

Report of the Directors

The directors present their annual report and the audited financial statements of the Company and its subsidiaries (together the “**Group**”) for the year ended 31 December 2005.

Principal Activities

The Company is principally engaged in investment holding, property investment and provision of management services to its subsidiaries. The activities of the Company’s principal subsidiaries, associates and jointly controlled entities are set out in notes 53, 22 and 23 to the financial statements respectively.

An analysis of the Group’s turnover and contribution are set out in notes 7 and 8 to the financial statements.

Results and Appropriations

The results of the Group for the year ended 31 December 2005 are set out in the consolidated income statement on page 95.

An interim dividend of HK3 cents per share was paid on 28 September 2005. The board of directors recommends the payment of a final dividend of HK4 cents per share in respect of the year to the shareholders on the register of members on 25 May 2006. Including the interim dividend, dividends for the year will amount to a total of HK7 cents per share.

Share Premium and Reserves

Movements during the year in the share premium and reserves of the Group and of the Company are set out in the consolidated statement of changes in equity on page 99 and note 37 to the financial statements respectively.

Financial Summary

A summary of the results, assets and liabilities of the Group for the past five financial years is set out on pages 178 and 179.

Major Properties

Details of the major properties and property interests of the Group at 31 December 2005 are set out on pages 180 to 184.

Tangible Fixed Assets

The Group’s investment properties were revalued at the year end date. The revaluation resulted in a net increase in fair value of HK\$391,495,000 which has been credited directly to the income statement.

Details of these and other movements during the year in the tangible fixed assets of the Group and the Company are set out in notes 18 and 19 to the financial statements.

Share Capital

Details of movements during the year in the share capital of the Company are set out in note 36 to the financial statements.

Purchase, Sale or Redemption of the Company's Listed Securities

During the year, the directors of the Company have exercised the powers of the Company to make repurchases of its own Shares pursuant to the general mandates granted to the directors of the Company passed at the annual general meetings held on 28 June 2004 and 25 May 2005. Details of the shares repurchased are shown in note 36 to the financial statements.

Borrowings and Interest Capitalised

Bank loans, overdrafts and other borrowings repayable within one year or on demand are classified as current liabilities in the balance sheet. An analysis of the repayment schedule of non-current borrowings is set out in note 38 to the financial statements.

Interest capitalised by the Group during the year in respect of development properties amounted to approximately HK\$96,916,000.

Directors

The directors of the Company during the year and up to the date of this report were:

Executive Directors

Mr. Kong Qingping	(Chairman and Chief Executive)
Mr. Cui Duosheng	(Vice Chairman)
Mr. Yao Peifu	(Vice Chairman)
Mr. Hao Jian Min	(appointed on 29 September 2005)
Mr. Wu Jianbin	
Mr. Xiao Xiao	(appointed on 1 February 2005)
Mr. Jin Xinzhong	(appointed on 22 March 2005)
Mr. Wang Man Kwan, Paul	(appointed on 1 February 2005)
Mr. Sun Wen Jie	(resigned on 22 March 2005)
Mr. Yip Chung Nam	(resigned on 1 February 2005)

Non-Executive Director

Mr. Cheung Shiu Kit

Independent Non-Executive Directors

Dr. Li Kwok Po, David *GBS, OBE, JP*
Mr. Lam Kwong Siu
Mr. Wong Ying Ho, Kennedy *JP*

In accordance with Article 105(A) and Article 96 of the Company's Articles of Association, Mr. Hao Jian Min, Mr. Wu Jianbin, Dr. Li Kwok Po, David, Mr. Lam Kwong Siu and Mr. Wong Ying Ho, Kennedy shall retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

Directors *(Continued)*

The term of office for each independent non-executive director is the period up to his retirement by rotation in accordance with the Company's Articles of Association.

The Company confirmed that it has received from each of the independent non-executive directors an annual confirmation of his independence pursuant to Rule 3.13 and the Company still considers the independent non-executive directors to be independent.

No director proposed for re-election at the forthcoming Annual General Meeting has entered into a service contract with the Company or any of its subsidiaries which is not determinable by the employing company within one year without payment of compensation (other than statutory compensation).

Information regarding directors' emoluments is set out in note 15 to the financial statements.

