

Corporate Governance Report

(a) Corporate Governance Practice

The Board and the Management are committed to practicing a high level of corporate governance, recognizing that effective internal control system is crucial to the Company's long-term development. To achieve and maintain a high standard of corporate governance, the Company believes that, firstly and foremost, it should ensure compliance by the Board and the Management with respective laws, regulations and the highest standard of ethics. Secondly, the Board should set up and monitor a feedback system to ensure that its decisions are in the interests of shareholders. Lastly, the Board should collaborate with the Management in enhancing stakeholders' value under the principles of corporate governance.

As such, the Company has strictly complied with the applicable laws and regulations of the jurisdiction where it operates and the rules and guidelines of regulatory bodies such as Hong Kong Stock Exchange. The Company also reviewed and improved its level of corporate governance in accordance with the Code on Corporate Governance Practices set out in Appendix 14 to the Listing Rules and other applicable best practices.

In line with the best corporate governance practices, the Company has established three committees under the Board, namely the Nomination Committee, Audit Committee and Remuneration Committee. The Board and all subordinate committees evaluate and monitor their respective effectiveness on a regular basis in accordance with their terms of reference.

The Company has made detailed disclosures in respect of the accounting period covered by this annual report in strict compliance with the requirements of Corporate Governance Report set out in Appendix 23 to the Listing Rules. During the year under review, the Company has substantially complied with the provisions of the Code on Corporate Governance Practices set out in Appendix 14 to the Listing Rules, save for the deviation set out in detail below.

1. **Code Provision A.2.1** – *This Code Provision stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing.*

The roles of the Chairman and the Chief Executive of the Company are performed by the same individual, Mr. Kong Qingping.

The Board of the Company comprises experienced and high caliber individuals who will meet regularly to consider major matters affecting the operations of the Company. The balance of power and authority is ensured by the operations of the Board and the Board considers that the current structure will not impair the balance of power and authority between the Board and the Management of the Company. Instead, the Board believes that the existing structure will facilitate communications between the Board and the Management, enabling the Company to make and implement decisions in an efficient manner.

2. **Code Provision A.4.1** – *This Code Provision stipulates that non-executive directors should be appointed for a specific term, subject to re-election.*

The independent non-executive directors of the Company have not been appointed for a specific term, but are subject to retirement and re-election in accordance with the Articles of Association of the Company which provides that at each annual general meeting ("AGM") one-third of the directors for the time being or, if their number is not three or a multiple of three, then the number nearest one-third, shall retire from office, provided that no director holding office as Executive Chairman or as a Managing Director shall be subject to retirement by rotation or taken into account in determining the number of directors to retire.

The Chairman and the Chief Executive Officer of the Company retire by rotation once every three to four years on a voluntary basis in accordance with the Articles of Association of the Company. To comply with this Code Provision, an internal mechanism has been adopted by the Company whereby a director, who in accordance with the Articles of Association of the Company is not subject to retirement by rotation on the AGM in the third year since his appointment, will be reminded to retire from office voluntarily.

3. **Code Provision A.4.2** – *This Code Provision stipulates that all directors appointed to fill a casual vacancy shall hold office until the first next general meeting after their appointment, and are then subject to retirement and re-election in accordance with the Articles of Association of the Company, particulars as mentioned above.*

The Articles of Association of the Company provides that any director appointed to fill a casual vacancy shall hold office only until the next following AGM of the Company and shall then be eligible for re-election, but shall not be taken into account in determining the directors who are to retire by rotation at such meeting.

4. **Code Provision C.3.3** – *This Code Provision stipulates that the terms of reference of the audit committee should include at least the duties as stated in Code Provision C.3.3.*

The Company has adopted new terms of reference for the Audit Committee in full compliance with Code Provision C.3.3 during the year.

(b) Securities Transactions by Directors

The Company has adopted a Code of Conduct on Directors' Securities Transactions (the "**Securities Code**") on terms no less exacting than the required standards set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") contained in Appendix 10 of the Listing Rules. Each director will receive a copy of the Securities Code upon appointment. Having made specific enquiry of the directors, the directors confirmed that they have complied with the requirements set out in the Securities Code for the year ended 31 December 2005.

