Management Discussion and Analysis

Revenue and profit attributable to the Shareholders were HK$11,021 million and HK$489 million, representing a growth of 8.4% and 20.9% respectively as compared to the audited figures of last year, average return on shareholders' funds was 20.9%.

Mr. ZHOU Yong

Vice-chairman and Chief Executive Officer

Overall Performance

The Group recorded a consolidated revenue of approximately HK$11,021 million. The gross profit was HK$909 million. The profit attributable to the equity holders increased by 20.9% to HK$489 million as compared with the audited profit of last year. The basic earnings per share increased by 9.5% from HK18.32 cents (before restatement in 2007) to HK20.06 cents in this year. With a proposed final dividend per share of HK3.3 cents and an interim dividend per share of HK 3.7 cents paid in the year, the dividend payout ratio will be approximately 35.0%.

Total assets were HK$8,984 million of which current assets were HK$6,915 million, representing 1.3 times of current liabilities. The equity attributable to equity holders of the Company was approximately HK$2,523 million.

The Group has improved its cash flow position this year, the net cash inflow from operating activities was HK$301 million (2007: net cash outflow HK$439 million) and net increase in cash for the year was HK$352 million.

In the year, the acquisition of the infrastructure project investment was treated as common control combination. Merger Accounting was adopted as if the acquisition had been completed as at 1 January 2007. The comparative figures in the consolidated financial statements were restated. The figures used for the analysis were based on the restated figures.

(a) Revenue

The Group recorded a consolidated revenue of HK$11,021 million (2007: HK$10,233 million), representing an increase of 7.7%. Revenue mainly generated from construction business (including project management services), supply of heat and electricity business (including provision of connection services), infrastructure project investment, trading of building materials, machinery leasing and insurance business.

(i) Construction business continues to dominate the business segment of the Group (95.1% of the Group's revenue), which contributed HK$10,482 million (2007: HK$ 9,739 million) with an increment of 7.6%.

(ii) The revenue from supply of heat and electricity business increased by 24.4% to HK$376 million (2007: HK$302 million), representing 3.4% of the overall revenue.

(iii) The revenue from infrastructure project investment was HK$63 million (2007: HK$64 million).

By geographical sectors

(i) Hong Kong market
During the year, revenue derived from Hong Kong increased by 12.5% to HK$6,192 million (2007: HK$5,501 million). The reason for the increase was certain large scale building projects that had a desirable progress in the year and certain new awarded projects started to contribute revenue to the Group. Hong Kong market remained the major revenue contributor of the Group which contributed 56.2% of the overall revenue.

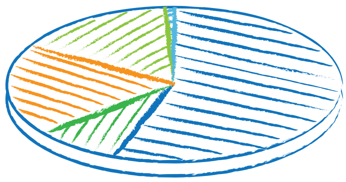
(ii) Macau market
The revenue contributed by Macau market increased by 31.0% to HK$2,078 million (2007: HK$1,587 million) representing 18.9% of the Group's revenue. The increase was mainly attributable to an increase in contributions from two jointly controlled projects, (Encore at Wynn Macau and City of Dreams).

(iii) United Arab Emirates ("UAE") market
The UAE market contributed HK$1,797 million revenue (2007: HK$2,065 million), representing 16.3% of the overall revenue, decreased by 13.0 % as compared with last year. It is because the Group had no new project awarded in Dubai in 2008. In addition, two projects were completed in the year and another two projects were nearly completed at the year end date.

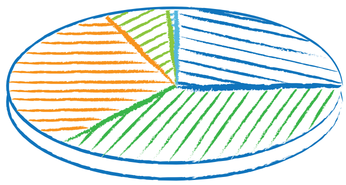
(iv) Mainland China market
The revenue derived from the Mainland China market mainly comprised the revenue from construction business, supply of heat and electricity business and infrastructure project investment. The total revenue arising from the Mainland China increased by 21.2%

Management Discussion and Analysis *(Continued)*

Revenue by Geographical Sectors



Gross Profit by Geographical Sectors



to HK$882 million (2007: HK$728 million), representing 8.0% of the overall revenue of the Group. The revenue contributed by supply of heat and electricity business (including provision of connection services) was HK$376 million (2007: HK$302 million), representing 24.4% increased because of the increase in the area of heat supply (from 6,978,063 m^2 to 7,646,776 m^2) and the unit price of heat supply in the region. The revenue contributed by construction business was HK$428 million (2007: HK$302 million), representing 41.7% increased because of the contributions from the four newly awarded projects in the year. The revenue contribution from the infrastructure project investment was HK$63 million (2007: HK$64 million), it contributed a stable income to the Group.

(v) Indian market

After the completion of Hyderabad International Airport project in 2007 and the road project operated by an jointly controlled entity was completed in the year, the revenue derived from Indian market dropped to HK$72 million (2007: HK$351 million).

