



## **Property Investment**

Gradually increasing investment property such as prime office so as to improve long term stable cash flow and to diversify risk in real estate business.

- ➔ Long-term investment properties held amounted to 63,000 sq.m.
- ➔ Total investment properties under development is 176,000 sq.m.
- ➔ General occupancy was 95%
- ➔ Annual rental income was HK\$104 million
- ➔ Operation profit contribution was HK\$90 million

### Completed Investment Projects

Underpinned by the strong economic growth of Mainland China and Hong Kong, market demand for Grade A offices was strong. During the year, the Group's investment properties in Hong Kong and the PRC sustained high occupancy rate. The Group's properties in Hong Kong, including China Overseas Building and Horae Place, recorded a high occupancy rate, while the Dongshan Plaza in Guangzhou also attained satisfactory occupancy rate. As at the end of 2006, the Group has an aggregate of 63,000 sq.m. of investment properties in

Hong Kong and the Mainland China. Total rental income for the period was HK\$104 million, representing a decrease of 18% from the previous year. Total rental income arising from Hong Kong amounted to HK\$66.6 million, while that arising from China amounted to HK\$37.6 million, accounting for 64% and 36% of the total rental income respectively. Segment result amounted to HK\$295 million which includes an increase in fair value of properties of HK\$205 million. Operating profit was HK\$90 million, representing a decrease of 18% from the previous year.



Dongshan Plaza in Guangzhou is warmly received by tenants due to its design and high efficiency rate.



China Overseas Building in Hong Kong sustains high occupancy rate.



Horae Place in Hong Kong brings stable rental income to the Group.

## Investment Properties under Development

The Group selectively increases its investment in commercial property projects by developing Grade A offices and prime commercial arcades in the PRC, mainly in CBD of Beijing and Shanghai where higher investment return is available. The Group's China Overseas Property Tower located in the Financial Street in Beijing will be completed early 2007, with a GFA of 16,000 sq.m.. In addition, China Overseas Plaza which is located in Beijing's CBD has been under construction since the beginning of 2007, and will provide Grade A office floor area of approximately 120,000 sq.m. and commercial area of 40,000 sq.m.. The project is scheduled to be completed in the first half of 2009.

Investment property provides stable income and is favourable for balancing business risk and sustainable development of the Group. The Group will increase the scale and contribution of investment property portfolio through various means. The target is to have contribution from investment property reaching 20% of the total profit in 4 to 5 years' time.



### Beijing China Overseas Property Tower

<b>Location:</b>	Xi Cheng District of Beijing, close to Chang An Street, Xi Dan financial Street and Beijing Financial Street. It is at premium commercial location.
<b>Type of properties:</b>	Grade A office building
<b>Total gross floor area:</b>	24,700 sq.m. with 16,100 sq.m. above ground and 8,600 sq.m. under ground
<b>Schedule:</b>	The project was started in February 2006 and is expected to be completed in July 2007



### Beijing China Overseas Plaza

<b>Location:</b>	Chao Yang District, CBD of Beijing, with south facing Chang An Street and the reputable International Trading Centre at the east side.
<b>Type of properties:</b>	Grade A office building with some commercial facilities
<b>Total gross floor area:</b>	150,300 sq.m. with 106,200 sq.m. above ground and 44,100 sq.m. under ground
<b>Schedule:</b>	The project was started in December 2006 and is expected to be completed in July 2009



## **Property-Related Business**

Property-Related business like property management and construction design are supplements to the development of residential property and investment property. They have become important parts of the business chain, enhancing the Group's core competitiveness.



## Management Discussion and Analysis

# Property-Related Business

### Construction Design

In 2005, the Group acquired all the interests of Hua Yi Designing Consultants Company Limited (“Hua Yi”), and turned Hua Yi into a wholly owned subsidiary of the Group. Incorporated in Hong Kong, Hua Yi is the only wholly foreign owned design and consultancy company being awarded the “A-LEVEL DESIGN LICENSE” (甲級工程設計證書) by the PRC Ministry of Construction. The Group has significantly improved its overall design capability, and has taken a positive move towards the building of the Group’s value chain in property development.

Hua Yi is a famous brand name in the design market in the PRC, with a brilliant and professional design team. Through cooperating with overseas international famous design houses and close partnership with local design companies in Mainland China, Hua Yi offers the most satisfactory design products for the consumers.

Since its establishment 20 years ago, Hua Yi has completed projects spanning over 20 large and medium cities in Mainland China and overseas, including Canada, Japan, Hong Kong and Macau. About 60 projects undertaken by Hua Yi received more than 100 awards at the provincial level or higher.



