1. General

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

Under a group reorganisation scheme to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Stock Exchange (the "Listing"), the Company became the holding company of CSCEC's construction operations in Hong Kong on 30 June 2005. Details of the reorganisation were set out in the prospectus issued by the Company, dated 14 June 2005 and the principle steps are set out as below.

On 3 June 2005, 492,108,001 shares in the Company were allotted and issued to COHL as consideration for COHL agreeing to procure (i) the allotment and issue by China State Construction Engineering (Hong Kong) Limited ("CSCEHK"), a wholly owned subsidiary of COHL, of one share of HK$1.00 each to the Company and (ii) the conversion of each of the 844,430,810 existing shares of CSCEHK in issue prior to the allotment and issue of the said one share of HK$1.00 into a non-voting deferred share and redesignation of the one share of HK$1.00 so allotted and issued as ordinary share to the Company.

On 3 June 2005, an agreement was entered into between COHL, China Overseas Land & Investment Ltd. ("COLI"), a listed fellow subsidiary of which 51.2% equity interests was owned by COHL, and the Company whereby the Company agreed to acquire the entire interest of Zetson Enterprises Limited and its subsidiaries ("Project Management Group") from COLI. The Project Management Group is principally engaged in providing construction project management services to CSCEHK and its jointly controlled entities. The consideration for the acquisition of the Project Management Group amounting to HK$788,089,000 and had been settled by COHL transferring 357,409,867 shares of the Company, representing 72.6% equity interest in the Company, to COLI, thereby creating an amount payable by the Company to COHL which had been used to set off the amounts due by COHL to the Company. As a result, COHL agreed to transfer 357,409,867 shares of the Company to COLI, the Company had an amount payable of HK$788,089,000 to COHL.

Incidental to the completion of the acquisition of the Project Management Group and the settlement of the consideration payable by COHL on behalf of the Company, COLI held 72.6% equity interests in the Company. These shares were subsequently distributed to the shareholders of COLI, including COHL, by way of distribution in specie (the "Distribution"). Thereafter, COHL, together with the 134,698,133 shares in the Company that had not been transferred to COLI for settlement and Distribution, held 316,425,445 shares in the Company, representing 64.3% equity interests in the Company, subsequent to COLI's Distribution.

The Group reorganisation resulting from the acquisitions of the controlling interests in CSCEHK and Project Management Group as mentioned above is regarded as common control combinations. Accordingly, the financial statements of the Group have been prepared using the principle of merger accounting for common control combinations as if the group reorganisation arising from acquisitions of the controlling interests in CSCEHK and Project Management Group has been completed as at 1 January 2004. Subsidiaries accounted for under Accounting Guideline 5 "Merger Accounting for Common Control Combinations" are disclosed in note 37.

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

The Company and its subsidiaries (the "Group") are principally engaged in the construction activities. The principal activities of its jointly control entities are set out in note 22. In prior years, the Group was also engaged in the property leasing. That operation was discontinued in June 2004 (see note 12).

2. Application of Hong Kong Financial Reporting Standards

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests and share of tax of associates have been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current and prior accounting years are prepared and presented:

Business combination

In the current year, the Group has applied HKFRS 3 *Business Combinations* which is effective for business combinations for which the agreement date is on or after 1 January 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

Goodwill

In previous years, goodwill arising on acquisitions after 1 January 2001 was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. With respect to goodwill previously capitalised in interest in an associate on the balance sheet, the Group on 1 January 2005 eliminated the carrying amount of the related accumulated amortisation of HK$1,153,000 with a corresponding decrease in the cost of goodwill (see note 18). The Group has discontinued amortising such goodwill from 1 January 2005 onwards and such goodwill will be tested for impairment at least annually. Goodwill arising on acquisitions after 1 January 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current year. Comparative figures for 2004 have not been restated.

Excess of the Group's interest in the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously know as "negative goodwill")

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognised immediately in profit or loss in the period in which the acquisition takes place. In previous periods, negative goodwill arising on acquisitions prior to 1 January 2001 was held in reserves, and negative goodwill arising on acquisitions after 1 January 2001 was presented as a deduction from assets and released to income based on an analysis of the circumstances from which the balance resulted. The Group has no negative goodwill arising prior to 1 January 2005 and has applied HKFRS 3 to discount on acquisitions on or after 1 January 2005.

Interests in jointly controlled entities

In previous years, interests in jointly controlled entities were accounted for using the equity method. HKAS 31 *Interests in Jointly Controlled Entities* allows entities to use either proportionate consolidation or the equity method to account for its interests in jointly controlled entities. Upon the application of HKAS 31, the Group has elected to account for its interests in jointly controlled entities using proportionate consolidation. This change has been applied retrospectively. As a result of this change, the consolidated income statement, consolidated balance sheet and consolidated cash flow statement (including the comparative figures) have been re-presented so as to reflect the proportionate share of the jointly controlled entities' assets and liabilities, income and expenses, and cash flows.

Financial Instruments

In the current year, the Group has applied HKAS 32 *Financial Instruments: Disclosure and Presentation and HKAS 39 Financial Instruments: Recognition and Measurement*. HKAS 32 requires retrospective application. HKAS 39, which is effective for periods beginning on or after 1 January 2005, generally does not permit the recognition, derecognition or measurement financial assets and liabilities on a retrospective basis. The application of HKAS 32 has had no material impact on how financial instruments of the Group are presented for current and prior accounting periods. The principal effects resulting from the implementation of HKAS 39 are set out below:

2. Application of Hong Kong Financial Reporting Standards (con't)

Financial Instruments (con't)

Financial assets and financial liabilities other than investments in debt and equity securities

From 1 January 2005 onwards, the Group has classified and measured its financial assets and financial liabilities other than investments in debt and equity securities (which were previously outside the scope of Statement of Standard Accounting Practice 24 "Investments in securities") in accordance with the requirements of HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". The classification depends on the purpose for which the assets are acquired. "Financial assets at fair value through profit or loss" and "available-for-sales financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. "Loans and receivables" and "held to maturity financial assets" are measured at amortised cost using the effective interest method. Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)". "Other financial liabilities" are carried at amortised cost using the effective interest method. As a result of adoption of HKAS 39, the Group's share of the associate's retained profits at 1 January 2005 was increased by HK$1,040,000 with a corresponding increase in interests in associate of HK$1,040,000.

