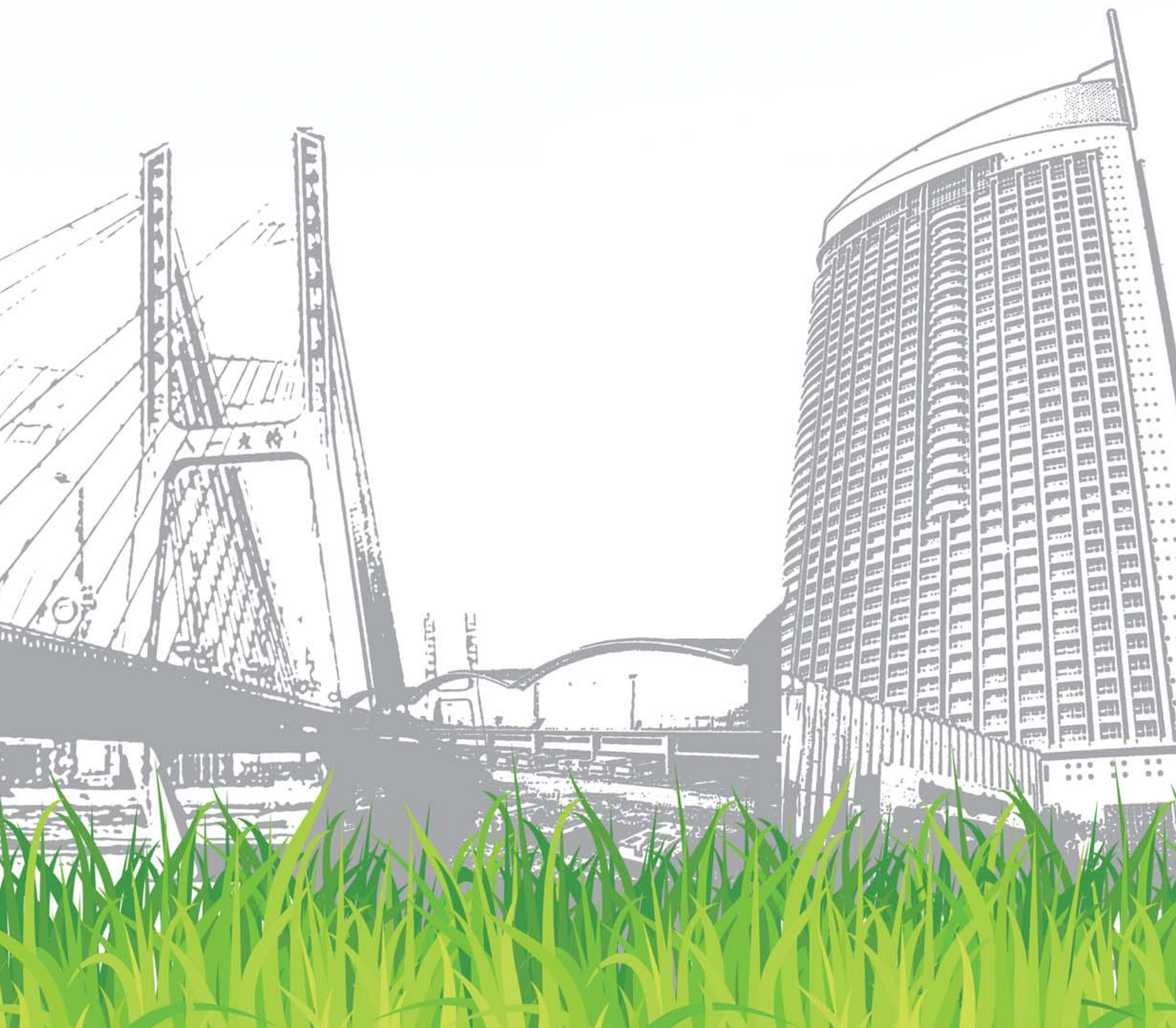
中國建築國際集團有限公司
CHINA STATE CONSTRUCTION INTERNATIONAL HOLDINGS LIMITED

Stock Code: 03311

# Exercise caution in details and implementation
# Build a strong foundation to seek greater success

## Annual Report 2009



# Vision

The Group focuses on details and advocates putting into practice. Consistently pursuing the professionalism of "achieving superb quality in each process thus making each property of superb quality" and taking full advantages of its experience as an international contractor, the Group is committed to offering excellent products and services in excess of their own values, actively performing its responsibilities as a corporate citizen, striving to build up an everlasting business regime.

# Contents

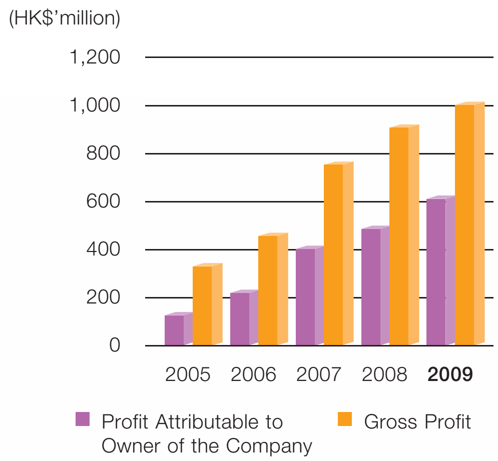


# Financial Highlights

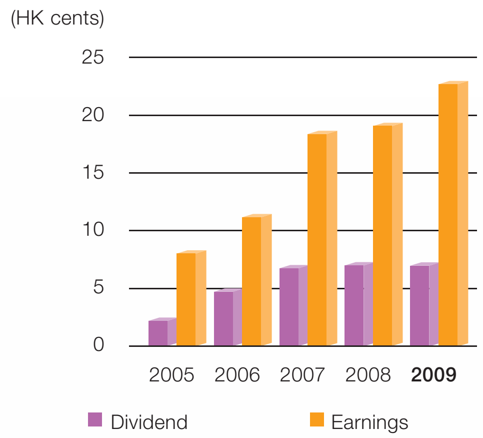
| | Per Annual Report For the year ended 31 December | | | | | |
|---|---|---|---|---|---|---|
| | 2005 | 2006 | 2007 | 2008 | 2009 | Change |
| **RESULTS (HK$'000)** | | | | | | |
| Revenue | 6,862,530 | 10,294,826 | 10,168,321 | 11,021,405 | **11,341,998** | 2.9% |
| Gross profit | 331,137 | 459,050 | 766,116 | 909,393 | **992,902** | 9.2% |
| Profit attributable to owner of the Company | 130,666 | 222,182 | 404,893 | 489,321 | **612,531** | 25.2% |
| **FINANCIAL RATIOS** | | | | | | |
| Gross profit margin (%) | 4.8% | 4.5% | 7.5% | 8.3% | **8.8%** | 6.0% |
| Net margin (%) | 1.9% | 2.2% | 4.0% | 4.4% | **5.4%** | 22.7% |
| Current ratio (times) | 1.21 | 1.18 | 1.20 | 1.32 | **1.98** | 50.0% |
| **FINANCIAL INFORMATION PER SHARE** | | | | | | |
| Earnings (HK cents) | 8.07 | 11.26 | 18.32 | 19.01 (note) | **22.65** | 19.1% |
| Dividend (HK cents) | 2.25 | 4.75 | 6.75 | 7.00 | **7.10** | 1.4% |
| Net assets (HK$) | 0.43 | 0.49 | 0.89 | 1.03 | **1.46** | 41.7% |
| **OTHER INFORMATION** | | | | | | |
| Value of incomplete contracts as at 31 December (HK$ million) | 15,600 | 20,033 | 20,217 | 21,132 | **24,671** | 16.7% |

Note: The calculation of basic earnings per share for the year ended 31 December 2009 has accounted for the impact of rights issue which was effective from 1 September 2009. The weighted average number of ordinary shares of 2008 has been retrospectively adjusted to reflect the said rights issue.

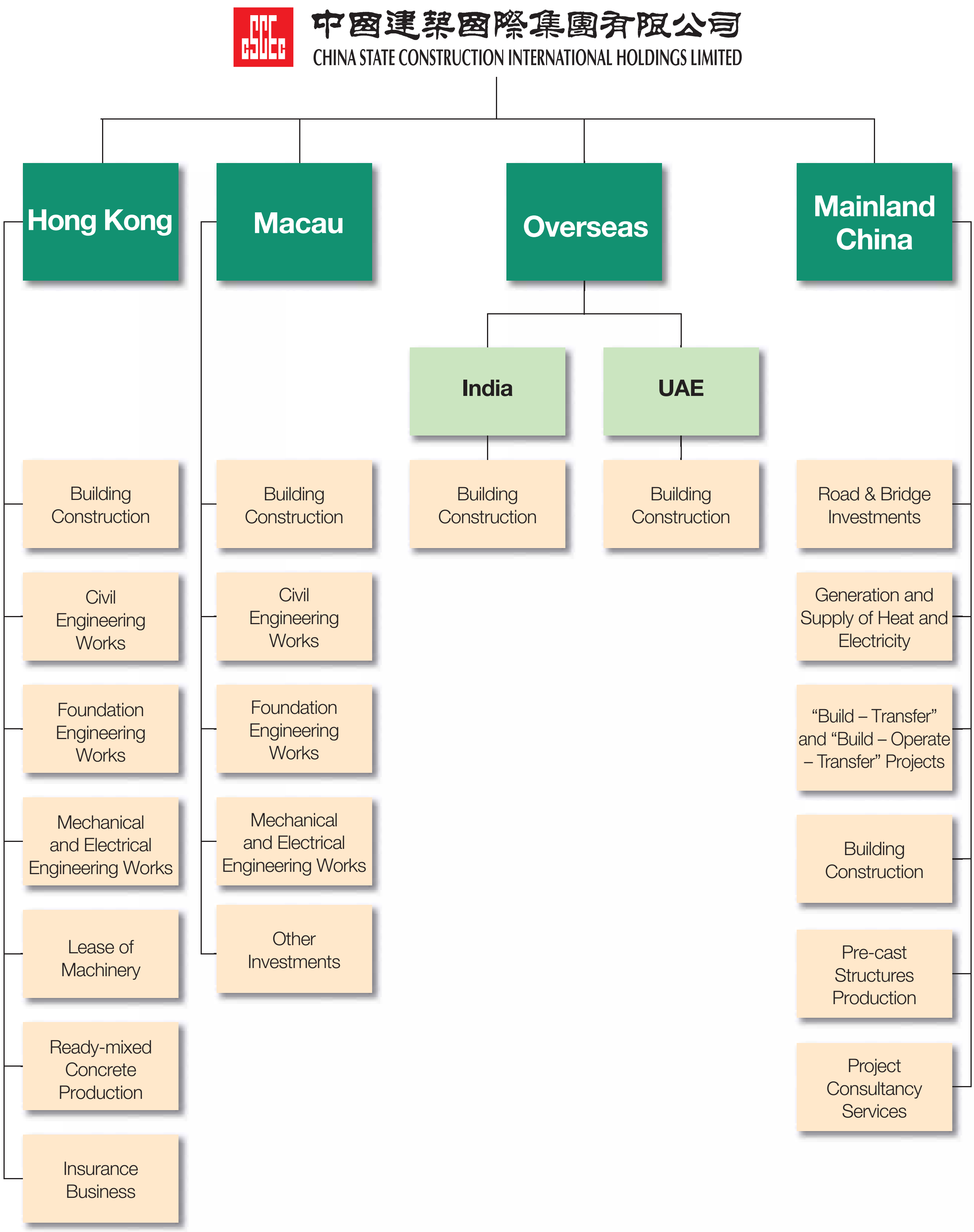
## Results




## Financial Information Per Share



# Corporate Structure



# Board of Directors and Committees

## Board of Directors

### Chairman and Non-executive Director

Kong Qingping

### Honorary Chairman (Non-board Member)

Sun Wen Jie

### Executive Directors

Zhou Yong *(Vice-chairman and Chief Executive Officer)*
Yip Chung Nam
Zhang Yifeng
Cheong Chit Sun
Zhou Hancheng

### Independent Non-executive Directors

Raymond Ho Chung Tai
Adrian David Li Man Kiu
Raymond Leung Hai Ming
Lee Shing See

## Audit Committee

Raymond Ho Chung Tai *(Chairman)*
Adrian David Li Man Kiu
Raymond Leung Hai Ming
Lee Shing See

## Remuneration Committee

Kong Qingping *(Chairman)*
Raymond Ho Chung Tai
Adrian David Li Man Kiu
Raymond Leung Hai Ming
Lee Shing See

## Nomination Committee

Kong Qingping *(Chairman)*
Zhou Yong
Zhang Yifeng
Raymond Ho Chung Tai
Adrian David Li Man Kiu
Raymond Leung Hai Ming
Lee Shing See

# Corporate Information

## Authorised Representatives
Kong Qingping
Zhou Yong

## Company Secretary
Tse Sui Ha

## Principal Share Registrar and Transfer Office
Butterfield Fulcrum Group (Cayman) Limited
Butterfield House
68 Fort Street, P.O. Box 705
George Town, Grand Cayman
Cayman Islands

## Hong Kong Branch Share Registrar and Transfer Office
Tricor Standard Limited
26/F., Tesbury Centre
28 Queen's Road East
Hong Kong

## Registered Office
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

## Head Office and Principal Place of Business in Hong Kong
28th Floor, China Overseas Building
139 Hennessy Road, Wanchai
Hong Kong

## Auditor
Deloitte Touche Tohmatsu
*Certified Public Accountants*

## Legal Advisor
JSM

## Principal Bankers
Bank of China (Hong Kong) Limited
Bank of Communications Co., Ltd. Hong Kong Branch
BNP Paribas Hong Kong Branch
Crédit Agricole Corporate and Investment Bank
DBS Bank Ltd., Hong Kong Branch
The Bank of East Asia, Limited
The Hongkong and Shanghai Banking Corporation Limited

## Stock Code
3311

## Website
www.csci.com.hk

## Financial Calendar

### Closure of Register of Members
8 June 2010 to 9 June 2010 (both days inclusive)

### Annual General Meeting
9 June 2010

### Payment of Proposed Final Dividend
18 June 2010

# Major Events of the Year 2009

## January

- A love and care team with over 400 staff of the Group was organized to join the Community Chest Walks for Millions on Hong Kong Island.

## February

- The Company was conferred the "Caring Company Logo 2008/09" by the Hong Kong Council of Social Service in recognition of its commitment to corporate citizenship during the previous year.

商界展關懷
caringcompany 2008/09
Awarded by The Hong Kong Council of Social Service
香港社會服務聯會頒發

## March

- Announcement of 2008 annual results on 23 March. For the year ended 31 December, the Group recorded an audited profit attributable to shareholders of HK$489 million, an increase of 20.9% over that of the previous year, and a turnover of HK$11,021 million. Earnings per share was HK20.06 cents, up 9.5% year on year.

## May

- The Joint Venture company established with controlling shareholder parent company China State Construction & Engineering Corporation Limited signed a "Build — Transfer" framework agreement with Tangshan government in respect of the project of Tangshan Binhai Avenue Project. The landlord is Tangshan government and the total investment amount is estimated at approximately RMB4 billion.

## June

- 30th anniversary of establishment of our holding company, China Overseas Holdings Limited. A grand cocktail reception was held and attended by our honorable guests.

## July

- The Company proposed to raise approximately HK$1,353 million (net of expenses) by the way of rights issue of 0.49 billion rights shares, representing approximately 16.67% of enlarged number of shares of the Company, at a subscription price of HK$2.79 per rights share on the basis of one rights share for every five shares held by members as at close of business on the register of members on 7 August 2009.

- The 3rd Technology Week with the theme of "Technology and Green Construction" was held during the period from 13 to 16 July 2009, as part of the Company's efforts in stepping up technology promotion and marketing, facilitate technology exchange, enhance technical integration capability and creativity, as well as uplifting the overall technology level and competitiveness.

- Ceremony to celebrate successful listing of controlling shareholder China State Construction & Engineering Corporation Limited on Shanghai Stock Exchange.

## August

- The 2009 interim results were announced on 17 August. For six months ended 30 June 2009, the Group's unaudited profit attributable to shareholders increased by 17.9% to HK$303 million, with a turnover of HK$5,502 million. Earnings per share was HK12.40 cents, an increase of 17.5% from HK10.55 cents for the corresponding period of last year.

## November

- The Board of Directors of the Company and Mr. Zhou Yong, Vice- Chairman and CEO of the Company, were both selected as an Awardee for Directors Of The Year Awards 2009 in the category of Listed Company (SEHK-Non-Hang Seng Index Constituents): Board of directors and an Awardee for Directors Of The Year Awards 2009 in the category of Listed Company (SEHK-Non-Hang Seng Index Constituents) Executive directors.


## December

- Won a number of awards at The "Quality Public Housing Construction and Maintenance Awards 2009". Such awards include New Works Category — Outstanding Contractors (Building) Gold Award; New Works Category — Best Site Safety Award (completed construction site safety award) Award for Construction of Eastern Harbour Crossing Site Phase 3; New Works Category — Outstanding Contractors Award (self-selected sub-contractor — concrete templates) for Construction of Hung Hom Estate Phase 2 and Ma Hang Headland Park and New Works Category — Outstanding Workers Award.

In Hong Kong, the Group will strive to **maintain and reinforce its current market share,** in particular to grasp the golden opportunity in the infrastructure market, **to ensure its position as one of the largest construction contractors in Hong Kong** and to further boost its profitability.

# Chairman's Statement

"In pursuit of its philosophy of "**Exercise Caution in Details and Implementation; Build a Strong Foundation to Seek Greater Success**" and the continual formulation of the brand advantage of "**China State Construction**", the Group will continue to focus on details and advocate pragmatic approach to its work."

**Mr. KONG Qingping**
*Chairman and Non-executive Director*

## Annual Results

The Group's audited profit attributable to the owners of the Company for the year ended 31 December 2009 was HK$613 million, representing an increase of 25.2% as compared to last year while earnings per share increased by 19.1% to HK22.65 cents.

## Final Dividend

The Board recommends the payment of a final dividend of HK3.50 cents per share for the year ended 31 December 2009, contributing to the annual total dividends per share amounting to HK7.10 cents, representing an increase of 1.4% as compared to last year.

## Review of Operation

In 2009, major economies adopted large-scale stimulating policies on a coordinated basis, restoring the confidence of the market on a global scale, and halting the decline in industrial production, though the development of different economies remains unbalanced.

Following the strategic principle of "**Strengthening Ourselves and Waiting for Changes**" as set out at the beginning of the year, the Group reacted in a timely manner to seize opportunities for sound development, gradually repositioning itself towards the combination of construction and infrastructure investments, achieving complementary strengths, optimization of resources and maximizing efficiency.

### Market Conditions

The government of Hong Kong stimulated the market with the policy of "stabilizing the financial system, supporting enterprises and maintaining employment" and put ten major infrastructure projects in full gear. Equipped with the highest qualification in Hong Kong market, with five Group C licenses, the Group maintained its steady and healthy business strategy of "Competing Low Cost and High Quality Management", which preserved our competitiveness in the Hong Kong market.

Macau remained in a phase of continuous adjustment following the effects of the financial tsunami. Although revenues from gambling has seen a steady rise in the second half of the year, the newly launched government and private projects remarkably contracted, resulting in an inactive year for the construction market in Macau.

Dubai, in the UAE, was hit heavily by the financial tsunami, with some property projects coming to a halt as property developers became financially difficulties. Facing challenges, we adhered to the strategy of prudent operation and we have not secured any new projects in Dubai for two consecutive years, while concentrating more on the progress and business management of the projects in progress, effectively garnering control the risks. In Abu Dhabi, where the foundation of a buoyant economy is at present stronger, and a huge demand is expected in the construction market and our project in progress have been smoothly undertaken.

India's self-contained and domestic-demand-oriented economic structure has, to a large extent, cushioned the impact of the global financial crisis, and provided an assurance for the steady recovery of its economy. In its search for sound joint-venture partners, the Group emphasizes positioning itself to guard against risks and enhancing the profitability of its projects.

In Mainland China, the state's launch of the RMB 4-trillion investment stimulus scheme, the 10 industry revival plans, the increase in the implementation of technology, and some other macroscopic policies to improve the people's livelihood and stabilization of exports, has positioned China as taking a leading role in driving the global economic recovery. Adhering to "obtaining sustainable growth in profits" as its ultimate goal of business expansion and operation, the Group prudently selected those construction businesses having foreign investments together with those build-transfer ("BT")/build-operate-transfer ("BOT") model investment businesses that have promising prospects of both profits and achieving considerable results.

## Completed Projects During the Year

During the year, the Group completed 40 projects, which mainly included:

Hong Kong: Superstructure Main Contract Works at Wu Kai Sha Station, Ma On Shan; TWTL 394 Yeung Uk Road, Tsuen Wan; Foundation and Railway Depot works for Ho Tung Lau; Kowloon Southern Link Tunnels-Jordan Road to Nam Cheong Overrun; Design and Construction of a Sports Ground at Area 45, Tseung Kwan O; Main Contract for Central Park, TKOTL No. 70 Area 86, Tseung Kwan O;

Macau: City of Dreams; Remaining Works for Project 228 in Liaison Office of the Central People's Government in the Macau SAR.

## New Projects Awarded During the Year

The group secured 42 new projects in the year, with an aggregated attributable contract value of HK$17.11 billion of which the Hong Kong market accounted for 63.5%, the Mainland China market accounted for 34.4%, and markets in other areas accounted for 2.1%. After the reporting date and up to the date of this report, 9 new projects were secured with an aggregated attributable contract value of approximately HK$5.41 billion.

New contracts awarded mainly included:

Hong Kong: Construction of Tin Shui Wai Public Library cum Indoor Recreation Centre at Tin Shui Wai; Construction of Un Chau Estate Phase 5; Construction of Shopping Centre at Yau Tong Estate Redevelopment Phase 4; Site Formation, Foundation and Superstructure Main Contract Works for New Academic Building and Residential Accommodation for HKUST; Main Contract Works for Construction of The Proposed Residential Development at Discovery Bay North Works Phase 15, Area N1e; Replacement and Rehabilitation of Water Mains Stage 3-Mains in Central and Western District; Construction of Interconnection Tunnel and Diaphragm Wall for Main Pumping Station at Stonecutters Island Sewage Treatment Works;

Mainland China: 唐山市濱海大道項目 ("Tangshan Binhai Avenue Project"); 武咸公路重建及沙湖通道項目 ("Wuxian Highway Reconstruction and Shahu Passageway Project"); 山西陽泉至娘子關一級公路 ("Class 1 Highway from Yangquan to Niangziguan, Shanxi Province");

India: Construction of ESIC Medical College at Bihta (Patna).

# Chairman's Statement *(Continued)*

## Projects in Progress

At 31 December 2009, the Group had a total of 70 projects in progress, with an aggregated attributable contract value of HK$39.90 billion of which the Hong Kong market accounted for 61.9%, the Mainland China market accounted for 16.6%, and markets in other areas accounted for 21.5%. The value of incomplete contracts was 24.67 billion.

Projects in progress had been smoothly undertaken in accordance with the laws of the local government and contractual requirements, offering clients services of high quality.

## Corporate Governance

The Group strictly complies with the laws, regulations and the Listing Rules of the Stock Exchange of Hong Kong Limited. With effective monitoring by its Board of Directors, communication with the investment community has been enhanced by the timely release of relevant information to enhance investors' knowledge and understanding about the Company and promoting the continual uplifting of the standard of corporate governance of the Company. To enhance its business operations and to secure the interest of investors, the Group set up strategic targets and established an all-round corporate governance structure, internal control, risk management and crisis management mechanisms. It also enhanced its regional operation by adjusting its strategic planning in a timely manner and enhancing its overall risk management system, in order to cope with the challenge in the market posed by the financial tsunami. It has also fully leveraged the role of the Group's cross-region Decision Committee to ensure that the Group operated in a highly effective manner.

## Risk Management

Faced with the global financial tsunami, the Group exercised full-scale enhancement of its risk management and developed itself to eliminate external uncertain risks. The Group was successful in capturing market opportunities, while effectively guarding itself against risks in individual markets. At the beginning of the year, a Risk Management Control Committee and a comprehensive risk control mechanism and system, at Group level, were established. From a strategic perspective, the Group accurately assessed the market conditions and adjusted its strategy in a decisive and timely manner, ensuring the effective implementation of a strategy towards major operations. Risk control in various operating segments was enhanced. Focus on safe production was emphasized and materials procurement was closely monitored. Optimizing management procedures helped to enhance management performance. All these have contributed to enhancing operational effectiveness of the enterprise and benefitted to society.

Regarding our investment business, team building, decision-making system and establishment of systems were given priority, and systems and procedures for investment decisions were set up in an organized manner, in order to maximize protection of our investments against risks.

## Financial Management

Our financial management, fund management and external financing have been centrally managed and controlled at our Group headquarters. In line with its principles of prudent finance, the Group had sufficient funds and has maintained very sound financial position; as at 31 December 2009, the Group had bank balances of HK$5.76 billion and total borrowings of HK$3.33 billion, the Group has net cash balance of HK$2.43 billion. The Group also had sufficient committed but unutilised facilities to meet the needs for business development. A rights issue was completed on 1 September 2009, whereby HK$1.37 billion was raised. The fund raised will be used for investing in infrastructure projects in Mainland China and working capital. On 12 August 2009, a credit line in the amount of RMB800 million for a period of three years was signed by three subsidiaries of our Group in Mainland China with the China Construction Bank Shenzhen Branch the amount of which can provide strong assurance of capital as the Group engages in investment business in Mainland China. On 14 December 2009, the Group's 中建陽泉基礎設施投資有限公司 ("China Construction Yangquan Infrastructure Investment Ltd") secured an entrusted loan of RMB1.5 billion from the Group's controlling shareholder China State Construction Engineering Corporation Limited, bearing interest at a fixed rate of 4.86% per annum. The entrusted loan will be used for BOT investment in 山西陽泉至娘子關一級公路 ("Class 1 Highway from Yangquan to Niangziquan, Shanxi Province"). For its overseas market, the Group closely monitored the local economic development of the respective markets, and focused on avoiding market risks, currency exchange rate risks and interest rate risks.

By holding quarterly economic activity analysis and thematic session on finance, rolling amendment and evaluation on the Group's overall strategic plans, operations and system establishment are in place to ensure the healthy expansion and operation of the Group's various business segments.

## Human Resources Management

In 2009, the Group began to implement a new performance appraisal system and rank scheme, roughly forming a scientific and optimized 5-level rank structure. Target-oriented elements were added to the new appraisal system, to judge the working performance of staff in a scientific manner and implementing various remunerative, punitive and incentive measures to the staff on that basis, thereby ensuring motivation, initiatives and creativity among staff members.

## Capital Operation and Relevant Investment Business

The Group captured valuable opportunities arising from the RMB 4-trillion investment stimulus scheme in Mainland China, by adjusting the strategy of business expansion and fostering its BT/BOT investment businesses. Related efforts were fully launched and breakthroughs have already been achieved.

1. On 9 April 2009, the Group and the controlling shareholder China State Construction & Engineering Corporation Limited ("CSCECL") signed a joint venture agreement, forming a joint venture company to jointly construct the 唐山市濱海大道 ("Tangshan Binhai Avenue Project"). The estimated total investment amounts to HK$4.77 billion. The Group holds 50% equity interests in the joint venture company.

2. On 8 July 2009, the Group's wholly-owned subsidiary 深圳中海建築有限公司 ("Shenzhen China Overseas Construction Limited"), the Group's controlling shareholder CSCECL and its wholly-owned subsidiary 中建三局建設工程股份有限公司 ("China Construction Third Engineering Bureau Corp., Ltd.") entered into the Wuhan Joint Venture Agreement, to jointly construct the Wuhan Infrastructure Project through the Wuhan Joint Venture. The project involves the reconstruction of 武咸公路 ("Wuxian Highway") and the construction of 沙湖通道 ("Shahu Passageway"). The estimated total investment amounts to HK$2.35 billion. The Group holds 30% equity interests in the joint venture company.

3. On 10 December 2009, 中建陽泉基礎設施投資有限公司 ("China Construction Yangquan Infrastructure Investment Ltd.") ("CCII"), a wholly owned subsidiary of the Group, entered into an agreement with the Yangquan Government, pursuant to which the Yangquan Government has granted CCII the concession right to operate the Project in Shanxi Province, in the PRC for 30 years on a BOT model. The total investment is estimated at HK$2.09 billion.

## Corporate Citizenship

In addition to the pursuit of profits for its shareholders, the Group attached great emphasis to social responsibilities, customer services, environmental protection and staff welfare as components of corporate citizenship, taking to heart the traditional idea for corporate citizenship. The Group's care for the community, active participation in community affairs and charitable deeds contributed to the society and raised funds to help people in need. The Group has active participation in the charitable "Walk for a Million" in Hong Kong. As always, the Group has placed high value on construction quality, safety and environmental issues in its projects. Our efforts have been highly recognized by its clients and various other parties. The Group has extensively utilized low-consumption and eco-friendly green construction technology, played a leading role to become a good role model in the industry in terms of building a harmonious residential environment and constructing in an eco-friendly way, winning acclaims from societies and receiving numerous Outstanding Environmental Management and Performance Awards from the government. The Group also put emphasis on the localization of its regional companies, in order to build a harmonious and friendly working environment for staff members.

# Chairman's Statement *(Continued)*

### Key Awards

In January 2009, the Group received an "Overall Presentation Bronze Award" in the 22nd "International Mercury Awards" in respect of the Group's Annual Report 2007.

In February 2009, the Hong Kong Council of Social Service conferred upon the Group the "Caring Company Logo 2008/09" in recognition of its commitment to corporate citizenship during the previous year.

In April 2009, the Group was conferred the "Cover Photo/Design Gold Prize" and "Overall Annual Report (Honors)" in the "International ARC Awards", the world's largest annual report competition, in respect of the Group's Annual Report 2008.

In May 2009, three sites under the Group, namely Highways Department Term Contract (Management and Maintenance of Roads in Sha Tin, Sai Kung and Islands Districts excluding high speed roads); the Improvement to Pedestrian Subway System at Kwai Fuk Road Roundabout and the Foundation for Redevelopment at Tung Tau Estate Phase 9 were conferred "Considerate Contractors Site Award 2008 Silver Award, Bronze Award and Merit Award" respectively by the Development Bureau of Hong Kong. In addition, the Labour Department of Hong Kong conferred upon the project "Development at Anderson Road – Site Formation and Associated Infrastructure Works", the "Civil Engineering Project Bronze Award" in the Construction Industry Safety Award Scheme 2008/2009.

In November 2009, the Board of Directors of the Company and Mr. Zhou Yong, Vice-Chairman and CEO of the Company, were both selected as an Awardee for "Directors Of The Year Awards 2009 in the category of Listed Company (SEHK-Non-Hang Seng Index Constituents): Board of directors" and an Awardee for "Directors Of The Year Awards 2009 in the category of Listed Company (SEHK-Non-Hang Seng Index Constituents): Executive directors" respectively by The Hong Kong Institute of Directors, representing the community's recognition of the attainment of corporate governance practices of the Company.

In November 2009, the Company was awarded the "HKQAA-HSBC CSR Index Advocate Mark" conferred by the HKQAA, attaining the highest marks among peers in the construction industry, exemplifying the Company's outstanding performance in terms of its continual enhancement of its corporate social responsibility and the sustainable development.

In December 2009, Encore at Wynn Macau and 青洲社會房屋綜合體建造工程 — B及C大樓的承攬工程 under China Construction Engineering (Macau) Company Limited were awarded "Gold and Silver Awards under the Construction Industry Safety Award Scheme" as jointly conferred by various Macau governmental departments including Labour Affairs Bureau and Land Public Works and Transport Bureau of Macau.

In December 2009, various awards including "New Works Category – Outstanding Contractors (Building) Gold Award" were conferred by Hong Kong Housing Authority and various construction industry organizations.

## Business Prospects

"Recovery" will be a keyword for the global economy in 2010, but most developed economies are still lacking momentum in achieving their recovery. If the major economies implement their "exit strategies" in a badly-timed or uncoordinated manner, the progress of recovery may be restrained and negative impacts are likely to be seen internationally, which would possibly trigger strong fluctuations in the global economy and the global market as a whole.

### Market Conditions

With the improvement in the external economic conditions and export and internal consumption returning to previous levels, signs of economic recovery have already begin to appear in Hong Kong. Apart from the ten major infrastructure projects, the expansion of Disneyland Hong Kong, the construction of the Central-Wan Chai Bypass, Phase 2 of Wan Chai Reclamation are all also under preparation. It is believed that the recovery of the local construction industry will provide momentum for the recovery of Hong Kong's economy and will also bring forth opportunities for the further consolidation and enhancement of the Group's construction business in Hong Kong.

The Macau economy is highly reliant upon external factors and it is anticipated that adjustments as part of the impact of the financial crisis, will continue in 2010. Recognizing the benefit from the gradual improvement of the global economy, large-scale gambling-related projects, as well as some government projects and private-investment projects, may commence or resume, thereby driving growth in the sector of private investment in the territory. Meanwhile, with the Central Government's approval of the development proposal of Hengqin, Zhuhai, together with the upcoming commencement of the Hong Kong-Zhuhai-Macau Bridge, it is expected that these will bring more opportunities to the Group's construction business in Macau.

With the burst of the bubble in Dubai's property market, together with the outbreak of the Dubai World incident as well as the impacts that followed, it is anticipated that the overall economy of Dubai will not show signs of any improvement until the third quarter of 2010 and however, a recovery of its construction and property markets is expected to take even longer. In comparison, healthier development is seen in the market of Abu Dhabi, where the construction market is still booming and the demand for construction is still relatively large.

In India, the GNP is expected to grow at a rate of more than 7% in 2010 and is poised to become one of the major economies that will drive the recovery of Asian economies. In the eleventh five-year plan of India, the investment amount for construction business is in excess of USD300 billion, among which 65% will be on infrastructure investment. Due to the intensive market competition, protectionism appears to be emerging in India's construction industry. This together with the extremely complicated tax system is weakening the competitiveness of foreign-investment companies in India.

Mainland China continues to benefit from the government's strenuous RMB4-trillion investment stimulus scheme, expansionary fiscal policy and its moderately-loose monetary policy. China's economy is poised to grow rapidly in 2010. However, it will take time for the full-scale recovery of export and consumption, with the gradually obvious structural problems with in the country's economy. In view of the possible asset bubble, risks associated with the financial system and the return of inflation as a result of the implementation of a loose monetary policy, the state has launched an austerity measure primarily to tighten credit, and further measures may also be adopted. Accordingly, 2010 will be a year full of challenges.

## Operations Strategies

The Group will adhere to its development strategy of "**Exercise Caution in Details and Implementation; Build a Strong Foundation to Seek Greater Success**" to actively act in response to the complicated economic development from both domestic and international perspective. It will work hard towards its pre-determined goal, grasp opportunities and mitigate uncertain risks in pursuit of an enhanced management and protection standard, an enhanced brand value and market competitiveness, to ensure the sustainable and healthy development of its overall operations.

With firm determination to maintain and enhance the development of the scale of its business in Hong Kong and Macau, the Group will take full leverage on the synergy of the integration of both regions. In Hong Kong, the Group will strive to maintain and reinforce its current market share, in particular to grasp the golden opportunity in the infrastructure market, to ensure its position as one of the largest construction contractors in Hong Kong and to further boost its profitability. In Macau, it will continue to explore the opportunity for expanding into a diversified range of relevant businesses.

