

Connected Transactions

A. Connected transactions prior to the listing of the Company on 8 July 2005 and were not subject to any connected transaction requirements under Chapter 14A of the Listing Rules at the time they were entered into

A.1 Ceased upon listing of the Company on 8 July 2005

A.1.1 Project Management Agreement

Pursuant to a project management agreement and a deed of undertaking (together referred to as the “Project Management Agreement”) entered into in 1993 between China State Construction Engineering Corporation (“CSCEC”, the ultimate shareholder of the Company) and the then subsidiaries of China Overseas Land & Investment Ltd. (“COLI”, the Company’s associated corporation), namely China Overseas Building Construction Limited, China Overseas Civil Engineering Limited and China Overseas Foundation Engineering Limited (together “Project Managers”), the Project Managers have been appointed as joint managers for each and every construction contract in Hong Kong participated by CSCEC since 1993. Under the Project Management Agreement, the Project Managers shall provide project management services and act as agent for and, in consultation with CSCEC, to tender for and obtain projects on behalf of CSCEC on such terms as may be agreed by CSCEC. CSCEC has agreed to pay the Project Managers a management fee equivalent to 7% of the final contract value receivable by CSCEC under such construction contracts.

Pursuant to a novation agreement (“Novation Agreement”) entered into in December 2001 between CSCEC and China State Construction Engineering (Hong Kong) Limited (“CSCEHK”, the existing wholly-owned subsidiary of the Company), the rights and obligations of CSCEC under the Project Management Agreement have been novated and transferred to CSCEHK free of any charge.

During the year and upto listing, project management fees paid by CSCEC to the Project Managers pursuant to the Project Management Agreement amounted to HK\$427,000 (2004: HK\$9,717,000).

During the year and upto listing, project management fees paid or payable by CSCEHK to the Project Managers pursuant to the Project Management Agreement amounted to HK\$161,198,000 (2004: HK\$199,380,000).

Pursuant to the Sale and Purchase Agreement dated 3 June 2005 made between China Overseas Holdings Limited (“COHL”, controlling shareholder of the Company), COLI and the Company; and Deeds of Termination dated 30 June 2005 all rights and obligation of the Project Management Agreement and the Novation Agreement were terminated with effect from 30 June 2005.

A.1.2 Counter guarantees provided by COHL and COLI

Most of the banking facilities (including overdraft and bid bonds/performance bonds facilities) available to the Group prior to its listing are supported by counter guarantees provided by COHL and/or COLI in favour of the banks. During the year and upto listing, the total amount secured or guaranteed by COHL and COLI in favour of the Group were HK\$1.00 billion and HK\$1.66 billion respectively.

Immediate after the listing of the Company, all the counter-guarantees provided by COHL and COLI were released.

A.1.3 Connected transactions with China Overseas Insurance Limited

China Overseas Insurance Limited (“COIL”, a wholly-owned subsidiary of COHL), has in the ordinary course of its business, also provided performance bonds for the benefit of projects of the Group. The bonds were provided at an annual fee of 0.34% per annum over the contract value subject to a minimum fee of HK\$1,000 per contract, such fee is comparable to the level of fee charged by independent third party financial services providers for similar service. The performance bonds were supported by corresponding counter guarantees from the Group and aggregated up to an amount of about HK\$33,000,000.

The performance bonds issued by COIL were cancelled prior to listing of the Company.

A.2 Joint Ventures not subject to any connected transaction requirements

The joint ventures in respect of projects (a) Deep Bay Link - Southern Section, (b) Design and Construction of the Approach Viaduct to the New Boundary Bridge between Lok Ma Chau and Huanggang and Associated Works, and (c) Wynn Resorts Macau were awarded to our joint ventures with CSCEC or its associates. The joint venture agreements were entered into prior to the listing of the Company on 8 July 2005 and were not subject to any connected transactions requirements under Chapter 14A of the Listing Rules at the time they were entered into.

