



## REPORT OF THE DIRECTORS

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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 2004.

### PRINCIPAL ACTIVITIES

The Company is principally engaged in investment holding, property investment and provision of management services to its subsidiaries. The activities of the Company’s principal subsidiaries, associates and jointly controlled entities are set out in notes 45, 17 and 18 to the financial statements respectively.

An analysis of the Group’s turnover and contribution are set out in notes 4 and 5 to the financial statements.

### RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2004 are set out in the consolidated income statement on page 54.

An interim dividend of HK2 cents per share was paid on 10 September 2004. The board of directors recommends the payment of a final dividend of HK4 cents per share in respect of the year to the shareholders on the register of members on 25 May 2005. Including the interim dividend, dividends for the year will amount to a total of HK6 cents per share.

### SHARE PREMIUM AND RESERVES

Movements during the year in the share premium and reserves of the Group and of the Company are set out in note 32 to the financial statements.

### FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past five financial years is set out on pages 118 and 119.

### MAJOR PROPERTIES

Details of the major properties and property interests of the Group at 31 December 2004 are set out on pages 120 to 124.

### TANGIBLE FIXED ASSETS

The Group’s investment properties were revalued at the year end date. The revaluation resulted in a net revaluation increase of HK\$53,110,000 which has been credited directly to the investment property revaluation reserve.

Details of these and other movements during the year in the tangible fixed assets of the Group and the Company are set out in notes 13 and 14 to the financial statements.



## SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 31 to the financial statements.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, the directors of the Company have exercised the powers of the Company to make repurchases of its own Shares pursuant to the general mandates granted to the directors of the Company passed at the annual general meeting held on 20 May 2003 and 28 June 2004. Details of the shares repurchased are shown in note 31 to the financial statements.

## BORROWINGS AND INTEREST CAPITALISED

Bank loans, overdrafts and other borrowings repayable within one year or on demand are classified as current liabilities in the balance sheet. An analysis of the repayment schedule of non-current borrowings is set out in note 33 to the financial statements.

Interest capitalised by the Group during the year in respect of development properties amounted to approximately HK\$50,814,000.

## DIRECTORS

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

### Executive Directors

Mr. Sun Wen Jie	(Chairman)
Mr. Kong Qingping	(Vice Chairman and Chief Executive)
Mr. Yao Peifu	(Vice Chairman)
Mr. Cui Duosheng	
Mr. Wu Jianbin	
Mr. Yao Xiancheng	(resigned on 13 February 2004)
Mr. Yip Chung Nam	(resigned on 1 February 2005)
Mr. Nip Yun Wing	(resigned on 17 September 2004)
Mr. Xiao Xiao	(appointed on 1 February 2005)
Mr. Wang Man Kwan, Paul	(appointed on 1 February 2005)
Mr. Cheung Shiu Kit	

### Independent Non-Executive Directors

Dr. Li Kwok Po, David <i>GBS, OBE, JP</i>	
Mr. Lam Kwong Siu	
Mr. Wong Ying Ho, Kennedy <i>JP</i>	(appointed on 5 January 2004)



### DIRECTORS *(cont'd)*

Notes : -

- (i) Mr. Sun Wen Jie has resigned as executive director and chairman of the Company with effect from 22 March 2005. He accepts the invitation of the Board of Directors to be the honorary chairman of the Company.
- (ii) Mr. Kong Qingping has been elected chairman of the Company to fill the vacancy caused by the resignation of Mr. Sun with effect from 22 March 2005. He will continue to act as the chief executive of the Company.
- (iii) Mr. Cui Duosheng has been elected vice chairman of the Company to take effect from 22 March 2005.
- (iv) Mr. Jin Xinzong has been appointed director of the Company to take effect from 22 March 2005.

In accordance with Article 105(A) and Article 96 of the Company's Articles of Association, Messrs. Yao Peifu, Cui Duosheng, Xiao Xiao, Wang Man Kwan, Paul, Jin Xinzong and Cheung Shiu Kit shall retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

The term of office for each independent non-executive director is the period up to his retirement by rotation in accordance with the Company's Articles of Association.

The Company confirmed that it has received from each of the independent non-executive directors an annual confirmation of his independence pursuant to rule 3.13 and the Company still considers the independent non-executive directors to be independent.

No director proposed for re-election at the forthcoming Annual General Meeting has entered into a service contract with the Company or any of its subsidiaries which is not determinable by the employing company within one year without payment of compensation (other than statutory compensation).