In respect of Mainland China, the Group will continue its great development trend to bring its international and national management capability and advantage in full play. As a major platform of China State Construction & Engineering Corporation Limited for the BOT and operational investment in Mainland China, the Group will take full advantage of the opportunity brought by the country's RMB4-trillion investment stimulus scheme, to focus on its investments in Mainland China's infrastructure construction, namely the BT and BOT projects, endeavoring to establish its investment business as a strong cornerstone for driving the sustainable growth in the Group's operating results. Meanwhile, the Group will continue to actively explore the feasibility of further acquisition of infrastructure projects located in Mainland China from its parent company, in search of new engines for the Group's profit growth in order to enhance the Group's core competitiveness. As regards its construction business, the Group adheres to its principle of "positive profit making", targeting clients which are foreign-investment developers with strong foundation, and will prudently proceed with its business transformation towards a mode whereby investment construction in BT projects and those projects with foreign investments will become a leader in driving overall construction business.

For its overseas business, the Group will focus on "positive profit making" and seek to progress in a prudent manner. The focus of expansion will be on EPC projects which utilize funding from the PRC government. In Dubai, care will be taken in undertaking new projects to guard the Group against payment risks. The Group will be continue to be proactive towards settling outstanding financial issues in respect of those construction projects currently in progress and those completed projects. At the same time, the Group will uphold the principle of "selective tendering" in the Indian market.

## Operation Management

The Group has been engaged in the construction business for more than 30 years, and has developed five major competitive strengths and core competitiveness with high regard on the promotion of the "5+3" project management model to actively refine its management of projects. The Group will replicate its proven "5+3" project management model from Hong Kong market to other regions, making adjustments to accord with local requirements, reducing the variation on quality arising from management differences and hence efficiently increase the overall profitability and the ability of countering risks to the Group.

The Group will enhance its management innovation to boost effectiveness in management. Further refinement will be made to the structure of its corporate governance to establish a healthy management mechanism to boost its management performance. Exploration will continue to enhance the approach to its regional management. Through the reasonable adjustment of the functions and workflows among our headquarters and regional offices, efficiency will be enhanced whilst avoiding risks. Improvement and enhancements will be made to our existing performance appraisal system which is based on our system of responsibility in respect of targeted operations.

The Group will actively foster the development of its information computerization with due regard to its strategic development plan. The Group will further strengthen the application of its Customer Relations Management (CRM) System, as an effective mechanism to communicate and coordinate with customers, so as to upgrade the quality of its service delivery. The Group will also continue to refine and upgrade its Cost Dynamic Management System (CDMS). Implementation of the Group's NC system and ERP system will also continue enhance the Company's management standard.

## Risk Management

The Group will continue to step up its efforts in risk management and control as well as avail itself to a comprehensive inspection and audit, enhancing risk prevention and being conscious of risk alerts, to reasonably guard itself against any risks. On the principles of stability, sustainability, high efficiency and low risk in the Group's business expansion and operation, a balance will be achieved among risks, resources and business exploration to ensure smooth operation of each segment.

Following further internationalization of its business, the Group will advance to further optimize the risk management and control structure for its overseas businesses. In particular, for newly-explored regions, the Group will conduct preliminary analysis on the local market risk, legal risk, contractual risk and status of property developers in light of local market conditions to improve its risk-alert ability and enhance the overall risk-guarding capability of the Company.

As regards investment business, the Group will clarify its investment direction and make timely move to make use of Mainland China's investment and financing platform to further strengthen the establishment of its investment team, and to refine its investment decision making system and investment system. A system and workflow procedure in respect of its investment project selection, assessment, establishment, operational management, exiting, capital operations etc will be set up to guard the Group against investment risks to the fullest extent.

### Financial Management

Financial management is continuously strengthened to further improve our capability in protecting the Group's financial resources, strengthen the Group's management and supervision of its cashflow, and actively promote efforts to raise funds for effectively supporting our business expansion. Rolling evaluation on the Group's overall operations is made via ongoing quarterly operation analysis meetings and thematic sessions on finance, to ensure the steady growth of business. Under the current market situation, efforts will be stepped up to cut costs and explore other income sources, in order to reduce fixed costs by various means and optimize the deployment of financial resources. At the same time, cash inflow will be accelerated to secure the safety of capital fund for the Group. Active efforts will also be made continuously to promote the use of its BI system aimed at strengthening the flow of project and operating information and actively controlling cost, and optimizing cash flow, so as to improve the Group's overall operation efficiency and risk management capability.

### Human Resources Management

The Group firmly believes that human capital is its most important asset and that human resources are an important assurance to maintain its core competitiveness. The Group has long been regarding "the formulation of an international team of talents with fine strengths and high efficiency under a clear and reasonably-established structure" as an important element for securing the sustainable development of its business. Under the new situation, the Group will develop its human resources policy and channel its human resources, it towards its infrastructure investment business in Mainland China. The Group will further improve and optimize its advanced human resources management structure, and formulate a talented team which practically suits the trend of its business development, so as to secure a pool of talent for the Group's expansion of its business operations.

## Company Mission

With an assertion on using talents well and further enhancing the standard of corporate governance, the Group continues to make innovations and reinforce its core competitiveness to achieve a harmonious and win-win operating environment for the products, customers, shareholders and staff.

In pursuit of its philosophy of "**Exercise Caution in Details and Implementation; Build a Strong Foundation to Seek Greater Success**" and the continual formulation of the brand advantage of "**China State Construction**", the Group will continue to focus on details and advocate pragmatic approach to its work. Consistently pursuing the professionalism of "**Achieving superb quality in each process thus making each property of superb quality**", the Group is committed to offering excellent products and services in excess of their own values, actively performing its responsibilities as a corporate citizen, improving competitiveness and shareholder's value, and striving to build an evergreen business regime.

## Appreciation

I would like to take this opportunity to express my gratitude to the Board for its brilliant leadership, to the shareholders for their strong support, and to the community for their enthusiastic help, and last but not least, to our staff for their dedicated efforts.

By order of the Board
**China State Construction**
**International Holdings Limited**
**Kong Qingping**
*Chairman and Non-executive Director*

Hong Kong, 17 March 2010

# Management Discussion and Analysis

"Revenue and profit attributable to the owners of the Company were HK$11,342 million and HK$613 million, representing a growth of 2.9% and 25.2% respectively as compared to the audited figures of last year."

**Mr. ZHOU Yong**
*Vice-Chairman and Chief Executive Officer*

## Overall Performance

For the year ended 31 December 2009, the Group recorded the consolidated revenue of HK$11,342 million, with the gross profit of HK$993 million. The profit attributable to the owners of the Company increased by 25.2% to HK$613 million as compared with the audited profit of last year. The basic earnings per share increased by 19.1% from HK19.01 cents in the year 2008 to HK22.65 cents this year. With a proposed final dividend per share of HK3.50 cents and an interim dividend per share of HK3.60 cents paid in the year, the dividend payout ratio will be approximately 34.0%.

Total assets were HK$13,159 million of which current assets were HK$10,457 million, representing almost 2 times the current liabilities. The equity attributable to owners of the Company was approximately HK$4,305 million.

For the year ended 31 December 2009, the Group generated a net cash inflow from the operating activities of HK$1,149 million (2008: HK$301 million).

### (a) Revenue and Gross Profit

The Group recorded a consolidated revenue of HK$11,342 million (2008: HK$11,021 million), representing an increase of 2.9%. Although the revenue arising in Hong Kong and Mainland China increased by 12.6% and 99.3% respectively, the impact was outweighed by the decreased revenue in Macau and United Arab Emirates ("UAE"). The Group achieved a gross profit of HK$993 million (2008: HK$909 million). The gross profit margin increased from 8.3% in 2008 to 8.8% in 2009.

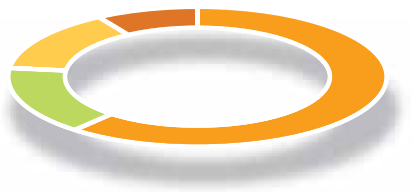
The revenue was generated mainly from construction business, supply of heat and electricity business, infrastructure project investments and the trading of building materials.

*By business sectors*

(i) Construction business continued to dominate the business segment of the Group (94.9% of the Group's revenue), which contributed HK$10,760 million (2008: HK$10,482 million) with an increment of 2.7%.

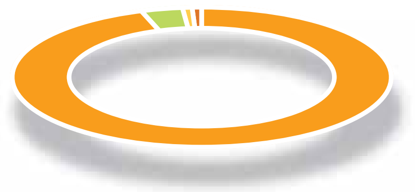
**Revenue**

**By Geographical Sectors**



| | |
|---|---|
| Hong Kong | 61.4% |
| Mainland China | 15.5% |
| Macau | 14.3% |
| Overseas | 8.8% |

**By Business Sectors**



| | |
|---|---|
| Construction | 94.9% |
| Supply of heat and electricity | 3.7% |
| Infrastructure project investments | 0.7% |
| Others | 0.7% |

(ii) The revenue from the supply of heat and electricity business increased by 10.4% to HK$415 million (2008: HK$376 million), representing 3.7% of the overall revenue.

(iii) The revenue from infrastructure project investments was HK$83 million (2008: HK$63 million), increased by 31.7%.

*By geographical sectors*

(i) Hong Kong market

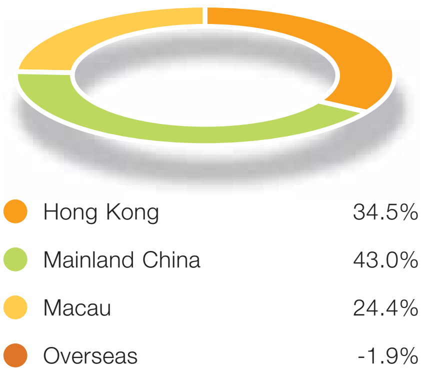
Revenue and gross profit derived from the Hong Kong market increased by 12.6% to HK$6,969 million (2008: HK$6,192 million) and 50.2% to HK$343 million (2008: HK$228 million), respectively. The Hong Kong market remained the major revenue contributor of the Group which contributed 61.4% of the overall revenue.

The major reason for the increase in revenue was that certain large scale building construction and civil engineering works projects had desirable progress in the year. The gross profit margin increased from 3.7% in 2008 to 4.9% in 2009 because the Group continued to adopt the effective cost-saving model during the construction period. In addition, following the economic downturn in the late of 2008, the Group witnessed material costs decreasing in 2009.

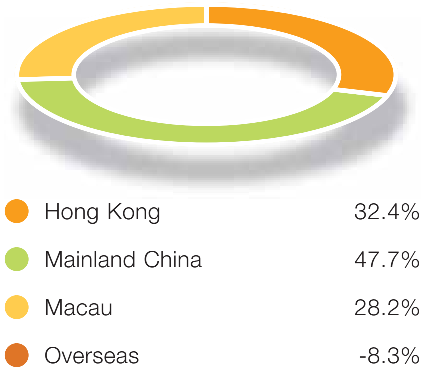
(ii) Mainland China market

Both the revenue and gross profit contribution from the Mainland China market increased by 99.3% to HK$1,757 million (2008: HK$882 million) and 26.2% to HK$427 million (2008: HK$338 million) respectively.

### Gross Profit By Geographical Sectors




### Segment Results By Geographical Sectors




The proportion of the revenue contribution from the Mainland China market increased to 15.5% (2008: 8.0%) of the overall revenue of the Group. The major reasons were:

- revenue from construction business increased almost 2 times compared to last year to HK$1,253 million (2008: HK$428 million) as the Group managed to capitalize on the expansion opportunities in Mainland China.
- revenue from the supply of heat and electricity business steadily increased as the result of an increase in the heat supply area from 7,646,776 $m^2$ to 8,610,633 $m^2$ in the year.
- revenue from the infrastructure project investments including the Nan Chang Bridges and a newly awarded build-transfer ("BT") project contributed to the increase of the revenue in the year.

The overall gross profit margin in the Mainland China market was diluted and decreased from 38.3% to 24.3% because most of the newly awarded construction contracts in the year contributed to the revenue without recognising profit at their preliminary stage.

(iii) Macau market

Revenue derived from the Macau market decreased by 21.8% to HK$1,625 million (2008: HK$2,078 million) whilst the gross profit decreased by 14.1% to HK$243 million (2008: HK$282 million).

Only a few projects have been launched in Macau since 2008 and most of the Group's large-scale projects were completed or nearly completed in 2009. Thus, both the revenue and gross profit derived from the Macau market decreased by 21.8% and 14.1% respectively. The gross profit margin in the Macau market increased from 13.6% in 2008 to 14.9% in 2009 because a large portion of the gross profit was contributed by project management contracts and the mechanical and electricity engineering contracts, both of which have a higher gross profit margin.

(iv) UAE market

The UAE market contributed HK$979 million revenue (2008: HK$1,797 million), representing 45.5% decrease as compared with last year. This has arisen because most of the existing projects in Dubai were almost complete in the year and contributed a reduced revenue as compared with last year. Owing to the influence of the financial tsunami in Dubai, the Group adopted the strategy of prudent operation, the Group discreetly and selectively tendered for the projects in Abu Dhabi.

### (b) Administrative Expenses

Administrative expenses decreased by 9.5% to HK$357 million (2008: HK$394 million). The major reason for the decrease was that the overall staff costs decreased as the result of the reorganization of the human resources planning.

### (c) Finance Costs

During the year, the project loans increased as the result of expansion of the infrastructure project investments in the BT and build-operate-transfer ("BOT") projects in Mainland China. Thus, the financial costs increased to HK$26 million (2008: HK$20 million) this year.

### (d) Earnings Per Share

For the year ended 31 December 2009, basic earnings per share increased by 19.1% to HK22.65 cents (2008: HK19.01 cents). The weighted average number of ordinary shares of 2008 has been retrospectively adjusted to reflect the rights issue which became effective from 1 September 2009.

## 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

As at 31 December 2009, the Group had bank balances and cash of HK$5,763 million (2008: HK$1,917 million). The bank deposits amounting to HK$15 million (2008: HK$17 million) were pledged for the guarantee of employment for workers from foreign countries in UAE. The portfolio of the currencies of bank deposits is listed as follows:

| | 2009<br>% | 2008<br>% |
|---|---|---|
| Hong Kong Dollars | **51** | 58 |
| Renminbi | **46** | 36 |
| Macao Patacas | **2** | 4 |
| UAE Dirhams | **1** | 1 |
| Indian Rupees | **–** | 1 |

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

The table sets out the maturities of the Group's total borrowings, including the loans from intermediate holding company, as at 31 December 2009 and 2008 with details as follows:

| | **2009** **HK$' million** | 2008 HK$' million |
|---|---|---|
| On demand or within 1 year | **22** | 37 |
| More than one year but not exceeding two years | **1,341** | – |
| More than two years but not more than five years | **1,964** | 1,000 |
| Total | **3,327** | 1,037 |

As at 31 December 2009, the net bank balances and cash were HK$2,436 million (2008: HK$880 million). Together with the committed and unutilised banking facilities, the Group had sufficient financial resources to meet the business development opportunities in the Hong Kong and Mainland China markets.

## Financing Credit and Financial Resources

As the Group has established a sound operation for over thirty years, it obtains the full support from the shareholders and maintains a good relationship with a number of large-scaled banks. During the year, the Group has arranged the following fund raising events to provide sufficient financial resources for future expansion:

*(i)* *Equity financing*

The Company raised approximately HK$1,353 million (net of expenses) by the way of rights issue. The Group alloted and issued 489,639,491 ordinary shares at an issue price of HK$2.79 per rights share on the basis of one rights share for every five shares held by members on the register of members. The result of the rights issue was over-subscribed approximately 102.3 times of the rights shares available for excess application. The rights issue was completed on 1 September 2009.

*(ii)* *Debt financing*

On 12 August 2009, a general credit line in the amount of RMB800 million for a period of three years was obtained by the Group's subsidiaries in Mainland China from the Shenzhen branch of China Construction Bank.

*(iii)* *Project financing*

On 22 October 2009, the joint venture company of the Group, CSCEC (Tangshan) Infrastructure Development and Construction Co., Ltd. obtained a project loan facility of RMB2,540 million from Bank of Communications Co., Ltd. at a rate of 90% of the prevailing interest rate of the People's Bank of China per annum for financing the BT project in Tangshan.

On 14 December 2009, the wholly-owned subsidiary of the Group, China Construction Yangquan Infrastructure Investment Ltd., secured an entrusted loan of RMB1,500 million from the Group's controlling shareholder, China State Construction Engineering Corporation Limited ("CSCECL") for its BOT project in Shanxi Province. The loan bears an interest rate at a fixed rate of 4.86% per annum.

## Utilisation of Financial Resources

In order to utilise financial resources effectively and efficiently, the Group captured valuable opportunities arising from the RMB 4-trillion investment stimulus plan in Mainland China, adjusting the strategy of business expansion and fostering its BT/BOT investment business. Related efforts were fully launched and breakthroughs were already achieved in the year.

(i) The Group and the controlling shareholder CSCECL signed a joint venture agreement to jointly construct the Tangshan Binhai Avenue through the BT model with an estimated total investment amount attributable to the Group of HK$2.38 billion.

(ii) The Group, CSCECL and a wholly-owned subsidiary of CSCECL, China Construction Third Engineering Bureau Corp. Ltd., entered into a joint venture agreement to jointly construct the Wuxian Highway and Shahu Passageway through the BT model with the estimated total investment amount attributable to the Group of HK$0.71 billion.

(iii) The Group entered into an agreement with the Yangquan Government for the concession right to operate the project in Shanxi Province for 30 years on BOT model. The estimated investment amount will be HK$2.09 billion.

(iv) The Group continually invested in the expansion of the second part of the heat plant (Phase IV) in Shenyang to increase the production capacity. The Group keeps seeking other new development zones for further expansion. The heat supply area is expected to increase unceasingly in the coming years.

The Group will cautiously seek expansion opportunities in infrastructure project investments in Mainland China with a view to balance the risk and opportunity to maximise the shareholders' value.

## Exchange Risk and Corresponding Hedging Arrangement

The Group operates in various regions with different foreign currencies, therefore the management pays close attention to foreign exchange exposure and reviews the exchange risk regularly.

Renminbi has appreciated since 2007 and has become stable in 2009. The management still keeps a close attention to the trend of Renminbi and will make proper adjustment if necessary. The UAE Dirham and Macao Patacas are relatively stable because the Dirham is linked to the US Dollar and Patacas is linked to Hong Kong Dollar. The Group has no hedging arrangement for foreign currencies and has not been involved in the financial derivatives.

## Credit Exposure

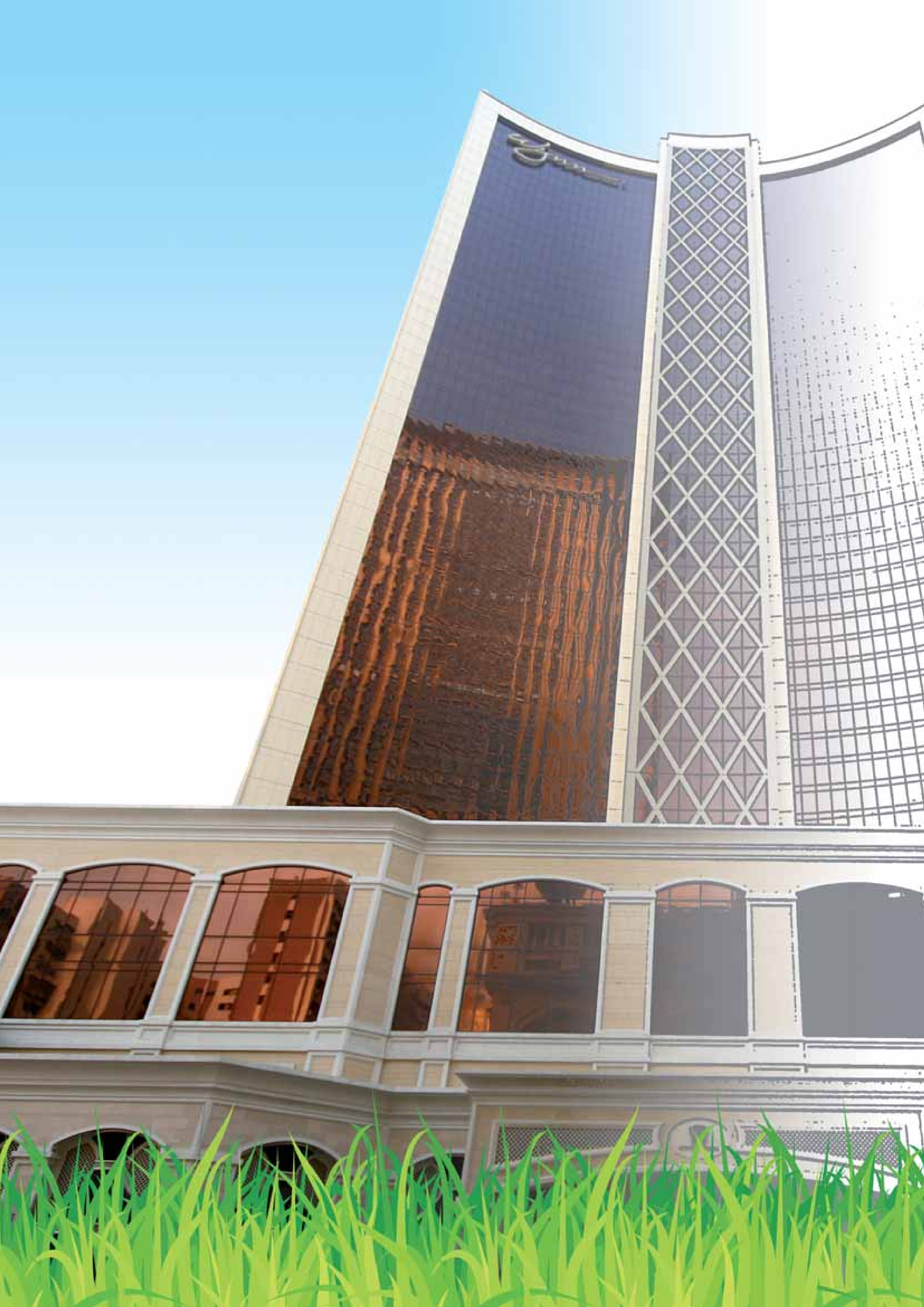
The Group deals with credit exposure according to the risk management policies. Credit extended to business associates is based on the reputation and financial position of the customers. In connection with projects in progress, the major customers are the local Government, certain institutional organizations and certain reputable property developers. Therefore, the Group is not exposed to any significant credit risk.

## Risk Management

Although the impact of the financial tsunami has subsided and the global financial market and financial system appear to have become stable, from a strategic perspective, the management is continuing to evaluate the market conditions and adjust their strategy in a timely manner and made determined decisions, to ensure the effective implementation of their major operations strategy.

Following further internationalization of its business, the Group will take further steps to optimize the risk management and control structure for its overseas businesses. In particular, for newly-explored regions, the Group will conduct preliminary analyses on the local market risk, legal risk, contractual risk and status of property owners in light of local market conditions to improve its risk-alert ability and enhance the overall risk-guarding capability of the Company.

Regarding the investment business, the Group will clarify its investment direction and undertake timely moves in making use of the Mainland China's investment and financing platform to further strengthen the establishment of its investment team, and refine its investment decision making and investment systems. A system and workflow strategy in respect of its selection of investment projects, assessment, establishment, operational management, exiting, capital operations etc will be set up to guard the Group against investment risks to the fullest extent.



The Group secured **42 new contracts** with attributable contract value of approximately **HK$17.11 billion** and has **70 projects in progress** with the total attributable contract value of **HK$39.90 billion** in the year.

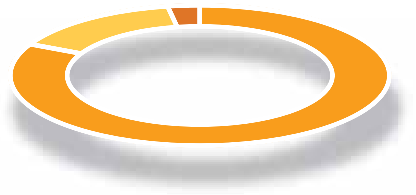
# Business Review

## Completed Projects in 2009

### Summary for the year

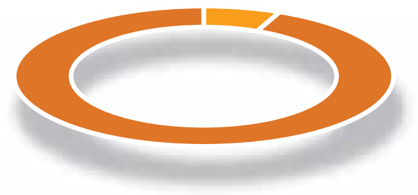
- 40 completed projects
- Attributable contract value for completed projects was HK$15.61 billion

**By Project Categories**



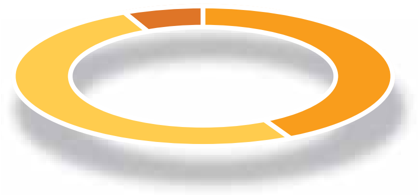
| | |
|---|---|
| Building Construction | 82.3% |
| Civil Engineering Works | 15.0% |
| Others | 2.7% |

**By Customers**



| | |
|---|---|
| Government/ Public Sector | 6.8% |
| Private Sector | 93.2% |

**By Market**



| | |
|---|---|
| Hong Kong | 42.3% |
| Macau | 50.9% |
| Overseas | 6.8% |

### Major Completed Projects in 2009

| No. | Project Name | Government/ Public Sector | Private Sector |
|---|---|---|---|
| | **Building Construction** | | |
| 1. | City of Dreams | | ● |
| 2. | Superstructure Main Contract Works at Wu Kai Sha Station, Ma On Shan | | ● |
| 3. | Foundation and Railway Depot works for Ho Tung Lau | | ● |
| 4. | TWTL 394 Yeung Uk Road, Tsuen Wan | | ● |
| 5. | Design and Construction of a Sports Ground at Area 45, Tseung Kwan O | ● | |
| 6. | Main Contract for Renovation of Owners, Stewards, Voting Members and Judges Box Facilities Grandstand 1, Shatin Racecourse | | ● |
| | **Civil Engineering Works** | | |
| 7. | KCRC Kowloon Southern Link Tunnels—Yau Ma Tei Ventilation Building to Nam Cheong Overrun | | ● |
| 8. | KCRC Kowloon Southern Link Tunnels—Jordan Road to Yau Ma Tei Ventilation Building | | ● |
| 9. | HAECO Aircraft Maintenance Hanger No. 3A-Main Contract Works | | ● |
| 10. | Main Contract for Central Park, TKOTL No. 70, Area 86, Tseung Kwan O | | ● |


Lo Wu
Lok Ma Chau
Sheung Shui
Fanling
Tai Po
New Territories
Yuen Long
Ma On Shan
Shatin
Tuen Mun
Tsuen Wan
Sai Kung
Kowloon
Lai King
Tsing Yi
Kowloon Tong
Mong Kok
Hunghom
Hong Kong International Airport
Tseung Kwan O
Discovery Bay
Tung Chung
Mui Wo
Central
Quarry Bay
Lantau Island
Hong Kong Island
Chai Wan
Macau
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MTR MTR

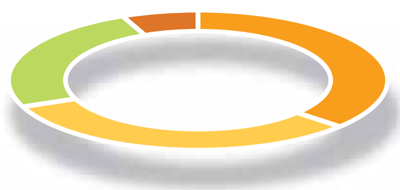
# Business Review *(Continued)*

## New Projects Awarded in 2009

### Summary for the year

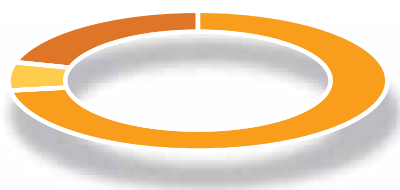
- 42 new projects awarded
- Attributable contract value for new projects awarded was HK$17.11 billion

**By Project Categories**



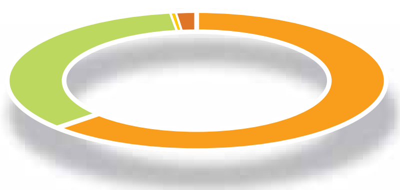
| | |
|---|---|
| Building Construction | 36.5% |
| Civil Engineering Works | 32.5% |
| BT/BOT | 24.4% |
| Others | 6.6% |

**By Customers**



| | |
|---|---|
| Government/ Public Sector | 73.0% |
| Institutional Bodies | 6.4% |
| Private Sector | 20.6% |

**By Markets**



| | |
|---|---|
| Hong Kong | 63.5% |
| Mainland China | 34.4% |
| Macau | 0.2% |
| Overseas | 1.9% |

### From 1 January 2010 to the date of this report

- 9 new projects awarded with a total attributable contract value of HK$5.41 billion

### Major New Projects Awarded in 2009

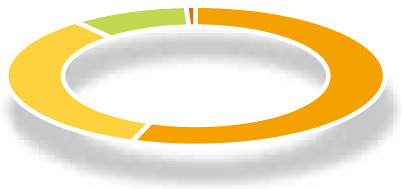
| No. | Project Name | Attributable Contract Value HK$' million |
|---|---|---|
| | **Building Construction** | |
| 1 | Construction of Shopping Centre at Yau Tong Estate Redevelopment Phase 4 | 1,188 |
| 2 | Site Formation, Foundation and Superstructure Main Contract Works for New Academic Building and Residential Accommodation for HKUST | 767 |
| 3 | Construction of Un Chau Estate Phase 5 | 606 |
| 4 | Construction of Tin Shui Wai Public Library cum Indoor Recreation Centre at Tin Shui Wai | 508 |
| 5 | Main Contract Works for Construction of The Proposed Residential Development at Discovery Bay North Works Phase 15, Area N1e | 487 |
| 6 | Construction of Tseung Kwan O Complex in Area 44, Tseng Kwan O | 433 |
| 7 | Construction of ESIC Medical College at Bihta (Patna) | 332 |
| | **Civil Engineering Works** | |
| 8 | Widening of Tolo Highway/Fanling Highway between Island House Interchange and Fanling | 1,850 |
| 9 | Replacement and Rehabilitation of Water Mains, Stage 3-Mains in Central and Western District | 474 |
| 10 | Construction of Interconnection Tunnel and Diaphragm Wall for Main Pumping Station at Stonecutters Island Sewage Treatment Works | 409 |
| 11 | Construction of Yuen Long South Branch Sewers and Expansion of Ha Tsuen Sewage Pumping Station | 383 |
| 12 | Noise Barriers on Fanling Highway Between Po Shek Wu Road and MTR Fanling Station | 343 |
| | **BT/BOT** | |
| 13 | Tangshan Binhai Avenue Project | 1,850 |
| 14 | Class 1 Highway from Yangquan to Niangziguan, Shanxi Province | 1,618 |
| 15 | Wuxian Highway Reconstruction and Shahu Passageway Project | 699 |

# Projects in Progress at the End of 2009

## Summary at the end of 2009

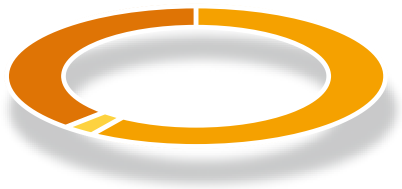
- 70 projects in progress
- Total attributable contract value for projects was HK$39.90 billion
- Contract value for incomplete works was HK$24.67 billion

### By Project Categories



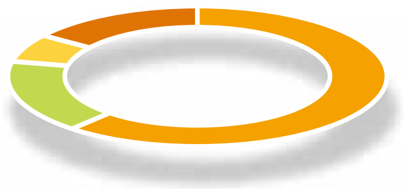
| | |
|---|---|
| Building Construction | 55.8% |
| Civil Engineering Works | 33.1% |
| BT/BOT | 10.4% |
| Others | 0.7% |

### By Customers



| | |
|---|---|
| Government/ Public Sector | 59.5% |
| Institutional Bodies | 2.8% |
| Private Sector | 37.7% |

### By Markets



| | |
|---|---|
| Hong Kong | 61.9% |
| Mainland China | 16.6% |
| Macau | 6.3% |
| Overseas | 15.2% |

## Major Projects in Progress — Hong Kong

| No. | Project Name | Attributable Contract Value HK$' million |
|---|---|---|
| | **Building Construction** | |
| 1 | Tai Wai Maintenance Centre, Superstructure Main Contract (Phase 1) | 1,449 |
| 2 | Proposed Residential Development (Package 2) (Phase 1) — Carcass Contract at Tseung Kwan O | 1,333 |
| 3 | Construction of Shopping Centre at Yau Tong Estate Redevelopment Phase 4 | 1,188 |
| 4 | Construction of Choi Wan Road Site 2 Phase 2 (Non-Domestic Portion), Site 3A and District Open Space Site A | 1,111 |
| 5 | Site Formation, Foundation and Superstructure Main Contract Works for New Academic Building and Residential Accommodation for HKUST | 767 |
| 6 | Construction of Hung Hom Estate Phase 2 and Ma Hang Headland Park | 634 |
| 7 | Construction of Un Chau Estate Phase 5 | 606 |
| 8 | Construction of Tin Shui Wai Public Library cum Indoor Recreation Centre at Tin Shui Wai | 508 |
| 9 | The Construction of Sun Yat Sen Memorial Park and Swimming Pool | 508 |
| 10 | Proposed Industrial Redevelopment at No. 2 Heung Yip Road, Hong Kong | 497 |
| 11 | Main Contract Works for Construction of The Proposed Residential Development at Discovery Bay North Works Phase 15, Area N1e | 487 |
| 12 | Construction of Tseung Kwan O Complex in Area 44, Tseng Kwan O | 433 |
| 13 | Construction of Siu Sai Wan Complex | 397 |

## Projects in Progress at the End of 2009 *(Continued)*

### Major Projects in Progress — Hong Kong *(Continued)*

| No. | Project Name | Attributable Contract Value HK$' million |
|---|---|---|
| | **Civil Engineering Works** | |
| 14 | Central Reclamation Phase 3 | 2,937 |
| 15 | Development at Anderson Road — Site Formation and Associated Infrastructure Works | 2,063 |
| 16 | Widening of Tolo Highway/Fanling Highway between Island House Interchange and Fanling | 1,850 |
| 17 | Reconstruction and Improvement of Tuen Mun Road — Tai Lam Section | 1,328 |
| 18 | Replacement and Rehabilitation of Water Mains, Stage 3 — Mains in West Kowloon (Package A) | 660 |
| 19 | Highways Department Term Contract (Management and Maintenance of roads in Sha Tin, Sai Kung and Islands Districts excluding high speed roads) | 600 |
| 20 | Replacement and Rehabilitation of Water Mains, Stage 3 — Mains in Central and Western District | 474 |
| 21 | Construction of Interconnection Tunnel and Diaphragm Wall for Main Pumping Station at Stonecutters Island Sewage Treatment Works | 409 |
| 22 | Construction of Yuen Long South Branch Sewers and Expansion of Ha Tsuen Sewage Pumping Station | 383 |
| 23 | Noise Barriers on Fanling Highway Between Po Shek Wu Road and MTR Fanling Station | 343 |
| 24 | Replacement and Rehabilitation of Water Mains, Stage 2 — Mains in West Kowloon and Kowloon City | 319 |

