



UNIFYING
OUR
CAPABILITIES



I am pleased to report to all shareholders:

The Group's audited consolidated profit attributable to the equity shareholders before deduction of listing costs amounted HK\$17 million for the year ended 31 December 2005 were increased by 7.8% to HK\$148 million as compared with 2004. Earnings per share for 2005 were HK32.26 cents, down 25.6% as compared with HK43.37 cents over the same period in 2004. The rate of return of shareholders' funds was 15.6%, increased by 26.0% as compared with 2004. The Board of Directors proposed that the payment of a final dividend of HK9 cents per share.

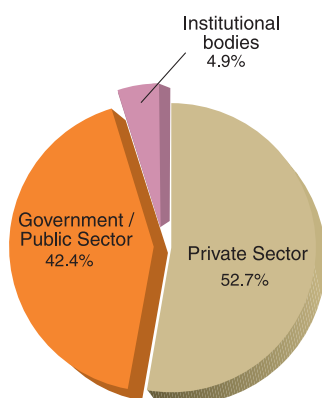
Zhou Yong

Vice-chairman and
Chief Executive Officer

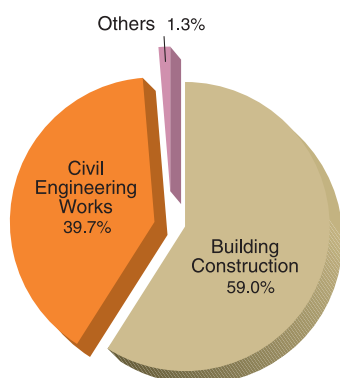
Review of Operations

Turnover

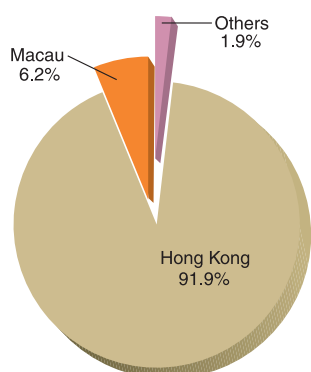
By Project Categories



By Customers



By Markets



Summary

- Turnover decreased by 19.0%, gross profit margin increased by 12.8%
- Before deduction of listing costs amounted HK\$17 million, profits attributable to shareholders increased by 7.8%
- Awarded new contracts amounting to HK\$9,731 million

Overall Performance

During the reporting period, the Group's turnover was HK\$6,863 million (2004: HK\$8,476 million), down 19.0% from the same period last year. Gross profit margin increased by 12.8% to 4.83% (2004: 4.28%). Before deduction of listing costs amounted HK\$17 million, profits attributable to shareholders were HK\$148 million (2004: HK\$137 million), up 7.8% from the same period last year. Basic earnings per share were HK32.26 cents (2004: HK43.37 cents). Shareholders' funds as at 31 December 2005 were HK\$837 million (2004: HK\$1,298 million). Net assets per share were HK\$1.7 (2004: HK\$4.1).

Changes in the Basis of Preparation of Consolidated Financial Statements

The Company completed the corporate reorganisation and become the holding company of the Group on 30 June 2005. The Group reorganisation resulting from the acquisitions of the controlling interests in China State Construction Engineering (Hong Kong) Limited ("CSCEHK") from China Overseas Holdings Limited ("COHL") and the construction business ("Project Management Group") of China Overseas Land & Investment Ltd. ("COLI") is regarded as common control combinations. Accordingly, the financial statements of the Group have been prepared using the Accounting Guideline 5 "Merger Accounting for Common Control Combinations" ("Accounting Guideline 5") as if the combination had occurred from the date when CSCEHK and Project Management Group first came under the control of COHL. As the Accounting Guideline 5 was issued on 24 November 2005, the Group adopted "Purchasing Accounting" in the basis of preparation of its 2005 Interim Report and the Accountant's Report as set out in the prospectus dated 14 June 2005.

The Independent Operation of Businesses after Listing

Most of the Group's available banking facilities before listing were supported by the counter-guarantees provided by COHL and COLI to the bank. Following the listing of the Group, the corresponding counter indemnity provided by COHL and COLI has been successively discharged indemnity. The Group secured the corresponding banking facilities on its own and has maintained good relationship with the banks. The Group's ability to raise funds has not been affected accordingly.