Share-based Payments

In the current year, the Group has applied HKFRS 2 *Share-based Payment* which requires an expense to be recognised where the Group obtains services in exchange for shares or rights over shares ("equity-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of share options granted to directors, employees and consultants of the Group, determined at the date of grant of the share options, over the vesting period. The Group did not have share options granted before 1 January 2005 and has applied HKFRS 2 to share options granted on or after 1 January 2005.

Owner-occupied Leasehold Interest in Land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current year, the Group has applied HKAS 17 *Leases*. Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively. As a result of adoption of HKAS 17, the Group's share of the associate's retained profits at 1 January 2004 and 1 January 2005 was decreased by HK$341,000 and HK$74,000 respectively with a corresponding decrease in interests in associate.

However, the Group has not early applied the following new standards, amendments and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendments or interpretations will have no material impact on the consolidated financial statements of the Group.

HKAS 1 (Amendment)	Capital disclosures[1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
HKAS 21 (Amendment)	Net investment in a foreign operation[2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions[2]
HKAS 39 (Amendment)	The fair value option[2]
HKAS 39 and HKFRS 4 (Amendments)	Financial guarantee contracts[2]
HKFRS 6	Exploration for and evaluation of mineral resources[2]
HKFRS 7	Financial instruments: Disclosures[1]
HK(IFRIC) - INT 4	Determining whether an arrangement contains a lease[2]
HK(IFRIC) - INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
HK(IFRIC) - INT 6	Liabilities arising from participating in a specific market - waste electrical and electronic equipment[3]
HK(IFRIC) - INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]

2. Application of Hong Kong Financial Reporting Standards (con't)

[1]Effective for annual periods beginning on or after 1 January 2007.

[2]Effective for annual periods beginning on or after 1 January 2006.

[3]Effective for annual periods beginning on or after 1 December 2005.

[4]Effective for annual periods beginning on or after 1 March 2006.

The effects of the changes in the accounting policies described above on the results for the current and prior years are as follows:

	2005	2004
	HK$'000	*HK$'000*
Share of results of an associate	**6**	6
Non-amortisation of goodwill	**329**	329
Recognition of share-based payments as expenses	**(1,500)**	—
Discount on acquisition of a subsidiary	**1,299**	—
Decrease in share of profits of jointly controlled entities	**(74,425)**	(8,107)
Increase in income	**1,671,475**	1,617,418
Increase in expenses	**(1,597,050)**	(1,609,311)
Increase in profit for the year attributable to equity holder of parent	**134**	335

The cumulative effects of the application of the new HKFRSs on 31 December 2004 and 1 January 2005 are summarised below:

	As at 31 December 2004 (originally stated)	**Adjustments**	**As at 31 December 2004 (restated)**	**Adjustments**	**As at 1 January 2005 (restated)**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Balance sheet items					
Impact of HKAS 17:					
Property, plant and equipment	61,934	(4,601)	57,333	—	57,333
Prepaid lease payments	—	4,601	4,601	—	4,601
Impact of HKAS 17 and HKAS 39:					
Interest in an associate	25,794	699	26,493	(74)	26,419
Impact of HKAS 31:					
Interest in jointly controlled entities	36,337	(36,337)	—	—	—
Current assets	—	563,159	563,159	—	563,159
Non-current assets	—	23,474	23,474	—	23,474
Current liabilities	—	(550,296)	(550,296)	—	(550,296)
Total effects on assets and liabilities		699		(74)	
Retained profits	75,533	699	76,232	(74)	76,158
Minority interests	—	189,467	189,467	—	189,467
Total effects on equity		190,166		(74)	
Minority interests	189,467	(189,467)	—	—	—

3. Principal Accounting Policies

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements included applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared under the historical cost basis. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries and jointly-controlled entities made up to 31 December each year.

The results of subsidiaries acquired or disposed of during the year 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 into 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 the minority's interest 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 combination

Common control combinations

Business combinations under common control are account for in accordance with the Accounting Guideline 5 "Merger Accounting for Common Control Combinations". In applying merger accounting, financial statement items of the combining entities or businesses for the reporting period in which the common control combination occurs, and for any comparative periods disclosed, are included in the consolidated financial statements of the combined entity as if the combination had occurred from the date when the combining entities or businesses first came under the control of the controlling party or parties. The combined entity recognises the assets, liabilities and equity of the combining entities or business at the carrying amounts in the consolidated financial statements of the controlling party or parties prior to the common control combinations.

Business combination 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.

3. Principal Accounting Policies (con't)

Goodwill

Goodwill arising on acquisitions prior to 1 January 2005

Goodwill arising on an acquisition of a subsidiary, an associate or a jointly controlled entity for which the agreement date is before 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary, associate or jointly controlled entity at the date of acquisition.

For previously capitalised goodwill arising on acquisitions after 1 January 2001, the Group has discontinued amortisation from 1 January 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash-generating unit to which the goodwill relates may be impaired.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, an associate or a jointly controlled entity, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Excess of an acquirer's interest in the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over cost ("discount on acquisitions")

A discount on acquisition arising on an acquisition of a subsidiary, an associate or a jointly controlled entity for which an agreement date is on or after 1 January 2005 represents the excess of the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination. Discount on acquisition is recognised immediately in profit or loss. A discount on acquisition arising on an acquisition of an associate (which is accounted for using the equity method) is included as income in the determination of the investor's share of results of the associate in the period in which the investment is acquired.

Revenue recognition

Construction contracts

When the outcome of a construction contract can be estimated reliably, revenue from fixed price contracts 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 construction contract can be estimated reliably, revenue from cost plus contracts 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.

3. Principal Accounting Policies (con't)

Revenue recognition (con't)

Project management contracts
Income from project management contract is recognised on the basis of work done.

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.

Lease of machinery
Income from lease of machinery is recognised when services are rendered.

Sales of goods
Sales of goods are recognised when goods are delivered and title has passed.

Rental income
Rental income, including rentals invoiced in advance under operating leases is recognised on a straight line basis over the term of the relevant lease.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any identified impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, at the following rates per annum:

Plant and machinery	20%-33⅓%
Other assets	12.5%-33⅓%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets.

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 the consolidated income statement in the year in which the item is derecognised.

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 lesser
Rental income from operating leases is recognised in the 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 (con't)

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 balance sheet 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 profit or loss.

Rentals payable under operating leases are charged to the 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.

Joint ventures

Jointly controlled operations

When a group entity undertakes its activities under joint venture arrangements directly, constituted as jointly controlled operations, the assets and liabilities arising from those jointly controlled operations are recognised in the balance sheet of the relevant company on an accrual basis and classified according to the nature of the item. The Group's share of the income from jointly controlled operations, together with the expenses that it incurs are included in the 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, unrealised profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

Investment in an associate

The results and assets and liabilities of associate are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investment in associate are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity 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 (which includes any long-term interests that, in substance, form part of the Group's net investment in the 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.