(b) Gross Profit

(i) Hong Kong market

During the year, the gross profit from Hong Kong market increased by 27.2% to HK$228 million (2007: HK$179 million). The gross profit margin increased from 3.3% in 2007 to 3.7% in 2008. The reason for the increase was due to implementation of effective cost control policies and effective site management.

(ii) Macau market

During the year, the gross profit contributed from Macau market increased by 3.0% to HK$282 million (2007: HK$274 million). The gross profit margin dropped from 17.3% in 2007 to 13.6% in 2008 because of the larger portion of contract was related to the project management contracts with higher profit margin in 2007.

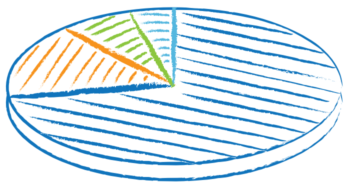
(iii) UAE market

During the year, the UAE market contributed HK$57 million (2007: HK$53 million) represented an increase of 7.8%. The gross profit margin increased from 2.6% in 2007 to 3.2% in 2008. The gross profit included a recovery of the provision of HK$25 million made in 2007. As the sudden change in the economy of Dubai that seriously affected the local construction market, the Group, based on the prudence prospective, made provision for existing projects. Nevertheless, the gross profit margin has an increase because the result of the completed projects was satisfactory. Although the operating environment changed adversely, the Group has confidence and ability to cope with the existing crisis in Dubai projects.

(iv) Mainland China market

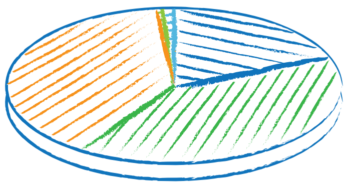
The Mainland China market contributed HK$338 million in the year (2007: HK$299 million) representing an increase of 13.1%. For the supply of heat and electricity business, the gross profit in 2008 was increased by 19.5% to HK$141 million (2007: HK$118 million) because both heat supply area and unit price

Gross Profit by Business Sectors



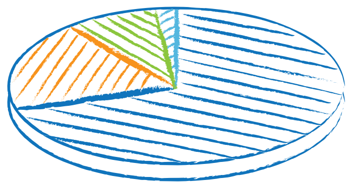
Construction 73.1%
Supply of heat & Electricity 15.5%
Infrastructure project investment 7.0%
Other 4.4%

Segment Results by Geographical Sectors



Hong Kong 19.4%
UAE 0.2%
Mainland China 40.4%
India 1.3%
Macau 38.7%

Segment Results by Business Sectors



Construction 69.7%
Supply of heat & Electricity 18.2%
Infrastructure project investment 9.4%
Other 2.7%

of heat supply increased. For the construction business, the gross profit in 2008 increased by 25.8% to HK$117 million (2007: HK$93 million) as certain variation orders and expense claims were successfully received from customers in the year.

(c) Investment Income

Investment income dropped significantly to HK$33 million (2007: HK$100 million). The major reasons for the decrease were the average bank interest rate dropped significantly in 2008, the interest income dropped significantly from HK$75 million in 2007 to HK$29 million in 2008. Besides, owing to the internal restructure in 2007, the Group disposed certain listed equities securities and resulted an exceptional gain of HK$16 million.

(d) Administrative Expenses

Administrative expenses increased by 18.7% to HK$394 million (2007: HK$332 million). The major reasons for the increment were the followings:

(i) *Overall salaries increased*

In the early of 2008, amid the blooming manpower market, the general salaries level of the Group raised to maintain and attract the outstanding staff and talents. In addition, the manpower was increased in order to meet the expansion plan requirement of the Group in the early of 2008. The Group has a review mechanism for the salary policy and manpower planning to respond to the market change and development of the Group.

(ii) *Setting up the branch office in Abu Dhabi*

The Group continues to expand the operations in the UAE by setting up an office in Abu Dhabi. Although the economy of Dubai was affected by the financial crisis, the Group keeps close attention to the business opportunity in Abu Dhabi and bid the project selectively.

The management expects the overall administrative expenses will be downward in the year 2009.

(e) Finance Costs

In the year, the Group has successfully obtained a syndicated loan facilities of HK$1 billion and drawn down the loan during the year. Thus, the finance costs, including the arrangement fee and the corresponding interest, for the year increased significantly to HK$20 million (2007: HK$2 million).

(f) Earnings Per Share

For the year, basic earnings per share was HK20.06 cents (2007: HK20.53 cents). Owing to the Group had issued 399,867,200 shares (after share sub-division) through open offer in September 2007, the dilution effect on basic earnings per share was only for 3-months in 2007 but the dilution effect had a full year impact in 2008. Under the same circumstance as if the open offer was taken place on 1 January 2007. The earnings per share for 2007 would be HK16.18 cents. The actual increase in earnings per share should be 24.0%.

