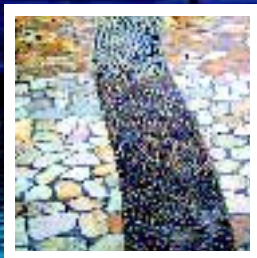


MANAGEMENT DISCUSSION AND ANALYSIS



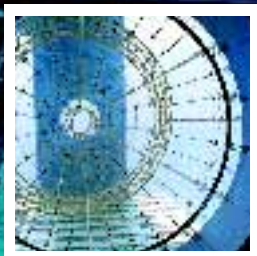
12
Land Reserve



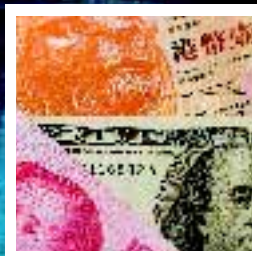
14
Property
Development



26
Property
Investment



30
Property-related
Business



34
Group Finance



36
Customer
Service



39
Employees

LAND RESERVE

Annual Summary

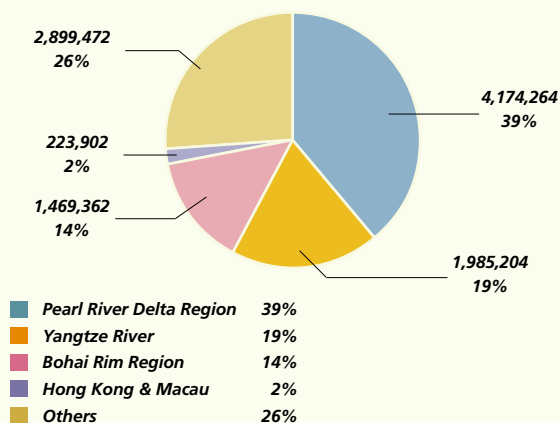
- The Group had a premium land reserve of adequate and diversified resources in 12 major Mainland China cities, Hong Kong and Macau
- As at the end of 2005, total gross floor area amounted to 10,750,000 sq.m.
- 9 parcels of land were newly acquired during this year, amounting to a total floor area of 1,750,000 sq.m.

Premium land reserve is essential to the competitiveness of the Group. As a leading brand name in the PRC property sector, it is critical for the Group to steadily acquire premium land resources in key strategic districts, so as to enhance its competitiveness and capability for sustainable development.

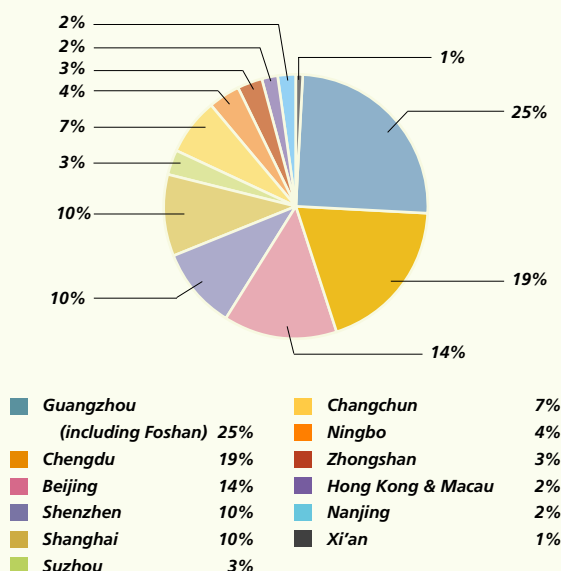
As at 31 December 2005, the Group had a total land reserve of 10,750,000 sq.m. in 12 Mainland China cities, Hong Kong and Macau. Over 75% of the Group's land reserve situates in burgeoning cities such as Beijing, Shanghai, Guangzhou (including Foshan), Shenzhen and Chengdu, approximately 23% in cities of Suzhou, Ningbo, Nanjing, Changchun, Xi'an and Zhongshan which have strong growth potential, with the remaining 2% or so in Hong Kong and Macau. Over 97% of the Group's land reserve will be used for the development of middle to high end residential projects, while 3% will be for commercial properties such as office buildings.

