforcing its nationwide branding strategy, focusing on the property business and consolidating its cash flow management under the prudent financial management principal, thereby maintaining its pioneer position in the property industry of Mainland China and leading the sector's development.

Appreciation

At last, I would like to thank the members of the Board for their outstanding leadership and the entire staff for their dedication.

Kong Qingping

Chairman and Chief Executive

Hong Kong, 30 March 2006