



Kong Qingping
Chairman and Chief Executive

Sustainability. Value-adding. Harmony. Win-win.

"It is my pleasure to report to the shareholders that the audited consolidated profit after taxation and minority interests of the Group for the year ended 31 December 2006 increased by 54% to HK\$2.37 billion. Earning per share was HK35.5 cents. The total shareholders' funds increased by 39% to HK\$15.4 billion. Net asset per share was HK\$2.2, an increase of 27% from 2005, and return on equity reached 15%. The Board recommended the payment of a final dividend of HK6 cents per share for 2006."

I have pleasure to report to the shareholders that:

Annual Results

The profit after taxation and minority interests of the Group for the year ended 31 December 2006 amounted to HK\$2.37 billion, representing an increase of 54% from the profit of HK\$1.53 billion in the same period last year. Earning per share was HK35.5 cents, representing an increase of 48% from HK24.0 cents per share last year.

Payment of Dividend

The Board recommended a payment of final dividend of HK6 cents per share for the year ended 31 December 2006, together with an interim dividend of HK4 cents per share, the total dividend for the whole year amounted to HK10 cents per share, representing an increase of 43% compared with the total dividend of HK7 cents per share for the previous year.

Business Review

In year 2006, the Group underwent an effective consolidation of our businesses in accordance with its strategic plan, focusing its efforts and resources to accelerate the development of real estate business in China. The turnover of China real estate business increased by 62% to HK\$9.5 billion, the operation profit margin increased by 4% to 25.0%, thus resulting in the gross profit contribution increased by 69% to HK\$2.36 billion. The performance of other businesses in the Group was also good. The consolidated net profit of the Group sustained an increase of over 40% for four consecutive years or a compound increase of 41.5% for the past 5 years, fulfilling the promise to the investors. During the year, the share price of the Company's share performed well, thus enhancing the value for the shareholders of the Company.

Land Reserve

The Group had been maintaining land reserve of good quality and diversified resources. As at 31 December 2006, the Group had a total land reserve of over 15 million sq.m. to be developed in the near future or under development in 16 cities/districts including Mainland cities, Hong Kong and Macau, enough for meeting its development requirement which is set in such a way to ensure achievement of profit target of over 20% annual increase in the coming 4 to 5 years.

The Group entered into Chongqing and Hangzhou which are major cities considered of good potential. 19 parcels of land were newly acquired in 2006 in 11 cities and most of them were located in Guangzhou, Shenzhen, Suzhou, Xi'an and Nanjing. The newly acquired land provides an aggregate gross floor area ("GFA") of 6.5 million sq.m. which is more than double of the original target. This was due to the fact that the Group was optimistic about the China real estate market particularly in major cities. The Group came across some investment opportunities with good return while its equity base and funding had improved.

In Hong Kong, the Group acquired a piece of land in Kowloon Tong at a price of HK\$430 million. The land is planned for development of luxury houses for a total GFA of 5,600 sq.m..

In 2007, the Group newly acquired three parcels of land located in Changchun, Suzhou and Hong Kong, with a total GFA of 1.1 million sq.m..

Management Philosophy and Brand Value

Holding on the Group's philosophy of "Excellent Integrity, Eternal and Excellent Products" (誠信卓越·精品永恒), the Group will continue to reinforce its internal management, maintain a pool of experienced professionals, implement its nationwide business development strategy in major cities of China, and strengthen its brand influence. In Mainland China, no matter what market it is in, the Group pursues to provide quality products and services to the customers.

In 2006, the Group received a number of awards. The Company was included in the Standard & Poor Global 40 Biggest Property Developer Index. China Overseas Property was acknowledged by "China Real Estate Top 10 Research Team" as Number One in term of integrated strength among the top 100 China real estate enterprises, with the brand value of China Overseas Property (中海地產) increased to RMB4.8 billion. China Overseas Property was elected by the All-China Federation of Industry & Commerce and China Entrepreneur Association (全國工商聯和中國企業家協會) as "Top 25 Branded Enterprise" ("中國25大典範品牌企業"), and accredited by the USA Business Week as "2006 Best China Brand Name" ("2006年度最佳中國品牌").

