
THIS PROSPECTUS IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this Prospectus (as defined herein) or as to the action to be taken, you should consult your licenced securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in the Company (as defined herein), you should at once hand this Prospectus and the accompanying Application Forms (as defined herein) to the purchaser or transferee or to the bank, licenced securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

A copy of this Prospectus, together with the Application Forms and the written consent of Deloitte Touche Tohmatsu have been registered with the Registrar of Companies in Hong Kong pursuant to Section 342C of the Companies Ordinance (as defined herein). The Registrar of Companies in Hong Kong and the SFC (as defined herein) take no responsibility for the contents of any of those documents.

Subject to the granting of listing of, and permission to deal in, the Offer Shares (as defined herein) on the Stock Exchange (as defined herein), the Offer Shares will be accepted as eligible securities by HKSCC (as defined herein) for deposit, clearance and settlement in CCASS (as defined herein) with effect from the commencement date of dealings in the Offer Shares or such other date as may be determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. You should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser for details of those settlement arrangements and how such arrangements may affect your rights and interests.

The Stock Exchange and HKSCC take no responsibility for the contents of this Prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Prospectus.



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

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 3311)

OPEN OFFER WITH AN ASSURED ALLOTMENT OF ONE OFFER SHARE FOR EVERY FIVE EXISTING SHARES HELD

FINANCIAL ADVISER



國泰君安融資有限公司
GUOTAI JUNAN CAPITAL LIMITED

The latest time for application and payment for the Offer Shares is 4:00 p.m. on Wednesday, 29 August 2007. The procedure for application and payment is set out on pages 17 to 19 of this Prospectus.

The existing Shares (as defined herein) have been dealt with on an ex-entitlement basis since Monday, 6 August 2007. Such dealings in the Shares will take place whilst the conditions to which the Open Offer (as defined herein) is subject remain unfulfilled. A person dealing in Shares on an ex-entitlement basis will accordingly bear the risk that the Open Offer may not become unconditional or may not proceed.

Shareholders contemplating any dealings in the Shares are recommended to consult with their own professional adviser if they are in any doubt.

The Underwriting Agreement (as defined herein) contains provisions entitling COHL (as defined herein) by notice in writing to the Company served prior to 4:00 p.m. on Thursday, 6 September 2007 or such other time or date as the Company and COHL may agree in writing to terminate the Underwriting Agreement on the occurrence of certain events including force majeure as set out in the section headed "Termination of the Underwriting Agreement" on page 8 of this Prospectus.

If COHL terminates the Underwriting Agreement, or if the conditions of the Underwriting Agreement are not fulfilled (or waived by COHL) in accordance with the terms thereof, the Open Offer will not proceed. Shareholders should therefore exercise caution when dealing in the Shares, and if they are in any doubt about their position, they are recommended to consult their professional adviser.

14 August 2007

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DEFINITIONS

In this document, the following expressions have the following meanings unless the context otherwise requires:

“Acquisition Circular”	the circular dated 14 August 2007 issued by the Company in connection with the acquisition by the Company of the Target Companies and continuing connected transactions
“Announcement”	the announcement dated 23 July 2007 issued by the Company in relation to the Open Offer
“Application Forms”	the Assured Allotment Application Form and the Excess Application Form
“associate(s)”	shall have the meaning ascribed to it in the Listing Rules
“Assured Allotment Application Form(s)”	the form(s) of application for use by the Qualifying Shareholders to apply for their assured allotment of the Offer Shares
“Board”	the board of Directors
“Business Day”	a day (excluding Saturdays, Sundays and public holidays in Hong Kong) on which licensed banks generally are open for business in Hong Kong
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCEM”	China Construction Engineering (Macau) Company Limited, a company incorporated in Macau
“COHL”	China Overseas Holdings Limited, a company incorporated in Hong Kong and a controlling shareholder of the Company
“COHL (Macao)”	COHL (Macao) Commercial and Industrial Company Limited, a company incorporated in Macau
“COIL”	China Overseas Insurance Limited 中國海外保險有限公司, a company incorporated in Hong Kong
“COISL”	China Overseas Insurance Services Limited 中國海外保險顧問有限公司, a company incorporated in Hong Kong
“COLI”	China Overseas Land & Investment Ltd., a company incorporated in Hong Kong, the shares of which are listed on the Main Board of the Stock Exchange

DEFINITIONS

“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
“Company”	China State Construction International Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
“Conditions”	the conditions of the Open Offer
“CSCEC”	China State Construction Engineering Corporation, a PRC state-owned enterprise organized and existing under the laws of the PRC, being the ultimate controlling shareholder of the Company and COLI
“Directors”	the directors of the Company
“Excess Application Form(s)”	excess application form(s) for use by the Qualifying Shareholders to apply for excess Offer Shares
“Final Application Time”	4:00 p.m. on 29 August 2007 or such other time or date as COHL may agree in writing with the Company (subject, if required, to the approval of the Stock Exchange and taking into account any other timetable adjustments) as the latest time for application and payment for Offer Shares, provided that if on such date a Storm Warning is hoisted in Hong Kong at any time between 9:00 a.m. and 4:00 p.m., then references to the “Final Application Time” shall mean 4:00 p.m. on the first Business Day thereafter on which no Storm Warning remains hoisted at any time between 9:00 a.m. and 4:00 p.m.
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Last Trading Day”	19 July 2007, being the last trading day prior to the date of the Underwriting Agreement
“Latest Practicable Date”	8 August 2007, being the latest practicable date prior to the printing of this Prospectus for the purpose of ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

DEFINITIONS

“Macau”	the Macau Special Administrative Region of the PRC
“MOP\$”	Macau Pataca, the lawful currency of Macau
“Non-Qualifying Shareholder(s)”	the Overseas Shareholder(s) whom the Board, after making enquiry, considers it necessary or expedient on account either of legal restrictions under the laws of the relevant overseas places or the requirements of the relevant regulatory bodies or stock exchanges in those places not to offer the Offer Shares to them
“Offer Share(s)”	the new Share(s) proposed to be issued under the Open Offer
“Open Offer”	the proposed issue by the Company of the Offer Shares by way of open offer to Qualifying Shareholders on the basis of an assured allotment of one Offer Share for every five existing Shares held on the Record Date at the Subscription Price
“Options”	the share options granted under the Share Option Scheme
“Option Holder(s)”	the holder(s) of Options
“Option Shares”	up to 2,740,000 Shares which may be allotted and issued upon exercise of the Options which are currently exercisable
“Overseas Shareholder(s)”	the Shareholder(s) whose name(s) appear(s) on the register of members of the Company on the Record Date and whose address(es) as shown in the register of members of the Company on that date is/are outside Hong Kong
“PRC”	People’s Republic of China
“Prospectus”	this prospectus issued by the Company in relation to the Open Offer
“Prospectus Documents”	the Prospectus and the Application Forms
“Prospectus Posting Date”	14 August 2007, or such other date as COHL may agree in writing with the Company as the date of despatch of the Prospectus Documents
“Qualifying Shareholder(s)”	the Shareholder(s), other than the Non-Qualifying Shareholder(s), whose name(s) appeared on the register of members of the Company on the Record Date
“Record Date”	14 August 2007, being the record date for determining entitlements to participate in the Open Offer

DEFINITIONS

“Registrar”	the branch registrar of the Company in Hong Kong, being Tricor Standard Limited at 26/F, Tesbury Centre, 28 Queen’s Road East, Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“SCOCL”	深圳中海建築有限公司 (Shenzhen China Overseas Construction Limited) (formerly known as 深圳市中海建築工程公司 (Shenzhen China Overseas Construction Engineering Company)), a company established in the PRC
“Settlement Date”	6 September 2007 or such other date as COHL and the Company may agree in writing
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“Shareholder(s)”	holder(s) of Shares(s)
“Share(s)”	ordinary share(s) of HK\$0.10 each in the issued share capital of the Company
“Share Option Scheme”	the share option scheme of the Company adopted on 9 June 2005
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Storm Warning”	a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal
“Subscription Price”	HK\$10.00 per Offer Share
“Target Companies”	COIL, COISL, COHL (Macao), Perfect Castle Limited and SCOCL
“Underwriting Agreement”	the underwriting agreement dated 20 July 2007 entered into between the Company and COHL in relation to the Open Offer
“%”	percentage

English names of the PRC established companies/entities in this Prospectus are only translations of their official Chinese names. In case of inconsistency, the Chinese names prevail.

SUMMARY OF THE OPEN OFFER

The following information is derived from, and should be read in conjunction with and subject to, the full text of this Prospectus:

Number of Offer Shares to be issued	:	99,966,800 Offer Shares (based on the number of Shares in issue as at the Latest Practicable Date)
Amount to be raised	:	Approximately HK\$999,668,000 before expenses (based on 99,966,800 Offer Shares to be issued)
Subscription price and application date	:	HK\$10.00 per Offer Share payable in full on application on or prior to 4:00 p.m. on Wednesday, 29 August 2007
Basis of allotment	:	One Offer Share for every five existing Shares held on the Record Date
Status of the Offer Shares	:	When allotted, issued and fully-paid, the Offer Shares will rank equally in all respects with the existing Shares then in issue. Holders of fully-paid Offer Shares will be entitled to receive all dividends and distributions which are declared, made or paid after the date of issue and allotment of the fully-paid Offer Shares
Outstanding Options currently exercisable	:	2,740,000 Options as at the Latest Practicable Date which if fully exercised would result in the issuance of 2,740,000 Shares
Undertakings from COHL	:	COHL has irrevocably undertaken to the Company to apply (or procure application) for the entire number of the Offer Shares in the assured allotments in which it is beneficially interested
Underwriter	:	COHL, the controlling shareholder of the Company

EXPECTED TIMETABLE

The expected timetable for the Open Offer is set out below:

2007

Last day of dealings in Shares on a cum-entitlements basis	Friday, 3 August
First day of dealings in Shares on an ex-entitlements basis	Monday, 6 August
Latest time for lodging transfers of Shares in order to qualify for the Open Offer.	4:00 p.m. on Tuesday, 7 August
Book closure period (both days inclusive)	Wednesday, 8 August to Tuesday, 14 August
Record Date.	Tuesday, 14 August
Prospectus Documents to be despatched on	Tuesday, 14 August
Latest time for acceptance of and payment for Offer Shares	4:00 p.m. on Wednesday, 29 August
Underwriting Agreement becomes unconditional.	4:00 p.m. on Thursday, 6 September
Announcement of results of the Open Offer and excess application.	Friday, 7 September
Refund cheques in respect of wholly or partially unsuccessful applications for excess Offer Shares expected to be despatched on or before	Monday, 10 September
Certificates for Offer Shares expected to be despatched on or before	Monday, 10 September
Dealings in Offer Shares expected to commence on	Tuesday, 11 September

All dates and times referred to in this Prospectus are Hong Kong dates and times. Dates or deadlines specified in this Prospectus for events in the timetable for (or otherwise in relation to) the Open Offer are indicative only and may be extended or varied by the Company. Further announcement will be made in the event that there is any change to the expected timetable for the Open Offer.

EXPECTED TIMETABLE

EFFECT OF BAD WEATHER ON THE LATEST TIME FOR APPLICATION AND PAYMENT FOR THE OFFER SHARES

The latest time for application and payment for the Offer Shares will not take place if there is a Storm Warning in force in Hong Kong at any local time between 9:00 a.m. and 4:00 p.m. on Wednesday, 29 August 2007. Instead the latest time for application and payment for the Offer Shares will be rescheduled to 4:00 p.m. on the following Business Day which does not have a Storm Warning in force at any time between 9:00 a.m. and 4:00 p.m.

If the latest time for application and payment for the Offer Shares does not take place at 4.00 p.m. on Wednesday, 29 August 2007, the dates mentioned in this section may be affected. A press announcement will be made by the Company in such event.

