Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

1. GENERAL

The Company was incorporated in 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 were 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 ultimate holding company is China State Construction Engineering Corporation ("CSCEC") (established in the 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.

On 9 May 2006, a Sale and Purchase Agreement was entered into between the Company, COHL and China Overseas Construction Limited, a fellow subsidiary of the Company, whereby China Overseas Construction Limited agreed to transfer the entire paid up share capital of China Construction Engineering (Macau) Company Limited ("CCEM") to the Company and/or its nominees. The transfer of controlling interests in CCEM was completed on 29 June 2006.

The transfer of the controlling interests in CCEM as mentioned above is regarded as common control combination. Accordingly, the consolidated financial statements of the Group have 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 transfer of the controlling interests in CCEM has been completed as at 1 January 2005. Accordingly, the comparative figures of the consolidated financial statements have been restated.

The effects of the combination of CCEM on the result of the Group for the year ended 31 December 2005 and the financial position of the Group at 31 December 2005 are summarised below:

	For the year ended 31 December 2005 (Previously stated) HK$'000	**Combination of CCEM** HK$'000	**For the year ended 31 December 2005** (Restated) HK$'000
Revenue	6,862,530	801,722	7,664,252
Contract costs	(6,531,393)	(768,405)	(7,299,798)
Gross profit	331,137	33,317	364,454
Other income and expenses	(154,286)	(8,644)	(162,930)
Profit before tax	176,851	24,673	201,524
Income tax expense	(30,317)	(2,979)	(33,296)
Profit for the year	146,534	21,694	168,228
Attributable to:			
Equity holders of the Company	130,666	21,355	152,021
Minority interests	15,868	339	16,207
	146,534	21,694	168,228

1. GENERAL (cont'd)

	At 31 December 2005 (Previously stated) HK$'000	Combination of CCEM HK$'000	Adjustments HK$'000	At 31 December 2005 (Restated) HK$'000
Non-current assets	95,694	69,606		165,300
Current assets				
Trade and other receivables	2,174,920	232,118		2,407,038
Bank balances and cash	1,615,767	95,234		1,711,001
Other current assets	477,984	55,621	75,809	609,414
	4,268,671	382,973		4,727,453
Current liabilities				
Amounts due to customers for contract work	656,233	51,252		707,485
Trade and other payables	2,730,531	243,538		2,974,069
Amount due to immediate holding company	—	13,970	86,185	100,155
Other current liabilities	139,885	66,681	75,809	282,375
	3,526,649	375,441		4,064,084
Net current assets	742,022	7,532		663,369
Total assets less current liabilities	837,716	77,138		828,669
Total capital and minority interests	837,378	77,138	(86,185)	828,331
Non-current liabilities	338	—		338
	837,716	77,138		828,669

1. GENERAL (cont'd)

The effect of the combination of CCEM on the Group's equity at 1 January 2005 are summarised below:

	At 1 January 2005 (Previously stated) HK$'000	Combination of CCEM HK$'000	At 1 January 2005 (Restated) HK$'000
Special reserve	999,993	(85,994)	913,999
Translation reserve	584	(817)	(233)
PRC statutory reserve	—	358	358
Retained profits	76,158	55,526	131,684
Minority interests	189,467	18,111	207,578
	1,266,202	(12,816)	1,253,386

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 the construction business. The principal activities of its subsidiaries, associates and jointly controlled entities are set out in notes 40, 19 and 25.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new standard, amendment and interpretations ("new HKFRSs") issued by the HKICPA, which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new HKFRSs had no material effect on how the results and the financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

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

HKAS 1 (Amendment)	Capital Disclosures[1]
HKFRS 7	Financial Instruments : Disclosures[1]
HKFRS 8	Operating Segments[2]
HK (IFRIC) — Int 7	Applying the Restatement Approach under HKAS 29 "Financial Reporting in Hyperinflationary Economics"[3]
HK (IFRIC) — Int 8	Scope of HKFRS 2[4]
HK (IFRIC) — Int 9	Reassessment of Embedded Derivatives[5]
HK (IFRIC) — Int 10	Interim financial Reporting and Impairment[6]
HK (IFRIC) — Int 11	HKFRS 2 — Group and Treasury Share Transactions[7]
HK (IFRIC) — Int 12	Service Concession Arrangements[8]

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (cont'd)

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

[2] Effective for annual periods beginning on or after 1 January 2009.

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

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

[5] Effective for annual periods beginning on or after 1 June 2006.

[6] Effective for annual periods beginning on or after 1 November 2006.

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

[8] Effective for annual periods beginning on or after 1 January 2008.

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 and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose 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 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 share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority 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.

3. PRINCIPAL ACCOUNTING POLICIES (cont'd)

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, 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 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.

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 profit of the associate in the period in which the investment is acquired.

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.

3. PRINCIPAL ACCOUNTING POLICIES (cont'd)

Revenue recognition (cont'd)

Construction contracts (cont'd)

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.

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.

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 terms of the relevant leases.

Investment properties

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

Property, plant and equipment

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

3. PRINCIPAL ACCOUNTING POLICIES (cont'd)

Property, plant and equipment (cont'd)

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, at the following rates per annum:

Buildings	Over the shorter of the term of the relevant lease or 50 years
Plant and machinery	10%–33$^1/_3$ %
Other fixed assets	12.5%–33$^1/_3$ %

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

Prepaid lease payments

The prepaid lease payments represent upfront payment for land use rights and leasehold land are initially recognised at cost and released to consolidated income statement over the lease term on a straight-line basis.

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.

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 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.

3. PRINCIPAL ACCOUNTING POLICIES (cont'd)

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 items. The Group's share of the income from jointly controlled operations, together with the expenses that it incurs are included 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, 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.