Information on Share Options

Information in relation to share options disclosed in accordance with the Listing Rules is as follows:

(1) Movement of share options during the year ended 31 December 2005:

Name	Date of Grant	Outstanding at 01.01.2005	Number of shares under options granted			Outstanding at 31.12.2005
			Granted during the year	Exercised during the year	Cancelled during the year	
Mr. Kong Qingping	17.07.1997 (i)	1,000,000	–	–	–	1,000,000
	14.02.1998 (ii)	10,720,000	–	(280,000)	–	10,440,000
	30.09.1998 (iii)	920,000	–	(460,000)	–	460,000
	04.01.2000 (iv)	1,200,000	–	(400,000)	–	800,000
	18.06.2004 (vi)	3,360,000	–	–	–	3,360,000
			17,200,000	–	(1,140,000)	–
Mr. Cui Duosheng	17.07.1997 (i)	1,000,000	–	–	–	1,000,000
	14.02.1998 (ii)	9,000,000	–	(480,000)	–	8,520,000
	30.09.1998 (iii)	720,000	–	(360,000)	–	360,000
	04.01.2000 (iv)	1,020,000	–	(340,000)	–	680,000
	18.06.2004 (vi)	2,880,000	–	–	–	2,880,000
			14,620,000	–	(1,180,000)	–
Mr. Yao Peifu	17.07.1997 (i)	3,800,000	–	–	–	3,800,000
	14.02.1998 (ii)	15,000,000	–	(800,000)	–	14,200,000
	30.09.1998 (iii)	1,000,000	–	(500,000)	–	500,000
	04.01.2000 (iv)	1,200,000	–	(400,000)	–	800,000
	18.06.2004 (vi)	2,880,000	–	–	–	2,880,000
			23,880,000	–	(1,700,000)	–

Information on Share Options (Continued)

Name	Date of Grant	Outstanding at 01.01.2005	Number of shares under options granted			Outstanding at 31.12.2005
			Granted during the year	Exercised during the year	Cancelled during the year	
Mr. Hao Jian Min (appointed on 29 September 2005)	17.07.1997 (i)	550,000	–	–	–	550,000
	14.02.1998 (ii)	640,000	–	(160,000)	–	480,000
	30.09.1998 (iii)	360,000	–	(180,000)	–	180,000
	04.01.2000 (iv)	720,000	–	(240,000)	–	480,000
	18.06.2004 (vi)	2,880,000	–	(576,000)	–	2,304,000
			5,150,000	–	(1,156,000)	–
Mr. Wu Jianbin	17.07.1997 (i)	550,000	–	–	–	550,000
	14.02.1998 (ii)	640,000	–	(160,000)	–	480,000
	30.09.1998 (iii)	360,000	–	(180,000)	–	180,000
	04.01.2000 (iv)	780,000	–	(260,000)	–	520,000
	18.06.2004 (vi)	2,880,000	–	(576,000)	–	2,304,000
			5,210,000	–	(1,176,000)	–
Mr. Xiao Xiao (appointed on 1 February 2005)	17.07.1997 (i)	600,000	–	–	–	600,000
	14.02.1998 (ii)	540,000	–	–	–	540,000
	30.09.1998 (iii)	400,000	–	–	–	400,000
	04.01.2000 (iv)	780,000	–	–	–	780,000
	18.06.2004 (vi)	2,000,000	–	–	–	2,000,000
			4,320,000	–	–	–
Mr. Jin Xinzhong (appointed on 22 March 2005)	17.07.1997 (i)	200,000	–	–	–	200,000
	14.02.1998 (ii)	240,000	–	(60,000)	–	180,000
	30.09.1998 (iii)	100,000	–	(50,000)	–	50,000
	04.01.2000 (iv)	480,000	–	(160,000)	–	320,000
	18.06.2004 (vi)	1,600,000	–	(320,000)	–	1,280,000
			2,620,000	–	(590,000)	–
Mr. Cheung Shiu Kit	17.07.1997 (i)	1,000,000	–	–	–	1,000,000
	18.06.2004 (vi)	2,880,000	–	–	–	2,880,000
		3,880,000	–	–	–	3,880,000
Aggregate of other employees*	17.07.1997 (i)	48,380,000	–	–	(1,230,000)	47,150,000
	14.02.1998 (ii)	89,340,000	–	(52,920,000)	(860,000)	35,560,000
	30.09.1998 (iii)	11,640,000	–	(5,720,000)	–	5,920,000
	04.01.2000 (iv)	27,770,000	–	(11,560,000)	–	16,210,000
	24.10.2001 (v)	–	–	–	–	–
	18.06.2004 (vi)	42,980,000	–	(8,848,000)	(256,000)	33,876,000
		220,110,000[#]	–	(79,048,000)	(2,346,000)	138,716,000

Information on Share Options *(Continued)*

* Employees working under employment contracts that were regarded as "Continuous Contracts" for the purpose of the Hong Kong Employment Ordinance.