TERMINATION OF THE UNDERWRITING AGREEMENT

COHL may terminate the Underwriting Agreement by notice in writing to the Company at any time prior to 4:00 p.m. on the Settlement Date, if at any time prior to 4:00 p.m. on the Settlement Date:

- (a) COHL shall become aware of the fact that, or shall have reasonable cause to believe that, any of the warranties and representations was inaccurate, misleading or breached, and in each case where it is (in the reasonable opinion of COHL) material in the context of the Open Offer; or
- (b)
 - (i) any new law or regulation is enacted, or there is any change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority, whether in Hong Kong or elsewhere;
 - (ii) any change in local, national or international financial, political, industrial or economic conditions;
 - (iii) any change of an exceptional nature in local, national or international equity securities or currency markets;
 - (iv) any local, national or international outbreak or escalation of hostilities, insurrection or armed conflict;
 - (v) any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange;
 - (vi) any suspension in the trading of the Shares on the Stock Exchange for a continuous period of ten Business Days;
 - (vii) any change or development involving a prospective change in taxation or exchange controls in Hong Kong or elsewhere which will or may materially and adversely affect the Group or a material proportion of the Shareholders in their capacity as such,

which event or events is or are in the reasonable opinion of COHL:

- (i) likely to have a material adverse effect on the business or financial or trading position or prospects of the Company or the Group; or
- (ii) likely to have a material adverse effect on the success of the Open Offer or the level of acceptance of the Offer Shares; or
- (iii) so material as to make it inappropriate, inadvisable or inexpedient to proceed further with the Open Offer.

If COHL terminates the Underwriting Agreement, the Open Offer will not proceed. Upon COHL giving a notice of termination to the Company, all obligations of COHL under the Underwriting Agreement shall cease immediately and determine and be null and void and no party shall have any claim or liability against the other parties in respect of any matter or thing arising out of or in connection with the Underwriting Agreement provided that the Company shall remain liable to pay to COHL such fees as may then be agreed by the parties thereto.

LETTER FROM THE BOARD



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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3311)

Non-executive Director:

Mr. Kong Qingping (*Chairman*)

Executive Directors:

Mr. Zhou Yong

(Vice-chairman and Chief Executive Officer)

Mr. Yip Chung Nam

Mr. Fu He

Mr. Zhou Hancheng

Mr. Cheong Chit Sun

Independent Non-executive Directors:

Dr. Raymond Ho Chung Tai

Mr. Adrian David Li Man Kiu

Mr. Raymond Leung Hai Ming

Mr. Lee Shing See

Registered office:

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

*Head office and principal place of
business in Hong Kong:*

28th Floor

China Overseas Building

139 Hennessy Road

Wanchai, Hong Kong

14 August 2007

To the Shareholders and, for information only, the Option Holders

Dear Sir or Madam

**OPEN OFFER WITH AN ASSURED ALLOTMENT OF ONE OFFER SHARE
FOR EVERY FIVE EXISTING SHARES HELD**

INTRODUCTION

As announced in the Announcement, the Company proposes to raise not less than approximately HK\$999,668,000, before expenses, by issuing not less than 99,966,800 new Shares and not more than 100,514,800 new Shares by way of Open Offer at a price of HK\$10.00 per Offer Share with an assured allotment of one Offer Share for every five existing Shares held on the Record Date.

The purpose of this Prospectus is to provide you with further information regarding the Open Offer, including information on procedures for application and payment and certain financial information and other information in respect of the Group.

LETTER FROM THE BOARD

TERMS OF THE OPEN OFFER

Issue Statistics

Basis of Open Offer	:	Assured allotment of one Offer Share for every five existing Shares held on the Record Date
Number of existing Shares in issue as at the Latest Practicable Date	:	499,834,002 Shares
Authorised share capital as at the Latest Practicable Date	:	HK\$1,500,000,000
Number of Offer Shares to be issued under the Open Offer	:	99,966,800 Offer Shares (based on the number of existing shares in issue as at the Latest Practicable Date), representing approximately 20% of the issued share capital of the Company as at the Latest Practicable Date and approximately 16.67% of the issued share capital of the Company as enlarged by the issue of the Offer Shares
Subscription Price for the Offer Shares	:	HK\$10.00 per Offer Share
Underwriter	:	COHL, the controlling shareholder of the Company

As at the Latest Practicable Date, there were 40,924,000 outstanding Options granted under the Share Option Scheme, of which 2,740,000 are exercisable from 14 September 2006 to 13 September 2015 and the remaining 38,184,000 outstanding Options will be exercisable during different exercise periods from 14 September 2007 onwards to 13 September 2015. If all the subscription rights attaching to those outstanding Options which are exercisable are exercised on or before the Record Date, the number of total issued Shares will be increased by 2,740,000 and the number of Offer Shares proposed to be issued pursuant to the Open Offer will be increased from 99,966,800 Offer Shares to 100,514,800 Offer Shares.

Apart from the Options granted under the Share Option Scheme, the Company has no outstanding options, convertible securities or warrants which confer the right to subscribe for the Shares.

Qualifying Shareholders

The Company is sending the Prospectus Documents to Qualifying Shareholders only.

To qualify for the Open Offer, a Shareholder must on the Record Date:

- be registered as a member of the Company; and

LETTER FROM THE BOARD

- not be a Non-Qualifying Shareholder.

Closure of Register of Members

The register of members of the Company was closed from Wednesday, 8 August 2007 to Tuesday, 14 August 2007 (both days inclusive) for determination of entitlements under the Open Offer. No transfer of Shares could be registered during that period.

Subscription price

HK\$10.00 per Offer Share, payable in full when a Qualifying Shareholder applies for the Offer Shares.

The Subscription Price was determined with reference to the market environment and the prevailing Share prices at the time of signing of the Underwriting Agreement and represents:

- (i) a discount of approximately 22% to the closing price of HK\$12.86 per Share quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 19% to the theoretical ex-entitlement price of HK\$12.38 per Share based on the closing price per Share on the Last Trading Day;
- (iii) a discount of approximately 21% to the average closing price of HK\$12.61 per Share for the last five full trading days up to and including the Last Trading Day;
- (iv) a discount of approximately 17% to the average closing price of HK\$12.03 per Share for the last ten full trading days up to and including the Last Trading Day; and
- (v) a premium of approximately 413% of the audited consolidated net asset value per Share as at 31 December 2006 of approximately HK\$1.95 (based on the 499,834,002 Shares in issue as at the date of the Announcement).

The theoretical ex-entitlement price is calculated by adding the market value of all outstanding Shares (based on the closing price on the Last Trading Day) with the total amount expected to be received from the Open Offer (assuming 99,966,800 Offer Shares will be issued), and then divided by the total number of outstanding Shares after the Open Offer.

Basis of assured allotment

One Offer Share for every five existing Shares held on the Record Date.

Fractions of assured allotments will not be issued and will be aggregated and made available for application by Qualifying Shareholders who wish to apply for Shares in excess of their own assured allotments.

LETTER FROM THE BOARD

Status of the Offer Shares

When allotted, issued and fully-paid, the Offer Shares will rank equally in all respects with the existing Shares then in issue. Holders of fully-paid Offer Shares will be entitled to receive all dividends and distributions which are declared, made or paid after the date of issue and allotment of the fully-paid Offer Shares.

Rights of Non-Qualifying Shareholders

As the Prospectus Documents have not been and will not be registered or filed under the applicable securities or equivalent legislation of any jurisdictions other than Hong Kong, if as at the Record Date, a Shareholder's address as shown in the register of members of the Company was outside Hong Kong and was a Non-Qualifying Shareholder, such Shareholder would not be eligible to take part in the Open Offer. Accordingly the Offer Shares will not be offered to the Non-Qualifying Shareholders and no application for Offer Shares will be accepted from the Non-Qualifying Shareholders.

Based on the register of members of the Company as at the Record Date, there were six Overseas Shareholders, whose addresses as shown in the register of members of the Company were in Canada, Malaysia and the PRC. After making enquiries with the Company's overseas legal advisers regarding the legal restrictions under the laws of the relevant jurisdictions and the requirements of the relevant regulatory bodies or stock exchanges for the Company to offer the Offer Shares to such Overseas Shareholders in accordance with Rule 13.36(2)(a) of the Listing Rules, the Directors are informed by the respective legal advisers that the Company will need to follow the respective requirements or procedures of the regulatory bodies for offering the Offer Shares to Overseas Shareholders resident in Canada and Malaysia, but not the PRC. Accordingly, Overseas Shareholders in the PRC are also Qualifying Shareholders. After considering the legal costs for compliance and making applications to the relevant authorities and the minimal size of shareholdings of the Overseas Shareholders resident in Canada and Malaysia, the Directors are of the opinion that it would be necessary or expedient not to offer the Offer Shares to such Overseas Shareholders resident in Canada and Malaysia (ie Non-Qualifying Shareholders). Accordingly the Offer Shares will not be offered to the Non-Qualifying Shareholders and no application for Offer Shares will be accepted from the Non-Qualifying Shareholders. The Company will send copies of this Prospectus to the Non-Qualifying Shareholders resident in Canada for their information only, but will not send the Application Forms to them. The Company, having considered the legal restrictions and requirements in Malaysia, will not send the Prospectus or the Application Forms to the Non-Qualifying Shareholders resident in Malaysia.

Any Offer Shares which would otherwise have been in assured allotments of the Non-Qualifying Shareholders will be available for application by the Qualifying Shareholders who wish to apply for Shares in excess of their own assured allotments.

LETTER FROM THE BOARD

Share Certificates

Subject to the fulfilment or waiver of the Conditions, certificates for fully-paid Offer Shares are expected to be posted to successful applicants at their own risk on or before Monday, 10 September 2007. Refund cheques in respect of wholly or partially unsuccessful applications for Offer Shares in excess of assured allotments are also expected to be posted on or before Monday, 10 September 2007 by ordinary post to the applicants at their own risk.

Application for listing and dealings in the Offer Shares

The Company has applied to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Offer Shares.

Dealings in Offer Shares on the Stock Exchange will be subject to the payment of stamp duty, Stock Exchange trading fee, SFC transaction levy and other applicable fees and charges in Hong Kong.

Subject to the granting of the listing of, and permission to deal in, the Offer Shares on the Stock Exchange, the Offer Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Offer Shares on the Stock Exchange or such other date as may be determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the general rules of CCASS and CCASS Operational Procedures in effect from time to time.

CONDITIONS OF THE OPEN OFFER

The Open Offer is conditional upon each of the following events happening:

- (i) the filing and registration of the Prospectus Documents (with all the documents required to be attached thereto by Section 342C of the Companies Ordinance) (all having been duly authorised for registration with the Stock Exchange and signed by or on behalf of two Directors) with the Registrar of Companies in Hong Kong in compliance with the Companies Ordinance no later than the Prospectus Posting Date;
- (ii) the posting of the Prospectus Documents to the Qualifying Shareholders on the Prospectus Posting Date;
- (iii) the Listing Committee of the Stock Exchange granting listings of, and permission to deal in, the Offer Shares either unconditionally or subject to such conditions which the Company accepts and the satisfaction of such conditions (if any and where relevant) on or prior to the Prospectus Posting Date and not having withdrawn or revoked such listings and permission before 4:00 p.m. on the Settlement Date; and
- (iv) the Underwriting Agreement not being terminated by COHL in accordance with the terms thereof.

LETTER FROM THE BOARD

In the event that any of the Conditions is not fulfilled, the Open Offer will not proceed.

UNDERWRITING ARRANGEMENTS

Underwriting Agreement:

Date	:	20 July 2007
Underwriter	:	COHL, a controlling shareholder of the Company
Number of Offer Shares underwritten	:	All Offer Shares other than those undertaken to be applied for by COHL
Underwriter's commission	:	2.5% of the subscription price of the Offer Shares underwritten. Assuming that there is no change in the shareholding structure of the Company from the date of the Underwriting Agreement to immediately before completion of the Open Offer (including there being no exercise of Options), it is estimated that the underwriter's commission will be HK\$9,275,091. The Directors (including the independent non-executive Directors) consider that the underwriting commission is fair and reasonable and is on normal commercial terms.

As at the Latest Practicable Date, COHL was interested in aggregate in 314,332,178 Shares, representing approximately 62.89% of the issued share capital of the Company and was the controlling shareholder of the Company. COHL has irrevocably undertaken to apply or procure application for the entire number of the Offer Shares in the assured allotments in which it is beneficially interested.