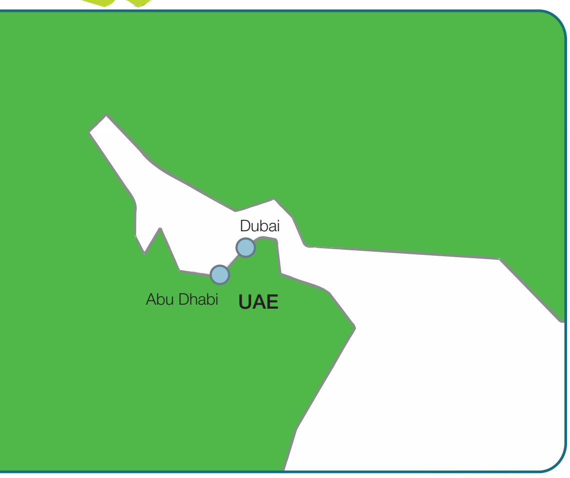
### Major Projects in Progress — Macau

| No. | Project Name | Attributable Contract Value HK$' million |
|---|---|---|
| | **Building Construction** | |
| 1 | Encore at Wynn Macau | 1,402 |
| 2 | 青洲社會房屋綜合體建造工程–B及C大樓的承攬工程 | 776 |
| 3 | Residential Development at Lot TN25b & TN26d Taipa, Macau | 249 |

### Major Projects in Progress — Overseas

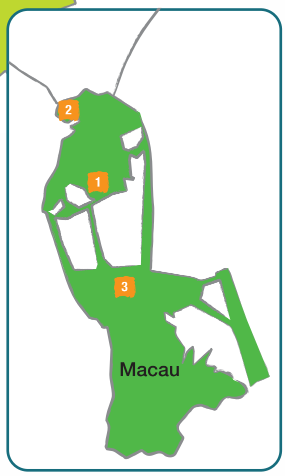
| No. | Location | Attributable Contract Value HK$' million |
|---|---|---|
| | **Building Construction** | |
| 1 | UAE | |
| | — Dubai | 3,931 |
| | — Abu Dhabi | 1,821 |
| 2 | India | 332 |

MTR
Lo Wu
Lok Ma Chau
Sheung Shui
Fanling
Tai Po
Yuen Long
New Territories
Ma On Shan
Shatin
Tuen Mun
Tsuen Wan
Sai Kung
Kowloon
Lai King
Tsing Yi
Kowloon Tong
Mong Kok
Hunghom
Tseung Kwan O
Hong Kong International Airport
Discovery Bay
Tung Chung
Mui Wo
Lantau Island
Central
Quarry Bay
Hong Kong Island
Chai Wan

Dubai
Abu Dhabi
UAE


India

Macau

# Business Review *(Continued)*

## Business in Mainland China

| No. | Business Category | Attributable Contract Value HK$' million |
|---|---|---|
| A | **Building Construction** | |
| 1 | 成都西錦城項目 | 735 |
| 2 | 大連天地軟件園 | 394 |
| 3 | 成都中匯廣場二期 | 247 |
| B | **Project Consultancy Services** | |
| 1 | Shenzhen | |
| 2 | Guangzhou | |
| 3 | Foshan | |
| 4 | Dongguan | |
| 5 | Zhuhai | |
| 6 | Zhongshan | |
| 7 | Nanning | |
| 8 | Beijing | |
| 9 | Tianjin | |
| 10 | Qingdao | |
| 11 | Nanjing | |
| 12 | Chengdu | |
| 13 | Suzhou | |
| 14 | Changsha | |
| 15 | Sanya | |
| 16 | Xiamen | |
| C | **Pre-cast Structures Production** | |
| | Shenzhen Hailong Construction Products Co., Ltd. | |
| D | **Infrastructure Project Investments** | |
| 1 | Shenyang Huanggu Thermal Power Co., Ltd. | |
| 2 | Nan Chang Bridge and Nan Chang Zhong Hai Xin Ba Yi Bridge | |
| E | **BT/BOT** | |
| 1 | Tangshan Binhai Avenue Project | |
| 2 | Wuxian Highway Reconstruction and Shahu Passageway Project | |
| 3 | Class 1 Highway from Yangquan to Niangziguan, Shanxi Province | |


Mainland China
D1
B8
E1
B9
A2
E3
B10
B11
B13
E2
A1
A3
B12
D2
B14
B16
B2
B4
B3
B6
B1
C
B5
B7
B15

# Business Review *(Continued)*

## Major Projects

### Hong Kong

**Design and Construction of a Sports Ground at Area 45, Tseung Kwan O**

| | |
|---|---|
| Customer Category: | Government/Public Sector |
| Project Commencement Date: | April 2006 |
| Contract Value: | HK$349 million |

**Design and Construction of Junior Police Officer's Married Quarters at Tuen Mun**

| | |
|---|---|
| Customer Category: | Government/Public Sector |
| Project Commencement Date: | October 2007 |
| Contract Value: | HK$299 million |

**Construction of Choi Wan Road Site 2 Phase 2 (Non-Domestic Portion), Site 3A and District Open Space Site A**

| | |
|---|---|
| Customer Category: | Government/Public Sector |
| Project Commencement Date: | September 2008 |
| Contract Value: | HK$1,111 million |

## Major Projects *(Continued)*

### Tai Wai Maintenance Centre, Superstructure Main Contract (Phase 1)

| | |
|---|---|
| Customer Category: | Private Sector |
| Project Commencement Date: | July 2007 |
| Contract Value: | HK$1,449 million |

### Superstructure Main Contract Works at Wu Kai Sha Station, Ma On Shan

| | |
|---|---|
| Customer Category: | Private Sector |
| Project Commencement Date: | April 2007 |
| Contract Value: | HK$1,360 million |

### Reconstruction and Improvement of Tuen Mun Road - Tai Lam Section

| | |
|---|---|
| Customer Category: | Government/Public Sector |
| Project Commencement Date: | February 2009 |
| Contract Value: | HK$1,328 million |

# Business Review *(Continued)*

## Major Projects *(Continued)*

### Widening of Tolo Highway/Fanling Highway between Island House Interchange and Fanling

| | |
|---|---|
| Customer Category: | Government/Public Sector |
| Project Commencement Date: | August 2009 |
| Contract Value: | HK$1,850 million |

### Development at Anderson Road - Site Formation and Associated Infrastructure Works

| | |
|---|---|
| Customer Category: | Government/Public Sector |
| Project Commencement Date: | January 2008 |
| Contract Value: | HK$2,063 million |

## Macau

### Encore at Wynn Macau

| | |
|---|---|
| Customer Category: | Private Sector |
| Project Commencement Date: | June 2007 |
| Attributable Contract Value: | HK$1,402 million |

## Major Projects *(Continued)*

### 青洲社會房屋綜合體建造工程-B及C大樓的承攬工程

| | |
|---|---|
| Customer Category: | Government/Public Sector |
| Project Commencement Date: | August 2006 |
| Contract Value: | HK$776 million |

### City of Dreams

| | |
|---|---|
| Customer Category: | Private Sector |
| Project Commencement Date: | August 2006 |
| Attributable Contract Value: | HK$4,440 million |

## UAE

### Dubai Mall Hotel

| | |
|---|---|
| Customer Category: | Private Sector |
| Project Commencement Date: | December 2005 |
| Contract Value: | AED731 million (Approx. HK$1,550 million) |

# Business Review *(Continued)*

## Major Projects *(Continued)* / Other Businesses

### City of Lights, Abu Dhabi

| | |
|---|---|
| Customer Category: | Private Sector |
| Project Commencement Date: | April 2009 |
| Contract Value: | AED 859 million |
| | (Approx. HK$1,821 million) |

## Mainland China

### 成都西錦城項目

| | |
|---|---|
| Customer Category: | Private Sector |
| Project Commencement Date: | May 2008 |
| Contract Value: | HK$735 million |

## Other Businesses

### Hong Kong Concrete Company Limited

| | |
|---|---|
| Location: | Hong Kong |
| Nature of Business: | Production of ready-mix concrete |

# Business Review *(Continued)*

## Businesses in Mainland China

### Other Businesses *(Continued)*

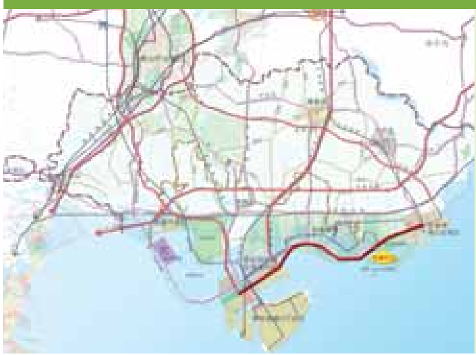
#### 南昌中海新八一大橋 (Nan Chang Zhong Hai Xin Ba Yi Bridge)

| | |
|---|---|
| Location: | Nan Chang in Jiang Xi |
| Nature of Business: | Operation of the Nan Chang Zhong Hai Xin Ba Yi Bridge |

#### 瀋陽皇姑熱電有限公司 (Shenyang Huanggu Thermal Power Co., Ltd)

| | |
|---|---|
| Location: | Shenyang |
| Nature of Business: | Generation and supply of heat and electricity |

#### Tangshan Binhai Avenue Project



| | |
|---|---|
| Location: | Tangshan |
| Nature of Business: | Build - Transfer Project (Construction of Tangshan Binhai Avenue) |

# Corporate Governance Report

## Corporate Governance Practices

The Board of Directors (the "Board") recognizes that good corporate governance is fundamental to the smooth and effective operation of the Group and enhances the shareholders' value. The Board is committed to maintain a good corporate governance practice and procedures so as to increase its transparency.

The Company has applied and complied with all the code provisions and some recommended best practices set out in the Code on Corporate Governance Practices ("Code") contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited for the year ended 31 December 2009.

## Directors' Securities Transactions

The Company has adopted a code on securities transactions by directors ("Securities Code") with standards no less exacting than that of the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules ("Model Code"). In March 2009, the Company had reviewed and updated the Securities Code in line with the new provision of the amended Model Code. Reminders are sent to directors that they should not deal in the shares of the Company during the "black-out-period" specified in the Model Code. Directors are required to notify the Company and obtained a dated written acknowledgement before dealing in the Company's securities. After making enquiries by the Company, all directors confirmed that they have complied with the Securities Code during the year.

## Board of Directors

The Group (the Company and its subsidiaries) is governed by the Board. The Board is responsible for leading and controlling the Group. The Board focuses on the overall strategies, policies and business plan of the Group, monitors the financial performance, internal controls and risk management of the Group. Senior Management is responsible for the day-to-day operations of the Group under the leadership of the Executive Directors.

The composition of the Board and the individual attendance of each director are set out below:

| Name | | Attended/ Eligible to Attend |
|---|---|---|
| *Non-executive Director* | | |
| Kong Qingping | *(Chairman)* | 4/4 |
| | | |
| *Executive Directors* | | |
| Zhou Yong | *(Vice-chairman & Chief Executive Officer)* | 4/4 |
| Yip Chung Nam | | 4/4 |
| Zhang Yifeng | *(appointed on 21 October 2009)* | N/A |
| Cheong Chit Sun | | 4/4 |
| Zhou Hancheng | | 4/4 |
| Fu He | *(resigned on 21 October 2009)* | 1/4 |
| | | |
| *Independent Non-executive Directors* | | |
| Raymond Ho Chung Tai | | 4/4 |
| Adrian David Li Man Kiu | | 4/4 |
| Raymond Leung Hai Ming | | 4/4 |
| Lee Shing See | | 4/4 |

During the year, four Board meetings were held. Throughout the year, directors also participate in the consideration and approval of non-routine issues of the Company by way of circulated resolutions with supporting explanatory write-up. The vice-chairman and chief executive officer, the executive director and financial controller, and the company secretary at all time answer the non-routine issues enquiries made by the directors.

The Board convenes Board meetings regularly. The date for holding each meeting will be determined in advance with a notice of not less than 14 days so that most directors entitled to attend the meeting can spare time to attend in person and have sufficient time to include items that in the agenda for discussion. To ensure that all directors have sufficient information for discussion, the meeting documents will be submitted to all directors three days before the meeting is convened.

All directors keep contact with the company secretary and can obtain the services provided by the company secretary so as to ensure the procedure of the Board meetings, all applicable rules and regulations are complied with. In case of any changes in the governance and compliance regulations, the company secretary will release the latest information to the Board.

The company secretary is responsible for compiling and drafting the minutes of the Board and the Board committee meetings, and will send the first draft of the minutes within reasonable time after each meeting to the participated directors for advice. The minutes of the meetings are prepared with details of the decisions reached, any concerns raised and dissenting views expressed. All directors are entitled to inspect the minutes of the Board and the Board committee meetings. Directors can seek independent professional advice for performing their duties through the chairman at the expense of the Company. If the subject under discussion at a Board meeting involves the interests of substantial shareholders or directors and the Board considers that those interests are of significant interest conflicts, the Board will ensure there are sufficient independent directors participating in discussing about and voting on those resolutions. Those directors related to the interests shall abstain from voting on the resolution.

Other than non-executive directors, all executive directors are appointed on a full-time basis and have sufficient time to deal with the affairs of the Company. More than one-third of the Board is independent non-executive directors. The Company will review the Board composition regularly to ensure that it has a balance of expertise, skills and experience appropriate for the requirements of the business of the Company. The Company will give an appropriate introduction about the Group's businesses and operations to each newly appointed director.

Independent non-executive directors possess appropriate professional qualifications and experience or appropriate accounting or relevant financial management expertise. All independent non-executive directors comply with the Independence Guideline of Rule 3.13 of the Listing Rules and have submitted annual confirmations of their independence to the Board pursuant to Rule 3.13 of the Listing Rules. The Company considers all independent non-executive directors to be independent. Independent non-executive directors are able to provide their independent judgment in respect of matters such as the Group's strategy, policy and performance at Board and Board committee meetings, and making significant contribution to the affairs of the Group.

There is no family or other material relationships among members of the Board.

The Company aware that effective communication can increase productivity and improve teamwork. The Company convened quarterly meeting for the executive directors, senior management, middle management, worksites management and management of overseas subsidiaries (by video-conference). During the meetings, the executive directors reported the Company's overall work progress, delivered the Company's strategy, reviewed the strength and weakness on the Company's work-in-progress and provided sufficient time for the participants to raise questions and express their opinions. Ensured the adequate communication between different level of management.

# Corporate Governance Report *(Continued)*

## Chairman and Chief Executive Officer

Mr. Kong Qingping is chairman and non-executive director of the Company and is responsible for leading the Board and ensures all directors are provided with appropriate and sufficient information before Board meetings so that the Board can operate effectively and perform its duties.

Mr. Zhou Yong is vice-chairman and chief executive officer of the Company and is responsible for the operations of the Group. The chief executive officer and executive directors jointly implement the policies adopted by the Board and are responsible to the Board for the overall operation and administration of the Group.

There is clear division on the roles of chairman and chief executive officer, which are performed by different individuals. This ensures balanced distribution of power and authority so as to avoid concentration of power on the same individual.

## Non-Executive Directors' Term of Office

Non-executive directors are appointed on a term of three years. All directors (including non-executive directors) are subject to retirement by rotation pursuant to the Articles of Association of the Company. Directors appointed to fill casual vacancies shall be re-elected by shareholders at the first general meeting following their appointment.

## Remuneration Committee

The Company has established a Remuneration Committee on 9 June 2005. The major responsibilities of the Remuneration Committee include giving advice to the Board on the overall remuneration policy of the Group, reviewing and approving the remuneration of directors and senior management of the Company, and ensuring that no director participates in the discussion on his own remuneration. The Board has adopted written terms of reference for the Remuneration Committee, which defined the role, authority and function of the Remuneration Committee. The terms of reference are posted on the Company's website.

During the year, one Remuneration Committee meeting was held to review and discuss the 2009 remuneration policy and 2008 annual bonus policy of the Company. The individual attendance of each director is set out below:

| Name | Attended/ Eligible to Attend |
|---|---|
| Kong Qingping *(Chairman)* | 1/1 |
| Raymond Ho Chung Tai | 1/1 |
| Adrian David Li Man Kiu | 1/1 |
| Raymond Leung Hai Ming | 1/1 |
| Lee Shing See | 1/1 |

The vice-chairman and chief executive officer is assisted by the human resources division in reviewing the remuneration data of the market and formulates the remuneration policy of the Group before proposing to the Remuneration Committee for consideration and seeking approval. The remuneration of directors and senior management of the Company is determined with reference to the remuneration policy of the Group and based on individual skills, knowledge, performance and contribution, the overall performance of the Group, the prevailing economic environment and the market trend.

## Nomination Committee

The Company has established a Nomination Committee on 20 March 2006. The major responsibilities of the Nomination Committee include reviewing the structure and the composition of the Board, and making recommendation to the Board on matters relating to directors' nomination, appointment or re-appointment and succession on regular basis. The Board has adopted written terms of reference for the Nomination Committee, which defined the role, authority and function of the Nomination Committee. The terms of reference are posted on the Company's website.

During the year, two Nomination Committee meetings were held and the individual attendance of each director is set out below:

| Name | | Attended/ Eligible to Attend |
|---|---|---|
| Kong Qingping | *(Chairman)* | 2/2 |
| Zhou Yong | | 2/2 |
| Zhang Yifeng | *(appointed on 21 October 2009)* | N/A |
| Fu He | *(resigned on 21 October 2009)* | 0/2 |
| Raymond Ho Chung Tai | | 2/2 |
| Adrian David Li Man Kiu | | 2/2 |
| Raymond Leung Hai Ming | | 2/2 |
| Lee Shing See | | 2/2 |

During the year, the Nomination Committee evaluated the composition and structure of the Board, and reviewed the independence of the independent non-executive directors.

On 21 October 2009, Mr. Fu He resigned and Mr. Zhang Yifeng ("Mr. Zhang") was appointed as executive director of the Company. Details of Mr. Zhang's qualifications and experience had been submitted to the Nomination Committee for consideration. Mr. Zhang also attended the Nomination Committee meeting to introduce himself and answer the questions raised from the Nomination Committee members. The appointment of Mr. Zhang as an executive director was approved by the full Board. Mr. Zhang received briefings on legal and other responsibilities as a director under statutory regulations and the Listing Rules from the Company's legal advisor. The Company also provided Mr. Zhang written guideline on dealing in the Company's securities.

## Auditor's Remuneration

For the year ended 31 December 2009, the audit fees received by the auditor of the Company totaled approximately HK$4.71 million, including audit service fees of the Company of approximate HK$4.25 million and audit service fees of approximate HK$0.46 million for the ad hoc projects of the Company in 2009.

## Audit Committee

The Company has established an Audit Committee on 1 June 2005. The major responsibilities of the Audit Committee include reviewing and overseeing the financial information of the Company, regulating the financial reporting system, evaluating the internal control procedure and the risk management system of the Company, and reviewing the relationship between the Company and auditor. The Board has adopted written terms of reference for the Audit Committee, which defined the role, authority and function of the Audit Committee. The terms of reference are posted on the Company's website.

During the year, four Audit Committee meetings were held and the individual attendance of each director is set out below:

| Name | Attended/ Eligible to Attend |
|---|---|
| Raymond Ho Chung Tai *(Chairman)* | 4/4 |
| Adrian David Li Man Kiu | 4/4 |
| Raymond Leung Hai Ming | 4/4 |
| Lee Shing See | 4/4 |

During the meetings, the Audit Committee reviewed and considered the Group accounts for the year ended 31 December 2008, the re-appointment of auditor, the Group accounts for the six months ended 30 June 2009, the connected transactions and the internal control reports of the Group. The external auditor were invited to attend one of the above meetings and they discussed various accounting issues and finding with the Audit Committee.

In 2009, the Company conducted a review and considered that the Company maintained adequate qualified accountants to oversee its accounting and financial reporting function and other accounting related issue in accordance with the relevant laws, rules and regulations.

## Internal Control and Risk Management

The Group has established a stable, sound and effective internal control system to ensure the Group can withstand the changes in its operations and the external environment in respect of finance, operation and risk management so as to safeguard the shareholders' investment and the Company's assets.

**Internal Audit.** The Intendance and Audit Department is independent of all business lines and is directly responsible for the executive directors so as to ensure the neutrality of control. During the year, the Intendance and Audit Department deeply inspected, investigated and assessed totally three construction sites of the Group, and conducted two trial internal control tests for the head office and four subsidiaries. The Intendance and Audit Department reviewed and assessed the cost control system, financial and treasury management system and efficacy supervision system of the Group. All reports are submitted directly to the executive directors and senior management for their perusal and follow-up, if necessary so as to ensure proper management of risks, thereby achieving the business objectives of the Group. The defects were remedial during the year and the systems were strengthened.

**Quality, Safety and Environmental Protection.** During the year, the Company's quality policy, safety and health policy, environmental policy, noise control policy and integrated management policy were reviewed and renewed. The Company's quality management handbook, standard working procedure, machinery management procedure and worksites safety management procedure were introduced and/or renewed.

During the year, Quality and Technology Department and Safety and Environmental Protection Department conducted four independent internal control assessments on worksites. They inspected over 30 worksites per quarter, and investigated and assessed the quality management, safety management and environmental management system of each worksite. Independent reports were made to the management and the defects were remedial simultaneous.

Other than written guideline, the Company believed that proper trainings enhanced the effectiveness of the internal control. Mandatory trainings on quality control management, worksites safety management, procurement and material management, worksites cost management and subcontracting management were conducted for the engineers and worksites management. Workshops on quality improvement were conducted for staffs.

In order to instill the consciousness and knowledge on safety and environmental protection, and quality and technology of the Company, during the year, the Company conducted knowledge quiz in this respect for front-line site management, held worksites quality management competition, and held worksites best working practices competition. "Zero prosecution, zero accident" incentive policy was also adopted for front-line site management staffs.

**Risk Management.** The Risk Management Control Committee with written terms of reference was set up and focuses on strategic risks, financial risks, market risks and operational risks of the Company. The Committee is chaired by the vice-chairman and chief executive officer and includes executive directors and senior representatives from finance and operation departments. The Committee aims to continually identify and strengthen the risk management of the Company, and build up a risk aware and control conscious culture throughout the Company. Departmental specify reports and periodical reports were submitted to the Risk Management Control Committee for review.

The Group will continue to conduct a review of the effectiveness of its internal control system and risk management policies at least once a year.

## Directors' Responsibility for Preparing Accounts

The Directors acknowledge their responsibility to prepare accounts for each financial period which give a true and fair view of the state of affairs of the Group.

## Auditor's Reporting Responsibilities

The reporting responsibilities of Deloitte Touche Tohmatsu Certified Public Accountants, the Auditor of the Company, are stated in the Independent Auditor's Report of the Company's 2009 Annual Report.

## Staff Discipline

The Company has placed much emphasis on the discipline of its staff as well as business ethics and integrity.

The Company has formulated a series of standards on staff discipline and code which are set out in the "Employee Handbook" and displayed in internal website and each worksite. All staff must comply with these standards which are included as one of the important subjects in the orientation course for new recruits. No staff is allowed to ask for or receive any benefits while doing business on behalf of the Group in Hong Kong or other places. To this end, the Company has established a mechanism pursuant to which staff can proceed with reporting if they have any recommendations, doubts or find out any violations. This ensures employees possessing the highest integrity, determination and professionalism to perform their duties and commit themselves to provide services with highest quality in accordance with the business objectives and mission of the Group.

The Company believes that integrity can bring the Company towards success and spreads the message of integrity to all the stakeholders. Before the lunar new year, the vice-chairman and chief executive officer issued open letter to all the Company's employees and open letter to all the sub-contractors and suppliers of the Company to draw their attention and seek their co-operation not to offer/accept gifts or any kind of advantages. This behavior is serious against the Company's policy and damages the good working relationship. The open letters are required to be displayed on each worksite.

## Shareholders

The Company has established various/a wide range of communication channels with shareholders. These include general meeting, annual report and interim report, notice, announcement and circular. In addition, the Company updates its website from time to time to keep the shareholders updated information of the Company's recent development. Investors presentations also uploaded to the Company's website for all stakeholders perusal.

General meeting is a main channel of communication between Directors and shareholders. The Company held an annual general meeting and an extraordinary general meeting during 2009. At the general meetings, the chairman gave sufficient time to shareholders to raise questions and express their opinions.

The 2009 Annual General Meeting was held on 27 May 2009. The notice of meeting, the Company's annual report and the circular containing information on the proposed resolutions were sent to shareholders more than 20 clear business days prior to the meeting. The chairman of the Board attended the meeting. The chairmen of the audit, remuneration and nomination committees were available to answer questions from the shareholders at the meeting. At the meeting, a separate resolution was proposed by the chairman in respect of each substantially separate issue, and voting on each resolution was conducted by poll. The results of the poll were posted on the website of the Hong Kong Exchange and the Company on the same day of the meeting.

An extraordinary general meeting was held on 27 May 2009. The notice of meeting and the circular containing information on the proposed resolutions were sent to shareholders more than 10 clear business days prior to the meeting. The Chairman of the meeting and members of the independent board committee were available to answer questions from the shareholders at the meeting. At the meeting, a separate resolution was proposed by the chairman in respect of each substantially separate issue, and voting on each resolution was conducted by way of a poll. The results of the poll were posted on the website of the Hong Kong Exchange and the Company on the same day of the meeting.

## Investor Relations and Communication

The Company has been striving to maintain high transparency and communicate with shareholders and investors through diversified communication channels. The Company holds press conferences and analyst briefing sessions from time to time to provide the latest business information of the Company to investors. The website of the Company contains the latest data and information of the Group so that shareholders, investors and the public can inspect the information about the Company in a timely manner. The Company's website: http://www.csci.com.hk.

# Investor Relations

The Company's main duty in investor relations is to provide information on the Company's latest development strategy, business management, financial information and business progress clearly to shareholders, investors, analysts, banks and media. The Company ensures the dissemination of important information to the market rapidly through different channels. These channels include: results announcements, announcements, press conferences and analyst briefing sessions, disclosure of operating information, road shows and meetings organized by investment institutions. To enhance communication with the investment sector, the Company regularly and irregularly updated the information through website www.csci.com.hk, to ensure that important events during the course of business development of the Company can be transmitted rapidly to the capital market through the website of the Company.

The management of the Company values the feedback of the external investment parties and meets analysts and investors regularly and irregularly to present the latest development strategy and operating conditions to them and communicates with investors in a timely manner. In 2009, the Company actively pushed forward with the promotion of the listed company, organized meetings with analysts and investors over 700 persons-time, and attended post-results road shows in Europe, US, Japan and Singapore with investment banks. Besides, the management has also participated in investment conferences and forums organized by major investment banks in the US, Europe, Singapore and Hong Kong. Through the above activities, the communication between the management of the Company and the players of the capital market has been enhanced. Besides, the transparency of different business activities such as the Company's operation and management has also been enhanced. In 2010, the Company will further strengthen its efforts in this respect and maintain good relationship with investors through multiple channels and at multiple levels.

## Major Investor Relations Activities in 2009

| Month | Activities |
|---|---|
| January | The 9th UBS Greater China Conference |
| February | CLSA Hong Kong Corporate Day |
| March | 2008 Annual Results Announcement |
| | • Press Conference |
| | • Investors and Analysts Briefing |
| | Road Shows in Hong Kong and UK |
| April | Road Show in Japan and Singapore |
| May | The 1st Macquarie China Conference |
| | The 3rd CLSA Corporate Access Conference in Singapore |
| June | The 5th JP Morgan China Conference |
| | DBSV "Pulse of Asia" Investor Conference |
| August | 2009 Interim Results Announcement |
| | • Press Conference |
| | • Investors and Analysts Briefing |
| | Road Shows in Hong Kong and Europe |
| September | Road Show in US, Japan and Singapore |
| | The 14th CLSA China Forum |
| October | JP Morgan Hong Kong Small-mid Cap Day |
| | The 16th BNP Paribas China Economy Development Forum |
| | Citigroup Greater China Investor Conference |
| November | Goldman Sachs China Investment Summit |
| | CLSA Hong Kong Corporate Day |
| December | Macquarie Infrastructure Investor Conference |

For a successful construction project,
other than cost control, safety, quality and progress,
**environmental protection**
also plays an important role.
As a socially responsible contractor, the Group
must champion **green management**
in construction planning in order to
**create a pleasant environment**
to our society.


大 桥

# Corporate Citizenship

## Staff Development and Personal Growth

The Group values the well-being of our employees as a first priority and has persisted in its core thought of "human resources and culture are the most precious wealth" and combines the establishment of a talent team with the creation of a corporate culture. Besides, by inheriting the "people first" principle, it has placed the emphasis of the human resources work on "cultivating and using people" so as to provide its staff with simple and harmonious human relationship, challenging jobs, vast development opportunities and benefits satisfactory to staff.

During the year, the Group sustains its leadership position by diversifying the workforce which we consider to be one of the greatest strengths in leveraging both local knowledge and international experience. We provide our people with job transfer opportunities between our different business locations. A total of 57 employees had been rotated worldwide over the last 3 years. As of end of 2009, the Group had a total of 4,296 employees (excluding staff of our joint-venture projects), of which, 2,241 persons were in Hong Kong, 1,448 of them were in the Mainland China, 121 were in Macau and 486 were working overseas.

### Staff Recruitment Programme

Besides getting seasoned professionals from the open market, the Group also organized campus recruitment programmes to grasp young engineers from the 4 universities in Hong Kong. Not least, hired graduates with top caliber from well-known universities in Mainland China through its "Recruitment Programme for the Son of the Sea" enable China State to recruit outstanding young talents from other establishments in an effective manner.

### Training of Staff and Self Development

The Group provides the full support for its staff for lifelong learning and self value-adding. The Group has put aside capital to set up the "Staff Education Fund". The Group will also hammer out training programmes according to the needs and interests of the staff, which cover the corporate system, management skills and occupational skills, quality assurance, team-building and communication skills. More than 3,000 participants took part in the courses during the period. In order to cope with the Group's business development on an international scale, the Group commenced the training on "overseas business development strategy and operation" for all of the Group's management staff and recruited professional instructors from overseas to conduct the "Modern Safety Management" courses, which enhance the management concept of the management staff in a forward-looking manner and optimize the quality of management of the Group as a whole.

By means of its mature "Trainee Engineer Scheme A Training Programme" and its "Apprentice Training Scheme", the Group provides opportunities for its staff for exposure in different capacities, which help to enhance the overall quality of its staff and to provide a reserve of capable people for its team. The Group has also made use of its advantage in overseas business to hammer out the "International Plan for Cultivating

*The Group organized activities for team building and staff relationship.*

*The Group organized different training programmes to encourage its staff for self value adding so as to cope with the changes of society.*

## Staff Development and Personal Growth *(Continued)*

*The Group organizes "Award of Outstanding Staff" to recognize the staff working in Hong Kong, Macau and overseas with remarkable performance.*

Talents", with the system of exchange of people and rotation, selection and dispatching of talented staff to learn in overseas regions so as to broaden their vision with the international exposure, thereby effecting the training of people for the international arena.

### Incentive Mechanism

The Group fully recognizes that the effectiveness of a system depends on its implementation. Rewards systems are designed and strictly executed to ensure that company compensation and benefits are competitive and allocated on the basis of merit. With the implementation of the "Site Contracting Responsibility System" and the "System of Departmental Operation and Management Objectives and Responsibilities", all the departments of the Group have to determine their business indicators and plans according to the annual financial planning and budget presented by the financial department as the key basis for their respective performance assessment. Various incentive mechanisms include "Award of Outstanding Staff" and "Award of Outstanding Trainers" are implemented to all locations to extend our recognition towards remarkable staff contribution. To maintain a competitive remuneration position within the marketplace and set reasonable pay level to its staff, China State carries out regular benchmarking and salary survey with the industry.

The Group has also organized a myriad of exciting activities after work, including interest groups, sport games, photography, social gatherings and trips. The Group held the "2009 Annual Dinner" during the year to share the joy with the staff in recognition of their efforts and contribution to the Group. The Group also take part in the "2009 Hong Kong Walk for Millions" and "Parade in celebration of the 60th Anniversary of the Founding of the PRC". Such activities held enriched the leisure life of the staff and provided opportunities of communication and exchange for the colleague, and became an important part of team building and staff relationship.

*The Group Annual Dinner provided an opportunity for the staff to take part in.*

# Corporate Citizenship *(Continued)*

## Environmental Protection and Promotion


*China State Construction Environmental Day was organized, which took the form of a tree plantation day and was well supported by our staff.*

For a successful construction project, other than cost control, safety, quality and progress, environmental protection also plays an important role. As a socially responsible contractor, the Group must champion green management in construction planning in order to create a pleasant environment to our society. The Group has adopted a number of environmental protection measures aiming at minimizing the degree of pollution to the environment and generation of construction and demolition materials as well as saving natural resources, thus enhancing our environmental management system. One of the innovative environmental initiatives of the Group applied to its construction works, namely the intelligent multi-working platforms, has won a number of honours throughout the years. The following environmental protection measures are now being applied to the work sites as basic standards:

- automatic tyre cleansing machine – which cleans the mud and silt adhering to the types and body of vehicles while entering or leaving a construction site

*Environmental Protection element has been incorporated into the construction site commencement ceremony.*

# Corporate Citizenship *(Continued)*

## Environmental Protection and Promotion *(Continued)*

- waste water treatment machine – which purifies the waste water produced by a construction site until it has reached the required standard prior to be discharged or recycled

- cement recovery facility – which saves the first 0.3 $m^3$ of cement of each cement truck generated from the collapse test

- temporary noise barrier – which minimizes the adverse impact of noise to residents, schools and hospitals

- precast concrete floor slab – which serves as temporary hard paving and reduces dust emission and is recyclable

With the concerted efforts of the Group, the results were remarkable. In 2009, the Group won a number of awards including the "Considerate Contractors Site Awards", "Sectoral Awards" and "Class of Excellence Environmental Labels" under "The Hong Kong Awards for Environmental Excellence",

*To support environmental protection activity in person, Mr. Zhou Yong, Vice-chairman and Chief Executive Officer of the Group participated in the planting day of the construction site.*

*The planting day was organized by the construction sites to create a pleasant environment.*

In 2009, the Group actively organized environmental activities (such as the "China State Construction Environmental Protection Day") to serve the community. The Group also organized "Site Environmental Awareness Quiz", "Environmental Protection Workshops" and other environmental activities with different themes, which aimed to impart the latest environmental protection information to site personnel including subcontractors.

The Group also required all subcontractors to comply with environmental protection policies, and held regular site meetings with subcontractors to discuss environmental protection related issues. Moreover, the Group also organized training on environmental management systems for its staff and subcontractors to arouse their awareness on environmental protection and promote resources saving. Our staff was also encouraged to research and explore ways to save energy and resources during construction stage, thereby achieving continual improvement and cost saving in the long run.


*To build up a harmonious community relationship, the construction site organized environmental protection activities to create a pleasant environment.*

# Corporate Citizenship *(Continued)*

## The Group and Community

"Serve the Community" has always been the Group's corporate objective. The Group has been committed to constructing various kinds of projects, and on the other hand has been setting a good example as a corporate citizen. Trying its best to fulfill the duties of a corporate citizen is an integral part of its core values. The Group takes the initiative to participate in all kinds of social activities and encourages its staff to do the same for the benefit of the needed and the community.

With the active participation of its staff, the Group provides strong support to all kinds of social activities such as the "Community Chest Walks for Millions Hong Kong Island 2009" and the "Art in Hospital" and the Group has also organized Caring Tuition Class with Single Parents Association with its staff volunteer team providing tuition to primary and secondary school students.