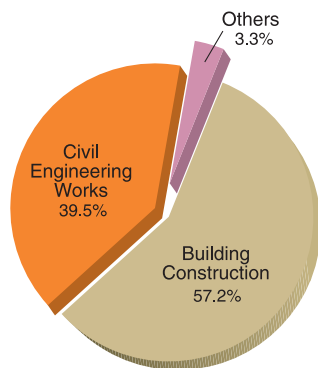
Review of Operations (con't)

Completed Projects in 2005

Summary for the year

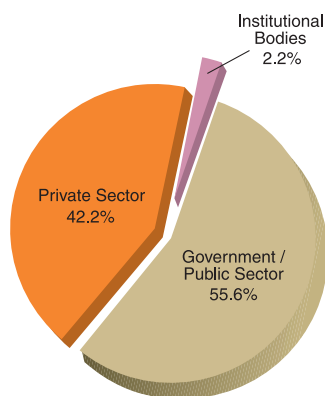
- 33 completed projects in 2005
- Attributable contract value for completed projects in 2005 was HK\$9.60 billion

By Project Categories



Residential Development at Area 40, TWTL 395, Tsuen Wan

By Customers



Infrastructure for Penny's Bay Development-Contract 1

Major completed projects in 2005

Building Construction

- 1 Residential Development at Area 40, TWTL 395, Tsuen Wan
- 2 Superstructure for Hong Kong Movie City



- 3 Hang Hau Station Development at TKOTL 24, Area 38b
- 4 Proposed Commercial/Service Apartment Development at Yeung Uk Road
- 5 New Campus Development of Lingnan University



- 6 Construction of Redevelopment of Kwai Chung Estate Phase 4
- 7 Redevelopment of Lei Muk Shue Estate Phase 4

- 8 The Construction of Tai Kok Tsui Complex Phase 2
- 9 Hong Kong Disneyland – Space Mountain and Buzz Lightyear
- 10 West Kowloon Reclamation, Site 10, Phase 3 & 4
- 11 Hong Kong Disneyland Hotel
- 12 Hong Kong Disneyland - Fantasyland

Civil Engineering Works

- 13 Castle Peak Road Improvement between Area 2 and Ting Kau, Tsuen Wan



- 14 Upgrading of Siu Ho Wan Sewage Treatment Plant (Civil Works)
- 15 Infrastructure for Penny's Bay Development – Contract 1
- 16 Design and Construction of the Approach Viaduct to the New Boundary Bridge between Lok Ma Chau and Huanggang and Associated Works

Lantau
Island



New Territories

Kowloon

Hong Kong Island

- Existing Railway Lines**
- MTR
 - Airport Express
 - KCRC
 - East Rail-Tsim Sha Tsui Line
 - West Rail
 - Ma On Shan Rail
 - Light Rail
 - Cross-Harbour Tunnel
 - Route 3
- Rails Under Construction**
- Lok Ma Chau Spur Line
 - AsiaWorld-Expo Station
 - Cable Car

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Review of Operations (con't)

New Projects Awarded in 2005

Summary for the year

- 38 new projects in 2005
- Attributable contract value for new projects in 2005 was HK\$9.73 billion

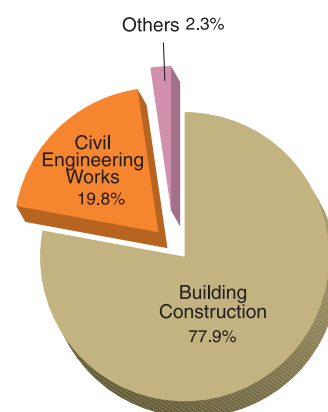
In 2005, the Group was awarded 38 new projects with a total attributable contract value of HK\$9.73 billion, of which 77.9%, 19.8% and 2.3% were contributed by building construction, civil engineering works, and other works respectively.