(i) Options to subscribe for a total of 12,090,000 shares in the Company held by Mr. Hao Jian Min, Mr. Xiao Xiao and Mr. Jin Xinzong as at 1 January 2005 have been deducted for re-classification due to their appointment as directors of the Company during the year under review.

(ii) Options to subscribe for a total of 35,540,000 shares in the Company held by resigned directors as at 1 January 2005 have been added for re-classification due to their resignation as directors of the Company during the year under review.

- (2) At 31 December 2005, the options granted to subscribe for 208,654,000 Shares remained outstanding, representing approximately 3.26% of the issued share capital of the Company at that date. Options to subscribe for a total of 2,346,000 shares have been cancelled during the year ended 31 December 2005.

As at the date of this annual report, 187,126,000 Shares were available for issue under the Share Option Scheme, representing approximately 2.92% of the issued share capital of the Company at that date.

- (3) During the year ended 31 December 2005, options to subscribe for a total of 85,990,000 Shares (including options exercised by the Directors) of the Company were exercised, particulars as follows:

Date of Exercise	17.07.1997 (i)	14.02.1998 (ii)	30.09.1998 (iii)	04.01.2000 (iv)	24.10.2001 (v)	18.06.2004 (vi)	Total	Weighted average closing price immediately before the exercise
04.01.2005	-	4,780,000	200,000	240,000	-	-	5,220,000	1.98
13.01.2005	-	2,170,000	2,370,000	3,180,000	-	-	7,720,000	1.94
20.01.2005	-	1,840,000	1,420,000	3,620,000	-	-	6,880,000	1.92
07.02.2005	-	40,270,000	1,030,000	2,000,000	-	-	43,300,000	1.91
28.02.2005	-	1,000,000	150,000	380,000	-	-	1,530,000	1.96
30.03.2005	-	1,600,000	1,140,000	960,000	-	-	3,700,000	1.92
03.05.2005	-	580,000	230,000	700,000	-	-	1,510,000	1.86
28.05.2005	-	400,000	-	330,000	-	-	730,000	1.81
25.06.2005	-	800,000	610,000	1,180,000	-	1,528,000	4,118,000	1.76
25.07.2005	-	-	-	-	-	544,000	544,000	1.73
29.08.2005	-	330,000	30,000	40,000	-	4,528,000	4,928,000	1.74
14.09.2005	-	290,000	-	30,000	-	320,000	640,000	1.76
07.10.2005	-	-	-	-	-	236,000	236,000	1.80
19.10.2005	-	280,000	-	150,000	-	80,000	510,000	1.82
11.11.2005	-	140,000	60,000	60,000	-	836,000	1,096,000	1.87
28.11.2005	-	150,000	210,000	400,000	-	764,000	1,524,000	1.92
15.12.2005	-	30,000	-	90,000	-	1,364,000	1,484,000	1.99
30.12.2005	-	200,000	-	-	-	120,000	320,000	2.04
Total	-	54,860,000	7,450,000	13,360,000	-	10,320,000	85,990,000	

Information on Share Options *(Continued)*

Notes:

(a) Particulars of share options granted:

	Date of Grant	Vesting Period (both dates inclusive)	Exercise Period (both dates inclusive)	Exercise Price Per Share (HK\$)
(i)	17.07.1997	17.07.1997 – 16.07.1998	17.07.1998 – 16.07.2007	4.06
(ii)	14.02.1998	14.02.1998 – 13.02.1999	14.02.1999 – 13.02.2008	1.08
(iii)	30.09.1998	30.09.1998 – 29.09.1999	30.09.1999 – 29.09.2008	0.52
(iv)	04.01.2000	04.01.2000 – 03.01.2001	04.01.2001 – 03.01.2010	0.58
(v)	24.10.2001	24.10.2001 – 23.10.2002	24.10.2002 – 23.10.2011	0.69
(vi)	18.06.2004	18.06.2004 – 17.06.2009*	18.06.2005 – 17.06.2014	1.13

* particulars shown in note 36 to the financial statements

(b) During the year under review, no options have been granted to any eligible employees (including the directors and independent non-executive directors of the Company) to subscribe for Shares of the Company.