Property Development

The Group achieved another record sale of HK\$14.2 billion in year 2006 (including its share of sales in syndicated projects), an increase of 50% from 2005. Total GFA of properties sold was 1.72 million sq.m., an increase of 43% over 2005.

Total sales of properties in China remained robust, amounting to HK\$12.8 billion, an increase of 71% from the previous year; GFA sold was 1.67 million sq.m., representing an increase of 48% from 2005.

There are 21 projects completed in Mainland China for occupation during the year. Total GFA of these projects amounted to 1.64 million sq.m. 79% of which has been sold out by the end of 2006, corresponding to an area of 1.29 million sq.m., and raising HK\$11.5 billion.

Further, sales of properties held for sale was satisfactory. 287,000 sq.m. was sold at an amount of approximately HK\$2 billion. At the end of 2006, properties held for sale remained at a low level of 400,000 sq.m..

Property sales in Macau and Hong Kong amounted to about HK\$1.4 billion. Most of the sales were coming from the la Cité project in Macau.

Investment Properties

Occupancy rate of the Group's properties in Hong Kong and Guangzhou was satisfactory. The Group has 63,000 sq.m. of investment properties. The total rental income for the period was HK\$104 million, representing a decrease of 18% from 2005; segment result amounted to HK\$295 million which included an increase in fair value of properties of HK\$205 million. Operating profit was HK\$90 million, representing a decrease of 18% as compared to that of prior year.

Property-Related Business

Design

Acquisition of Hua Yi Designing Consultants Company Limited ("Hua Yi") perfected the business chain of the Group and Hua Yi has rapidly expanded to new customers. Its turnover in 2006 was HK\$95 million and operating profit contribution was HK\$5.1 million.

Property Management

As one of leading brands in the property management sector in Mainland China and Hong Kong, China Overseas Property Management has won the trust and compliments from property owners and established a good reputation in the community. Property buyers in China have gradually realized the value of good property management while the Chinese government has relaxed the restriction on overseas companies in entering into the property management sector. Furthermore,

to cater for the Group's need to increase its scale in residential property development and investment property portfolio, to optimize and consolidate its internal resources, and to enhance the brand name of China Overseas Property Management, the Group signed an agreement with its ultimate controlling shareholder China State Construction Engineering Corporation to acquire all the interests of China Overseas Property Management Company Limited at a price of HK\$127 million. After the consolidation, China Overseas Property Management has become the leader of this sector with the largest market share in China. Also, the Group has completed its one-stop business chain comprising all elements from design, development, sales, property management and customer service. This enables the Group to provide comprehensive and integrated services of premium quality.

The turnover for property management was HK\$203 million and operating profit was HK\$53.8 million.

Infrastructure Business

During the period, infrastructure and provincial facilities projects recorded an operating income of HK\$23.8 million and an operating profit of HK\$13.8 million.

Group Finance

The Group adheres strictly to the principle of prudent financial policy. Finance, treasury and fund raising activities of the Group are subject to centralized management and supervision. It maintains a cash on hand ratio of 0.1 and a reasonable gearing ratio. In July 2006, the Company issued bonus warrants to its shareholders which when exercised in full will raise HK\$3.65 billion equity to the Group, thus strengthen its financial position significantly. As at the end of year 2006, HK\$2.1 billion was raised, of which HK\$1.8 billion was coming

from the Company's controlling shareholder China Overseas Holdings Limited. In August 2006, the Group also entered into a strategic co-operation framework agreement for a facility amount of RMB5 billion with Bank of China Head office. In September 2006, the Group arranged a club deal to raise HK\$2.6 billion in Hong Kong. This 5-year clean syndication loan was the biggest in amount and cheapest in financing costs for the Group, thus reducing its financial expenses. As at 31 December 2006, the bank loans and guaranteed notes payable of the Group were about HK\$6.7 billion and about HK\$2.3 billion (USD300 million) respectively, cash on hand amounted to about HK\$3.8 billion, while net gearing ratio stood at 34%. Together with available banking facilities of about HK\$2.8 billion, the total funds available to the Group amounted to about HK\$6.6 billion.

