

# Directors' Report

The Directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2008.

## 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 44, 23 and 29 respectively to the consolidated financial statements.

## Results and Appropriations

The results of the Group for the year ended 31 December 2008 are set out in the consolidated income statement on page 82.

An interim dividend of HK3.7 cents per share amounting to HK\$90,149,000 was paid to the shareholders during the year. The Directors now recommend the payment of a final dividend of HK3.3 cents per share to the shareholders on the register of members on 27 May 2009, amounting to approximately HK\$80,705,000.

On 8 January 2008, the Company proposed a bonus issue of warrants ("Warrants") to be made in the proportion of 1 Warrant for every 7 ordinary shares held by shareholders of the Company. 87,042,394 units of Warrants exercisable from 28 February 2008 to 27 February 2009 (both dates inclusive) were issued to the shareholders of the Company on 26 February 2008 at a subscription price of HK\$15 per share.

## Financial Summary

A summary of the results, assets and liabilities of the Group for the past five financial years is set out on pages 150 and 151.

An analysis of the Group's results, assets and liabilities by segment for the year is set out in note 8 to the consolidated financial statements.

## Property, Plant and Equipment

Details of movements during the year in the property, plant and equipment of the Group are set out in note 18 to the consolidated financial statements.

## Investment Properties

Details of investment properties of the Group are set out on page 152.

## Share Capital and Warrants

Details of movements during the year in the share capital of the Company are set out in note 35 to the consolidated financial statements.

Particulars of the bonus issue of warrants during the year is set out in note 36 to the consolidated financial statements.

## Share Premium and Reserves

Details of movements during the year in the share premium and reserves of the Group are set out on page 85.

# Directors' Report *(Continued)*

## 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

Dr. Raymond Leung Hai Ming

Mr. Lee Shing See

Notes:

In accordance with Articles 87(1) and 87(2) of the Company's Articles of Association Mr. Cheong Chit Sun, Mr. Adrian David Li Man Kiu, Dr. Raymond Leung Hai Ming and Mr. Lee Shing See will 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 12 to the consolidated financial statements.

## Confirmation of Independence

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 "Stock Exchange") (the "Listing Rules") and still considers such directors are independent.

## Directors' Service Contracts

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

All the independent non-executive directors of the Company are appointed for a fixed period but subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's Articles of Association.

# Directors' Report *(Continued)*

## Directors' Interest in Shares, Underlying Shares and Warrants

As at 31 December 2008, 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 pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

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

Name of director	Number of ordinary shares held	Number of underlying shares held		Total	% of shares in issue <sup>4</sup>
	Personal interests <sup>1</sup>	Share options <sup>2</sup>	On exercise of warrants <sup>3</sup>		
Kong Qingping	2,956,800	2,995,200	422,396	6,374,396	0.26
Zhou Yong	2,755,200	1,747,200	268,800	4,771,200	0.20
Yip Chung Nam	1,930,664	1,872,000	275,808	4,078,472	0.17
Fu He	2,318,000	1,248,000	188,568	3,754,568	0.15
Zhou Hancheng	2,234,800	1,164,800	182,856	3,582,456	0.15
Cheong Chit Sun	432,000	1,497,600	61,712	1,991,312	0.08
Raymond Ho Chung Tai	—	832,000	—	832,000	0.03
Adrian David Li Man Kiu	—	832,000	—	832,000	0.03
Raymond Leung Hai Ming	—	832,000	—	832,000	0.03
Lee Shing See	—	832,000	—	832,000	0.03

Notes:

1. This represents interests held by the relevant Director as a beneficial owner.
2. This represents interests in share options of the Company (the "Share Options") held by the relevant Director as a beneficial owner to subscribe for the relevant underlying ordinary shares pursuant to the Company's Share Option Scheme. Details of which are set out in the section headed "Share Options" of this report.
3. This represents number of underlying ordinary shares held upon exercise the warrants of the Company (the "Warrants"). The interests in Warrants held by the relevant Director as a beneficial owner. 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 the Company in issue as at 31 December 2008 (i.e. 2,444,767,764 ordinary shares).

# Directors' Report *(Continued)*

## Directors' Interest in Shares, Underlying Shares and Warrants *(continued)*

(b) Long positions in shares and underlying shares of Associated Corporation – China Overseas Land & Investment Ltd. ("COLI")

Name of director	Number of ordinary shares held		Number of underlying shares held		% of shares in issue <sup>3</sup>
	Personal interests <sup>1</sup>	Family interests	Share options <sup>2</sup>	Total	
Kong Qingping	7,156,000	—	1,344,000	8,500,000	0.11
Zhou Yong	—	—	384,000	384,000	0.00
Yip Chung Nam	2,600,000	—	400,000	3,000,000	0.04
Fu He	—	—	400,000	400,000	0.01
Zhou Hancheng	—	—	128,000	128,000	0.00
Cheong Chit Sun	120,000	10,000 <sup>4</sup>	80,000	210,000	0.00

Notes :

1. This represents interests held by the relevant Director as a beneficial owner.
2. This represents interests in share options of COLI held by the relevant Director as a beneficial owner to subscribe for the relevant underlying ordinary shares pursuant to the Share Option Scheme of COLI. Details of which are set out in the section headed "Directors' Rights to Acquire Shares or Warrants" of this report.
3. The percentage has been adjusted based on the total number of ordinary shares of COLI in issue as at 31 December 2008 (i.e. 7,850,699,215 ordinary shares).
4. The interests in 10,000 shares were held by the spouse of Cheong Chit Sun.