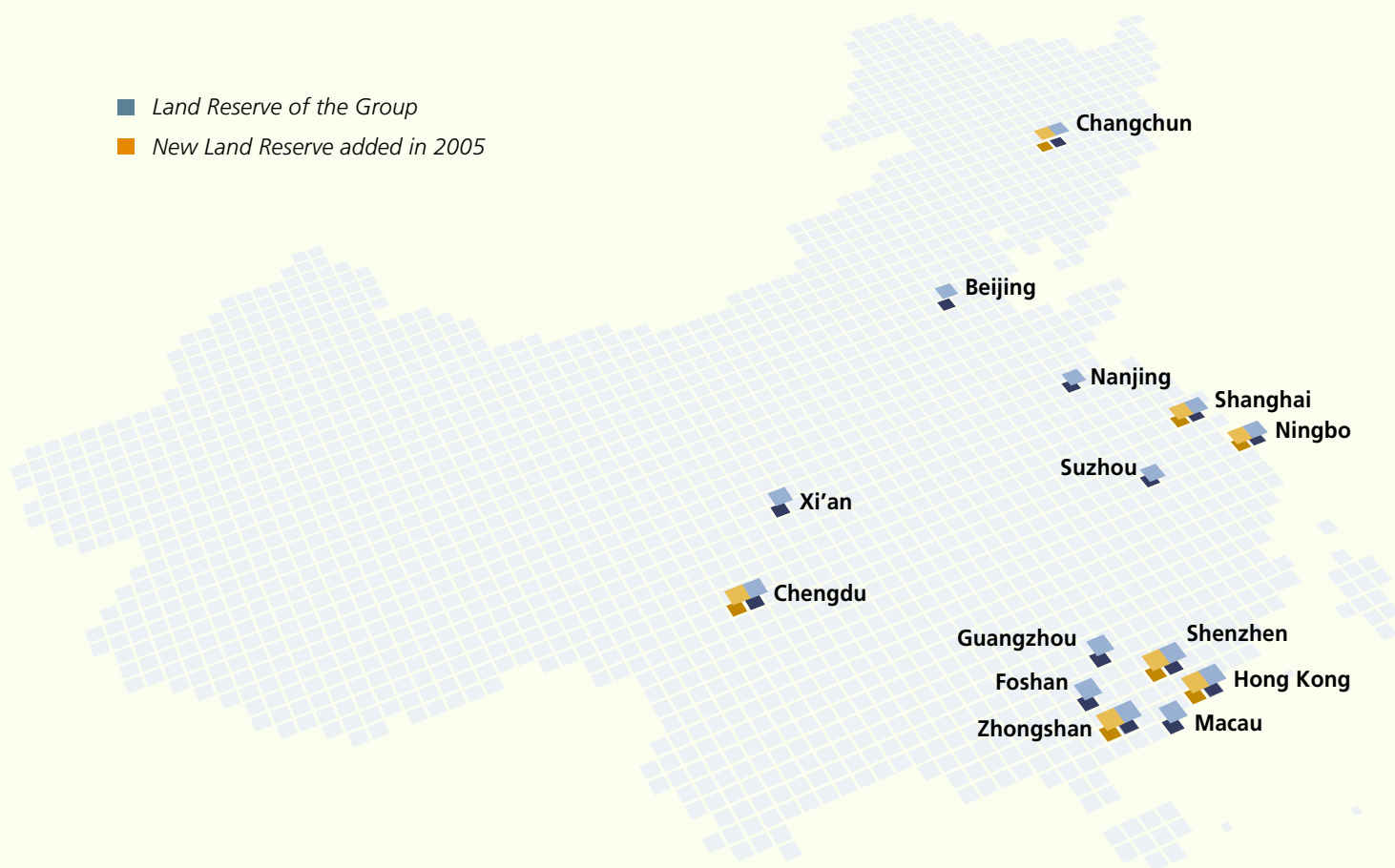
During the year, the Group acquired 7 parcels of land in Mainland China, which represented to an additional gross floor area of approximately 1,740,000 sq.m., mainly in cities including Chengdu, Shenzhen and Ningbo. The Group also acquired two parcels of land in Hong Kong, which accounted for an additional gross floor area of 10,000 sq.m.. During the year, the Group invested an aggregate of HK\$2,550 million in expanding its land reserve, all of which would be used for development of residential projects.

Breakdown of Land Reserves of the Group by Geographical Location (sq.m.)



Breakdown of Land Reserves of the Group by City (%)





Land Reserve of the Group At-a-glance

City	GFA (sq.m.)	Percentage (%)
Beijing	1,469,362	13.7
Shenzhen	1,083,638	10.0
Shanghai	1,041,690	9.7
Guangzhou	658,046	6.1
Foshan (Greater Guangzhou region)	2,043,948	19.0
Chengdu	2,061,262	19.2
Suzhou	349,744	3.3
Changchun	702,710	6.5
Ningbo	397,708	3.7
Zhongshan	388,632	3.6
Nanjing	196,062	1.8
Xi'an	135,500	1.3
Hong Kong	39,760	0.4
Macau	184,142	1.7
Total	10,752,204	100.0

New Land Reserve Added in 2005

Name of Project	Site area (sq.m.)	GFA (sq.m.)	Land cost (HK\$ ten thousand)
Changchun Marbella Villa	209,224	272,000	8,900
Chengdu Longwan Bandao	133,230	455,541	62,405
Ningbo Dongqianhu Paomachang	336,100	350,700	66,135
Shenzhen Songgang	98,153	276,000	48,025
Shanghai Pujiang	119,900	207,900	29,758
Shenzhen Moon Bay	44,199	120,948	11,523
Zhongshan Fairyland	40,800	61,100	1,999
Hong Kong Yee Kuk Street	401	3,606	8,800
Hong Kong To Kwa Wan	687	5,981	17,300
Total	982,694	1,753,776	254,845





PROPERTY DEVELOPMENT

The Group enforces a national branding strategy and pursues the goal of "excellent quality products". Through developing the best in each type of product, together with a professional management system, the Group provides the best products and services to customers in each local market.

PROPERTY DEVELOPMENT

Under its management philosophy of “Excellent Management Integrity, Excellent Quality Products” and building on 20 years of extensive experience in property development, the Group provides consumers with premium properties that cater for local market needs. Many of the Group’s property projects in Mainland China became leading brand names that influence the entire trend of the sector. The brand name and superior product quality of the Group has won the trust of consumers. In 2005, the Group was honoured to be ranked by China Real Estate Top 10 Research Team as having the best integrated strengths among the top 100 PRC real estate enterprises and with a leading brand value that topped the list.

- Total gross floor area of completed and sellable residential projects amounted to 1,250,000 sq.m.
- Attributable sales for 2005 amounted to HK\$9,500 million

In 2005, the macro economic policies of Mainland China reined in the overheated property market gradually to a steady growth rate. The property markets in major areas and cities in which the Group’s property development operations were located remained stable, sustaining robust demand.

Property sales for the year was satisfactory and amounted to HK\$9,500 million, representing an increase of 76% from 2004. The total GFA sold amounted to 1.21 million sq.m., representing an increase of 40% over 2004. Among this, sales in Mainland China amounted to HK\$7,500 million, accounting for 79% of the total sales and represented an increase of 45% from 2004. The total GFA sold in Mainland China amounted to 1.13 million sq.m., representing an increase of 31% over 2004. Sales in Macau and Hong Kong

also recorded substantial growth and reached HK\$1,960 million, accounting for 21% of total sales and nine times increase over 2004, mainly attributable to sales from our la Cité project in Macau.

In order to strengthen the control of its real estate operations with centralised management and to reinforce its brand influence, the Group made an announcement in October 2005 in respect of the formal withdrawal of application for separate listing of China Overseas Property Group Co., Ltd. (“COP”) on the A shares market of Shanghai Stock Exchange. The Company entered into an acquisition agreement with the minority shareholders of COP in respect of the acquisition of the remaining 21% equity interest in COP. The consideration for acquisition of shares was determined on an arm’s length basis with reference to the adjusted net asset of COP as at 30 September 2005. The acquisition was approved by an extraordinary general meeting of shareholders in December 2005. The effective consideration paid for the acquisition of 21% equity interest in COP was HK\$611 million. Upon acquisition, COP became a wholly-owned subsidiary of the Company.