(c) Board of Directors

The Group (the Company and its subsidiaries) is led by an effective Board. The Board of the Company is responsible for formulating corporate strategic guidelines and exercising effective monitor over the management with efficient governance. It will also lead the management in managing and developing the Group's operations to enhance stakeholders' value in accordance with the guidelines.

The Board of the Company comprises twelve directors, including eight executive directors (Mr. Kong Qingping, Mr. Cui Duosheng, Mr. Yao Peifu, Mr. Hao Jian Min, Mr. Wu Jianbin, Mr. Xiao Xiao, Mr. Jin Xinzhong and Mr. Wang Man Kwan, Paul), one non-executive director (Mr. Cheung Shiu Kit) and three independent non-executive directors (Dr. Li Kwok Po, David, Mr. Lam Kwong Siu and Mr. Wong Ying Ho, Kennedy).

All executive directors, except non-executive directors, serve full-time and have adequate time for managing the affairs of the Company. The Board has three independent non-executive directors, one of which possess the relevant professional qualification and experience or related expertise in accounting or financial management, which is in full compliance with the requirements set out in Rules 3.10(1) and 3.10(2) of the Listing Rules. All independent non-executive directors meet the independence guidelines set out in Rule 3.13 and have submitted their annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. They have made substantial contributions to the Group by offering independent judgments to the Board and all board committees on matters involving the Group's strategies, policies, performance and appointment and remuneration of executive directors.

Dr. Li Kwok Po, David, an independent non-executive director, is the chairman and chief executive of and holds 1.81% equity interests in The Bank of East Asia, Limited, ("**Bank of East Asia**"), one of the Company's principal bankers. As loans to the Company only accounts for 0.31% of the total loans extended by the Bank of East Asia and Dr. Li Kwok Po, David has not been involved in both the loan by the Company and decision of the Bank of East Asia on granting such loan, his independence is not affected. Save from the above, there is no relationship, whether financial, business, family or other material or relevant relationship(s), among the Board members.

The Board of the Company held four meetings in 2005 with an average attendance rate of 69%. Attendance of the directors is set out below:

Name of director	Number of meetings held in 2005	Number of meetings attended	Attendance rate
Executive Directors			
Mr. Kong Qingping (Chairman and Chief Executive)	4	4	100%
Mr. Cui Duosheng (Vice Chairman)	4	2	50%
Mr. Yao Peifu (Vice Chairman)	4	0	0%
Mr. Hao Jian Min (appointed on 29 September 2005)	1*	1	100%
Mr. Wu Jianbin	4	4	100%
Mr. Xiao Xiao (appointed on 1 February 2005)	4*	4	100%
Mr. Jin Xinzhong (appointed on 22 March 2005)	3*	0	0%
Mr. Wang Man Kwan, Paul (appointed on 1 February 2005)	4*	4	100%
Non-executive Director			
Mr. Cheung Shiu Kit	4	4	100%
Independent Non-executive Directors			
Dr. Li Kwok Po, David	4	1	25%
Mr. Lam Kwong Siu	4	4	100%
Mr. Wong Ying Ho, Kennedy	4	2	50%

* Number of meetings convened after the date of appointment

The Board convened meetings on a regular basis. The date of each meeting is decided in advance and notice of at least 14 days is given so that most of the directors entitled to attend the meetings have the chance to attend such meetings in person and have sufficient time to propose matters for inclusion in the agenda. To ensure that all directors are properly informed on matters to be discussed at each meeting, documents in relation to the meeting are sent to each director three days prior to the meeting.

All directors have access to the Company Secretary and are entitled to secretarial services, so as to ensure compliance with procedures of Board meetings and all applicable rules. If the relevant corporate governance regulations have been changed, the Company Secretary will keep the Board updated of such changes.

Minutes of meetings of the Board and the subordinate committees are prepared and maintained by the Company Secretary. Draft of the meeting minutes are sent to the directors who have attended the meeting for their comments within a reasonable time after each meeting, while the final version is filed for record. Minutes of the meetings of the Board and the subordinate committees are available for inspection by all directors. In order to perform their duties, the directors are entitled to seek independent professional advice through the Chairman at the Company's expense. In case a significant shareholder or director is interested in a matter to be considered at a Board meeting, the Board will ensure that an adequate number of independent directors are involved in the consideration of the relevant resolutions, and the interested director will abstain from voting.

(d) Chairman and Chief Executive

The roles of the Chairman and the Chief Executive of the Company are not separated and are performed by Mr. Kong Qingping.