LETTER FROM THE BOARD

SHAREHOLDING STRUCTURE

Set out below is the shareholding structure of the Company as at the Latest Practicable Date and immediately after completion of the Open Offer, assuming that (a) the Open Offer proceeds and is completed; (b) COHL's assured allotments under the Open Offer are applied for in full; and (c) there is no change in the shareholding structure of the Company from the date of the Underwriting Agreement to immediately before completion of the Open Offer (including there being no exercise of Options):

Beneficial owners of Shares	As at the Latest Practicable Date		Immediately after completion of the Open Offer and assuming that all Offer Shares are taken up by Qualifying Shareholders		Immediately after completion of the Open Offer and assuming only assured allotments of COHL are applied for	
	<i>Shares</i>	<i>approx. %</i>	<i>Shares</i>	<i>approx. %</i>	<i>Shares</i>	<i>approx. %</i>
COHL	314,332,178	62.89	377,198,614	62.89	414,298,978	69.07
Public	<u>185,501,824</u>	<u>37.11</u>	<u>222,602,188</u>	<u>37.11</u>	<u>185,501,824</u>	<u>30.93</u>
Total	<u>499,834,002</u>	<u>100.00</u>	<u>599,800,802</u>	<u>100.00</u>	<u>599,800,802</u>	<u>100.00</u>

ADJUSTMENTS TO SUBSCRIPTION PRICE AND NUMBER OF SHARES ISSUABLE UNDER OUTSTANDING OPTIONS

As at the Latest Practicable Date, there were 40,924,000 outstanding Options granted under the Share Option Scheme, of which 2,740,000 are exercisable from 14 September 2006 to 13 September 2015 and the remaining 38,184,000 outstanding Options will be exercisable during different exercise periods from 14 September 2007 onwards to 13 September 2015. The issuance of the Offer Shares may cause an adjustment to the subscription price and number of Shares to be issued under the outstanding Options. The Company will instruct its auditors to review and certify the basis of such adjustments (if any) pursuant to the Share Option Scheme. Separate announcement(s) will be made by the Company when and where appropriate.

LETTER FROM THE BOARD

WARNING OF THE RISKS OF DEALING IN SHARES

Shareholders should note that trading of Shares on an ex-entitlement basis commenced on Monday, 6 August 2007 and that any dealings in the Shares from now up to the date on which all the Conditions are fulfilled or waived will bear the risk that the Open Offer does not become unconditional and may not proceed.

Shareholders and investors should therefore exercise caution when dealing in the Shares and are recommended to obtain professional advice regarding dealings in Shares during these periods.

REASONS FOR THE OPEN OFFER AND USE OF PROCEEDS

The Company is principally engaged in building construction and civil engineering in Hong Kong.

The Directors believe that it would be in the interest of the Company and the Shareholders to raise long-term equity funding via the proposed Open Offer to strengthen the Company's financial position and net assets base for its expansion of its major business, whilst allowing all Shareholders an equitable opportunity to increase their investment in the Company and participate in the Company's prospects.

The estimated expenses in relation to the Open Offer amount to approximately HK\$10 million and the estimated net proceeds of the Open Offer are approximately HK\$988,843,000 (assuming 99,966,800 Offer Shares will be issued). Approximately HK\$520,000,000 is intended to be used for the proposed acquisition of assets from COHL (as detailed in the relevant announcement of the Company on 23 July 2007), and the remaining net proceeds of the Open Offer of approximately HK\$468,843,000 will be used as additional working capital to strengthen the Company's financial position. The Open Offer and the proposed acquisition of assets from COHL are independent events. If the Open Offer does not proceed, the proposed acquisition of assets from COHL will be funded by internal resources of the Company. The Open Offer is not conditional upon such proposed acquisition of assets from COHL proceeding.

The Directors consider the terms of the Open Offer and the Subscription Price to be fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

BUSINESS REVIEW AND FINANCIAL AND TRADING PROSPECTS OF THE GROUP

Building Construction and Civil Engineering Works

In 2006, the Group was awarded 36 new projects with a total attributable contract value of HK\$14.09 billion, of which 86.4%, 10.2% and 3.4% were contributed by building construction, civil engineering works and other works respectively. With the government's initiative to speed up the implementation of large infrastructure projects and improve the business environment step by step in the financial budget for 2007, the Board is confident that the Group can maintain its position as one of the largest construction contractors in Hong Kong.

LETTER FROM THE BOARD

With the acquisition of CCEM in 2006, the Group has expanded its operations to Macau. The Group is utilising its professional management and financial strength to achieve synergy and resources sharing with CCEM to enhance its competitiveness in the Macau market, which continues to remain optimistic with the continuous rapid growth in Macau's GDP, coupled with the government's investment in infrastructure and improvements to the local operation environment and hardware facilities.

The Group intends to consolidate its market share in Hong Kong and Macau, and to selectively expand its operations to the United Arab Emirates and India. The primary overseas market in which the Group operates is Dubai, but the Group is also targeting to enter into the Abu Dhabi market. At the same time, the Group will also maintain its construction operations in India and selectively explore further opportunities in the region.

Investment Opportunities

Whilst maintaining construction as its core business, the Group intends to further expand into other construction-related businesses, with a view to balancing market risks and increasing its profitability. As such, the Group has formed an investment and development division to look for investment opportunities, "generate sustainable profit" is the fundamental target for the Group's business expansion and operations. The Group will closely study the development of the domestic market on the Mainland and examine the construction related project and seek to enter the Mainland market, thereby maximizing shareholders' value.

Financial Management

The Group will continue to strengthen its financial management, pay more attention to taxation management, and increase the utilization rate of capital by optimizing cash flow efficiency while meeting the need of business development, the financial safety will not be undermined. The Group will also continue to make an active effort to promote its ERP system aiming at strengthening the flow of project and financial information and cost control, so as to ensure the overall financial safety and improve its operation efficiency and risk management capability.

PROCEDURE FOR APPLICATION

Application for Offer Shares

The Assured Allotment Application Form is enclosed with this Prospectus which entitles the Qualifying Shareholders to whom it is addressed to apply for the number of Offer Shares on an assured basis as shown therein subject to payment in full on the Final Application Time. Qualifying Shareholders should note that they may apply for any number of Offer Shares assured only up to the number set out in the Assured Allotment Application Form.

If Qualifying Shareholders wish to apply for all the Offer Shares offered to them as specified in the Assured Allotment Application Form or wish to apply for any number less than their assured entitlement under the Open Offer, they must complete, sign and lodge the Assured Allotment Application Form in accordance with the instructions printed thereon, together with remittance for the

LETTER FROM THE BOARD

full amount payable in respect of such number of Offer Shares they have applied with the Registrar, Tricor Standard Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong by no later than 4:00 p.m. on Wednesday, 29 August 2007. All remittance(s) must be made in Hong Kong dollars and cheques must be drawn on an account with, or banker's cashier orders must be issued by, a licensed bank in Hong Kong and made payable to "China State Construction International Holdings Limited — Open Offer Account" and crossed "Account Payee Only".

It should be noted that unless the duly completed and signed Assured Allotment Application Form, together with the appropriate remittance, have been lodged with the Registrar, Tricor Standard Limited, by no later than 4:00 p.m. on Wednesday, 29 August 2007, the assured entitlement under the Open Offer and all rights in relation thereto shall be deemed to have been declined and will be cancelled.

Application for excess Offer Shares

Qualifying Shareholders will have the right to apply for any Offer Shares in excess of their own assured allotments under the Excess Application Forms but are not assured of being allocated any Shares in excess of those in their assured allotments.

Application for excess Offer Shares should be made by completing the Excess Application Forms enclosed with this Prospectus (if despatched to a Qualifying Shareholder) for excess Offer Shares and lodging the same with a separate remittance for the full amount payable in respect of the excess Offer Shares being applied for in accordance with the instructions printed thereon, with the Registrar, Tricor Standard Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong, by no later than 4:00 p.m. on Wednesday, 29 August 2007. All remittances must be made in Hong Kong dollars and cheques must be drawn on an account with, or banker's cashier orders must be issued by, a licensed bank in Hong Kong and made payable to "China State Construction International Holdings Limited — Excess Application Account" and crossed "Account Payee Only". The Registrar and transfer office will notify the Qualifying Shareholders of any allotment of the excess Offer Shares made to them.

It should be noted that unless the duly completed and signed Excess Application Form, together with the appropriate remittance, have been lodged with the Registrar by no later than 4:00 p.m. on Wednesday, 29 August 2007, the Excess Application Form is liable to be rejected.

All cheques or cashier orders will be presented for payment immediately following receipt and all interest earned on such application monies will be retained for the benefit of the Company. Any Application Form in respect of which the cheque or cashier order is dishonoured on first presentation is liable to be rejected, and in that event the relevant entitlements of the Qualifying Shareholders under the Open Offer will be deemed to have been declined and will be cancelled.

The Company will allocate the Offer Shares in excess of assured allotments at their discretion on a fair and equitable basis. However, no preference will be given to topping-up odd lots to whole board lots. Shareholders who have been offered odd lots of the Offer Shares should note that there is no guarantee that such odd lots of the Offer Shares will be topped up to create whole board lots pursuant to applications for excess Offer Shares.

LETTER FROM THE BOARD

Any Offer Shares not applied for by the Qualifying Shareholders will be taken up by COHL.

The Shareholders with their Shares held by a nominee company should note that the Board will regard the nominee as a single shareholder according to the register of members of the Company. Shareholders should note that the number of excess Offer Shares which may be allocated to them may be different where they make applications for excess Offer Shares by different means, such as making applications in their own names as against through nominees who also hold Shares for other Shareholders. Shareholders should consult their professional advisors if they are in any doubt as to whether they should register their shareholding in their own names and apply for the excess Offer Shares themselves.

Both Application Forms are for the use by the person(s) named therein only and are not transferable.

No receipt will be issued in respect of any application monies received.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information contained in the Appendices to this Prospectus.

Yours faithfully,
By order of the Board
Kong Qingping
Chairman and Non-executive Director

APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

1. THREE YEARS FINANCIAL SUMMARY

The following table summarises the results and financial position of the Group for the last three financial years ended 31 December 2006 as extracted from the relevant published financial statements of the Group.

Results of the Group

	For the year ended 31 December		
	2004	2005	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Restated)</i>	<i>(Restated)</i>	<i>(Audited)</i>
Continuing operations			
Revenue	<u>8,693,772</u>	<u>7,664,252</u>	<u>10,294,826</u>
Operating profit	224,603	206,336	265,737
Share of profit of associates	6,047	9,284	6,860
Finance costs	<u>(14,415)</u>	<u>(14,096)</u>	<u>(1,553)</u>
Profit before tax	216,235	201,524	271,044
Income tax expense	<u>(38,778)</u>	<u>(33,296)</u>	<u>(49,181)</u>
Profit for the year from continuing operations	177,457	168,228	221,863
Loss from discontinued operations	<u>(575)</u>	<u>—</u>	<u>—</u>
Profit for the year	<u>176,882</u>	<u>168,228</u>	<u>221,863</u>
Attributable to :			
Equity holders of the Company	140,117	152,021	222,182
Minority interests	<u>36,765</u>	<u>16,207</u>	<u>(319)</u>
	<u>176,882</u>	<u>168,228</u>	<u>221,863</u>
Dividends			
Interim - HK9 cents per share	—	—	44,290
Proposed 2005 final - HK9 cents per share	—	44,290	—
Proposed 2006 final - HK10 cents per share	<u>—</u>	<u>—</u>	<u>49,896</u>
	<u>—</u>	<u>44,290</u>	<u>94,186</u>
Earnings per share attributable to equity holders of the Company			
Basic (cents)	<u>44.28</u>	<u>37.54</u>	<u>45.05</u>
Diluted (cents)	<u>N/A</u>	<u>37.28</u>	<u>42.43</u>

APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

Financial position

	As at 31 December		
	2004	2005	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Restated)</i>	<i>(Restated)</i>	<i>(Audited)</i>
Total Assets	5,332,776	4,892,753	5,408,140
Total Liabilities	<u>(4,047,748)</u>	<u>(4,064,422)</u>	<u>(4,433,939)</u>
Minority interests	1,285,028 <u>(207,578)</u>	828,331 <u>(525)</u>	974,201 <u>—</u>
Net assets attributable to equity holders of the Company	<u>1,077,450</u>	<u>827,806</u>	<u>974,201</u>

APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE TWO YEARS ENDED 31 DECEMBER 2005 AND 2006

The following information is extracted from the audited consolidated financial statements of the Group as set out in the annual report of the Company for the year ended 31 December 2006:

**Consolidated Income Statement
For the year ended 31 December 2006**

	<i>NOTES</i>	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i> <i>(Restated)</i>
Revenue	5	10,294,826	7,664,252
Contract costs		<u>(9,835,776)</u>	<u>(7,299,798)</u>
Gross profit		459,050	364,454
Investment income	7	64,490	36,108
Other income	8	13,253	17,943
Administrative expenses		(249,711)	(187,624)
Distribution costs		(4,820)	(3,611)
Other expenses		(16,525)	(20,934)
Share of profits of associates		6,860	9,284
Finance costs	9	<u>(1,553)</u>	<u>(14,096)</u>
Profit before tax		271,044	201,524
Income tax expense	12	<u>(49,181)</u>	<u>(33,296)</u>
Profit for the year	13	<u>221,863</u>	<u>168,228</u>
Attributable to:			
Equity holders of the Company		222,182	152,021
Minority interests		<u>(319)</u>	<u>16,207</u>
		<u>221,863</u>	<u>168,228</u>
DIVIDENDS	14	<u>88,580</u>	<u>—</u>
EARNINGS PER SHARE	15		
Basic		<u>45.05¢</u>	<u>37.54¢</u>
Diluted		<u>42.43¢</u>	<u>37.28¢</u>

APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

Consolidated Balance Sheet
At 31 December 2006

	<i>NOTES</i>	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i> <i>(Restated)</i>
Non-current Assets			
Property, plant and equipment	16	96,579	65,536
Investment properties	17	10,065	10,534
Prepaid lease payments — non-current	18	12,448	12,388
Interests in associates	19	34,013	45,545
Available-for-sale investments	20	23,786	20,388
Amount due from an investee company	21	<u>10,909</u>	<u>10,909</u>
		<u>187,800</u>	<u>165,300</u>
Current Assets			
Inventories	22	8,715	6,659
Properties held for sale		20,408	20,408
Amounts due from customers for contract work	23	224,772	214,270
Trade and other receivables	24	2,682,688	2,407,038
Deposits and prepayments		251,090	149,525
Amounts due from jointly controlled entities	25	96,281	89,842
Amounts due from the partners of jointly controlled entities	25	129,224	71,553
Amounts due from fellow subsidiaries	26	43,151	2,808
Amount due from ultimate holding company	26	—	1,600
Tax recoverable		20,697	20,101
Prepaid lease payments — current	18	427	425
Pledged bank deposits	37	41,783	32,223
Bank balances and cash	37	<u>1,701,104</u>	<u>1,711,001</u>
		<u>5,220,340</u>	<u>4,727,453</u>
Current Liabilities			
Amounts due to customers for contract work	23	329,983	707,485
Trade and other payables	27	3,440,233	2,974,069
Deposits received and receipt in advance		363,779	93,310
Amounts due to jointly controlled entities	25	165,139	43,764
Amounts due to the partners of jointly controlled entities	25	46,103	45,570
Amount due to immediate holding company	26	—	100,155
Amount due to ultimate holding company	26	13,842	2,225
Amounts due to fellow subsidiaries	26	7,952	7,279

APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

		2006	2005
	<i>NOTES</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
			<i>(Restated)</i>
Amount due to an associate	26	2,733	5,959
Tax liabilities		49,443	31,307
Bank overdrafts, unsecured	37	14,275	4,439
Bank loans, unsecured	28	—	48,388
Obligations under finance leases	29	<u>179</u>	<u>134</u>
		<u>4,433,661</u>	<u>4,064,084</u>
Net Current Assets		<u>786,679</u>	<u>663,369</u>
Total Assets less Current Liabilities		<u>974,479</u>	<u>828,669</u>
Capital and Reserves			
Share capital	30	49,896	49,211
Share premium and reserves		<u>924,305</u>	<u>778,595</u>
Equity attributable to equity holders of the Company		974,201	827,806
Minority interests		<u>—</u>	<u>525</u>
		974,201	828,331
Non-current Liabilities			
Obligations under finance leases	29	<u>278</u>	<u>338</u>
		<u>974,479</u>	<u>828,669</u>

APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

Consolidated Statement of Changes in Equity For the year ended 31 December 2006

	Attributable to equity holders of the Company										
	Share Capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Special reserve <i>HK\$'000</i> <i>(note a & b)</i>	Share options reserve <i>HK\$'000</i>	Investment revaluation reserve <i>HK\$'000</i>	Translation reserve <i>HK\$'000</i>	PRC statutory reserve <i>HK\$'000</i> <i>(note c)</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>	Minority interests <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2005											
As previously stated	31,642	—	999,993	—	—	584	—	76,158	1,108,377	189,467	1,297,844
Effect of combination under common control <i>(note 1)</i>	—	—	(85,994)	—	—	(817)	358	55,526	(30,927)	18,111	(12,816)
As restated	31,642	—	913,999	—	—	(233)	358	131,684	1,077,450	207,578	1,285,028
Exchange differences arising on translation of foreign operations and total income directly recognised to equity	—	—	—	—	—	254	—	—	254	—	254
Profit for the year (as restated)	—	—	—	—	—	—	—	152,021	152,021	16,207	168,228
Total recognised income and expense for the year	31,642	—	913,999	—	—	21	358	283,705	1,229,725	223,785	1,453,510
Arising from reorganisation	17,569	—	(600,319)	—	—	—	—	179,331	(403,419)	(205,335)	(608,754)
Recognition of equity- settled share based payments	—	—	—	1,500	—	—	—	—	1,500	—	1,500
Transfer to statutory reserve	—	—	—	—	—	—	131	(131)	—	—	—
Disposal of a subsidiary	—	—	—	—	—	—	—	—	—	(17,925)	(17,925)
At 31 December 2005	<u>49,211</u>	<u>—</u>	<u>313,680</u>	<u>1,500</u>	<u>—</u>	<u>21</u>	<u>489</u>	<u>462,905</u>	<u>827,806</u>	<u>525</u>	<u>828,331</u>
At 1 January 2006											
As previously stated	49,211	—	399,674	1,500	—	838	—	386,155	837,378	—	837,378
Effect of combination under common control <i>(note 1)</i>	—	—	(85,994)	—	—	(817)	489	76,750	(9,572)	525	(9,047)
As restated	49,211	—	313,680	1,500	—	21	489	462,905	827,806	525	828,331

APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

	Attributable to equity holders of the Company										
	Share Capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Special reserve <i>HK\$'000</i> <i>(note a & b)</i>	Share options reserve <i>HK\$'000</i>	Investment revaluation reserve <i>HK\$'000</i>	Translation reserve <i>HK\$'000</i>	PRC statutory reserve <i>HK\$'000</i> <i>(note c)</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>	Minority interests <i>HK\$'000</i>	Total <i>HK\$'000</i>
Gain on fair value changes of available-for-sale investments	—	—	—	—	555	—	—	—	555	—	555
Exchange differences arising on translation of foreign operations	—	—	—	—	—	402	—	—	402	—	402
Total income directly recognised to equity	—	—	—	—	555	402	—	—	957	—	957
Profit for the year	—	—	—	—	—	—	—	222,182	222,182	(319)	221,863
Total recognised income and expense for the year	49,211	—	313,680	1,500	555	423	489	685,087	1,050,945	206	1,051,151
Issue of ordinary shares upon exercise of share options	685	8,050	—	(1,678)	—	—	—	—	7,057	—	7,057
Recognition of equity-settled share based payments	—	—	—	4,779	—	—	—	—	4,779	—	4,779
2005 final dividend paid	—	—	—	—	—	—	—	(44,290)	(44,290)	—	(44,290)
2006 interim dividend paid	—	—	—	—	—	—	—	(44,290)	(44,290)	—	(44,290)
Transfer to statutory reserve	—	—	—	—	—	—	170	(170)	—	—	—
Dividend paid to minority shareholder	—	—	—	—	—	—	—	—	—	(83)	(83)
Disposal of a subsidiary	—	—	—	—	—	—	—	—	—	(123)	(123)
At 31 December 2006	<u>49,896</u>	<u>8,050</u>	<u>313,680</u>	<u>4,601</u>	<u>555</u>	<u>423</u>	<u>659</u>	<u>596,337</u>	<u>974,021</u>	<u>—</u>	<u>974,201</u>

Notes:

- (a) Special reserve as at 1 January 2005 arose from the combinations of China State Construction Engineering (Hong Kong) Limited, Zetson Enterprises Limited and its subsidiaries (“Project Management Group”) and China Construction Engineering (Macau) Company Limited and its subsidiaries (“CEM Group”) under common control.
- (b) Special reserve arising during the year ended 31 December 2005 represents the consideration paid by the Company upon completion of the group reorganisation which resulted in an increase in the Group’s interests in the Project Management Group from 51.2% to 100% and the difference between the nominal amount of the share capital held by minority interests and the net assets attributable to minority shareholders upon completion of the group reorganisation.
- (c) The People’s Republic of China (the “PRC”) statutory reserves of the Group represents general and development fund reserve applicable to the PRC subsidiaries which was established in accordance with the relevant regulations.

APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

Consolidated Cash Flow Statement
For the year ended 31 December 2006

	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(Restated)</i>
OPERATING ACTIVITIES		
Profit before tax	271,044	201,524
Adjustments:		
Finance costs	1,553	14,096
Investment income	(64,490)	(36,108)
Loss on disposal of property, plant and equipment	506	61
Loss on disposal of a subsidiary	165	—
Share of profits of associates	(6,860)	(9,284)
Depreciation and amortisation	9,018	13,196
Amortisation of prepaid lease payments	426	438
Equity settled share-based payments expenses	4,779	1,500
Discount on acquisitions	<u>—</u>	<u>(1,299)</u>
Operating cash flows before movements in working capital	216,141	184,124
Increase in trade and other receivables, deposits and prepayments	(377,223)	(554,189)
(Increase) decrease in inventories	(2,056)	3,514
Decrease in properties for sales	—	3,810
Decrease (increase) in amounts due from customers for contract work	23,728	(140,183)
(Decrease) increase in amounts due to customers for contract work	(377,502)	303,620
Increase in amounts due from fellow subsidiaries	(40,343)	—
Increase in trade and other payables, deposits received and receipt in advance	736,716	378,201
Increase (decrease) in amount due to ultimate holding company	11,617	(3,841)
Increase (decrease) in amounts due to fellow subsidiaries	673	(12,226)
Decrease in amounts due from investees companies	—	531
Decrease in amounts due from related companies	—	20,781
(Decrease) increase in amount due to an associate	<u>(3,226)</u>	<u>5,959</u>
Cash from operations	188,525	190,101
Income tax paid	(43,602)	(52,998)
Income tax refunded	<u>11,961</u>	<u>—</u>
NET CASH GENERATED FROM OPERATING ACTIVITIES	<u>156,884</u>	<u>137,103</u>

APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

	<i>NOTES</i>	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i> <i>(Restated)</i>
INVESTING ACTIVITIES			
Interest received		59,198	35,962
Purchase of property, plant and equipment		(76,985)	(40,985)
Proceeds from disposal of property, plant and equipment		3,434	3,491
Increase in prepaid lease payments		—	(8,011)
Advance to jointly controlled entities		(6,439)	(44,712)
Advance to the partners of jointly controlled entities		(57,671)	(67,053)
Increase in pledged bank deposits		(9,560)	(24,423)
Dividends from associates		7,519	7,983
Dividend from available-for-sale investments		—	146
Acquisition of listed trading securities		(15,282)	—
Acquisition of available-for-sale investments		(140,086)	—
Proceeds from disposal of listed trading securities		17,685	—
Proceeds from disposal of debts security		120,715	—
Proceeds from disposal of available-for-sale investments		19,417	—
Proceeds from disposal of an associate		10,873	—
Net cash (outflow) inflow from disposal of subsidiaries	32	(363)	41,770
Net cash inflow from acquisition of a subsidiary	33	—	934
Repayment by (advance to) ultimate holding company		1,600	(1,600)
Repayment by fellow subsidiaries		—	365,519
		<u> </u>	<u> </u>
NET CASH (USED IN) GENERATED FROM INVESTING ACTIVITIES		<u>(65,945)</u>	<u>269,021</u>
FINANCING ACTIVITIES			
Interest paid		(1,195)	(14,011)
Other financial expenses paid		(358)	(85)
Dividend paid to			
— equity holders of the Company		(88,580)	—
— minority interests		(83)	—
Advance from (repayment to) the partners of jointly controlled entities		533	(54,186)
Advance from jointly controlled entities		121,375	3,205
Proceeds from issue of shares		7,057	—
Repayment of bank loans		(48,388)	(237,920)
(Repayment to) advance from immediate holding company		(100,155)	237,324
Payments of obligations under a finance lease		(157)	(79)
		<u> </u>	<u> </u>
NET CASH USED IN FINANCING ACTIVITIES		<u>(109,951)</u>	<u>(65,752)</u>

APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(Restated)</i>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(19,012)	340,372
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	1,706,562	1,366,190
Effect of foreign exchange rate changes	<u>(721)</u>	<u>—</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	<u>1,686,829</u>	<u>1,706,562</u>
 ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	1,701,104	1,711,001
Bank overdrafts	<u>(14,275)</u>	<u>(4,439)</u>
	<u>1,686,829</u>	<u>1,706,562</u>

APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

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

APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

	At 31 December 2005 <i>(Previously stated)</i> HK\$'000	Combination of CCEM HK\$'000	Adjustments HK\$'000	At 31 December 2005 <i>(Restated)</i> HK\$'000
Non-current assets	<u>95,694</u>	<u>69,606</u>	<u> </u>	<u>165,300</u>
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	<u>477,984</u>	<u>55,621</u>	<u>75,809</u>	<u>609,414</u>
	<u>4,268,671</u>	<u>382,973</u>	<u> </u>	<u>4,727,453</u>
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	<u>139,885</u>	<u>66,681</u>	<u>75,809</u>	<u>282,375</u>
	<u>3,526,649</u>	<u>375,441</u>	<u> </u>	<u>4,064,084</u>
Net current assets	<u>742,022</u>	<u>7,532</u>	<u> </u>	<u>663,369</u>
Total assets less current liabilities	<u>837,716</u>	<u>77,138</u>	<u> </u>	<u>828,669</u>
Total capital and minority interests	837,378	77,138	(86,185)	828,331
Non-current liabilities	<u>338</u>	<u>—</u>	<u> </u>	<u>338</u>
	<u>837,716</u>	<u>77,138</u>	<u> </u>	<u>828,669</u>

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

	At 1 January 2005 <i>(Previously stated)</i> HK\$'000	Combination of CCEM HK\$'000	At 1 January 2005 <i>(Restated)</i> 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	<u>189,467</u>	<u>18,111</u>	<u>207,578</u>
	<u>1,266,202</u>	<u>(12,816)</u>	<u>1,253,386</u>

APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

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

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.

APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

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.

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.

APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

Revenue recognition

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

Construction contracts

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

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

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

Project management contracts

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

Interest income

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

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.

APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

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.

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 $\frac{1}{3}$ %
Other fixed assets	12.5%-33 $\frac{1}{3}$ %

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.

APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

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.

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

APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

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.

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.

APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

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.

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.

APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

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.

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

APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

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.

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.

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.

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(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	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(Restated)</i>
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	<u>4,108</u>	<u>19,391</u>
	<u>10,294,826</u>	<u>7,664,252</u>

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.

APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

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

For the year ended 31 December 2006

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

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As at 31 December 2006

BALANCE SHEET

	Hong Kong	Macau	Dubai	India	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
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					<u>20,697</u>
Consolidated total assets					<u><u>5,408,140</u></u>
 LIABILITIES					
Segment liabilities	3,032,791	625,239	372,636	339,098	4,369,764
Tax liabilities					49,443
Borrowings					<u>14,732</u>
Consolidated total liabilities					<u><u>4,433,939</u></u>

OTHER INFORMATION

	Hong Kong	Macau	Dubai	India	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
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)	—	—	<u>(165)</u>

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For the year ended 31 December 2005 (Restated)

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

APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

As at 31 December 2005

BALANCE SHEET (Restated)

	Hong Kong	Macau	Dubai	India	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
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					<u>20,101</u>
Consolidated total assets					<u><u>4,892,753</u></u>
LIABILITIES					
Segment liabilities	3,387,659	420,401	38,445	133,311	3,979,816
Tax liabilities					31,307
Borrowings					<u>53,299</u>
Consolidated total liabilities					<u><u>4,064,422</u></u>

OTHER INFORMATION

	Hong Kong	Macau	Dubai	India	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
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	<u>1,500</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,500</u>

APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

7. INVESTMENT INCOME

	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(Restated)</i>
Interest income on:		
Bank deposits	51,766	35,962
Debt securities	4,517	—
Other receivable	34	—
Deposits with financial institutions	<u>2,881</u>	<u>—</u>
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	<u>2,403</u>	<u>—</u>
	<u>64,490</u>	<u>36,108</u>

8. OTHER INCOME

	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(Restated)</i>
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	<u>3,539</u>	<u>2,649</u>
	<u>13,253</u>	<u>17,943</u>

APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

9. FINANCE COSTS

	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(Restated)</i>
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	<u>358</u>	<u>85</u>
	<u>1,553</u>	<u>14,096</u>

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	Zhou Yong	Yip Chung Nam	Fu He	Zhou Hancheng	Cheong Chit Sun	Raymond Ho Chung Tai	Adrian David Li Man Kiu	Raymond Leung Hai Ming	Lee Shing See	Total 2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
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	<u>—</u>	<u>12</u>	<u>12</u>	<u>12</u>	<u>12</u>	<u>12</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>60</u>
Total emoluments	<u>1,120</u>	<u>4,876</u>	<u>2,929</u>	<u>1,797</u>	<u>1,264</u>	<u>2,230</u>	<u>380</u>	<u>270</u>	<u>270</u>	<u>270</u>	<u>15,406</u>

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For the year end 31 December 2005

	Kong Qingping	Zhou Yong	Yip Chung Nam	Fu He	Zhou Hancheng	Cheong Chit Sun	Raymond Ho Chung Tai	Adrian David Li Man Kiu	Raymond Leung Hai Ming	Lee Shing See	Total 2005
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
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	<u>1,034</u>	<u>4,101</u>	<u>1,284</u>	<u>938</u>	<u>1,063</u>	<u>464</u>	<u>216</u>	<u>152</u>	<u>152</u>	<u>89</u>	<u>9,493</u>

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	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries and other benefits	1,776	7,326
Contributions to retirement benefits schemes	<u>12</u>	<u>48</u>
	<u>1,788</u>	<u>7,374</u>

Their emoluments were within the following bands:

	2006	2005
	<i>No. of employees</i>	<i>No. of employees</i>
HK\$1,500,001 to HK\$2,000,000	1	3
HK\$2,000,001 to HK\$2,500,000	<u>—</u>	<u>1</u>

APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

12. INCOME TAX EXPENSE

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

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.

APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

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

	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(Restated)</i>
Profit before tax	<u>271,044</u>	<u>201,524</u>
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	<u>847</u>	<u>542</u>
Tax charge for the year	<u>49,181</u>	<u>33,296</u>

APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

13. PROFIT FOR THE YEAR

	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(Restated)</i>
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	<u>(34,230)</u>	<u>(28,907)</u>
	<u>9,018</u>	<u>13,196</u>
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	<u>620</u>	<u>517</u>
	<u>(4,799)</u>	<u>(3,473)</u>
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	<u>(592,039)</u>	<u>(400,809)</u>
	<u>163,028</u>	<u>115,830</u>
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	<u>11,053</u>	<u>6,535</u>
	290,330	167,959
Less: Amounts capitalised on contracts in progress	<u>(281,368)</u>	<u>(161,564)</u>
	<u>8,962</u>	<u>6,395</u>
Cost of inventories recognised as an expense	<u>44,037</u>	<u>13,589</u>

APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

14. DIVIDENDS

	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
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	<u>44,290</u>	<u>—</u>
	<u>88,580</u>	<u>—</u>

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	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(Restated)</i>
Earnings		
Earnings for the purposes of basic earnings and diluted earnings per share	<u>222,182</u>	<u>152,021</u>
	2006	2005
	<i>'000</i>	<i>'000</i>
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	<u>30,383</u>	<u>2,825</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>523,589</u>	<u>407,814</u>

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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 <i>HK cents</i>	Impact on diluted earnings per share <i>HK cents</i>
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 <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Total <i>HK\$'000</i>
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

APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

17. INVESTMENT PROPERTIES

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

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

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
In Macau	6,997	7,147
In the PRC	<u>3,068</u>	<u>3,387</u>
	<u><u>10,065</u></u>	<u><u>10,534</u></u>

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 珠海立信信合會計師事務所. DTZ Debenham Tie Leung Limited and 珠海立信信合會計師事務所 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.

APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

18. PREPAID LEASE PAYMENTS

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

19. INTERESTS IN ASSOCIATES

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

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.

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

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

	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(Restated)</i>
Total assets	167,468	293,871
Total liabilities	<u>(53,160)</u>	<u>(141,391)</u>
Net assets	<u>114,308</u>	<u>152,480</u>
Group's share of net assets of associates	<u>33,519</u>	<u>45,051</u>
	Year ended	Year ended
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(Restated)</i>
Revenue	<u>316,792</u>	<u>380,185</u>
Profit for the year	<u>22,638</u>	<u>30,697</u>
Group's share of profits of associates for the year	<u>6,860</u>	<u>9,284</u>

20. AVAILABLE-FOR-SALE INVESTMENTS

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

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.

APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

- (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	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials and consumables	4,683	4,426
Work in progress	653	266
Finished goods	<u>3,379</u>	<u>1,967</u>
	<u>8,715</u>	<u>6,659</u>

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

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

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.

APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

24. TRADE AND OTHER RECEIVABLES

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

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

APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

Name of entity	Form of business structure	Place of registration and operation	Percentage 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
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
Consortio De Krueger — China State	Unincorporated	Macau	55 (note a)	Mechanical and electrical engineering works
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

APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

Name of entity	Form of business structure	Place of registration and operation	Percentage of ownership interest %	Nature of business
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.

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 <i>HK\$'000</i>	2005 <i>HK\$'000</i> <i>(Restated)</i>
Current assets	<u>823,744</u>	<u>829,383</u>
Non-current assets	<u>28,087</u>	<u>27,334</u>
Current liabilities	<u>619,550</u>	<u>722,084</u>
Non-current liabilities	<u>278</u>	<u>338</u>
	Year ended 31 December	
	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i> <i>(Restated)</i>
Revenue	<u>1,656,067</u>	<u>2,019,932</u>
Expenses	<u>1,559,334</u>	<u>1,929,789</u>

APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

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

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 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Revenue	<u>309,119</u>	<u>432,275</u>
Expenses	<u>255,043</u>	<u>412,978</u>
	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Assets	<u>57,169</u>	<u>63,089</u>
Liabilities	<u>56,813</u>	<u>62,842</u>

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.

APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

27. TRADE AND OTHER PAYABLES

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

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

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 <i>HK\$'000</i>	2005 <i>HK\$'000</i> <i>(Restated)</i>
Unsecured bank loans, repayable within one year	<u>—</u>	<u>48,388</u>

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

APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

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
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Amounts payable under finance leases:				
Within one year	205	155	179	134
In more than one years but not more than two years	<u>319</u>	<u>389</u>	<u>278</u>	<u>338</u>
	524	544	457	472
Less: future finance charges	<u>(67)</u>	<u>(71)</u>	<u>N/A</u>	<u>N/A</u>
Present value of lease obligations	<u><u>457</u></u>	<u><u>473</u></u>	457	472
Less: Amount due for settlement within one year shown under current liabilities			<u>(179)</u>	<u>(134)</u>
Amount due for settlement after one year			<u><u>278</u></u>	<u><u>338</u></u>

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.

APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

30. SHARE CAPITAL

	Number of shares		Share Capital	
	2006	2005	2006	2005
			HK\$'000	HK\$'000
Authorised:				
Ordinary shares of HK\$0.10 each	<u>15,000,000,000</u>	<u>15,000,000,000</u>	<u>1,500,000</u>	<u>1,500,000</u>
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	<u>492,108,001</u>	<u>492,108,001</u>	<u>49,211</u>	<u>49,211</u>
At 31 December 2005	492,108,002	492,108,002	49,211	49,211
Exercise of share options	<u>6,852,000</u>	—	<u>685</u>	—
At 31 December 2006	<u>498,960,002</u>	<u>492,108,002</u>	<u>49,896</u>	<u>49,211</u>

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.

APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

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
	<i>HK\$'000</i>	<i>HK\$'000</i>
Balance at 1 January	—	18,439
Credit to income statement	—	<u>(18,439)</u>
Balance at 31 December	<u>—</u>	<u>—</u>

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	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(Restated)</i>
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	—	<u>4,575</u>
	<u>99,929</u>	<u>146,535</u>

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.

APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

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	<u>(83)</u>	<u>(70)</u>
	428	59,750
Net assets attributable to minority interests	<u>(123)</u>	<u>(17,925)</u>
Net assets disposed of attributable to the Group	305	41,825
Loss on disposal of a subsidiary	<u>(165)</u>	<u>—</u>
Total consideration satisfied by cash	<u>140</u>	<u>41,825</u>
Net cash (outflow) inflow arising on disposal:		
Cash consideration	140	41,825
Bank balances and cash disposed of	<u>(503)</u>	<u>(55)</u>
	<u>(363)</u>	<u>41,770</u>

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.

APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

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	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
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)
	<u> </u>	<u> </u>
Net assets	<u> </u>	<u>6,099</u>
	<u> </u>	<u> </u>
Net assets attributable to the Group	—	6,099
Consideration payable	—	(4,800)
	<u> </u>	<u> </u>
Discount on acquisition of a subsidiary	—	1,299
	<u> </u>	<u> </u>
Net cash inflow from acquisition:		
Bank balance and cash	—	1,800
Bank overdrafts, unsecured	—	(866)
	<u> </u>	<u> </u>
	<u> </u>	<u>934</u>

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).

APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

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 nonexecutive 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

APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

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	2005
	'000	'000
Directors	5,050	5,700
Employees	18,228	20,430
Consultants	<u>18,600</u>	<u>23,070</u>
	<u>41,878</u>	<u>49,200</u>

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

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.

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.

APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

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
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	15,229	7,448
In the second to fifth year inclusive	<u>15,079</u>	<u>1,127</u>
	<u><u>30,308</u></u>	<u><u>8,575</u></u>

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.

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

	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	747	1,216
In the second to fifth year inclusive	<u>222</u>	<u>368</u>
	<u><u>969</u></u>	<u><u>1,584</u></u>

APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

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%.

APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

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 <i>HK\$'000</i>	2005 <i>HK\$'000</i> <i>(Restated)</i>
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

APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

(b) Compensation of key management personnel

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

	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Short-term benefits	25,574	19,497
Post-employment benefits	168	149
Share-based payments	<u>904</u>	<u>267</u>
	<u>26,646</u>	<u>19,913</u>

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.

APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

(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
<i>Directly held by the Company:</i>				
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
<i>Indirectly held by the Company:</i>				
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

APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid up share/registered capital	Attributable equity interest held %	Principal activities
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	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

APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid up share/registered capital	Attributable equity interest held %	Principal activities
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
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.

APPENDIX I FINANCIAL INFORMATION RELATING TO THE GROUP

3. STATEMENT OF INDEBTEDNESS

As at the close of business on 30 June 2007, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this Prospectus, the Group had no bank and other borrowings except for the bank overdraft of HK\$552,710.

As at 30 June 2007, no leasehold land and buildings of the Group were pledged to a bank for banking facilities. As at 30 June 2007, a subsidiary's bank deposit of approximately HK\$47,869,000 had been pledged for the issuance of surety bonds in respect of construction projects and for the guarantee of employment of workers from foreign countries in Dubai.

As at 30 June 2007, the Group had obligation under finance lease at HK\$367,465.

Save as aforesaid above and apart from intra-group liabilities, at the close of business on 30 June 2007, the Group did not have any outstanding mortgages, charges, debentures, or other loan capital or bank overdrafts, loans, debts securities or other similar indebtedness, liabilities under acceptances or acceptances credits or hire purchase commitments, or any guarantees or other material commitment or any material contingent liabilities.

4. WORKING CAPITAL

The Directors are of the opinion that, taking into account the Group's present internal resources, available banking facilities and the estimated net proceeds from the Open Offer, in the absence of any unforeseen circumstances the Group has sufficient working capital for its present requirements for at least the next 12 months from the date of this Prospectus.

5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2006 (being the date to which the latest published audited financial statements of the Company were made up).

APPENDIX II

UNAUDITED PRO FORMA FINANCIAL INFORMATION RELATING TO THE GROUP

The following unaudited pro forma financial information prepared in accordance with Paragraph 29 of Chapter 4 of the Listing Rules is for illustrative purposes only, and is set out here to provide Shareholders with further information about how the Open Offer might have affected the net tangible assets of the Group after completion of the Open Offer. Although reasonable care has been exercised in preparing the said information, Shareholders who read the information should bear in mind that these figures are inherently subject to adjustments and may not give a complete picture of the Group's financial results and positions for the financial periods concerned.

(1) Unaudited pro forma statement of adjusted consolidated net tangible assets of the Group

The following is an illustrative unaudited pro forma statement of adjusted consolidated net tangible assets attributable to equity holders of the Company (the "Unaudited Pro Forma Financial Information") which has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Open Offer as if it had taken place on 31 December 2006. The Unaudited Pro Forma Financial Information of the Group is prepared based on the audited consolidated financial statements of the Group for the year ended 31 December 2006 and is adjusted for the effect of the Open Offer.

The Unaudited Pro Forma Financial Information of the Group has been prepared for illustrative purpose only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets attributable to equity holders of the Company following the Open Offer.

	Consolidated net assets attributable to equity holders of the Company as at 31 December 2006 (Audited) HK\$'000 (Note 1)	Intangible assets of the Group as at 31 December 2006 (Audited) HK\$'000 (Note 2)	Adjusted consolidated net tangible assets attributable to equity holders of the Company as at 31 December 2006 (Audited) HK\$'000	Estimated net proceeds from Open Offer (Unaudited) HK\$'000 (Note 3)	Pro forma adjusted consolidated net tangible assets attributable to equity holders of the Company after Completion of the Open Offer as at 31 December 2006 (Unaudited) HK\$'000
Based on					
99,792,000 Offer Shares issued	<u>974,201</u>	<u>494</u>	<u>973,707</u>	<u>987,095</u>	<u>1,960,802</u>
Unaudited pro forma adjusted consolidated net tangible assets per Share immediately after completion of the Open Offer (Note 4)					<u>HK\$ 3.27</u>

Notes:

1. The audited consolidated net assets attributable to equity holders of the Company as at 31 December 2006 is extracted from the published annual report of the Company for the year ended 31 December 2006.
2. Intangible assets of the Group as at 31 December 2006 represent goodwill arising from acquisition of associates included in the interests in associates.
3. The estimated net proceeds from the Open Offer of approximately HK\$987,095,000 are based on 99,792,000 Offer Shares to be issued at a subscription price of HK\$10.00 per Offer Share and after deduction of estimated related expenses of approximately HK\$10,825,000.
4. The calculation of the unaudited pro forma consolidated net tangible assets per Share is based on 598,752,002 shares which comprise 498,960,002 Shares in issue as at 31 December 2006 and 99,792,000 Offer Shares to be issued.
5. The unaudited pro forma consolidated net tangible assets is prepared on the assumption that no exercisable Outstanding Options are exercised on or before the Record Date.
6. The above calculation has not taken into accounts of shares issued from 1 January 2007 to the Record Date. If these shares are taken into account, estimated net proceeds from the Open Offer would have been increased to HK\$988,827,000, the pro forma adjusted consolidated net tangible assets attributable to equity holders of the Company after Completion of the Open Offer would have been HK\$1,962,534,000 and the pro forma adjusted consolidated net tangible assets per share immediately after Completion of the Open Offer (based on 599,800,802 Shares which comprise 499,834,002 Shares in issued at the Record Date and 99,966,800 Offer Shares to be issued) would remain as HK\$3.27.

**2. ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE GROUP****TO THE DIRECTORS OF CHINA STATE CONSTRUCTION INTERNATIONAL HOLDINGS
LIMITED**

We report on the unaudited pro forma financial information of China State Construction International Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) which has been prepared by the directors of the Company for illustrative purpose only, to provide information about how the open offer with an assured allotment of one offer share for every five existing shares held by Qualifying Shareholders (as defined in the prospectus of the Company) on the record date (the “Open Offer”), might have affected the financial information presented, for inclusion in Appendix II to the prospectus issued by the Company dated 14 August 2007 (the “Prospectus”). The basis of preparation of the unaudited pro forma financial information is set out on pages 79 to 80 to the Prospectus.

**RESPECTIVE RESPONSIBILITIES OF DIRECTORS OF THE COMPANY AND
REPORTING ACCOUNTANTS**

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma net assets statement in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma net assets statement beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

BASIS OF OPINION

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma net assets statement with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The unaudited pro forma financial information is for illustrative purpose only, based on the judgments and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 31 December 2006, or any future date.

OPINION

In our opinion:

- (a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

14 August 2007

1. RESPONSIBILITY STATEMENT

This Prospectus includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this Prospectus and confirm that, having made all reasonable enquiries and to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in this Prospectus misleading.

2. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date were and immediately following the Open Offer (assuming the Open Offer becoming unconditional and 99,966,800 Offer Shares will be issued) will be as follows:-

As at the Latest Practicable Date

<i>Authorised:</i>	<i>HK\$</i>
15,000,000,000 ordinary shares of HK\$0.10 each	<u>1,500,000,000.00</u>
<i>Issued, to be issued and fully paid or credited as fully paid:</i>	
499,834,002 Shares in issue as at the Latest Practicable Date	49,983,400.20
99,966,800 Offer Shares to be issued pursuant to the Open Offer (<i>Note</i>)	<u>9,996,680.00</u>
<i>Total:</i>	
599,800,802 Shares	<u><u>59,980,080.20</u></u>

Note: If all the subscription rights attaching to those outstanding Options which are exercisable are exercised and the corresponding Option Shares were allotted and issued on or before the Record Date, the number of total issued Shares would have been increased to 502,574,002 and the number of Offer Shares to be issued pursuant to the Open Offer would have been increased from 99,966,800 to 100,514,800.

All existing Shares rank equally in all respects, including in particular as to dividend, voting rights and return on capital.

The Offer Shares will, when issued, allotted and fully paid rank *pari passu* in all respects with the Shares in issue including the right to receive all future dividends and distributions which are declared, made or paid on or after the date of issue and allotment of the fully-paid Offer Shares.

The Shares are listed on the Stock Exchange. No part of the share capital or any other securities of the Company is listed or dealt in any other stock exchange other than the Stock Exchange and no application is being made or is currently proposed or sought for the Shares or any other securities of the Company to be listed or dealt in any other stock exchange.

Save as disclosed in this Prospectus, no share or loan capital of the Company has been put under option or agreed conditionally or unconditionally to be put under option and no warrant or conversion right affecting the Shares has been issued or granted or agreed conditionally or unconditionally to be issued or granted.

3. CORPORATE INFORMATION AND PARTIES INVOLVED IN THE OPEN OFFER

Registered office	Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Head office and principal place of business in Hong Kong	28th Floor China Overseas Building 139 Hennessy Road Wanchai Hong Kong
Authorised representatives	Kong Qingping Zhou Yong
Company secretary	Chiang Yuet Wah Connie, <i>FCS, FCIS</i>
Company qualified accountant	Chan Sim Wang, <i>FCCA, CPA</i>
Underwriter	COHL, the controlling shareholder of the Company
Legal advisers to the Company	<i>As to Hong Kong law:</i> Deacons 5th Floor Alexandra House 18 Chater Road Central Hong Kong <i>As to Cayman Islands law:</i> Conyers Dill & Pearman 2901 One Exchange Square 8 Connaught Place Central, Hong Kong
Auditors	Deloitte Touche Tohmatsu 35th Floor One Pacific Place 88 Queensway Hong Kong

Principal share registrar and transfer office	Butterfield Fund Services (Cayman) Limited Butterfield House 68 Fort Street P.O. Box 705 George Town, Grand Cayman Cayman Islands
Hong Kong branch share registrar and transfer office	Tricor Standard Limited 26/F, Tesbury Centre 28 Queen's Road East Hong Kong
Principal bankers	Bank of China (Hong Kong) Limited Bank of Communications, Hong Kong Branch BNP Paribas Hong Kong Branch CALYON DBS Bank Ltd., Hong Kong Branch The Hongkong and Shanghai Bank Corporation Limited Standard Chartered Bank (Hong Kong) Limited

4. PARTICULARS OF DIRECTORS

Brief biographies of the Directors are set out below:

Non-executive Director

Mr. Kong Qingping, *Chairman and Non-executive Director*, aged 52, was appointed as Director of the Company on 21 April 2004 and subsequently appointed as Chairman and designated as Non-executive Director of the Company on 1 June 2005. Mr. Kong holds a bachelor degree in Engineering from Harbin University of Civil Engineering and Architecture, a degree of Executive Master of Business Administration from Harbin Institute of Technology and is a member of the Chartered Institute of Building (UK). Mr. Kong is a guest professor at Harbin Institute of Technology and at Hong Kong Polytechnic University. Mr. Kong joined CSCEC in 1982 and was seconded to Hong Kong in 1987. He became a general manager of China Overseas (Hong Kong) Limited (“COHK”) in 1997, was appointed as a director of China State Construction Engineering (Hong Kong) Limited (“CSCEHK”) in 1999, and was appointed as chairman of CSCEHK and COHK in 2002. Mr. Kong has more than 25 years’ extensive experience in management of corporate affairs and construction projects. Currently, Mr. Kong is the Vice President of CSCEC, a director of COHL and its certain subsidiaries and the Chairman of COLI. Mr. Kong also acted as Chief Executive of COLI from 2001 to May 2007. COLI is a company listed on the Main Board of the Stock Exchange. In 2006, Mr. Kong was appointed as a member of the Expert Committee of the Ministry of Construction in Residential Development and Industrial Modernization Technology, and was awarded the “Director of the Year Award — Executive Director of Listed Companies (SEHK — Non Hang Seng Index Constituents)” by The Hong Kong Institute of Directors.