Directors' and Chief Executive's Interests and Short Positions

As at 31 December 2005, the Directors, the Chief Executive of the Company and their respective associates had the following interests in the Shares and underlying Shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies:–

(a) Personal interests in Shares

(i) *the Company*

Name of director	Number of Shares	Percentage of issued share capital
Mr. Kong Qingping	3,600,000	0.056%
Mr. Cui Duosheng	2,940,000	0.046%
Mr. Yao Peifu	4,000,000	0.063%
Mr. Hao Jian Min (appointed on 29 September 2005)	1,880,000	0.029%
Mr. Wu Jianbin	2,216,000	0.035%
Mr. Jin Xinzong (appointed on 22 March 2005)	590,000	0.009%
Mr. Wang Man Kwan, Paul (appointed on 1 February 2005)	200,000	0.003%
Dr. Li Kwok Po, David	200,000	0.003%

(ii) *Associated Corporation: China State Construction International Holdings Limited*

Name of director	Number of Shares	Percentage of issued share capital
Mr. Kong Qingping	200,000	0.041%
Mr. Cui Duosheng	163,333	0.033%
Mr. Yao Peifu	922,222	0.187%
Mr. Wu Jianbin	91,111	0.019%
Mr. Jin Xinzong (appointed on 22 March 2005)	15,000	0.003%
Mr. Wang Man Kwan, Paul (appointed on 1 February 2005)	200,000	0.041%
Dr. Li Kwok Po, David	11,111	0.002%

Directors' and Chief Executive's Interests and Short Positions *(Continued)*

(b) Interests in options to acquire Shares

Information in relation to interests in options to acquire shares of the Company is set out in the section headed "Information on Share Options".

Information in relation to interests in options to acquire shares of China State Construction International Holdings Limited, the Company's associated corporation (within the meaning of Part XV of the SFO) is set out below:-

Name of director	Number of Options	Percentage of issued share capital
Mr. Kong Qingping	1,200,000	0.244%
Mr. Cui Duosheng	1,200,000	0.244%
Mr. Yao Peifu	1,050,000	0.213%
Mr. Hao Jian Min (appointed on 29 September 2005)	1,050,000	0.213%
Mr. Wu Jianbin	1,050,000	0.213%
Mr. Xiao Xiao (appointed on 1 February 2005)	1,050,000	0.213%
Mr. Jin Xinzhong (appointed on 22 March 2005)	720,000	0.146%
Mr. Wang Man Kwan, Paul (appointed on 1 February 2005)	400,000	0.081%
Mr. Cheung Shiu Kit	700,000	0.142%

Save as disclosed above, no interests and short positions were held or deemed or taken to be held under Part XV of the SFO by any director or chief executive of the Company or their respective associates in the Shares and underlying Shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies or which are required pursuant to Section 352 of the SFO to be entered in the register referred to therein. Nor any of the directors and chief executive of the Company (including their spouses and children under the age of 18) had, as at 31 December 2005, any interest in, or had been granted any right to subscribe for the Shares and options of the Company and its associated corporations (within the meaning of Part XV of the SFO), or had exercised any such rights.

Arrangements to acquire Shares or Debentures

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries, holding companies or fellow subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of Shares in, or debentures of, the Company or any other body corporate.

Directors' interest in Competing Business

Pursuant to existing Rule 8.10 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), the Company discloses that during the year and up to the date of this report, Messrs. Kong Qingping, Cui Duosheng, Yao Peifu, Hao Jian Min (appointed on 29 September 2005), Wu Jianbin, Xiao Xiao (appointed on 1 February 2005), Jin Xinzhong (appointed on 22 March 2005), Cheung Shiu Kit, Sun Wen Jie (resigned on 22 March 2005) and Yip Chung Nam (resigned on 1 February 2005) held directorships in the Company's ultimate holding company, China State Construction Engineering Corporation ("CSCEC"), and/or its subsidiaries, which are engaged in construction, property development and related business.

As the board of directors of the Group operates independently of the boards of these companies, the Group operates its business independently of, and at arm's length from, the businesses of these companies.

Substantial Shareholders

At 31 December 2005, the following parties (other than directors or the chief executive of the Company) were substantial shareholders of the Company (as defined in the Listing Rules) and had interests in the Shares and underlying Shares of the Company as recorded in the register maintained by the Company pursuant to Section 336 of the SFO:

Name of shareholder	Number of ordinary shares of HK\$0.1 each	Percentage of interest
China Overseas Holdings Limited ("COHL")	3,266,340,800	51.05%
CSCEC	3,266,340,800	51.05%

COHL is a direct wholly owned subsidiary of CSCEC, thus CSCEC is deemed by the SFO to be interested in 3,266,340,800 Shares directly owned by COHL.

Save as disclosed above, the Company had not been notified by any other person (other than directors or the chief executive of the Company) who had an interest in the Shares and underlying Shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO as at 31 December 2005.

Major Customers and Suppliers

For the financial year ended 31 December 2005, the five largest customers of the Group accounted for less than 30% of the Group's turnover. The five largest suppliers of the Group accounted for approximately 32% of the Group's total purchases and purchase from the largest supplier include therein amounted to approximately 10% for the year.

