

Report of Directors

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 2006.

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 55, 22 and 23 to the financial statements respectively.

An analysis of the Group's turnover and contribution are set out in notes 7 and 8 to the financial statements.

Results and Appropriations

The results of the Group for the year ended 31 December 2006 are set out in the consolidated income statement on page 84.

An interim dividend of HK4 cents per share was paid on 28 September 2006. The board of directors recommends the payment of a final dividend of HK6 cents per share (2005: HK4 cents per share) to shareholders whose names appear on the register of members of the Company on 5 June 2007. Together with the interim dividend of HK4 cents per share (2005: HK3 cents per share), dividends for the year will amount to a total of HK10 cents per share. The final dividend will be payable on 13 June 2007.

On 25 May 2006, the Company proposed a bonus issue of warrants ("Warrants") to be made in the proportion of 1 Warrant for every 8 ordinary shares held by shareholders of the Company. 811,198,451 units of Warrants exercisable from 18 July 2006 to 17 July 2007 (both dates inclusive) were issued to the shareholders of the Company on 14 July 2006. Such Warrants will entitle the registered holder to subscribe in cash for 811,198,451 new shares of HK\$0.10 each of the Company at an initial subscription price of HK\$4.50 per share (subject to adjustment).

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 the consolidated statement of changes in equity on page 88 and note 39 to the financial statements respectively.

Financial Summary

A summary of the results, assets and liabilities of the Group for the past five financial years is set out on pages 151 and 152.

Major Properties

Details of the major properties and property interests of the Group at 31 December 2006 are set out on pages 153 to 156.

Tangible Fixed Assets

The Group's investment properties were revalued at the year end date. The revaluation resulted in a net increase in fair value of HK\$205,440,000 which has been credited directly to the income statement.

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 18 and 19 to the financial statements.

Share Capital and Warrants

Details of movements during the year in the share capital of the Company are set out in note 38 to the financial statements.

Particulars of the bonus issue of warrant during the year is set out in the section headed "Results and Appropriations" and in note 38 to the financial statements.

Purchase, Sale or Redemption of the Company's Listed Securities

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

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 40 to the financial statements.

Interest capitalised by the Group during the year in respect of development properties amounted to approximately HK\$206,116,000.

Directors

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

Executive Directors

Mr. Kong Qingping	<i>(Chairman and Chief Executive)</i>
Mr. Cui Duosheng	<i>(Vice Chairman)</i>
Mr. Hao Jian Min	<i>(Vice Chairman) (elected on 23 November 2006)</i>
Mr. Wu Jianbin	
Mr. Xiao Xiao	<i>(appointed on 23 November 2006)</i>
Mr. Chen Bin	
Mr. Wang Man Kwan, Paul	
Mr. Yao Peifu	<i>(Vice Chairman) (resigned on 23 November 2006)</i>
Mr. Jin Xinzhong	<i>(resigned on 23 November 2006)</i>

Directors (Continued)

Non-Executive Director

Mr. Cheung Shiu Kit

(deceased on 20 February 2007)

Independent Non-Executive Directors

Dr. Li Kwok Po, David

Mr. Lam Kwong Siu

Mr. Wong Ying Ho, Kennedy

Notes:

(i) Mr. Cui Duosheng has resigned as executive director and vice chairman of the Company to take effect from 22 March 2007.

(ii) Mr. Xiao Xiao has been elected vice chairman of the Company to take effect from 22 March 2007.

(iii) Mr. Zhu Yijian has been appointed executive director of the Company to take effect from 22 March 2007.

(iv) Mr. Luo Liang has been appointed executive director of the Company to take effect from 22 March 2007.

In accordance with Article 105(A) and Article 96 of the Company's Articles of Association, Mr. Kong Qingping, Mr. Xiao Xiao, Mr. Wang Man Kwan, Paul, Mr. Chen Bin, Mr. Zhu Yijian and Mr. Luo Liang 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 15 to the financial statements.