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.

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 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. From 1 January 2005 onwards, the Group has discontinued amortisation of goodwill and such goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any impairment loss identified is recognised and is allocated first to goodwill.

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 (cont'd)

Impairment

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.

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.

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

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 balance sheet, as a liability, as deposits received and receipt in advance. Amounts billed for work performed, but not yet paid by the customer are included in the consolidated balance sheet under trade and other receivables.

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

3. PRINCIPAL ACCOUNTING POLICIES (cont'd)

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 each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet 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 equity, in which cases, the exchange differences are also recognised directly in equity.

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 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 income statement in the period in which the foreign operation is disposed of.

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

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when 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.

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated balance sheet when a group entity becomes a party to the contractual provisions of the financial 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.

3. PRINCIPAL ACCOUNTING POLICIES (cont'd)

Financial instruments (cont'd)

Financial assets

The Group's financial assets are classified into loans and receivables, available-for-sale financial assets and financial assets at fair value through profit or loss. 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. The accounting policies adopted in respect of each category of financial assets are set out below.

Loans and receivables

Loans and receivables (including amount due from an investee company, trade and other receivables, amounts due from jointly controlled entities, amounts due from the partners of jointly controlled entities, amounts due from fellow subsidiaries, amount due from ultimate holding company, pledged bank deposits and bank balances) 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 income statement 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.

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 each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment losses on available-for-sale financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse in profit or loss in subsequent periods. 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.

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, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset 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 losses will not reverse in subsequent periods.

3. PRINCIPAL ACCOUNTING POLICIES (cont'd)

Financial instruments (cont'd)

Financial assets (cont'd)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

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, amounts due to jointly controlled entities, amounts due to the partners of jointly controlled entities, amount due to immediate holding company, amount due to ultimate holding company, amounts due to fellow subsidiaries, amount due to an associate, obligations under finance leases, bank overdrafts and bank loans), are subsequently measured at amortised cost, using the effective interest method.

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 period. Taxable profit differs from net 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 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 consolidated 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.

3. PRINCIPAL ACCOUNTING POLICIES (cont'd)

Retirement benefit costs

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

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 each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The effect of the change in estimate, if any, is recognised in 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. 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).

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 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 of construction works is determined by the aggregated costs for the individual contract incurred at the balance date compared with the estimated budgeted cost. The management's estimation of the cost incurred to date and the budgeted cost based on documents prepared by the quantity surveyors. Corresponding revenue of the contract costs 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 estimation 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.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (cont'd)

(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) Impairment of properties held for sale

Included in the consolidated balance sheet at 31 December 2006 are properties held for sale with an aggregate carrying amount of HK$20,408,000. Management assessed the recoverability of these amounts based on an estimation of the net realisable value of the underlying properties which involves, inter-alia, considerable analysis of current market price of properties of a comparable standard and location and a forecast of future sales. If the actual net realisable values of the underlying properties are less than expected as a result of an adverse change in market condition or an escalation of cost, material impairment loss may result.

5. REVENUE

The amount represents the revenue arising on construction contracts, project management fee income, net amounts received and receivable for pre-cast structures and building materials sold by the Group to outside customers, less returns and allowances and machinery leasing income. An analysis of the Group's revenue for the year is as follows:

	2006 **HK$'000**	2005 HK$'000 (Restated)
Revenue from construction contracts	**10,216,136**	7,617,921
Project management fee income	**15,329**	13,004
Sales of pre-cast structures and building materials	**59,253**	13,936
Machinery leasing income	**4,108**	19,391
	10,294,826	7,664,252

6. GEOGRAPHICAL INFORMATION

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

For management purposes, the Group is currently divided into four geographical segments — Hong Kong, Macau, Dubai and India. These segments are the basis on which the Group reports its primary segment information.

Segment information about these geographical segments by location of assets is presented below.

For the year ended 31 December 2006

	Hong Kong HK$'000	Macau HK$'000	Dubai HK$'000	India HK$'000	Sub-total HK$'000	Inter-segment eliminations HK$'000	Consolidated HK$'000
REVENUE							
External sales	7,509,542	1,536,636	794,504	454,144	10,294,826	—	10,294,826
Inter-segment sales	15,492	—	—	—	15,492	(15,492)	—
Total revenue	7,525,034	1,536,636	794,504	454,144	10,310,318	(15,492)	10,294,826
RESULT							
Segment gross profit	336,743	107,383	6,731	8,193	459,050	—	459,050
Segment results	289,319	79,081	(17,630)	13,173	363,943	—	363,943
Inter-segment result	16,051	(7,506)	—	—	8,545	(8,545)	—
	305,370	71,575	(17,630)	13,173	372,488	(8,545)	363,943
Unallocated corporate expenses							(98,206)
Share of profits of associates							6,860
Finance costs							(1,553)
Profit before tax							271,044
Income tax expense							(49,181)
Profit for the year							221,863

6. GEOGRAPHICAL INFORMATION (cont'd)

As at 31 December 2006

BALANCE SHEET

	Hong Kong HK$'000	Macau HK$'000	Dubai HK$'000	India HK$'000	Consolidated HK$'000
ASSETS					
Segment assets	3,686,125	724,417	519,800	412,179	5,342,521
Interests in associates					34,013
Amount due from an investee company					10,909
Tax recoverable					20,697
Consolidated total assets					5,408,140
LIABILITIES					
Segment liabilities	3,032,791	625,239	372,636	339,098	4,369,764
Tax liabilities					49,443
Borrowings					14,732
Consolidated total liabilities					4,433,939