(e) Term of Engagement of Non-executive Directors

The independent non-executive directors of the Company have not been appointed for a specific term, but are subject to retirement and re-election in accordance with the Articles of Association of the Company which provides that at each AGM one-third of the directors for the time being or, if their number is not three or a multiple of three, then the number nearest one-third, shall retire from office. An internal mechanism has been adopted by the Company whereby a director, who in accordance with the Articles of Association of the Company is not subject to retirement by rotation on the AGM in the third year since his appointment, will be reminded to retire from office voluntarily.

(f) Nomination Committee

The Board has established a nomination committee in compliance with the recommended best practices set out in the Code on Corporate Governance Practices comprising Mr. Kong Qingping, Chairman and Chief Executive of the Company, Mr. Cui Duosheng, Vice Chairman and executive director of the Company, together with three independent non-executive directors of the Company, namely Dr. Li Kwok Po, David, Mr. Lam Kwong Siu, and Mr. Wong Ying Ho, Kennedy.

The terms of reference of the nomination committee are in line with the recommended best practices set out in the Code on Corporate Governance Practices. The nomination committee is mainly responsible for making recommendations to the Board on matters relating to the appointment or re-appointment of directors as well as assessing the independence of independent non-executive directors.

The Nomination Committee has held a meeting in 2006. The attendance of members was 67%. The Committee assessed the independence of independent non-executive directors and made recommendations to the Board in relation to those directors stand for re-election. Attendance of the committee members is set out below:

Name of committee member	Number of meetings held in 2006	Number of meetings attended	Attendance rate
Dr. Li Kwok Po, David	1	1	100%
Mr. Lam Kwong Siu	1	1	100%
Mr. Wong Ying Ho, Kennedy	1	0	0%

(g) Remuneration of Directors and the Remuneration Committee

Pursuant to the Code on Corporate Governance Practices, the Board has established a Remuneration Committee comprising Mr. Cui Duosheng, Vice Chairman and executive director of the Company, together with three independent non-executive directors of the Company, namely Dr. Li Kwok Po, David, Mr. Lam Kwong Siu, and Mr. Wong Ying Ho, Kennedy.

The terms of reference of the Remuneration Committee are in line with the Code Provisions set out in the Code on Corporate Governance Practices. The Remuneration Committee is mainly responsible for making recommendations to the Board on the Company's remuneration policy and structure for all directors and senior managements, determining the remuneration of all executive directors and senior managements and making recommendations to the Board on the remuneration of non-executive directors.

The Remuneration Committee held one meeting in 2005 with an attendance rate of 100%. The meeting reviewed and approved the performance-based remuneration and approved the remuneration adjustments for executive directors and senior management in 2006 with reference to the operating goals of the Company adopted by the Board from time to time. The meeting also considered and revised the performance-oriented incentive scheme of the Company.

(h) Auditors' Remuneration

Deloitte Touche Tohmatsu has been appointed by the shareholders as the Company's external auditors since 1998.

During the year under review, the fee payable to Deloitte Touche Tohmatsu in respect of its statutory audit services provided to the Company was HK\$4.0 million. Fees for non-audit services amounted to an aggregate of HK\$1,316,000, comprising a service charge of HK\$866,000 for the issue of US\$300 million bonds and a fee of HK\$450,000 for services rendered in relation to the disposal of construction business during the year.

Item of fees	Auditing fees for the year	Service charge for the issue of bond during the year	Fee for services rendered in relation to the disposal of construction business	Total
Amount (HK\$: ten thousands)	400	86.6	45	531.6

(i) Audit Committee

The Board has established an Audit Committee comprising three independent non-executive directors of the Company, namely Dr. Li Kwok Po, David, Mr. Lam Kwong Siu, and Mr. Wong Ying Ho, Kennedy, with Dr. Li Kwok Po, David, chairing the committee.

The terms of reference of the Audit Committee are in line with the Code Provisions set out in the Code on Corporate Governance Practices. The main duties of the Audit Committee are: i) to appoint the external auditors and to review and monitor the independence, objectivity and efficiency of the audit process in accordance with applicable criteria; ii) to review the financial information of the Company, monitor the integrity of financial statements, annual reports and accounts interim reports of the Company, and to consider significant opinions in respect of financial reporting contained in such statements and reports; and iii) to examine and review matters such as the financial control, internal control and risk management system of the Company.