### Community Chest Walks for Millions Hong Kong Island 2009

Our employees organized a team of love and care of over 400 members to participate in and support the largest charity walk in Hong Kong — Community Chest Walks for Millions Hong Kong Island 2009.


*Our staff members organized a caring team each year and participated in the Community Chest Walks for Millions Hong Kong Island.*

### Community Chest Walks for Million 2009, Macau

Adhering to the Group's principle of being reciprocal to the community, staff members of our Macau office participated in the Community Chest Walk for Millions in Macau.


*Staff members of our Macau office participated in the Community Chest Walks for Millions in Macau.*

### Showing Love on the Women's Day — Art in Hospital

On the Women's Day, our female staff members took part in the "Art in Hospital" and painted pictures on the wall of Daytime Elderly Care Home in Pamela Youde Nethersole Eastern Hospital. Mass art creation was leveraged to serve the community, spreading the message of caring the community and facilitating the development of art in hospital in Hong Kong. Each female staff member cooperated together to paint a colorful natural environment in the ward, which created a harmonious and artistic atmosphere to alleviate the emotion of the patients.

## The Group and Community *(Continued)*


*On the Women's Day, our female staff members took part in the "Art in Hospital" and painted pictures on the wall of Daytime Elderly Care Home in Pamela Youde Nethersole Eastern Hospital.*

### Caring Summer Tuition Class

The Group co-organized the "Caring Summer Tuition Class" with Hong Kong Single Parents Association, of which, the major servicing target are those poor single-parent families in Sham Shui Po. The tuition class, which lasted for two months, aimed at teaching English and answering questions about the Summer Holiday homework. Our staff members and their children served as the tutors of the Summer Class and staff members of various positions made use of the weekends to tutor kids from poor single-parent families.


*The Group co-organized the "Caring Summer Tuition Class" with Hong Kong Single Parents Association to tutor kids from poor single-parent families in Sham Shui Po.*

# Awards and Accolades 2009

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| No. | Unit/Project | Awards | Issuing Authority |
|---|---|---|---|
| 1. | China State Construction International Holdings Limited | Directors Of The Year Awards 2009 in the category of Listed Company (SEHK-Non-Hang Seng Index Constituents): Board of directors | The Hong Kong Institute of Directors |
| 2. | Mr. Zhou Yong, Vice-Chairman and CEO | Directors Of The Year Awards 2009 in the category of Listed Company (SEHK-Non-Hang Seng Index Constituents): Executive directors | The Hong Kong Institute of Directors |
| 3. | China State Construction International Holdings Limited | HKQAA-HSBC CSR Index Advocate Mark | HKQAA & HSBC |
| 4. | China State Construction International Holdings Limited | 2009 International ARC Awards Cover Photo/Design (Gold) | MerComm Inc |
| 5. | China State Construction International Holdings Limited | 2009 International ARC Awards Overall Annual Report (Honors) | MerComm Inc |
| 6. | China State Construction International Holdings Limited | International Mercury Awards Overall Presentation (Bronze) | MerComm Inc |
| 7. | China State Construction Engineering (HK) Ltd. | New Works Category – Outstanding Contractors (Building) Gold Award | Hong Kong Housing Authority and etc. |
| 8. | China State Construction Engineering (HK) Ltd. | Hong Kong Awards for Environmental Excellence – Construction Industry (Certificate of Merit) | Environment Campaign Committee |
| 9. | China State Construction Engineering. (HK) Ltd. | Safety Enhancement Program Award (Merit) | Occupational Safety & Health Council |
| 10. | China State Construction Engineering (HK) Ltd. | Environmental Merit Award | Hong Kong Construction Association |
| 11. | China State Civil Engineering Ltd. | Environmental Merit Award | Hong Kong Construction Association |
| 12. | China State Foundation Engineering Ltd. | Environmental Merit Award | Hong Kong Construction Association |

# Awards and Accolades 2009 *(Continued)*

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| No. | Unit/Project | Awards | Issuing Authority |
|---|---|---|---|
| 13. | China Overseas Building Construction Ltd. | Environmental Merit Award | Hong Kong Construction Association |
| 14. | Construction of Eastern Harbour Crossing Site Phase 3 | New Works Category – Best Site Safety Award (Completed Building Site Safety Award) | Hong Kong Housing Authority and etc. |
| 15. | Development at Anderson Road – Site Formation and Associated Infrastructure Works | Construction Industry Safety Award Scheme Civil Engineering Project (Bronze) | Labour Department of Hong Kong |
| 16. | Main Contract for Central Park, TKOTL No. 70, Area 86, TKO | Construction Industry Safety Award Scheme Safety Team (Merit) | Labour Department of Hong Kong |
| 17. | Highways Department Term Contract (Management and Maintenance of roads in Sha Tin, Sai Kung and Islands Districts excluding high speed roads) | Considerate Contractors Site Award (Sliver) | Development Bureau |
| 18. | Improvement to Pedestrian Subway System at Kwai Fuk Road Roundabout | Considerate Contractors Site Award (Bronze) | Development Bureau |
| 19. | Foundation for Redevelopment at Tung Tau Estate Phase 9 | Considerate Contractors Site Award (Merit) | Development Bureau |
| 20. | HAECO Aircraft Maintenance Hangar No. 3A-Main Contract Works | Class of Excellence Wastewise Label | Environmental Campaign Committee |
| 21. | Tai Wai Maintenance Centre, Superstructure Main Contract (Phase 1) | Class of Excellence Wastewise Label | Environmental Campaign Committee |
| 22. | Development at Anderson Road-Site Formation and Associated Infrastructure Works | Class of Excellence Wastewise Label | Environmental Campaign Committee |
| 23. | Main Contract for Central Park, TKOTL No.70, Area 86, TKO | Class of Excellence Wastewise Label | Environmental Campaign Committee |
| 24. | Central Reclamation Phase 3 | Class of Good Energywise Label | Environmental Campaign Committee |

# Directors and Organization

*From left to right: Mr. Yip Chung Nam, Mr. Zhou Hancheng, Mr. Kong Qingping, Mr. Zhang Yifeng, Mr. Zhou Yong, Mr. Cheong Chit Sun.*

## Board of Directors

### Mr. Kong Qingping

*Chairman and Non-executive Director, Chairman of Remuneration Committee, Chairman of Nomination Committee*

Aged 54, was appointed as Director of the Company on 21 April 2004 and subsequently appointed as a Chairman and designated as a Non-executive Director of the Company on 1 June 2005. Mr. Kong holds a bachelor degree in Engineering from Harbin University of Civil Engineering and Architecture, a degree of Executive Master of Business Administration from Harbin Institute of Technology and is a fellow member of the Chartered Institute of Building (UK). Mr. Kong is a guest professor at Harbin Institute of Technology and at Hong Kong Polytechnic University. Mr. Kong joined China State Construction Engineering Corporation ("CSCEC") in 1982 and was seconded to Hong Kong in 1987. He became a general manager of China State Construction Limited ("CSCL") in 1997, was appointed as a director of China State Construction Engineering (Hong Kong) Limited ("CSCEHK") in 1999, and was appointed as chairman of CSCEHK and CSCL in 2002. Mr. Kong has more than 28 years' extensive experience in management of corporate affairs and construction projects. Currently, Mr. Kong is the Vice President of China State Construction Engineering Corporation Limited (Listed on The Shanghai Stock Exchange, code: 601668), a director of China Overseas Holdings Limited ("COHL") and its certain subsidiaries, the Chairman of China Overseas Land & Investment Ltd. ("COLI"), and the Honorable Chairman (but not a Director) of Shell Electric Mfg. (Holdings) Company Limited. Mr. Kong also acted as Chief Executive of COLI from 2001 to May 2007. COLI is a company listed on the Main Board of The Stock Exchange of Hong Kong Limited ("Stock Exchange"). In 2006, Mr. Kong was appointed as a member of the Expert Committee of the Ministry of Construction in Residential Development and Industrial Modernization Technology, and was awarded the "Director of the Year Award — Executive Director of Listed Companies (SEHK — Non Hang Seng Index Constituents)" by The Hong Kong Institute of Directors. Mr. Kong is currently a Vice Chairman of the Hong Kong Chinese Enterprises Association and was appointed in January 2008 as a National Committee Member of the Chinese People's Political Consultative Conference and a Standing Committee Member of Chong Qing Committee of Chinese Political Consultative Conference.

## Mr. Zhou Yong

*Vice-chairman and Chief Executive Officer, Nomination Committee Member*

Aged 39, was appointed as a Director of the Company on 21 April 2004 and subsequently be designated as an Executive Director and Vice-chairman of the Board of Directors of the Company on 1 June 2005 and 9 June 2005 respectively. Mr. Zhou graduated from Changsha Academy of Military Engineering and University of South Australia. He is Fellow of The Chartered Institute of Building (UK) and The Institution of Civil Engineers (UK). Mr. Zhou joined CSCEC in 1994 and was seconded to the Group in 1996. He has been a director of certain subsidiaries of the Group since 2001. Mr. Zhou was awarded the "Director of the Year Award — Executive Director of Listed Companies (SEHK — Non Hang Seng Index Constituents)" by The Hong Kong Institute of Directors in 2009. Mr. Zhou has more than 17 years' construction, project and corporate management experience in Mainland China and Hong Kong, in particular, specializes in investment and development new business startup, formulating and executing business strategies for companies. He oversees the overall operation of the Group.

## Mr. Yip Chung Nam

*Executive Director*

Aged 60, was appointed as an Executive Director of the Company on 1 June 2005. Mr. Yip graduated from the University of Hong Kong. He is Fellow of The Hong Kong Institution of Engineers and a member of The Institution of Civil Engineers (UK). Mr. Yip joined the Group in 1987. He acted as an executive director of COLI from 1993 to 2005. He has been a director of certain subsidiaries of the Group since 1996. He has over 36 years' experience in engineering, construction and project management. Mr. Yip is currently the vice chairman of civil-engineering committee and First Vice-President of the 65th Council of the Hong Kong Construction Association.

## Mr. Zhang Yifeng

*Executive Director, Nomination Committee Member*

Aged 55, was appointed as an Executive Director of the Company on 21 October 2009. Mr. Zhang graduated from Logistical Engineering University of PLA and Murdoch University (Australia). He is a member of the Hong Kong Institute of Engineers. Mr. Zhang joined the Group in 1993 and was appointed as the deputy general manager of the Company in September 2005. Mr. Zhang has been a director of certain subsidiaries of the Group since 2004. He has over 32 years' experience in construction engineering and project management.

## Mr. Cheong Chit Sun

*Executive Director*

Aged 58, was appointed as an Executive Director of the Company on 12 October 2005. Mr. Cheong graduated from the Hong Kong Baptist University (formerly known as Hong Kong Baptist College) and the University of Hull (UK). He is Fellow of The Institution of Civil Engineers (UK) and a member of The Hong Kong Institution of Engineers. Mr. Cheong joined the Group in 2003. He has been a director of certain subsidiaries of the Group since 2004. Mr. Cheong has over 36 years' experience in engineering, construction and project management in Hong Kong and overseas.

## Mr. Zhou Hancheng

*Executive Director and Financial Controller*

Aged 40, was appointed as a Director of the Company on 21 April 2004 and subsequently be designated as an Executive Director of the Company on 1 June 2005. Mr. Zhou graduated from Shanghai University of Finance and Economics and holds a degree of Master of Business Administration from The University of Sheffield (UK). He is a member of the Association of Chartered Certified Accountants. Mr. Zhou joined the Group in 1992. He has been a director and the financial controller of certain subsidiaries of the Group since 2003. Mr. Zhou has over 14 years' experience in corporate finance, financial accounting and investment management.

# Directors and Organization *(Continued)*

## Dr. Raymond Ho Chung Tai SBS, MBE, S.B. St. J., JP

*Independent Non-executive Director, Chairman of the Audit Committee, Remuneration Committee Member, Nomination Committee Member*

Aged 71, was appointed as an Independent Non-executive Director of the Company on 1 June 2005. Dr. Ho holds a doctorate degree in civil engineering from the City University of London, UK, Honorary Doctor of Business Administration from the City University of Hong Kong, Honorary Doctor of Laws from University of Manchester, UK, a Postgraduate Diploma for Advanced Studies in Engineering Soil Mechanics from the Victoria University of Manchester, UK and a bachelor degree in engineering from the University of Hong Kong. Dr. Ho has been responsible for numerous projects of engineering and environmentally related works of considerable magnitude and varied nature, including Shatin New Town and Tseung Kwan O New Town, all the new KCR railways stations from Kowloon Tong to Lo Wu (now called the East Rail) and the associated bridges and roadworks. He has also been involved in major projects of tunnels, bridges, flyovers, roads, dockyards, jetties, hospitals, hotels, incinerators, high-rise commercial/residential buildings, geotechnical work, environmental studies and projects as well as project management. Dr. Ho held major positions in organization such as president of Hong Kong Institution of Engineers, council chairman of the City University of Hong Kong and the former City Polytechnic of Hong Kong, chairman of Hong Kong Technology Committee of the Industry & Technology Development Council (ITDC) and member of ITDC, member of the first, second and third Legislative Council (Engineering Functional Constituency) and the Provisional Legislative Council, chairman of the Transport Advisory Committee, member of Hong Kong Affairs Adviser, member of consultative committee on the New Airport and Related Project and member of the Gas Safety Advisory Committee. Dr. Ho was chairman, director and partner of a number of companies such as the Maunsell Consultants Asia Ltd in addition to its international company Guy Maunsell International Ltd during the period from January 1976 to August 1993. Dr. Ho had been an independent non-executive director of Ming Hing Waterworks Holdings Limited in the last three years. Currently, Dr. Ho is board member of the Airport Authority, member of the Commission on Strategic Development, chairman of the Hong Kong Trade Development Council Infrastructure Development Advisory Committee, and chairman of Guangdong Daya Bay Nuclear Plant and Lingao Nuclear Plant Safety Consultative Committee. He is also member of the fourth Legislative Council (Engineering Functional Constituency), director of various private companies in Hong Kong, and independent non-executive director of Deson Development International Holdings Limited and GCL-Poly Energy Holdings Ltd., companies listed on the main board of the Stock Exchange.

## Mr. Adrian David Li Man Kiu JP

*Independent Non-executive Director, Audit Committee Member, Remuneration Committee Member, Nomination Committee Member*

Aged 36, was appointed as an Independent Non-executive Director of the Company on 1 June 2005. Mr. Li holds a Master Degree in Management from Kellogg Graduate School of Management, Northwestern University, Evanston, Illinois, US, a Master of Arts Degree and a Bachelor of Arts Degree in Law from the University of Cambridge, UK. He is a member of The Law Society of England and Wales and The Law Society of Hong Kong. Mr. Li is the Deputy Chief Executive of The Bank of East Asia, Limited and is in charge of the overall management and control of the Bank's business in Hong Kong. He is a member of the Ninth and Tenth Guangdong Provincial Committees of the Chinese People's Political Consultative Conference ("CPPCC"), PRC and was formerly a member of the Ninth and Tenth Guangzhou Committees of the CPPCC. He is also a member of the Ninth and Tenth Committees of the All-China Youth Federation, the Deputy Chairman of the Ninth Committee of the Beijing Youth Federation and a Counsellor of the Hong Kong United Youth Association. In addition, he is a Council Member of the Vocational Training Council and the Chairman of its Banking and Finance Industry Training Board, and a member of the Mandatory Provident Fund Industry Schemes Committee of the Mandatory Provident Fund Schemes Authority. Mr. Li is an Independent Non-executive Director and Audit Committee Chairman of Sino Land Company Limited, Tsim Sha Tsui Properties Limited and Sino Hotels (Holdings) Limited. He is also an Alternate Independent Non-executive Director of San Miguel Brewery Hong Kong Limited and an Alternate Non-independent Non-executive Director of AFFIN Holdings Berhad. The aforesaid companies are all listed on the main board of The Stock Exchange of Hong Kong, except AFFIN Holdings Berhad which is listed on the main board of the Malaysia Stock Exchange.

## Dr. Raymond Leung Hai Ming

*Independent Non-executive Director, Audit Committee Member, Remuneration Committee Member, Nomination Committee Member*

Aged 55, was appointed as an Independent Non-executive Director of the Company on 1 June 2005. Dr. Leung holds doctorate degree in Information Engineering from Chinese University of Hong Kong and a bachelor degree in Applied Science in Civil Engineering and a Master degree in Applied Science. Dr. Leung is Fellow of The Hong Kong Institution of Engineers, Hong Kong Institute of Arbitrators, Hong Kong Institute of Construction Managers, American Society for Civil Engineers, Institution of Civil Engineers (UK) and Senior Member of Institute of Electrical and Electronics Engineers. He has more than 33 years of experience in engineering, investment, construction and project management. Dr. Leung had been a non-executive director of Continental Holdings Limited in the last three years. Currently, he is director of various private companies in Hong Kong and independent non-executive director of Elec & Eltek International Company Limited, a company listed on the main board of Singapore Exchange Limited. Dr. Leung is also the chief executive officer of C & L Holdings Ltd engaging in investment and business consultancy.

## Mr. Lee Shing See GBS, OBE, JP

*Independent Non-executive Director, Audit Committee Member, Remuneration Committee Member, Nomination Committee Member*

Aged 67, was appointed as an Independent Non-executive Director of the Company on 1 September 2005. Mr. Lee graduated from the University of Hong Kong in 1964. He is Fellow of both The Hong Kong Institution of Engineers and The Institution of Civil Engineers (UK). Mr. Lee joined The Hong Kong Government since he graduated from the University. He was the Director of Territory Development from the period of August 1994 to August 1999 and the Secretary for Works from the period of August 1999 to August 2002 (including 2 months as a Permanent Secretary). He was appointed by the HKSAR Government as a director of the Hong Kong Science and Technology Parks Corporation, a director of the Hong Kong Cyberport Management Company Limited, a director of Hong Kong Design Centre, a member of the Development Committee of the West Kowloon Cultural District Authority, a chairman of the Construction Industry Council and a member of the Environmental Impact Assessment Appeal Board Panel. Mr. Lee has over 42 years' experience in engineering and construction. He is an independent non-executive director of Chun Wo Development Holdings Limited, a company listed on the main board of the Stock Exchange.

## Senior Management

**Mr. TIAN Shuchen**, deputy general manager, aged 44. He graduated from Dalian University of Technology and Murdoch University (Australia). Mr. Tian is a member of the Chartered Institute of Building (UK). Mr. Tian joined CSCEC in 1988 and was seconded to the Group in 1991. He has been a director of certain subsidiaries of the Group since 2003. Mr. Tian has over 20 years' experience in construction engineering and project management. He is responsible for the Group's investment and construction business in Mainland China.

**Mr. HUNG Cheung Shew**, deputy general manager, aged 51. He graduated from the Plymouth Polytechnic (UK). Mr. Hung is a member of the Hong Kong Institution of Engineers and the Institution of Structural Engineers (UK). Mr. Hung joined the Group in 1996. He has been a director of certain subsidiaries of the Group since 2000. Mr. Hung has over 28 years' experience in construction management and planning. He is responsible for the Group's joint venture construction management, building construction and mechanical and electrical engineering operations.

**Mr. PAN Shujie**, deputy general manager, aged 45. He graduated from the Southeast University (formerly known as Nanjing Institute of Technology) and the University of Warwick (UK). Mr. Pan is a member of the Hong Kong Institute of Engineers and a member of the Chartered Institute of Building (UK). Mr. Pan joined CSCEC in 1987 and was seconded to the Group in 1991. He has been a director of certain subsidiaries of the Group since 1999. Mr. Pan has over 18 years' experience in civil project management. He is responsible for the Group's civil engineering and foundation engineering operations.

**Mr. JIANG Shaojie**, assistant general manager, aged 46. He graduated from Shenyang Architectural and Civil Engineering University and Sheffield Hallam University (UK). Mr. Jiang is a member of China Civil Engineering Society and a member of Chartered Quality Institute. Mr. Jiang joined CSCEC in 1988 and was seconded to the Group in 1991. He has been a director of certain subsidiaries of the Group since 2003. Mr. Jiang has over 27 years' experience in construction engineering and project management. He is responsible for the Group's integrated management on quality and technology.

**Mr. WU Mingqing**, assistant general manager, aged 45. He graduated from Shanxi University of Finance and Economics. Mr. Wu joined CSCEC in 1986 and was seconded to the Group in 2000. He has been a director of certain subsidiaries of the Group since 2002. Mr. Wu has over 23 years' experience in finance management, construction engineering and project management. He assists in managing the Group's construction operation in Mainland China.

**Mr. WONG Wing Yuk**, assistant general manager, aged 52. He graduated from the Plymouth Polytechnic (UK) and obtained the MBA degree from Southern Illinois University (US). Mr. Wong is a fellow member of the Hong Kong Institution of Engineers, a chartered engineer of the Engineering Council and a fellow member of the Institution of Civil Engineers. Mr. Wong joined the Group in 1990. He has been a director of certain subsidiaries of the Group since 2000. Mr. Wong has over 23 years' experience in construction engineering and contract management. He assists in managing the Group's overseas operations.

**Mr. LAU Wing Shing**, general manager of CSHK Dubai Contracting LLC, aged 50. He graduated from the University of Warwick (UK). Mr. Lau is a fellow of the Chartered Institute of Building (UK), a fellow of the Chartered Management Institute (UK), a fellow of the Institute of Clerks of Works of Great Britain Incorporated (UK) and an associate of Chartered Institute of Arbitrators (UK). He is also a member of the Hong Kong Institute of Engineers, a member of the Royal Institution of Chartered Surveyors and the Association of Cost Engineers (UK), the Registered Professional Engineer (Building) of the Hong Kong Engineers Registration Board. Mr. Lau is currently appointed by Planning and Lands Branch, Development Bureau as a member of the Appeal Tribunal Panel (Buildings Ordinance). Mr. Lau joined the Group in 1989. He has been a director of certain subsidiaries of the Group since 1996. Mr. Lau has over 28 years' experience in contract and project management. He assists in managing the Group's building construction operations.

# Directors and Organization *(Continued)*

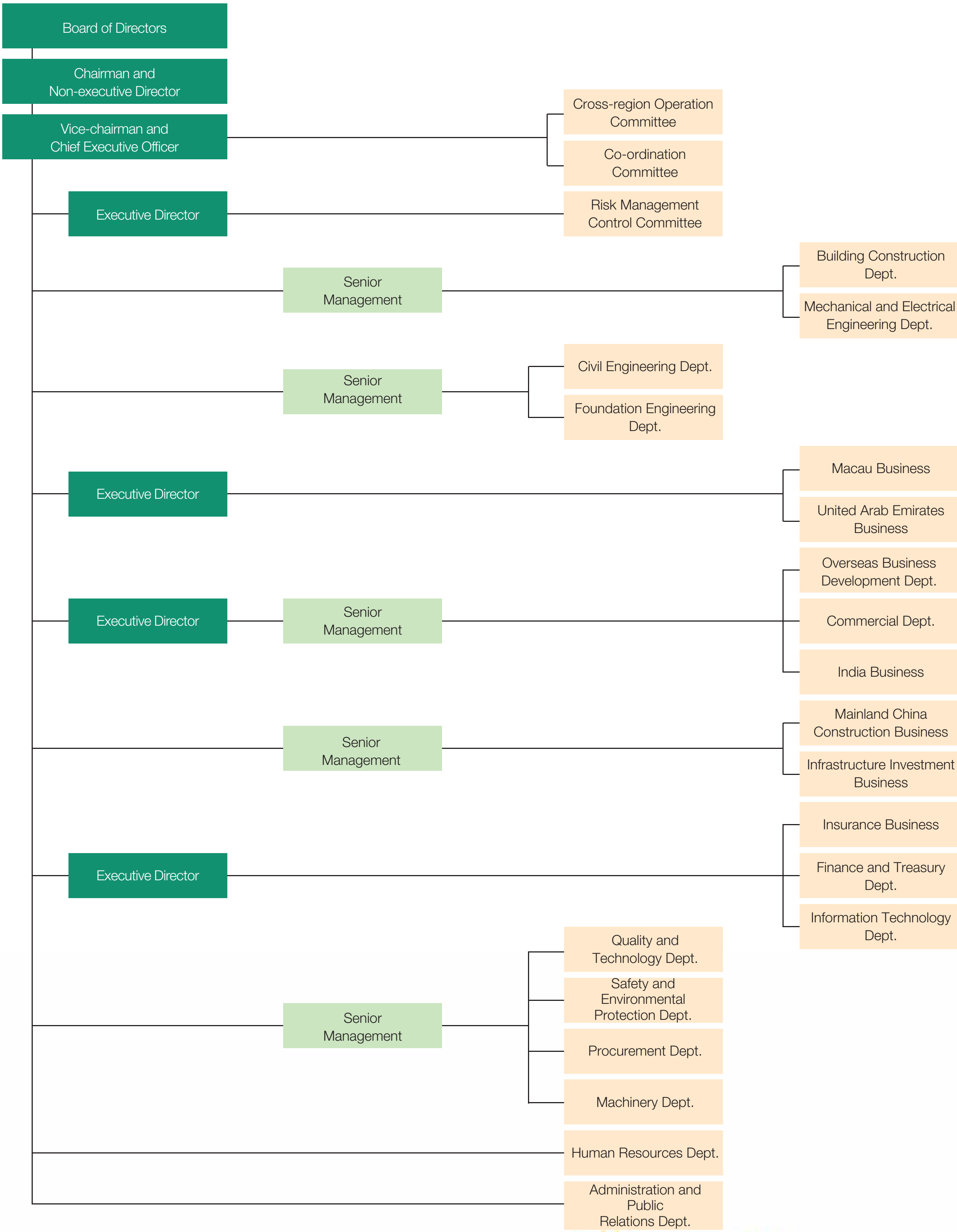
**Mr. CHAN Wai Hung**, general manager of Civil Engineering Department, aged 52. He graduated from Hong Kong Baptist University (formerly known as Hong Kong Baptist College) and City University of Hong Kong. Mr. Chan is a member of The Hong Kong Institution of Engineers and Registered Professional Engineer (Civil) of the Hong Kong Engineers Registration Board. He is also a Chartered Engineer of The Engineering Council (UK) and member of The Institution of Civil Engineers. Mr. Chan is appointed by Works Branch, Development Bureau as a member of Review Panel under the Land (Miscellaneous Provisions) Ordinance. He joined the Group in 1989 and has been a director of certain subsidiaries of the Group since 1998. Mr. Chan has over 30 years' experience in contract and project management. He assists in managing the Group's civil engineering operations.

**Mr. QIN Jidong**, Deputy Chairman of CSHK Dubai Contracting LLC, aged 41. Mr. Qin graduated from the Tianjin University and the Loughborough University (UK). Mr. Qin joined the Group in 1996. He has been a director of certain subsidiaries of the Group since 2004. Mr. Qin has over 18 years' experience in international construction project management. He is responsible for the Group's operations in Dubai.

**Mr. CHAN Sim Wang**, qualified accountant and deputy general manager of Finance and Treasury Department, aged 41. He graduated from Hong Kong Baptist University (formerly known as Hong Kong Baptist College). Mr. Chan is a member of the Hong Kong Institute of Certified Public Accountants and Fellow of the Association of Chartered Certified Accountants. He joined the Group in 1997. Mr. Chan has over 17 years' experience in finance management, accounting and audit fields.

# Directors and Organization *(Continued)*

## Organization Chart



# Directors' Report

The Directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2009.

## 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 48, 23 and 30 respectively to the consolidated financial statements.

## Results and Appropriations

The results of the Group for the year ended 31 December 2009 are set out in the consolidated income statement on page 82.

An interim dividend of HK3.60 cents per share amounting to HK$105,810,000 was paid to the shareholders during the year. The Directors now recommend the payment of a final dividend of HK3.50 cents per share to the shareholders on the register of members on 9 June 2010, amounting to approximately HK$103,538,000.

On 1 September 2009, the Company completed a Rights Issue on the basis of one rights share for every five existing Shares held on 7 August 2009 at a subscription price of HK$2.79 per rights shares. As a result, 489,639,491 ordinary shares of HK$0.025 each were allotted and issued.

## Financial Summary

A summary of the results, assets and liabilities of the Group for the past five financial years is set out on pages 154 and 155.

An analysis of the Group's results 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 156.

## Share Capital and Warrants

Details of movements during the year in the share capital of the Company are set out in note 36 to the consolidated financial statements.

Particulars of the warrants of the Company during the year is set out in note 37 to the 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 86.

## 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. Zhang Yifeng (Appointed on 21 October 2009)
Mr. Fu He (Resigned on 21 October 2009)
Mr. Cheong Chit Sun
Mr. Zhou Hancheng

*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. Kong Qingping, Mr. Zhou Yong and Mr. Zhou Hancheng will retire by rotation at the forthcoming annual general meeting, and, being eligible, offer themselves for re-election.

In accordance with Article 86(3) of the Company's Articles of Association, Mr. Zhang Yifeng appointed by the Board shall hold office only until the next following general meeting of the Company, and shall then be eligible for re-election at that meeting.

Information regarding directors' emoluments is set out in note 12 to the consolidated financial statements.

With effect from 1 February 2010, the monthly salaries of Mr. Yip Chung Nam and Mr. Cheong Chit Sun were changed from HK$163,800 to HK$168,700 and from HK$142,000 to HK$146,200 respectively.

## 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 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 from office and re-election at the annual general meeting of the Company in accordance with the Company's Articles of Association.

## Directors' Interest in Shares and Underlying Shares

As at 31 December 2009, the interests of the Directors and their associates in the shares and underlying shares 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 and underlying shares of the Company

| Name of director | Number of ordinary shares held<br>Personal interests[1] | Number of underlying shares held<br>Share options[2] | Total | % of shares in issue[3] |
|---|---|---|---|---|
| Kong Qingping | 2,988,800 | 3,160,834 | 6,149,634 | 0.208 |
| Zhou Yong | 3,306,240 | 1,843,820 | 5,150,060 | 0.174 |
| Yip Chung Nam | 2,316,796 | 1,975,521 | 4,292,317 | 0.145 |
| Zhang Yifeng[4] | 564,000 | 616,058 | 1,180,058 | 0.040 |
| Cheong Chit Sun | 1,267,200 | 790,209 | 2,057,409 | 0.070 |
| Zhou Hancheng | 2,681,760 | 1,229,213 | 3,910,973 | 0.132 |
| Raymond Ho Chung Tai | – | 878,010 | 878,010 | 0.030 |
| Adrian David Li Man Kiu | – | 878,010 | 878,010 | 0.030 |
| Raymond Leung Hai Ming | – | 878,010 | 878,010 | 0.030 |
| Lee Shing See | – | 878,010 | 878,010 | 0.030 |

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. The percentage has been adjusted based on the total number of ordinary shares of the Company in issue as at 31 December 2009 (i.e. 2,954,572,648 ordinary shares).

4. Mr. Zhang Yifeng was appointed as Director of the Company on 21 October 2009.

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

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

| | Number of ordinary shares held | | Number of underlying shares held | | |
|---|---|---|---|---|---|
| Name of director | Personal interests[1] | Family interest | Share options[2] | Total | % of shares in issue[3] |
| Kong Qingping | 7,435,760 | – | 1,359,334 | 8,795,094 | 0.108 |
| Zhou Yong | – | – | 388,381 | 388,381 | 0.005 |
| Yip Chung Nam | 2,808,564 | – | – | 2,808,564 | 0.034 |
| Cheong Chit Sun | 124,800 | 400[4] | 80,913 | 206,113 | 0.003 |

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" 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 2009 (i.e. 8,169,023,647 ordinary shares).

4. The interests in 400 shares were held by the spouse of Mr. Cheong Chit Sun.

Other than disclosed above, as at 31 December 2009, 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

(i) The Company

*Share Options*

As at 31 December 2009, 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' Rights to Acquire Shares *(continued)*

(ii) Associated Corporation – COLI

*Share Options*

As at 31 December 2009, 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 shares in issue* |
|---|---|---|---|---|---|
| Kong Qingping | 18.06.2004 | 18.06.2005 to 17.06.2014 | 1.118 | 1,359,334 | 0.017 |
| Zhou Yong | 18.06.2004 | 18.06.2005 to 17.06.2014 | 1.118 | 388,381 | 0.005 |
| Cheong Chit Sun | 18.06.2004 | 18.06.2005 to 17.06.2014 | 1.118 | 80,913 | 0.001 |

Note: * The percentage has been adjusted based on the total number of ordinary shares of COLI in issue as at 31 December 2009 (i.e. 8,169,023,647 ordinary shares)

Other than the share options disclosed above, at no time during the year ended 31 December 2009 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 43 to the consolidated financial statements.

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

| | Number of Share Options | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Category | Outstanding at 01.01.2009 | Exercised before Rights Issue | Cancelled before Rights Issue | Adjustment in respect of Rights Issue in September 2009[2] | Reclassified | Exercised after Rights Issue | Cancelled after Rights Issue | Outstanding at 31.12.2009 |
| **Category I:** | | | | | | | | |
| **Directors** | | | | | | | | |
| Kong Qingping | 2,995,200 | – | – | 165,634 | – | – | – | 3,160,834 |
| Zhou Yong | 1,747,200 | – | – | 96,620 | – | – | – | 1,843,820 |
| Yip Chung Nam | 1,872,000 | – | – | 103,521 | – | – | – | 1,975,521 |
| Fu He | 1,248,000 | – | – | 69,014 | (1,317,014)[4] | – | – | – |
| Zhang Yifeng | – | – | – | – | 616,058[3] | – | – | 616,058 |
| Cheong Chit Sun | 1,497,600 | 748,800 | – | 41,409 | – | – | – | 790,209 |
| Zhou Hancheng | 1,164,800 | – | – | 64,413 | – | – | – | 1,229,213 |
| Raymond Ho Chung Tai | 832,000 | – | – | 46,010 | – | – | – | 878,010 |
| Adrian David Li Man Kiu | 832,000 | – | – | 46,010 | – | – | – | 878,010 |
| Raymond Leung Hai Ming | 832,000 | – | – | 46,010 | – | – | – | 878,010 |
| Lee Shing See | 832,000 | – | – | 46,010 | – | – | – | 878,010 |
| All Directors | 13,852,800 | 748,800 | – | 724,651 | (700,956) | – | – | 13,127,695 |
| **Category II:** | | | | | | | | |
| Employees | 53,760,960 | 3,216,080 | 216,320 | 2,783,168 | 700,956 | 8,563,434 | 175,602 | 45,073,648 |
| **Category III:** | | | | | | | | |
| Consultants | 40,444,160 | 790,400 | – | 2,192,854 | – | 6,830,907 | 210,722 | 34,804,985 |
| Total | 108,057,920 | 4,755,280 | 216,320 | 5,700,673 | – | 15,394,341 | 386,324 | 93,006,328 |

Notes:

1. All share options were granted on 14 September 2005 and the exercise price per share option is HK$0.2345 (Before Rights Issue in September 2009: HK$0.2475). Such share options are exercisable during the period from 14 September 2006 to 13 September 2015. No share options were granted during the year.

2. Immediate after the rights issue of the Company effective on 1 September 2009, the number of and the exercise price of the then outstanding share options were adjusted in accordance with the Listing Rules.

3. The share options held by Mr. Zhang Yifeng were reclassified from Employees Category to Directors Category after he was appointed as director of the Company on 21 October 2009.