OTHER INFORMATION

	Hong Kong HK$'000	Macau HK$'000	Dubai HK$'000	India HK$'000	Consolidated HK$'000
Additions of property, plant and equipment	24,283	2,602	42,055	8,187	77,127
Depreciation and amortisation	28,037	2,179	9,020	4,438	43,674
Net gain (loss) on disposal of property, plant and equipment	(570)	64	—	—	(506)
Equity-settled share-based payment	4,779	—	—	—	4,779
Loss on disposal of a subsidiary	—	(165)	—	—	(165)

6. GEOGRAPHICAL INFORMATION (cont'd)

For the year ended 31 December 2005 (Restated)

	Hong Kong HK$'000	Macau HK$'000	Dubai HK$'000	India HK$'000	Sub-total HK$'000	Inter-segment eliminations HK$'000	Consolidated HK$'000
REVENUE							
External sales	6,356,267	1,213,930	47,546	46,509	7,664,252	—	7,664,252
Inter-segment sales	—	—	-	—	—		—
Total revenue	6,356,267	1,213,930	47,546	46,509	7,664,252	—	7,664,252
RESULT							
Segment gross profit	296,708	67,746	—	—	364,454		364,454
Segment results	255,948	58,295	(19,882)	(1,162)	293,199		293,199
Inter-segment result	2,708	—	—	—	2,708	(2,708)	—
	258,656	58,295	(19,882)	(1,162)	295,907	(2,708)	293,199
Unallocated corporate expenses							(86,863)
Share of profits of associates							9,284
Finance costs							(14,096)
Profit before tax							201,524
Income tax expense							(33,296)
Profit for the year							168,228

6. GEOGRAPHICAL INFORMATION (cont'd)

As at 31 December 2005

BALANCE SHEET (Restated)

	Hong Kong HK$'000	Macau HK$'000	Dubai HK$'000	India HK$'000	Consolidated HK$'000
ASSETS					
Segment assets	4,060,084	532,678	77,608	145,828	4,816,198
Interests in associates					45,545
Amount due from an investee company					10,909
Tax recoverable					20,101
Consolidated total assets					4,892,753
LIABILITIES					
Segment liabilities	3,387,659	420,401	38,445	133,311	3,979,816
Tax liabilities					31,307
Borrowings					53,299
Consolidated total liabilities					4,064,422

OTHER INFORMATION

	Hong Kong HK$'000	Macau HK$'000	Dubai HK$'000	India HK$'000	Consolidated HK$'000
Additions of property, plant and equipment	26,701	1,718	9,920	3,198	41,537
Depreciation and amortisation	39,725	1,829	839	148	42,541
Loss on disposal of property, plant and equipment	(61)	—	—	—	(61)
Equity-settled share-based payments	1,500	—	—	—	1,500

7. INVESTMENT INCOME

	2006 HK$'000	2005 HK$'000 (Restated)
Interest income on:		
Bank deposits	**51,766**	35,962
Debt securities	**4,517**	—
Other receivable	**34**	—
Deposits with financial institutions	**2,881**	—
Total interest income	**59,198**	35,962
Dividend income from unlisted available-for-sale investments	**—**	146
Gain on disposal of unlisted available-for-sale investments	**2,889**	—
Gain on disposal of listed trading securities	**2,403**	—
	64,490	36,108

8. OTHER INCOME

	2006 HK$'000	2005 HK$'000 (Restated)
Included in other income are:		
Rental of properties	**5,419**	3,990
Sales of properties	**—**	2,430
Property management service income	**1,026**	1,788
Management fee income	**1,409**	5,245
Discount on acquisition of a subsidiary	**—**	1,299
Project design service income	**—**	542
Exchange gain	**1,860**	—
Others	**3,539**	2,649
	13,253	17,943

9. FINANCE COSTS

	2006 HK$'000	2005 HK$'000 (Restated)
Interest on bank loans wholly repayable within five years	**1,178**	11,377
Interest on other loans wholly repayable within five years	**—**	2,580
Finance charges on obligations under finance lease	**17**	54
Other financial costs	**358**	85
	1,553	14,096

During the year, no borrowing costs was capitalised.

10. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the ten (2005 : ten) directors were as follows:

For the year end 31 December 2006

	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 2006 HK$'000
Fees	**1,000**	**—**	**—**	**—**	**—**	**—**	**360**	**250**	**250**	**250**	**2,110**
Other emoluments											
Salaries and other benefits	**120**	**4,864**	**2,917**	**1,785**	**1,252**	**2,218**	**20**	**20**	**20**	**20**	**13,236**
Contributions to retirement benefit schemes	**—**	**12**	**12**	**12**	**12**	**12**	**—**	**—**	**—**	**—**	**60**
Total emoluments	**1,120**	**4,876**	**2,929**	**1,797**	**1,264**	**2,230**	**380**	**270**	**270**	**270**	**15,406**

For the year end 31 December 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

11. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2005: one) were directors of the Company whose emoluments are included in the disclosures in note 10. The emoluments of the remaining one (2005: four) individual was as follows:

	2006 HK$'000	2005 HK$'000
Salaries and other benefits	**1,776**	7,326
Contributions to retirement benefits schemes	**12**	48
	1,788	7,374

Their emoluments were within the following bands:

	2006 No. of employees	2005 No. of employees
HK$1,500,001 to HK$2,000,000	**1**	3
HK$2,000,001 to HK$2,500,000	**—**	1

12. INCOME TAX EXPENSE

	2006 HK$'000	2005 HK$'000 (Restated)
Current tax:		
Hong Kong	**38,498**	40,426
Other jurisdictions	**11,149**	7,936
	49,647	48,362
(Over) under provision in prior years:		
Hong Kong	**(466)**	3,692
Other jurisdictions	**—**	(319)
	(466)	3,373
	49,181	51,735
Deferred tax:		
Current year (note 31)	**—**	(18,439)
Income tax expense for the year	**49,181**	33,296

12. INCOME TAX EXPENSE (cont'd)

Hong Kong Profits Tax is calculated at 17.5% (2005: 17.5%) of the estimated assessable profit for the year. Income tax expense arising in other jurisdictions are calculated at the rates prevailing in the relevant jurisdictions.