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 (con't)

Impairment (other than goodwill)

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. 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.

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 balance sheet date, as measured by the proportion that costs incurred to date bear to estimated total cost for the contract, 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 they have been agreed with the customer.

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

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 amounts 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 amounts due to customers for contract work. Amounts received before the related work is performed are included in the balance sheet, as a liability, as receipt in advance. Amounts billed for work performed, but not yet paid by the customer are included in the consolidated balance sheet under deposits and prepayments.

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 its 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 each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. 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.

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 Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, 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 as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

3. Principal Accounting Policies (con't)

Foreign currencies (con't)

Goodwill and fair value adjustment on identifiable assets acquired arising from an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the translation reserve.

Borrowing costs

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

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.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet 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 (other than financial assets and financial liabilities at fair value through profit or loss) 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 loans and receivables. 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 marketplace.

Loans and receivables (including trade and other receivables, amounts due from jointly controlled entities, fellow subsidiaries, holding companies, related companies and pledged bank deposits and bank balances and cash) are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest method, less any identified impairment losses. 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. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction 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.

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

The Group's financial liabilities including trade and other payables, amount due to ultimate holding company, amounts due to fellow subsidiaries and long-term bank loan, are subsequently measured at amortised cost, using the effective interest rate method.

3. Principal Accounting Policies (con't)

Taxation

Taxation represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes income statement 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 balance sheet date.

Deferred tax is the tax expected to be payable or recoverable 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, and is accounted for using the balance sheet liability method. 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.

The carrying amount of deferred tax assets is reviewed at each balance sheet date 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 is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

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 directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Equity-settled share-based payment transactions

Share options granted to employees of the Company

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 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 contractors/consultants

Share options issued in exchange for services are measured at the fair values of the services received. The fair values of the services received are recognised immediately as expenses immediately, unless the goods or services qualify for recognition as assets. Corresponding adjustment has been made to equity (share option reserve).

4. Critical Accounting Estimates and Key Sources of Estimation Uncertainty

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

(a) Income taxes

As at 31 December 2005, no deferred tax asset in relation to unused tax losses and other deductible temporary differences has been recognised in the Group's balance sheet. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. Management regularly reviews whether sufficient future profits and taxable temporary differences will be available to recognise the deferred tax assets.

(b) 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 Group's management estimates the percentage of completion of construction works if the value of works has not been certified by the customers at the balance sheet date. These estimates are based on actual cost incurred over the total budgeted cost. Corresponding contract revenue is also estimated by the management. Because of the nature of the activity 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 reviews and revises the estimates of both contract revenue and contract costs in the budget prepared for each construction contract as the contract progresses. For costs attributable to work done that have not been billed to the Group but the corresponding revenue for the work done has been recognised, management estimates these costs by reference to the budget and the actual billings subsequently received. Management regularly reviews the progress of the contracts and the corresponding costs of the contract revenue.

(c) Estimation of foreseeable losses in respect of construction works

The Group's 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 the management on the basis of quotations from time to time provided by the major contractors/suppliers/vendors involved and the experience of the management. In order to keep the budget accurate and up-to-date, the Group's management conducts periodic review on the management budgets by comparing the budgeted amounts to the actual amounts incurred.

5. Revenue

The amount represents the revenue arising on construction contracts, project management, net amounts received and receivable for goods sold by the Group to outside customers, less returns and allowances, leasing of machinery and property rental income. An analysis of the Group's revenue for the year, for both continuing and discontinued operations, is as follows:

	2005	2004
	HK$'000	*HK$'000*
Continuing operations		
Revenue from construction contracts	**6,838,984**	8,448,465
Project management fee income	**427**	9,717
Sales of goods	**13,936**	11,874
Income from leasing of machinery	**9,183**	5,983
	6,862,530	8,476,039
Discontinued operations		
Property rental income (note 12)	**—**	5,017
	6,862,530	8,481,056

6. Segment Information

The Group is principally engaged in the construction activities and other activities are insignificant. Accordingly, no segment information by business segment is presented.

Most of the Group's assets and liabilities are located in Hong Kong and the operations of the Group and its joint ventures were substantially carried out in Hong Kong. Accordingly, no analyses by geographical area of operations are presented.

7. Other Income

	2005	2004
	HK$'000	*HK$'000*
Included in other income are:		
Interests from bank deposits	**35,622**	2,398
Corporate management fee income	**5,245**	3,424
Gain on disposal of subsidiaries	**—**	450
Discount on acquisition of a subsidiary	**1,299**	—
Others	**3,015**	389
	45,181	6,661
Other income from discontinued operations (note 12)	**—**	20
	45,181	6,681

8. Finance Costs

	2005 HK$'000	2004 HK$'000
Finance costs for continuing operations:		
Interest on bank loans wholly repayable within five years	**7,511**	3,343
Interest on other loans wholly repayable within five years	**2,580**	3,828
Finance charges on obligations under a finance lease	**54**	—
Other financial expenses	**58**	3,369
	10,203	10,540
Finance costs for discontinued operations (note 12)	**—**	3,554
Total finance costs	**10,203**	14,094

9. Directors' Emoluments

The emoluments paid or payable to each of the ten (2004: three) directors were as follows:

2005	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 2005 HK$'000
Fees	1,000	—	—	—	—	—	210	146	146	83	1,585
Other emoluments											
Salaries and other benefits	34	4,089	1,277	931	1,051	461	6	6	6	6	7,867
Contributions to retirement benefit schemes	—	12	7	7	12	3	—	—	—	—	41
Total emoluments	1,034	4,101	1,284	938	1,063	464	216	152	152	89	9,493

2004	Kong Qingping HK$'000	Zhou Yong HK$'000	Zhou Hancheng HK$'000	Total 2004 HK$'000
Fees	—	—	—	—
Other emoluments				
Salaries and other benefits	—	1,460	483	1,943
Contributions to retirement benefit schemes	—	8	8	16
Total emoluments	—	1,468	491	1,959

10. Employees' Emoluments

Of the five individuals with the highest emoluments in the Group, one (2004: nil) was director of the Company whose emoluments are included in the disclosures in note 9 above. The emoluments of the remaining four (2004: five) individuals were as follows:

	2005	2004
	HK$'000	*HK$'000*
Salaries and other benefits	**7,326**	8,213
Contributions to retirement benefit schemes	**48**	60
	7,374	8,273

Their emoluments were within the following bands:

	2005	2004
	No. of employees	No. of employees
HK$1,000,001 to HK$1,500,000	**—**	3
HK$1,500,001 to HK$2,000,000	**3**	1
HK$2,000,001 to HK$2,500,000	**1**	1

11. Income Tax Expense

	2005	2004
	HK$'000	*HK$'000*
The charge comprises:		
Current tax:		
Hong Kong	**40,426**	35,612
Other jurisdictions	**4,638**	—
	45,064	35,612
Under(over)provision in prior years:		
Hong Kong	**3,692**	(763)
Other jurisdictions	**—**	(3,594)
	48,756	31,255
Deferred tax (note 26):		
Current year	**(18,439)**	6,415
Income tax expense for the year	**30,317**	37,670

Hong Kong Profits Tax is calculated at 17.5% (2004: 17.5%) of the estimated profit for the year.

Taxation arising in other jurisdictions is calculated at rates prevailing in the relevant jurisdictions.

11. Income Tax Expense (con't)

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

	2005 *HK$'000*	2004 *HK$'000*
Profit before tax:		
Continuing operations	**176,851**	212,239
Discontinued operations (note 12)	**—**	(65)
	176,851	212,174
Tax at Hong Kong Profits Tax rate of 17.5%	**30,949**	37,131
Tax effect of share of results of an associate	**(775)**	65
Tax effect of expenses not deductible for tax purpose	**13,914**	981
Tax effect of income not taxable for tax purpose	**(7,614)**	(1,783)
Under(over) provision in respect of prior years	**3,692**	(4,357)
Tax effect of tax losses/deductible temporary differences not recognised	**11,981**	17,487
Utilisation of tax losses/deductible temporary differences previously not recognised	**(20,346)**	(10,859)
Effect of different tax rates of profit arising from other jurisdictions	**(1,878)**	—
Others	**394**	(995)
Tax charge for the year	**30,317**	37,670

12. Discontinued Operations

On 9 June 2004, the Group, as part of the Group reorganisation, entered into a sales and purchase agreement to dispose of its entire interest in its wholly-owned subsidiaries, Bifacets Limited, Longcross Limited, Seawave Company Limited and Trade Brilliant Development Limited, which principally engaged in property investment activities "Property Interest Subsidiaries" to a fellow subsidiary for an aggregate consideration of HK$534,431,000. The disposal of Property Interest Subsidiaries was effected and completed on 9 June 2004, on which date control of the Property Interest Subsidiaries passed to the fellow subsidiary.

The results of the property investment activities for the period from 1 January 2004 to 9 June 2004, which have been included in the 2004 consolidated income statement, were as follows:

	HK$'000
Revenue - property rental income	5,017
Outgoings	(1,412)
Net rental income	3,605
Other income	20
Administrative expenses	(136)
Finance costs	(3,554)
Loss before tax	(65)
Income tax expense	(510)
Loss for the period	(575)

During the period from 1 January 2004 to 9 June 2004, Property Interest Subsidiaries contributed HK$2,715,000 to the Group's net operating cash flows, received net cash inflow of HK$36,915,000 in respect of investing activities and received net cash inflow of HK$188,709,000 in respect of financing activities.

The carrying amounts of the assets and liabilities of Property Interest Subsidiaries at the date of disposal are disclosed in note 30.

13. Profit for the Year

	2005 **HK$'000**	2004 HK$'000
Profit for the year has been arrived at after charging (crediting):		
Directors' emoluments		
Fees	**1,585**	—
Other emoluments	**7,908**	1,959
	9,493	1,959
Other staff costs (excluding directors) (note)	**413,340**	526,531
Less: Amount capitalised on construction work in progress	**(314,767)**	(417,968)
Reimbursed from holding companies	**—**	(5,114)
	98,573	103,449
Auditors' remuneration	**1,771**	917
Amortisation of goodwill of associate	**—**	329
Depreciation on property, plant and equipment	**40,296**	73,513
Less: Amount capitalised on construction work in progress	**(28,907)**	(69,180)
	11,389	4,333
Amortisation of prepaid lease payments included in administrative expenses	**421**	262
Net loss on disposal of property, plant and equipment	**61**	1,299
Share of tax of an associate (included in share of results of an associate)	**1,266**	(116)
Operating lease rentals in respect of:		
Plant and machinery	**156,146**	114,432
Land and buildings	**4,772**	7,846
Office premise	**6,535**	889
	167,453	123,167
Less: Amount capitalised on construction work in progress	**(161,564)**	(112,680)
	5,889	10,487

Note: Staff costs include contributions to retirement benefits plans of HK$17,469,000 (2004: HK$17,849,000).

14. Dividend

The final dividend of HK9 cents (2004: nil) per share has been proposed by the directors and is subject to approval by the shareholders in forthcoming annual general meeting.

15. Earnings Per Share

From continuing operations

The calculation of the basic and diluted earnings per share from continuing operations attributable to the ordinary equity holders of the parent entity is based on the following data:

Earnings figures are calculated as follows:

	2005 *HK$'000*	2004 *HK$'000*
Profit for the year attributable to equity holders of the parent	**130,666**	137,245
Add: Loss for the year from discontinued operations	**—**	575
Earnings for the purposes of basic earnings and diluted earnings per share from continuing operations	**130,666**	137,820

Number of shares	2005 *'000*	2004 *'000*
Weighted average number of ordinary shares for the purposes of basic earnings per share	**404,989**	316,425
Effect of dilutive potential ordinary shares:		
Options	**2,825**	—
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**407,814**	316,425

No diluted earnings per share was presented for the year ended 31 December, 2004 as the Company has no dilutive potential ordinary share in issue.

The weighted average number of ordinary shares of 316,425,445 applied for the year ended 31 December 2004 represented the relevant portion of shares of the Company issued upon the group reorganisation, for the exchange of the effective interest in CSCEHK and Project Management Group, which held by COHL subsequent to the group reorganisation, were deemed to be issued throughout that year.

An additional 175,682,556 shares of the Company is deemed to be issued during the year ended 31 December 2005 for the exchange of the interest in Project Management Group not previously held by COHL upon the group reorganisation.

From discontinued operations

Basic loss per share for the discontinued operations was HK0.18 cent per share for the year ended 31 December 2004 and based on the loss from the discontinued operations of HK$575,000 for the year ended 31 December 2004 and the weighted average number of ordinary shares detailed above for calculating the basic earnings per share.