## Share Options *(continued)*

4. The share options held by Mr. Fu He were reclassified from Directors Category to Employees Category after he resigned as director of the Company on 21 October 2009.

5. The weighted average closing price of the Company's shares immediately before the dates on which the share options were exercised was 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$)* |
|---|---|---|
| 16.01.2009 | 642,000 | 1.2810 |
| 24.02.2009 | 166,400 | 1.2562 |
| 13.03.2009 | 665,600 | 1.2375 |
| 06.04.2009 | 299,600 | 1.2602 |
| 28.04.2009 | 599,040 | 1.3414 |
| 19.05.2009 | 791,680 | 1.4343 |
| 15.06.2009 | 208,000 | 1.6399 |
| 09.07.2009 | 41,600 | 1.7985 |
| 10.08.2009 | 1,341,360 | 2.0426 |
| 24.09.2009 | 1,825,654 | 2.2804 |
| 29.09.2009 | 3,883,089 | 2.2938 |
| 12.10.2009 | 2,860,388 | 2.3233 |
| 28.10.2009 | 263,404 | 2.3728 |
| 06.11.2009 | 2,858,870 | 2.3995 |
| 24.11.2009 | 2,078,617 | 2.4496 |
| 14.12.2009 | 1,624,319 | 2.5103 |
| | 20,149,621 | |

## 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.

## Substantial Shareholders

As at 31 December 2009, 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 | Total | % of shares in issue[1] |
|---|---|---|---|---|
| China Overseas Holdings Limited[2] ("COHL") | Beneficial owner | 1,845,713,384 | 1,845,713,384 | 62.47 |
| China State Construction Engineering Corporation Limited[3] ("CSCECL") | Interest of a controlled corporation/beneficial owner | 1,845,713,384 | 1,845,713,384 | 62.47 |
| China State Construction Engineering Corporation[4] ("CSCEC") | Interest of a controlled corporation/beneficial owner | 1,845,713,384 | 1,845,713,384 | 62.47 |

Notes:

1. The percentage has been adjusted based on the total number of ordinary shares of the Company in issue as at 31 December 2009 (i.e. 2,954,572,648 ordinary shares).

2. Amongst the total number of 1,845,713,384 Shares held by COHL, 1,768,096,091 Shares was held as beneficial owner while the balance of 77,617,293 Shares was 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 1,845,713,384 Shares directly owned by COHL.

4. CSCECL is held as to 52.66% by CSCEC, thus CSCEC is deemed by the SFO to be interested in 1,845,713,384 Shares indirectly owned by CSCECL.

Other than disclosed above, as at 31 December 2009, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company.

## Connected and Related Party Transactions

Details of connected transactions are set out on pages 75 to 80. Save as the related party transactions disclosed in note 46 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' 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 43 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$24.40 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$64,000 (2008: HK$60,500).

## Major Customers and Suppliers

In 2009, the five largest customers of the Group accounted for approximately 56.6% of the Group's total revenue and total revenue from the largest customer included therein accounted for approximately 20.8%. The five largest suppliers of the Group accounted for less than 6.6% 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.

## 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.

## Event After the Reporting Period

Details of significant events occurring after the balance sheet date are set out in note 47 to the consolidated financial statements.

## Auditor

Messrs. Deloitte Touche Tohmatsu has acted as auditor of the Company for the past three years.

A resolution to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor 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, 17 March 2010

# Connected Transactions

## A. Connected Transactions Falling under Rule 14A.16(2) of the Listing Rules

### Formation of Wuhan JV with China Construction Third Engineering Bureau Corp., Ltd. and China State Construction Engineering Corporation Limited

中建三局建設工程股份有限公司 China Construction Third Engineering Bureau Corp., Ltd., ("CCTEB", a subsidiary of 中國建築股份有限公司 China State Construction Engineering Corporation Limited ("CSCECL"), held as to 94% by 中國建築工程總公司 China State Construction Engineering Corporation ("CSCEC", the ultimate holding company of the Company) in July 2009.) has won an open tender as the lead contractor to build the Wuhan Infrastructure Project (involves the reconstruction of the Wuxian Highway (武咸公路) and the construction of the Shahu Passageway (沙湖通道), both located in Wuhan, the PRC) under a related build-transfer contract with the Wuhan Government (or its nominated entity). On 8 July 2009, CCTEB, 深圳中海建築有限公司 Shenzhen China Overseas Construction Limited ("SCOCL", a wholly owned subsidiary of the Company) and CSCECL entered into the Wuhan JV Agreement, pursuant to which the parties thereto agreed to jointly build the Wuhan Infrastructure Project under the above build-transfer contract through the Wuhan JV.

Pursuant to the Wuhan JV Agreement, CCTEB, SCOCL and CSCECL shall form the Wuhan JV and will hold 50%, 30% and 20% equity interests in the Wuhan JV, respectively. The registered capital of the Wuhan JV shall be RMB300,000,000 (approximately HK$341,000,000). CCTEB, SCOCL and CSCECL will pay into the Wuhan JV RMB150,000,000 (approximately HK$170,500,000), RMB90,000,000 (approximately HK$102,300,000) and RMB60,000,000 (approximately HK$68,200,000), respectively, in cash in proportion to their respective equity interests in the Wuhan JV.

Since the applicable percentage ratios under the Listing Rules calculated for the Company in respect of the Wuhan JV Agreement is less than 2.5%, the formation of Wuhan JV is subject to the reporting and announcement requirements and exempt from independent shareholders' approval requirements under the Listing Rules.

Details of the Wuhan JV were disclosed in an announcement dated 8 July 2009.

## B. Connected Transactions Falling under Rule 14A.16(5) of the Listing Rules

### Formation of Joint Venture with CSCECL

On 9 April 2009, CSCECL and the Company entered into a joint venture agreement ("JV Agreement"), pursuant to which CSCECL and the Company (or its wholly owned subsidiary) shall form a Joint Venture Company ("JV Company", CSCECL and the Company will each hold 50% equity interest in the JV Company) for submitting tenders to participate in infrastructure construction projects in PRC.

The initial registered capital of the JV Company shall be RMB250,000,000 (approximately HK$284,000,000). Each of CSCECL and the Company will pay into the JV Company RMB125,000,000 (approximately HK$142,000,000) in cash in proportion to their respective equity interests in the JV Company. The maximum total registered capital of the JV Company shall be RMB500,000,000 (approximately HK$568,000,000).

Since the applicable percentage ratios under the Listing Rules calculated for the Company in respect of the JV Agreement exceed 2.5%, the formation of JV Company is subject to the reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

A circular dated 23 April 2009 containing details of the formation of JV Company has been dispatched to the shareholders of the Company. The JV Agreement was duly approved by independent shareholders of the Company at an extraordinary general meeting held on 27 May 2009.

On 29 May 2009, the JV Company signed a "Build-Transfer" framework agreement with The Tangshan Government to build Tangshan Binhai Avenue.

## C. Continuing Connected Transactions under the Listing Rules

### C.1 Master Tenancy Agreement

On 15 May 2006, China State Construction Limited ("CSCL", an indirect wholly owned subsidiary of the Company) has entered into a Master Tenancy Agreement with On Success Development Limited ("On Success", a subsidiary of China Overseas Land & Investment Ltd., "COLI") for the leases of the Group's office premises situated in Unit A, B, C & D on 26th Floor, 27th Floor, 28th Floor, 29th Floor and 30th Floor, China Overseas Building, 139 Hennessy Road, Wanchai, Hong Kong. Pursuant to the Master Tenancy Agreement, the rent payable by CSCL will be HK$6,616,428, HK$8,635,704 and HK$8,972,250 for the three year ending 30 June 2007, 30 June 2008 and 30 June 2009, respectively.

The rent payable for the above properties are determined by reference to a valuation report dated 11 May 2006 by DTZ Debenham Tie Leung Limited, an independent valuer, on the prevailing market conditions and the rental level of similar properties in the vicinity of the above properties.

The offices of the Company and its subsidiaries were previously located in the upper and lower floors of China Overseas Building. The Master Tenancy Agreement enables the Company and its subsidiaries to consolidate their operations from the 26th to 30th Floors of China Overseas Building and provide a more efficient working environment for the Company and its subsidiaries.

The total contract value for the transaction under the Master Tenancy Agreement is less than 2.5% of the applicable percentage ratios calculated pursuant to the Listing Rules. As such the Master Tenancy Agreement is subject to the reporting and announcement requirements and is exempt from the independent shareholders' approval requirement.

An announcement containing the particulars of the Master Tenancy Agreement was made on 16 May 2006.

For the period from 1 July 2008 to 30 June 2009, the aggregate amount made by CSCL to On Success under the Master Tenancy Agreement amounted to HK$8,972,250.

### C.2 Master Dubai Construction Agreement

As stated in the Company's listing document dated 14 June 2005, CSCEC has in anticipation of the Group's intention to explore the construction market in Dubai given the Non-Competition Undertaking in favour of the Company on 29 April 2005 that it will not, and will procure that no member of the CSCEC Group (i.e. CSCEC and its subsidiaries including COLI but excluding the Group) will be engaged in the construction market in, among others, Dubai except, among other things, in joint venture with the Group.

On 19 November 2007, the Company entered into a Master Dubai Construction Agreement with CSCEC. Pursuant to the Master Dubai Construction Agreement, the CSCEC Group may subject to the prior written consent of the Company and payment of fee, tender for and/or enter into contracts in construction works in Dubai, provided that the total contracts that may be awarded to the CSCEC Group in each of the three financial years ending 31 December 2010 shall not exceed HK$5,000 million (i.e. the "Cap").

The Fee receivable under the Master Dubai Construction Agreement is less than 2.5% of the applicable percentage ratios calculated pursuant to the Listing Rules. Owing to the Non-Competition Undertaking, the Company is required to comply with the reporting, announcement and independent shareholders' approval requirements.

## C. Continuing Connected Transactions under the Listing Rules *(continued)*

### C.2 Master Dubai Construction Agreement *(continued)*

A circular dated 30 November 2007 containing details of the Master Dubai Construction Agreement has been dispatched to shareholders of the Company. The Master Dubai Construction Agreement was duly approved by the independent shareholders of the Company at an extraordinary general meeting held on 27 December 2007.

For the year ended 31 December 2009, the total contract sum awarded to the CSCEC Group was HK$517,452,144 and the relevant fee thereon calculated under the Master Dubai Construction Agreement was HK$12,936,304.

### C.3 Sub-construction Engagement Agreement

On 2 April 2009, the Company and CSCECL entered into a Sub-construction Engagement Agreement, whereby: (i) the Group may engage the CSCECL Group as construction sub-contractor and/or project management contractor in the PRC and the United Arab Emirates upon successful tender for a term of three years commencing from 1 July 2009 and ending on 30 June 2012 provided that the maximum total contract sum that may be awarded by the Group to the CSCECL Group for the period between 1 July 2009 and 31 December 2009 shall not exceed HK$1,000 million, for each of the two financial years ending 31 December 2011 shall not exceed HK$2,000 million, and for the period between 1 January 2012 and 30 June 2012 shall not exceed HK$1,000 million (i.e. the CSCECL Sub-construction Engagement Cap); and (ii) the CSCECL Group may engage the Group as construction sub-contractor in the PRC upon successful tender for a term of three years commencing from 1 July 2009 and ending on 30 June 2012 provided that the maximum total contract sum that may be awarded by the CSCECL Group to the Group for the period between 1 July 2009 and 31 December 2009 shall not exceed HK$4,000 million, for each of the two financial years ending 31 December 2011 shall not exceed HK$4,000 million, and for the period between 1 January 2012 and 30 June 2012 shall not exceed HK$2,000 million (i.e. the CSC Sub-construction Engagement Cap).

The maximum total contract sum that may be awarded to the CSCECL Group and the Group for each year/period under the Sub-construction Engagement Agreement respectively, i.e. the CSCECL Sub-construction Engagement Cap and the CSC Sub-construction Engagement Cap, exceed 2.5% of the applicable percentage ratios calculated pursuant to the Listing Rules. As such the Sub-construction Engagement Agreement is subject to the reporting, announcement and independent shareholders' approval requirements.

A circular dated 23 April 2009 containing details of the Sub-construction Engagement Agreement has been dispatched to the shareholders of the Company. The Sub-construction Engagement Agreement was duly approved by the independent shareholders of the Company at an extraordinary general meeting held on 27 May 2009.

There was no transaction occurred under the Sub-construction Engagement Agreement for the year ended 31 December 2009.

## C. Continuing Connected Transactions under the Listing Rules *(continued)*

### C.4 CSC Group Engagement Agreement

In November 2005, the Group entered into various construction engagement agreements with COLI Group. Pursuant to the construction engagement agreements the Group may tender for COLI Group's construction works in the PRC, Hong Kong and Macau in accordance with the tendering procedures of the COLI Group from time to time for a term of three years commencing from 1 January 2006 to 31 December 2008.

As the aforesaid construction engagement agreements expired on 31 December 2008, the directors of COLI expect that the COLI Group will invite the Group to participate in competitive tender for the COLI Group's construction works in the PRC, Hong Kong and Macau from time to time. In this connection, on 2 April 2009, the Company and COLI entered into a new engagement agreement ("CSC Group Engagement Agreement") for a term of three years commencing from 1 July 2009 and ending on 30 June 2012. Pursuant to the CSC Group Engagement Agreement, the aggregate amount of total contract sum that may be awarded by the COLI Group to the Group for the period between 1 July 2009 and 31 December 2009 shall not exceed HK$1,000 million, for each of the two years ending 31 December 2011 shall not exceed HK$2,000 million, and for the period between 1 January 2012 and 30 June 2012 shall not exceed HK$1,000 million (i.e. the CSC Group Engagement Cap).

The maximum total contract sum that may be awarded to the Group for each year/period under the CSC Group Engagement Agreement, i.e. the CSC Group Engagement Cap, exceed 2.5% of the applicable percentage ratios calculated pursuant to the Listing Rules. As such the CSC Group Engagement Agreement is subject to the reporting, announcement and independent shareholders' approval requirements.

A circular dated 23 April 2009 containing details of the CSC Group Engagement Agreement has been dispatched to the shareholders of the Company. The CSC Group Engagement Agreement was duly approved by the independent shareholders of the Company at an extraordinary general meeting held on 27 May 2009.

For the year ended 31 December 2009, the total contract sum awarded to the Group under the CSC Group Engagement Agreement was HK$136,931,626.

### C.5 Master Security Services Agreement

On 15 May 2006, the Company and China Overseas Security Services Limited ("COS", an indirect wholly owned subsidiary of COLI) entered into a master security services agreement, whereby COS agreed to provide security services to the Group up to the end of 31 December 2008.

As the said master security services agreement with COS expired on 31 December 2008, the Company and COLI has entered into a new Master Security Services Agreement.

On 2 April 2009, COLI and the Company entered into the Master Security Services Agreement for a term of three years commencing from 1 July 2009 and ending on 30 June 2012. The maximum total contract sum that may be awarded by the Group to the COLI Group under the Master Security Services Agreement for the period between 1 July 2009 and 31 December 2009 shall not exceed HK$15 million, for each of the two years ending 31 December 2011 shall not exceed HK$30 million, and for the period between 1 January 2012 and 30 June 2012 shall not exceed HK$15 million (i.e. the Security Services Cap).

## C. Continuing Connected Transactions under the Listing Rules *(continued)*

### C.5 Master Security Services Agreement *(continued)*

Under the Master Security Services Agreement, the Group will invite members of the COLI group which hold the relevant licenses to provide security services in Hong Kong to participate in competitive tender for the security services to the work sites of the Group in Hong Kong from time to time.

The maximum total contract sum for the provision of the security services by the COLI Group for each year/period under the Master Security Services Agreement, i.e. the Security Services Cap, is less than 2.5% of the applicable percentage ratios calculated pursuant to the Listing Rules. As such the Master Security Services Agreement is subject to the reporting and announcement requirements and are exempt from the independent shareholders' approval requirement.

An announcement containing the particulars of the Master Security Services Agreement was made on 2 April 2009.

For the year ended 31 December 2009, the total contract sum awarded to the COLI Group under the Master Security Services Agreement was HK$13,655,500.

### C.6 Master Lease Agreement

On 15 May 2006, On Success entered into a master tenancy agreement with CSCL, whereby CSCL agreed to lease certain properties located at China Overseas Building as offices of the Group up to the end of 30 June 2009.

As the said master tenancy agreement expired on 30 June 2009, the Company and COLI have entered into a Master Lease Agreement to replace such previous master tenancy agreement, taking into account any additional properties owned by COLI Group that may be leased by the Group from the COLI Group.

On 2 April 2009, COLI and the Company entered into the Master Lease Agreement for a term of three years commencing from 1 July 2009 and ending on 30 June 2012. The rent payable by the Group for the period between 1 July 2009 and 31 December 2009 shall not exceed HK$6 million, for each of the two years ending 31 December 2011 shall not exceed HK$12 million, and for the period between 1 January 2012 and 30 June 2012 shall not exceed HK$6 million (i.e. the Lease Cap).

The maximum aggregate rental (exclusive of rates, government rent, management fees and air-conditioning charges, water charges, cleaning charges and electricity charges) payable by the Group to the COLI Group for each year/period under the Master Lease Agreement, i.e. the Lease Cap, is less than 2.5% of the applicable percentage ratios calculated pursuant to the Listing Rules. As such the Master Lease Agreement is subject to the reporting and announcement requirements and are exempt from the independent shareholders' approval requirement.

An announcement containing the particulars of the Master Lease Agreement was made on 2 April 2009.

For the year ended 31 December 2009, the aggregate amount payable by the Group to the COLI Group under the Master Lease Agreement amounted to HK$4,301,171.

## C. Continuing Connected Transactions under the Listing Rules *(continued)*

Pursuant to Rule 14A.38 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the board of directors engaged the auditor of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group. The auditor has reported the factual findings on these procedures to the board of directors. The Directors have reviewed the continuing connected transactions and received the factual finding report of the auditor and have confirmed that the continuing connected transactions contemplated under this section entered into by the Group for the year ended 31 December 2009:–

(i) have received the approval of the board of directors;

(ii) have been entered into in accordance with the terms of the relevant agreements governing such transactions; and

(iii) have not exceed the annual cap disclosed in the relevant announcements/circulars of the Company.

The Directors (including the independent non-executive directors) have reviewed and confirmed the continuing connected transactions contemplated under this section have been entered into:

(i) in the ordinary and usual course of business of the Group;

(ii) on an arm's length basis;

(iii) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and

(iv) in accordance with the relevant agreement governing such transactions on terms that are fair and reasonable and in the interests of the shareholders of the Group as a whole.

# Independent Auditor's Report

Deloitte.
德勤

**TO THE SHAREHOLDERS OF CHINA STATE CONSTRUCTION INTERNATIONAL HOLDINGS LIMITED**
*(incorporated in the Cayman Islands with limited liability)*

We have audited the consolidated financial statements of China State Construction International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 82 to 153 which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with the agreed terms of the engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2009 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*

Hong Kong, 17 March 2010

# Consolidated Income Statement

For the year ended 31 December 2009

| | NOTES | 2009<br>HK$'000 | 2008<br>*HK$'000* |
|---|---|---|---|
| Revenue | 7 | **11,341,998** | 11,021,405 |
| Costs of sales | | **(10,349,096)** | (10,112,012) |
| Gross profit | | **992,902** | 909,393 |
| Investment income | 9 | **43,298** | 33,469 |
| Other income | 10 | **89,126** | 44,518 |
| Administrative expenses | | **(356,535)** | (394,032) |
| Distribution and selling expenses | | **(9,843)** | (17,796) |
| Other expenses | | **(22,324)** | (2,847) |
| Reversal of impairment loss of properties held for sales | | **–** | 18,292 |
| Impairment loss of investment properties | | **–** | (2,977) |
| Impairment loss of available-for-sale investments | | **–** | (6,735) |
| Share of profits of associates | | **11,592** | 9,445 |
| Finance costs | 11 | **(26,136)** | (20,065) |
| Profit before tax | | **722,080** | 570,665 |
| Income tax expense | 14 | **(109,549)** | (66,276) |
| Profit for the year | 15 | **612,531** | 504,389 |
| Attributable to: | | | |
| Owners of the Company | | **612,531** | 489,321 |
| Minority interests | | **–** | 15,068 |
| | | **612,531** | 504,389 |
| | | | (restated) |
| Earnings per share *(HK cents)* | 17 | | |
| Basic | | **22.65** | 19.01 |
| Diluted | | **21.86** | 18.19 |

# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| **Profit for the year** | **612,531** | 504,389 |
| Other comprehensive income | | |
| Exchange differences arising on translation of foreign operations | **(19,836)** | 40,665 |
| Fair value changes of available-for-sale investments | **15,880** | (21,398) |
| Reclassification adjustment on sale of available-for-sale investments | **639** | – |
| Reclassification upon impairment of available-for-sale investments | **–** | 6,735 |
| Other comprehensive (expense) income for the year | **(3,317)** | 26,002 |
| Total comprehensive income for the year | **609,214** | 530,391 |
| Total comprehensive income attributable to: | | |
| Owners of the Company | **609,214** | 515,323 |
| Minority interests | **–** | 15,068 |
| | **609,214** | 530,391 |

# Consolidated Statement of Financial Position

At 31 December 2009

| | NOTES | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|---|
| **Non-current Assets** | | | |
| Property, plant and equipment | 18 | **1,121,324** | 1,107,275 |
| Investment properties | 19 | **43,031** | 44,692 |
| Investment in lands consolidation | 20 | **–** | 49,814 |
| Interests in infrastructure project investments | 21 | **1,050,040** | 466,876 |
| Prepaid lease payments | 22 | **76,551** | 78,536 |
| Interests in associates | 23 | **35,175** | 41,258 |
| Intangible asset | 24 | **9,950** | – |
| Available-for-sale investments | 25 | **116,179** | 98,169 |
| Amounts due from investee companies | 26 | **250,142** | 181,940 |
| | | **2,702,392** | 2,068,560 |
| **Current Assets** | | | |
| Interests in infrastructure project investments | 21 | **15,808** | 15,782 |
| Prepaid lease payments | 22 | **2,243** | 2,238 |
| Inventories | 27 | **46,883** | 55,509 |
| Properties held for sale | | **7,859** | 9,309 |
| Amounts due from customers for contract work | 28 | **539,294** | 506,385 |
| Trade and other receivables | 29 | **3,398,325** | 3,703,163 |
| Deposits and prepayments | | **242,839** | 232,690 |
| Amounts due from jointly controlled entities | 30 | **40,184** | 67,951 |
| Amounts due from the partners of jointly controlled entities | 30 | **308,862** | 292,098 |
| Amounts due from fellow subsidiaries | 31 | **61,673** | 108,291 |
| Amount due from immediate holding company | 31 | **–** | 2,238 |
| Amount due from intermediate holding company | 31 | **25,364** | – |
| Tax recoverable | | **4,832** | 2,414 |
| Pledged bank deposits | 32 | **14,905** | 16,690 |
| Deposits with financial institutions | 32 | **1,446** | 177 |
| Bank balances and cash | 32 | **5,746,573** | 1,900,169 |
| | | **10,457,090** | 6,915,104 |
| **Current Liabilities** | | | |
| Amounts due to customers for contract work | 28 | **505,449** | 301,089 |
| Trade and other payables | 33 | **3,552,277** | 3,690,426 |
| Deposits received and receipt in advance | | **681,801** | 623,762 |
| Amounts due to jointly controlled entities | 30 | **299,327** | 308,820 |
| Amounts due to the partners of jointly controlled entities | 30 | **42,034** | 46,879 |
| Amounts due to fellow subsidiaries | 31 | **13,316** | 4,270 |
| Amount due to intermediate holding company | 31 | **–** | 86,583 |
| Amount due to an associate | 31 | **25,211** | 10,139 |
| Tax liabilities | | **134,047** | 114,622 |
| Borrowings | 34 | **21,956** | 37,128 |
| Obligations under finance leases | 35 | **74** | 162 |
| | | **5,275,492** | 5,223,880 |
| **Net Current Assets** | | **5,181,598** | 1,691,224 |
| **Total Assets less Current Liabilities** | | **7,883,990** | 3,759,784 |

# Consolidated Statement of Financial Position *(Continued)*

At 31 December 2009

| | NOTES | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|---|
| **Capital and Reserves** | | | |
| Share capital | 36 | 73,864 | 61,119 |
| Share premium and reserves | | 4,230,918 | 2,462,138 |
| Equity attributable to owners of the Company | | 4,304,782 | 2,523,257 |
| **Non-current Liabilities** | | | |
| Deferred income | 38 | 180,480 | 165,320 |
| Deferred tax liabilities | 39 | 93,219 | 71,133 |
| Borrowings | 34 | 1,601,931 | 1,000,000 |
| Obligations under finance leases | 35 | – | 74 |
| Loans from intermediate holding company | 40 | 1,703,578 | – |
| | | 3,579,208 | 1,236,527 |
| | | 7,883,990 | 3,759,784 |

The consolidated financial statements on pages 82 to 153 were approved and authorised for issue by the board of directors on 17 March 2010 and are signed on its behalf by:

**Zhou Yong**
*DIRECTOR*

**Zhou Hancheng**
*DIRECTOR*

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

| | Attributable to owners of the Company | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital HK$'000 | Share premium HK$'000 | Special reserve HK$'000 (note a & b) | Capital redemption reserve HK$'000 (note e) | Share option reserve HK$'000 | Investment revaluation reserve HK$'000 | Translation reserve HK$'000 | Statutory reserve HK$'000 (note c) | Retained profits HK$'000 | Total HK$'000 | Minority interests HK$'000 | Total HK$'000 |
| At 1 January 2008 | 60,821 | 997,528 | (455,423) | – | 5,121 | 2,532 | 81,041 | 11,192 | 1,450,559 | 2,153,371 | 86,386 | 2,239,757 |
| Profit for the year | – | – | – | – | – | – | – | – | 489,321 | 489,321 | 15,068 | 504,389 |
| Loss on fair value changes of available-for-sale investments | – | – | – | – | – | (21,398) | – | – | – | (21,398) | – | (21,398) |
| Exchange differences arising on translation of foreign operations | – | – | – | – | – | – | 40,665 | – | – | 40,665 | – | 40,665 |
| Reclassification upon impairment of available-for-sale investments | – | – | – | – | – | 6,735 | – | – | – | 6,735 | – | 6,735 |
| Total comprehensive income for the year | – | – | – | – | – | (14,663) | 40,665 | – | 489,321 | 515,323 | 15,068 | 530,391 |
| Issue of ordinary shares upon exercise of share options and warrants | 635 | 7,320 | – | – | (1,557) | – | – | – | – | 6,398 | – | 6,398 |
| Share buy-back after share sub-division (note e) | (337) | – | – | 337 | – | – | – | – | (15,748) | (15,748) | – | (15,748) |
| Recognition of equity-settled share based payments | – | – | – | – | 1,688 | – | – | – | – | 1,688 | – | 1,688 |
| 2007 final dividend paid | – | – | – | – | – | – | – | – | (109,726) | (109,726) | – | (109,726) |
| 2008 interim dividend paid | – | – | – | – | – | – | – | – | (90,149) | (90,149) | – | (90,149) |
| Distribution of profit (note b) | – | – | (39,354) | – | – | – | – | – | – | (39,354) | – | (39,354) |
| Transfer to statutory reserve | – | – | – | – | – | – | – | 364 | (364) | – | – | – |
| Transfer from minority interest (note d) | – | – | – | – | – | – | – | – | 101,454 | 101,454 | (101,454) | – |
| At 31 December 2008 | 61,119 | 1,004,848 | (494,777) | 337 | 5,252 | (12,131) | 121,706 | 11,556 | 1,825,347 | 2,523,257 | – | 2,523,257 |
| Profit for the year | – | – | – | – | – | – | – | – | 612,531 | 612,531 | – | 612,531 |
| Gain on fair value changes of available-for-sale investments | – | – | – | – | – | 15,880 | – | – | – | 15,880 | – | 15,880 |
| Exchange differences arising on Translation of foreign operations | – | – | – | – | – | – | (19,836) | – | – | (19,836) | – | (19,836) |
| Reclassification adjustment on sale of available-for-sale investments | – | – | – | – | – | 639 | – | – | – | 639 | – | 639 |
| Total comprehensive income for the year | – | – | – | – | – | 16,519 | (19,836) | – | 612,531 | 609,214 | – | 609,214 |
| Issue of ordinary shares upon exercise of share options and warrants | 504 | 5,576 | – | – | (1,234) | – | – | – | – | 4,846 | – | 4,846 |
| Issue of ordinary shares on rights issue | 12,241 | 1,353,853 | – | – | – | – | – | – | – | 1,366,094 | – | 1,366,094 |
| Share issue expense | – | (12,971) | – | – | – | – | – | – | – | (12,971) | – | (12,971) |
| Recognition of equity-settled share based payments | – | – | – | – | 934 | – | – | – | – | 934 | – | 934 |
| 2008 final dividend paid | – | – | – | – | – | – | – | – | (80,782) | (80,782) | – | (80,782) |
| 2009 interim dividend paid | – | – | – | – | – | – | – | – | (105,810) | (105,810) | – | (105,810) |
| Transfer to statutory reserve | – | – | – | – | – | – | – | 1,447 | (1,447) | – | – | – |
| At 31 December 2009 | 73,864 | 2,351,306 | (494,777) | 337 | 4,952 | 4,388 | 101,870 | 13,003 | 2,249,839 | 4,304,782 | – | 4,304,782 |

Notes:

(a) Special reserve as at 1 January 2008 arose from the combinations of China State Construction Engineering (Hong Kong) Limited, Zetson Enterprises Limited and its subsidiaries, China Construction Engineering (Macau) Company Limited and its subsidiaries, China Overseas Insurance Limited, China Overseas Insurance Services Limited, COHL (Macao) Commercial and Industrial Company Limited, 深圳中海建築有限公司 and its subsidiary, China Overseas Public Utility Investment Limited and its subsidiaries, Fuller Sky Enterprises Limited ("Fuller Sky") and Value Idea Investments Limited ("Value Idea") under common control. The amount represents excess of considerations paid over the share capital of the acquired companies net of distribution to the former shareholders.

(b) Decrease in special reserve during the year ended 31 December 2008 represented the distribution of reserve to the former shareholder of Fuller Sky before the common control combinations by transferring the entire interests of Fuller Sky.

(c) Statutory reserve of the Group represents general and development fund reserve applicable to the overseas and People Republic of China ("PRC") subsidiaries which were established in accordance with the relevant regulations.

(d) Upon the completion of common control combinations by transferring the entire interests of Value Idea in 2008, Value Idea became the wholly-owned subsidiary of the Company and the amount of retained profits attributable to the minority shareholders of China Overseas Land & Investment Ltd., the former holding company of Value Idea, was transferred to the retained profits of the Group in 2008.

(e) The ordinary shares of the Company are repurchased out of the Company's retained profits, the amount by which the Company's issued share capital is diminished on cancellation of the shares repurchased was transferred to the capital redemption reserve. The movements of share capital during both years are set out in note 36.

# Consolidated Statement of Cash Flows

For the year ended 31 December 2009

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Profit before tax | **722,080** | 570,665 |
| Adjustments for: | | |
| Finance costs | **26,136** | 20,065 |
| Investment income | **(43,298)** | (33,469) |
| Gain on disposal of property, plant and equipment | **(2,316)** | (9,314) |
| Impairment loss of investment properties | **–** | 2,977 |
| Impairment loss of available-for-sale investments | **–** | 6,735 |
| Allowance for doubtful debts on trade and other receivables | **5,175** | 8,096 |
| Reversal of impairment loss of properties held for sales | **–** | (18,292) |
| Share of profits of associates | **(11,592)** | (9,445) |
| Depreciation of property, plant and equipment | **85,214** | 104,474 |
| Depreciation of investment properties | **1,665** | 913 |
| Exchange gain | **(17,943)** | – |
| Amortisation of prepaid lease payments | **2,091** | 2,235 |
| Share-based payment expenses | **934** | 1,688 |
| Waiver of amount due to a partner of a jointly controlled entity | **(18,483)** | – |
| Operating cash flows before movements in working capital | **749,663** | 647,328 |
| (Increase) decrease in income receivables from infrastructure project investments | **(5,910)** | 15,837 |
| Decrease (increase) in inventories | **8,626** | (10,332) |
| Decrease in properties held for sales | **1,468** | – |
| (Increase) decrease in amounts due from customers for contract work | **(32,909)** | 88,652 |
| Decrease (increase) in trade and other receivables | **298,385** | (347,362) |
| Increase in deposits and prepayments | **(10,149)** | (4,124) |
| Decrease in amounts due from fellow subsidiaries | **46,618** | 51,362 |
| Increase in amount due from intermediate holding company | **(25,364)** | – |
| Increase (decrease) in amounts due to customers for contract work | **233,013** | (97,810) |
| Decrease in trade and other payables | **(141,935)** | (71,177) |
| Increase in deposits received and receipt in advance | **58,039** | 21,802 |
| Increase in amounts due to fellow subsidiaries | **9,046** | 7,766 |
| Increase (decrease) in amount due to an associate | **15,072** | (6,335) |
| Increase in deferred income | **15,832** | 28,281 |
| Cash generated from operations | **1,219,495** | 323,888 |
| Income taxes paid | **(70,819)** | (66,256) |
| Income taxes refunded | **321** | 43,793 |
| **NET CASH FROM OPERATING ACTIVITIES** | **1,148,997** | 301,425 |

# Consolidated Statement of Cash Flows *(Continued)*

For the year ended 31 December 2009

| | NOTE | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|---|
| **INVESTING ACTIVITIES** | | | |
| Interest received | | 22,974 | 25,033 |
| Purchase of property, plant and equipment | | (132,564) | (215,120) |
| Proceeds from disposal of property, plant and equipment | | 8,547 | 12,836 |
| Repayment from jointly controlled entities | | 27,767 | 12,601 |
| Advance to the partners of jointly controlled entities | | (16,764) | (98,337) |
| Repayment from (advance to) immediate holding company | | 2,238 | (2,238) |
| Net decrease in pledged bank deposits | | 1,785 | 964 |
| (Increase) decrease in deposits with financial institutions | | (1,269) | 5,128 |
| Dividends received from associates | | 17,675 | 3,258 |
| Dividends received from unlisted available-for-sale investments | | 5,971 | 3,177 |
| Dividends received from listed available-for-sale investments | | 4 | 470 |
| Acquisition of listed available-for-sale investments | | (3,084) | (3,891) |
| Proceeds from disposal of listed available-for-sale investments | | 12,334 | 4,311 |
| Increase in prepaid lease payments | | – | (17,279) |
| Increase in interests in infrastructure project investments | | (577,280) | – |
| Decrease (increase) in investment in lands consolidation | | 49,814 | (49,814) |
| Advance to investee companies | | (76,358) | (39,070) |
| Capital return upon deregistration of a subsidiary | | 11,764 | – |
| Acquisition of a subsidiary | 41 | (7,966) | – |
| **NET CASH USED IN INVESTING ACTIVITIES** | | (654,412) | (357,971) |
| **FINANCING ACTIVITIES** | | | |
| Finance cost paid | | (26,136) | (20,065) |
| Dividend paid to owners of the Company | | (186,592) | (199,875) |
| Advance from jointly controlled entities | | 8,990 | 85,595 |
| Repayment to the partners of jointly controlled entities | | (4,845) | (26,378) |
| Distribution of reserve to a former shareholder | | – | (39,354) |
| Payment to fellow subsidiaries pursuant to common control combination | | – | (455,000) |
| Loans from intermediate holding company, net | | 1,616,995 | 86,583 |
| Repayment of other borrowings | | (15,232) | (13,313) |
| Payment of share buy-back | | – | (15,748) |
| Repayment of finance leases | | (162) | (247) |
| New bank loan raised | | 261,216 | 1,000,000 |
| Advance from other borrowings | | 340,715 | – |
| Share issue expenses paid | | (12,971) | – |
| Proceeds from issue of ordinary shares | | 4,846 | 6,398 |
| Proceeds from issue of ordinary shares on rights issue | | 1,366,094 | – |
| **NET CASH FROM FINANCING ACTIVITIES** | | 3,352,918 | 408,596 |

# Consolidated Statement of Cash Flows *(Continued)*

For the year ended 31 December 2009

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | **3,847,503** | 352,050 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR** | **1,900,169** | 1,544,547 |
| **EFFECT OF FOREIGN EXCHANGE RATE CHANGES** | **(1,099)** | 3,572 |
| **CASH AND CASH EQUIVALENTS AT END OF THE YEAR** | **5,746,573** | 1,900,169 |
| **ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS** | | |
| Bank balances and cash | **5,746,573** | 1,900,169 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

## 1. General and Basis of Preparation of Consolidated Financial Statements

The Company was incorporated in Cayman Islands as an exempted company with limited liability on 25 March 2004 under the Companies Law, Chap 22 (Law 3 of 1961, as consolidated and revised) of Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited ("SEHK") with effect from 8 July 2005. Its immediate holding company is China Overseas Holdings Limited ("COHL") (incorporated in Hong Kong) and its intermediate holding company and its ultimate holding company are China State Construction Engineering Corporation Limited ("CSCECL"), a joint stock company with its shares listed on the Shanghai Stock Exchange, and China State Construction Engineering Corporation ("CSCEC") (both are established in the People's Republic of China ("PRC")). The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section of the annual report.