Project Development

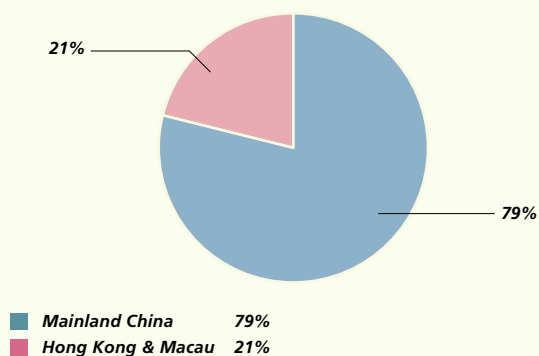
During the year, the Group completed 1,250,000 sq.m. of residential projects available for sale, representing an increase of 60.9% from 2004. It is planned that approximately 2,100,000 sq.m. of residential projects will be completed in 2006. Leveraging on its strong brand image, outstanding project management expertise and extensive cost control experience, the Group added value in various aspects of its residential products, from land acquisition, design and positioning, sales and property management. Building on its thorough research efforts on local market demand and consumer preference, the Group provided quality properties catering specifically to its target customers. As a result, the Group attained a rapid growth in both sales income and profit margin by creating satisfaction for the consumers.

- | | | |
|---|---|---|
| 1 | 2 | 3 |
|---|---|---|

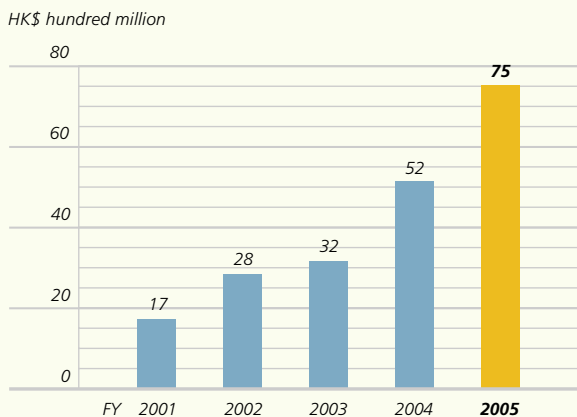
1. la Cité received overwhelming subscription from international buyers and broke numerous local records for its auxiliary facilities in Macau.
2. One HoneyLake in Shenzhen, which has been under the spotlight, was launched with sales prices breaking the records of the Company’s Mainland property businesses.
3. Lakeside Palace in Suzhou shocked the local property market with a robust sales rate of 95% once upon launch.



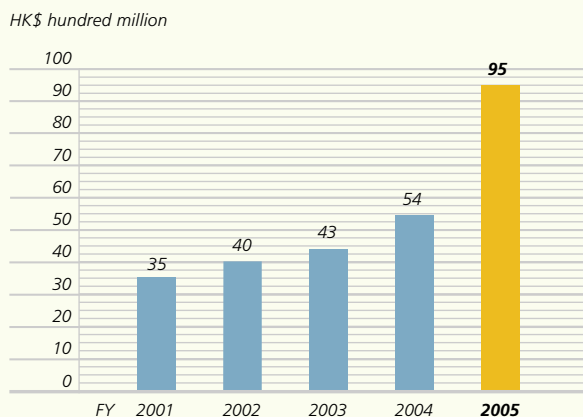
Breakdown of 2005 Property Sales of the Group by Region



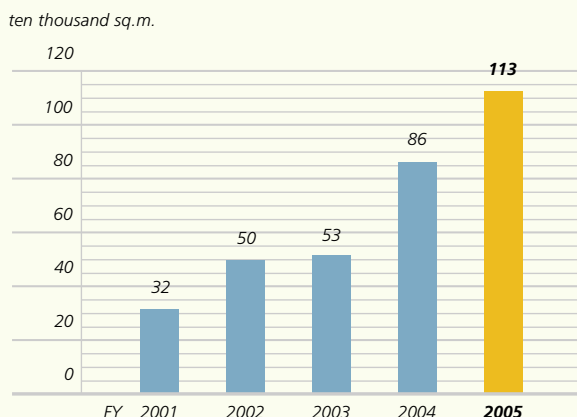
2001-2005 Property Sales Growth in Mainland China



2001-2005 Property Sales Growth of the Group



2001-2005 Property Sales Growth in Total GFA in Mainland China



4. After more than a year of dedicated efforts, Seine Elysee, the Group's first project in Nanjing, was launched in May with overwhelming sales.
5. The show flats of the Group in Mainland China feature both luxury and simplistic designs, which were well received and applauded by the buyers.
6. The Group aims at providing a comprehensive and high-quality living environment to our customers who are our first priority, for example, locating international school into our "International Community" project in Chengdu to cater for the educational needs of different nationalities.

4 5 6



COMPLETED PROJECTS IN 2005



1. Shenzhen
Sunshine Aloha, 68,689 sq.m.



2. Shenzhen
Primrose Villa, 139,011 sq.m.



3. Guangzhou
Elegant Town Phase IV, 61,121 sq.m.

Completed projects in 2005

4. Guangzhou
Cannes Garden Phase III, 116,857 sq.m.



5. Guangzhou
Sapphire Cove, 89,242 sq.m.



6. Beijing
Faery Villa, 148,860 sq.m.



COMPLETED PROJECTS IN 2005



7. Beijing
St. Andrews Phase I, 62,963 sq.m.



8. Shanghai
Peace Garden Phase II, 66,243 sq.m.



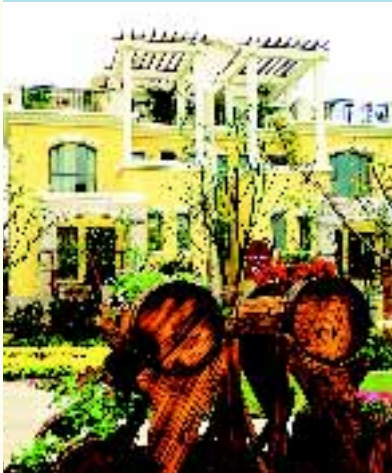
9. Shanghai
Jade Laguna Villa Phase I, 49,259 sq.m.