The Audit Committee held three meetings in 2005 with an average attendance rate of 89% to discharge the above duties. Attendance of the committee members is set out below:

Name of committee member	Number of meetings held in 2005	Number of meetings attended	Attendance rate
Dr. Li Kwok Po, David	3	2	67%
Mr. Lam Kwong Siu	3	3	100%
Mr. Wong Ying Ho, Kennedy	3	3	100%

(j) Interests in Shares Held by the Senior Management

Name of senior management	Number of shares held	Percentage of issued share capital (%) [#]
Mr. Zhu Yijian	490,000	0.008%
Mr. Chen Bin	410,000	0.006%
Mr. Luo Liang	128,000	0.002%
Mr. Hu Ping	380,000	0.006%
Mr. Ge Yafei	2,900,000	0.045%
Mr. Dong Daping	80,000	0.001%
Mr. Zhang Yi	30,000	0.000%
Mr. Qu Yonghai	0	0.000%
Mr. Zhu Rong Bin	0	0.000%

[#] The calculation of the percentage is based on the number of issued shares of the Company as at 31 December 2005 (6,397,975,609 ordinary shares).

(k) Shareholders' Rights

The Board of the Company attaches great importance to communication with shareholders, particularly opportunities of direct communication with the shareholders at various general meetings, which the shareholders are encouraged to actively participate in.

The procedures of AGM is regularly reviewed to keep the Company in line with the best corporate governance practices. Circular of AGM is distributed to all shareholders at least 21 days prior to the AGM, setting out details of each proposed resolution, voting procedures (including procedures for demanding and conducting a poll) and other relevant information. The Chairman will explain again the procedures for demanding and conducting a poll prior to commencement of the meeting. Sufficient time will be allowed for the shareholders to raise questions and opinions.

In addition to direct communications with shareholders at general meetings, the Company also encourages shareholders to enquiry and recommend through various means as mentioned in the Company's website (URL: www.coli.com.hk), annual report and information release.

(l) Investor Information

Shareholding information of the Company as at 31 December 2005 is as follows:

Authorized share capital: HK\$1,000,000,000, including 10,000,000,000 ordinary shares of HK\$0.1 each.

Issued and fully-paid share capital: HK\$639,797,560.9, including 6,397,975,609 ordinary shares of HK\$0.1 each.

Share category: one type of ordinary share with a par value of HK\$0.1 each of equal voting right.

The ten substantial shareholders of the Company as at 31 December 2005 are set out below:

Ranking	Name of shareholder	Number of shares held	Percentage of issued share capital (%) [#]
1.	China State Construction Engineering Corporation*	3,266,340,800	51.05%
2.	HSBC Halbis Partners (HK) Ltd.	317,050,000	4.96%
3.	Janus Capital Management LLC	141,666,000	2.21%
4.	JP Morgan Chase & Co.	64,774,612	1.01%
5.	JF Asset Management (HK) Ltd.	42,513,152	0.66%
6.	J.P. Morgan Fleming Asset Management (JP) Ltd.	41,316,000	0.65%
7.	Robeco Institutional Asset Management B.V.	40,188,000	0.63%
8.	Daiwa SB Investment (HK) Ltd.	38,000,000	0.59%
9.	Barclays Global Investors, N.A.	32,338,741	0.51%
10.	Jyske Invest A/S	31,292,000	0.49%
	Total	4,015,479,305	62.76%

(Source: Thomson One Banker)

Notes:

[#] The calculation of the percentage is based on the number of issued Shares of the Company as at 31 December 2005 (6,397,975,609 ordinary shares).

* Pursuant to the Securities and Futures Ordinance, China State Construction Engineering Corporation is deemed to be interested in 3,266,340,800 shares directly owned by China Overseas Holdings Limited (please refer to the section headed "Report of the Directors – Substantial Shareholders").

2004 Annual General Meeting

The Chairman of the Board, representative of the Audit Committee and Deloitte Touche Tohmatsu attended the 2004 AGM held on 25 May 2005 at Granville Room, Lower Lobby, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong to respond to shareholders' enquiries at the AGM.

