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THE  
**FUTURE**



# *Gaining Foothold in Hong Kong with Initial Internationalisation*

**I am pleased to report to all shareholders:**

The Group made satisfactory progress in its major businesses in 2005. While maintaining its position as one of the largest contractor in Hong Kong, the Group has also made a significant breakthrough in its internationalisation strategy and successively won number of projects in Dubai and India. Looking into 2006, with its belief of being based in Hong Kong, continuously improve its business scale and business quality. Meanwhile, the Group will strive to create two regional platforms of Hong Kong and Macau markets and overseas markets so as to maximise value for the shareholders and the community.

**Kong Qingping**

Chairman and  
Non-executive Director



# Chairman's Statement

## Listing by Introduction

On 3 June 2005, the Company, China Overseas Holdings Limited ("COHL") and China Overseas Land & Investment Ltd. ("COLI") entered into a sales and purchase agreement pursuant to which COLI agreed to sell the entire interest of its construction business ("Project Management Group") at a consideration of HK\$788 million to be satisfied by transfer of the issued shares of the Company. After restructuring, the Company was listed on The Stock Exchange of Hong Kong Limited ("Stock Exchange") by way of introduction on 8 July 2005 and become the flagship of COHL to expand its construction business in Hong Kong and overseas by focusing on the development of building structures and civil engineering.

## Business Review

Despite significant fluctuations in oil prices and a continued increase in the US interest rates, the global economy continued to perform well in 2005. The regions surrounding Hong Kong saw strong economic growth. In particular, the economy of Mainland China continued to grow at a fast speed.

Driven by continued strong internal and external demand and the supporting measures of the Central Government, the Hong Kong economy continued to grow, with strong external trade performance, a steady growth in the travel industry, overall positive sentiment in the property market, active trading in the stock market, booming retail market, the achievement of financial profitability and a decline in the unemployment rate. The economy experienced strong growth throughout the year, with a growth of 7.3% in 2005.

Benefiting from the continued improvement in the Hong Kong economy, the property and construction markets in Hong Kong experienced a slight growth. However, because of the government's capital expenditure remaining at a low level and prudent investment attitude of the private sector, the recovery of the Hong Kong construction market is still lagging behind that of the overall market. The keen competition in the industry caused by a contraction of the construction sector for years has persisted. The price war in the construction market has not eased. This, together with the impact of the international market, has led to an upsurge in prices of construction materials. Affected by the macro-economic environment of Hong Kong and



Central Reclamation Phase 3

Macau, employee salaries have also increased substantially. The construction industry is still subject to significant operational and management pressure.

Despite difficult market conditions persisted, the Group still made satisfactory progress in its major businesses in 2005. While maintaining its position as one of the largest contractors in the Hong Kong construction market, the Group has also made a significant breakthrough in its internationalisation strategy and successively won commercial and residential projects, hotel project, highway project and airport project in Dubai and India.

## Operating Results

In 2005, the Group undertook 38 new projects with an aggregate attributable amount of HK\$9.73 billion, of which the Hong Kong market undertook 34 projects with an aggregate attributable amount of HK\$5.96 billion, the major new projects comprise Enterprise Square 5, NKIL5927 Kowloon Bay, KCRC-Kowloon Southern Link Tunnels, Construction of Centre for Youth Development at Chai Wan; the Dubai market undertook 2 projects with an aggregate attributable amount of HK\$2.22 billion, Armada Towers and Dubai Mall Hotel; the India market undertook 2 projects with an aggregate attributable amount of HK\$1.55 billion, East-West Corridor in the State of Madhya Pradesh and Hyderabad International Airport-Passenger Terminal Building.