The calculation of the basic earnings per share is based on the profit for the year attributable to equity holders of HK$489 million (2007: HK$454 million) and on the weighted average number of 2,438,796,000 (2007: 2,210,132,000) ordinary shares in issue during the year. The weighted average number of ordinary shares used in the calculation of earnings per share for the year ended 31 December 2008 had accounted for the share subdivision which was effective on 13 June 2008. The corresponding number of ordinary shares of 2007 has been retrospectively adjusted to reflect the said share subdivision.

Corporate Finance

The management and control of the Group's financial, capital management and external financing functions are centralized. The Group has been adhering to the principle of prudent financial management.

Liquidity

At the year end, the Group had a bank balances and cash of HK$1,917 million (2007: HK$1,568 million). The portfolio of the currencies of bank deposits is listed as follow:

	As at 31 December	
	2008	2007
Hong Kong dollars	**58%**	50%
Renminbi	**36%**	20%
Macao Patacas	**4%**	15%
United Arab Emirates Dirhams	**1%**	12%
Indian Rupees	**1%**	2%
US dollars	**–**	1%

The deposit in foreign currencies is mainly for the projects funding in various regions. During the year, the Group has no financial instruments for currency hedging purpose.

Financing Credit and Financial Resources

As the Group has a sound operation for over thirty years, it maintains a good relationship with a number of large-scaled banks in Hong Kong. In February 2008, the Group successfully obtained positive responses for its self-arranged three-year syndicated loan of HK$1 billion at a privileged rate. During the year, the Group had drawn down HK$1 billion, the bank loan is repayable after two years.

In December 2008, the Group obtained a facility in the amount of RMB600 million from China Construction Bank, which will be used for the purpose of the issuance of letter of guarantee and working capital financing.

At the year end, the Group had net cash and bank balances at approximately HK$917 million. The Group had sufficient committed and unutilized banking facilities (including the letter of guarantee, working capital and term loan facilities) to meet the need of business development opportunity in Hong Kong, Macau, Mainland China and overseas markets.

In addition, the Group made a bonus issue of one-year warrant in February 2008. Owing to the financial market changed suddenly in the year, the number of warrant exercised during the year was 14,121 warrants.

Utilisation of Financial Resources

In order to utilise financial resources effectively and efficiently, the Group has further expanded its operations by acquiring two bridges in Nan Chang City with an expected Internal Rate of Return (IRR) at 16.3%. The management considers this infrastructure project investment will benefit the Group by providing a stable and long term income.

In addition, the Group is studying various construction-related investment projects by fully taking advantage of its own strong financial capability and studying the feasibility of driving construction projects through investment. However, both of the financial market and real estate property market experienced a turbulent period during the year in the Mainland China, the Group determinedly suspended an investment project in the Mainland China and reassess the overall risk. The Group will seek for other proper business development opportunities.

The Group continually invested in the expansion of the heat plant (Phase IV) in Shenyang to increase the production capacity. As at 31 December 2008, total heat supply area was 7,646,776 m^2 and the heat supply area is expected to increase unceasingly in the following years. Phase IV of the heat plant was located in a new residential zone. The Group will keep seeking other new development zone for further expansion.

The Group will cautiously seek for the development opportunity with a view to balance the risk and opportunity in maximising shareholders' value.

Exchange Risk and Corresponding Hedging Arrangement

The Group operates in various regions with different foreign currencies, therefore the Group reviews the exchange risk regularly and pays close attention to foreign exchange exposure and continuously tracks the local economic development, monetary policies and conditions that would have an impact on exchange rates in local markets. However, the Group has no hedging arrangement for foreign currencies and has not involved in the financial derivatives.

Renminbi has been appreciated since 2007 but the currency market fluctuated in the second half of 2008. The Group keeps a close attention to the trend of Renminbi and will make proper adjustment if necessary.

For the both UAE Dirham and Macao Patacas, they are relatively stable because the Dirham is linked to the US dollar and Patacas is linked to Hong Kong Dollar. For Indian Rupee, although the exchange rate was depreciated significantly in 2008, most of them had been remitted in 2007. Nevertheless, the management still keeps watch for the fluctuation of the currency.

Credit Exposure

The Group deals with credit exposure according to the risk management policies. Credit extended to business associates is based on the reputation and financial position of the customers. In connection with projects in progress (no matter in Hong Kong, Macau or overseas), the major customers are the local Government, certain institutional organisations and certain reputable property developers. Therefore, no significant credit risk is exposed with the Group.

Risk Management

The global financial market and financial system is seriously affected by the financial tsunami and moving towards economic recession obviously. From a strategic perspective, the Group evaluated the market conditions and adjusted its strategy in a timely manner and made determined decisions, to ensure the effective implementation of major operations strategy.

The Group established a Risk Management Control Committee in the year to evaluate and build up corresponding risk control system in various segments including: (1) timely review the financial position of the client; (2) create contract management to ensure sound control of risks in various parts of its operations; (3) improved its materials procurement management by keeping track of market trend to minimise the price fluctuation risk and (4) strengthen the assets management to safeguard the assets of the Group.