

Directors' Report

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.

Group Reorganisation

The Company was incorporated in the Cayman Islands under the Companies Law of the Cayman Islands as an exempted company with limited liability on 25 March 2004.

Pursuant to the reorganisation as disclosed in the Company's prospectus dated 14 June 2005 (the "Prospectus") (the "Reorganisation"), prepared for the purpose of listing its shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") by introduction, the Company then become the holding company of the subsidiaries now comprising the Group and acquired the construction business ("Project Management Group") held by China Overseas Land & Investment Ltd. ("COLI") on 30 June 2005.

The shares of the Company were listed on the Stock Exchange on 8 July 2005.

Details of the Reorganisation are set out in note 1 to the financial statements.

Principal Activities

The Company acts as an investment holding company and provides corporate management services. The activities of its principal subsidiaries, associates, jointly controlled entities and jointly controlled operations are set out in notes 36, 18 and 22 respectively to the financial statements.

An analysis of the Group's turnover for the year is set out in note 5 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 67.

The directors recommend the payment of a final dividend of HK9 cents (2004: nil) per share to the shareholders on the register of members on 26 June 2006. The proposed final dividend for year is HK\$44,290,000.

Financial Summary

A summary of the results, assets and liabilities of the Group for the past five financial years is set out on pages 111 and 112.

Major Customers and Suppliers

For the financial year ended 31 December 2005, the five largest customers of the Group accounted for approximately 53% of the Group's turnover and turnover from the largest customer included therein accounted for approximately 33%. The five largest suppliers of the Group accounted for less than 30% of the Group's total purchases 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% of the Company's issued share capital) have an interest in any of the Group's five largest customers or suppliers.

Property, Plant and Equipment

Details of movements during the year in the property, plant and equipment of the Group are set out in note 16 to the financial statements.

Reserves

Details of movements during the year in the reserves of the Group are set out in the consolidated statement of changes in equity on page 70.

Share Capital

Details of movements during the year in the share capital of the Company are set out in note 25 to the financial statements.

Directors

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

Non-executive Director

Mr. Kong Qingping (Chairman) (appointed on 21 April 2004)

Executive Directors

Mr. Zhou Yong (Vice-chairman and Chief Executive Officer) (appointed on 21 April 2004)
Mr. Yip Chung Nam (appointed on 1 June 2005)
Mr. Fu He (appointed on 1 June 2005)
Mr. Zhou Hancheng (appointed on 21 April 2004)
Mr. Cheong Chit Sun (appointed on 12 October 2005)

Independent Non-executive Directors

Dr. Raymond Ho Chung Tai (appointed on 1 June 2005)
Mr. Adrian David Li Man Kiu (appointed on 1 June 2005)
Mr. Raymond Leung Hai Ming (appointed on 1 June 2005)
Mr. Lee Shing See (appointed on 1 September 2005)

Notes:

In accordance with the provisions of the article 86(3) of the Company's Article of Association, Mr. Kong Qingping, Mr. Zhou Yong, Mr. Yip Chung Nam, Mr. Fu He, Mr. Zhou Hancheng, Mr. Cheong Chit Sun, Dr. Raymond Ho Chung Tai, Mr. Adrian David Li Man Kiu, Mr. Raymond Leung Hai Ming, and Mr. Lee Shing See shall hold office until the forthcoming annual general meeting and, being eligible for re-election.

Information regarding directors' emoluments is set out in note 9 to the financial statements.

Directors' Report (con't)

Directors' Service Contracts

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any subsidiaries which is not determinable by the employing company Group within one year without payment of compensation (other than statutory compensation).

Directors' Interest in Competing Business

Pursuant to Rule 8.10 of the Listing Rules, the Company discloses that during the year and up to the date of this report, Mr. Kong Qingping holds directorship in China State Construction Engineering Corporation ("CSCEC") (the Company's ultimate holding company), China Overseas Holdings Limited ("COHL") (the Company's holding company) and COLI (the Company's associated corporation), and/or their respective subsidiaries which are engaged in construction, property development and related business.

As the Board of the Group operates independently of the Boards of these companies, the Group can operate its business independently of, and at arm's length from, the businesses of these companies.