Other than disclosed above, as at 31 December 2008, none of the Directors nor their associates had any interests or short positions in any shares or underlying shares of the Company or any of its associated corporations.

## Directors' Rights to Acquire Shares or Warrants

(i) The Company

(a) *Share Options*

As at 31 December 2008, 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.

# Directors' Report *(Continued)*

## Directors' Rights to Acquire Shares or Warrants *(continued)*

### (i) The Company *(continued)*

#### (b) Warrants

As at 31 December 2008, the number of warrants (stock code : 501) held by the Director to subscribe 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 below:

Name of director	Amount of warrants (HK\$)	Subscription price <sup>1</sup> (HK\$)	Number of ordinary shares on exercise of warrants	% of share in issue <sup>2</sup>
Kong Qingping	1,583,985	3.75	422,396	0.017
Zhou Yong	1,008,000	3.75	268,800	0.011
Yip Chung Nam	1,034,280	3.75	275,808	0.011
Fu He	707,130	3.75	188,568	0.008
Zhou Hancheng	685,710	3.75	182,856	0.007
Cheong Chit Sun	231,420	3.75	61,712	0.003

Notes:

1. Immediate after the share subdivision of the Company effective on 13 June 2008, the subscription price of the then outstanding warrants were adjusted.
2. The percentage has been adjusted based on the total number of ordinary shares of the Company in issue as at 31 December 2008 (i.e. 2,444,767,764 ordinary shares).
3. The exercise period of the Warrants is from 28 February 2008 to 27 February 2009.

# Directors' Report *(Continued)*

## Directors' Rights to Acquire Shares or Warrants *(continued)*

### (ii) Associated Corporation — COLI

#### *Share Options*

As at 31 December 2008, 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 director	Date of grant	Exercise period	Exercise price (HK\$)	Number of share options	% of share in issue*
Kong Qingping	18.06.2004	18.06.2005 to 17.06.2014	1.13	1,344,000	0.02
Zhou Yong	18.06.2004	18.06.2005 to 17.06.2014	1.13	384,000	0.00
Yip Chung Nam	18.06.2004	18.06.2005 to 17.06.2014	1.13	400,000	0.01
Fu He	18.06.2004	18.06.2005 to 17.06.2014	1.13	400,000	0.01
Zhou Hancheng	18.06.2004	18.06.2005 to 17.06.2014	1.13	128,000	0.00
Cheong Chit Sun	18.06.2004	18.06.2005 to 17.06.2014	1.13	80,000	0.00

Note: \* The percentage has been adjusted based on the total number of ordinary shares of COLI in issue as at 31 December 2008 (i.e. 7,850,699,215 ordinary shares)

Other than disclosed above, at no time during the year ended 31 December 2008 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.

# Directors' Report *(Continued)*

## Share Options

Particulars of the Company's share option scheme are set out in note 40 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 31.12.2008	Exercise price* (HK\$)	Exercise period
		Outstanding at 01.01.2008	Adjustment/Granted during the year*	Exercised during the year	Cancelled during the year			
<b>Directors</b>								
Kong Qingping	14.09.2005	748,800	2,246,400	—	—	2,995,200	0.2475	14.09.2006 to 13.09.2015
Zhou Yong	14.09.2005	655,200	1,965,600	873,600	—	1,747,200	0.2475	14.09.2006 to 13.09.2015
Yip Chung Nam	14.09.2005	468,000	1,404,000	—	—	1,872,000	0.2475	14.09.2006 to 13.09.2015
Fu He	14.09.2005	474,000	1,422,000	648,000	—	1,248,000	0.2475	14.09.2006 to 13.09.2015
Zhou Hancheng	14.09.2005	442,400	1,327,200	604,800	—	1,164,800	0.2475	14.09.2006 to 13.09.2015
Cheong Chit Sun	14.09.2005	374,400	1,123,200	—	—	1,497,600	0.2475	14.09.2006 to 13.09.2015
Raymond Ho Chung Tai	14.09.2005	208,000	624,000	—	—	832,000	0.2475	14.09.2006 to 13.09.2015
Adrian David Li Man Kiu	14.09.2005	208,000	624,000	—	—	832,000	0.2475	14.09.2006 to 13.09.2015
Raymond Leung Hai Ming	14.09.2005	208,000	624,000	—	—	832,000	0.2475	14.09.2006 to 13.09.2015
Lee Shing See	14.09.2005	208,000	624,000	—	—	832,000	0.2475	14.09.2006 to 13.09.2015
<b>All Directors</b>		3,994,800	11,984,400	2,126,400	—	13,852,800		
<b>Employees</b>	14.09.2005	15,715,800	46,062,600	6,944,160	1,073,280	53,760,960	0.2475	14.09.2006 to 13.09.2015
<b>Consultants</b>	14.09.2005	13,925,520	38,721,600	12,202,960	—	40,444,160	0.2475	14.09.2006 to 13.09.2015
<b>Total</b>		33,636,120	96,768,600	21,273,520	1,073,280	108,057,920		