Every year, the Group conducts business review meeting, strategy and financial review meetings to have a thorough and comprehensive understanding of the operation and financial performance of its businesses. Strategic assessment and financial analysis are then made. Results of the meetings will give direction as to the Group's business activities and works to be carried out by the Finance and Treasury Development.

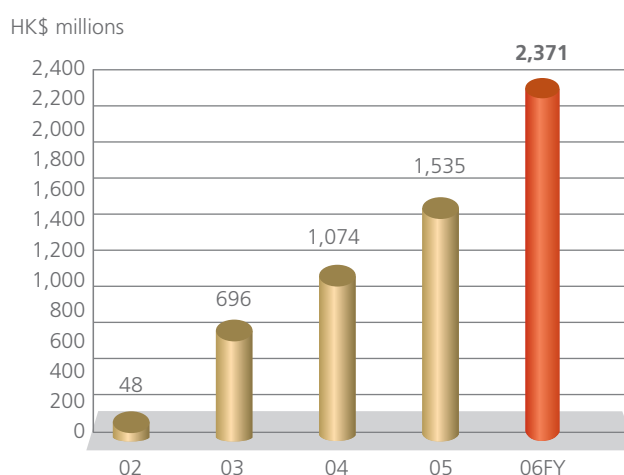
Human Resources

The Group firmly believes that human resource is the most valuable asset in any organization. The existing human resources department has formulated a system whereby personal development, working atmosphere and motivation for staff are all taken care of. The Group pursues to build a "learning style" enterprise. The Group aims at creating a challenging yet harmonious working environment to its staff members. It promotes life-long learning and provides training, promotion and development opportunities to its staff. The



Property sales in Mainland China was a record high in 2006. Numerous enquiries are made every time projects start selling.

Growth in Net Profit



Group believes that people is the key element in an organization and is willing to share the operation results of the corporate with its staff.

Corporate Governance

The Group complies strictly with the applicable laws and regulations and also the rules and guidelines of the Hong Kong Stock Exchange.

Both the Board and I were selected by the Hong Kong Institute of Directors as an Awardee for Directors of the Year Awards 2006. This was a recognition of and compliment to the Board and I in the professional and effective discharge of duties as director, and the Board's efforts in promoting the transparency and high standard of corporate governance.

The Group will maintain an effective and stable corporate governance structure. The Group will continue to increase its transparency, to enhance communication with investors and to perfect its internal control system and risk management. The Group will strive to pursue the highest standard of corporate governance, make sure that shareholders interests are better protected.

Corporate Citizenship

The Group places high emphasis on carrying out its corporate social responsibility. While the Group pursues the maximum benefits for its shareholders, it also takes into consideration issues related to social responsibility, customer services, environment protection and staff welfare.

The Group pays all sorts of taxes in accordance with tax rules of the jurisdictions which the Group operates business. It pursues "Sunshine Profit" ("陽光下的利潤").

In the course of developing a property project, the Group keeps adhering to the concept of energy and resources conservation, environmental protection and sustainable development. While creating an appealing environment, the Group will ensure that all measures are taken to discharge its responsibility towards environmental protection. These include applying environmental technology and equipment and other measures as well as use of green materials.

The Group organizes and supports staff members to participate in community services and charitable activities. The Group promotes "to serve with our heart every day" and asks its employees to serve our customers with our heart and sincerity and to create a Zhong Hai culture which will improve over time and is fuelled with enthusiasm and energy.