Executive Directors

Mr. Zhou Yong, *Vice-chairman and Chief Executive Officer*, aged 37, was appointed as a Director of the Company on 21 April 2004 and subsequently be designated as an Executive Director and Vice-chairman of the Board of Directors of the Company on 1 June 2005 and 9 June 2005 respectively. Mr. Zhou graduated from Changsha Academy of Military Engineering and University of South Australia. He is a Fellow of the Chartered Institute of Building (UK). Mr. Zhou joined CSCEC in 1994 and was seconded to Hong Kong in 1996. He was appointed as a director of CSCEHK and an executive director of COHK in 2001. Mr. Zhou has more than 14 years’ construction, project and corporate management experience in Mainland China and Hong Kong, in particular, specializes in investment and development new business startup, formulating and executing business strategies for companies. He oversaw the overall operation of the Group.

Mr. Yip Chung Nam, *Executive Director*, aged 58, was appointed as an Executive Director of the Company on 1 June 2005. Mr. Yip graduated from the University of Hong Kong. He is Fellow of The Hong Kong Institution of Engineers and a member of The Institution of Civil Engineers (UK). Mr. Yip joined the COLI Group in 1987 and acted as an executive director of COLI from 1993 to 2005. He was appointed as a director of COHK in 1996 and a director of CSCEHK in 1999. He has over 33 years’ experience in engineering, construction and project management. Mr. Yip is currently the vice chairman of civil-engineering committee and 1st vice-president of the 63rd Council of the Hong Kong Construction Association. He is also a committee member of the Pneumoconiosis Compensation Fund Board.

Mr. Fu He, *Executive Director*, aged 42, was appointed as an Executive Director of the Company on 1 June 2005. Mr. Fu graduated from Zhejiang University and Murdoch University. He is a member of both of the Hong Kong Institution of Engineers and Chartered Institute of Building (UK). Mr. Fu joined CSCEC in 1987 and was seconded to Hong Kong in 1993. He was appointed as a director of COHK in 2000 and an executive director of COHK in 2002. Mr. Fu was also appointed as a director of CSCEHK in 2002. He has over 19 years' management experience in civil engineering.

Mr. Zhou Hancheng, *Executive Director and Financial Controller*, aged 37, was appointed as a Director of the Company on 21 April 2004 and subsequently be designated as an Executive Director of the Company on 1 June 2005. Mr. Zhou graduated from Shanghai University of Finance and Economics and holds a degree of Master of Business Administration from The University of Sheffield (UK). He is also a member of the Association of Chartered Certified Accountants. Mr. Zhou joined COLI Group in 1992. He was appointed as a director of CSCEHK and an executive director and the financial controller of COHK in 2003. Mr. Zhou has over 11 years' experience in corporate finance, financial accounting and investment management.

Mr. Cheong Chit Sun, *Executive Director*, aged 55, was appointed as an Executive Director of the Company on 12 October 2005. Mr. Cheong graduated from the Hong Kong Baptist College and the University of Hull (UK). He is Fellow of The Institution of Civil Engineers (UK) and a member of The Hong Kong Institution of Engineers. Mr. Cheong joined the COLI Group in 2003. He was appointed as an executive director of CSCEHK and COHK in 2004. Mr. Cheong has over 33 years' experience in engineering, construction and project management in Hong Kong and overseas.

Independent Non-executive Directors

Dr. Raymond Ho Chung Tai, *Independent Non-executive Director*, aged 68, was appointed an Independent Non-executive Director of the Company on 1 June 2005. Dr. Ho holds a doctorate degree in civil engineering from the City University of London, UK, Honorary Doctor of Business Administration from the City University of Hong Kong, Honorary Doctor of Laws from University of Manchester, UK, a Postgraduate Diploma for Advanced Studies in Engineering Soil Mechanics from The Victoria University of Manchester, UK and a bachelor degree in engineering from the University of Hong Kong. Dr. Ho has been responsible for numerous projects of engineering and environmentally related works of considerable magnitude and varied nature, including Shatin New Town and Tseung Kwan O New Town, all the new KCR railways stations from Kowloon Tong to Lo Wu (now called the East Rail) and the associated bridges and roadworks. He has also been involved in major projects of tunnels, bridges, flyovers, roads, dockyards, jetties, hospitals, hotels, incinerators, high-rise commercial/residential buildings, geotechnical work, environmental studies and projects as well as project management. Dr. Ho was formerly president of certain organizations such as Hong Kong Institution of Engineers, council chairman of the City University of Hong Kong, council chairman of the former City Polytechnic of Hong Kong, chairman of Hong Kong Technology Committee of the Industry & Technology Development Council (ITDC) and member of ITDC, member of the first and second Legislative Council (Engineering Functional Constituency) and, the Provisional Legislative Council, chairman of the Transport Advisory Committee, member of Hong Kong Affairs Adviser,

member of consultative committee on the New Airport and Related Project and member of the Gas Safety Advisory Committee. Dr. Ho was chairman and director of a number of companies of the Maunsell Consultants Asia Ltd in addition to its international company Guy Maunsell International Ltd during the period from January 1976 to August 1993. Dr. Ho is currently chairman of Guangdong Daya Bay Nuclear Plant and Ling Ao Nuclear Plant Safety Consultative Committee. He is also a member of the third Legislative Council (Engineering Functional Constituency) and is director of various private companies in Hong Kong and is an independent non-executive director of Deson Development International Holdings Limited and Ming Hing Holdings Limited, companies listed on the main board of the Stock Exchange.

Mr. Adrian David Li Man Kiu, *Independent Non-executive Director*, aged 33, was appointed an Independent Non-executive Director of the Company on 1 June 2005. Mr. Li holds a master degree in management from Kellogg Graduate School of Management, Northwestern University, Evanston, Illinois, US, a Master Degree of Arts and a Bachelor Degree of Arts in Law from the University of Cambridge. He is a member of The Law Society of England and Wales and The Law Society of Hong Kong. Mr. Li has been the General Manager and Head of Corporate Banking Division of The Bank of East Asia, Limited since 2000 and is responsible for the planning, management and supervision of the Bank's corporate banking business. He is a member of the Ninth Guangdong Provincial Committee and was formerly a member of the Ninth and Tenth Guangzhou Committee of the Chinese People's Political Consultative Conference, P.R.C. He is also a committee member of the Ninth and Tenth All-China Youth Federation, the Deputy Chairman of the Ninth Beijing Municipality Youth Federation and the Vice Chairman of the Fifteenth Session of Hong Kong United Youth Association Limited. In addition, he is the Council Member of the Vocational Training Council, a member of the Advisory Board and Chairman of the Investment Committee of the Hong Kong Export Credit Insurance Corporation and a member of the MPF Industry Schemes Committee of the Mandatory Provident Fund Schemes Authority. He also sits on the Board of Ocean Park Corporation and is an independent non-executive director and audit committee Chairman of Sino Land Company Limited, Tsim Sha Tsui Properties Limited and Sino Hotels (Holdings) Limited. Further, he is an alternate independent non-executive director of San Miguel Brewery Hong Kong Limited.

Mr. Raymond Leung Hai Ming, *Independent Non-executive Director*, aged 52, was appointed an Independent Non-executive Director of the Company on 1 June 2005. Mr. Leung holds a bachelor degree in Applied Science in Civil Engineering and a Master degree in Applied Science. Mr. Leung is Fellow of The Hong Kong Institution of Engineers, Hong Kong Institute of Arbitrators, Hong Kong Institute of Construction Managers, American Society for Civil Engineers and Institution of Civil Engineers (UK). He has more than 26 years' experience in engineering, investment, construction and project management. Mr. Leung is director of various private companies in Hong Kong and is an independent non-executive director of Continental Holdings Limited, a company listed on the main board of the Stock Exchange. He is also the chief executive officer of C & L Holdings Ltd engaging in investment and business consultancy.

Mr. Lee Shing See, *Independent Non-executive Director*, aged 65, was appointed an Independent Non-executive Director of the Company on 1 September 2005. Mr. Lee graduated from the University of Hong Kong in 1964. He is Fellow of both The Hong Kong Institution of Engineers and The Institution of Civil Engineers (UK). Mr. Lee joined The Hong Kong

Government since he graduated from the University. He was the Director of Territory Development from the period of August 1994 to August 1999 and the Secretary for Works from the period of August 1999 to August 2002 (including 2 months as a Permanent Secretary). He was appointed by the Hong Kong Government as a director of and interim CEO for six months from 15 May 2007 of the Hong Kong Science and Technology Parks Corporation. A member of the Construction Industry Council and Environmental Impact Assessment Appeal Board Panel. Mr. Lee has over 39 years' experience in engineering and construction. He is an independent non-executive director of Chun Wo Holdings Limited, a company listed on the main board of the Stock Exchange.

The addresses of the Directors are as follows:

Name	Residential Address
<i>Non-executive Director</i>	
Kong Qingping (Chairman)	Flat F, 20th Floor Block 1, Star Crest 9 Star Street, Wanchai Hong Kong
<i>Executive Directors</i>	
Zhou Yong (Vice-chairman and Chief Executive Officer)	Flat B, 8th Floor Royal Court 9M Kennedy Road Hong Kong
Yip Chung Nam	Flat 10B, Tower III 37 Repulse Bay Road Repulse Bay Hong Kong
Fu He	Flat C, 23rd Floor Hoover Towers Tower V 8-12 St. Francis Yard Wanchai Hong Kong
Zhou Hancheng	Flat A, 22nd Floor Hoover Towers Tower V 8-12 St. Francis Yard Wanchai Hong Kong

Cheong Chit Sun

1st Floor B
Shing Loong Court
13 Dragon Terrace
Tin Hau
Hong Kong

Independent Non-executive Directors

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

Flat C, 12th Floor
27 Perth Street
Homantin, Kowloon
Hong Kong

Adrian David Li Man Kiu

5th Floor, May Tower II
5 May Road
Hong Kong

Raymond Leung Hai Ming

No. 106, Hong Lok Road West
Hong Lok Yuen, Tai Po
New Territories
Hong Kong

Lee Shing See

Flat B, 20th Floor
Yukon Court
2 Conduit Road
Hong Kong

5. DIRECTORS' INTERESTS

As at the Latest Practicable Date, the interests and short positions, if any, of each Director and chief executive of the Company in the Shares, underlying Shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and chief executives were deemed or taken to have under such provisions of the SFO); or which were required to be and were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO; or as otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies adopted by the Company (“Model Code”) were as follows:

(i) *Long Positions in Shares and underlying Shares*(a) *In the Company*

Name of Director	Capacity	Interest in Shares		Interest in underlying shares pursuant to Share Options	Total interest in Shares	Approximate percentage of the Company's issued share capital as at the Latest Practicable Date
		Personal interest	Corporate interest			
Kong Qingping	Beneficial Owner	200,000	—	1,200,000	1,400,000	0.28%
Zhou Yong	Beneficial Owner	210,000	—	840,000	1,050,000	0.21%
Yip Chung Nam	Beneficial Owner	272,222	—	600,000	872,222	0.17%
Fu He	Beneficial Owner	150,000	—	600,000	750,000	0.15%
Zhou Hancheng	Beneficial Owner	150,000	—	560,000	710,000	0.14%
Cheong Chit Sun	Beneficial Owner	90,000	—	360,000	450,000	0.09%
Raymond Ho Chung Tai	Beneficial Owner	—	—	200,000	200,000	0.04%
Adrian David Li Man Kiu	Beneficial Owner	—	—	200,000	200,000	0.04%
Raymond Leung Hai Ming	Beneficial Owner	—	—	200,000	200,000	0.04%
Lee Shing See	Beneficial Owner	—	—	200,000	200,000	0.04%