A.2.1 Deep Bay Link - Southern Section

CSCEHK and CSCEC entered into a joint venture agreement on 30 April 2003 whereby the parties agreed to bid for and, if the bid was successful, to implement the project with their respective financial interests as follows:

CSCEHK	—	70%
CSCEC	—	30%

The project was awarded in June 2003 to the unincorporated joint venture formed by the above parties. There is no fixed term for the joint venture and it will terminate when the project completes in accordance with the provisions of the joint venture agreement. The total contract value of the project awarded to the joint venture was approximately HK\$1,213,000,000.

A.2.2 Design and Construction of the Approach Viaduct to the New Boundary Bridge between Lok Ma Chau and Huanggang and Associated Works

CSCEHK and CSCEC entered into a joint venture agreement on 2 October 2003 whereby the parties agreed to bid for and, if the bid was successful, to implement the project with the respective financial interests as follows:

CSCEHK	—	70%
CSCEC	—	30%

The project was awarded in November 2003 to the unincorporated joint venture formed by the above parties. There is no fixed term for the joint venture and it will terminate when the project completes in accordance with the provisions of the joint venture agreement. The total contract value of the project awarded to the joint venture was approximately HK\$138,300,000.

A.2.3 Wynn Resorts Macau

CSCEHK, China Construction Engineering (Macau) Company Limited and an independent third party entered into a joint venture agreement on 24 March 2004 whereby the parties agreed to bid for, and if the bid was successful, to implement the project with the respective financial interests as follows:

CSCEHK	—	30%
China Construction Engineering (Macau) Company Limited, a wholly-owned subsidiary of COHL	—	20%
Leighton Contractors (Asia) Limited, an independent third party JV partner	—	50%

The project was awarded in May 2004 to the unincorporated joint venture formed by the above parties. There is no fixed term for the joint venture and it will terminate when the project completes in accordance with the provisions of the joint venture agreement. The total contract value of the project and the expansion project awarded to the joint venture was approximately HK\$3,567,000,000.

Connected Transactions (con't)

B. Continuing connected transactions under Chapter 14A of the Listing Rules

B.1.1 Supplies from Hailong

深圳海龍建築製品有限公司 (Shenzhen Hailong Construction Products Co., Ltd., ("Hailong")) is a company in which each of CSCEC and the Group is interested in 50% and is therefore an associate of COHL. It is one of the Group's suppliers of pre-cast structures.

It is expected that Hailong will continue to participate in competitive tenders to bid for supply contracts and to provide construction materials to the Group upon successful tender on a recurring basis from time to time in the future. Pursuant to the Listing Rules, the provision of construction materials from Hailong constitutes connected transactions of the Group. In this connection, the Company has entered into a Materials Supplies Engagement Agreement with Hailong on 9 June 2005 for a term expiring on 31 December 2007.

Reason for the transaction

Enlisting Hailong, as one of the Group's suppliers, is part of our vertically integrated business model. It enables the Group to exert more effective control over the production and delivery of the materials required, and keeps the Group abreast with the latest market news and trend in construction materials, placing the Group in a competitively more advantageous position when accessing the Group's construction costs.

Waiver

The Company has, pursuant to Rule 14A.42 of the Listing Rules, applied to the Stock Exchange for a waiver in respect of the purchase of materials from Hailong from strict compliance with the announcement requirements and independent shareholders approval requirements under the Listing Rules, subject to the annual cap set out below.

B.1.2 Insurance policy purchased from COHL Group

COIL is authorised by the Office of the Commissioner of Insurance to carry on insurance business. The Group has purchased insurance from COIL as underwriter since 2002.

Insurances purchased by the Group are divided into two main categories (a) contractors' all risks (including third parties) and (b) employees' compensation. Other categories of insurances purchased by the Group include motor, property damage and public liability.

It is expected that the Group will continue to purchase insurance from COIL as underwriter in respect of the Group's construction projects and other risks of the Group's business operations, in accordance with the Group's normal selection procedures and terms. In this connection, the Company has entered into an Insurance Engagement Agreement with COIL on 9 June 2005 for a term expiring on 31 December 2007.