Information on Share Options of the Company

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 2006:

Name	Date of Grant	Number of underlying shares comprised in options				Outstanding at 31.12.2006
		Outstanding at 01.01.2006	Granted during the year	Exercised during the year	Cancelled/Lapsed during the year	
<i>Directors</i>						
Mr. Kong Qingping	17.07.1997 (i)	1,000,000	—	—	—	1,000,000
	14.02.1998 (ii)	10,440,000	—	(9,880,000)	—	560,000
	30.09.1998 (iii)	460,000	—	(460,000)	—	—
	04.01.2000 (iv)	800,000	—	(400,000)	—	400,000
	18.06.2004 (vi)	3,360,000	—	(672,000)	—	2,688,000
			16,060,000	—	(11,412,000)	—
Mr. Cui Duosheng	17.07.1997 (i)	1,000,000	—	(1,000,000)	—	—
	14.02.1998 (ii)	8,520,000	—	(8,520,000)	—	—
	30.09.1998 (iii)	360,000	—	(360,000)	—	—
	04.01.2000 (iv)	680,000	—	(680,000)	—	—
	18.06.2004 (vi)	2,880,000	—	(1,152,000)	—	1,728,000
			13,440,000	—	(11,712,000)	—
Mr. Hao Jian Min	17.07.1997 (i)	550,000	—	—	—	550,000
	14.02.1998 (ii)	480,000	—	(480,000)	—	—
	30.09.1998 (iii)	180,000	—	(180,000)	—	—
	04.01.2000 (iv)	480,000	—	(480,000)	—	—
	18.06.2004 (vi)	2,304,000	—	(576,000)	—	1,728,000
			3,994,000	—	(1,716,000)	—

Information on Share Options of the Company (Continued)

Name	Date of Grant	Number of underlying shares comprised in options				
		Outstanding at 01.01.2006	Granted during the year	Exercised during the year	Cancelled/Lapsed during the year	Outstanding at 31.12.2006
Mr. Wu Jianbin	17.07.1997 (i)	550,000	—	(550,000)	—	—
	14.02.1998 (ii)	480,000	—	(480,000)	—	—
	30.09.1998 (iii)	180,000	—	(180,000)	—	—
	04.01.2000 (iv)	520,000	—	(520,000)	—	—
	18.06.2004 (vi)	2,304,000	—	(576,000)	—	1,728,000
		4,034,000	—	(2,306,000)	—	1,728,000
Mr. Xiao Xiao	17.07.1997 (i)	600,000	—	—	—	600,000
	14.02.1998 (ii)	540,000	—	(540,000)	—	—
	30.09.1998 (iii)	400,000	—	(400,000)	—	—
	04.01.2000 (iv)	780,000	—	(780,000)	—	—
	18.06.2004 (vi)	2,000,000	—	(800,000)	—	1,200,000
		4,320,000	—	(2,520,000)	—	1,800,000
Mr. Chen Bin (appointed on 23 November 2006)	04.01.2000 (iv)	60,000	—	(60,000)	—	—
	18.06.2004 (vi)	1,280,000	—	(320,000)	—	960,000
	1,340,000	—	(380,000)	—	960,000	
Mr. Cheung Shiu Kit (deceased on 20 February 2007)	17.07.1997 (i)	1,000,000	—	—	—	1,000,000
	18.06.2004 (vi)	2,880,000	—	—	—	2,880,000
	3,880,000	—	—	—	3,880,000	
Sub-Total		47,068,000	—	(30,046,000)	—	17,022,000
Aggregate of other employees*	17.07.1997 (i)	51,150,000	—	(31,340,000)	(4,120,000)	15,690,000
	14.02.1998 (ii)	49,940,000	—	(46,290,000)	(1,160,000)	2,490,000
	30.09.1998 (iii)	6,470,000	—	(6,140,000)	—	330,000
	04.01.2000 (iv)	17,270,000	—	(15,650,000)	(540,000)	1,080,000
	24.10.2001 (v)	—	—	—	—	—
	18.06.2004 (vi)	36,756,000	—	(9,544,000)	(2,104,000)	25,108,000
Sub-Total		#161,586,000	—	(108,964,000)	(7,924,000)	44,698,000
Grand Total		208,654,000	—	(139,010,000)	(7,924,000)	61,720,000

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

Information on Share Options of the Company (Continued)

- # (i) Options to subscribe for a total of 1,340,000 shares in the Company held by Mr. Chen Bin as at 1 January 2006 have been deducted for re-classification due to his appointment as director of the Company during the year under review.
- (ii) Options to subscribe for a total of 24,210,000 shares in the Company held by resigned directors as at 1 January 2006 have been added for re-classification due to their resignation as directors of the Company during the year under review.
- (iii) Though Mr. Cheung Shiu Kit deceased on 20 February 2007, his options for the financial year have to be shown for compliance.
- (2) At 31 December 2006, the options granted to subscribe for 61,720,000 Shares remained outstanding, representing approximately 0.88% of the issued share capital of the Company at that date. Options to subscribe for a total of 7,924,000 shares have been cancelled during the year ended 31 December 2006.