(b) *In COLI (an associated corporation)*

Name of Director	Capacity	Interest in Shares		Interest in underlying shares pursuant to Share Options	Total interest in Shares
		Personal interest	Corporate interest		
Kong Qingping	Beneficial Owner	8,716,000	—	1,344,000	10,060,000
Zhou Yong	Beneficial Owner	1,643,750	—	768,000	2,411,750
Yip Chung Nam	Beneficial Owner	3,400,000	—	800,000	4,200,000
Fu He	Beneficial Owner	400,000	—	800,000	1,200,000
Zhou Hancheng	Beneficial Owner	128,000	—	256,000	384,000
Cheong Chit Sun	Beneficial Owner	160,000	—	240,000	400,000

(ii) *Interests in underlying Shares - share options*

Pursuant to the Company's Share Option Scheme, the Company has granted to certain Directors of the Company Options to subscribe for the Shares, details of which as at the Latest Practicable Date were as follows:

(a) *In the Company*

Name of Director	Date of grant	Exercisable Period	Exercise price	Number of Shares subject to outstanding Options as at the Latest Practicable Date	Approximate
					percentage of the Company's issued share capital as at the Latest Practicable Date
			<i>HK\$</i>		
Kong Qingping	14.09.2005	14.09.2006 to 13.09.2015	1.03	1,200,000	0.24%
Zhou Yong	14.09.2005	14.09.2006 to 13.09.2015	1.03	840,000	0.17%
Yip Chung Nam	14.09.2005	14.09.2006 to 13.09.2015	1.03	600,000	0.12%
Fu He	14.09.2005	14.09.2006 to 13.09.2015	1.03	600,000	0.12%
Zhou Hancheng	14.09.2005	14.09.2006 to 13.09.2015	1.03	560,000	0.11%
Cheong Chit Sun	14.09.2005	14.09.2006 to 13.09.2015	1.03	360,000	0.07%
Raymond Ho Chung Tai	14.09.2005	14.09.2006 to 13.09.2015	1.03	200,000	0.04%
Adrian David Li Man Kiu	14.09.2005	14.09.2006 to 13.09.2015	1.03	200,000	0.04%
Raymond Leung Hai Ming	14.09.2005	14.09.2006 to 13.09.2015	1.03	200,000	0.04%
Lee Shing See	14.09.2005	14.09.2006 to 13.09.2015	1.03	200,000	0.04%

(b) *In COLI (an associated corporation)*

Name of Director	Date of grant	Exercisable Period	Exercise price	Number of Shares subject to outstanding Options as at the Latest Practicable Date
			<i>HK\$</i>	
Kong Qingping	18.06.2004	18.06.2005 to 17.06.2014	1.13	1,344,000
Zhou Yong	18.06.2004	18.06.2005 to 17.06.2014	1.13	768,000
Yip Chung Nam	18.06.2004	18.06.2005 to 17.06.2014	1.13	800,000
Fu He	18.06.2004	18.06.2005 to 17.06.2014	1.13	800,000
Zhou Hancheng	18.06.2004	18.06.2005 to 17.06.2014	1.13	256,000
Cheong Chit Sun	18.06.2004	18.06.2005 to 17.06.2014	1.13	240,000

Save as disclosed above, none of the Directors or chief executives of the Company had, as at the Latest Practicable Date, any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

6. SUBSTANTIAL SHAREHOLDERS

So far as is known to any Director or chief executives of the Company, as at the Latest Practicable Date, Shareholders (other than Directors or chief executives of the Company) who had interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or who was interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other member of the Group were as follows:

(i) In respect of the Company

Name of Shareholder	Capacity	Aggregate interest/in Shares (short positions)
CSCEC	Interest of a controlled corporation/beneficial owner	414,298,978 ⁽ⁱ⁾
COHL	Beneficial owner	414,298,978 ⁽ⁱⁱ⁾

Notes:

- (i) These include (a) an interest in 314,332,178 shares, and (b) an interest in 99,966,800 unissued shares pursuant to COHL's obligations under the Underwriting Agreement and undertaking to apply for the entire number of the Offer Shares in the assured allotments in which COHL is beneficially interested.
- (ii) COHL is a direct wholly-owned subsidiary of CSCEC, thus CSCEC is deemed by the SFO to be interested in 414,298,978 Shares directly owned by COHL, including (a) an interest in 314,332,178 shares, and (b) an interest in 99,966,800 unissued shares pursuant to COHL's obligations under the Underwriting Agreement and undertaking to apply for the entire number of the Offer Shares in the assured allotments in which COHL is beneficially interested.

(ii) In respect of other members of the Group

Name of member of the Group	Name of the shareholder	Approx. percentage interest
China Overseas Installation Works Limited (中國海外安裝工程有限公司)	Shanghai Industrial Equipment Installation Corp. (上海市工業設備安裝公司)	35%

Save as disclosed above, as at the Latest Practicable Date, the Company had not been notified by any persons (other than the Directors or chief executives of the Company) who had interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed

to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or any options in respect of such capital.

7. SERVICE CONTRACTS

As at the Latest Practicable Date:

- (i) none of the Directors had any existing or proposed service contract with the Company or its subsidiaries or associated companies (excluding contracts expiring or terminable by any member of the Group within one year without payment of compensation, other than statutory compensation);
- (ii) none of the Directors had entered into any existing or proposed service contract with the Company or any of its subsidiaries or associated companies in force which are continuous contracts with a notice period of 12 months or more or which are fixed term service contract which has more than 12 months to run after the Latest Practicable Date (irrespective of the notice period); and
- (iii) none of the Directors had entered into or amended any service contracts (including both continuous and fixed term contracts) with the Company or any of its subsidiaries or any of its associated companies within six months before the date of this Prospectus.

8. INTERESTS IN CONTRACT OR ARRANGEMENT

None of the Directors is materially interested in any contract or arrangement subsisting at the Latest Practicable Date which is significant in relation to the business of the Group taken as a whole.

9. INTERESTS IN ASSETS

As at the Latest Practicable Date, none of the Directors had any direct or indirect material interest in any assets which have been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2006, being the date to which the latest published audited financial statements of the Company were prepared.

10. COMPETING BUSINESS

As at the Latest Practicable Date, the following Directors were considered to have interests in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, as defined in the Listing Rules, as set out below:

Mr. Kong Qingping holds directorship in CSCEC (the Company's ultimate holding company), COHL (the Company's holding company) and COLI (the Company's associated corporation), and/or their respective subsidiaries which are engaged in construction, property development and related business.

As the board of directors of the Group operates independently of the boards of these companies, the Group can operate its business independently of, and at arm's length from, the businesses of these companies.

Save as disclosed above, none of the Directors and their respective associates had any interest in a business which competes or may compete with the business of the Group.

11. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against the Company or any of its subsidiaries.

12. PROCEDURES FOR DEMANDING A POLL

Pursuant to article 66 of the articles of association of the Company, a poll may be demanded by the chairman of such meeting or by:

- (a) at least three Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or
- (b) any Shareholder or Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all the Shareholders having the right to vote at the meeting; or
- (c) a Shareholder or Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorised representative or by proxy and holding Shares conferring a right to vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the Shares conferring that right; or
- (d) if required by the rules of the designated stock exchange, by any Director or Directors who, individually or collectively, hold proxies in respect of shares representing five per cent. (5%) or more of the total voting rights at such meeting.

13. EXPERT AND CONSENT**(i) Qualification of expert**

Name	Qualification
Deloitte Touche Tohmatsu	Certified Public Accountants

(ii) Consent of expert

Deloitte Touche Tohmatsu has given and has not withdrawn its written consent to the issue of this Prospectus with the inclusion herein of its letters, reports and/or summary of its opinions (as the case may be) and references to its name in the form and context in which they appear.

(iii) Interests of expert

As at the Latest Practicable Date, Deloitte Touche Tohmatsu was not beneficially interested in the share capital of any member of the Group, nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group nor did it had any interest, either direct or indirect, in any assets which had been since 31 December 2006 (being the date to which the latest published audited accounts of the Group were made up) acquired or disposed of by or leased to or were proposed to be acquired or disposed of by or leased to any member of the Group.

14. MATERIAL CONTRACTS

The following contracts (not being entered into in the ordinary course of business) have been entered into by the members of the Group after the date two years preceding the Announcement and up to and including the Latest Practicable Date and which are or may be material:

- (i) a sale and purchase agreement dated 20 July 2007 entered into between COHL and the Company in relation to the acquisition of 100,000,000 ordinary shares of COIL and 150,000 ordinary shares of COISL;
- (ii) a sale and purchase agreement dated 20 July 2007 entered into between COHL and the Company in relation to the acquisition of 79% equity interest in the registered and paid up capital of COHL (Macao) of MOP\$200,000 and 1 share representing 100% of the issued and paid up capital of Perfect Castle Limited;
- (iii) a sale and purchase agreement dated 20 July 2007 entered into between COHL and the Company in relation to the acquisition of 75% equity interest and the 25% economic interest held by COHL in the registered and paid up capital of SCOCL of RMB50,000,000;
- (iv) a sale and purchase agreement dated 9 May 2006 entered into between COHL, China Overseas Construction Limited and the Company in relation to the acquisition of 100% equity interest in the registered and paid up capital of CCEM; and

(v) the Underwriting Agreement.

15. SHARE OPTIONS

As at the Latest Practicable Date, there were 40,924,000 outstanding options granted to eligible participants of the Share Option Scheme of the Company, to subscribe for an aggregate of 40,924,000 Shares, representing approximately 8.19% of the issued share capital of the Company.

The following are details of the outstanding options of the Company as at the Latest Practicable Date:

Option type	Number of options	Exercise price (HK\$)	Date of grant	Exercise period
Directors				
Kong Qingping	1,200,000	1.03	14.09.2005	14.09.2006 to 13.09.2015
Zhou Yong	840,000	1.03	14.09.2005	14.09.2006 to 13.09.2015
Yip Chung Nam	600,000	1.03	14.09.2005	14.09.2006 to 13.09.2015
Fu He	600,000	1.03	14.09.2005	14.09.2006 to 13.09.2015
Zhou Hancheng	560,000	1.03	14.09.2005	14.09.2006 to 13.09.2015
Cheong Chit Sun	360,000	1.03	14.09.2005	14.09.2006 to 13.09.2015
Raymond Ho Chung Tai	200,000	1.03	14.09.2005	14.09.2006 to 13.09.2015
Adrian David Li Man Kiu	200,000	1.03	14.09.2005	14.09.2006 to 13.09.2015
Raymond Leung Hai Ming	200,000	1.03	14.09.2005	14.09.2006 to 13.09.2015
Lee Shing See	200,000	1.03	14.09.2005	14.09.2006 to 13.09.2015
	4,960,000			
Consultants	18,310,000	1.03	14.09.2005	14.09.2006 to 13.09.2015
Employees	17,654,000	1.03	14.09.2005	14.09.2006 to 13.09.2015
	40,924,000			

Note: One-fifth of Share Options are exercised after the expiry of 12 months from the date of grant; a further one-fifth are exercisable after the expiry of 24 months from the date of grant; a further one-fifth are exercisable after the expiry of 36 months from the date of grant; a further one-fifth are exercisable after the expiry 48 months from the date of grant; and the remaining one-fifth are exercisable after the expiry 60 months from the date of grant and up to 13 September 2015.

16. MISCELLANEOUS

- (i) The expenses in connection with the Open Offer, including underwriting commissions, printing, registration, legal, professional and accounting charges are estimated to amount to approximately HK\$10 million and will be payable by the Company.
- (ii) The English text of this Prospectus and the Application Forms shall prevail over the Chinese text in the case of any inconsistency.

17. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

A copy of this Prospectus, the Application Forms and the written consent given by Deloitte Touche Tohmatsu as referred to in the paragraph headed “Expert and Consent” in this appendix have been registered with the Registrar of Companies in Hong Kong pursuant to Section 342C of the Companies Ordinance.

18. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection from 9:00 a.m. to 5:00 p.m. (Monday to Friday) at 28th Floor, China Overseas Building, 139 Hennessy Road, Wanchai, Hong Kong from the date of this Prospectus up to and including Wednesday, 29 August 2007:

- (a) the memorandum of association and the articles of association of the Company;
- (b) the material contracts referred to in this appendix;
- (c) the annual reports of the Company for each of the three financial years ended 31 December 2006;
- (d) the letter from Deloitte Touche Tohmatsu contained in this Prospectus;
- (e) the written consent referred to in the section headed “Expert and Consent” of this Appendix;
- (f) the Acquisitions Circular; and
- (g) this Prospectus.