

Directors' Report

The Directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company and provides corporate management services. The activities of its principal subsidiaries, associates, jointly controlled entities and jointly controlled operations are set out in notes 40, 19 and 25 respectively to the consolidated 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 71.

An interim dividend of HK9 cents per share amounting to HK\$44,290,000 was paid to the shareholders during the year. The Directors now recommend the payment of a final dividend of HK10 cents per share to the shareholders on the register of members on 5 June 2007, amounting to HK\$49,896,000.

FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past five financial years is set out on pages 128 and 129.

SEGMENT INFORMATION

An analysis of the Group's results, assets and liabilities by segment for the year is set out in note 6 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

In 2006, the five largest customers of the Group accounted for approximately 40% of the Group's turnover and turnover from the largest customer included therein accounted for approximately 16%. The five largest suppliers of the Group accounted for less than 30% of the Group's total purchases for the year.

Save as disclosed above, 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% of the Company's issued share capital) have an interest in any of the Group's five largest customers or suppliers.

PROPERTY, PLANT AND EQUIPMENT

Details of movements during the year in the property, plant and equipment of the Group are set out in note 16 to the consolidated financial statements.

INVESTMENT PROPERTIES

Details of investment properties of the Group are set out on page 130.

SHARE PREMIUM AND RESERVES

Details of movements during the year in the share premium and reserves of the Company and the Group are set out on page 74.

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 30 to the consolidated financial statements.

DIRECTORS

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

Non-executive Director

Mr. Kong Qingping (*Chairman*)

Executive Directors

Mr. Zhou Yong (*Vice-chairman and Chief Executive Officer*)

Mr. Yip Chung Nam

Mr. Fu He

Mr. Zhou Hancheng

Mr. Cheong Chit Sun

Independent Non-executive Directors

Dr. Raymond Ho Chung Tai

Mr. Adrian David Li Man Kiu

Mr. Raymond Leung Hai Ming

Mr. Lee Shing See

Notes:

In accordance with the provisions of the Company's Articles of Association Mr. Kong Qingping, Mr. Zhou Yong and Mr. Zhou Hancheng retire by rotation at the forthcoming annual general meeting, and, being eligible, offer themselves for re-election.

Information regarding directors' emoluments is set out in note 10 to the consolidated financial statements.

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Company considers all of the independent non-executive directors are independent.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTEREST IN COMPETING BUSINESS

Pursuant to Rule 8.10 of the Listing Rules, the Company discloses that during the year and up to the date of this report, Mr. Kong Qingping holds directorship in China State Construction Engineering Corporation (the Company's ultimate holding company), China Overseas Holdings Limited (the Company's holding company) and China Overseas Land & Investment Ltd (the Company's associated corporation), and/or their respective subsidiaries which are engaged in construction, property development and related business.

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

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DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND WARRANTS

As at 31 December 2006, the interests of the Directors and their associates in the shares, underlying shares and warrants of the Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept 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 Issuers (the "Model Code"), were as follows:

(a) Long positions in shares and underlying shares of the Company

Name of directors	Number of ordinary shares held	Number of underlying shares held	Total	% of shares in issue ³
	Personal interests ¹	Share options ²		
Kong Qingping	200,000	1,200,000	1,400,000	0.281
Zhou Yong	210,000	840,000	1,050,000	0.210
Yip Chung Nam	272,222	600,000	872,222	0.175
Fu He	150,000	600,000	750,000	0.150
Zhou Hancheng	150,000	560,000	710,000	0.142
Cheong Chit Sun	–	450,000	450,000	0.090
Raymond Ho Chung Tai	–	200,000	200,000	0.040
Adrian David Li Man Kiu	–	200,000	200,000	0.040
Raymond Leung Hai Ming	–	200,000	200,000	0.040
Lee Shing See	–	200,000	200,000	0.040

Notes:

1. This represents interests held by the relevant Director as a beneficial owner.
2. This represents interests in share options held by the relevant Director as a beneficial owner to subscribe for the relevant underlying ordinary shares in respect of the option shares granted by the Company under the Company's Share Option Scheme, details of which are set out in the section headed "Share Options" of this report.
3. The percentage has been adjusted based on the total number of ordinary shares of the Company in issue as at 31 December 2006 (i.e. 498,960,002 ordinary shares).