Completed projects in **2005**

10. Chengdu
Greenwich Village Area A, 22,631 sq.m.



11. Suzhou
The Royal Peninsula Phase I, 35,578 sq.m.



12. Nanjing
Seine Elysee Zone A, 66,850 sq.m.



COMPLETED PROJECTS IN 2005



13. Xi'an
Classic Palais Phase I, 93,444 sq.m.



14. Changchun
Der Rhein Phase I, 61,143 sq.m.



15. Changchun
Marbella Villa Phase III, 128,297 sq.m.

Total: 1,253,673 sq.m.

16. Zhongshan
Fairyland Phase I, 43,485 sq.m.



MAJOR PROJECTS TO BE COMPLETED IN 2006

City	Serial	Name of Project	GFA (sq.m.)
Shenzhen	1	The Crescent	101,300
	2	One Honey Lake Phase II	65,450
	3	Greenery Heights Phase I Area East	30,282
	4	Royal Green Phase I	8,539
		<i>Sub-total</i>	205,571
Beijing	5	St. Andrews Phase II	106,646
	6	Champion Court – office	24,614
		<i>Sub-total</i>	131,260
Guangzhou	7	Glorious Plaza	32,291
	8	Top View	146,024
		<i>Sub-total</i>	178,315
Shanghai	9	Bay Line Phase I	191,850
			<i>Sub-total</i>
Chengdu	10	Greenwich Village Area B	179,761
	11	International Community Phase I	202,795
	12	Longwan Bandao Phase I	106,332
		<i>Sub-total</i>	488,888
Suzhou	13	Lakeside Palace Phase I	42,915
	14	The Royal Peninsula Phase II	36,510
		<i>Sub-total</i>	79,425
Ningbo	15	Bellagio Phase I	73,163
			<i>Sub-total</i>
Changchun	16	Marbella Villa Phase III	159,849
	17	Der Rhein Phase II	95,139
	18	Nan Diquai Phase I	54,497
		<i>Sub-total</i>	309,485
Foshan	19	Starcrest Phase I	215,158
			<i>Sub-total</i>
Zhongshan	20	Fairyland Phase I Area B	26,241
			<i>Sub-total</i>
Xi'an	21	Classic Palais Phase II	146,998
			<i>Sub-total</i>
Nanjing	22	Seine Elysee Zone B	55,283
			<i>Sub-total</i>
		Total	2,101,637

MAJOR PROJECTS IN MAINLAND CHINA



Beijing: St. Andrews

Site area : 198,324 sq.m.
 Total gross floor area : 200,792 sq.m.
 Expected completion date : March 2006

Situated between the Fourth Ring and Fifth Ring in Chaoyang District, Beijing, this project is only approximately 15 minutes' drive from the central business district (the "CBD") of the capital. Being the only semi-detached houses in the district with a premium location, the project features bold and innovative design that adopts the concept of villa in the construction of the semi-detached houses and receives overwhelming support within the sector and from customers. Total 350 units launched in June, August and October in 2005 respectively have been sold out. The remaining units will be expected to be sold out during the first half of 2006.



Shenzhen: One Honey Lake

Site area : 93,544 sq.m.
 Total gross floor area : 156,000 sq.m.
 Expected completion date :
 Villa : End of 2006
 High-rise & multi-storey : End of 2007

Situated in Futian District, Shenzhen City, which is the heart of the city and home to the municipal government, the project occupies a unique location in this last parcel of land on shore of Honey Lake. A joint venture between the Company and Sino Land Company Limited, the project boasts a wealth of scenic resources, an innovative multi-living room design and comprehensive auxiliary facilities including a private swimming pool. So far, more than 60 units have been sold out in very short time after launch. The average selling price reached RMB40,000 per sq.m., and the average selling price for a unit reached RMB15 million. It is expected that villa projects will be completed by the end of 2006, and high-rise & multi-storey projects will be completed by the end of 2007.

MAJOR PROJECTS IN
MAINLAND CHINA



Guangzhou: Top View

Site area : 18,096 sq.m.
Total gross floor area : 138,791 sq.m.
Expected completion date : April 2007

Situated in the centre of Zhujiang New City, the CBD core residential focus in the future urban development plan of Guangzhou City, the project occupies a premium location. To the south of the project is Zhujiang Park and to the north the bustling urban area of Guangzhou, coupled with a scenic view of Zhujiang, the project boasts the most valuable site of luxury residential area in the city. The project comprises six high-rise residential buildings, five spread along the southern shore towards Zhujiang Park. The north tower of the project, comprising 84 units, were launched in November 2005 and sold out in one day, recording an average price of RMB9,300 per sq.m.. The entire project is expected to complete by April 2007.



Shanghai: Jade Laguna Villa

Site area : 413,312 sq.m.
Total gross floor area : 85,270 sq.m.
Expected completion date : December 2007

Situated in Qingpu District, Shanghai City, the project occupies a prime and accessible location with the scenic Shanghai Sheshan National Holiday Resort to the south and Dingshanhu Scenery Zone to the north. The convenient location and scenic view are the basis of advantage of this project. Sales of the project has been satisfactory since launch, with an average price of RMB14,000 per sq.m..

MAJOR PROJECTS IN MAINLAND CHINA



Chengdu: International Community

Site area : 1,324,207 sq.m.
Total gross floor area : 1,397,799 sq.m.
Expected completion date : December 2008

Situated in Jin Niu District, Chengdu City, the project boasts excellent location and scenic resources. Since the public launch of Phase I in September 2005, the project has received overwhelming response from customers, as reflected by the successful sales of all 176 units on initial launch on the first day. Up to date, substantially all of the 500 plus units launched so far have been sold out.



Suzhou: The Royal Peninsula

Site area : 72,346 sq.m.
Total gross floor area : 66,514 sq.m.
Expected completion date : December 2006

Situated on the shore of Jinjihu Lake in Suzhou Industrial Park with plentiful scenic resources, the project is mainly comprised by semi-detached houses and low-rise apartments catering for white collars with higher income. The pre-sale launched in September 2005 received phenomenal market response.