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

	2006	2005
	HK$'000	HK$'000
		(Restated)
Profit before tax	**271,044**	201,524
Tax at Hong Kong Profits Tax rate of 17.5% (2005: 17.5%)	**47,433**	35,267
Tax effect of share of profits of associates	**(799)**	(1,380)
Tax effect of expenses not deductible for tax purpose	**18,099**	13,914
Tax effect of income not taxable for tax purpose	**(8,678)**	(7,614)
(Over) under provision in respect of prior years	**(466)**	3,373
Tax effect of tax losses/deductible temporary differences not recognised	**3,922**	12,553
Tax effect of utilisation of tax losses/deductible temporary differences previously not recognised	**(12,078)**	(20,346)
Effect of different tax rates of profit arising from other jurisdictions	**901**	(3,013)
Others	**847**	542
Tax charge for the year	**49,181**	33,296

13. PROFIT FOR THE YEAR

	2006 HK$'000	2005 HK$'000 (Restated)
Profit for the year has been arrived at after charging (crediting):		
Auditors' remuneration	**3,460**	2,471
Depreciation for property, plant and equipment and investment properties	**43,248**	42,103
Less: Amounts capitalised on contracts in progress	**(34,230)**	(28,907)
	9,018	13,196
Loss on disposal of a subsidiary	**165**	—
Net loss on disposal of property, plant and equipment	**506**	61
Gross rental income from investment properties	**(5,419)**	(3,990)
Less: Direct expenses from investment properties that generated rental income during the year	**620**	517
	(4,799)	(3,473)
Employee benefits expense:		
Staff costs	**730,492**	497,629
Contributions to retirement benefits schemes	**19,796**	17,510
Equity-settled share-based payments	**4,779**	1,500
Less: Amounts capitalised on contracts in progress	**(592,039)**	(400,809)
	163,028	115,830
Amortisation of prepaid lease payments included in administrative expenses	**426**	438
Share of tax of associates (included in share of profits of associates)	**799**	1,380
Operating lease rentals in respect of:		
Plant and machinery	**248,840**	156,146
Land and buildings	**30,437**	5,278
Office premises	**11,053**	6,535
	290,330	167,959
Less: Amounts capitalised on contracts in progress	**(281,368)**	(161,564)
	8,962	6,395
Cost of inventories recognised as an expense	**44,037**	13,589

14. DIVIDENDS

	2006 HK$'000	2005 HK$'000
Dividends recognised as distributions during the year:		
2006 Interim, paid — HK 9 cents (2005: Nil) per share	**44,290**	—
2005 Final, paid — HK 9 cents (2005: Nil) per share	**44,290**	—
	88,580	—

The final dividend of HK 10 cents (2005: HK 9 cents) per share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming general meeting.

15. 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:

	2006 HK$'000	2005 HK$'000 (Restated)
Earnings		
Earnings for the purposes of basic earnings and diluted earnings per share	**222,182**	152,021

	2006 '000	2005 '000
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**493,206**	404,989
Effect of dilutive potential ordinary shares: Share options issued by the Company	**30,383**	2,825
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**523,589**	407,814

15. EARNINGS PER SHARE (cont'd)

The following table summarises the impact on both basic and diluted earnings per share of 2005 as a result of combination of CCEM:

	Impact on basic earnings per share HK cents	Impact on diluted earnings per share HK cents
Reported figures before combination	32.26	32.04
Adjustments arising from transfer of controlling interests in CCEM (see note 1)	5.28	5.24
Restated	37.54	37.28

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
THE GROUP						
COST						
At 1 January 2005 (restated)	9,280	482,998	38,986	18,998	445	550,707
Additions	2,851	19,910	9,739	8,772	265	41,537
Acquired on acquisition of a subsidiary	—	734	235	251	—	1,220
Disposal of a subsidiary	—	—	(649)	—	—	(649)
Disposals	—	(56,895)	(5,717)	(2,607)	—	(65,219)
At 31 December 2005	12,131	446,747	42,594	25,414	710	527,596
Exchange adjustments	242	371	93	126	28	860
Additions	514	38,132	28,342	6,816	3,323	77,127
Disposals	—	(16,606)	(4,178)	(6,654)	—	(27,438)
At 31 December 2006	12,887	468,644	66,851	25,702	4,061	578,145
DEPRECIATION						
At 1 January 2005 (restated)	2,450	436,845	29,031	14,496	—	482,822
Provided for the year	847	29,487	7,044	4,161	—	41,539
Eliminated on disposal of a subsidiary	—	—	(634)	—	—	(634)
Eliminated on disposals	—	(53,984)	(5,223)	(2,460)	—	(61,667)
At 31 December 2005	3,297	412,348	30,218	16,197	—	462,060
Exchange adjustments	73	167	35	55	—	330
Provided for the year	647	22,515	15,874	3,638	—	42,674
Eliminated on disposals	—	(14,281)	(3,843)	(5,374)	—	(23,498)
At 31 December 2006	4,017	420,749	42,284	14,516	—	481,566
CARRYING AMOUNTS						
At 31 December 2006	**8,870**	**47,895**	**24,567**	**11,186**	**4,061**	**96,579**
At 31 December 2005 (restated)	8,834	34,399	12,376	9,217	710	65,536