The consolidated financial statements are presented in Hong Kong dollars, which is also the functional currency of the Company.

The principal activities of the Company and its subsidiaries (the "Group") are engaged in construction business, project consultancy services, insurance business, generation and supply of heat and electricity, trading of building materials and infrastructure project investments. The principal activities of its subsidiaries, associates and jointly controlled entities are set out in notes 48, 23 and 30, respectively.

On 6 October 2008, Ever Power Group Limited ("Ever Power"), an indirect wholly-owned subsidiary of the Company, had entered into two Sale and Purchase Agreements, with Massive Information Enterprises Limited ("Massive Information"), an indirect wholly-owned subsidiary of COHL, and China Overseas Road & Bridge Holdings Limited ("CORB"), an indirect wholly-owned subsidiary of China Overseas Land & Investment Ltd ("COLI"), a listed fellow subsidiary of the Company respectively, whereby Ever Power shall acquire the entire issued share capital and the loan amount of Fuller Sky Enterprises Limited ("Fuller Sky") and Value Idea Investments Limited ("Value Idea") at the consideration of HK$235,000,000 and HK$220,000,000, respectively. All the transfers were completed during the year ended 31 December 2008.

The transfer of the entire interests in Fuller Sky and Value Idea (the "Acquired Companies") as mentioned above were common control combinations and the Group and the Acquired Companies were regarded as continuing entities. Accordingly, the consolidated financial statements of the Group for the year ended 31 December 2008 had been prepared using the principle of Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), as if the Acquired Companies had been combined from the date when the Acquired Companies first came under the control of the controlling party.

## 2. Application of New and Revised Hong Kong Financial Reporting Standards

In the current year, the Group has applied the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the HKICPA.

| | |
|---|---|
| HKAS 1 (Revised 2007) | Presentation of Financial Statements |
| HKAS 23 (Revised 2007) | Borrowing Costs |
| HKAS 32 & 1 (Amendments) | Puttable Financial Instruments and Obligations Arising on Liquidation |
| HKFRS 1 & HKAS 27 (Amendments) | Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate |
| HKFRS 2 (Amendment) | Vesting Conditions and Cancellations |
| HKFRS 7 (Amendment) | Improving Disclosures about Financial Instruments |
| HKFRS 8 | Operating Segments |
| HK(IFRIC) – Int 9 & HKAS 39 (Amendments) | Embedded Derivatives |
| HK(IFRIC) – Int 13 | Customer Loyalty Programmes |
| HK(IFRIC) – Int 15 | Agreements for the Construction of Real Estate |
| HK(IFRIC) – Int 16 | Hedges of a Net Investment in a Foreign Operation |
| HK(IFRIC) – Int 18 | Transfer of Assets from Customers |
| HKFRSs (Amendments) | Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning on or after 1 July 2009 |
| HKFRSs (Amendments) | Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39 |

The adoption of the new and revised HKFRSs has had no material effect on the reported results and financial position of the Group for the current or prior accounting years. Accordingly, no prior year adjustment has been required.

### HKAS 1 (Revised 2007) "Presentation of Financial Statements"

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the consolidated financial statements) and changes in the format and content of the consolidated financial statements.

### HKFRS 8 "Operating Segments"

HKFRS 8 is a disclosure standard that has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14 "Segment Reporting" (see note 8) nor change in measurement of segment results.

### Amendments to HKFRS 7 "Financial Instruments: Disclosures"

The amendments to HKFRS 7 expand the disclosures required in relation to fair value measurements in respect of financial instruments which are measured at fair value. The amendments also expand and amend the disclosures required in relation to liquidity risk. The Group has not provided comparative information for the expanded disclosures in accordance with the transitional provision set out in the amendments.

## 2. Application of New and Revised Hong Kong Financial Reporting Standards *(continued)*

The Group has not early adopted the following new or revised standards, amendments or interpretations that have been issued but are not yet effective.

| | |
|---|---|
| HKFRSs (Amendments) | Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008[1] |
| HKFRSs (Amendments) | Improvements to HKFRSs 2009[2] |
| HKAS 24 (Revised) | Related Party Disclosures[3] |
| HKAS 27 (Revised) | Consolidated and Separate Financial Statements[1] |
| HKAS 32 (Amendment) | Classification of Rights Issues[4] |
| HKAS 39 (Amendment) | Eligible Hedged Items[1] |
| HKFRS 1 (Amendment) | Additional Exemptions for First-time Adopters[5] |
| HKFRS 1 (Amendment) | Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[7] |
| HKFRS 2 (Amendment) | Group Cash-settled Share-based Payment Transactions[5] |
| HKFRS 3 (Revised) | Business Combinations[1] |
| HKFRS 9 | Financial Instruments[6] |
| HK(IFRIC) – Int 14 (Amendment) | Prepayments of a Minimum Funding Requirement[3] |
| HK(IFRIC) – Int 17 | Distributions of Non-cash Assets to Owners[1] |
| HK(IFRIC) – Int 19 | Extinguishing Financial Liabilities with Equity Instruments[7] |

1 Effective for annual periods beginning on or after 1 July 2009
2 Amendments that are effective for annual periods beginning on or after 1 July 2009 or 1 January 2010, as appropriate
3 Effective for annual periods beginning on or after 1 January 2011
4 Effective for annual periods beginning on or after 1 February 2010
5 Effective for annual periods beginning on or after 1 January 2010
6 Effective for annual periods beginning on or after 1 January 2013
7 Effective for annual periods beginning on or after 1 July 2010

The adoption of HKFRS 3 (Revised) may affect the accounting for business combinations for which the acquisition dates are on or after 1 January 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary that do not result in a loss of control of a subsidiary will be accounted for as equity transactions.

HKFRS 9 "Financial Instruments" introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The standard requires all recognised financial assets that are within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

The directors of the Company anticipate that the application of other new or revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

## 3. Principal Accounting Policies

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the SEHK (the "Listing Rules") and by the Hong Kong Companies Ordinance.

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year, except for those acquisitions which are regarded as common control combinations, are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of those interests in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

### Business combinations

*Common control combinations*

Business combinations under common control are accounted for in accordance with the Accounting Guideline 5 "Merger Accounting for Common Control Combinations". In applying merger accounting, the consolidated financial statements incorporate the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated income statement includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the end of the previous reporting period or when they first came under common control, whichever is shorter.

## 3. Principal Accounting Policies *(continued)*

### Business combinations *(continued)*

*Business combinations other than common control combinations*

The acquisitions of subsidiaries under business combination other than common control combinations are accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 ''Business Combinations'' are recognised at their fair values at the acquisition date, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

### Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods, or for administrative purpose, other than construction in progress are stated at cost less subsequent depreciation and any identified impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period in which the item is derecognised.

### Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as investment properties. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases and amortised over the lease term on a straight-line basis.

## 3. Principal Accounting Policies *(continued)*

### Investment properties

Investment properties are properties held to earn rentals.

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is charged so as to write off the cost of investment properties using the straight-line method.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the assets (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the item is derecognised.

Properties held for sale are transferred to investment properties at the carrying amount of properties held for sale on date of transfer when it is evidenced by the commencement of an operating lease to another party.

### Investments in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investment in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate, the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities of the associate recognised at the date of acquisition is recognised as goodwill. Such goodwill is included within the carrying amount of the investment and is not tested for impairment separately. Instead, the entire carrying amount of the investment is tested for impairment as a single asset. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment in the associate. Any reversal of impairment loss is recognised to the extent that the recoverable amount of the investment subsequently increases.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

## 3. Principal Accounting Policies *(continued)*

### Joint ventures

*Jointly controlled operations*

When a group entity undertakes its activities under joint venture arrangements directly, constituted as jointly controlled operations, the assets that the group entity controls and the liabilities that it incurs arising from those jointly controlled operations are recognised in the consolidated statement of financial position and classified according to the nature of the items. The Group's share of the income from jointly controlled operations, together with the expenses that it incurs are recognised in the consolidated income statement when it is probable that the economic benefits associated with the transactions will flow to/from the Group.

*Jointly controlled entities*

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The Group recognises its interests in jointly controlled entities using proportionate consolidation. The Group's share of each of the assets, liabilities, income and expenses of the jointly controlled entities are combined with the Group's similar line items, line by line, in the consolidated financial statements.

When a group entity transacts with a jointly controlled entity of the Group, profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity.

### Investment in lands consolidation

Investment in lands consolidation is classified as loans and receivable in accordance with HKAS 39 and are stated at amortised cost using effective interest method. The carrying amount of such interests is reduced to recognise any identified impairment losses of individual investments.

### Interests in infrastructure project investment

Interests in infrastructure project investment represent investments in joint ventures whereby the Group's return is predetermined in accordance with the provisions of the relevant agreements and the venturers' share of net assets are not in proportion to their capital contribution ratios but are as defined in the contracts and in respect of which the Group is not entitled to any share of the assets at the end of the investment periods.

The Group's interests in the infrastructure project investment, classified as loans and receivables in accordance with HKAS 39, are stated at amortised cost using effective interest method. The carrying amount of such interests is reduced to recognise any identified impairment losses of individual investments.

### Intangible assets

Intangible assets acquired separately and with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

Gain or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

## 3. Principal Accounting Policies *(continued)*

### Impairment on tangible and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified. In addition, intangible assets with indefinite useful lives are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

### Financial instruments

Financial assets and financial liabilities are recognised on the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

*Financial assets*

The Group's financial assets are classified into loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

## 3. Principal Accounting Policies *(continued)*

### Financial instruments *(continued)*

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the end of each reporting period subsequent to initial recognition, loans and receivables (including investment in lands consolidation, interests in infrastructure project investments, amounts due from investee companies, trade and other receivables, amounts due from jointly controlled entities, the partners of jointly controlled entities, fellow subsidiaries, immediate holding company and intermediate holding company, pledged bank deposits, deposits with financial institutions and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. (See accounting policy on impairment loss on financial assets below).

*Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

At the end of each reporting period subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in other comprehensive income, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in equity (investment revaluation reserve) is reclassified from equity and recognised in profit or loss. Any impairment losses on available-for-sale financial assets are recognised in profit or loss (see accounting policy on impairment loss on financial assets below).

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at the end of each reporting period subsequent to initial recognition (see accounting policy on impairment loss on financial assets below).

*Impairment of financial assets*

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted. For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

## 3. Principal Accounting Policies *(continued)*

### Financial instruments *(continued)*

*Impairment of financial assets (continued)*

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade and other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income and accumulated in investment revaluation reserve. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

*Financial liabilities and equity*

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

## 3. Principal Accounting Policies *(continued)*

### Financial instruments *(continued)*

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

*Other financial liabilities*

Other financial liabilities (including trade and other payables, amounts due to jointly controlled entities, the partners of jointly controlled entities, intermediate holding company, fellow subsidiaries and an associate, borrowings and loans from intermediate holding company) are subsequently measured at amortised cost, using the effective interest method.

*Equity instruments*

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

*Derecognition*

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

### Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle present obligation, its carrying amount is the present value of those cash flows (where the effect is material).

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

## 3. Principal Accounting Policies *(continued)*

### Properties held for sale

Completed properties held for sale are stated at the lower of cost and net realisable value. Cost includes the cost of land, development expenditure, borrowing costs capitalised in accordance with the Group's accounting policy, and other attributable expenses. Net realisable value is determined by the management based on prevailing market conditions.

### Construction contracts

When the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract cost, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

When a contract covers a number of assets, the construction of each asset is treated as a separate contract when separate proposals have been submitted for each asset, each asset has been separately negotiated and the costs and revenues of each asset can be separately identified. A group of contracts, performed concurrently or in a continuous sequence, is treated as a single construction contract when they were negotiated as a single package and are so closely inter-related that they constitute a single project with an overall profit margin.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as an amount due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as an amount due to customers for contract work. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as receipt in advance. Amounts billed for work performed, but not yet paid by the customer are included in the consolidated statement of financial position under trade and other receivables.

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised as expense and included in finance costs in consolidated income statement in the year in which they are incurred.

## 3. Principal Accounting Policies *(continued)*

### Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing on that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the translation reserve). Such exchange differences are reclassified from equity to profit or loss in the year when foreign operation are disposed of.

### Deferred income

Deferred income represents connection fee income not yet recognised in relation to heat transmission services.

### Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

*The Group as lessor*

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

## 3. Principal Accounting Policies *(continued)*

### Leasing *(continued)*

*The Group as lessee*

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to consolidated income statement.

Rentals payable under operating leases are charged to the consolidated income statement on a straight-line basis over the terms of the relevant leases. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

### Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as an expense when employees have rendered service entitling them to the contributions.

### Share-based payment transactions

*Equity-settled share-based payment transactions*

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The effect of the change in estimate during the vesting period, if any, is recognised in consolidated income statement with a corresponding adjustment to share option reserve.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profits.

*Share options granted to consultants*

Share options issued in exchange for services are measured at the fair values of the services received, unless that fair value cannot be reliably measured, in which case the services received are measured by reference to the fair value of the share options granted. The fair values of the services received are recognised as expenses immediately, unless the services qualify for recognition as assets. Corresponding adjustment has been made to equity (share option reserve).

## 3. Principal Accounting Policies *(continued)*

### Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

## 3. Principal Accounting Policies *(continued)*

### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

*Construction contracts*

When the outcome of a fixed price construction contract can be estimated reliably, revenue is recognised on the percentage of completion method, measured by reference to the proportion that costs incurred to date bear to estimated total costs for each contract, after making due allowances for contingencies. Provisions are made for any foreseeable losses when they are identified. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customers.

When the outcome of a cost-plus construction contract can be estimated reliably, revenue is recognised by reference to the recoverable costs incurred during the year plus the fee earned, measured by the proportion that costs incurred to date bear to the estimated total costs of the contract.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

*Project management contracts*

Income from project management contract is recognised when project management services are provided.

*Interest income*

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

*Dividend income*

Dividend income from investments is recognised when the Group's rights to receive payment have been established.

*Lease of machinery*

Income from lease of machinery is recognised on a straight-line basis over the terms of the relevant leases.

*Supply of heat and electricity*

Revenue from the supply of heat, steam and electricity are recognised based upon output delivered and capacity provided at rates specified under contract terms.

## 3. Principal Accounting Policies *(continued)*

### Revenue recognition *(continued)*

*Connection service income*

Connection service income received and receivable, to the extent which is attributable to the initial pipeline construction and connection of transmission of heat and steam, is recognised upon the completion of services provided for the relevant connection works and the corresponding costs incurred can be measured reliably. Connection service attributable to the continuing heat and steam transmission is recorded as deferred income and amortised (included in sale of heat and steam) on a straight-line basis over the expected service period of heat and steam transmission to be rendered with reference to the term of the operating license of the relevant entities.

*Sales of goods*

Revenue from sales of goods are recognised when goods are delivered and title has passed.

*Insurance income*

Revenue from insurance service is recognised when the services are rendered.

*Income from infrastructure project investments*

Income from infrastructure project investments is accrued on a time basis, by reference to the carrying amount and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the infrastructure project to that project's net carrying amount at initial recognition.

*Services income*

Revenue from services income, including consultancy service income, commission income, technical service income and management service income, is recognised when the corresponding services are rendered.

*Revenue from sale of properties*

Revenue from sale of properties in the ordinary course of business is recognised when the respective properties have been completed and delivered to the buyers.

Deposits and instalments received from purchasers prior to meet the above criteria for revenue recognition are included in the consolidated statement of financial position under current liabilities.

## 4. Key Sources of Estimation Uncertainty

In the process of applying the Group's accounting policies, management makes various estimates (other than those involving estimates) based on past experience, expectations of the future and other information. The key source of estimation uncertainty that can significantly affect the amounts recognised in the consolidated financial statements within the next financial year are disclosed below:

### (a) Percentage of completion of construction works

The Group recognises the revenue according to the percentage of completion of the individual contract of construction works. The percentage of completion is determined by the aggregated cost for the individual contract incurred at the end of the reporting period compared with the estimated budgeted cost. Managements' estimation of the cost incurred to date and the budgeted cost is primarily based on construction budget and actual cost report prepared by internal quantity surveyors, where applicable. Corresponding revenue from contract work is also estimated by management based on the percentage of completion and budgeted revenue. Because of the nature of the activities undertaken in construction contracts, the date at which the contract activity is entered into and the date when the activity is completed usually fall into different accounting periods. The Group regularly reviews and revises the estimation of both contract revenue and contract cost in the budget prepared for each construction contract as the contract progresses.

### (b) Estimation of foreseeable losses in respect of construction works

Management estimates the amount of foreseeable losses of construction works based on the management budgets prepared for the construction works. Budgeted construction income is determined in accordance with the terms set out in the relevant contracts. Budgeted construction costs which mainly comprise sub-contracting charges and costs of materials are prepared by management on the basis of quotations from time to time provided by the major contractors/suppliers/vendors involved and experience of management. In order to keep the budget accurate and up-to-date, management conducts periodic review on the management budgets by comparing the budgeted amounts to the actual amounts incurred.

### (c) Estimated impairment of trade and other receivables

The policy for allowance for bad and doubtful debt of the Group is determined by the management based on the evaluation of collectability and aging analysis of accounts and management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer and borrower. If the financial positions of customers and borrowers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

### (d) Estimated impairment of intangible assets with indefinite useful lives arising from the acquisition of a subsidiary

Determining the recoverable amounts of the construction licences with indefinite useful lives arising from the acquisition of a subsidiary, which is included in the consolidated statement of financial position as at 31 December 2009 at HK$9,950,000 requires an estimation of the economic benefits generated from the acquired construction licenses. Management is confident that the carrying amount of the intangible assets will be recovered in full based on the results of assessment of the estimates of anticipated cash flow generated by the construction licenses. The situation will be closely monitored, and adjustments for impairment will be made in future periods if there is an indication of such adjustments are appropriate.

## 5. Capital Risk Management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debt, which includes the borrowings, obligations under finance leases and loans from intermediate holding company disclosed in notes 34, 35 and 40, respectively, and equity attributable to equity holders of the Company, comprising issued share capital, reserves and retained profits.

The management of the Group reviews the capital structure periodically. As part of this review, the management of the Group considers the cost of capital and the risks associates with each class of capital. Based on recommendations of the management of the Group, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

## 6. Financial Instruments

### 6a. Categories of financial instruments

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| **Financial assets** | | |
| Loans and receivables (including cash and cash equivalents) | **10,913,322** | 6,805,189 |
| Available-for-sale investments | **116,179** | 98,169 |
| | | |
| **Financial liabilities** | | |
| Financial liabilities at amortised cost | **7,251,835** | 5,177,385 |

### 6b. Financial risk management objectives

The Group's major financial instruments include equity and debt securities, borrowings, trade and other receivables, trade and other payables and bank balances. Details of the financial instruments are disclosed in respective notes.

Management monitors and manages the financial risk relating to the Group through internal risk assessment which analyses exposures by degree and magnitude of risks. The risks include market risk (including interest rate risk and price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

There has been no change to the Group's exposure to market risks or the manner in which it manages and measures.

## 6. Financial Instruments *(continued)*

### 6b. Financial risk management objectives *(continued)*

*(i)* *Market risk*

The Group's activities expose it primarily to the financial risks of changes in interest rates and changes in price.

Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to floating rate bank borrowings and bank deposits. Interest rate risk on bank deposits is considered immaterial and therefore have been excluded from the sensitivity analysis below. The Group currently does not have any interest rate hedging policy. However, from time to time, if interest rate fluctuates significantly, appropriate measures would be taken to manage interest rate exposure. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of Hong Kong Interbank Offered Rate ("HIBOR") and borrowing rates offered by People's Bank of China arising from the Group's variable-rate borrowings. Please see note 34 for details of the borrowings.

The Group is also exposed to fair value interest rate risk in relation to fixed-rate loans from intermediate holding company and other loans and fixed deposits. Interest rate risk on fixed deposits is considered immaterial due to short maturity. Management will also consider hedging significant interest rate exposure should the need arise.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for variable-rate bank borrowings. The analysis is prepared assuming the amount of liability outstanding at the end of the reporting period was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2009 would decrease/increase by HK$6,306,000 (2008: decrease/increase by HK$5,000,000).

Price risk

The Group is exposed to price risk through its investments in listed equity securities and listed debt securities. The management manages this exposure by maintaining a portfolio of investments with different risks. In addition, the Group has appointed a special team to monitor the price risk and will consider hedging the risk exposure should the need arise.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to price risks at the reporting date.

If the prices of the respective listed equity securities had been 10% higher/lower, the investment revaluation reserve would increase/decrease by HK$536,000 (2008: increase/decrease by HK$333,000).

If the prices of the respective listed debt securities had been 10% higher/lower, the investment revaluation reserve would increase/decrease by HK$7,010,000 (2008: increase/decrease by HK$6,307,000).

## 6. Financial Instruments *(continued)*

### 6b. Financial risk management objectives *(continued)*

*(ii) Credit risk*

As at 31 December 2009, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies or state-owned banks in the PRC.

The credit risk on investment in lands consolidation and interests in infrastructure project investment are limited because the counterparties are owned by PRC local government authorities.

The credit risk on amounts due from investee companies is limited because the counterparties have strong financial position which engaged in property development and investment in the PRC and Macau.

Other than concentration of credit risk on liquid funds, investment in lands consolidation, interests in infrastructure project investment and amounts due from investee companies, the Group does not have any other significant concentration of credit risk. Trade receivables, amounts due from jointly controlled entities, partners of jointly controlled entities, fellow subsidiaries and intermediate holding company consist of a large number of parties, spread across diverse industries and geographical areas.

*(iii) Liquidity risk*

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. Management monitors the utilisation of borrowings and ensures compliance with loan covenants.

## 6. Financial Instruments *(continued)*

### 6b. Financial risk management objectives *(continued)*

*(iii)* *Liquidity risk (continued)*

The following table details the Group's remaining contractual maturity for its financial liabilities based on the agreed repayment terms. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flow. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate determined at the end of the reporting period.

| | Weighted average effective interest rate % | Less than 6 months HK$'000 | 6–12 months HK$'000 | 1–2 years HK$'000 | 2–5 years HK$'000 | Over 5 years HK$'000 | Total undiscounted cash flows HK$'000 | Carrying amount at year end date HK$'000 |
|---|---|---|---|---|---|---|---|---|
| **2009** | | | | | | | | |
| Non-interest bearing | N/A | 3,378,110 | 188,421 | 205,361 | 131,596 | 20,883 | 3,924,371 | 3,924,371 |
| Fixed interest rate instruments | 5.30 | 77,259 | 55,026 | 444,643 | 1,782,288 | – | 2,359,216 | 2,066,249 |
| Variable interest rate instruments | 1.70 | 6,006 | 6,006 | 1,005,141 | 276,304 | – | 1,293,457 | 1,261,215 |
| | | 3,461,375 | 249,453 | 1,655,145 | 2,190,188 | 20,883 | 7,577,044 | 7,251,835 |
| **2008** | | | | | | | | |
| Non-interest bearing | N/A | 3,694,011 | 127,127 | 215,887 | 96,852 | 6,380 | 4,140,257 | 4,140,257 |
| Fixed interest rate instruments | 1.26 | 18,770 | 18,623 | – | – | – | 37,393 | 37,128 |
| Variable interest rate instruments | 3.00 | 15,000 | 15,000 | 30,000 | 1,002,877 | – | 1,062,877 | 1,000,000 |
| | | 3,727,781 | 160,750 | 245,887 | 1,099,729 | 6,380 | 5,240,527 | 5,177,385 |

The amounts included above for variable interest rate instruments of non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

*(iv)* *Fair value*

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices; and
- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions.

Fair value measurements recognised in the statement of financial position:

An analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

## 6. Financial Instruments *(continued)*

### 6b. Financial risk management objectives *(continued)*

*(iv) Fair value (continued)*

As at 31 December 2009, the Group has available-for-sale listed equity and debt securities of HK$75,459,000, which is grouped into Level 1 based on the quoted market prices in active market. There were no transfers between Level 1 and 2 in the current year.

## 7. Revenue

Revenue represents the revenue arising on construction contracts, project management service income, revenue from supply of heat and electricity, revenue from provision of connection services, revenue from infrastructure project investments, net amount received and receivable for precast structures and building materials sold by the Group to outside customers, less returns and allowances and revenue from machinery leasing income and insurance contracts.

An analysis of the Group's revenue for the year is as follows:

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| Revenue from construction contracts | 10,551,829 | 10,126,907 |
| Project management service income | 208,553 | 354,953 |
| Revenue from supply of heat and electricity | 354,386 | 291,350 |
| Revenue from provision of connection services | 60,604 | 84,859 |
| Revenue from infrastructure project investments | 82,693 | 63,253 |
| Sales of precast structures and building materials | 48,813 | 75,710 |
| Others | 35,120 | 24,373 |
| | 11,341,998 | 11,021,405 |

Others mainly comprises of revenue from machinery leasing and insurance contracts.

## 8. Segment Information

### Segment Information

The Group has adopted HKFRS 8 Operating Segments with effect from 1 January 2009. HKFRS 8 is a disclosure standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker for the purpose of allocating resources to segments and assessing their performance. In contrast, the predecessor standard (HKAS 14 Segment Reporting) required an entity to identify two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group's primary reporting format was geographical segments by location of customers. The application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14. Nor has the adoption of HKFRS 8 changed the basis of measurement of segment profit or loss.

The Group is currently organized into five operating segments based on geographical location where the products and services are delivered and provided and the construction works are carried out – Hong Kong, Regions in the PRC (other than Hong Kong and Macau), Macau, United Arab Emirates ("UAE") and India.

## 8. Segment Information *(continued)*

### Segment Information *(continued)*

Segment results for the years ended 31 December 2009 and 2008 are as follows:

| | Revenue | | Gross profit (loss) | | Segment result | |
|---|---|---|---|---|---|---|
| | 2009 HK$'000 | 2008 HK$'000 | 2009 HK$'000 | 2008 HK$'000 | 2009 HK$'000 | 2008 HK$'000 |
| Reportable segment | | | | | | |
| Hong Kong | 6,969,222 | 6,191,507 | 342,842 | 228,263 | 257,321 | 135,537 |
| Regions in the PRC | 1,757,416 | 881,959 | 426,575 | 337,923 | 379,084 | 268,590 |
| Macau | 1,625,184 | 2,078,190 | 242,517 | 282,302 | 224,640 | 266,545 |
| UAE | 979,314 | 1,797,302 | (19,023) | 56,910 | (63,660) | 1,664 |
| India | 10,862 | 72,447 | (9) | 3,995 | (2,023) | 8,362 |
| Consolidated total | 11,341,998 | 11,021,405 | 992,902 | 909,393 | 795,362 | 680,698 |
| Unallocated corporate expenses | | | | | (106,497) | (121,282) |
| Non-recurring investment income and other income | | | | | 47,759 | 13,289 |
| Impairment loss of investment properties and available-for-sale investments | | | | | – | (9,712) |
| Reversal of impairment loss of properties held for sale | | | | | – | 18,292 |
| Share of profits of associates | | | | | 11,592 | 9,445 |
| Finance costs | | | | | (26,136) | (20,065) |
| Profit before tax | | | | | 722,080 | 570,665 |
| Income tax expense | | | | | (109,549) | (66,276) |
| Profit for the year | | | | | 612,531 | 504,389 |

### Measurement

Performance is measured based on segment profit that is used by the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

The revenue, gross profit (loss) and results of the Group are allocated based on the operations of the segments. Taxation is not allocated to reportable segments.

Reportable segment result represents the profit (loss) earned or incurred by each segment excluding certain non-recurring investment income and other income, finance costs, share of profit of associates, changes of fair value of available-for-sale investments, impairment loss of investment properties and available-for-sale investments, reversal of impairment loss of properties held for sales and unallocated corporate expenses. This is the measurement basis reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

### Revenue from major business

The information on revenue from major business is disclosed in note 7.

## 8. Segment Information *(continued)*

### Other segment information

| | Non-current assets | | Addition to property, plant and equipment | |
|---|---|---|---|---|
| | **2009 HK$'000** | 2008 HK$'000 | **2009 HK$'000** | 2008 HK$'000 |
| **Reportable segment** | | | | |
| Hong Kong | **95,684** | 79,316 | **33,874** | 47,748 |
| Regions in the PRC | **1,083,875** | 1,072,089 | **86,644** | 139,726 |
| Macau | **56,111** | 59,612 | **1,953** | 947 |
| UAE | **50,361** | 60,705 | **10,093** | 26,818 |
| India | **–** | 39 | **–** | 86 |
| | **1,286,031** | 1,271,761 | **132,564** | 215,325 |

Non-current assets excluded financial instruments.

Amounts included in the measure of segment profit or loss:

| | Hong Kong | | Regions in the PRC | | Macau | | UAE | | India | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2009 HK$'000** | 2008 HK$'000 | **2009 HK$'000** | 2008 HK$'000 | **2009 HK$'000** | 2008 HK$'000 | **2009 HK$'000** | 2008 HK$'000 | **2009 HK$'000** | 2008 HK$'000 | **2009 HK$'000** | 2008 HK$'000 |
| Allowance for doubtful debts on trade and other receivables | **–** | – | **5,175** | 8,096 | **–** | – | **–** | – | **–** | – | **5,175** | 8,096 |
| Depreciation of property, plant and equipment, investment properties and amortisation of prepaid lease payments | **10,476** | 27,708 | **74,025** | 77,670 | **3,191** | 1,163 | **1,271** | 1,066 | **7** | 15 | **88,970** | 107,622 |
| Gain (loss) on disposal of property, plant and equipment | **2,267** | 9,242 | **–** | 67 | **–** | 73 | **–** | (68) | **49** | – | **2,316** | 9,314 |
| Waiver of amount due to a partner of a jointly controlled entity | **18,483** | – | **–** | – | **–** | – | **–** | – | **–** | – | **18,483** | – |

### Segment assets and liabilities

No assets and liabilities are included in the measures of the Group's segment reporting that are used by the chief operating decision maker for performance assessment and resource allocation. Accordingly, no segment assets and liabilities are presented.

### Major customers information

Revenue from two (2008: two) customers in Hong Kong reportable segment amounted to approximately HK$2,354,000,000 and HK$1,331,000,000 (2008: HK$1,775,000,000 and HK$1,139,000,000), which individually represent more than 10 per cent of the Group's total revenue.

## 9. Investment Income

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| Interest income on: | | |
| Bank deposits | 13,930 | 20,455 |
| Debt securities | 4,270 | 4,535 |
| Deposits with financial institutions | – | 43 |
| Imputed interest on amount due from an investee company | 798 | 4,369 |
| | 18,998 | 29,402 |
| Capital return upon the deregistration of a subsidiary | 11,764 | – |
| Dividend income from listed available-for-sale investments | 4 | 470 |
| Dividend income from unlisted available-for-sale investments | 5,971 | 3,177 |
| Gain on disposal of listed available-for-sale investments | 1,787 | 420 |
| Others | 4,774 | – |
| | 43,298 | 33,469 |

## 10. Other Income

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| Service income earned from a jointly controlled entity | 14,635 | – |
| Waiver of amount due to a partner of a jointly controlled entity | 18,483 | – |
| Consultancy service income | – | 6,000 |
| Commission income | 15,430 | 6,886 |
| Technical service income | – | 4,162 |
| Rental of properties | 6,609 | 5,630 |
| Property management service income | – | 464 |
| Management service income | 3,543 | 2,840 |
| Gain on disposal of property, plant and equipment | 2,316 | 9,314 |
| Exchange gain | 17,943 | 1,203 |
| Others | 10,167 | 8,019 |
| | 89,126 | 44,518 |

## 11. Finance Costs

| | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|
| Interest on bank loans wholly repayable within five years | 11,073 | 13,585 |
| Interest on other loans wholly repayable within five years | 10,833 | 597 |
| Interest on loans from intermediate holding company | 4,144 | – |
| Finance charges on obligations under finance leases | 23 | 24 |
| Other financial expenses | 63 | 5,859 |
| | 26,136 | 20,065 |

## 12. Directors' Emoluments

The emoluments paid or payable to each of the eleven (2008: ten) directors were as follows:

**For the year ended 31 December 2009**

| | Kong Qingping HK$'000 | Zhou Yong HK$'000 | Yip Chung Nam HK$'000 | Fu He HK$'000 | Zhang Yifeng HK$'000 | Zhou Hancheng HK$'000 | Cheong Chit Sun HK$'000 | Raymond Ho Chung Tai HK$'000 | Adrian David Li Man Kiu HK$'000 | Raymond Leung Hai Ming HK$'000 | Lee Shing See HK$'000 | Total 2009 HK$'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Fees | 1,000 | – | – | – | – | – | – | 360 | 250 | 250 | 250 | 2,110 |
| Other emoluments | | | | | | | | | | | | |
| Salaries | – | 2,562 | 1,966 | 1,000 | 200 | 1,056 | 1,704 | – | – | – | – | 8,488 |
| Share-based payments | 23 | 20 | 14 | 11 | 2 | 13 | 9 | 4 | 4 | 4 | 4 | 108 |
| Contributions to retirement benefit schemes | – | 12 | 12 | 10 | 2 | 12 | 12 | – | – | – | – | 60 |
| Performance related incentive payments | – | 3,500 | 900 | 600 | 400 | 660 | 500 | – | – | – | – | 6,560 |
| Total emoluments | 1,023 | 6,094 | 2,892 | 1,621 | 604 | 1,741 | 2,225 | 364 | 254 | 254 | 254 | 17,326 |

**For the year ended 31 December 2008**

| | Kong Qingping HK$'000 | Zhou Yong HK$'000 | Yip Chung Nam HK$'000 | Fu He HK$'000 | Zhou Hancheng HK$'000 | Cheong Chit Sun HK$'000 | Raymond Ho Chung Tai HK$'000 | Adrian David Li Man Kiu HK$'000 | Raymond Leung Hai Ming HK$'000 | Lee Shing See HK$'000 | Total 2008 HK$'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Fees | 1,000 | – | – | – | – | – | 360 | 250 | 250 | 250 | 2,110 |
| Other emoluments | | | | | | | | | | | |
| Salaries | – | 2,562 | 1,957 | 1,200 | 1,056 | 1,697 | – | – | – | – | 8,472 |
| Share-based payments | 41 | 36 | 26 | 26 | 24 | 15 | 7 | 7 | 7 | 7 | 196 |
| Contributions to retirement benefit schemes | – | 12 | 12 | 12 | 12 | 12 | – | – | – | – | 60 |
| Performance related incentive payments | – | 3,500 | 700 | 600 | 600 | 400 | – | – | – | – | 5,800 |
| Total emoluments | 1,041 | 6,110 | 2,695 | 1,838 | 1,692 | 2,124 | 367 | 257 | 257 | 257 | 16,638 |

No directors waived any emoluments in the current year or prior year.