MAJOR PROJECTS IN MAINLAND CHINA



Foshan: Starcrest

Site area : 270,452 sq.m.
Total gross floor area : 742,987 sq.m.
Expected completion date : August 2007

Situated in Nanshan District, Foshan City, the project was erected on the shore of the celebrated Qiandenghu Park. Construction of the project commenced in April 2005. With bold and innovative designs, the project was a hit in the market. Phenomenal sales was recorded in the initial launch on 29 October 2005. 485 out of 536 units launched were sold on the same day, breaking the record for total number of units sold in a single day for the same project as well as sales volume of the Guangzhou company.



Macau: la Cité

Site area : 131,224 sq.m.
Total gross floor area : 184,142 sq.m.
Expected completion date : December 2007

Situated right next to the future site of the Hong Kong-Zhuhai-Macao Bridge in Macau, the project comprises 5 L-shape residential buildings, all of which facing south. Boasting a wealth of innovative design and planning, the project features up to 40 auxiliary facilities. Launched in September 2005, the project attracted investors from 12 countries and regions around the globe, breaking the record in Macau's property market in terms of the diversified and international backgrounds of customers. As at the end of 2005, approximately 60% of the units were sold.

A photograph of a modern city skyline at dusk or dawn. The sky is a deep blue, transitioning to a lighter, hazy blue near the horizon. Several skyscrapers are visible, with their windows reflecting the ambient light. In the foreground, a large, curved blue graphic element sweeps across the bottom of the image. The overall mood is professional and forward-looking.

PROPERTY INVESTMENT

Prudently expand investment in Grade "A" offices to seek long-term stable cash flow growth and balance the cyclical risks from property development.



PROPERTY INVESTMENT

Annual Summary

- Investment properties held in Hong Kong and Mainland China amounted to 80,000 sq.m.
- Total rental income was HK\$127.59 million
- Net rental income was HK\$109.86 million

The Group strategically increased its investment in commercial property projects in Mainland China, focusing on the development of Grade A offices in areas with higher investment return such as Beijing and Shanghai, so as to maximise the value for shareholders.

Completed Investment Projects

During the year, the Group's investment properties in Hong Kong and Mainland China sustained a satisfactory occupancy rate. The Group's properties in Hong Kong, including China Overseas Building and Horae Place, recorded a high occupancy rate, while properties in Guangzhou, such as Dongshan Plaza, and Haixing Plaza in Shanghai also attained satisfactory occupancy rate. The Group has an aggregate of 80,000 sq.m. of investment properties in Hong Kong and Mainland China. Total rental income for the year was HK\$127.6 million, representing a decrease of 4.6% from the previous year. Total rental income arising from Hong Kong amounted to HK\$60.6 million, while that arising from Mainland China amounted to HK\$67.0 million, accounting for 47.5% and 52.5% of the total rental income respectively. Segment result amounts to HK\$501.36 million which includes increase in fair value of investment properties of HK\$391.5 million. Operating profit amounts to HK\$109.86 million, representing an increase of 15.2% from the previous year, due to the disposal of certain rental properties since 2004.

Properties Sold

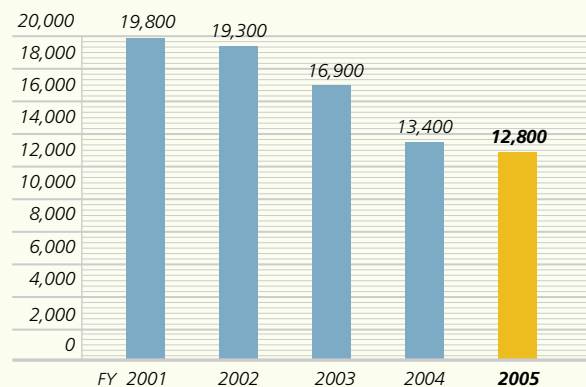
In June 2005, the Group entered into an agreement with an independent third party to sell 60% of its equity interest in Shanghai Square located in Shanghai. The disposal brought about a sales income of HK\$552 million and investment gain of HK\$129 million.

Planned Office Building

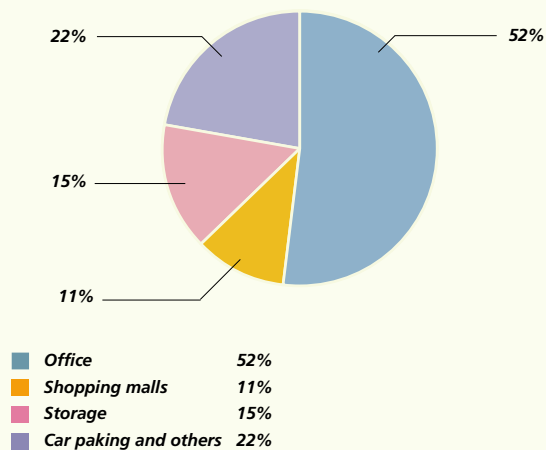
In 2002, the Group acquired a parcel of land of a gross floor area of 139,000 sq.m. in proximity to China World Trade Center, the CBD of Beijing. The land will be used for the development of three high-rise Grade A office buildings. At present, clearance for the project was substantially completed and construction is expected to commence in the second half of 2006.