16. Property, Plant and Equipment

	Buildings *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 2004	3,126	440,934	33,675	14,749	332	492,816
Additions	129	37,893	5,507	2,027	113	45,669
Disposals	—	(8,938)	(5,291)	(2,638)	—	(16,867)
At 31 December 2004	3,255	469,889	33,891	14,138	445	521,618
Additions	2,851	19,780	9,087	7,838	265	39,821
Acquired on acquisition of a subsidiary	—	734	235	251	—	1,220
Disposals	—	(56,577)	(5,559)	(2,424)	—	(64,560)
At 31 December 2005	6,106	433,826	37,654	19,803	710	498,099
DEPRECIATION						
At 1 January 2004	950	371,166	23,161	9,501	—	404,778
Provided for the year	328	62,963	6,991	3,231	—	73,513
Eliminated on disposals	—	(7,608)	(4,340)	(2,058)	—	(14,006)
At 31 December 2004	1,278	426,521	25,812	10,674	—	464,285
Provided for the year	720	29,407	6,273	3,896	—	40,296
Eliminated on disposals	—	(53,666)	(5,087)	(2,277)	—	(61,030)
At 31 December 2005	1,998	402,262	26,998	12,293	—	443,551
NET BOOK VALUES						
At 31 December 2005	4,108	31,564	10,656	7,510	710	54,548
At 31 December 2004	1,977	43,368	8,079	3,464	445	57,333

The net book value of motor vehicles held under finance leases is HK$308,000 (2004: nil).

17. Prepaid Lease Payments

The Group's prepaid lease payments represented land in the PRC under medium term leases held by a jointly controlled entity.

18. Interest in an Associate

	2005	2004
	HK$'000	*HK$'000*
Unlisted company		
Cost of investment in an associate	**14,832**	14,832
Share of post- acquisition profits, net of dividends received	**14,514**	11,661
	29,346	26,493

Included in the cost of investment in an associate is goodwill of HK$494,000 (2004: HK$494,000) arising on acquisitions of the associate in previous year. The movement of goodwill is set out below:

	HK$'000
COST	
At 1 January 2004 and 31 December 2005	1,647
Elimination of accumulated amortisation upon the application of HKFRS 3	(1,153)
At 31 December 2005	494
AMORTISATION	
At 1 January 2004	824
Charge for the year	329
At 31 December 2004	1,153
Elimination of accumulated amortisation upon the application of HKFRS 3	(1,153)
At 31 December 2005	—
CARRYING VALUE	
At 31 December 2005	494
At 31 December 2004	494

Until 31 December 2004, goodwill had been amortised over 5 years.

As at 31 December 2005, the Group had interest in the following associate:

Name of entity	**Form of business structure**	**Place of incorporation and operation**	**Class of share held**	**Proportion of nominal value of issued capital held by the Group** %	**Nature of business**
Hong Kong Concrete Company Limited	Incorporated	Hong Kong	Ordinary	31.5	Production and sale of ready-mixed concrete and instant mortar

18. Interest in an Associate (con't)

Summarised financial information in respect of the Group's associate is set out below:

	Year ended 2005 HK$'000	Year ended 2004 HK$'000
Revenue	**318,258**	174,067
Profit (loss) for the year	**14,059**	(1,186)
Group's share of associate's results for the year	**4,428**	(374)

	2005 HK$'000	2004 HK$'000
Total assets	**220,581**	134,671
Total liabilities	**(128,989)**	(52,139)
Net assets	**91,592**	82,532
Group's share of associate's net assets	**28,852**	25,999

19. Inventories

	2005 HK$'000	2004 HK$'000
Raw materials and consumables	**4,426**	2,907
Work in progress	**266**	—
Finished goods	**1,967**	6,135
	6,659	9,042

20. Amounts Due from (to) Customers for Contract Work

	2005 *HK$'000*	2004 *HK$'000*
Contract in progress at the balance sheet date:		
Contract costs incurred	**10,750,928**	12,800,682
Recognised profits less recognised losses	**(63,990)**	(155,072)
	10,686,938	12,645,610
Less: Progress billings	**(11,135,538)**	(13,008,336)
	(448,600)	(362,726)
Represented by:		
Due from customers included in current assets	**207,633**	40,942
Due to customers included in current liabilities	**(656,233)**	(403,668)
	(448,600)	(362,726)

At 31 December 2005, retentions held by customers for contract works amounted to approximately HK$758,716,000 (2004: HK$616,548,000) have been included in trade and other receivables under current assets.

21. Trade and Other Receivables

The Group allows an average credit period of 60 days to its customers. The following is an aged analysis of trade receivables at the reporting date:

	2005 *HK$'000*	2004 *HK$'000*
0-30 days	**996,237**	930,230
31-90 days	**310,446**	91,599
Over 90 days	**109,521**	200,395
	1,416,204	1,222,224
Retention receivables	**758,716**	616,548
	2,174,920	1,838,772
Retention receivables		
— due within one year	**205,422**	158,405
— due more than one year	**553,294**	458,143
	758,716	616,548

The fair value of the Group's trade and other receivables at 31 December 2005 and 31 December 2004 were approximate to the corresponding carrying amount.

22. Amounts Due from (to) Jointly Controlled Entities

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

As at 31 December 2005, the Group had interests in the following jointly controlled entities:

Name of entity	Form of business structure	Place of registration and operation	% of ownership interest	Nature of business
China Overseas - Samsung Joint Venture	Unincorporated	Hong Kong	70 (note a)	Building construction
China Overseas - Young's Mechanical & Electrical Engineering Limited	Incorporated	Hong Kong	49	Mechanical and electrical engineering works
Jardine - China Overseas Joint Venture	Unincorporated	Hong Kong	50	Mechanical and electrical engineering works
COMEEL - ATAL Joint Venture	Unincorporated	Hong Kong	50	Mechanical and electrical engineering works
Consórcio De Empresas Atal Engineering Limited/ Waterleau Global Water Technology NV/China State Construction Engineering (Hong Kong) Limited	Unincorporated	Macau	39.23	Civil engineering works
China State - China Railway Joint Venture	Unincorporated	Hong Kong	60 (note a)	Civil engineering works
China State - China Resources Construction Joint Venture	Unincorporated	Hong Kong	50	Building construction
China State - Samsung Joint Venture	Unincorporated	Hong Kong	65 (note a)	Building construction
CSCHK - SOMA Joint Venture	Unincorporated	India	50	Road construction
Hip Hing - China State Joint Venture	Unincorporated	Hong Kong	50	Building construction
Hoi Hing Building Materials Co., Limited	Incorporated	Hong Kong	50	Trading of building materials
Long Faith Engineering Limited	Incorporated	Hong Kong	50	Engineering works
Leighton - China State - Van Oord Joint Venture	Unincorporated	Hong Kong	45	Civil engineering works

