

## **Letter to shareholders on the 25th anniversary of the listing of China Overseas Land & Investment Ltd.**

Dear shareholder,

Twenty five years ago, on 20 August, China Overseas Land & Investment Ltd. (“COLI” or the “Company”) became listed on the Hong Kong Stock Exchange. This year we are proudly celebrating the 38th anniversary of our establishment, 25th anniversary of our listing, and 10th anniversary of becoming a blue chip stock of the Hang Seng Index, representing exceptional accomplishment in China’s real estate industry. COLI’s market capitalisation has surged from HK\$4.2 billion at its initial listing to about HK\$280 billion as at mid-August 2017. We have so far distributed an accumulated dividend of more than HK\$38 billion to our shareholders, and realised compound growth in value over time. As a Company that always seeks excellence, we look forward to achieving sustainable growth and many more milestones in the years ahead. As we strive for our vision, we expect COLI to be celebrating its 125th anniversary a century from now.

During the Asian financial crisis in 1997, we hit rock bottom but learned an invaluable lesson that equipped us to calmly face the global financial crisis in 2008, and then go on to achieve even greater success as we develop and grow through economic cycles. We have been fortunate to be part of skyrocketing growth in China’s real estate industry over the golden era of the past 25 years. The world has seen drastic changes, and the industry is now more volatile than ever before. The real estate sector will surely experience further cyclical fluctuations, to an even greater extent than stock markets. Greed and fear dominate the growth and development of most enterprises. But rather than triumphant leapfrogging, we prefer to emphasise quality and sustainable returns for shareholders. How can we maintain steady and sustainable development to effectively achieve satisfactory returns for our shareholders over the next 25 years? We focus intensively on understanding future market trends and applying appropriate business development models.

We have studied the real estate development cycles of 11 countries and regions in Asia-Pacific and of the English-speaking world – Hong Kong, Taiwan, Japan, South Korea, Singapore, Australia, New Zealand, the United States, the United Kingdom, Canada and South Africa – looking at both the history of their real estate sectors over the past three decades and the track followed by their leading real estate developers, passing through various industry cycles. Our conclusion is simple and succinct: when a real estate sector reaches an urbanisation rate of 60%, it is an inflection point in its characteristics (the US market has an urbanisation rate of about 70%, while the Japanese market slowed sharply and remains quiet after passing that point). Countries with urbanisation rates below 60% witness a phase of rapid growth with market-wide increases in house prices by as much as 100% and sometimes more than fivefold, while countries that have passed that point grow in limited increments under a large, fragmented market for a period of two decades or more. During this stage, however, house prices may still be stimulated by periodic monetary easing and interest rate cuts, offering rapid growth in long-horizon investment property businesses.

Current circumstances in China's real estate sectors strongly appear to validate our six trend judgments concerning passing the 60% inflection point:

1. The residential business sector features substantial room for growth but at a decelerating rate;
2. The real estate market will remain subject to policy fluidity and market volatility until a permanent mechanism is established;
3. The market will further fragment and industry profitability will continue to tighten;
4. The industry is witnessing accelerating consolidation and greater concentration;
5. Home-buying to upgrade own living conditions will gradually become the market mainstream; and
6. The success of an enterprise will depend on its ability to access three major resources: land, capital and talent, and on having streamlined operations.

Having reached an urbanisation rate of 57%, China is about to cross the inflection point. The market and competitive environment are undergoing unprecedented change. In the coming three to five years, we aim to grasp the opportunities arising from these market changes, and focus our resources on developing residential properties, to expedite turnover and increase development scale toward balanced growth in scale and profits. Looking forward, we will adapt to the trend toward moderate growth after the urbanisation rate passes this inflection point, and progressively increase resource inputs, improve operational quality and revenues from our long-horizon investment properties, and explore and prepare for developing innovative businesses. In the medium and long term, as the industry's average annual growth rate drops to or below the level of GDP growth, our long-horizon investment properties and innovative businesses will become the new sources of profit growth that ensure sustainable returns for our shareholders.

## **Customer-oriented philosophy for value creation**

We believe that a "customer-oriented" philosophy is the eternal business logic of every competitive industry. In the age of the mobile internet, information is more symmetrical and more efficient, driving business activity and value creation. We shall, in the coming three to five years, focus on the following four aspects:

1. Under a determined strategy, we will strive to become more flexible and efficient in how we access resources. We will focus on the demands of high-value target customer segments and upgraders, who are a strong match for the Company's capabilities. At the same time, we are working hard to penetrate the high-value end of markets in 1st and 2nd tier cities and following rail transport development to accelerate our development in core metropolitan cities, maintaining a land reserve sufficient to respond to a rolling development cycle of three years. We will adopt a more flexible and effective multi-channel investment mode and seize merger and acquisition opportunities to accelerate growth in operational scale and increases in market share;
2. Establish an information platform that embraces all aspects of the value chain in order to enhance its lean management capability;
3. Continuously strive to sharpen our cost competitive edge and to improve our value-creation capability through an appropriate balance of product standardization and differentiation;
4. Respect the market and continue to ensure both the availability of sufficient funds and financial soundness.

## Be well prepared for tomorrow

Stable rentals and operating revenue from long-horizon investment properties are key components of a successful asset profile for a real estate company that will weather economic and industry cycles. Our assets and operations in this sector have begun to take shape in various cities. The Company (and its affiliates) currently own 34 Grade-A office buildings, six shopping malls and 10 star-rated hotels, with a total operating area of about three million square metres. Moreover, we own the land along a 13-kilometre stretch of coastline in Hainan, boasting a yacht wharf, a beach club, a central park and a high street, for the tourism and resorts business. Furthermore, we own a logistics industrial park of 530,000 square metres in Tianjin. The revenue from our long-horizon investment properties will exceed HK\$5 billion by 2020 and we are striving to reach the target revenue of HK\$10 billion in the next decade.

Based on our longstanding and solid *modus operandi*, we will strive for business innovation without precipitate decision-making, overextended fronts or disorderly development. We will be selective in these plans, developing branch operations and derivatives of our existing businesses, and engaging in sectors such as retirement real estate and the education industry, that are complementary to our existing businesses. Those goals will be achieved in three stages – first drawing on our existing inventory for active operations; secondly strengthening the professional operation of our strategically holding assets; and eventually, active holding of asset portfolio backed by meticulous operation. We expect by 2020 to have established a mature operating model for such innovative businesses.

We have drawn on the experience of the various stages of economic and industry cycles to sharpen our ability to move boldly into the next 25 years. We thank every shareholder for being part of and supporting our stable and solid growth. Time is the most powerful weapon in the world: we believe that business operation is an endless race toward never-ending goals. Striding purposefully into the next 25 years, we march with vision and passion to seek out business success and share the rewards over time with each and every COLI shareholder.



China Overseas Land & Investment Ltd.  
Yan Jianguo  
*Chairman*

Hong Kong, 21 August 2017