New contracts awarded in 2005

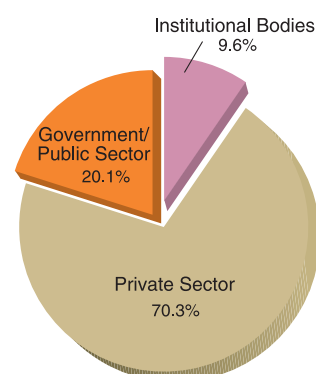
Unit: HK\$' million

No.	Project Name	Attributable Contract Value
1	Dubai Mall Hotel	1,550
2	Hyderabad International Airport-Passenger Terminal Building	1,250
3	Enterprise Square 5, NKIL5927 Kowloon Bay	1,047
4	Armada Towers	666
5	Construction of Centre for Youth Development at Chai Wan	471
6	Foundation and Construction of Choi Wan Road Site 1 Phase 2	380
7	Construction of Tin Shui Wai Area 103 Phase 1	363
8	STTL510 Tung Lo Wan Hill Road Shatin	363
9	A New Infectious Disease Centre at Princess Margaret Hospital	353
10	Construction of Eastern Harbour Crossing Site, Phase 3	278
11	Foundation and Construction of Choi Wan Road Site 1 Phase 1	252
12	Redevelopment of Members Stand I Building (Phase A) at Happy Valley	237
13	Design and Construction of Hin Tin Swimming Pool Phase 2, Shatin	172
14	Design and Construction for the Renovation of Libraries, Phase 1	101
Major Building Construction Sub -Total		7,483
1	KCRC-Kowloon Southern Link Tunnels - Yau Ma Tei Ventilation Building to Nam Cheong Overrun	636
2	KCRC-Kowloon Southern Link Tunnels - Jordan Road to Yau Ma Tei Ventilation Building	447
3	East-West Corridor in the State of Madhya Pradesh	303
4	Construction of Drainage Channels in Ma Wat and North of Hong Lok Yuen, Tai Po	167
5	Site Formation Works for Discovery Bay	163
6	Upgrading of Siu Ho Wan Sewage Treatment Plant UV Disinfection Works	35
Major Civil Engineering Works Sub -Total		1,751
Others - 18 Projects Sub -Total		497
Total		9,731

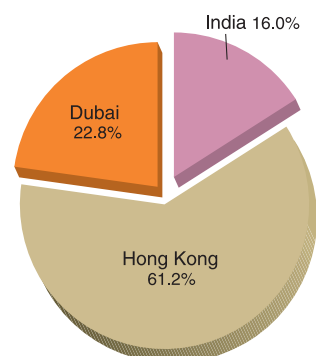
By Project Categories



By Customers



By Markets



Review of Operations (con't)

Projects in Progress at the End of 2005

Summary for the year

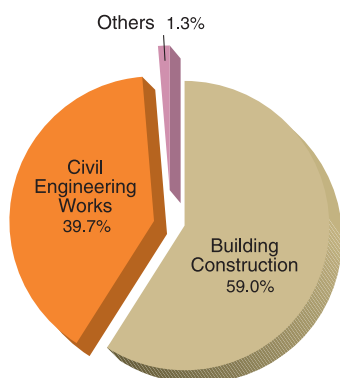
- 56 projects in progress at the end of 2005
- Total attributable contract value for projects in progress at the end of 2005 was HK\$23.69 billion
- Contract value for incomplete works as at the end of 2005 was HK\$14.80 billion

In addition, from 1 January 2006 to the date of this report, the Group was awarded 5 new projects, with a total contract value of HK\$1.66 billion. The new projects mainly include Lease Office Building, JAFZ South and the Golf Towers III residential project in Dubai.