## 13. Employees' Emoluments

Of the five individuals with the highest emoluments in the Group, three (2008: three) were directors of the Company whose emoluments are included in the disclosures in note 12 above. The emoluments of the remaining two (2008: two) individuals were as follows:

| | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|
| Salaries and other benefits | 4,148 | 3,940 |
| Share-based payments | 16 | 21 |
| Contributions to retirement benefit schemes | 24 | 24 |
| | 4,188 | 3,985 |

The emoluments of these two individuals were within the following bands:

| | 2009 No. of employees | 2008 No. of employees |
|---|---|---|
| HK$1,500,001 to HK$2,000,000 | – | 2 |
| HK$2,000,001 to HK$2,500,000 | 2 | – |

## 14. Income Tax Expense

| | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|
| Current tax: | | |
| Hong Kong | 17,004 | 6,237 |
| Other jurisdictions | 87,975 | 66,920 |
| | 104,979 | 73,157 |
| Overprovision in prior years: | | |
| Hong Kong | (7,243) | (174) |
| Other jurisdictions | (10,231) | (8,476) |
| | (17,474) | (8,650) |
| Deferred tax: | | |
| Current year (note 39) | 22,044 | 1,769 |
| Income tax expense for the year | 109,549 | 66,276 |

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years. Income taxes arising in other jurisdictions are calculated at the rates prevailing in the relevant jurisdiction.

## 14. Income Tax Expense *(continued)*

Pursuant to the relevant laws and regulations in the PRC, certain of the Group's PRC subsidiaries are exempted from PRC income tax for two years starting from their first profit-making year, followed by a 50% reduction for the next three years. The last year that those subsidiaries entitled to enjoy this tax benefit is 2008.

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. Under the New Law and Implementation Regulation, the Enterprise Income Tax rate of the Group's subsidiaries in the PRC was generally reduced from 33% to 25% from 1 January 2008 onwards. For those subsidiaries enjoying privilege rate of 15%, the new tax rate was progressively increasing to 25% over five years as grandfathering provision.

According to a joint circular of the Ministry of Finance and State Administration of Taxation – Cai Shui 2008 No. 1, dividend distributed out of the profits generated since 1 January 2008 shall be subject to PRC Enterprise Income Tax and which is withheld by the PRC entity. Deferred tax of HK$17,577,000 (2008: HK$14,223,000) on the undistributed earnings has been charged to the consolidated income statement for the year (note 39).

The tax charge for the year can be reconciled to the profit before tax per the consolidated income statement as follows:

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| Profit before tax | 722,080 | 570,665 |
| Tax at domestic income tax rate of 16.5% (2008: 16.5%) | 119,143 | 94,160 |
| Tax effect of share of profits of associates | (1,913) | (1,558) |
| Tax effect of expenses not deductible for tax purpose | 6,534 | 8,448 |
| Tax effect of income not taxable for tax purpose | (22,330) | (16,721) |
| Overprovision in prior years | (17,474) | (8,650) |
| Tax effect of tax losses/deductible temporary differences not recognised | 20,493 | 28,954 |
| Tax effect of utilisation of tax losses/deductible temporary differences previously not recognised | (33,984) | (18,180) |
| Effect of different tax rates of profit arising from other jurisdictions | 20,898 | (20,806) |
| Income taxed at concessionary rate | – | (13,824) |
| Deferred taxation on undistributed earnings of PRC subsidiaries (note 39) | 17,577 | 14,223 |
| Others | 605 | 230 |
| Tax charge for the year | 109,549 | 66,276 |

## 15. Profit for the Year

| | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|
| Profit for the year has been arrived at after charging (crediting): | | |
| Auditor's remuneration | | |
| – current year | 5,482 | 5,571 |
| – (over) underprovided in prior year | (202) | 815 |
| | 5,280 | 6,386 |
| Depreciation of property, plant and equipment | 113,867 | 131,439 |
| Less: Amounts capitalised in contracts in progress | (28,653) | (26,965) |
| | 85,214 | 104,474 |
| Gross rental income from investment properties | (6,609) | (5,630) |
| Less: Direct expenses from investment properties that generated rental income during the year | 4,573 | 519 |
| | (2,036) | (5,111) |
| Employee benefits expense: | | |
| Staff costs, including directors' emoluments | 1,157,310 | 1,268,075 |
| Contributions to retirement benefit plans | 24,403 | 24,411 |
| Equity-settled share-based payments | 934 | 1,688 |
| Less: Amounts capitalised in contracts in progress | (888,312) | (917,646) |
| | 294,335 | 376,528 |
| Depreciation of investment properties | 1,665 | 913 |
| Amortisation of prepaid lease payments | 2,091 | 2,235 |
| Allowance for doubtful debts on trade and other receivables | 5,175 | 8,096 |
| Share of tax of associates (included in share of profits of associates) | 3,092 | 1,995 |
| Operating lease rentals in respect of: | | |
| Plant and machinery | 203,712 | 150,356 |
| Land and buildings | 64,099 | 57,023 |
| | 267,811 | 207,379 |
| Less: Amounts capitalised in contracts in progress | (253,673) | (177,336) |
| | 14,138 | 30,043 |

## 16. Dividends

| | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|
| Dividends recognised as distributions during the year: | | |
| 2008 Final, paid – HK3.30 cents | | |
| (2008: 2007 Final HK4.50 cents) per share | **80,782** | 109,726 |
| 2009 Interim, paid – HK3.60 cents | | |
| (2008: 2008 Interim HK3.70 cents) per share | **105,810** | 90,149 |
| | **186,592** | 199,875 |

The final dividend of HK3.50 cents (2008: HK3.30 cents) per share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming general meeting.

Adjustments were made to the amount of dividend per share due to the share sub-division in 2008. Each share of the Company of HK$0.1 per share was subdivided into 4 shares of HK$0.025 per share with effect from 13 June 2008 as detailed in note 36.

## 17. Earnings Per Share

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

### Earnings

| | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|
| Earnings for the purposes of basic and diluted earnings per share | **612,531** | 489,321 |

### Number of shares

| | 2009 '000 | 2008 '000 (restated) |
|---|---|---|
| Weighted average number of ordinary shares | | |
| for the purposes of basic earnings per share | **2,704,521** | 2,573,661 |
| Effect of dilutive potential ordinary shares in respect of share options | **97,361** | 116,487 |
| Weighted average number of ordinary shares | | |
| for the purpose of diluted earnings per share | **2,801,882** | 2,690,148 |

## 17. Earnings Per Share *(continued)*

The weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share for the year ended 31 December 2009 has accounted for the rights issue which was effective from 1 September 2009. The corresponding number of ordinary shares of 2008 has been retrospectively adjusted to reflect the said rights issue.

The computation of diluted earnings per share does not include the effect of the exercise of the outstanding warrants of the Company because the exercise price of the Company's warrants was higher than the average market price of the Company's share for both years.

## 18. Property, Plant and Equipment

| | Buildings HK$'000 | Heat and electricity supply facilities HK$'000 | Plant and machinery HK$'000 | Furniture, fixtures and equipment HK$'000 | Motor vehicles HK$'000 | Construction in progress HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| **COST** | | | | | | | |
| At 1 January 2008 | 240,836 | 688,875 | 487,942 | 76,464 | 42,358 | 83,283 | 1,619,758 |
| Exchange adjustments | 14,559 | 43,420 | 1,387 | 1,229 | 1,199 | 5,440 | 67,234 |
| Additions | 5,072 | 19,880 | 50,841 | 7,930 | 11,618 | 119,984 | 215,325 |
| Transfer from construction in progress | 891 | 72,931 | 836 | 310 | – | (74,968) | – |
| Disposals | (1,741) | (423) | (20,959) | (4,956) | (5,834) | – | (33,913) |
| At 31 December 2008 | 259,617 | 824,683 | 520,047 | 80,977 | 49,341 | 133,739 | 1,868,404 |
| Exchange adjustments | 395 | 1,254 | 42 | 125 | 119 | 215 | 2,150 |
| Additions | – | 8,494 | 28,522 | 8,217 | 5,524 | 81,807 | 132,564 |
| Transfer from construction in progress | 272 | 90,608 | – | – | – | (90,880) | – |
| Disposals | – | (2,492) | (25,814) | (2,683) | (3,952) | – | (34,941) |
| At 31 December 2009 | 260,284 | 922,547 | 522,797 | 86,636 | 51,032 | 124,881 | 1,968,177 |
| **DEPRECIATION** | | | | | | | |
| At 1 January 2008 | 36,704 | 125,184 | 413,076 | 49,415 | 23,426 | – | 647,805 |
| Exchange adjustments | 2,297 | 8,266 | 692 | 358 | 663 | – | 12,276 |
| Provided for the year | 10,629 | 58,166 | 40,998 | 12,542 | 9,104 | – | 131,439 |
| Eliminated on disposals | (771) | (402) | (19,981) | (4,701) | (4,536) | – | (30,391) |
| At 31 December 2008 | 48,859 | 191,214 | 434,785 | 57,614 | 28,657 | – | 761,129 |
| Exchange adjustments | 67 | 274 | 23 | 100 | 103 | – | 567 |
| Provided for the year | 12,212 | 53,700 | 32,433 | 8,013 | 7,509 | – | 113,867 |
| Eliminated on disposals | – | (1,462) | (21,204) | (2,496) | (3,548) | – | (28,710) |
| At 31 December 2009 | 61,138 | 243,726 | 446,037 | 63,231 | 32,721 | – | 846,853 |
| **CARRYING VALUES** | | | | | | | |
| At 31 December 2009 | 199,146 | 678,821 | 76,760 | 23,405 | 18,311 | 124,881 | 1,121,324 |
| At 31 December 2008 | 210,758 | 633,469 | 85,262 | 23,363 | 20,684 | 133,739 | 1,107,275 |

## 18. Property, Plant and Equipment *(continued)*

The carrying value of property, plant and equipment includes an amount of HK$130,000 (2008: HK$388,000) in respect of motor vehicles held under finance leases.

The above items of property, plant and equipment other than construction in progress are depreciated on a straight-line basis as follows:

| | |
|---|---|
| Buildings | Over the shorter of the term of the relevant lease or 50 years |
| Heat and electricity supply facilities | 20 years |
| Plant and machinery | 3 to 10 years |
| Furniture, fixtures and equipment and motor vehicles | 3 to 8 years |

## 19. Investment Properties

| | HK$'000 |
|---|---|
| **COST** | |
| At 1 January 2008 | 14,791 |
| Exchange adjustments | 343 |
| Transferred from properties held for sale | 38,700 |
| At 31 December 2008 | 53,834 |
| Exchange adjustments | 9 |
| At 31 December 2009 | 53,843 |
| **DEPRECIATION AND IMPAIRMENT** | |
| At 1 January 2008 | 5,086 |
| Exchange adjustments | 166 |
| Provided for the year | 913 |
| Impairment loss recognised in profit or loss | 2,977 |
| At 31 December 2008 | 9,142 |
| Exchange adjustments | 5 |
| Provided for the year | 1,665 |
| At 31 December 2009 | 10,812 |
| **CARRYING VALUES** | |
| At 31 December 2009 | 43,031 |
| At 31 December 2008 | 44,692 |

## 19. Investment Properties *(continued)*

The carrying value of investment properties shown above comprises properties situated on:

| | **2009 HK$'000** | 2008 HK$'000 |
|---|---:|---:|
| Land in Macau: | | |
| Freehold land | **22,331** | 22,798 |
| Medium-term lease | **18,910** | 19,300 |
| Land in the PRC under medium-term lease | **1,790** | 2,594 |
| | **43,031** | 44,692 |

The above investment properties are depreciated on a straight-line basis as follows:

| | |
|---|---|
| Buildings on freehold land | 50 years |
| Land and buildings on land under medium-term lease | Over the shorter of the term of the relevant lease and estimated useful life of buildings |

No depreciation is provided in respect of freehold land. The fair value of the Group's investment properties at 31 December 2009 is HK$91,971,000 (2008: HK$71,823,000).

The fair value of the investment properties located in Macau has been arrived at based on a valuation carried out on that date by DTZ Debenham Tie Leung Limited. The fair value of the investment properties located in the PRC has been arrived at based on a valuation carried out on that date by 珠海仁合土地房地產評估有限公司. DTZ Debenham Tie Leung Limited and 珠海仁合土地房地產評估有限公司, are independent qualified professional valuers not connected with the Group and have appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations.

The valuations were arrived at using the approach of capitalising the rental income derived from the existing tenancies with due provision for the reversionary income potential of the properties and by making reference to comparables as available in the relevant market. Impairment loss was recognised when the carrying amount of an individual property is above its fair value which is based on independent valuation report.

The allocation of lease payments between the land and building elements cannot be made reliably and the entire lease is treated as a finance lease and accounted for as investment properties.

All of the Group's property interests held under operating leases to earn rentals are measured using the cost model and are classified and accounted for as investment properties.

## 20. Investment in Lands Consolidation

| | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|
| Cost incurred for investment in lands consolidation | – | 49,814 |

On 30 November 2007, the Group entered into a co-operation contract with a local partner for the co-operation and investment through the formation of a PRC domestic joint venture company to engage in the consolidation and rehabilitation of certain pieces of land in the PRC on behalf of the local government. According to the terms of contract, the Group will be repaid fully the cost incurred plus interest based on prevailing interest rate of the People's Bank of China and specific percentage of the excess of the land proceeds from the land auction by the local government authority over the costs incurred. The carrying amount of the investment as at 31 December 2008 was determined based on an effective interest rate of 3% which is based on the Hong Kong Interbank Offered Rate ("HIBOR") plus 0.68% per annum on the cost incurred.

The management considered that the fair value of embedded derivative, which relates to the contractual right to the land proceeds described above, at initial recognition and at 31 December 2008 based on independent valuation report are minimal.

On 17 February 2009, both parties agreed to terminate the contract and agreed that the investment cost incurred and interest based on prevailing interest rate of the People's Bank of China would be fully repaid by the local partner. The full amount was received during the year.

## 21. Interests in Infrastructure Project Investments

| | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|
| Interests in infrastructure project investments | 1,065,848 | 482,658 |
| Less: Portion due within one year included in current assets | (15,808) | (15,782) |
| Portion due after one year | 1,050,040 | 466,876 |

The effective interest rates on the infrastructure project investments range from 9.97% to 13.9% (2008: 11.7% and 13.9% per annum) per annum. The interests in infrastructure project investments were not past due as at 31 December 2009.

On 9 April 2009, the Group and CSCECL entered into a joint venture ("JV") agreement to form a JV for tendering the infrastructure construction projects in the PRC, and which CSCECL and the Company will each hold 50% equity interests in the JV. On 13 July 2009, Tangshan Government and the JV entered into a contract for the construction of a road in Tangshan in the form of build and transfer.

The Directors reviewed individually the infrastructure projects' operations and financial positions as at 31 December 2009 and 2008 based on the present values of estimated future cash flows from those investments, discounted at the original effective interest rates. No impairment loss against the interests in infrastructure project investment was recognised in current year and prior year.

## 22. Prepaid Lease Payments

| | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|
| The Group's prepaid lease payments comprise: | | |
| Leasehold land outside Hong Kong under medium-term leases | 78,794 | 80,774 |
| Analysed for reporting purposes as: | | |
| Non-current assets | 76,551 | 78,536 |
| Current assets | 2,243 | 2,238 |
| | 78,794 | 80,774 |

## 23. Interests in Associates

| | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|
| Unlisted company | | |
| Cost of investments in associates | 22,607 | 22,607 |
| Share of post- acquisition profits, net of dividends received | 12,568 | 18,651 |
| | 35,175 | 41,258 |

Included in the cost of investments in associates is goodwill of HK$494,000 (2008: HK$494,000) arising on acquisitions of associates in prior years.

At 31 December 2009 and 2008, the Group had interests in the following associates:

| Name of entity | Form of business structure | Place of incorporation and operations | Class of shares held | Proportion of nominal value of issued share capital held by the Group 2009 % | 2008 % | Principal activities |
|---|---|---|---|---|---|---|
| Hong Kong Concrete Company Limited | Incorporated | Hong Kong | Ordinary | 31.5 | 31.5 | Manufacture and sale of ready-mixed concrete |
| Ou On-Sociedade De Administracao De Propriedades Limitada | Incorporated | Macau | Ordinary | 40.0 | 40.0 | Property management |
| Matadouro De Macau, S.A. | Incorporated | Macau | Ordinary | 20.0 | 20.0 | Operation of slaughterhouse |

## 23. Interests in Associates *(continued)*

The summarised financial information in respect of the Group's associates is set out below:

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| Total assets | **218,502** | 210,408 |
| Total liabilities | **(101,682)** | (73,897) |
| Net assets | **116,820** | 136,511 |
| Group's share of net assets of associates | **34,681** | 40,764 |

| | Year ended<br>31.12.2009<br>HK$'000 | Year ended<br>31.12.2008<br>HK$'000 |
|---|---|---|
| Revenue | **384,523** | 342,003 |
| Profit for the year | **36,332** | 29,178 |
| Group's share of profits of associates for the year | **11,592** | 9,445 |

## 24. Intangible Asset

| | HK$'000 |
|---|---|
| COST AND CARRYING AMOUNTS | |
| Addition on acquisition of a subsidiary and at 31 December 2009 | 9,950 |

The intangible asset represents the initial fair value of the construction licences (with indefinite useful lives) held by ALCHMEX International Construction Limited (the "acquired subsidiary").

The construction licences are granted by the Works Branch Development Bureau of the Hong Kong Special Administration Region ("HKSAR") to the acquired subsidiary through which the acquired subsidiary is eligible to undertake government construction contracts of the two categories of public works namely road and drainage and site formation with no limitation in contract sum. The construction licences basically have no legal life but are renewable every year as long as the acquired subsidiary is able to comply with certain provisions and requirements set out by the Works Branch Development Bureau of the HKSAR throughout the relevant period.

Various studies including sensitivity analysis and market trends have been carried out by management of the Group, which supports that the construction licences have no foreseeable limit to the period over which the construction licences are expected to generate net cash inflow for the Group. As a result, the construction licences are considered by the management of the Group as having indefinite useful lives because they are expected to contribute net cash flows indefinitely. The construction licences will not be amortised until their useful lives are determined to be finite instead they will be tested for impairment annually and whenever there is an indication that they may be impaired.

## 24. Intangible Asset *(continued)*

For impairment assessment of intangible asset, the recoverable amount of the construction licenses is determined based on value-in-use calculations. These calculations use cash flow projections prepared based on financial budgets approved by the management using the estimated growth rates which do not exceed the long-term average growth rate in which the construction licenses generates.

Management determined budgeted gross margin based on past performance and the expectations for the market development.

## 25. Available-for-Sale Investments

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| Listed securities (note a): | | |
| – Equity securities listed in Hong Kong | 5,357 | 3,303 |
| – Equity securities listed overseas | – | 26 |
| – Debt securities listed in Hong Kong with fixed interest of 3.75 – 5.75% and maturity date in 2009 – 2015 (note b) | 56,374 | 54,617 |
| – Debt securities listed overseas with floating interest and maturity date in 2049 | 13,728 | 8,459 |
| | 75,459 | 66,405 |
| Unlisted securities: | | |
| – Equity securities stated at cost *(notes c and d)* | 40,720 | 31,764 |
| Total | 116,179 | 98,169 |

(a) The fair values of listed equity and debt securities are determined based on the quoted market bid prices available on the relevant exchange.

(b) At 31 December 2009, an amount of HK$24,144,000 (2008: HK$20,624,000) included in the carrying amount of debt securities listed in Hong Kong, is debenture issued by a subsidiary of China Overseas Land & Investment Ltd., a fellow subsidiary of the Group.

(c) At 31 December 2009, an amount of HK$27,419,000 (2008: HK$18,466,000), included in the cost of unlisted equity securities, represents the deemed contribution arising from fair value adjustment on interest-free loan advanced to an investee company in proportion to the respective equity interest of its shareholders.

(d) The unlisted securities represent investments in unlisted equity securities issued by private entities incorporated in the PRC and Macau. They are measured at cost less impairment at the end of each reporting period because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

## 25. Available-for-Sale Investments *(continued)*

Included in unlisted equity securities above is the Group's investment in CPM-Companhia De Parques De Macau, S.A. ("CPM"), a private entity incorporated in Macau and engaged in the operation of car parks in Macau. The investment represents a 30% holding of the ordinary shares of CPM. CPM is not regarded as an associate of the Group because the Group has only one-seventh of the voting power in director's meeting of CPM under arrangements with other investors.

The Group holds 15% of the ordinary share capital of Companhia De Construcao E Investimento Predial San Kin Wa Limitada ("SKW"), a private entity incorporated in Macau and engaged in the business of property holding and development.

The Group holds 10% of the ordinary share capital of 中聯實業有限公司 whose principal activity is investment holding, 中聯實業有限公司 is a private entity incorporated in Macau and engaged in investment holding.

The Group holds 10% of the issued capital of Proud Sea International Limited ("Proud Sea"), a private entity incorporated in the British Virgin Islands and its principal activity is investment holding. The subsidiary of Proud Sea is engaged in the property investment and development in the PRC.

For the impairment assessment of listed equity securities, as there were significant decline in the fair values of the equity securities below their costs, impairment loss amounting to HK$6,735,000 was recognised in the profit and loss during the year ended 31 December 2008. No impairment was made in current year as there is no indicators for impairment.

No impairment loss on debt securities is recognised as the issuers of the securities are with high credit ratings and no default interest payment was noted in the past records.

## 26. Amounts Due From Investee Companies

The amounts due from investee companies are unsecured, interest-free and have no fixed repayment terms. No repayment is expected within next twelve months from the end of the reporting period and, accordingly, the amount is shown as non-current. The investee companies are engaged in investment holding and property holding and development in Macau (see note 25).

The fair values of these amounts are determined based on effective interest rate of 1.54% (2008: 3%) per annum which is based on the HIBOR plus 0.68% per annum on initial recognition. The difference between the principal amounts and the fair value of approximately HK$27,419,000 (2008: HK$18,466,000) has been included in the cost of the available-for-sale investments as deemed contribution to the investee companies.

## 27. Inventories

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| Raw materials and consumables | 38,575 | 47,791 |
| Work in progress | 1,934 | 893 |
| Finished goods | 6,374 | 6,825 |
| | 46,883 | 55,509 |

## 28. Amounts Due From (to) Customers for Contract Work

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| Contracts in progress at the end of the reporting period | | |
| Contract costs incurred | 16,032,730 | 20,468,896 |
| Recognised profits less recognised losses | 560,477 | 464,371 |
| | 16,593,207 | 20,933,267 |
| Less: progress billings | (16,559,362) | (20,727,971) |
| | 33,845 | 205,296 |
| Analysed for reporting purposes as: | | |
| Amounts due from contract customers | 539,294 | 506,385 |
| Amounts due to contract customers | (505,449) | (301,089) |
| | 33,845 | 205,296 |

At 31 December 2009, retentions held by customers for contract work amounted to HK$1,056,095,000 (2008: HK$1,082,053,000) have been included in trade and other receivables under current assets. Advances received from customers for contract work amounted to HK$227,107,000 (2008: HK$275,523,000), have been included in deposits received and receipt in advance under current liabilities.

## 29. Trade and Other Receivables

| | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|
| Trade receivables | 3,359,194 | 3,652,233 |
| Less: Allowance for doubtful debts | (11,808) | (6,674) |
| | 3,347,386 | 3,645,559 |
| Other receivables | 52,402 | 59,026 |
| Less: Allowance for doubtful debts | (1,463) | (1,422) |
| | 50,939 | 57,604 |
| Trade and other receivables | 3,398,325 | 3,703,163 |

Except for the receivable arising from construction contracts which are payable in accordance with the terms of the relevant agreements, the Group generally allows an average credit period of not exceeding 90 days to its trade customers and the retention receivables are repayable approximately one year after the defect liability period of construction projects.

The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period:

| | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|
| 0 – 30 days | 1,641,815 | 1,647,022 |
| 31 – 90 days | 475,497 | 754,664 |
| Over 90 days | 173,979 | 161,820 |
| | 2,291,291 | 2,563,506 |
| Retention receivables | 1,056,095 | 1,082,053 |
| | 3,347,386 | 3,645,559 |
| Retention receivables | | |
| – due within one year | 540,708 | 458,527 |
| – due more than one year | 515,387 | 623,526 |
| | 1,056,095 | 1,082,053 |

Retention receivables are interest-free and recoverable at the end of the retention period of individual construction contracts.

## 29. Trade and Other Receivables *(continued)*

The aged analysis of the Group's trade receivables balances (net of allowance for doubtful debts) which are past due but not impaired is presented as follows:

| | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|
| 91 – 180 days | **70,434** | 125,980 |
| 181 – 365 days | **56,901** | 23,003 |
| Over 365 days | **46,644** | 12,837 |
| Total | **173,979** | 161,820 |

The Group does not hold any collateral over the above balances.

The Group allows an average credit period of not exceeding 90 days to its trade customers. Except for the amount of HK$13,271,000 (2008: HK$8,096,000) was provided for doubtful debts for the year ended 31 December 2009, no allowance for doubtful debt is being provided for past due trade and other receivables because the directors considered that there is close business relationship with continuous business transactions and assessed the collectability by evaluating the credit worthiness and the past collection history of those receivables.

Before accepting any new customer, the Group will assess the potential customer's credit quality and defines credit limits by customers. Limits attributed to customers are reviewed every year.

Movement in the allowance for doubtful debts

| | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|
| 1 January | **8,096** | – |
| Impairment losses recognised on receivables | **5,175** | 8,096 |
| 31 December | **13,271** | 8,096 |

## 30. Amounts Due From (to) Jointly Controlled Entities/the Partners of Jointly Controlled Entities

### Jointly controlled entities

The amounts due from and to jointly controlled entities and amounts due from and to the partners of jointly controlled entities are unsecured, interest-free and are repayable on demand.

The amounts due from jointly controlled entities and the partners of jointly controlled entities are expected to be repaid within twelve months after the end of the reporting period.

## 30. Amounts Due From (to) Jointly Controlled Entities/the Partners of Jointly Controlled Entities *(continued)*

### Jointly controlled entities *(continued)*

At 31 December 2009 and 2008, the Group had interests in the following principal jointly controlled entities, in the opinion of the Directors, principally affected the results of the year or constitute a substantial portion of the net assets of the Group:

| Name of entity | Form of business structure | Place of registration and operations | Percentage of ownership interest 2009 % | Percentage of ownership interest 2008 % | Nature of business |
|---|---|---|---|---|---|
| China State – China Railway Joint Venture | Unincorporated | Hong Kong | 60 (note) | 60 (note) | Civil engineering works |
| China State – China Resources Construction Joint Venture | Unincorporated | Hong Kong | 50 | 50 | Building construction |
| China State – Leighton Joint Venture | Unincorporated | Hong Kong | 50 | 50 | Building construction |
| Consorcio De Krueger – China State | Unincorporated | Macau | 55 (note) | 55 (note) | Mechanical and electrical engineering works |
| Consorcio De Krueger – CSME | Unincorporated | Macau | 55 (note) | 55 (note) | Mechanical and electrical engineering works |
| CSCHK – SOMA Joint Venture | Unincorporated | India | 50 | 50 | Road construction |
| Hoi Hing Building Materials Co., Limited | Incorporated | Hong Kong | 50 | 50 | Trading of building materials |
| Leighton – China State – John Holland Joint Venture | Unincorporated | Macau | 30 | 30 | Building construction |
| Leighton – China State Joint Venture | Unincorporated | Macau | 50 | 50 | Building construction |
| Leighton – China State – Van Oord Joint Venture | Unincorporated | Hong Kong | 45 | 45 | Civil engineering works |
| Long Faith Engineering Limited | Incorporated | Hong Kong | 50 | 50 | Engineering works |
| Pratibha – China State Joint Venture | Unincorporated | India | 40 | – | Building construction |
| 中建(唐山)基礎設施開發建設有限公司 | Incorporated | PRC | 50 | – | Investment and construction of road |
| China State & Shanghai Tunnel Foundation Joint Venture | Unincorporated | Hong Kong | 50 | – | Foundation engineering works |

## 30. Amounts Due From (to) Jointly Controlled Entities/the Partners of Jointly Controlled Entities *(continued)*

### Jointly controlled entities *(continued)*

Note:

The Group holds the majority equity interests in these jointly controlled entities. However, under the joint venture agreements, all operating and financial decisions have to be jointly approved by the Group and the joint venture partners. Therefore, these entities are classified as jointly controlled entities of the Group.

To give details of other jointly controlled entities would, in the opinion of the Directors, result in particulars of excessive length.

The summarised financial information in respect of the Group's interests in jointly controlled entities which are accounted for using proportionate consolidation with the line-by-line reporting format is set out below:

| | **2009 HK$'000** | 2008 HK$'000 |
|---|---|---|
| Current assets | **1,354,039** | 1,087,285 |
| Non-current assets | **625,727** | 4,130 |
| Current liabilities | **767,792** | 597,434 |
| Non-current liabilities | **601,931** | 74 |

| | **Year ended 31.12.2009 HK$'000** | Year ended 31.12.2008 HK$'000 |
|---|---|---|
| Income | **2,610,131** | 1,540,185 |
| Expenses | **2,406,863** | 1,352,707 |

In additional to the construction and engineering projects undertaken by certain jointly controlled entities as listed above, the Group has also established joint ventures with outside contractors to undertake construction projects in the form of jointly controlled operations.

## 30. Amounts Due From (to) Jointly Controlled Entities/the Partners of Jointly Controlled Entities *(continued)*

Particulars regarding the joint ventures as at 31 December 2009 and 2008 are as follows:

| Name of joint venture | Form of business structure | Place of establishment | Percentage of interest held by the Group | | Nature of business |
|---|---|---|---|---|---|
| | | | 2009 % | 2008 % | |
| Chit Cheung - China Overseas-ATAL Joint Venture | Unincorporated | Hong Kong | 13 | 13 | Civil engineering works |
| China State – ATAL Joint Venture | Unincorporated | Hong Kong | 55 (note) | 55 (note) | Civil engineering works |
| China State – ATAL Joint Venture | Unincorporated | Hong Kong | 39.6 | 39.6 | Civil engineering works |
| China State Joint Venture | Unincorporated | Hong Kong | 70 (note) | 70 (note) | Civil engineering works |
| China State – Shanghai Tunnel Joint Venture | Unincorporated | Hong Kong | 76.7 (note) | – | Civil engineering works |

Note: The Group holds the majority equity interests in these jointly controlled operations. However, under the joint venture agreements, each joint venture partner uses its assets and resources and bears its own costs and takes a share of the revenues and expenses for the joint venture project.

At 31 December 2009 and 2008, the aggregate amount of assets, liabilities, income and expenses recognised in the consolidated financial statements in relation to interests in jointly controlled operations are as follows:

| | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|
| Assets | 30,140 | 51,767 |
| Liabilities | 29,947 | 51,915 |

| | Year ended 31.12.2009 HK$'000 | Year ended 31.12.2008 HK$'000 |
|---|---|---|
| Income | 60,462 | 59,182 |
| Expenses | 23,201 | 33,569 |

## 31. Amounts Due From (to) Fellow Subsidiaries/Immediate Holding Company/Intermediate Holding Company/An Associate

The amounts due from (to) fellow subsidiaries/immediate holding company/intermediate holding company, an associate are unsecured, interest-free and repayable on demand.

The amount due to intermediate holding company was fully repaid during 2009.

## 32. Pledged Bank Deposits/Deposits With Financial Institutions/Bank Balances

### (a) Pledged bank deposits

At 31 December, 2009, bank deposits amounting to HK$14,905,000 (2008: HK$16,690,000) were pledged for the guarantee of employment for workers from foreign countries in UAE. The pledged deposits carry fixed interest rates which range from 0.001% to 2% (2008: 0.36% to 0.72%) per annum. The pledged bank deposits will be released upon the completion of construction projects by the end of 2010.

### (b) Deposits with financial institutions

Deposits with financial institutions comprise deposits with original maturity dates ranging from 1 to 6 months carried at fixed rate of 0.01% to 1.78% (2008: 0.10% to 4.52%) per annum.

### (c) Bank balances

Bank balances, excluding bank current account, carry interest at market rates which range from 0.001% to 3.5% (2008: 0.01% to 3.05%) per annum. Bank balances comprise fixed deposits held by the Group with an original maturity of three months or less.

## 33. Trade and Other Payables

The following is an aged analysis of trade and other payables presented based on the invoice date at the end of the reporting period:

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| Trade and other payables, aged: | | |
| 0-30 days | **1,944,578** | 1,848,774 |
| 31-90 days | **460,827** | 870,359 |
| Over 90 days | **256,843** | 202,334 |
| | **2,662,248** | 2,921,467 |
| Retention payables | **890,029** | 768,959 |
| | **3,552,277** | 3,690,426 |
| Retention payables | | |
| – due within one year | **532,189** | 449,840 |
| – due more than one year | **357,840** | 319,119 |
| | **890,029** | 768,959 |

The average credit period on trade and construction cost payables is 60 days. The Group has financial risk management polices in place to ensure that all payables are paid within the credit time-frame.

## 34. Borrowings

| | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|
| Bank loans, unsecured (note a) | **1,261,216** | 1,000,000 |
| Other loans, unsecured (note b) | **362,671** | 37,128 |
| | **1,623,887** | 1,037,128 |
| Carrying amount repayable: | | |
| On demand or within one year | **21,956** | 37,128 |
| More than one year but not exceeding two years | **1,340,715** | – |
| More than two years but not more than five years | **261,216** | 1,000,000 |
| | **1,623,887** | 1,037,128 |
| Less: Amount due within one year shown under current liabilities | **(21,956)** | (37,128) |
| Amount due after one year | **1,601,931** | 1,000,000 |

The Group's bank loans are denominated in Hong Kong Dollars and Renminbi, the other loans are denominated in Renminbi.