Directors' Interests in Shares and Underlying Shares

As at 31 December 2005, the interests of the directors and their associates in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

(a) Long positions in ordinary shares of the Company and associated corporation

Interest in	Name of Director	Capacity	Nature of interests	Number of ordinary shares held	% of total issued shares
1. The Company	Kong Qingping	Beneficial owner	Personal	200,000	0.041
	Yip Chung Nam	Beneficial owner	Personal	122,222	0.025
	Zhou Hancheng	Beneficial owner	Personal	10,000	0.002
2. COLI (associated corporation)	Kong Qingping	Beneficial owner	Personal	3,600,000	0.056
	Yip Chung Nam	Beneficial owner	Personal	2,600,000	0.040
	Fu He	Beneficial owner	Personal	400,000	0.006
	Cheong Chit Sun	Beneficial owner	Personal	80,000	0.001

Directors' Report (con't)

(b) Long positions in underlying shares of the Company and associated corporation

		Share options								
		Number of ordinary shares attached to the share options								
Interest in	Name of director	Date of grant	Outstanding at 1 January 2005	Granted during the period	Exercised during the period	Cancelled during the year	Outstanding at 31 December 2005	Exercise price	Exercise period	
1.	The Company	Kong Qingping	14.09.2005	—	1,200,000	—	—	1,200,000	HK\$1.03	14.09.2006 to 13.09.2015
		Zhou Yong	14.09.2005	—	1,050,000	—	—	1,050,000	HK\$1.03	14.09.2006 to 13.09.2015
		Yip Chung Nam	14.09.2005	—	750,000	—	—	750,000	HK\$1.03	14.09.2006 to 13.09.2015
		Fu He	14.09.2005	—	750,000	—	—	750,000	HK\$1.03	14.09.2006 to 13.09.2015
		Zhou Hancheng	14.09.2005	—	700,000	—	—	700,000	HK\$1.03	14.09.2006 to 13.09.2015
		Cheong Chit Sun	14.09.2005	—	450,000	—	—	450,000	HK\$1.03	14.09.2006 to 13.09.2015
		Raymond Ho Chung Tai	14.09.2005	—	200,000	—	—	200,000	HK\$1.03	14.09.2006 to 13.09.2015
		Adrian David Li Man Kiu	14.09.2005	—	200,000	—	—	200,000	HK\$1.03	14.09.2006 to 13.09.2015
		Raymond Leung Hai Ming	14.09.2005	—	200,000	—	—	200,000	HK\$1.03	14.09.2006 to 13.09.2015
		Lee Shing See	14.09.2005	—	200,000	—	—	200,000	HK\$1.03	14.09.2006 to 13.09.2015
					5,700,000			5,700,000		

Directors' Report (con't)

(b) Long positions in underlying shares of the Company and associated corporation (con't)

Interest in	Name of director	Date of grant	Share options						
			Number of ordinary shares attached to the share options				Outstanding at 31 December 2005	Exercise price	Exercise period
			Outstanding at 1 January 2005	Granted during the period	Exercised during the period	Cancelled during the year			
2. COLI	Kong Qingping	17.07.1997	1,000,000	—	—	—	1,000,000	HK\$4.06	17.07.1998 to 16.07.2007
		14.02.1998	10,720,000	—	(280,000)	—	10,440,000	HK\$1.08	14.02.1999 to 13.02.2008
		30.09.1998	920,000	—	(460,000)	—	460,000	HK\$0.52	30.09.1999 to 29.09.2008
		04.01.2000	1,200,000	—	(400,000)	—	800,000	HK\$0.58	04.01.2001 to 03.01.2010
		18.06.2004	3,360,000	—	—	—	3,360,000	HK\$1.13	18.06.2005 to 17.06.2014
				17,200,000				16,060,000	
	Zhou Yong	17.07.1997	20,000	—	—	—	20,000	HK\$4.06	17.07.1998 to 16.07.2007
		14.02.1998	150,000	—	—	—	150,000	HK\$1.08	14.02.1999 to 13.02.2008
		30.09.1998	60,000	—	—	—	60,000	HK\$0.52	30.09.1999 to 29.09.2008
		04.01.2000	180,000	—	—	—	180,000	HK\$0.58	04.01.2001 to 03.01.2010
18.06.2004		1,920,000	—	—	—	1,920,000	HK\$1.13	18.06.2005 to 17.06.2014	
			2,330,000				2,330,000		

Directors' Report (con't)

(b) Long positions in underlying shares of the Company and associated corporation (con't)