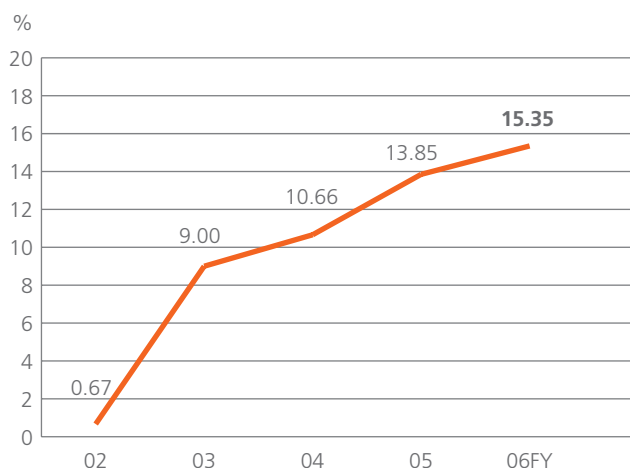
Prospects

Macro Economy

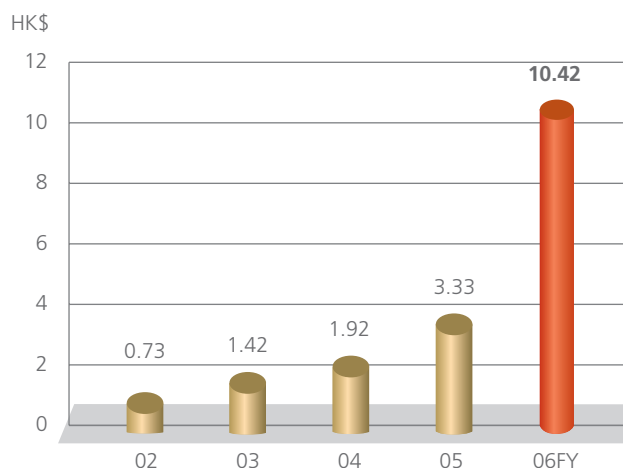
The Group believed that the global economy will maintain a steady growth while economic development in emerging markets will continue to grow rapidly in 2007. In China, 8% GDP growth is set by the Chinese government. The effects of the measures on macro economic control will be gradually seen and will better regulate the real estate market. Economic development is on the right track and sustainable rapid growth can be achieved. Both opportunities and challenges exist for the Mainland property market.

Economic development in both Hong Kong and Macau will continue to benefit from the booming economic development in China and also the respective successful economic transformation. Hong Kong's status of an international financial and trading centre and Macau's status of an entertainment and leisure centre will be further strengthened.

Return on Equity in the past 5 years



Share Price as at year-end date



The Group is confident that it can seize opportunities to achieve better result. The Group will continue to enhance its core competitiveness and shareholders value.

Business

In recent years, the Chinese Central Government implemented policies to monitor investment in real estate investment and regulate land supply. Measures to stabilise property price, rationalise property supply structure, reinforce tax management, tighten credit supply and encourage rational consumption, will continue to carry out in 2007. The Group welcomes a healthy, rational and sustainable development of the real estate market. This is beneficial to property developers with brand name and strong consolidated capabilities and they can have more opportunities and can improve their performances.

Market Leading Status

The Group will continue to excel and balance its nationwide development strategy. Its major goal is to enter into 1 to 2 cities in the Economic Zone of Bohai Rim (環渤海地區) and to increase its market share in territories with rapid economic growth. The Group will seek to expand its leading status in terms of turnover, profit and brand value. Economic development in both Hong Kong and Macau are both good. The Group will continue to make moderate amount of investment there.

Sustainable Project Development

The Group will continue to adopt innovative sales concepts and means to step up its marketing and sales magnitude and to enhance its cash flow. It is expected that 30 new residential projects with a total GFA of 2.55 million sq.m. will be available for pre-sale in 2007, of which 2.4 million sq.m. will be from Mainland China and 150,000 sq.m. will be from Hong Kong and Macau. It is planned that total GFA sales for 2007 will be 2.1 million sq.m..

Better Business Structure

The Group will build up a more competitive business structure with residential development as the main stream and investment property as the supplement. The Group will place more emphasis on investment property which can provide a stable long term return and increase the Group's capability to balance market risk. The Group will balance resources allocation for short term and long term investment and increase gradually its weighting on investment property. The target is to have the profit contribution from investment property exceeding 20% of the total profit in 4 to 5 years time. A professional team on investment property will be gradually built up to ensure stable growth of income from investment property and the value of investment properties is

well enhanced. This is favorable to the sustainable development and growth of the Group.