Total Rental Income

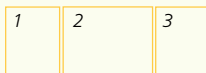
HK\$ ten thousand



Breakdown of Total Rental Income



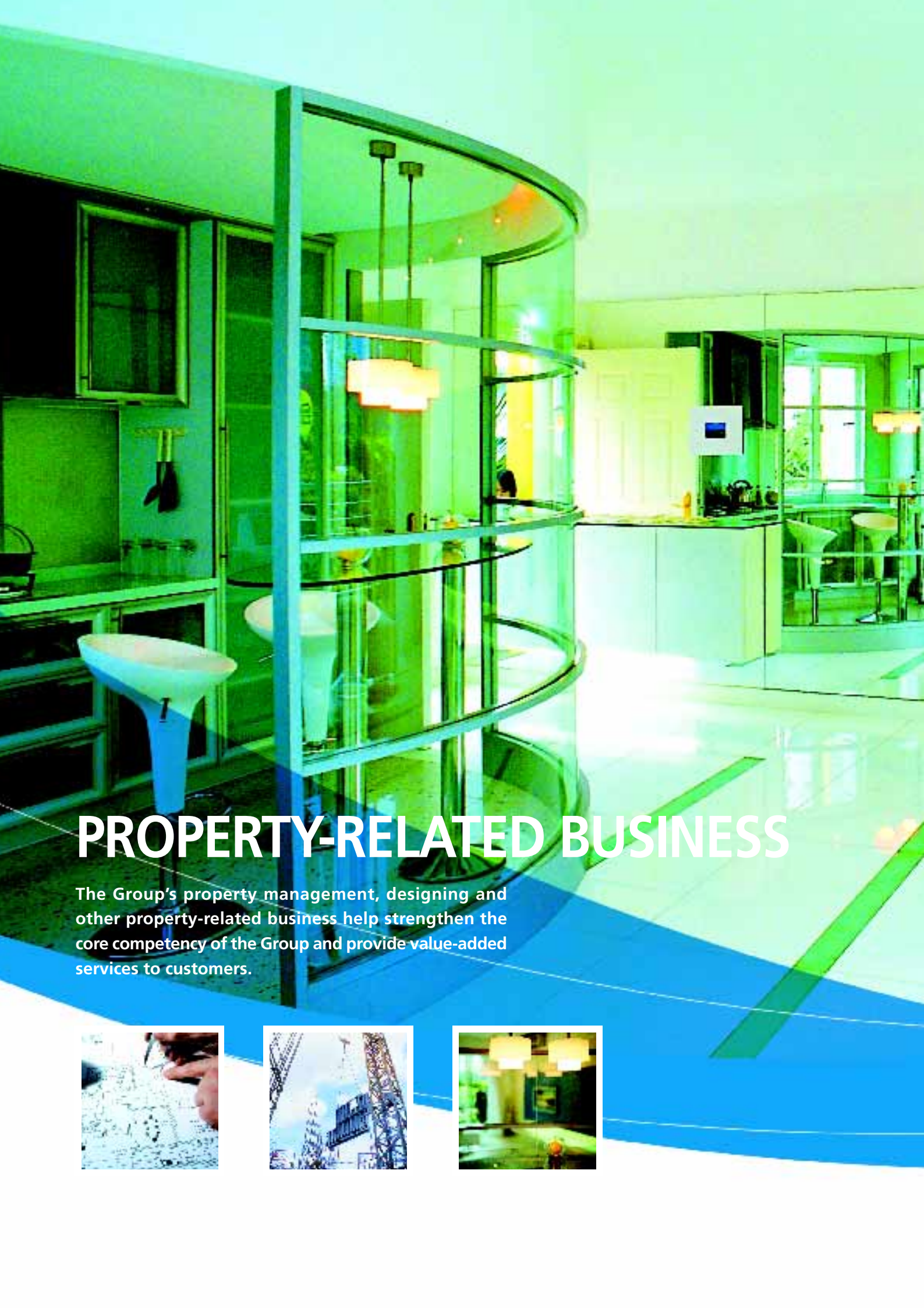
1 China Overseas Building in Hong Kong generates a stable recurring rental income for the Group.



2 Dongshan Plaza in Guangzhou maintains a high occupancy rate in the year.

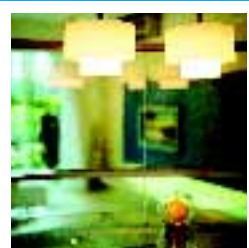
3 The commercial property projects of Zhonghai Plaza in Beijing will comprise three high-rise Grade A office buildings.





PROPERTY-RELATED BUSINESS

The Group's property management, designing and other property-related business help strengthen the core competency of the Group and provide value-added services to customers.





PROPERTY-RELATED BUSINESS

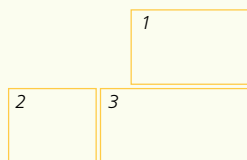
Design

During the year, the Group acquired Hua Yi Designing Consultants Limited (“**Hua Yi**”), a wholly foreign owned design and consultancy company awarded the “A-level Design License approved by the Ministry of Construction P.R.China” by the Ministry of Construction. For 18 years since its inception, Hua Yi has completed over 390 design projects of various specifications, involving a total gross floor area of over 42,000,000 sq.m.. Projects undertaken by Hua Yi spanned over 20 large and medium cities of Mainland China as well as countries and regions including Canada, Japan, Hong Kong and Macau.

Strictly adhering to its philosophy of “Pursuit of Talent, Innovation, Customer Satisfaction and Quality”, Hua Yi attaches great importance to integrity, credibility and quality. In the past 18 years, Hua Yi received 100 awards at provincial and ministerial levels or above and “Shenzhen Outstanding Design Awards” for nearly 60 projects.

In 2005, Hua Yi won the bid and was ranked the first in three evaluation aspects including overall planning in an international tender for “General Masterplan & Architectural Design of Old Town Zone 26 Baoan District Shenzhen”, in which Hua Yi joined with five other renowned domestic and overseas designing firms. This was the largest project undertaken by Hua Yi since its establishment in terms of scale and complexity.

- 1 “General Masterplan & Architectural Design of Old Town Zone 26 Baoan District Shenzhen” was the largest project undertaken by Hua Yi since its establishment in terms of scale and complexity.
- 2 Hua Yi has won 100 awards at provincial and ministerial levels or above and Shenzhen Outstanding Design Awards. The Shenzhen CBD Galaxy International Park and Apartment as shown won the First Prize of “Shenzhen Outstanding Design Awards (Residential Category)”.
- 3 The Shenzhen Skyworth Digital Research Centre won the Second Prize of “Shenzhen Outstanding Design Awards (Public Building Category)”.



Property Management

China Overseas Property Management of the Group has grown into a leading brand in the property management sector in the PRC. With a leading market share in the domestic property management sector, Property Management played a vital role in sustaining and enhancing the Group's brand advantage and asset value.