Save as aforementioned, at no time during the year did a director, an associate of a director or a shareholder of the Company (which to the knowledge of the directors owns more than 5 per cent. of the Company's issued share capital) have an interest in any of the Group's five largest customers or suppliers.

Connected, Continuing Connected and Related Party Transactions

Details of connected, continuing connected and related party transactions are set out on pages 75 to 93. Save as the related party transactions disclosed in note 51 to the financial statements, no contracts of significance to which the Company or any of its subsidiaries, holding companies or fellow subsidiaries was a party or were parties and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Disclosure Pursuant to Rules 13.20 and 13.22 of the Listing Rules

At the balance sheet date, the financial assistance and guarantees given by the Group to the Company's affiliated companies which in aggregate exceeded 8% of the relevant percentage ratios under Rule 13.16 of the Listing Rules based on the audited consolidated financial statements of the Company for the year ended 31 December 2005 are as follows:

Entity	Attributable interest held by the Group	Unsecured advance <i>HK\$' million</i>	Interest rate per annum	Guarantee given <i>HK\$' million</i>	Aggregate of financial assistance and guarantees given <i>HK\$' million</i>
Chest Gain Development Limited	30%	1,268.4	Prime Rate plus a specified margin	–	1,268.4
深圳中海信和地產開發有限公司 (Jointly controlled entity)	39.5%	RMB475 million (Approximately HK\$456.7 million)	Nil	–	456.7
中海月朗苑物業發展(深圳)有限公司 (Jointly controlled entity)	50%	RMB70.5 million (Approximately HK\$67.8 million)	Nil	–	67.8
南京長江第二大橋有限責任公司 (Jointly controlled entity)	65%	–	N/A	RMB383.5 million (Approximately HK\$368.8 million)	368.8
Total		1,792.9		368.8	2,161.7

Notes:

- The Company did not have any committed capital and loan injection to any of the above affiliated companies.
- All advances are repayable on demand.

Disclosure Pursuant to Rules 13.20 and 13.22 of the Listing Rules *(Continued)*

Set out below is a proforma combined balance sheet of the above affiliated companies and the Group's attributable interest in those affiliated companies as at 31 December 2005 (being the latest practicable date for determining the relevant figures) required to be disclosed under Chapter 13 of the Listing Rules:

	Unaudited proforma combined balance sheet <i>HK\$' million</i>	Group's attributable interest <i>HK\$' million</i>
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Non-current Assets		
Property, plant and equipment	4,373	2,842
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Current Assets		
Stock of properties	3,989	1,467
Trade and other receivables	283	86
Bank balances and cash	426	220
Others	2	1
	4,700	1,774
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Current Liabilities		
Trade and other payables	82	41
Sales and other deposits	438	218
Loan from related companies	6,764	2,066
Short term loan	58	29
Current portion of long term loans	1,014	659
	8,356	3,013
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Non-current Liabilities		
Loan from related parties	913	456
Long term loans	1,508	980
Deferred tax liabilities	435	283
	2,856	1,719
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Net Liabilities	(2,139)	(116)
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Share Capital	671	422
Reserves	(2,810)	(538)
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Capital and Reserves	(2,139)	(116)
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As at 31 December 2005, the consolidated net liabilities of these affiliated companies attributable to the Group amounted to HK\$116 million.

Retirement Benefit Scheme

With effect from 1 December 2000, the Group has joined a mandatory provident fund scheme (“**MPF Scheme**”) for all employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Schemes Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the MPF Scheme, the employer and its employees are each required to make contributions to the MPF Scheme at rates specified in the rules. The employees of the Company’s subsidiaries established in the PRC are members of a state-managed retirement scheme operated by the PRC government. These subsidiaries are required to contribute certain percentage of payroll costs to the retirement benefit scheme. The only obligation of the Group with respect to these schemes is to make the required contributions under the scheme. During the year, the Group made contribution to these schemes amounting to approximately HK\$19 million. No forfeited contribution under this scheme is available to reduce the contribution payable in future years.

Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed amount of public float during the year and up to the date of this report as required under the Listing Rules.

Donations

During the year, the Group made charitable and other donations amounted to approximately HK\$61,500.

Audit Committee

The principal duties of the Audit Committee are the review of the internal controls and financial reporting requirements of the Group. The members of the Audit Committee have been satisfied with the Company’s internal control procedures and the financial reporting disclosures.

Corporate Governance

Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 54 to 61.

Auditors

Messrs. Deloitte Touche Tohmatsu have acted as auditors of the Company for the past three years.

A resolution will be proposed at the forthcoming Annual General Meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Kong Qingping

Chairman & Chief Executive

Hong Kong, 30 March 2006