Reason for the transaction

The Insurance Engagement Agreement allows the Group to insure with a more diverse base of insurers.

Waiver

The Company has, pursuant to Rule 14A.42 of the Listing Rules, applied to the Stock Exchange for a waiver in respect of the purchase of insurance policy from COIL under the Insurance Engagement Agreement from strict compliance with the announcement requirements and independent shareholders' approval requirements under the Listing Rules, subject to the annual cap set out below.

Connected Transactions (con't)

B.1.3 Leases of properties

The Group has entered into tenancy agreements with On Success Development Limited, a subsidiary of COLI, for the leases of the Group's office premises situated at Unit A on 5th Floor, Units A, B, C, D & E on 15th Floor, Units A, B, C & D on 17th Floor, 27th Floor and 28th Floor, China Overseas Building, 139 Hennessy Road, Wanchai, Hong Kong.

Reason for the transaction

The Group has been operating from China Overseas Building in the past, and in view of administrative convenience will continue to do so provided the rentals are comparable to the market rates and are fair and reasonable.

Waiver

The Company has, pursuant to Rule 14A.42 of the Listing Rules, applied to the Stock Exchange for a waiver in respect of the Tenancy Agreements from strict compliance with the announcement requirements under the Listing Rules, subject to the annual cap set out below.

B.1.4 Annual Cap

- (1) The following is a table of the annual caps on the transaction amounts of each of the continuing connected transactions mentioned in B.1.1 to B.1.3 above for the three financial years ending 31 December 2007:

	Cap in 2005	Cap in 2006	Cap in 2007
	HK\$'000	HK\$'000	HK\$'000
(B.1.1) Materials Supplies Engagement Agreement	30,000	30,000	30,000
(B.1.2) Insurance Engagement Agreement	70,000	75,000	80,000
(B.1.3) Tenancy Agreements	5,365	5,365	5,365

- (2) The following table showed the transaction amounts of each of the continuing connected transactions mentioned in B.1.1 to B.1.3 above for the year ended 31 December 2005:

	For the year ended 31 December 2005
	HK\$'000
(B.1.1) Materials Supplies Engagement Agreement	26,548
(B.1.2) Insurance Engagement Agreement	54,794
(B.1.3) Tenancy Agreements	4,668

- (3) Pursuant to Rule 14A.38 of the Listing Rules, the Directors engaged the auditors of the Company to perform certain agreed procedures in respect of the continuing connected transactions of the Group as mentioned in B.1.1 to B.1.3 above for the year ended 31 December 2005. The auditors have reported their factual findings on these procedures to the Board. The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

Connected Transactions (con't)

B.2 CSC Engagement Agreement

COLI group engages in property development and investment and engages contractors to construct its property projects in Hong Kong.

It is expected that COLI Group may invite the Group to participate in competitive tender for COLI Group's construction works from time to time in Hong Kong. Pursuant to the Listing Rules, the engagement by COLI Group of the Group as construction contractor for its construction works constitutes connected transaction of the Group. In this connection, the Company has entered into CSC Engagement Agreement with COLI on 22 November 2005 for a term of three years expiring on 31 December 2008.

Reason for the transaction

The CSC Engagement Agreement allows the Group to secure a more diverse base of customers for building construction in Hong Kong.

Waiver

The Company has, pursuant to Rule 14A.42 of the Listing Rules, applied to the Stock Exchange for a waiver in respect of the transaction as contemplated under the CSC Engagement Agreement from strict compliance with the announcement requirements and independent shareholders' approval requirements under the Listing Rules, subject to the annual cap of not exceeding HK\$900,000,000 per year.

There was no transaction of the CSC Engagement Agreement for the year ended 31 December 2005.

In the opinion of the Directors (including the independent non-executive directors), the connected transactions contemplated under this section were carried out (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms at which the transactions are either on an arm's length basis or on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties; and (iii) on terms that are fair and reasonable and in the interests of the Company and its shareholders as a whole.

The Directors also confirm that the Company has complied with the disclosure requirements as required by Listing Rules in relation to the aforementioned connected transactions.