22. Amounts Due from (to) Jointly Controlled Entities (con't)

Name of entity	Form of business structure	Place of registration and operation	% of ownership interest	Nature of business
Leighton - China State Joint Venture	Unincorporated	Macau	30	Building construction
深圳海龍建築製品有限公司 (Shenzhen Hailong Construction Products Co., Ltd.) (note c)	Incorporated	The People's Republic of China	50	Production of pre-cast structures
Shimizu - China State Joint Venture	Unincorporated	Hong Kong	45 - 50 (note b)	Building construction

Note:

(a) The Group holds the entity interests of these jointly controlled entities and control the respective percentage of the voting power in general meeting. However, under the joint venture agreements, these joint ventures are jointly controlled by the Group and the other significant ventures. Therefore, these entities are classified as jointly controlled entity of the Group.

(b) The Group, through Shimizu-China State Joint Venture, hold 45% in two construction projects and 50% in one construction project.

(c) Business name.

Jointly controlled entities

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

	Year ended 2005 *HK$'000*	Year ended 2004 *HK$'000*
Income	**1,671,475**	1,617,418
Expenses	**1,597,050**	1,609,311

	2005 *HK$'000*	2004 *HK$'000*
Current assets	**718,062**	563,159
Non-current assets	**27,334**	23,474
Current liabilities	**627,212**	550,296
Non-current liabilities	**338**	—

22. Amounts Due from (to) Jointly Controlled Entities (con't)

Jointly controlled operations

In additional to the construction and engineering projects undertaken by jointly controlled entities as listed above, the Group has also established joint ventures with outsider contractors to undertake construction projects in the form of jointly controlled operations. Particulars regarding these joint ventures as at 31 December 2005 are as follows:

Name of joint venture	Place and date of establishment	% of interest held by the Group
Chit Cheung - China Overseas - ATAL Joint Venture	Hong Kong 28 June 2004	13
China State - ATAL Joint Venture	Hong Kong 23 May 2001	55
China State - ATAL Joint Venture	Hong Kong 21 January 2005	39.6
China State Joint Venture	Hong Kong 16 June 2003	70

At 31 December 2005, 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:

	Year ended 2005 ***HK$'000***	Year ended 2004 *HK$'000*
Income	**432,275**	524,447
Expenses	**412,978**	557,915

	2005 ***HK$'000***	2004 *HK$'000*
Assets	**63,089**	83,779
Liabilities	**62,842**	164,375

23. Amounts Due from (to) Fellow Subsidiaries/Holding Companies/Related Companies/ Associate

The amounts due from (to) fellow subsidiaries/holding companies/related companies/associate are unsecured, interest free and repayable on demand.

The carrying amounts at the balance sheet date approximate to their respective fair value.

24. Trade and Other Payables

The following is an aged analysis of trade and other payables at the balance sheet date:

	2005 *HK$'000*	2004 *HK$'000*
0-30 days	**1,518,295**	1,378,077
31-90 days	**437,067**	219,919
over 90 days	**131,600**	311,035
	2,086,962	1,909,031
Retention payables	**643,569**	610,521
	2,730,531	2,519,552
Retention payables		
— due within one year	**273,828**	145,430
— due more than one year	**369,741**	465,091
	643,569	610,521

The fair value of the Group's trade and other payables at 31 December 2005 and 31 December 2004 were approximate to the corresponding carrying amount.

25. Share Capital

	Number of shares		**Share capital**	
	2005	2004	**2005** *HK$'000*	2004 *HK$'000*
Ordinary shares of HK$0.10 each				
Authorised				
At the date of incorporation and at 31 December	**15,000,000,000**	15,000,000,000	**1,500,000**	1,500,000
Issued and fully paid				
At the date of incorporation	1	1	**—**	—
Issued in consideration for the acquisition of the issued share capital of China State Construction Engineering (Hong Kong) Limited	**492,108,001**	—	**49,211**	—
At 31 December	**492,108,002**	1	**49,211**	—

The Company was incorporated with an authorised share capital of HK$1,500,000,000 divided into 15,000,000,000 shares of HK$0.10 each.

At the first meeting of the provisional directors of the Company held on 21 April 2004, 1 share of HK$0.10 was allotted and issued at par to COHL.

25. Share Capital (con't)

On 3 June 2005, 492,108,001 shares in the Company were allotted and issued to COHL as consideration for COHL agreeing to procure (i) the allotment and issue by CSCEHK, a wholly owned subsidiary of COHL, of one share of HK1.00 each to the Company and (ii) the conversion of each of the 844,430,810 existing shares of CSCEHK in issue prior to the allotment and issue of the said one share of HK$1.00 into a non-voting deferred share and redesignation of the one share of HK$1.00 so alloted and issued as ordinary share to the Company.

The share capital presented on the consolidated balance sheet as at 1 January 2004 and 31 December 2004 of 316,425,445 ordinary shares of HK$0.10 each of the Company represented the relevant portion of shares of the Company issued upon the Group reorganisation for exchange of the effective interest of CSCEHK and Project Management Group. The shares are held by COHL subsequent to the reorganisation.

An additional 175,682,556 shares of the Company is deemed to be issued during the year ended 31 December 2005 for the exchange of the interest in Project Management Group not previously held by COHL upon the group reorganisation.

26. Deferred Tax

The following are the major deferred tax liabilities representing other taxable temporary differences arising from business combination recognised and movements thereon during the current and prior years:

	2005 ***HK$'000***	2004 *HK$'000*
Balance at 1 January	**18,439**	12,024
(Credit) charge to consolidated income statement	**(18,439)**	6,415
Balance at 31 December	**—**	18,439

At the balance sheet date, the Group has the following unutilised tax losses and other deductible temporary differences not recognised in the consolidated financial statements:

	2005 ***HK$'000***	2004 *HK$'000*
Unutilised tax losses *(note a)*	**95,939**	66,892
Excess of depreciation charged in the consolidated financial statements over tax depreciation allowances *(note b)*	**24,161**	40,387
Foreseeable losses on construction contracts recognised in the consolidated financial statements and deductible for tax purpose in subsequent years *(note b)*	**—**	60,626
Others	**4,575**	4,575
	124,675	172,480

Notes:

(a) No deferred tax asset has been recognised in respect of the unutilised tax losses due to the unpredictability of future taxable profit streams. The unutilised tax 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.