Notes:

(a) Bank loans with carrying amount of HK$1,000,000,000 (2008: HK$1,000,000,000) bear interest with effective interest rate ranging from 0.73% to 1.03% (2008: 0.83% to 4.48%) per annum, which is denominated in Hong Kong dollars, is based on the market rate of HIBOR plus 0.68% per annum and mature in February 2011.

The remaining bank loans with carrying amount of HK$261,216,000 (2008: nil) bear interest at a rate of 5.18% (2008: nil) per annum, which is denominated in Renminbi, is based on 90% of the prevailing interest rate of the People's Bank of China per annum and mature in October 2013.

(b) The other loan with carrying amount of HK$340,715,000 (2008: nil) bear interest at a fixed rate of 8% per annum and mature in October 2011.

The other loan with carrying amount of HK$21,956,000 (2008: HK$37,128,000) bear interest at a fixed rate of 0.99% per annum and repayable on demand.

## 35. Obligations Under Finance Leases

It is the Group's policy to lease certain motor vehicles under finance leases. The average lease term is 3 years. Interest rates underlying all obligations under finance leases are fixed at the respective contract dates ranging from 12% to 16% per annum. These leases have no terms of renewal or purchase options and escalation clause. No arrangements have been entered into for contingent rental payments.

| | Minimum lease payments | | Present value of minimum lease payments | |
|---|---|---|---|---|
| | **2009** **HK$'000** | 2008 HK$'000 | **2009** **HK$'000** | 2008 HK$'000 |
| Amounts payable under finance leases: | | | | |
| Within one year | **77** | 185 | **74** | 162 |
| In more than one year but not more than two years | **–** | 77 | **–** | 74 |
| | **77** | 262 | **74** | 236 |
| Less: future finance charges | **(3)** | (26) | **–** | – |
| Present value of lease obligations | **74** | 236 | **74** | 236 |
| Less: Amount due within one year shown under current liabilities | | | **(74)** | (162) |
| Amount due after one year | | | **–** | 74 |

The fair value of the Group's finance lease obligations, determined based on the present value of the estimated future cash flows discounted using the prevailing market rate at the end of the reporting period, approximates their carrying amount.

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

Finance lease obligations are denominated in Hong Kong dollars.

## 36. Share Capital

| | Number of ordinary shares at HK$0.10 per share | Number of ordinary shares at HK$0.025 per share | Amount HK$'000 |
|---|---|---|---|
| Authorised: | | | |
| Balance at 1 January 2008 | 15,000,000,000 | – | 1,500,000 |
| Effect of share sub-division to HK$0.025 each (note a) | (15,000,000,000) | 60,000,000,000 | – |
| Balance at 31 December 2008 and 2009 | – | 60,000,000,000 | 1,500,000 |
| Issued and paid up: | | | |
| Balance at 1 January 2008 | 608,204,442 | – | 60,821 |
| Issue of ordinary shares upon exercise of share options and warrants before share sub-division | 1,384,785 | – | 138 |
| Effect of share sub-division (note a) | (609,589,227) | 2,438,356,908 | – |
| Issue of ordinary shares upon exercise of share options and warrants after sub-division | – | 19,902,856 | 497 |
| Share buy-back after share sub-division (note b) | – | (13,492,000) | (337) |
| Balance at 31 December 2008 | – | 2,444,767,764 | 61,119 |
| Issue of ordinary shares upon exercise of share options and warrants | – | 20,165,393 | 504 |
| Issue of ordinary shares on rights issue (note c) | – | 489,639,491 | 12,241 |
| Balance at 31 December 2009 | – | 2,954,572,648 | 73,864 |

Notes:

(a) On 12 June 2008, an ordinary resolution was passed by the shareholders at an extraordinary general meeting of the Company pursuant to which each of the existing issued and unissued shares of share capital of the Company of HK$0.1 per share was subdivided into 4 shares of HK$0.025 each with effect from 13 June 2008.

(b) During the year ended 31 December 2008, the Company repurchased its own ordinary shares on SEHK as follows:

| Date | Number of shares repurchased | Prices paid per share Highest HK$ | Prices paid per share Lowest HK$ | Aggregate prices paid HK$'000 |
|---|---|---|---|---|
| 18 July 2008 | 4,784,000 | 2.00 | 1.86 | 9,429 |
| 23 October 2008 | 3,392,000 | 0.75 | 0.70 | 2,478 |
| 24 October 2008 | 5,316,000 | 0.74 | 0.70 | 3,841 |
| | | | | 15,748 |

The repurchased shares were cancelled and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. Pursuant to section 37(4) of the Companies Law (2007 Revision) of the Cayman Islands, an amount equivalent to the par value of the shares cancelled of HK$337,000 was transferred from retained profits to the capital redemption reserve. The consideration paid on the repurchase of the shares of HK$15,748,000 was charged to retained profits.

(c) On 1 September 2009, the Company completed a rights issue of one rights share for every five shares held by members on the register of members, at an issue price of HK$2.79 per rights share, resulting in the issue of 489,639,491 ordinary shares of HK$0.025 each for a total cash consideration, before expenses of HK$12,971,000, of HK$1,366,094,000. The net cash proceeds were credited to share capital and share premium account of HK$12,241,000 and HK$1,353,853,000, respectively. The new shares rank pari passu with the then existing shares in all respects.

## 37. Warrants

| | Number of warrants at subscription price of HK$15.00 per share | Number of warrants at subscription price of HK$3.75 per share | Amount HK$'000 |
|---|---|---|---|
| Issued on 26 February 2008 | 87,042,394 | – | 1,305,636 |
| Exercise during the period before share sub-division | (4,865) | – | (73) |
| Effect of share sub-division | (87,037,529) | 348,150,116 | – |
| Exercise during the period after share sub-division | – | (9,256) | (34) |
| At 31 December 2008 | – | 348,140,860 | 1,305,529 |
| Exercise during the year | – | (15,772) | (59) |
| Lapsed during the year | – | (348,125,088) | (1,305,470) |
| At 31 December 2009 | – | – | – |

A bonus issue of warrants on the basis of one warrant for every seven shares held was proposed by the Board of Directors of the Company on 8 January 2008. The condition of the issue of the bonus warrants was fulfilled and 87,042,394 warrants were issued on 26 February 2008.

The warrant holders were entitled to subscribe in cash for one fully paid share of HK$0.1 per share at an initial subscription price of HK$15.00 per share, subject to certain anti-dilution adjustment, from the date of 28 February 2008 to 27 February 2009.

Since 13 June 2008 (the share sub-division date), the warrant holders are entitled to subscribe in cash for one fully paid share of HK$0.025 per share at an adjusted subscription price of HK$3.75 per share, subject to adjustment, at any time up to 27 February 2009.

During the year ended 31 December 2009, 15,772 warrants were exercised. As at 31 December 2009, no unit of warrants was outstanding as they were expired on 27 February 2009. During the year, 348,125,088 units of warrants were lapsed.

## 38. Deferred Income

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| Deferred income arose from the following: | | |
| Connection service | **188,275** | 172,180 |

A portion of connection fee income is attributable to the connecting pipeline construction for heat transmission and a portion is attributable to continuing repairs and maintenance services regarding the pipelines. Connection fee income attributable to the connecting pipeline construction is recognised upon the completion of services provided for the relevant connection works and the corresponding costs incurred can be measured reliably. Connection fee income attributable to the continuing repairs and maintenance is recorded as deferred income and amortised on a straight-line basis over the expected service period of heat and steam transmission to be rendered with reference to the term of the operating license of the relevant entities.

The deferred income represented the connection service income received attributable to the constant transmission of heat services not yet recognised as income.

The following is the analysis of the deferred income balances for financial reporting purposes:

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| Deferred income due within one year included in trade and other payables in current liabilities | **7,795** | 6,860 |
| Deferred income due after one year | **180,480** | 165,320 |
| | **188,275** | 172,180 |

## 39. Deferred Tax Liabilities

The following are the major deferred tax balances recognised and movements thereon during the current and prior year:

| | Accelerated tax depreciation HK$'000 | Deferred income HK$'000 | Undistributed earnings of subsidiaries HK$'000 | Tax losses HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| At 1 January 2008 | – | 67,437 | – | – | 67,437 |
| Exchange adjustment | – | 1,927 | – | – | 1,927 |
| Charge (credit) to consolidated income statement | 2,467 | (14,921) | 14,223 | – | 1,769 |
| At 31 December 2008 | 2,467 | 54,443 | 14,223 | – | 71,133 |
| Exchange adjustment | – | 34 | 8 | – | 42 |
| Charge (credit) to consolidated income statement | 838 | 4,869 | 17,577 | (1,240) | 22,044 |
| At 31 December 2009 | 3,305 | 59,346 | 31,808 | (1,240) | 93,219 |

At the end of the reporting period, the Group has the following deductible temporary differences and unused tax losses not recognised in the consolidated financial statements:

| | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|
| Unused tax losses (note a) | 219,667 | 293,866 |
| Excess of depreciation charged in the consolidated financial statements over tax depreciation allowances (note b) | 4,821 | 12,388 |
| | 224,488 | 306,254 |

Notes:

(a) No deferred tax asset has been recognised in respect of the unused tax losses due to the unpredictability of future taxable profit streams. Included in unrecognised tax losses are losses of HK$8,987,000 (2008: HK$64,065,000) that will expire within five years. Other losses may be carried forward indefinitely.

(b) No deferred tax asset has been recognised in relation to such deductible temporary differences as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

## 40. Loans From Intermediate Holding Company

The loans from intermediate holding company are unsecured, interest bearing at a fixed rate of 4.86% per annum and will be matured in December 2012.

## 41. Acquisition of Subsidiary

Details of the subsidiary acquired during the year are as follows:

On 8 September 2009, the Group had entered into a sale and purchase agreement with AMEC Capital Projects Limited, to acquire the 100% equity interest of AMEC International Construction Limited (subsequently changed the name to ALCHMEX International Construction Limited ("ALCHMEX")), for a cash consideration of HK$61,521,000. ALCHMEX holds construction licenses granted by HKSAR and this acquisition had been accounted for as purchase of assets and liabilities.

The net assets acquired in the transactions are as follows:

| | HK$'000 |
|---|---|
| Net assets acquired: | |
| Intangible assets | 9,950 |
| Trade and other receivables | 867 |
| Bank balances and cash | 53,555 |
| Trade and other payables | (2,851) |
| | 61,521 |
| Total consideration satisfied by: | |
| Cash | 61,521 |
| Net cash outflow arising on acquisition: | |
| Cash consideration paid | (61,521) |
| Bank balances and cash acquired | 53,555 |
| | (7,966) |

## 42. Major Non-Cash Transactions

During the year ended 31 December 2008, the Group entered into finance lease arrangements in respect of the acquisition of motor vehicles with a total capital value at the inception of leases of approximately HK$205,000. The Group did not enter into any finance-lease arrangement during the year.

## 43. Share-Based Payments

The Company's share option scheme (the "Scheme"), was adopted pursuant to a resolution passed on 9 June 2005 for the primary purpose of providing incentives to directors, eligible employees, officers and suppliers of goods and services of the Group, and may be terminated by resolution in general meeting. Under the Scheme, the Board of Directors of the Company may grant options to qualifying grantees, including the directors of the Company, employees, officers or contractors of the Group.

At 31 December 2009, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 93,006,000 (2008: 108,058,000 after share sub-division), representing approximately 3.1% (2008: 4.4%) of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 30% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK$5 million must be approved in advance by the Company's shareholders.

Options granted must be taken up within 28 days from the date of offer. An amount of HK$1.00 is payable by each qualifying grantee on acceptance of the offer. Options may be exercised within the option period (must not exceed 10 years from the date of grant of the relevant option) which shall be determined by the Board in its absolute discretion at the time of grant. The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

Share options were granted on 14 September 2005 at an initial exercise price of HK$1.03.

Details of the share options granted on 14 September 2005 are as follows:

| Exercise price per share after share sub-division | Vesting period | Exercisable period |
|---|---|---|
| HK$0.2475 | 14 September 2005 to 13 September 2006 | 14 September 2006 to 13 September 2015 |
| HK$0.2475 | 14 September 2005 to 13 September 2007 | 14 September 2007 to 13 September 2015 |
| HK$0.2475 | 14 September 2005 to 13 September 2008 | 14 September 2008 to 13 September 2015 |
| HK$0.2475 | 14 September 2005 to 13 September 2009 | 14 September 2009 to 13 September 2015 |
| HK$0.2475 | 14 September 2005 to 13 September 2010 | 14 September 2010 to 13 September 2015 |

## 43. Share-Based Payments *(continued)*

As a result of the open offer of the Company in September 2007, the number of options and exercise prices have also been adjusted in accordance with the requirements of Rule 17.03(13) of the Listing Rules and the supplementary guidance issued by the SEHK. The adjusted exercise price was HK$0.99 per share. The number of share options was increased by 1,553,000 options.

As a result of the share sub-division of the Company in June 2008, the number of options has also been adjusted in accordance with the Scheme. The exercise price was further adjusted to HK$0.2475 per share. The number of share options was increased by 96,769,000 options.

As a result of the rights issue of the Company on 16 July 2009, the number of options and the exercise prices have also been adjusted in accordance with the requirements of Rule 17.03 (13) of the Listing Rules and the supplementary guidance issued by SEHK. The adjusted exercise price was HK$0.2345 per share. The number of share options was increased by 5,700,673 options.

The following table discloses the Company's share options held by employees (including directors) and consultants:

| | Outstanding at 1.1.2008 '000 | Exercised before share sub-division '000 | Adjustment in respect of the share sub-division in June 2008 '000 | Exercised after share sub-division '000 | Forfeited during the year '000 | Outstanding at 31.12.2008 '000 | Exercised before Rights Issue '000 | Forfeited before Rights Issue '000 | Adjustment in respect of Rights Issue in September '000 | Exercised after Rights Issue '000 | Re-classification '000 | Forfeited after Rights Issue '000 | Outstanding at 31.12.2009 '000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Directors | 3,995 | – | 11,984 | (2,126) | – | 13,853 | (749) | – | 725 | – | (701) | – | 13,128 |
| Employees | 15,716 | (362) | 46,063 | (6,582) | (1,074) | 53,761 | (3,216) | (216) | 2,783 | (8,564) | 701 | (176) | 45,073 |
| Consultants | 13,925 | (1,018) | 38,722 | (11,185) | – | 40,444 | (790) | – | 2,193 | (6,831) | – | (211) | 34,805 |
| | 33,636 | (1,380) | 96,769 | (19,893) | (1,074) | 108,058 | (4,755) | (216) | 5,701 | (15,395) | – | (387) | 93,006 |

## 43. Share-Based Payments *(continued)*

The following table discloses movements of the Company's share options by the vesting period during the year:

| Option type | Outstanding at 1.1.2008 '000 | Exercised before share sub-division '000 | Adjustment in respect of the share sub-division in June 2008 '000 | Exercised after share sub-division '000 | Forfeited during the year '000 | Outstanding at 31.12.2008 '000 | Exercised before Rights Issue '000 | Forfeited before Rights Issue '000 | Adjustment in respect of Rights TIssue in September '000 | Exercised after Rights Issue '000 | Forfeited after Rights Issue '000 | Outstanding at 31.12.2009 '000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Granted on 14 September 2005 | | | | | | | | | | | | |
| – with vesting period of 14 September 2005 to 13 September 2006 | 1,845 | (31) | 5,441 | (533) | – | 6,722 | (42) | – | 370 | – | – | 7,050 |
| – with vesting period of 14 September 2005 to 13 September 2007 | 3,504 | (569) | 8,810 | (1,708) | – | 10,037 | (722) | – | 515 | (12) | – | 9,818 |
| – with vesting period of 14 September 2005 to 13 September 2008 | 9,429 | (260) | 27,506 | (17,652) | (358) | 18,665 | (3,493) | – | 839 | (909) | – | 15,102 |
| – with vesting period of 14 September 2005 to 13 September 2009 | 9,429 | (260) | 27,506 | – | (358) | 36,317 | (250) | (108) | 1,988 | (14,297) | (44) | 23,606 |
| – with vesting period of 14 September 2005 to 13 September 2010 | 9,429 | (260) | 27,506 | – | (358) | 36,317 | (250) | (108) | 1,989 | (175) | (343) | 37,430 |
| | 33,636 | (1,380) | 96,769 | (19,893) | (1,074) | 108,058 | (4,757) | (216) | 5,701 | (15,393) | (387) | 93,006 |
| Exercisable at the end of the year | | | | | | 35,424 | | | | | | 55,576 |

In respect of the share options exercised during the year, the weighted average share price is HK$2.94 (2008: HK$1.23).

The weighted average fair value of the options granted on 14 September 2005 was HK$0.245.

Share options granted to consultants are measured at the fair values of the services received. As the fair value of the services cannot be estimated reliability, the Black-Scholes pricing model/the Binominal model has been used to estimate the fair value of the options.

The Group recognised the total expenses of HK$934,000 (2008: HK$1,688,000) for the year ended 31 December 2009 in relation to share options granted by the Company.

## 44. Operating Lease Arrangements

### The Group as lessee

At 31 December 2009 and 2008, the Group had commitments for future minimum lease payments in respect of land and buildings under non-cancellable operating leases which fall due:

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| Within one year | **14,921** | 8,518 |
| In the second to fifth year inclusive | **24,236** | 6,620 |
| Over five years | **39,496** | – |
| | **78,653** | 15,138 |

Leases in respect of land and buildings are negotiated and fixed for an average term of four years.

Leases in respect of plant and machinery are negotiated based on individual contracts and the Group had no commitments for future minimum lease payments under non-cancellable operating leases of plant and machinery.

### The Group as lessor

At the end of the reporting period, investment properties with carrying amounts of HK$43,031,000 (2008: HK$44,692,000) were let out under operating leases.

Property rental income earned during the year is HK$6,609,000 (2008: HK$5,630,000) which was derived from the letting of investment properties. All of the properties leased out have committed tenants for the next one to three years without termination options granted to tenants.

At 31 December 2009 and 2008, the Group had contracted with tenants for the following future minimum lease payments:

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| Within one year | **7,369** | 4,154 |
| In the second to fifth year inclusive | **9,780** | 7,659 |
| | **17,149** | 11,813 |

## 45. Commitments

At 31 December 2009 and 2008, the Group had the following commitments contracted but not provided for in the consolidated financial statements.

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| Contracted but not provided for | | |
| – construction in progress | **167,310** | 84,177 |
| – lands consolidation | **–** | 677,026 |
| – loans advance to investee companies | **260,349** | 325,895 |
| – interests in infrastructure project investments | **113,572** | – |

On 17 February 2009, the investment in lands consolidation project was terminated after the execution of the suspension agreement (note 20).

## 46. Related Party Transactions

Apart from the balances due from or to related parties set out in notes 25(b), 31and 40, the Group had the following transactions with related parties during the year:

(a) The Group had the following transactions with its intermediate holding company, fellow subsidiaries, associates, jointly controlled entities, partner of jointly controlled entities and other state-owned entities during the year:

| Transactions | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|
| Fellow subsidiaries | | |
| Underwriting fee expenses included in rights issue expenses | 12,696 | – |
| Rental income | 1,500 | 1,483 |
| Rental expenses | 9,265 | 9,311 |
| Security service payment | 12,910 | 9,716 |
| Construction fee income | 115,062 | 89,587 |
| Project management service income | 38,553 | 37,057 |
| Construction costs | 239,148 | 47,967 |
| Sales of materials | – | 17 |
| Insurance premium income | 1,524 | 1,249 |
| Associates | | |
| Purchase of construction materials | 73,630 | 90,603 |
| Partner of jointly controlled entities | | |
| Waiver of amount due to a partner of jointly controlled entities | 18,483 | – |
| Jointly controlled entities | | |
| Construction fee income | 104,334 | 53,856 |
| Construction cost | 107,790 | 45,513 |
| Rental income from lease of machinery | 123 | 120 |
| Purchase of materials | 21,586 | 23,855 |
| Sales of building materials | 338 | 3,382 |
| Service income | 14,635 | – |
| Project management service fee | – | 6,132 |
| Insurance premium income | 21,543 | 6,117 |
| Other state-owned entities | | |
| Construction fee income | 21,298 | 3,326 |
| Intermediate holding company | | |
| Interest expense | 4,144 | – |
| Commission income | 15,429 | 6,886 |

In addition, the Group has entered into a JV arrangement with its intermediate holding company as the joint venture partner during the year. The Group's share of revenues and expenses has been proportionately accounted for in the consolidated financial statements for the year ended 31 December 2009.

## 46. Related Party Transactions *(continued)*

(b) The employer of a construction project undertaken by a jointly controlled entity of the Group required COHL, the immediate holding company of the Company, to provide a guarantee for the due performance of the construction projects undertaken by that jointly controlled entity.

(c) Transactions with other state-controlled entities in the PRC

Certain of the Group's business are operated in an economic environment currently predominated by entities directly or indirectly owned or controlled by the PRC government. In addition, the Group is itself part of a larger group of companies under CSCEC which is controlled by the PRC government.

Certain of the Company's subsidiaries had entered into various transactions with state-controlled entities, including general banking facilities and bank deposits transactions with certain banks and financial institutions which are state-controlled entities in its ordinary course of business. In view of the nature of those banking transactions, the directors are of the opinion that separate disclosure would not be meaningful.

(d) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| Short-term benefits | 33,785 | 32,894 |
| Post-employment benefits | 182 | 192 |
| Share-based payments | 251 | 476 |
| | 34,218 | 33,562 |

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

## 47. Event After the Reporting Period

On 7 February 2010, China State Construction Limited ("CSCL"), a wholly owned subsidiary of the Company, entered into a subscription agreement with Skyjoy Assets Management Limited ("Skyjoy") whereby CSCL will subscribe for the guaranteed secured convertible bonds due 2015 issued by Skyjoy in the amount of HK$200,000,000 convertible into 1,800 shares of US$1.00 each in the share capital of Skyjoy, representing 18% of the issued share capital of Skyjoy on a fully diluted basis. Skyjoy is the ultimate owner of a land which is situated at Qiaodong District, Shijiazhuang, the PRC with a site area of approximately 62,000 square meters and some units of shops with total gross floor area of approximately 1,800 square meters. The maturity date of the bonds should be fifth anniversary from the issue date and the conversion period is from the expiry of three years from the issue date up to maturity. The sum payable by a holder of the bonds to Skyjoy on conversion of the bonds, which will be equivalent to all interest paid or payable by Skyjoy to such holder under the terms of the bonds immediately prior to conversion. The maximum conversion premium payable by CSCL on full conversion of the bonds is HK$212,206,000. Up to the reporting date, the transaction has not yet been completed.

## 48. Particulars of Principal Subsidiaries

Particulars of the Company's principal subsidiaries at 31 December 2009 and 2008 are as follows:

| Name of subsidiary | Place of incorporation/ establishment | Issued and fully paid up share/ registered capital | Attributable equity interest held | | Principal activities |
|---|---|---|---|---|---|
| | | | 2009 | 2008 | |
| | | | % | % | |
| Directly held by the Company: | | | | | |
| China Overseas Insurance Limited | Hong Kong | 100,000,000 ordinary shares of HK$1 each | 100 | 100 | Insurance business |
| China Overseas Insurance Services Limited | Hong Kong | 150,000 ordinary shares of HK$1 each | 100 | 100 | Insurance brokerage services |
| China State Construction Engineering (Hong Kong) Limited | Hong Kong | 155,569,190 ordinary shares of HK$1 each and 844,430,810 non-voting deferred shares of HK$1 each | 100 | 100 | Building construction, civil and foundation engineering works and investment holding |
| Classicman International Limited | British Virgin Islands | 1 ordinary share of US$1 | 100 | 100 | Investment holding |
| Xun An Engineering Company Limited | Hong Kong | 100 ordinary shares of HK$1 each | 100 | 100 | Lease of machinery and investment holding |
| Zetson Enterprises Ltd | British Virgin Islands | 1 ordinary share of US$1 | 100 | 100 | Investment holding |
| Indirectly held by the Company: | | | | | |
| ALCHMEX International Construction Limited (Former name as AMEC International Construction Limited) | United Kingdom | 4,000,000 ordinary shares @GBP1 each | 100 | – | Building construction, civil and marine engineering works, project and construction management |
| Barkgate Enterprises Limited | British Virgin Islands | 200 ordinary shares of US$1 each | 100 | 100 | Investment holding |
| Best Inherit Limited | British Virgin Islands | 1 ordinary share of US$1 | 100 | – | Investment holding |

## 48. Particulars of Principal Subsidiaries *(continued)*

| Name of subsidiary | Place of incorporation/ establishment | Issued and fully paid up share/ registered capital | Attributable equity interest held 2009 % | Attributable equity interest held 2008 % | Principal activities |
|---|---|---|---|---|---|
| Indirectly held by the Company *(continued)*: | | | | | |
| China Construction Engineering (Macau) Company Limited | Macau | MOP 200,000 | 100 | 100 | Building construction and civil engineering works, properties holding and investment holding |
| China Overseas Building Construction Limited | Hong Kong | 4,999,900 ordinary shares of HK$10 each and 100 non-voting deferred shares of HK$10 each | 100 | 100 | Building construction, project management and investment holding |
| China Overseas Public Utility Investment Limited | British Virgin Islands | 1 ordinary share of US$1 | 100 | 100 | Investment holding |
| China State Civil Engineering Limited | Hong Kong | 1,019,900 ordinary shares of HK$10 each and 100 non-voting deferred shares of HK$10 each | 100 | 100 | Civil engineering works, project management and investment holding |
| China State Foundation Engineering Limited | Hong Kong | 46,500,000 ordinary shares of HK$1 each and 500,000 non-voting deferred shares of HK$1 each | 100 | 100 | Foundation engineering works and project management |
| China State Construction Limited | Hong Kong | 5,000,000 ordinary shares of HK$10 each | 100 | 100 | Investment holding, building construction, project management and provision of management services |
| China State Machinery Limited | Hong Kong | 2 ordinary shares of HK$1 each | 100 | 100 | Lease of plant and machinery |
| China State Mechanical & Electrical Engineering Limited | Hong Kong | 10,000,000 ordinary shares of HK$1 each | 100 | 100 | Mechanical and electrical engineering works, project management |

## 48. Particulars of Principal Subsidiaries *(continued)*

| Name of subsidiary | Place of incorporation/ establishment | Issued and fully paid up share/ registered capital | Attributable equity interest held 2009 % | Attributable equity interest held 2008 % | Principal activities |
|---|---|---|---|---|---|
| Indirectly held by the Company *(continued)*: | | | | | |
| Citycharm Investments Limited | British Virgin Islands | 1 ordinary share of US$1 | 100 | 100 | Investment holding |
| COHL (Macao) Commercial and Industrial Company Limited | Macau | MOP 200,000 | 100 | 100 | Investment holding |
| CSFE (Macau) Limited | Macau | MOP 200,000 | 100 | 100 | Foundation engineering works |
| C.S.H.K. Dubai Contracting L.L.C. | UAE | 1,000 ordinary shares of AED1,000 each | 100 | 100 | Building construction and road contracting |
| CSCEC Trade Mark Limited | Hong Kong | 2 ordinary shares of HK$1 each | 100 | 100 | Holding of trade marks |
| CSME (Macau) Limited | Macau | MOP 200,000 | 100 | 100 | Mechanical and electrical engineering works and investment holding |
| Eastgood Investments Limited | Hong Kong | 2 ordinary shares of HK$1 each | 100 | 100 | Investment holding |
| Ever Power Group Limited | British Virgin Islands | 1 ordinary share of US$1 | 100 | 100 | Investment holding |
| Fuller Sky Enterprises Limited | British Virgin Islands | 1 ordinary share of US$1 | 100 | 100 | Investment holding |
| Magnified Industries Limited | British Virgin Islands | 1 ordinary share of US$1 | 100 | 100 | Investment holding |
| Perfect Castle Limited | British Virgin Islands | 1 ordinary share of US$1 | 100 | 100 | Investment holding |
| Treasure Construction Engineering Limited | Hong Kong | 2 ordinary shares of HK$1 each | 100 | 100 | Building construction |
| Value Idea Investments Limited | British Virgin Islands | 1 ordinary share of US$1 | 100 | 100 | Investment holding |
| Weedon International Limited | British Virgin Islands | 1 ordinary share of US$1 | 100 | 100 | Investment holding |

## 48. Particulars of Principal Subsidiaries *(continued)*

| Name of subsidiary | Place of incorporation/ establishment | Issued and fully paid up share/ registered capital | Attributable equity interest held 2009 % | Attributable equity interest held 2008 % | Principal activities |
|---|---|---|---|---|---|
| Indirectly held by the Company *(continued)*: | | | | | |
| 中建(珠海)有限公司 (i) | PRC | HK$10,700,000 | 100 | 100 | Property investment and management |
| 瀋陽皇姑熱電有限公司 (i) | PRC | RMB414,600,000 | 100 | 100 | Generation and supply of heat and electricity and investment holding |
| 瀋陽皇姑粉煤灰建材有限公司 (ii) | PRC | RMB8,000,000 | 100 | 100 | Manufacturing and sales of coal products |
| 深圳中海建築有限公司 (i) | PRC | RMB350,000,000 | 100 | 100 | Building construction and investment holding |
| 深圳市中海建設監理有限公司 (ii) | PRC | RMB20,000,000 | 100 | 100 | Provision of project consultancy services |
| 深圳海龍建築製品有限公司 (i) | PRC | RMB50,000,000 | 100 | 100 | Manufacturing and sales of precast structures |
| 中建陽泉基礎設施投資有限公司 (ii) | PRC | RMB100,000,000 | 100 | – | Infrastructure construction and operation |

(i) Registered as foreign owned enterprise.

(ii) Limited liability company registered in the PRC.

None of the subsidiaries had issued any debt securities outstanding at the end of the year or at any time during the year.

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

# Five Year Financial Summary

## Consolidated Results

| | For the year ended 31 December | | | | |
|---|---|---|---|---|---|
| | 2005 | 2006 | 2007 | 2008 | **2009** |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | **HK$'000** |
| | (restated) | (restated) | (restated) | | |
| Revenue | 8,702,378 | 11,161,971 | 10,232,882 | 11,021,405 | **11,341,998** |
| Operating profit | 314,363 | 560,500 | 587,895 | 581,285 | **736,624** |
| Share of profits of associates | 9,284 | 6,860 | 8,788 | 9,445 | **11,592** |
| Finance costs | (19,455) | (4,786) | (1,823) | (20,065) | **(26,136)** |
| Profit before tax | 304,192 | 562,574 | 594,860 | 570,665 | **722,080** |
| Income tax expense | (42,680) | (63,545) | (82,355) | (66,276) | **(109,549)** |
| Profit for the year | 261,512 | 499,029 | 512,505 | 504,389 | **612,531** |
| Attributable to: | | | | | |
| Owners of the Company | 212,049 | 461,045 | 453,664 | 489,321 | **612,531** |
| Minority interests | 49,463 | 37,984 | 58,841 | 15,068 | **–** |
| | 261,512 | 499,029 | 512,505 | 504,389 | **612,531** |

## Consolidated Net Assets

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | 2005 | 2006 | 2007 | 2008 | **2009** |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | **HK$'000** |
| | (restated) | (restated) | (restated) | | |
| NON-CURRENT ASSETS | | | | | |
| Property, plant and equipment | 829,889 | 898,147 | 971,953 | 1,107,275 | **1,121,324** |
| Investment properties | 10,534 | 10,065 | 9,705 | 44,692 | **43,031** |
| Investment in lands consolidation | – | – | – | 49,814 | **–** |
| Interests in infrastructure project investments | 287,017 | 498,496 | 482,658 | 466,876 | **1,050,040** |
| Prepaid lease payments | 24,188 | 24,307 | 60,327 | 78,536 | **76,551** |
| Interests in associates | 45,242 | 44,894 | 35,071 | 41,258 | **35,175** |
| Intangible asset | – | – | – | – | **9,950** |
| Availiable-for-sale investments | 214,776 | 129,329 | 111,295 | 98,169 | **116,179** |
| Amounts due from investee companies | 10,909 | 10,909 | 146,773 | 181,940 | **250,142** |
| | 1,422,555 | 1,616,147 | 1,817,782 | 2,068,560 | **2,702,392** |
| CURRENT ASSETS | 5,584,663 | 6,057,239 | 6,312,914 | 6,915,104 | **10,457,090** |
| TOTAL ASSETS | 7,007,218 | 7,673,386 | 8,130,696 | 8,983,664 | **13,159,482** |
| NON-CURRENT LIABILITIES | | | | | |
| Deferred income | (77,593) | (91,515) | (118,593) | (165,320) | **(180,480)** |
| Deferred tax liabilities | (49,298) | (54,863) | (67,437) | (71,133) | **(93,219)** |
| Borrowings | (73,915) | (50,441) | (21,165) | (1,000,000) | **(1,601,931)** |
| Obligations under finance leases | (338) | (278) | (103) | (74) | **–** |
| Loan from intermediate holding company | – | – | – | – | **(1,703,578)** |
| | (201,144) | (197,097) | (207,298) | (1,236,527) | **(3,579,208)** |
| CURRENT LIABILITIES | (6,225,580) | (6,692,551) | (5,683,641) | (5,223,880) | **(5,275,492)** |
| TOTAL LIABILITIES | (6,426,724) | (6,889,648) | (5,890,939) | (6,460,407) | **(8,854,700)** |
| NET ASSETS | 580,494 | 783,738 | 2,239,757 | 2,523,257 | **4,304,782** |

# Particulars of Investment Properties

| | Address | Use | Lease Term | Approximate gross floor area (sq.ft) | Group's interest % |
|---|---|---|---|---|---|
| (a) | 11th, 12th and 13th Floors, China Construction Commercial Building, Rua do Campo No: 88–96 and Rua de Santa Clara No: 1–3A, Macau | Commercial | Freehold | 15,672 | 100 |
| (b) | 1st, 2nd, 3rd, 22nd and 23rd Floors, Zhongjian Commercial Building, Yingbin Road South, Gongbei District, Zhuhai, Guangdong Province, PRC | Commercial | Medium-term lease | 39,057 | 100 |
| (c) | No. 201, Ground Store, No. 245 Qiaoguang Road, Gongbai District, Zhuhai, Guangdong Province, PRC | Commercial | Medium-term lease | 1,057 | 100 |
| (d) | Room 1104, 11th Floor, Zhongzhu Building, No. 1081 Yingbin Road South Gongbai District, Zhuhai Guangdong Province, PRC | Commercial | Medium-term lease | 1,134 | 100 |
| (e) | Shop A on Ground Floor and Car Parking Spaces Nos. 1 to 24 on 1st Floor, Fu Po Garden, Estrada Marginal do Hipodromo No: 70–76, Macau | Commercial | Medium-term lease | 6,542 | 100 |
| (f) | Shops on Basement, Ground Floor and 1st Floor, Car Parking Spaces Nos. 1 to 6 on 1st Floor and Nos. 15 to 16 on 2nd Floor, Edificio Ou Va, Rua do Ribeira do Patane No: 109–115, Avenida Marginal do Patane No: 26–36, Macau | Commercial | Freehold | 16,175 | 100 |

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