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



## DIRECTORS' INTERESTS IN SHARES AND RIGHTS TO SUBSCRIBE FOR SHARES

As at 31 December 2004, the Directors, the Chief Executive of the Company and their respective associates had the following interests in the Shares and underlying Shares of the Company as recorded in the register maintained by the Company pursuant to section 352 of the Securities and Futures Ordinance (the "SFO").

### (a) Personal interests in Shares

Name of director	Number of Shares	Percentage of issued share capital
Mr. Sun Wen Jie	3,800,000	0.060%
Mr. Kong Qingping	2,460,000	0.039%
Mr. Yao Peifu	2,300,000	0.036%
Mr. Cui Duosheng	1,760,000	0.028%
Mr. Wu Jianbin	1,040,000	0.016%
Mr. Yip Chung Nam	2,200,000	0.035%
Dr. Li Kwok Po, David	200,000	0.003%

### (b) Interests in options to acquire Shares

Information in relation to interests in options to acquire shares is set out in the section headed "Information on Share Options".

Save as disclosed in the aforementioned section, no interests and short positions were held or deemed or taken to be held under Part XV of the SFO by any director or chief executive of the Company or their respective associates in the Shares and underlying Shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Part XV of the SFO or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies or which are required pursuant to Section 352 of the SFO to be entered in the register referred to therein. Nor any of the directors and chief executive of the Company (including their spouses and children under the age of 18) had, as at 31 December 2004, any interest in, or had been granted any right to subscribe for the Shares and options of the Company and its associated corporations within the meaning of the SFO, or had exercised any such rights.



### INFORMATION ON SHARE OPTIONS

Details of the Share Option Scheme adopted by the Company are disclosed in note 31 to the financial statements. Other information in relation to share options disclosed in accordance with the Listing Rules is as follows:

(1) Movement of share options during the year ended 31 December 2004

Name	Date of Grant	Number of shares under options granted				Outstanding at 31.12.2004
		Outstanding at 1.1.2004	Granted during the year	Exercised during the year	Cancelled during the year	
Mr. Sun Wen Jie	17 July 1997(i)	6,880,000	—	—	—	6,880,000
	14 February 1998(ii)	20,000,000	—	(520,000)	—	19,480,000
	30 September 1998(iii)	2,280,000	—	(760,000)	—	1,520,000
	4 January 2000(iv)	2,000,000	—	(500,000)	—	1,500,000
	18 June 2004(vi)	—	3,360,000	—	—	3,360,000
			<u>31,160,000</u>			
Mr. Kong Qingping	17 July 1997(i)	1,000,000	—	—	—	1,000,000
	14 February 1998(ii)	11,000,000	—	(280,000)	—	10,720,000
	30 September 1998(iii)	1,380,000	—	(460,000)	—	920,000
	4 January 2000(iv)	1,600,000	—	(400,000)	—	1,200,000
	18 June 2004(vi)	—	3,360,000	—	—	3,360,000
			<u>14,980,000</u>			
Mr. Yao Peifu	17 July 1997(i)	3,800,000	—	—	—	3,800,000
	14 February 1998(ii)	15,000,000	—	—	—	15,000,000
	30 September 1998(iii)	1,500,000	—	(500,000)	—	1,000,000
	4 January 2000(iv)	1,600,000	—	(400,000)	—	1,200,000
	18 June 2004(vi)	—	2,880,000	—	—	2,880,000
			<u>21,900,000</u>			
Mr. Cui Duosheng	17 July 1997(i)	1,000,000	—	—	—	1,000,000
	14 February 1998(ii)	9,000,000	—	—	—	9,000,000
	30 September 1998(iii)	1,080,000	—	(360,000)	—	720,000
	4 January 2000(iv)	1,360,000	—	(340,000)	—	1,020,000
	18 June 2004(vi)	—	2,880,000	—	—	2,880,000
			<u>12,440,000</u>			



## INFORMATION ON SHARE OPTIONS (cont'd)

(1) Movement of share options during the year ended 31 December 2004 (cont'd)