(b) Long positions in shares and underlying shares of Associated Corporation

China Overseas Land & Investment Ltd. ("COLI")

Name of directors	Number of ordinary shares held	Number of underlying shares held		Total	% of shares in issue ⁴
	Personal interests ¹	Share options ²	Warrants ³		
Kong Qingping	15,012,000	4,648,000	1,876,500	21,536,500	0.307
Zhou Yong	1,178,000	1,152,000	81,750	2,411,750	0.034
Yip Chung Nam	2,600,000	1,600,000	–	4,200,000	0.060
Fu He	–	1,200,000	38,750	1,238,750	0.018
Zhou Hancheng	–	544,000	–	544,000	0.008
Cheong Chit Sun	160,000	240,000	10,000	410,000	0.006

Notes:

1. This represents interests held by the relevant Director as a beneficial owner.
2. This represents interests in share options held by the relevant Director as a beneficial owner to subscribe for the relevant underlying ordinary shares in respect of the option shares granted by COLI, details of which are set out in the section headed "Directors' Rights to Acquire Shares or Warrants" of this report.
3. This represents interests in warrants held by the relevant Director as a beneficial owner to subscribe for the relevant underlying ordinary shares in respect of the warrants issued by COLI, details of which are set out in the section headed "Directors' Rights to Acquire Shares or Warrants" of this report.
4. The percentage has been adjusted based on the total number of ordinary shares of COLI in issue as at 31 December 2006 (i.e. 7,006,055,285 ordinary shares).

Other than disclosed above, none of the Directors nor their associates had any interests or short positions in any shares, underlying shares or warrants of the Company or any of its associated corporations as at 31 December 2006.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR WARRANTS

(i) The Company

As at 31 December 2006, the number of outstanding share options granted by the Company under the Company's Share Option Scheme to the Directors to subscribe for shares of the Company, as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code is set out in the section headed "Share Options" of this report.

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(ii) Associated Corporation

(a) Share Options

As at 31 December 2006, the number of outstanding share options granted by COLI to the Directors to subscribe for shares of COLI, as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code is set out below:-

Name of directors	Date of grant	Exercise period	Exercise price (HK\$)	Number of share options	% of shares in issue (Note)
Kong Qingping	17.07.1997	17.07.1998 to 16.07.2007	4.06	1,000,000	0.014
	14.02.1998	14.02.1999 to 13.02.2008	1.08	560,000	0.008
	04.01.2000	04.01.2001 to 03.01.2010	0.58	400,000	0.006
	18.06.2004	18.06.2005 to 17.06.2014	1.13	2,688,000	0.038
				<u>4,648,000</u>	0.066
Zhou Yong	18.06.2004	18.06.2005 to 17.06.2014	1.13	1,152,000	0.016
				<u>1,152,000</u>	0.016
Yip Chung Nam	17.07.1997	17.07.1998 to 16.07.2007	4.06	400,000	0.006
	18.06.2004	18.06.2005 to 17.06.2014	1.13	1,200,000	0.017
				<u>1,600,000</u>	0.023
Fu He	18.06.2004	18.06.2005 to 17.06.2014	1.13	1,200,000	0.017
				<u>1,200,000</u>	0.017
Zhou Hancheng	14.02.1998	14.02.1999 to 13.02.2008	1.08	80,000	0.001
	04.01.2000	04.01.2001 to 03.01.2010	0.58	80,000	0.001
	18.06.2004	18.06.2005 to 17.06.2014	1.13	384,000	0.005
				<u>544,000</u>	0.007
Cheong Chit Sun	18.06.2004	18.06.2005 to 17.06.2014	1.13	240,000	0.003
				<u>240,000</u>	0.003

(b) Warrants

As at 31 December 2006, the number of listed warrants (stock code: 580) held by the Director to subscribe shares of COLI, as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code is set out below:-

Name of directors	Exercise period	Exercise price (HK\$)	Number of warrants	% of shares in issue (Note)
Kong Qingping	18.07.2006 to 17.07.2007	4.50	1,876,500	0.027
Zhou Yong	18.07.2006 to 17.07.2007	4.50	81,750	0.001
Fu He	18.07.2006 to 17.07.2007	4.50	38,750	0.001
Cheong Chit Sun	18.07.2006 to 17.07.2007	4.50	10,000	0.000

Note: The percentage has been adjusted based on the total number of ordinary shares of COLI in issue as at 31 December 2006 (ie. 7,006,055,285 ordinary shares).

Other than the share options and warrants disclosed above, at no time during the year ended 31 December 2006 was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 35 to the consolidated financial statements.