At the end of 2005, the Group had 56 construction projects in progress. The total attributable contract value was HK\$23.69 billion and that of incomplete works was



## Chairman's Statement (con't)



Dubai Mall Hotel

HK\$14.80 billion, of which the Hong Kong market accounted for 51 projects with an attributable contract value of HK\$18.85 billion and a contract value of HK\$10.48 billion for incomplete works; the Macau market accounted for 1 project with an attributable contract value of HK\$1.07 billion and a contract value of HK\$0.65 billion for incomplete works; the Dubai market accounted for 2 projects with an attributable contract value of HK\$2.22 billion and a contract value of HK\$2.17 billion for incomplete works; and the India market accounted for 2 projects with an attributable contract value of HK\$1.55 billion and a contract value of HK\$1.50 billion for incomplete works.

### The Group's Major Competitive Advantages

The Group's competitive advantages will enable it to maintain its position as one of the largest construction companies in Hong Kong, gain a foothold in Hong Kong, actively develop overseas operations, maintain momentum for long-term development and avoiding risks of operating in a single market.

The Group's competitive advantages mainly comprise:

- The management techniques of "Study and Systematic Applications on the Management Techniques of Construction Works", which was awarded the highest honour in science and technology in the PRC – the 2005 National Science & Technology Progressive 2nd Prize, have been generally applied within the Group;
- Outstanding technology innovation capabilities;
- The "5+3" project management model has been popularised to the full extent;
- Mature and highly effective internal control system;
- A sound corporate culture brings together a large number of experienced staff with a highly effective management team; and
- Good reputation and proven track record.

### Prospects

Looking ahead, continued high oil prices will have a significant drag effect on the global economy. The uncertainties associated with the future trend of the US interest rates also increased the uncertainties about the future development of US and global economy. Nevertheless, the Board remains cautiously optimistic about the global economy in the short term and is full of confidence in the future of the Group which is advancing steadily towards the long-term objective of being one of the "advanced international contractors". In 2006, with its belief of being based in Hong Kong, the Group will continue to maintain its position as one of the largest construction companies in Hong Kong and continuously improve its business scale and business quality. Meanwhile, the Group will devote full efforts to drive the implementation of the cross-regional operating strategy, strive to create two regional platforms of Hong Kong and Macau markets and overseas markets, actively consolidate and strengthen market competitive edge so as to maximise value for shareholders and the community.

## Chairman's Statement (con't)

### Hong Kong Market

Despite increased uncertainties associated with the trend of the global economy in the future, it is anticipated that steady growth will still be the main trend. Short-term growth prospects for East Asia economies are still optimistic. In particular, the economy of Mainland China, which has a significant impact on the Hong Kong economy, in 2006, will continue to grow at a relatively higher speed. This undoubtedly will accelerate the recovery of the Hong Kong economy. Looking into 2006, the Hong Kong economy will continue its growth trend but will slow down to a certain extent.

With a pickup in the overall economy, the financial position of the Hong Kong government has continued to improve. The government undertaken in its 2006 financial budget that it will speed up the implementation of infrastructure investment projects and will commence some large projects under planning such as Approach Viaduct among Hong Kong-Macau and Zhuhai and the Associated works in North Lantau, the Government Headquarters at former Tamar site and new Legco Building as soon as possible. Given optimistic overall market sentiment and an increase in people's income, consumers' confidence has strengthened. This has increased the market demand for residential units, which will speed up the launch of private investment projects. The Board believes that the above factors will progressively drive the Hong Kong construction industry to recover, thus keeping up with the pace of the recovery of the overall Hong Kong economy. Besides, this will also create new business opportunities for the business development of the Group.

The Group will continue to implement its effective "High Quality Management, Low Cost Competition" strategy and capitalise on its advantage of being familiar with the Hong Kong market to capture opportunities to further increase its market share.

### Overseas Market

In 2005, the Group made a significant breakthrough in its internationalisation strategy, winning the bid for a total of four projects in the Dubai and India markets. In 2006, while proceeding with the existing projects, the Group will closely monitor the development of the markets and continue to expand its businesses steadily with the emphasis on the Dubai market. Meanwhile, the Group will follow up the India market and selectively participate in project tenders.