Name	Date of Grant	Number of shares under options granted				Outstanding at 31.12.2004
		Outstanding at 1.1.2004	Granted during the year	Exercised during the year	Cancelled during the year	
Mr. Wu Jianbin	17 July 1997(i)	550,000	—	—	—	550,000
	14 February 1998(ii)	800,000	—	(160,000)	—	640,000
	30 September 1998(iii)	540,000	—	(180,000)	—	360,000
	4 January 2000(iv)	1,040,000	—	(260,000)	—	780,000
	18 June 2004(vi)	—	2,880,000	—	—	2,880,000
		<u>2,930,000</u>				<u>5,210,000</u>
Mr. Cheung Shiu Kit	17 July 1997(i)	1,000,000	—	—	—	1,000,000
	18 June 2004(vi)	—	2,880,000	—	—	2,880,000
		<u>1,000,000</u>				<u>3,880,000</u>
Mr. Yip Chung Nam	17 July 1997(i)	800,000	—	—	—	800,000
	14 February 1998(ii)	1,000,000	—	(1,000,000)	—	—
	18 June 2004(vi)	—	2,000,000	—	—	2,000,000
		<u>1,800,000</u>				<u>2,800,000</u>
Mr. Nip Yun Wing (resigned on 17 Sep 2004)	18 June 2004(vi)	—	500,000	—	(500,000)	—
Aggregate of other employees*	17 July 1997(i)	45,100,000	—	—	(3,050,000)	42,050,000
	14 February 1998(ii)	94,220,000	—	(20,540,000)	(2,400,000)	71,280,000
	30 September 1998(iii)	19,980,000	—	(8,650,000)	(350,000)	10,980,000
	4 January 2000(iv)	41,580,000	—	(13,330,000)	—	28,250,000
	24 October 2001(v)	61,000,000	—	(61,000,000)	—	—
	18 June 2004(vi)	—	44,400,000	—	(300,000)	44,100,000
		<u>261,880,000</u>				<u>196,660,000</u>

\* Employees working under employment contracts that were regarded as “Continuous Contracts” for the purpose of the Hong Kong Employment Ordinance.

(2) At 31 December 2004, the options granted to subscribe for 296,990,000 Shares remained outstanding, representing approximately 6.40% of the issued share capital of the Company at that date. Options to subscribe for 6,600,000 shares have been cancelled during the year ended 31 December 2004.

As at the date of this annual report, 232,340,000 Shares were available for issue under the Share Option Scheme, representing approximately 3.61% of the issued share capital of the Company at that date.



### INFORMATION ON SHARE OPTIONS *(cont'd)*

- (3) The accounting policy adopted for share options is set out in note 31 to the financial statements.
- (4) During the year ended 31 December 2004, options to subscribe for a total of 109,640,000 Shares (including options exercised by the Directors) of the Company were exercised, particulars as follows:

Date of Exercise	17 July 1997 (i)	14 February 1998 (ii)	30 September 1998 (iii)	4 January 2000 (iv)	24 October 2001 (v)	Total	Weighted average closing price immediately before the exercise
08.01.2004	—	1,750,000	780,000	1,790,000	12,000,000	16,320,000	1.66
12.01.2004	—	2,670,000	2,450,000	3,190,000	6,000,000	14,310,000	1.68
05.02.2004	—	6,830,000	1,870,000	2,290,000	6,000,000	16,990,000	1.76
11.02.2004	—	2,130,000	1,940,000	2,190,000	—	6,260,000	1.78
16.02.2004	—	70,000	80,000	120,000	19,000,000	19,270,000	1.78
17.02.2004	—	—	1,000,000	1,200,000	—	2,200,000	1.79
24.02.2004	—	990,000	790,000	760,000	—	2,540,000	1.81
22.03.2004	—	2,360,000	620,000	570,000	—	3,550,000	1.80
01.04.2004	—	—	—	—	18,000,000	18,000,000	1.79
13.04.2004	—	510,000	60,000	600,000	—	1,170,000	1.79
30.04.2004	—	530,000	60,000	140,000	—	730,000	1.74
25.05.2004	—	640,000	360,000	780,000	—	1,780,000	1.65
02.06.2004	—	200,000	100,000	360,000	—	660,000	1.63
19.06.2004	—	—	—	60,000	—	60,000	1.60
10.07.2004	—	640,000	360,000	780,000	—	1,780,000	1.56
19.07.2004	—	30,000	30,000	60,000	—	120,000	1.56
24.08.2004	—	880,000	30,000	40,000	—	950,000	1.54
14.09.2004	—	360,000	—	—	—	360,000	1.54
06.10.2004	—	300,000	—	300,000	—	600,000	1.55
26.10.2004	—	150,000	—	—	—	150,000	1.56
30.10.2004	—	100,000	—	—	—	100,000	1.57
17.11.2004	—	280,000	—	—	—	280,000	1.58
03.12.2004	—	30,000	—	—	—	30,000	1.59
13.12.2004	—	210,000	—	—	—	210,000	1.59
28.12.2004	—	840,000	380,000	—	—	1,220,000	1.60
Total	—	22,500,000	10,910,000	15,230,000	61,000,000	109,640,000	