17. INVESTMENT PROPERTIES

	HK$'000
COST	
At 1 January and 31 December 2005	14,300
Exchange adjustments	153
At 31 December 2006	14,453
DEPRECIATION	
At 1 January 2005	3,202
Provided for the year	564
At 31 December 2005	3,766
Exchange adjustments	48
Provided for the year	574
At 31 December 2006	4,388
CARRYING AMOUNT	
At 31 December 2006	**10,065**
At 31 December 2005	10,534

The carrying amount of investment properties held under medium-term leases shown above comprises:

	2006 HK$'000	2005 HK$'000
In Macau	**6,997**	7,147
In the PRC	**3,068**	3,387
	10,065	10,534

17. INVESTMENT PROPERTIES (cont'd)

The fair value of the Group's investment properties, including both land and buildings, at 31 December 2006 is HK$33,305,000 (2005: HK$33,391,000). 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 珠海立信合伙會計師事務所. DTZ Debenham Tie Leung Limited and 珠海立信合伙會計師事務所 are independent firms of professional valuers not connected with the Group, who have appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations. The valuation, which conforms to International Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties.

All of the Group's investment properties held under operating leases to earn rentals or for capital appreciation purposes are classified as investment properties and are accounted for using the cost model.

18. PREPAID LEASE PAYMENTS

	2006 **HK$'000**	2005 HK$'000 (Restated)
The Group's prepaid lease payments comprise:		
Leasehold land outside Hong Kong under medium-term lease	**12,875**	12,813
Analysed for reporting purposes as:		
Non-current asset	**12,448**	12,388
Current asset	**427**	425
	12,875	12,813

19. INTERESTS IN ASSOCIATES

	2006 **HK$'000**	2005 HK$'000 (Restated)
Unlisted company		
Cost of investments in associates	**22,607**	25,519
Share of post-acquisition profits, net of dividends received	**11,406**	20,026
	34,013	45,545

Included in the cost of investments in associates is goodwill of HK$494,000 (2005: HK$494,000) arising on acquisitions of associates in prior years.

19. INTERESTS IN ASSOCIATES (cont'd)

At 31 December 2006, the Group had interests in the following associates:

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 %	Principal activities
Hong Kong Concrete Company Limited	Incorporated	Hong Kong	Ordinary	31.5	Manufacture and sale of ready-mixed concrete
Ou On-Sociedade De Administracao De Propriedades Limitada	Incorporated	Macau	Ordinary	40.0	Property management
Matadouro De Macau, S.A.	Incorporated	Macau	Ordinary	20.0	Operation of slaughter house

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

	2006 HK$'000	2005 HK$'000 (Restated)
Total assets	**167,468**	293,871
Total liabilities	**(53,160)**	(141,391)
Net assets	**114,308**	152,480
Group's share of net assets of associates	**33,519**	45,051

	Year ended 2006 HK$'000	Year ended 2005 HK$'000 (Restated)
Revenue	**316,792**	380,185
Profit for the year	**22,638**	30,697
Group's share of profits of associates for the year	**6,860**	9,284

20. AVAILABLE-FOR-SALE INVESTMENTS

	2006 HK$'000	2005 HK$'000
Unlisted investments:		
— Equity securities stated at cost (Note a)	**971**	20,388
— Debt securities stated at fair value (Note b)	**22,815**	—
	23,786	20,388

Notes:

(a) At 31 December 2006, the Group holds 10% (2005: 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. The investment in 中聯實業有限公司 is measured at cost less impairment at each balance sheet date 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.

During the year, the Group transferred the 0.9% interest in Nam Van Development Company, S.A.R.L. and the 15% interest in Companhia De Construcao e Investimento Predial San Kin Wa Limitada to a subsidiary wholly-owned by COHL at cost.

(b) As at 31 December 2006, the debt securities carry interest rate at 5.375% per annum with maturity date on 9 March 2015.

The debt securities are measured at fair value at balance sheet date with reference to the over-the-counter price quoted by an international financial institution.

21. AMOUNT DUE FROM AN INVESTEE COMPANY

The amount due from an investee company is unsecured and interest free. No repayment will be demanded within next twelve months from the balance sheet date and, accordingly, the amount is shown as non-current. In the opinion of the directors, the carrying amount due from an investee company was approximate to its fair value.

22. INVENTORIES

	2006 HK$'000	2005 HK$'000
Raw materials and consumables	**4,683**	4,426
Work in progress	**653**	266
Finished goods	**3,379**	1,967
	8,715	6,659

23. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORK

	2006 HK$'000	2005 HK$'000 (Restated)
Contracts in progress at the balance sheet date:		
Contract costs incurred	**12,178,212**	11,459,279
Recognised profits less recognised losses	**70,232**	(54,822)
	12,248,444	11,404,457
Less: progress billings	**(12,353,655)**	(11,897,672)
	(105,211)	(493,215)
Analysed for reporting purposes as:		
Amounts due from contract customers	**224,772**	214,270
Amounts due to contract customers	**(329,983)**	(707,485)
	(105,211)	(493,215)

At 31 December 2006, retentions held by customers for contract work amounted to HK$802,632,000 (2005: HK$ 805,150,000) have been included in trade and other receivables under current assets. Advances received from customers for contract work amounted to HK$342,597,000 (2005: HK$92,241,000), have been included in deposits received and receipt in advance under current liabilities.