During the year, the Group recorded property management fee income of HK\$174.86 million, representing an increase of 160.9% over 2004 and gross operating profit of HK\$48.03 million, representing an increase of 112.2% over 2004.

During the year, the Group managed a floor area of 5,730,000 sq.m. in Mainland China and Hong Kong. Among this, approximately 2,000,000 sq.m. under management was in Hong Kong, while a floor area of 3,730,000 sq.m. under management was in Mainland China, mainly located in cities such as Beijing, Shenzhen, Shanghai and Guangzhou. In 2005, The Group incorporated a property management company in Macau with operation expected to be launched soon.

Infrastructure Investment

During the year, infrastructure investment continued to bring the Group stable profit and recorded an operating income of HK\$27.0 million and an operating profit of HK\$20.9 million, in line with the levels of 2004.

The Group disposed of major associates involved in industrial projects during the year and recovered its investments in entirety with a satisfactory return.

Construction and Contracting Business

In June 2005, the Group spun off its contracting businesses. 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. On 8 July 2005, CSCIHL was listed on the Stock Exchange by way of introduction.

4 5

- 4 The Group has an extensive fleet of property management staff and is a leading brand in the PRC property management sector.
- 5 Disposal of construction business to China State Construction International Holdings Limited, which was subsequently listed on the Hong Kong Stock Exchange (Stock Code: 3311).



GROUP FINANCE

Structure of Borrowings

The Group will continue to adopt a prudent financial policy, maintain a level of 10% cash in hand, consolidate capital funds and financial management, and also sustain an optimal level of financing. As at 31 December 2005, the Group's bank loans and guaranteed notes payable were HK\$5,201 million and HK\$2,320 million respectively and the repayment schedule are as follows:

Repayment Schedule	2005 (HK\$ million)	2004 (HK\$ million)
Bank Loans		
Within one year	1,922	1,806
More than one year, but not exceeding two years	1,729	859
More than two years, but not exceeding five years	1,550	2,200
Guaranteed Notes		
7-year (worth US\$300 million)	2,320	–
	7,521	4,865

Available Funds

As at 31 December 2005, the Group's bank balances and cash were HK\$3,175 million. Together with the unutilized banking facilities amounted to HK\$1,880 million, the available funds reached HK\$5,055 million. The abundant capital resources and stable financial structure act as a strong support of the Group to explore for the best commercial opportunities and accelerate business expansion in Mainland China.

Gearing Ratios

The net current assets of the Group as at 31 December 2005 increased by 64% to HK\$11,700 million and the current ratio increased from 1.98 times in 2004 to 2.55 times. The net gearing ratio of the Group was 39% (calculated on the basis of dividing the difference between bank loans and guaranteed notes payable and the bank balances and cash by shareholder's equity). During the year, the finance cost in Hong Kong was increased as compared with last year due to the fact that the total borrowings have risen.

Currency Structure

As at 31 December 2005, bank loans and guaranteed notes payable of the Group were HK\$5,201 million (31 December 2004: HK\$4,865 million) and HK\$2,320 million (31 December 2004: Nil) respectively and bank balances and cash amounted to approximately HK\$3,175 million (31 December 2004: HK\$2,707 million). The proportion of each currency are listed below:

- | | |
|---|---|
| 1 | 2 |
|---|---|

- 1 In July 2005, China Overseas successfully issued 7-year guaranteed notes worth US\$300 million. Being the first of its kind conducted by a property developer, the bond issue recorded an oversubscription of 1.5 times, reflecting the confidence and recognition of the international capital market towards the Group.
- 2 The financial development strategy of the Group is formulated in the financial meeting held each year.



	Bank loans and guaranteed notes	Bank balances and cash
Hong Kong dollars	46%	31%
Renminbi	23%	52%
MOP	–	1%
US dollars	31%	16%
Total	100%	100%

The bank loans of the Group are all unsecured loan.

Credit Ratings and Issued Guaranteed Notes

After receiving the investment grade rankings from Moody and Standard and Poor's respectively in May 2005, the Group successfully issued 7-year guaranteed notes worth US\$300 million at an interest rate of 5.75% in July 2005, which was amounted to HK\$2,320 million, for the purpose of providing financial support to the Company's development and optimize the capital and liabilities structure of the Group. All these capital market issuances reaffirm the Group's capability in tapping the capital market for various types of debt instruments and the Group's prudent financing strategy which focuses not only on lowering the funding costs but also reducing the financing risks.

On 28 July 2004, the Group signed a 5-year HK\$2,430 million loan agreement in Hong Kong, thus increasing the standby banking facilities substantially.

Exposure to Fluctuations in Exchange Rates and Interest Rates and Related Hedges

Except for the HK\$900 million out of a HK\$1,800 million syndicated loan, all the above bank loans were made on floating rates.

To reduce the exposure to fluctuations in interest, the Group entered into interest swap agreements for the HK\$900 million loan in 2003. A swap agreement was made (commencing on 23 April 2003 and expiring on 23 July 2007) pursuant to which the interest rate of HK\$600 million loan was fixed at about 4.3%. Another swap agreement was made (commencing on 23 October 2003 and expiring on 23 July 2007) pursuant to which the interest rate of HK\$300 million loan was fixed at about 4%. Apart from these, the Group has no other derivative exposure either for hedging or speculative purpose. Due to the factors that the interest rate is on the rising trend and the appreciation of Renminbi, the Group will carefully consider an appropriate time to enter into some currency and interest swap arrangements so as to lower financial cost.

Contingent Liabilities

As at 31 December 2005, the Group had contingent liabilities relating to guarantees given and indemnities provided in respect of the credit facilities granted to certain associates amounted to HK\$9.5 million. The Group provided buy back guarantees to banks which granted the mortgage loan facilities to purchasers of the Group's properties in Mainland China amounted to HK\$3,091 million.