As at the date of this annual report, 45,066,000 Shares were available for issue under the Share Option Scheme, representing approximately 0.64% of the issued share capital of the Company at that date.

Information on Share Options of the Company (Continued)

(3) During the year ended 31 December 2006, options to subscribe for a total of 139,010,000 Shares (including options exercised by the Directors) of the Company were exercised, particulars as follows:

Date of Exercise	17.07.1997 (i)	14.02.1998 (ii)	30.09.1998 (iii)	04.01.2000 (iv)	24.10.2001 (v)	18.06.2004 (vi)	Total	Weighted average closing price immediately before the exercise (HK\$)
18.01.2006	—	2,330,000	2,450,000	3,890,000	—	576,000	9,246,000	3.81
02.02.2006	—	2,870,000	2,700,000	3,590,000	—	1,156,000	10,316,000	3.92
23.02.2006	—	330,000	330,000	480,000	—	576,000	1,716,000	3.94
31.03.2006	—	—	30,000	90,000	—	800,000	920,000	4.17
20.04.2006	1,870,000	150,000	—	—	—	—	2,020,000	4.38
21.04.2006	5,390,000	180,000	60,000	160,000	—	—	5,790,000	4.40
03.05.2006	790,000	780,000	460,000	1,000,000	—	672,000	3,702,000	4.46
19.05.2006	2,190,000	30,000	790,000	60,000	—	—	3,070,000	4.54
05.06.2006	1,440,000	200,000	—	20,000	—	156,000	1,816,000	4.53
13.06.2006	—	47,800,000	—	—	—	40,000	47,840,000	4.54
28.06.2006	—	230,000	400,000	550,000	—	3,996,000	5,176,000	4.50
13.07.2006	250,000	—	—	—	—	1,056,000	1,306,000	4.51
19.07.2006	900,000	2,700,000	—	1,680,000	—	2,096,000	7,376,000	4.51
17.08.2006	1,870,000	1,610,000	—	880,000	—	1,116,000	5,476,000	4.55
07.09.2006	870,000	1,330,000	500,000	1,200,000	—	124,000	4,024,000	4.62
03.10.2006	3,780,000	1,220,000	—	850,000	—	156,000	6,006,000	4.74
20.10.2006	820,000	960,000	—	830,000	—	—	2,610,000	4.83
03.11.2006	1,600,000	1,900,000	—	2,220,000	—	40,000	5,760,000	4.92
17.11.2006	2,120,000	1,470,000	—	940,000	—	880,000	5,410,000	5.02
06.12.2006	6,910,000	100,000	—	130,000	—	60,000	7,200,000	5.20
28.12.2006	2,090,000	—	—	—	—	140,000	2,230,000	5.41
Total	32,890,000	66,190,000	7,720,000	18,570,000	—	13,640,000	139,010,000	

Information on Share Options of the Company (Continued)

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	18.06.2004–17.06.2009*	18.06.2005–17.06.2014	1.13

* particulars shown in note 38 to the financial statements

(b) During the year under review, 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.

Directors' and Chief Executive's Interests in Securities

As at 31 December 2006, 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 and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies:

(a) Long Positions in Shares and Underlying Shares of the Company (all being personal interest)

Name of director	Number of shares held	Number of underlying shares comprised in		Total	% of shares in issue (Note 3)
		Options (Note 1)	Warrants (Note 2)		
Kong Qingping	15,012,000	4,648,000	1,876,500	21,536,500	0.307%
Cui Duosheng	13,202,000	1,728,000	1,604,000	16,534,000	0.236%
Hao Jian Min	2,398,000	2,278,000	379,500	5,055,500	0.072%
Wu Jianbin	3,366,000	1,728,000	—	5,094,000	0.073%
Xiao Xiao	1,360,000	1,800,000	237,500	3,397,500	0.048%
Chen Bin	—	960,000	—	960,000	0.014%
Wang Man Kwan, Paul	320,000	—	—	320,000	0.005%
Cheung Shiu Kit	—	3,880,000	—	3,880,000	0.055%
Li Kwok Po, David	200,000	—	25,000	225,000	0.003%

Directors' and Chief Executive's Interests in Securities (Continued)