INFORMATION ON SHARE OPTIONS (cont'd)

Notes:

(a) Particulars of share options granted:

Date of Grant	Vesting Period (both dates inclusive)	Exercise Period (both dates inclusive)	Exercise Price Per Share (HK\$)
(i) 17.07.1997	17.07.1997 - 16.07.1998	17.07.1998 - 16.07.2007	4.06
(ii) 14.02.1998	14.02.1998 - 13.02.1999	14.02.1999 - 13.02.2008	1.08
(iii) 30.09.1998	30.09.1998 - 29.09.1999	30.09.1999 - 29.09.2008	0.52
(iv) 04.01.2000	04.01.2000 - 03.01.2001	04.01.2001 - 03.01.2010	0.58
(v) 24.10.2001	24.10.2001 - 23.10.2002	24.10.2002 - 23.10.2011	0.69
(vi) 18.06.2004	18.06.2004 - 17.06.2005	18.06.2005 - 17.06.2014	1.13

(b) (i) Pursuant to the existing share option scheme adopted on 18 July 2002, the Company has granted new options to 67 selected employees (including directors) on 18 June 2004 for the subscription of an aggregate of 65,140,000 shares at the exercise price of HK\$1.13 per share. Such options can be exercised during the period from 18 June 2005 to 17 June 2014 (both dates inclusive). The closing price of the Shares on 17 June 2004 (immediately before 18 June 2004, the date those options were granted) was HK\$1.2 per share.

Saved as disclosed above, no options have been granted to any eligible employees (including the directors and independent non-executive directors of the Company) to subscribe for Shares of the Company.

(ii) Value of share options granted during the year ended 31 December 2004:

The Directors consider that it is not appropriate to disclose the value of options granted during the year ended 31 December 2004, since any valuation of the options would be subject to a number of assumptions that would be subjective and uncertain. The Directors believe that the evaluation of options based upon speculative assumptions would not be meaningful and would be misleading to shareholders.

ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries, holding companies or fellow subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of Shares in, or debentures of, the Company or any other body corporate.





### DIRECTORS' INTEREST IN COMPETING BUSINESS

Pursuant to existing Rule 8.10 and Rule 13.51(2)(e) of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), the Company discloses that during the year and up to the date of this report, Messrs. Sun Wen Jie, Kong Qingping, Yao Peifu, Cui Duosheng, Wu Jianbin, Xiao Xiao (appointed on 1 February 2005), Cheung Shiu Kit, Yao Xian Cheng (resigned on 13 February 2004) and Yip Chung Nam (resigned on 1 February 2005) held directorships in the Company's ultimate holding company, China State Construction Engineering Corporation ("CSCEC"), and/or its subsidiaries, which are engaged in construction, property development and related business.

As the board of directors of the Group operates independently of the boards of these companies, the Group operates its business independently of, and at arm's length from, the businesses of these companies.

### SUBSTANTIAL SHAREHOLDERS

At 31 December 2004, the following parties (other than directors or the chief executive of the Company) were substantial shareholders of the Company (as defined in the Listing Rules) and had interests in the Shares and underlying Shares of the Company as recorded in the register maintained by the Company pursuant to Section 336 of the SFO:

Name of shareholder	Number of ordinary shares of HK\$0.1 each	Percentage of interest
J.P. Morgan Chase & Co.	402,298,515	6.31%
China Overseas Holdings Limited ("COHL")	3,237,050,800	50.81%
CSCEC	3,237,050,800	50.81%

COHL is a direct wholly owned subsidiary of CSCEC, thus CSCEC is deemed by the SFO to be interested in 3,237,050,800 Shares directly owned by COHL.

Save as disclosed above, the Company had not been notified by any other person (other than directors or the chief executive of the Company) who had an interest in the Shares and underlying Shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO as at 31 December 2004.

### MAJOR CUSTOMERS AND SUPPLIERS

For the financial year ended 31 December 2004, the five largest customers of the Group accounted for approximately 25% of the Group's turnover and turnover from the largest customer included therein accounted for approximately 9%. The five largest suppliers of the Group accounted for less than 30% of the Group's total purchases for the year.