24. TRADE AND OTHER RECEIVABLES

	2006 HK$'000	2005 HK$'000 (Restated)
Trade and other receivables		
0–30 days	**1,320,861**	1,122,874
31–90 days	**386,468**	369,493
Over 90 days	**172,727**	109,521
	1,880,056	1,601,888
Retention receivables	**802,632**	805,150
	2,682,688	2,407,038
Retention receivables		
— due within one year	**238,853**	248,148
— due more than one year	**563,779**	557,002
	802,632	805,150

The Group allows an average credit period of 60 days to its customers. The fair value of the Group's trade and other receivables at 31 December 2006 approximates to the corresponding carrying amount.

25. AMOUNTS DUE FROM (TO) JOINTLY CONTROLLED ENTITIES/THE PARTNERS OF JOINTLY CONTROLLED ENTITIES

Jointly controlled entities

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

At 31 December 2006, the Group had interests in the following jointly controlled entities:

Name of entity	Form of business structure	Place of registration and operation	Percentage of ownership interest %	Nature of business
ATAL/Waterleau/CCEM	Unincorporated	Macau	48.45	Mechanical and electrical engineering works
ATAL/Waterleau/CSCE	Unincorporated	Macau	39.23	Mechanical and electrical engineering work
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
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
COMEEL — ATAL Joint Venture	Unincorporated	Hong Kong	50	Mechanical and electrical engineering works
Consorcio De Krueger — China State	Unincorporated	Macau	55 (note a)	Mechanical and electrical engineering works

25. AMOUNTS DUE FROM (TO) JOINTLY CONTROLLED ENTITIES/THE PARTNERS OF JOINTLY CONTROLLED ENTITIES (cont'd)

Jointly controlled entities (cont'd)

Name of entity	Form of business structure	Place of registration and operation	Percentage of ownership interest %	Nature of business
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
Jardine — China Overseas Joint Venture	Unincorporated	Hong Kong	50	Mechanical and electrical engineering works
Leighton — China State — John Holland Joint Venture	Unincorporated	Macau	30	Building construction
Leighton — China State Joint Venture	Unincorporated	Macau	50	Building construction
Leighton — China State — Van Oord Joint Venture	Unincorporated	Hong Kong	45	Civil engineering works
Long Faith Engineering Limited	Incorporated	Hong Kong	50	Engineering works
Macau Iron and Steel Works Limited	Incorporated	Macau	50	Inactive
深圳海龍建築製品有限公司	Incorporated	PRC	50	Manufacturing and sales of pre-cast structures
Shimizu — China State Joint Venture	Unincorporated	Hong Kong	45–50 (note b)	Building construction

Notes:

(a) The Group holds the controlling 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.

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

25. AMOUNTS DUE FROM (TO) JOINTLY CONTROLLED ENTITIES/THE PARTNERS OF JOINTLY CONTROLLED ENTITIES (cont'd)

Jointly controlled entities (cont'd)

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:

	2006	2005
	HK$'000	HK$'000
		(Restated)
Current assets	**823,744**	829,383
Non-current assets	**28,087**	27,334
Current liabilities	**619,550**	722,084
Non-current liabilities	**278**	338

	Year ended 31 December	
	2006	2005
	HK$'000	HK$'000
		(Restated)
Revenue	**1,656,067**	2,019,932
Expenses	**1,559,334**	1,929,789

Jointly controlled operations

In addition to the construction and engineering projects undertaken by the 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. Particulars regarding the joint ventures as at 31 December 2006 are as follows:

Name of joint venture	**Place and date of establishment**	**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

25. AMOUNTS DUE FROM (TO) JOINTLY CONTROLLED ENTITIES/THE PARTNERS OF JOINTLY CONTROLLED ENTITIES (cont'd)

Jointly controlled operations (cont'd)

At 31 December 2006, the aggregate amount of assets, liabilities, revenue and expenses recognised in the consolidated financial statements in relation to interests in jointly controlled operations are as follows:

	Year ended 31 December	
	2006	2005
	HK$'000	HK$'000
Revenue	**309,119**	432,275
Expenses	**255,043**	412,978

	2006	2005
	HK$'000	HK$'000
Assets	**57,169**	63,089
Liabilities	**56,813**	62,842

26. AMOUNTS DUE FROM (TO) FELLOW SUBSIDIARIES/IMMEDIATE HOLDING COMPANY/ULTIMATE HOLDING COMPANY/AN ASSOCIATE

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

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

27. TRADE AND OTHER PAYABLES

The following is an aged analysis of accounts payable at the balance sheet date:

	2006	2005
	HK$'000	HK$'000
		(Restated)
Trade and other payables		
0–30 days	**1,931,347**	1,704,917
31–90 days	**508,516**	437,067
over 90 days	**275,027**	147,439
	2,714,890	2,289,423
Retention payables	**725,343**	684,646
	3,440,233	2,974,069
Retention payables		
— due within one year	**226,080**	314,905
— due more than one year	**499,263**	369,741
	725,343	684,646

The fair value of the Group's trade and other payables at 31 December 2006 approximates to the corresponding carrying amounts.

28. BANK LOANS — UNSECURED

	2006	2005
	HK$'000	HK$'000
		(Restated)
Unsecured bank loans, repayable within one year	**—**	48,388

The bank loans in 2005 were variable-rate loans. The effective interest rates on such loans ranged from 3.12% to 6.75%.

29. 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 respective contract dates ranging from 12% to 16%. 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	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable under finance leases:				
Within one year	**205**	155	**179**	134
In more than one years but not more than two years	**319**	389	**278**	338
	524	544	**457**	472
Less: future finance charges	**(67)**	(71)	**N/A**	N/A
Present value of lease obligations	**457**	473	**457**	472
Less: Amount due for settlement within one year shown under current liabilities			**(179)**	(134)
Amount due for settlement after one year			**278**	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.

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

Obligations under financial lease are denominated in Hong Kong dollars.