CUSTOMER SERVICE

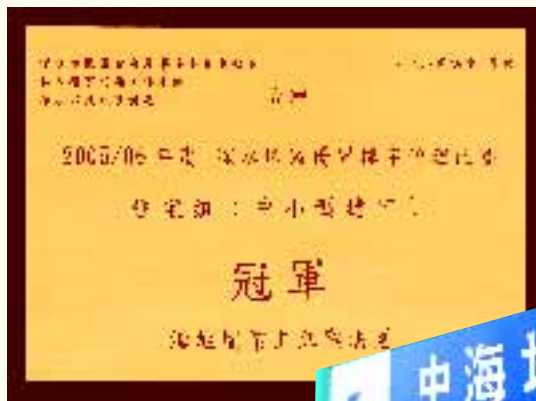
In line with its service motto, “Pursuing Customer Satisfaction and Service Quality”, the Group adopts a people-oriented approach in providing quality services that surpass the expectation of property owners.

In Hong Kong, the Group was mainly engaged in providing comprehensive and quality property and facility management services for Home Ownership Scheme houses, public housing and private properties, shopping arcades under the administration of the Government/Links, as well as military properties, throughout Hong Kong Island, Kowloon and the New Territories. In the first “The Best Management of Commercial Arcade Competition” held by the Hong Kong Housing Authority, the Group’s property

management service was awarded “The Best Management Company” for its outstanding service quality. The Company received accolades as “The Best Management Company” and “Excellent Management Company” for three years in a row. Nerine Cove, an estate managed by the Group, received “the Quality Building Management Award” from Tuen Mun District Council for two consecutive years. In addition, many other estates managed by the Group received awards for outstanding management in their respective districts, reflecting the unanimous recognition from property owners.

1	1
2	

- 1 Estates managed by the Group received “Quality Building Management Award” and “Quality Building Competition Champion Award” from the Home Affairs Department.
- 2 China Overseas Property Club, which has branches throughout the country, provides quality pre-sale and after-sale services to the property owners.



In 2004, China Overseas Property Club (“COPC”) was established by the Company as a liaison group with owners of the Group’s properties, merchant alliances, cooperation partners and other interested parties throughout the country. The motto of COPC is “Splendid Living, Premier Lifestyle”. Building on the projects and services of the Group, COPC acts as a bridge connecting the community with the Group.

By the end of 2005, COPC has over 100,000 private members and over 300 corporate members. Over 120 member activities were held. The various activities of COPC

successfully improved the member’s awareness of, satisfaction with and loyalty to the Group’s brand name and property management services.

Coping with the sustained development of the Company’s businesses, the customer service departments in the PRC resolved customer complaints in a prompt and efficient manner, thereby enhancing the brand image and customer satisfaction for China Overseas property business. They also provided precedent cases for the Company, which facilitate the Company’s improvement of future projects.

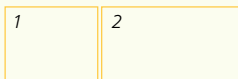
3	4
5	6

- 3 COPC organized various large activities for the residents. For example, two outdoor movie shows were organised in Chengdu, which attracted a large number of property owners.
- 4 “China Overseas Concert night” is another way of promoting corporate culture.
- 5 “New Stars – Kids’ Talents Competition” was held in Guangzhou, in which the little candidates impressed the audience with their lovely smile.
- 6 Residents of the Group’s properties can enrich their lives by joining a great variety of interest classes and hobby groups.



Awards and Accolades

- In May 2005, the Company was awarded Baa3/stable and BBB-/stable investment grade ratings by Moody's and Standard & Poor's respectively.
- In May 2005, the Group was ranked by "China Real Estate Top 10 Research Team" as the "2005 China Top 10 Listed Real Estate Company". The Group is also acknowledged as having the best integrated strengths among the top 100 PRC real estate enterprises in 2005, and ranked top in terms of its Economic Value Added (EVA). China Real Estate Top 10 Research Team consists of Enterprise Research Institute of Development Research Centre of the State Council of P.R. China, Institute of Real Estate studies of Tsinghua University, and China Index Academy.
- On 12 July 2005, COP was honoured with an Credit Grade of AAA by the Chinese Academy of International Trade and Economic Cooperation of the Ministry of Commerce.
- On 4 September 2005, Elegant Town, a project developed by Guangzhou Company of China Overseas received the Residential District Gold Award of 2005 Zhan Tian You Project Award.
- On 4 September 2005, COP was accredited as "2005 China Blue Chip Property Developer" in a 2004-2005 PRC blue chip property enterprise election organised jointly by Economic Observer, Sina web and Cheung Kong Graduate School of Business.
- On 24 September 2005, at the Media Conference on the Research Findings of China Real Estate Brand Value in 2005 held by China Real Estate Top 10 Research Team in Beijing, the Group was again ranked the 2005 China's Leading Company Brand in Real Estate Industry and remained ahead of the competition with a brand value of RMB3,311 million.
- On 6 November 2005, the Group received "Contribution Award for Human Habitat in the International Week of Science and Peace of the United Nations" and "Honest PRC Property Developer" awards.



1 Honoured with an Credit Grade of AAA by the Chinese Academy of International Trade and Economic Cooperation of the Ministry of Commerce.
 2 COP was awarded "2005 China Blue Chip Property Developer" on top of the chart and remained ahead of the competition in the PRC property sector with a brand value of RMB3,311 million.



- On 19 December 2005, One HoneyLake in Shenzhen, developed by COP, was accredited as one of the “Top 10 Super Houses in PRC Favoured by Foreigners” by World Managers Weekly Journal, World Real Estate Academy and China Real Estate Association.
- On 20 December 2005, the top 50 annual ranking of “China Influence – Real Estate Developers in Western China in 2005” was officially announced. Chengdu Company of The Group maintained its championship in 2004 as having the best integrated strength among the top 50 developers and won the first place again in 2005 among the top 50 Sichuan developers in terms of integrated strength.

EMPLOYEES

By the end of 2005, the Group had a total of 6,053 employees, among which the Group’s headquarter accounted for 97, property business accounted for 1,018, infrastructure business accounted for 4,938 (744 are operational management staff and 4,194 for others). By geographical location, there were 5,730 in Mainland China and 323 employees in Hong Kong.

3	4
---	---

3 Mr. Kong Qingping, Chairman of the Group, attended “Sino-Yale Senior Management Workshop” to keep abreast with the latest management philosophy.

4 Subsidiary in Shanghai was accredited as “Top 50 of the Third Shanghai Real Estate Developers Election” and “Top Ten Renowned Shanghai Real Estate Developers”.