(b) Long positions in shares and underlying shares of the Associated Corporation — China State Construction International Holdings Limited (all being personal interest)

Name of director	Number of shares held	Number of underlying shares comprised in Options	Total	% of shares in issue (Note 4)
Kong Qingping	200,000	1,200,000	1,400,000	0.281%
Cui Duosheng	163,333	1,200,000	1,363,333	0.273%
Hao Jian Min	210,000	840,000	1,050,000	0.210%
Wu Jianbin	210,000	840,000	1,050,000	0.210%
Xiao Xiao	—	1,050,000	1,050,000	0.210%
Chen Bin	—	576,000	576,000	0.115%
Wang Man Kwan, Paul	180,000	320,000	500,000	0.100%
Cheung Shiu Kit	—	700,000	700,000	0.140%
Li Kwok Po, David	11,111	—	11,111	0.002%

Notes:

- Information in relation to interests in options to acquire shares of the Company is set out in the section headed "Information on Share Options" of this report.
- Information in relation to interests in warrants to acquire shares of the Company is set out in the section headed "Results and Appropriations" of this report.
- The percentage has been adjusted based on the total number of shares of the Company in issue as at 31 December 2006 (i.e. 7,006,055,285 shares).
- The percentage has been adjusted based on the total number of shares of China State Construction International Holdings Limited in issue as at 31 December 2006 (i.e. 498,960,002 shares).

Save as disclosed above, 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 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 2006, 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 Part XV of the SFO), or had exercised any such rights.

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 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. Kong Qingping, Cui Duosheng, Hao Jian Min, Wu Jianbin, Xiao Xiao, Chen Bin (appointed on 23 November 2006), Cheung Shiu Kit (deceased on 20 February 2007), Yao Peifu (resigned on 23 November 2006) and Jin Xinzong (resigned on 23 November 2006) 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' Interests in Securities

At 31 December 2006, the following parties (other than directors or the chief executive of the Company) were the 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 shares held (Long Position)	Number of underlying shares comprised in warrants (Long Position)	Total	% of Shares in issue (Note 1)	Capacity
China Overseas Holdings Limited ("COHL") (Note 2)	3,674,633,400	—	3,674,633,400	52.45%	Beneficial owner, Interest of controlled corporation
CSCEC (Note 3)	3,674,633,400	—	3,674,633,400	52.45%	Interest of controlled corporation
JP Morgan Chase & Co. (Note 4)	411,989,775	6,953,749	418,943,524	5.98%	Beneficial owner, Investment manager, Custodian

Substantial Shareholders' Interests in Securities (Continued)

Notes:

1. The percentage has been adjusted based on the total number of shares of the Company in issue as at 31 December 2006 (i.e. 7,006,055,285 shares).
2. Amongst the total number of 3,674,633,400 Shares held by COHL, 3,364,716,150 were held as beneficial owner while the balance of 309,917,250 was interests of controlled corporations.
3. COHL is a direct wholly owned subsidiary of CSCEC, thus CSCEC is deemed by the SFO to be interested in 3,674,633,400 Shares owned by COHL.
4. Amongst the total number of 418,943,524 Shares and warrants held by JP Morgan Chase & Co., 29,310,054 were held as beneficial owner, 195,946,500 were held as investment manager and 193,686,970 were held in its capacity as custodian.

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 2006.

Major Customers and Suppliers

For the financial year ended 31 December 2006, the five largest customers of the Group accounted for less than 30% of the Group's turnover. The five largest suppliers of the Group accounted for approximately 34% of the Group's total purchases and purchase from the largest supplier include therein amounted to approximately 12% for the year.

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, Continuing Connected and Related Party Transactions

Details of the connected, continuing connected and related party transactions are set out on pages 70 to 82. Save as the related party transactions disclosed in note 53 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.

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 employees of the Company's subsidiaries established in the PRC are members of a state-managed retirement scheme operated by the PRC government. These subsidiaries are required to contribute certain percentage of payroll costs to the retirement benefit scheme. The only obligation of the Group with respect to these schemes is to make the required contributions under the scheme. During the year, the Group made contribution to these schemes amounting to approximately HK\$16 million. No forfeited contribution under this scheme is available to reduce the contribution payable in future years.

Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed amount of public float during the year and up to the date of this report as required under the Listing Rules.

Donations

During the year, the Group made charitable and other donations amounted to approximately HK\$32,000.

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

Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 48 to 53.

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

Chairman & Chief Executive

Hong Kong, 21 March 2007