Resolutions resolved at the 2004 AGM include the following:

1. To review and approve the adoption of the Audited Financial Statements and the Reports of the Directors and the Auditors for the year ended 31 December 2004.
2. To re-elect Messrs. Cui Duosheng, Yao Peifu, Xiao Xiao, Jin Xinzhong, Wang Man Kwan, Paul and Cheung Shiu Kit as directors and to authorize the Board to determine their remuneration.
3. To declare a final dividend for the year ended 31 December 2004 of HK4 cents per share .
4. To re-appoint Deloitte Touche Tohmatsu as the auditors and to authorize the Board to determine their remuneration.
5. To approve the granting to the directors the general mandate to issue new shares and repurchase shares.

2005 Financial Analysis Meeting

During the year, an important internal financial analysis meeting was held to conduct in-depth review, strategic evaluation and financial analysis on the overall financial operations of the Company with reference to the latest market development. Corresponding adjustments were made to the strategic objects and overall financial operations of the Company.

ERP System

To cater for the rapid expansion of the Company, extensive efforts will be committed in the full deployment of ERP system, so as to enhances its management and control capabilities in support of the substantial business growth.

Through efforts in planning and implementation, as well as professional management and development, the Company has established an information platform for the management of business operation, covering such areas as finance, human resources, project management, marketing management, tenders and purchases, as well as office platform and intelligent commercial system. The ERP system will play an important role in reducing management costs and enhancing management efficiency.

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1 Financial analysis meeting was held to conduct in-depth review, strategic evaluation on the financial operation of the Company.

2 The full deployment of the information platform of ERP system improved the business and overall operation.



(m) Internal Control

The Board of the Company is responsible for the Company's internal control system and risk management procedures, and for reviewing the effectiveness of the Company's internal control.

The Company conducted general review and monitor of the Company's internal management and operation during the year. In particular, under the strategic guidance of the Board's Audit Committee, internal auditing team of the Company conducted several inspection on the operating flow of the Company by adopting approaches such as internal audit, evaluation of internal control, investigation and on-site inspections.

Standard benchmarks of internal control system include:

- Shareholders' interests
- Generally accepted accounting principles and auditing standards
- Laws and regulations of the country or region in which the businesses are managed and operated
- Financial policies and internal control system of the Company

Major internal control projects completed during the year are set out below:

Internal control projects	Performance assessment and audit of financial information	Assessment of internal control system
Subsidiaries subject to review during the year	<ul style="list-style-type: none"> ✓ 中海物流(深圳)有限公司 ✓ COBD Holdings (Guangzhou) Building Construction Company Limited ✓ Shenyang Huanggu Heat and Electricity Company Limited ✓ 北京中海物業管理有限公司 ✓ COBD Holdings (Chengdu) Co., Ltd. 	<ul style="list-style-type: none"> ✓ China Overseas Property – Shenzhen

The dedicated internal auditing team reported to the Board, the Audit Committee of the Board and the management on issues identified in the auditing process and provided relevant management recommendations, which substantially facilitated the regulation of corporate management, prevention of risks and improvement of performance and efficiency of economic operations.

During the year, the Board also carried out a number of self-assessment on its work. Pursuant to the conclusion of the assessment, the Board streamlined its subordinate committees or set up new ones and reviewed and revised their relevant terms of reference and procedures.

(n) Division of Management

The members of the Board of the Company are of excellent conduct and reputation, each possessing the expertise and corporate management experience relevant to their duties. The directors have been closely monitoring the operating and management conditions of the Company, which were required to be reported and explained by the management in a comprehensive, timely and accurate manner.

The major duties of the Board are set out below:

- To formulate the overall strategies and policies of the Group
- To approve annual budget, business plans and various announcements (including financial statements)
- To review the performance of all business lines of the Company
- To supervise the work of the management

On the other hand, the Management is responsible for the actual operations of the Group's businesses under the following framework:

- The Chief Executive and the executive directors collaborate to implement the policies adopted by the Board
- The Chief Executive and the executive directors are accountable to the Board for the overall operation and management of the Group
- Each executive director is responsible for leading and supervising the senior management of their respective line of business
- The senior management of each line of business is responsible for managing the daily business operation of the Group

During the year under review, the management diligently performed their duties in managing the operations of the Company, while the Board provided strategic guidance on the operation and management of the Company and reviewed and supervised the implementation of all resolutions.

On behalf of the Board

Kong Qingping

Chairman & Chief Executive

Hong Kong, 30 March 2006