CSCEC, the Company's ultimate holding company, is one of the five largest customers of the Group referred to above.

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 per cent. of the Company's issued share capital) have an interest in any of the Group's five largest customers or suppliers.



## CONNECTED AND RELATED PARTY TRANSACTIONS

Details of connected and related party transactions are set out on pages 39 to 52. Save as the related party transactions disclosed in note 44 to the financial statements, 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.

## DISCLOSURE PURSUANT TO RULES 13.20 AND 13.22 OF THE LISTING RULES

At the balance sheet date, the financial assistance and guarantees given by the Group to the Company's affiliated companies which in aggregate exceeded 8% of the relevant percentage ratios under Rule 13.16 of the Listing Rules based on the audited consolidated financial statements of the Company for the year ended 31 December 2004 are as follows:

Entity	Attributable interest held by the Group	Unsecured advance HK\$' million	Interest rate per annum	Guarantee given HK\$' million	Aggregate of financial assistance and guarantees given HK\$' million
Chest Gain Development Limited	30%	1,340.6	Prime Rate	—	1,340.6
		20.8 (in the form of trade receivables and retention receivables under a construction contract)	Nil	—	20.8
Scenic Gardens Finance Company Limited	30%	4.5	Prime Rate -3%	—	4.5
Shenzhen Sheng Hui Property Development Limited	39.5%	RMB475 million (Approximately HK\$448.1 million)	Nil	—	448.1
南京長江第二大橋 有限責任公司 (Jointly controlled entity)	65%	—	N/A	RMB511.3 million (Approximately HK\$482.3 million)	482.3



### DISCLOSURE PURSUANT TO RULES 13.20 AND 13.22 OF THE LISTING RULES *(cont'd)*

Entity	Attributable interest held by the Group	Unsecured advance <i>HK\$' million</i>	Interest rate per annum	Guarantee given <i>HK\$' million</i>	Aggregate of financial assistance and guarantees given <i>HK\$' million</i>
Shenzhen Lu An Te Bitumen New High Technology Limited	35.88%	—	N/A	RMB7.455 million (Approximately HK\$7 million)	7.0
Total		<u>1,814.0</u>		<u>489.3</u>	<u>2,303.3</u>

*Notes:*

1. The Company did not have any committed capital and loan injection to any of the above affiliated companies.
2. All advances are repayable on demand except that the retention money kept by Chest Gain Development Limited is repayable on 21 January 2005.



**DISCLOSURE PURSUANT TO RULES 13.20 AND 13.22 OF THE LISTING RULES**

(cont'd)

Set out below is a proforma combined balance sheet of the above affiliated companies and the Group's attributable interest in those affiliated companies as at 31 December 2004 (being the latest practicable date for determining the relevant figures) required to be disclosed under Chapter 13 of the Listing Rules:

	<b>Unaudited proforma combined balance sheet</b> <i>HK\$' million</i>	<b>Group's attributable interest</b> <i>HK\$' million</i>
<b>Non-current Assets</b>		
Property, plant and equipment	2,942	1,888
Properties for development	926	463
Others	45	16
	3,913	2,367
<b>Current Assets</b>		
Properties for sale	2,652	795
Trade and other receivables	707	273
Bank balances and cash	134	73
Others	45	18
	3,538	1,159
<b>Current Liabilities</b>		
Trade and other payables	942	561
Short term bank loans	999	632
Current portion of long term bank loans	398	259
Others	11	3
	2,350	1,455
<b>Non-current Liabilities</b>		
Long term bank loans	831	535
Loans from related companies	7,433	2,409
Others	22	7
	8,286	2,951
<b>Net Liabilities</b>	(3,185)	(880)
<b>Share Capital</b>	739	443
<b>Reserves</b>	(3,924)	(1,323)
<b>Capital and Reserves</b>	(3,185)	(880)

As at 31 December 2004, the consolidated attributable interest of the Group in these affiliated companies amounted HK\$880 million.



### 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\$26 million. No forfeited contribution under this scheme is available to reduce the contribution payable in future years.

### DONATIONS

During the year, the Group made charitable and other donations amounted to approximately HK\$92,400.

### 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 Company has complied throughout the year ended 31 December 2004 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules in force prior to January 2005, except that the independent non-executive directors of the Company are not appointed for specific terms but are subject to retirement by rotation and re-election at annual general meetings of the Company in accordance with the Company’s Articles of Association.

### 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**

*Vice Chairman & Chief Executive*

Hong Kong, 21 March 2005