Hua Yi has completed over 450 projects since its incorporation 20 years ago. Shenzhen Planning Building is one of the projects undertaken.



Scope of design includes residential property, hotel, bank and office buildings etc. The residential property shown in picture is an award-winning project in Shenzhen.



Elegant Town in Guangzhou was awarded the Residential District Gold Award Jian Tian You Project Award.

## Property Management

China Overseas Property Management of the Group has been a leading brand in the property management sector in Hong Kong and the Mainland China.

During the period, the Group recorded property management fee income of HK\$203 million (HK\$97 million from Hong Kong and HK\$106 million from Mainland China), representing an increase of 13% over 2005; the Group managed a total GFA of 5.6 million sq.m. (approximately 2.6 million sq.m. was in Hong Kong, and 3.0 million sq.m. on the Mainland). In 2006, China Overseas Property Management in Hong Kong passed the ISO 10002 qualification by HKQAA, and became one of the biggest partners of The Link Real Estate Trust in the sector of shopping mall and car park management. During the year, China Overseas Property Management contributed to the Group operating profit of HK\$53.8 million (HK\$44 million from Mainland China), representing an increase of 5% over 2005.

Towards the end of 2006, the Group acquired from its ultimate controlling shareholder the property management business in

PRC. After consolidation of operations, China Overseas Property Management has secured a dominating market share in the domestic property management sector in the PRC, which will further strengthen the Group's real estate development value chain and will have a vital role in enhancing the branding advantages and asset value of the Group. Looking forward, property management business will bring much more direct and indirect values to the Group.

## Infrastructure Investment

During the year, infrastructure, provincial facilities and harbour projects continued to bring the Group stable profit and recorded an operating income of HK\$639 million and an operating profit of HK\$42.7 million, representing an increase of 106% over 2005. The Group will not increase its infrastructure investment and is in the process of restructuring the infrastructure businesses with a view to exit from the business at a suitable time.



"Splendid Living, Premier Lifestyle" — The Group not only brings the owners a living place but a comfortable and harmonious home.



Adhering to the concept of "Customer First", we cater for every fine details in living.

## Structure of Borrowings

The Group continues to adopt a prudent financial policy and centralizes its funding and financial management. It continues to maintain a cash on hand ratio of 10% and also a reasonable level of gearing. As at 31 December 2006, the Group's bank loans and guaranteed notes payable were HK\$6.7 billion and HK\$2.3 billion respectively and the repayment schedule are as follows:

Repayment Schedule	2006 (HK\$ million)	2005 (HK\$ million)
<b>Bank Loans</b>		
Within one year	673	1,922
More than one year, but not exceeding two years	2,582	1,729
More than two years, but not exceeding five years	3,465	1,550
<b>Guaranteed Notes</b>		
7-year (worth US\$300 million)	2,323	2,320
<b>Total Borrowings</b>	<b>9,043</b>	<b>7,521</b>
<b>Deduct</b>		
Bank balances and cash	3,787	3,175
Net Borrowings	5,256	4,346
Equity attributable to equity shareholders of the Group	15,449	11,083
Gearing Ratio (%)	34%	39%

The bank loans of the Group are all unsecured.

As at 31 December 2006, bank balances and cash amounted to approximately HK\$3.8 billion (31 December 2005: approximately HK\$3.2 billion).

## Gearing Ratios

The net current assets of the Group as at 31 December 2006 increased by 56% from 2005 to HK\$18.3 billion and the current ratio increased from 2.55 times in 2005 to 2.60 times this year. The net gearing ratio of the Group was 34%. Interest cover (measured by the ratio of operating profit to total net interest expenses including those capitalized) was 8.9 times compared with 7.3 times for the previous year, reflecting increase in borrowings and market interest rate during the year.

## Available Funds

On 29 September 2006, the Group signed a 5-year HK\$2.6 billion club loan agreement in Hong Kong. This loan is the largest in amount and cheapest in financing costs for the Group, thus increasing the standby banking facilities of the Group substantially and reducing the financial cost.

As at 31 December 2006, the Group's bank balances and cash were HK\$3.8 billion. Together with the unutilized banking facilities amounted to HK\$2.8 billion, the available funds reached HK\$6.6 billion. The strong financial strength and stable financial structure act as a strong support of the Group to explore the best commercial opportunities and to accelerate business expansion in Hong Kong, Macau and Mainland China.



The Group keeps close contact with the capital market and endeavours to reduce financing cost. In picture is signing ceremony for the HK\$2.6 billion club deal.