Infrastructure Business Restructure

Following the focus on China real estate business and the development of a self-balancing mechanism against risk is well in place, the Board has decided not to increase our investment in infrastructure businesses. The Group is looking for the most appropriate way to dispose of its infrastructure businesses at a reasonable price.

Land Replenishment

The existing land for development of the Group is sufficient to support its development in the coming four to five years. The launch of the 11th Five-year Plan for National Economic and Social Development will bring sustainable economic growth and opportunities for economic development. As the leading enterprise in property development, the Group in response has set up a development plan and goals for long term growth. It will focus its resources to increase prime land bank through various channels. Through territorial expansion and business restructure, the Group can have more rooms for its growth while reducing market risk.

It is intended that the replenishment of land for development for 2007 will not be less than 3,000,000 sq.m.. The Group will take into account its funding capability, market opportunities and impact of macro-control measures on China real estate business in adjusting its land policy.

Land Appreciation Tax

The notice issued by the National Tax Bureau on 28 December 2006 in relation to Land Appreciation Tax ("LAT") mainly focus on settlement of LAT. LAT has been in place for a long time and the Group prepays or accrues LAT fully in accordance with the relevant Tax Laws and the Hong Kong Accounting Standard. That notice will only has minor effects on the cash flow of the Group.

Multi Growth Models

The operation scale of the Group increases to meet the continuous strong demand of the market. At the same time, customers expectation for better house quality sustains. The Group will actively modify its development philosophy. Through improving every detail in each and every phase of the development cycle, the development rate of projects can be accelerated while quality of products be enhanced. Furthermore, the Group will also include different cooperation models such as joint venture, cooperation with funds or merger and acquisition as supplements to organic growth. These new strategies aim to attain sustainable growth in an ever competitive market. Joint ventures with big property developers outside China or real estate investment trust will be

applicable to influential big projects in first-tier cities. That results in teaming up of strong parties and integration of strengths. Also, land can be acquired through acquisition and merger. Rapid growth can then be achieved and the Group at the same time can manage risk and achieve better resource consolidation.

Prudent Financial Management

The Group will continue to improve its finance and treasury management capability as well as to pay more attention to tax management. While meeting the funding requirements of its businesses, it will make sure that the overall financial safety of the Group is observed. The Group will continue to be innovative in our financing, and endeavour to capture opportunities arise in the international and Hong Kong capital market as well as the China market.

The Group will continue to promote the implementation of the ERP system, enhance communication between project and financial department, and actively control costs and to excel cash flow. These all aim at enhancing operation efficiency and risk management capability.

Business Prospect

The corporate strategy and goals of the Group have been clearly set and corresponding measures will be rightly implemented to ensure satisfactory performance. The Board is confident about the prospect of the Group in 2007. The Group can seize opportunities and meet challenges ahead. Through its diligent work, persistent innovation, flexible development strategy, reinforced nationwide branding strategy, the Group

can persistently enhance its integrated capability in business development, risk management, finance and treasury management, thereby seek to achieve the target of over 20% annual increase in profit and to maintain its pioneer position in the China real estate industry.

Mission

The Group insists on bringing out the best value of its human resources. The Group emphasizes on sustainable adding value and creating a harmonious and win-win operation and working environment. The Group is committed to enhance shareholders value, raise its standard on corporate governance, moral value and corporate citizenship and improve its core competitiveness through persistent innovation. Its ultimate goal is to attain a win-win outcome for the Group, its shareholders, business associates, staff members and the community. The Board will endeavor to develop the Group into an ever-green enterprise.

Appreciation

At last, I would like to thank the members of the Board for their outstanding leadership, the shareholders and business associates for their support and trust and the entire staff for their dedication.

Kong Qingping

Chairman and Chief Executive

Hong Kong, 21 March 2007



Brand value of "Excellent Integrity, Eternal and Excellent Product" meets market requirement.



The Group acquired premium land parcels for sustainable growth. Ceremony on commencement of construction work for Fairyland Phase II in Zhongshan City.



FOR
SOLD
SALE