# Directors' Report *(Continued)*

## Share Options *(continued)*

Notes:

- (1) \* Immediate after the share subdivision of the Company effective on 13 June 2008, the number of and the exercise price of the then outstanding share options were adjusted.
- (2) 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 exercise of share options	Number of share options exercised	Weighted average closing price of the Company's shares immediately before the exercise (HK\$)
04.01.2008	187,200	3.09
17.01.2008	905,120	3.32
04.03.2008	226,800	3.20
27.03.2008	20,800	3.17
06.05.2008	40,000	3.17
04.07.2008	166,400	3.00
01.08.2008	83,200	2.86
19.09.2008	2,613,120	2.64
29.09.2008	1,680,640	2.60
02.10.2008	4,472,000	2.58
20.10.2008	3,263,360	2.50
30.10.2008	3,366,720	2.43
24.11.2008	1,876,960	2.31
30.12.2008	2,371,200	2.19
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	21,273,520	

## Management Contracts

No contract concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

# Directors' Report *(Continued)*

## Substantial Shareholders

As at 31 December 2008, 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	Number of underlying shares on exercise of warrants	Total	% of share in issue <sup>1</sup>
China Overseas Holdings Limited <sup>2</sup> ("COHL")	Beneficial owner	1,538,094,448	215,542,060	1,753,636,508	71.73
China State Construction & Engineering Corporation Limited <sup>3</sup> ("CSCECL")	Interest of a controlled corporation/beneficial owner	1,538,094,448	215,542,060	1,753,636,508	71.73
China State Construction Engineering Corporation <sup>4</sup> ("CSCEC")	Interest of a controlled corporation/beneficial owner	1,538,094,448	215,542,060	1,753,636,508	71.73

Notes :

1. The percentage has been adjusted based on the total number of ordinary shares of the Company in issue as at 31 December 2008 (i.e. 2,444,767,764 ordinary shares).
2. Amongst the total number of 1,538,094,448 Shares and 215,542,060 underlying shares held by COHL, 1,473,413,384 Shares and 206,301,908 underlying shares were held as beneficial owner while the balance of 64,681,064 Shares and 9,240,152 underlying shares were interests of controlled corporations.
3. COHL is a direct wholly owned subsidiary of CSCECL, thus CSCECL is deemed by the SFO to be interested in 1,538,094,448 Shares and 215,542,060 underlying shares directly owned by COHL.
4. CSCECL is held as to 94% by CSCEC, thus CSCEC is deemed by the SFO to be interested in 1,538,094,448 Shares and 215,542,060 underlying shares indirectly owned by CSCECL.

Other than disclosed above, as at 31 December 2008, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company.

## Connected Transactions

Details of connected transactions are set out on pages 76 to 80. Save as the related party transactions disclosed in note 43 to the consolidated financial statements, no contract of significance to which the Company or any of its subsidiaries, holding company or fellow subsidiaries was a party and in which a director of the Company had a material interests, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

# Directors' Report *(Continued)*

## Directors' Interest in Competing Business

Pursuant to existing 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 the Company's ultimate holding company 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.

## 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 40 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\$24.41 million. No forfeited contribution under this scheme is available to reduce the contribution payable in future years.

## 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.

## Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date this report, there is sufficient public float of the Company's issued shares as required under the Listing Rules.

## Charitable Donations

Donations made by the Group during the year for charitable amounted to HK\$60,500.

## Major Customers and Suppliers

In 2008, the five largest customers of the Group accounted for approximately 50.8% of the Group's turnover and turnover from the largest customer included therein accounted for approximately 16.1%. The five largest suppliers of the Group accounted for less than 10.31% of the Group's total purchases for the year.

Other than 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.

# Directors' Report *(Continued)*

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

During the year, the Company repurchased a total of 13,492,000 shares of HK\$0.025 each of the Company on the Stock Exchange at an aggregate price of HK\$15,718,695.29. All of the shares repurchased up to 31 December 2008 have been cancelled. The repurchases were effected by the Directors for the enhancement of long-term shareholder value. Details of the repurchases are set out below:

Month/year	Number of shares repurchased	Purchase price per share		Aggregate purchase price (HK\$)
		Highest (HK\$)	Lowest (HK\$)	
July 2008	4,784,000	2.00	1.86	9,399,080.00
October 2008	8,708,000	0.75	0.70	6,319,615.29
Total	13,492,000			15,718,695.29

Other than disclosed above, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities during the year ended.

## Auditors

Messrs. Deloitte Touche Tohmatsu have acted as auditors of the Company for the past three years.

A resolution to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company will be proposed at the forthcoming Annual General Meeting.

On behalf of the Board

**China State Construction International Holdings Limited**

**Kong Qingping**

*Chairman and Non-executive Director*

Hong Kong, 23 March 2009