The proportion of each currency are listed below:

	Bank loans and guaranteed notes	Bank balances and cash
Hong Kong dollars	42%	24%
Renminbi	32%	50%
MOP	–	9%
US dollars	26%	17%
Total	100%	100%

## Credit Ratings and Bonus Issue of Warrants

In 2006, Moody's and Standard and Poor's respectively continued to affirm the investment grade rankings of Baa3 and BBB- of the Group. In July 2006, the Group issued Bonus Warrants to the existing shareholders. The Group's holding company fully exercised its Bonus Warrants right away and a capital of HK\$1.8 billion was injected to the Group (HK\$2.1 billion was received by end of year 2006). This issuance not only optimizes the equity and gearing structure but also reduces the financing risks of the Group and thus reaffirm the Group's capability to tap funds from the capital market and the Group's prudent financing strategy.

## Exposure to Fluctuations in Exchange Rates and Interest Rates and the Related Hedges

The Group entered into interest swap agreements in 2003 (To reduce interest rate fluctuation exposure interest swap

agreements for HK\$900 million out of a HK\$1.8 billion syndicated loan were arranged. The HK\$1.8 billion syndicated loan was fully repaid during the year). As at 31 December 2006, the interest swap agreements had an outstanding balance of HK\$630 million of which HK\$420 million (commencing on 23 April 2003 and expiring on 23 July 2007) and HK\$210 million (commencing on 23 October 2003 and expiring on 23 July 2007) were fixed at about 4.3% and 4.0% respectively. Apart from these, the Group has no other derivative exposure either for hedging or speculative purpose. As the trend of interest rate may change and the Renminbi continues to appreciate, the Group will prudently consider an appropriate time to enter into some currency and interest swap arrangements to hedge against such exposure.

## Contingent Liabilities

As at 31 December 2006, the Group's contingent liabilities relating to guarantees given and indemnities provided in respect of the credit facilities granted to certain associates amounted to HK\$7 million. The Group provided buy-back guarantees to banks granting mortgage loan facilities to buyers purchasing the Group's properties in Mainland China amounted to HK\$5.2 billion. Outstanding counter indemnities for surety bonds issued in respect of property management contracts amounted to HK\$102 million. In addition, the Group provided performance guarantee amounted to HK\$135 million in respect of a property development project. The Group has never suffered any loss in the past in relation to permission of similar guarantees or indemnities.



The financial meeting in Suzhou decided the development strategy of the financial department.

## **Splendid Living, Premier Lifestyle**

In line with its service motto, "Pursuing Customer Satisfaction and Service Quality", the Group adopts a people-oriented approach in providing quality services that surpass the expectation of property owners. In Hong Kong, the Group provides comprehensive and quality property and facility management services to Home Ownership Scheme public and private housing estates, shopping arcades under the administration of the Government/Links, as well as military properties, throughout Hong Kong island, Kowloon and the New Territories. In the "The Best Management of Commercial Arcade Competition" held by the Hong Kong Housing Authority, the Group was once awarded "The Best Management Company" and "Excellent Management Company" in three consecutive years. Nerine Cove, being managed by the Group, was also once awarded "the Quality Building Management Award" by Tuen Mun District Council in two consecutive years. In addition, many housing estates being managed by the Group were awarded outstanding management prizes in different districts. The quality services are hence recognized by tenants unanimously.



The Group advocates a people-oriented approach in customer service to promote a warm and homely feeling.



The outstanding management services is recognised and reflected by numerous awards won.



China Overseas Property Club has branches all over China providing the best and intimate pre-sale and after-sale services.

In 2004, COPC (中海會) was established by the Company as a liaison group with owners of the Group's properties, merchant alliances, cooperation partners and other interested parties throughout the country. The motto of COPC (中海會) is "Splendid Living, Premier Lifestyle" (精彩生活·卓越人生). Building on the projects and services of the Group, COPC (中海會) acts as a bridge connecting the community with the Group. By the end of 2006, COPC (中海會) has over 100,000 private members and over 300 corporate members. Over 120 member activities were held. The various activities of COPC (中海會) successfully improved the member's awareness of, satisfaction with and loyalty to the Group's brand name and property management services.

Coping with the sustained development of the Company's businesses, the customer service departments in the PRC resolved customer complaints in a prompt and efficient manner, thereby enhancing the brand image and customer satisfaction for China Overseas property business. They also provided precedent cases for the Company, which facilitate the Company's improvement of future projects.



Children living in the Chengdu estate jointly drew out on a 8-metre cloth what they want their estate life to be.



Residents can enrich their lives by joining a varieties of community programs, also to maintain their level of satisfaction and loyalty to the Company.