		Share options							
		Number of ordinary shares attached to the share options							
Interest in	Name of director	Date of grant	Outstanding at 1 January 2005	Granted during the period	Exercised during the period	Cancelled during the year	Outstanding at 31 December 2005	Exercise price	Exercise period
COLI	Yip Chung Nam	17.07.1997	800,000	—	—	—	800,000	HK\$4.06	17.07.1998 to 16.07.2007
		18.06.2004	2,000,000	—	(400,000)	—	1,600,000	HK\$1.13	18.06.2005 to 17.06.2014
			<u>2,800,000</u>				<u>2,400,000</u>		
	Fu He	17.07.1997	250,000	—	—	—	250,000	HK\$4.06	17.07.1998 to 16.07.2007
		14.02.1998	280,000	—	(70,000)	—	210,000	HK\$1.08	14.02.1999 to 13.02.2008
		30.09.1998	220,000	—	(100,000)	—	120,000	HK\$0.52	30.09.1999 to 29.09.2008
		04.01.2000	360,000	—	(120,000)	—	240,000	HK\$0.58	04.01.2001 to 03.01.2010
		18.06.2004	2,000,000	—	(400,000)	—	1,600,000	HK\$1.13	18.06.2005 to 17.06.2014
			<u>3,110,000</u>				<u>2,420,000</u>		

Directors' Report (con't)

(b) Long positions in underlying shares of the Company and associated corporation (con't)

Interest in	Name of director	Date of grant	Share options						
			Number of ordinary shares attached to the share options				Outstanding at 31 December 2005	Exercise price	Exercise period
			Outstanding at 1 January 2005	Granted during the period	Exercised during the period	Cancelled during the year			
COLI	Zhou Hancheng	17.07.1997	100,000	—	—	—	100,000	HK\$4.06	17.07.1998 to 16.07.2007
		14.02.1998	160,000	—	(40,000)	—	120,000	HK\$1.08	14.02.1999 to 13.02.2008
		30.09.1998	160,000	—	(80,000)	—	80,000	HK\$0.52	30.09.1999 to 29.09.2008
		04.01.2000	320,000	—	(160,000)	—	160,000	HK\$0.58	04.01.2001 to 03.01.2010
		18.06.2004	640,000	—	(128,000)	—	512,000	HK\$1.13	18.06.2005 to 17.06.2014
			<u>1,380,000</u>				<u>972,000</u>		
	Cheong Chit Sun	18.06.2004	400,000	—	(80,000)	—	320,000	HK\$1.13	18.06.2005 to 17.06.2014
			<u>400,000</u>				<u>320,000</u>		

Save as disclosed above, as at 31 December 2005, none of the Directors and their associates hold any shares and underlying shares and debentures of the Company or any of its associated corporation (within the meaning of part XV of the SFO) which are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Listing Rules, to be notified to the Company and the Stock Exchange.

Share Options

Particulars of the Company's share option scheme are set out in note 32 to the financial statements.

Substantial Shareholders

As at 31 December 2005, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

Long positions of substantial shareholders in the shares and underlying shares of the Company

Name of Shareholder	Capacity	Number of shares held	Number of underlying shares held	% of total issued share
COHL	Beneficial owner	316,318,956	—	64.28
CSCEC	Interest of a controlled corporation/beneficial owner	316,318,956	—	64.28

COHL is a direct wholly owned subsidiary of CSCEC, thus CSCEC is deemed by the SFO to be interested in 316,318,956 Shares directly owned by COHL.

Save as disclosed above, as at 31 December 2005, according to the records required to be kept by the Company under section 336 of the SFO, there was no other person who had an interest or short position in the shares or underlying shares of the Company.

Independent Non-Executive Directors

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing Securities on the Stock Exchange. The Company considers all of the independent non-executive directors are independent.

Connected and Related Party Transactions

Details of connected and related party transactions are set out on pages 60 to 64 and note 35 to the financial statements respectively. Save as the related party transactions disclosed in note 35 to the financial statement, 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.

Emolument Policy

The emolument policy of the employees of the Group was approved by the Remuneration Committee.

The emolument of the directors of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, directors' individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to directors and eligible persons, details of the scheme is set out in note 32 to the financial statements.

Directors' Report (con't)

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 only obligation of the Group with respect to MPF Scheme is to make the required contributions under the scheme. During the year, the Group made contribution to the MPF Scheme amounting to approximately HK\$17 million. No forfeited contribution under this scheme is available to reduce the contribution payable in future years.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities since its listing on 8 July 2005.

Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Company's Articles, the laws of Cayman Islands, being the jurisdiction in which the Company is incorporated, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

Sufficiency of Public Float

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

Donations

During the year, the Group made charitable donations amounting to HK\$45,000.

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

The Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange was come into effect on 1 January 2005. In the opinion of the Directors, the Company had complied with the Code since its listing on 8 July 2005.

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 and Non-executive Director

Hong Kong, 30 March 2006