27. Obligations under a Finance Lease

It is the Group's policy to lease certain of its motor vehicle under finance leases. The average lease term is 3 years. Interest rates underlying all obligations under finance leases are fixed at respective contract dates ranging from 12% to 16%.

	Minimum lease payments		**Present value of minimum lease payments**	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amounts payable under finance leases:				
Within one year	**155**	—	**135**	—
In more than two years but not more than three years	**389**	—	**338**	—
	544	—	**473**	—
Less: Future finance charges	**(71)**	—	**—**	—
Present value of lease obligations	**473**	—	**473**	—
Less: Amount due for settlement within one year shown under current liabilities			**(135)**	—
Amount due for settlement after one year			**338**	—

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 balance sheet date approximates to their carrying amount.

28. Long-term bank loan

The long-term bank loan was a variable-rate borrowing with effective interest rate ranged from 2.5% to 5.5% and repaid during the year.

29. Acquisition of a Subsidiary

On 1 September 2005, the Group acquired entire share capital of Magnified Industries Limited which held 50% interest in the issued share capital of a jointly controlled entity, Hoi Hing Building Materials Company Limited, for consideration of HK$4,800,000. This acquisition has been accounted for using the purchase method. The amount of discount on acquisition was HK$1,299,000. In the opinion of the directors, the carrying amount of the assets and liabilities of the acquiree are approximate to their fair value.

	HK$'000
Property, plant and equipment	1,220
Inventories	1,131
Amounts due from customers for contract work	2,738
Trade and other receivables	11,567
Bank balances and cash	1,800
Amounts due to customers for contract work	(197)
Trade and other payables	(11,023)
Tax payable	(271)
Bank overdrafts, unsecured	(866)
Net assets	6,099
Net assets attributable to the Group	6,099
Consideration payable	4,800
Discount on acquisition of a subsidiary	1,299
Net cash inflow from acquisition:	
Bank balances and cash	1,800
Bank overdrafts, unsecured	(866)
	934

Magnified Industries Limited contributed HK$23,081,000 revenue and HK$498,000 to the Group's profit before tax for the period between the date of acquisition and the balance sheet date.

If the acquisition had been completed on 1 January 2005, total Group revenue for the year would have been HK$6,966,123,000, and profit for the year would have been HK$149,031,000. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2005, nor is it intended to be a projection of future results.

30. Disposal of a Subsidiary/Business

As referred to in note 12, on 9 June 2004, the Group discontinued its property investment activities at the time of disposal of its Property Interest Subsidiaries. The net assets of Property Interest Subsidiaries at the date of disposal were as follows:

	HK$'000
NET ASSETS DISPOSED OF	
Investment properties	310,000
Trade and other receivables	1,216
Amount due from a holding company	110,356
Bank balances and cash	5,253
Trade and other payables	(4,942)
Amount due to a holding company	(55,062)
Tax payable	(24,653)
Net assets	342,168
Capital contribution	192,263
Total consideration	534,431
Satisfied by:	
Cash received during the year	234,431
Amount due from a fellow subsidiary	300,000
	534,431
Net cash inflow arising on disposal:	
Cash consideration	234,431
Bank balances and cash disposed of	(5,253)
	229,178
Less: cash inflow relating to capital contribution	(192,263)
Net inflow of cash and cash equivalents in connection with the disposal of subsidiaries	36,915

The impact of disposal of Property Interest Subsidiaries on the Group's results and cash flows in the prior year is disclosed in note 12.

31. Major Non Cash Transactions

(1) During the year, the Group entered into finance lease arrangements in respect of the acquisition of assets with a total capital value at the inception of the leases of approximately HK$552,000.

(2) During the year, the Group acquired the entire interest in the Project Management Group for a consideration of HK$788,089,000. The amount was settled through amounts due to a holding company.

32. Share-based Payment Transactions

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, employees, officers and suppliers of goods and services of the Group, and may terminate by resolution in general meeting. Under the Scheme, the Board of Directors of the Company may grant options to qualifying grantees, including employees, directors or contractors of the Group.

At 31 December 2005, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 49,200,000 (2004: nil), representing approximately 10% (2004: nil) 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. No options may be granted under any schemes of the Company if it will result in the limit being exceeded. 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 aggregate 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 Board, 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.

Details of options granted on 14 September 2005 at the exercise price of HK$1.03 are as follows:

Number of options	Vesting period	Exercise period
9,840,000	14 September 2005 to 13 September 2006	14 September 2006 to 13 September 2015
9,840,000	14 September 2005 to 13 September 2007	14 September 2007 to 13 September 2015
9,840,000	14 September 2005 to 13 September 2008	14 September 2008 to 13 September 2015
9,840,000	14 September 2005 to 13 September 2009	14 September 2009 to 13 September 2015
9,840,000	14 September 2005 to 13 September 2010	14 September 2010 to 13 September 2015

During the year ended 31 December 2005, share options of 49,200,000 were granted on 14 September 2005 at exercise price of HK$1.03.

32. Share-based Payment Transactions (con't)

The following table discloses details of the Company's share options held by the employees (including directors) and consultants:

	Number of options granted during the year and outstanding at 31 December 2005 '000
Directors	**5,250**
Employees	**20,880**
Consultants	**23,070**
	49,200

No option was exercised, cancelled and lapsed during the year.

The estimated fair values of the options granted on those dates are HK24.5 cents.

These fair values were calculated using The Black-Scholes Merton pricing model/the binominal model. The inputs into the model were as follows:

	2005
Exercise price	**HK$1.03**
Expected volatility	**13.88%**
Expected life	**2 - 10 years**
Risk-free rate	**4.0 - 4.2%**
Expected dividend yield	**0%**

Expected volatility was determined by using the historical volatility of the share price of other similar companies. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

The Group recognised the total expenses of HK$1,500,000 for the year ended 31 December 2005 in relation to share options granted by the Company.

33. Operating Lease Commitments

At 31 December 2005, the Company had commitments for future minimum lease payments in respect of land and buildings under non-cancellable operating leases which fall due:

	2005 HK$'000	2004 HK$'000
Within one year	7,298	4,905
In the second to fifth years inclusive	1,060	4,905
	8,358	9,810

Leases in respect of land and buildings are negotiated and fixed for an average term of two years. Leases in respect of plant and machinery are negotiated and fixed at the end of each year and the Group had no commitments for future minimum lease payments under non-cancellable operating leases in this respect.