30. SHARE CAPITAL

	Number of shares		Share Capital	
	2006	2005	**2006**	2005
			HK$'000	HK$'000
Authorised:				
Ordinary shares of HK$0.10 each	**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**	492,108,001	**49,211**	49,211
At 31 December 2005	**492,108,002**	492,108,002	**49,211**	49,211
Exercise of share options	**6,852,000**	—	**685**	—
At 31 December 2006	**498,960,002**	492,108,002	**49,896**	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.

On 3 June, 2005, 492,108,001 shares were allotted and issued to COHL as consideration for agreeing to procure (i) the allotment and issue by China State Construction Engineering (Hong Kong) Limited ("CSCEHK") of one share of HK$1.00 each at par 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 each into non-voting deferred share and redesignation of one share of HK$1.00 so allotted and issued as ordinary share.

31. DEFERRED TAX

The following are the major deferred tax representing other taxable temporary difference arising from business combination recognised and movements thereon in current and prior year:

	2006	2005
	HK$'000	HK$'000
Balance at 1 January	**—**	18,439
Credit to income statement	**—**	(18,439)
Balance at 31 December	**—**	—

31. DEFERRED TAX (cont'd)

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

	2006 HK$'000	2005 HK$'000 (Restated)
Unutilised tax losses (note a)	**71,618**	117,799
Excess of depreciation charged in the financial statements over tax depreciation allowances (note b)	**28,311**	24,161
Others	**–**	4,575
	99,929	146,535

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.

32. DISPOSAL OF SUBSIDIARIES

During the year, the Group disposed of its subsidiary, Kam IP Construction Company Limited ("Kam IP") of which the Group held 71% equity interest. In 2005, the Group disposed of its subsidiary, 珠海寶暉房地產有限公司 ("珠海寶暉") of which the Group held 70% equity interest. The net assets of Kam IP and 珠海寶暉 at the date of disposal were as follows:

	2006	2005
	HK$'000	HK$'000
Net assets disposed of:		
Property, plant and equipment	**—**	15
Trade and other receivables	**8**	—
Deposits and prepayment	**—**	31,205
Properties held for sale	**—**	28,545
Bank balances and cash	**503**	55
Trade and other payables	**(83)**	(70)
	428	59,750
Net assets attributable to minority interests	**(123)**	(17,925)
Net assets disposed of attributable to the Group	**305**	41,825
Loss on disposal of a subsidiary	**(165)**	—
Total consideration satisfied by cash	**140**	41,825
Net cash (outflow) inflow arising on disposal:		
Cash consideration	**140**	41,825
Bank balances and cash disposed of	**(503)**	(55)
	(363)	41,770

Kam IP and 珠海寶暉 did not have significant contributions to the Group's results and cash flows in the current and prior periods respectively.

33. ACQUISITION OF A SUBSIDIARY

In 2005, the Group acquired the entire share capital of Magnified Industries Limited which held 50% interest in the issued share capital of a jointly controlled entity for a 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.

	2006 **HK$'000**	2005 HK$'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 balance and cash	–	1,800
Amounts due to customers for contract work	–	(197)
Trade and 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 balance and cash	–	1,800
Bank overdrafts, unsecured	–	(866)
	–	934

Magnified Industries Limited contributed revenue of HK$23,081,000 and profit after tax of HK$498,000 for the period from the date of acquisition to 31 December 2005. If the acquisition had been completed on 1 January 2005, the total revenue of the Group for the year would have been HK$7,767,845,000, and the profit for the year would have been HK$170,725,000. 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.

34. MAJOR NON CASH TRANSACTIONS

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$142,000 (2005: HK$552,000).

35. 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, 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 employees, officers, directors or contractors of the Group.

At 31 December 2006, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 41,878,000 (2005: 49,200,000), representing approximately 8.4% (2005: 10%) 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 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 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 of 49,200,000 were granted on 14 September 2005 at the exercise price of HK$1.03. Details 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

35. SHARE-BASED PAYMENT TRANSACTIONS (cont'd)

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

	Number of share options outstanding at 31 December 2006 '000	2005 '000
Directors	**5,050**	5,700
Employees	**18,228**	20,430
Consultants	**18,600**	23,070
	41,878	49,200

The following table discloses movements of the Company's share options held by employees, directors and consultants during the year.

Option type	**Outstanding at 1/1/2006** '000	**Exercised during the year** '000	**Forfeited during the year** '000	**Outstanding at 31/12/2006** '000
Granted on 14 September 2005	49,200	(6,852)	(470)	41,878
Exercisable at end of the year				2,894

No option was exercised, cancelled and lapsed during the year ended 31 December 2005.

In respect of the share options exercised during the year, the weighted average share price at the date of exercise is HK$2.93.

The weighted average fair value of the options granted on 14 September 2005 are HK24.5 cents.

35. SHARE-BASED PAYMENT TRANSACTIONS (cont'd)

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

	2005
Grant date share price	HK$1.69
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 behavioral considerations.

The Group recognised the total expenses of HK$4,779,000 (2005: HK$1,500,000) for the year ended 31 December 2006 in relation to share options granted by the Company.

36. OPERATING LEASE ARRANGEMENTS

The Group as lessee

At 31 December 2006, the Group had commitments for future minimum lease payments in respect of land and buildings under non-cancellable operating leases which fall due:

	2006	2005
	HK$'000	HK$'000
Within one year	**15,229**	7,448
In the second to fifth year inclusive	**15,079**	1,127
	30,308	8,575

Leases in respect of land and buildings are negotiated and fixed for term not more than five 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 balance sheet date, investment properties with carrying amounts of HK$10,065,000 (2005: HK$10,534,000) were let out under operating leases.