The following table discloses movements in the Company's share options during the year:

Category	Date of grant	Number of Share Options				Outstanding at 31.12.2006	Exercise price (HK\$)	Exercise period
		Outstanding at 01.01.2006	Granted during the year	Exercised during the year	Cancelled during the year			
Directors								
Kong Qingping	14.09.2005	1,200,000	-	-	-	1,200,000	1.03	14.09.2006 to 13.09.2015
Zhou Yong	14.09.2005	1,050,000	-	210,000	-	840,000	1.03	14.09.2006 to 13.09.2015
Yip Chung Nam	14.09.2005	750,000	-	150,000	-	600,000	1.03	14.09.2006 to 13.09.2015
Fu He	14.09.2005	750,000	-	150,000	-	600,000	1.03	14.09.2006 to 13.09.2015
Zhou Hancheng	14.09.2005	700,000	-	140,000	-	560,000	1.03	14.09.2006 to 13.09.2015
Cheong Chit Sun	14.09.2005	450,000	-	-	-	450,000	1.03	14.09.2006 to 13.09.2015
Raymond Ho	14.09.2005	200,000	-	-	-	200,000	1.03	14.09.2006 to 13.09.2015
Chung Tai								
Adrian David	14.09.2005	200,000	-	-	-	200,000	1.03	14.09.2006 to 13.09.2015
Li Man Kiu								
Raymond Leung	14.09.2005	200,000	-	-	-	200,000	1.03	14.09.2006 to 13.09.2015
Hai Ming								
Lee Shing See	14.09.2005	200,000	-	-	-	200,000	1.03	14.09.2006 to 13.09.2015
Total Directors		5,700,000	-	650,000	-	5,050,000		
Employees	14.09.2005	20,430,000	-	1,882,000	320,000	18,228,000	1.03	14.09.2006 to 13.09.2015
Consultants	14.09.2005	23,070,000	-	4,320,000	150,000	18,600,000	1.03	14.09.2006 to 13.09.2015
Total		49,200,000	-	6,852,000	470,000	41,878,000		

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Notes: The weighted average closing price of the Company's shares immediately before the dates on which the share options were exercised were as follows:

Date of exercised of share options	Number of share options exercised	Weighted average closing price of the Company's shares immediately before the exercise (HK\$)
06.10.2006	1,652,000	2.84
17.10.2006	620,000	2.85
01.11.2006	1,648,000	2.90
15.11.2006	1,574,000	2.97
01.12.2006	1,358,000	3.05
	<u>6,852,000</u>	

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2006, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholders had notified the Company of relevant interests in the issued share capital of the Company:

Long positions of substantial shareholders in the shares of the Company

Name of shareholder	Capacity	Number of ordinary shares held	% of share in issue ¹
China Overseas Holdings Limited ²	Beneficial owner	316,322,956	63.40
China State Construction Engineering Corporation ²	Interest of a controlled corporation/ beneficial owner	316,322,956	63.40
Fidelity International Limited	Beneficial owner	29,723,902	5.96

Notes:

- (1) The percentage has been adjusted based on the total number of ordinary shares of the Company in issue as at 31 December 2006 (i.e. 498,960,002 ordinary shares).
- (2) China Overseas Holdings Limited ("COHL") is a direct wholly owned subsidiary of China State Construction Engineering Corporation ("CSCEC"), thus CSCEC is deemed by the SFO to be interested in 316,322,956 shares directly owned by COHL.

Other than disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31 December 2006.

CONNECTED AND RELATED PARTY TRANSACTIONS

Details of connected and related party transactions are set out on pages 62 to 68. Save as the related party transactions disclosed in note 38 to the consolidated financial statements, no contracts of significance to which the Company or any of its subsidiaries, holding companies or fellow subsidiaries was a party 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.

EMOLUMENT POLICY

The emolument policy of the employees of the Group was approved by the Remuneration Committee.

The emolument of the Directors are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market trend.

The Company has adopted a share option scheme as an incentive to Directors and eligible persons, details of the scheme is set out in note 35 to the consolidated financial statements.

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\$19.8 million. No forfeited contribution under this scheme is available to reduce the contribution payable in future years.

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.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association, the laws of Cayman Islands, being the jurisdiction in which the Company is incorporated, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained sufficient public float throughout the year ended 31 December 2006.

DONATIONS

During the year, the Group made charitable donations amounting to HK\$120,000.

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

The Company had complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the year.

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

China State Construction International Holdings Limited
Kong Qingping

Chairman and Non-executive Director

Hong Kong, 21 March 2007