34. Pledge of Assets

As at 31 December, 2005, bank deposit amounting to HK$32,223,000 (2004: HK$7,800,000) was pledged to bank for the issuance of surety bonds in respect of a construction project which was operated by a jointly controlled entity.

The deposits carry interest rate at Hong Kong dollar deposit rates. The pledged bank deposits will be released upon the cancellation of the surety bonds. The fair value of bank deposits at 31 December 2005 approximates to the corresponding carrying amount.

35. Related Party Transactions

Apart from the balances due from or to related parties as disclosed in notes 1, 12, 22, 23 and 32, the Group had the following transactions with related parties during the year:

(a) The Group had the following transactions with its ultimate holding company, immediate holding company, fellow subsidiaries, associate, jointly controlled entities and other state owned entities during the year:

Transaction nature	2005 HK$'000	2004 HK$'000
Ultimate holding company		
Project management fee income	427	9,717
Immediate holding company		
Interest expenses	2,515	7,382
Fellow subsidiaries		
Management fee income	1,495	3,424
Rental expenses	4,668	4,044
An associate		
Construction fee income	—	1,436
Services fee expenses	1,098	74
Purchase of construction materials	218,471	16,916

35. Related Party Transactions (con't)

Transaction nature	Year ended 31 December 2005 HK$'000	2004 HK$'000
Jointly controlled entities		
Construction income	**32,955**	111,015
Management fee income	**3,750**	—
Rental income from lease of machinery received	**5,467**	4,489
Purchase of pre-cast structures	**26,548**	28,077
Purchase of Materials	**14,892**	—
Other state owned entities		
Construction income	**132,156**	92,441
Subcontracting fees	**78,371**	62,134

(b) The Group has taken out insurance policies with a subsidiary of CSCEC, China Overseas Insurance Limited. The aggregate premium paid or payable by the Group, which was essentially based on terms agreed by the relevant parties concerned, during the year amounted to HK$54,793,000 (2004: HK$85,000,000).

(c) As the parent of the Company, COHL and a fellow subsidiary, COLI, acted as guarantors for certain banking facilities granted to the Group up to the date of listing of the shares of the Company on 8 July 2005. No fees were charged by either COHL or COLI to the Group in this connection during the years of 2004 and 2005.

(d) Prior to the Group reorganisation in June 2005, counter indemnities had been given by COLI for surety bonds issued in respect of construction projects undertaken by the Group, free of any charges. After July 2005, all the counter indemnities were released upon the listing of the shares of the Company and was replaced by the corporate guarantees issued by the company in favour to the banks.

(e) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2005 HK$'000	2004 HK$'000
Short-term benefits	**19,497**	10,622
Post-employment benefits	**149**	115
Share-based payments	**267**	—
	19,913	10,737

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

36. Financial Risks and Management

The Group's major financial instruments included trade and other receivables, trade and other payables, amount due from/to group companies/associate/jointly controlled entities and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(a) Credit risk

The Group's principal financial assets are bank balances and cash, trade and other receivables.

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

The Group's credit risk is primarily attributable to its trade and other receivables. 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 each balance sheet date 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 Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

(b) Interest rate risk

The Group is exposed to interest rate risk through the impact of rate changes on interest bearing financial assets and liabilities. Interest bearing financial assets are mainly balances with banks which are all short terms in nature. Interests bearing financial liabilities are mainly short term variable rate debt obligations with banks and amount due to group companies. Therefore, any future variations in interest rates will not have a significant impact on the results of the Group. Fluctuations in interest rates can also lead to significant fluctuates in the fair value of debt obligations.

(c) Fair values of financial assets and financial liabilities

The directors consider that the carrying amounts of financial assets and financial liabilities reported in the consolidated balance sheet approximate to their respective fair values.

37. Particulars of Subsidiaries of the Company

Particulars of the Company's subsidiaries at 31 December 2005 are as follows:

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid up share/ registered capital	Attributable equity interest held %	Principal activities
Directly held by the Company:				
China State Construction Engineering (Hong Kong) Limited	Hong Kong	1 ordinary share of HK$1 and 844,430,810 non-voting deferred shares of HK$1 each	100	Building construction, civil engineering works, foundation engineering works and investment holding
Classicman International Limited	British Virgin Islands	1 ordinary share of US$1 each	100	Investment holding
Xun An Engineering Company Limited	Hong Kong	100 ordinary shares of HK$1 each	100	Lease of machinery
Zetson Enterprises Limited	British Virgin Islands	1 ordinary share of US$1 each	100	Investment holding
Indirectly held by the Company:				
Barkgate Enterprises Limited	British Virgin Islands	200 ordinary shares of US$1 each	100	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	Building construction, project management and investment holding
China Overseas 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	Civil engineering works, project management and investment holding
China Overseas 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	Building construction, foundation engineering works and project management
China Overseas Installation Works Limited	Hong Kong	100 ordinary shares of HK$10 each	65	Inactive

37. Particulars of Subsidiaries of the Company (con't)

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid up share/ registered capital	Attributable equity interest held %	Principal activities
China Overseas (Hong Kong) Limited	Hong Kong	5,000,000 ordinary shares of HK$10 each	100	Investment holdings, building construction and provision of management services
China Overseas Machinery Limited	Hong Kong	2 ordinary shares of HK$1 each	100	Lease of plant and machinery
China Overseas Mechanical & Electrical Engineering Limited	Hong Kong	10,000,000 ordinary shares of HK$1 each	100	Mechanical and electrical engineering works, project management and investment holding
Citycharm Investments Limited	British Virgin Islands	1 ordinary share of US$1 each	100	Investment holding
C.S.H.K. Dubai Contracting L.L.C.	United Arab Emirates	1,000,000 ordinary shares of AED1 each	100	Building contracting and road construction
CSCEC Trade Mark Limited	Hong Kong	2 ordinary shares of HK$1 each	100	Holding of trade marks
Eastgood Investments Limited	Hong Kong	2 ordinary shares of HK$1 each	100	Building construction
Magnifield Industries Limited	British Virgin Islands	1 ordinary share of US$1 each	100	Investment holding
Speedclass Development Limited	Hong Kong	100 ordinary shares of HK$1 each	100	Building construction
Treasure Construction Engineering Limited	Hong Kong	2 ordinary shares of HK$1 each	100	Building construction
Weedon International Limited	British Virgin Islands	1 ordinary share of US$1 each	100	Investment holding