Property rental income earned during the year is HK$5,419,000 (2005: HK$3,990,000) was derived from the letting of investment and other properties. All of the properties leased out have committed tenants for the next one to three years without termination options granted to tenants.

36. OPERATING LEASE ARRANGEMENTS (cont'd)

The Group as lessor (cont'd)

At 31 December 2006, the Group had contracted with tenants for the following future minimum lease payments:

	2006	2005
	HK$'000	HK$'000
Within one year	**747**	1,216
In the second to fifth year inclusive	**222**	368
	969	1,584

37. BANK BALANCES/PLEDGE BANK DEPOSITS/BANK OVERDRAFTS

(a) Bank balances

Bank balances carry interest at market rates which range from 2% to 7%. The pledged deposits carrying fixed interest rates which range from 3.8% to 4.8%.

(b) Pledged bank deposits

At 31 December, 2006, bank deposits amounting to HK$41,783,000 (2005: HK$32,223,000) were pledged for the issuance of surety bonds in respect of a construction project which was operated by a jointly controlled entity and for the guarantee of employment of workers from foreign countries in Dubai.

(c) Bank overdrafts

Bank overdrafts carry interest at market rates which range from 7.75% to 8.25%.

38. RELATED PARTY TRANSACTIONS

Apart from the balances due from or due to related parties as disclosed in notes 25 and 26, the Group had the following transactions with related parties during the years:

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

Transaction nature	**2006** **HK$'000**	2005 HK$'000 (Restated)
Ultimate holding company		
Project management fee income	**—**	427
Immediate holding company		
Disposal of available-for-sale investments	**19,417**	—
Disposal of interest in an associate	**10,873**	—
Interest expenses	**—**	2,515
Fellow subsidiaries		
Management fee income	**—**	1,495
Rental expenses	**7,419**	4,668
Insurance premium expenses	**53,944**	54,793
Security service fee	**3,478**	—
Construction fee income	**153,048**	55,423
Project management fee income	**6,568**	10,034
Construction costs	**23,644**	—
An associate		
Services fee expenses	**319**	1,098
Purchase of construction materials	**146,226**	218,471
Jointly controlled entities		
Construction fee income	**4,357**	32,955
Construction costs	**3,361**	—
Management fee income	**—**	3,750
Rental income from lease of machinery	**—**	9,372
Purchase of pre-cast structures	**17,606**	26,548
Purchase of materials	**13,286**	14,892
Sales of materials	**88**	—
Other state-owned entities		
Construction income	**22,681**	132,156
Contracting costs	**38,062**	78,371

38. RELATED PARTY TRANSACTIONS (cont'd)

(b) Compensation of key management personnel

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

	2006 HK$'000	2005 HK$'000
Short-term benefits	**25,574**	19,497
Post-employment benefits	**168**	149
Share-based payments	**904**	267
	26,646	19,913

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

39. FINANCIAL RISKS AND MANAGEMENT

(a) Credit risk

As at 31 December 2006, 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 balance sheet.

In order to minimise the credit risk, the Group reviews the recoverable amount of each individual trade debt and debt investments 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 credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

(b) Cash flow 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 and financial liabilities are mainly balances with banks and bank overdrafts which are all short terms in nature. Therefore, any future variations in interest rates will not have a significant impact on the results of the Group.

(c) Fair value interest rate risk

The Group's fair value interest rate risk related primarily to the investments in debt securities where the interest rate therefrom is fixed. The Group's currently does not have an interest rate hedging policy to hedge against its exposures to changes in fair values of these assets. However, management closely monitors interests rate exposures and will consider entering into interest rate swap transactions to hedge significant interest rate risk should the need arise.

39. FINANCIAL RISKS AND MANAGEMENT (cont'd)

(d) Fair values of financial assets and financial liabilities

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

- the fair value of financial assets and financial liabilities 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 from observable current market transactions.

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

40. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's subsidiaries at 31 December 2006 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 and 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 Construction Engineering (Macau) Company Limited	Macau	MOP 200,000	100	Building construction, 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	Building construction, project management and investment holding

40. PARTICULARS OF SUBSIDIARIES (cont'd)

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid up share/registered capital	Attributable equity interest held %	Principal activities
Indirectly held by the Company: (cont'd)				
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	Foundation engineering works and project management
China Overseas Installation Works Limited	Hong Kong	100 ordinary shares of HK$10 each	65	Inactive
China Overseas (Hong Kong) Limited	Hong Kong	5,000,000 ordinary shares of HK$10 each	100	Investment holding, 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	100	Investment holding
C.S.H.K. Dubai Contracting L.L.C.	United Arab Emirates	1,000 ordinary shares of AED1,000 each	100	Building construction and road construction
CSCEC Trade Mark Limited	Hong Kong	2 ordinary shares of HK$1 each	100	Holding of trade marks
Magnifield Industries Limited	British Virgin Islands	1 bearer share of US$1	100	Investment holding
Eastgood Investments Limited	Hong Kong	2 ordinary shares of HK$1 each	100	Building construction
Speedclass Development Limited	Hong Kong	100 ordinary shares of HK$1 each	100	Building construction

40. PARTICULARS OF SUBSIDIARIES (cont'd)

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid up share/registered capital	Attributable equity interest held %	Principal activities
Indirectly held by the Company: (cont'd)				
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
新會中建建築工程有限公司 (note)	PRC	HK$6,000,000	100	Property holding and development
中建(珠海)有限公司 (note)	PRC	HK$10,700,000	100	Property investment and management

Note: Established as wholly foreign owned enterprise.

None of the subsidiaries had issued any debt securities outstanding at the end of the year.