### Dubai

As one of the major oil producing countries in Middle East, the United Arab Emirates ("UAE") has stable political conditions and is a highly open economy. Since 2000, the GDP growth has remained at approximately 8.0%. As the major city of UAE, Dubai's overall economy has been growing rapidly, its GDP growth reached 16.7% in 2004 and is expected to reach 15.0% in 2005. Through an open market policy, the local government has been striving to develop Dubai into a trade, finance, air transport and travel centre in Middle East. The local government has stepped up its efforts to undertake infrastructure investment projects. The rapid increase in the local population and the number of travellers, together with the government's policy of allowing foreigners to purchase local properties, have all stimulated the development of the local property market, bringing prosperity to the local construction market. It is anticipated that in 2006, the Dubai construction market will continue its fast development trend.

### India

Since 2000, the economy of India has been growing at above 6.0%, making the country to be one of the regions with the greatest potential for economic development in the world. The economic growth of India reached 8.0% in the third quarter of 2005. However, underdeveloped infrastructure cannot meet the needs for fast economic development and has become a bottleneck hindering economic development. To this end, the Indian



Hyderabad International Airport-Passenger Terminal Building in India

## Chairman's Statement (con't)

Government has increased its investment in infrastructure in recent years and made great efforts in constructing a nationwide high-grade highway network and building and renovating airports on a large scale since 1999. The investment made by the Indian Government in infrastructure accounted for only 4.0% of the GDP in 2004 and is expected to account for 8.0% in 2010. The investment in infrastructure projects will increase by more than 100% from US\$40 billion for the years 2001 to 2004 to US\$95 billion for the years 2005 to 2008. The investment of huge funds has created unlimited business opportunities for the construction industry.

The Group has a good start in its business development in Dubai and India. However, the Board of Directors believes that opportunities and risk coexist. Therefore, the Group will take a prudent attitude of being highly responsible to shareholders and adhere to a strategy for steady development. While capturing market opportunities, the Group will bring the effective management and control model the Group has developed for more than 20 years in the Hong Kong market into full play. Besides, the Group will take the reference from the internationalisation experience of China State Construction Engineering Corporation ("CSCEC") to strictly manage operating risks, thus creating value for shareholders. The Board believes that as the scale of its overseas business continues to expand, it is anticipated that overseas markets, particularly Dubai, will occupy an important position in the business distribution of the Group in the future. The Board is cautiously optimistic that overseas business will become an important source to contribute to the Group's earnings in future.

### Other Business Opportunity

Looking into the future, the economy of Mainland China will continue to see steady growth. Because of the opening of the gambling license, a large amount of funds have poured into the Macau market. As a result, an unprecedented boom has also been seen in the Macau construction market. The Group is considering to further develop its construction business in Macau. At the same time, the Group will pay close attention to the development of Mainland China and CSCEC and study the feasibility of investing in Mainland China and integrating the corporation's resources. The Group will also make positive efforts to study models such as BT (the "Build-Transfer"

model), BOT (the "Build-Operate-Transfer" model) and PPP (the "Public-Private-Partnership" model), leverage on its own strong financial capability and study the feasibility of driving project contracting by investment so as to strive for greater development space for the Group.

### Appreciation

The Group appointed Dr. Raymond Ho Chung Tai, Mr. Adrian David Li Man Kiu, Mr. Raymond Leung Hai Ming and Mr. Lee Shing See as independent non-executive directors in 2005. They have also served on the Audit Committee, the Remuneration Committee and the Nomination Committee. Dr. Raymond Ho Chung Tai is the chairman of the Audit Committee. Dr. Raymond Ho Chung Tai, Mr. Adrian David Li Man Kiu, Mr. Raymond Leung Hai Ming and Mr. Lee Shing See all possess extensive knowledge and profound experience in business development, corporate governance, project management, investment management and corporate finance, which is of great help to the business development of the Group.

I would like to take this opportunity to express my heartfelt gratitude to the members of the Board of Directors for their brilliant leadership, all shareholders for their strong support, the community for their enthusiastic assistance and all staff for their hard work.

### Kong Qingping

Chairman and Non-executive Director

Hong Kong, 30 March 2006