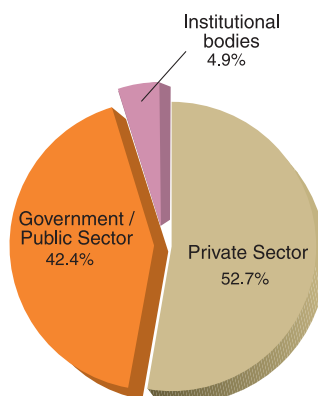
	Contracts on hand as at 31 December 2005		New contracts awarded subsequent to the year end		
	Number of Contracts	Attributable Contract Value HK\$'million	Value of Incomplete Contract HK\$'million	Number of Contracts	Attributable Contract Value HK\$'million
Hong Kong Projects					
- Building Construction	27	9,434	6,185	—	—
- Civil Engineering Works	15	9,105	4,100	—	—
- Other Works	9	311	200	2	90
Macau Projects	1	1,070	646	1	10
Dubai Projects	2	2,216	2,169	2	1,560
India Projects	2	1,553	1,500	—	—
Total	56	23,689	14,800	5	1,660

In summary, as at the date of this report, the Group has a total of 61 projects on hand, with a total attributable contract value of HK\$25.35 billion. The contract value for incomplete projects was HK\$16.46 billion.

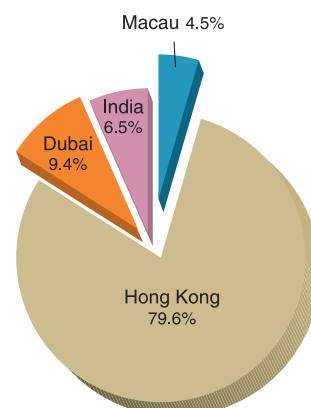
By Project Categories



By Customers



By Markets



Review of Operations (con't)

Jointly controlled projects in progress at the end of 2005

Unit : HK\$'million

No.	Project Name	Attributable Contract Value	% of Interest Held by the Group
1	Central Reclamation Phase 3	1,706	45
2	Wynn Resorts Macau	1,070	30
3	Deep Bay Link - Southern Section	849	70
4	Cyberport Residential Development for Phases RIII & RIVa	675	50
5	Sha Tin Heights Tunnel and Approaches	644	60
6	East - West Corridor in the State of Madhya Pradesh	303	50
7	Upgrading of Siu Ho Wan Sewage Treatment Plant - UV Disinfection Works	35	39.6
8	North Point Sewage Pumping Station	26	13
Total		5,308	—



Cyberport Residential Development for Phases RIII & RIVa



Sha Tin Heights Tunnel and Approaches

Estimated year of completion for major projects in progress

Unit : HK\$'million

No.	Category	Project Name	Attributable Contract Value	Estimated Year of Completion
1	Building Construction	Asia Airfreight Terminal Expansion	1,109	2006
2		TWT398 Tai Ho Road, Tsuen Wan, Superstructure	1,106	
3		Cyberport Residential Development for Phases RIII & RIVa	675	
4		Proposed Commercial/Residential Development at Hoi Fai Road	655	
5		A New Infectious Disease Centre at Princess Margaret Hospital	353	
6		New Kowloon Inland Lot 6196, Cornwall Street, Superstructure	298	
7		Shek Mun Campus for School of Continuing Education, HKBU	257	
8		Centralised Science Laboratories, Chinese University	249	
9		Redevelopment of Members Stand I Building (Phase A) at Happy Valley	237	
10		Construction of Proposed Through - Train Schools at Tseung Kwan O	197	
11		Design and Construction for the Renovation of Libraries, Phase 1	101	
12	Civil Engineering Works	Infrastructure for Penny's Bay Development - Contract 2	1,390	
13		Formation and Associated Infrastructure Works for Development at Choi Wan Road and Jordan Valley	1,338	
14		Deep Bay Link - Southern Section	849	
15		Castle Peak Road Improvement between Ting Kau and Sham Tseng, Tsuen Wan	963	
Others		15 Projects	786	
Sub - Total			10,563	

Review of Operations (con't)

Estimated year of completion for major projects in progress (Con't)

Unit : HK\$'million

No.	Category	Project Name	Attributable Contract Value	Estimated
				Year of Completion
1	Building Construction	Dubai Mall Hotel	1,550	2007
2		Wynn Resorts Macau	1,070	
3		Enterprise Square 5, NKIL5927 Kowloon Bay	1,047	
4		Armada Towers	666	
5		Foundation and Railway Depot Works for Ho Tung Lau	569	
6		Construction of Centre for Youth Development at Chai Wan	471	
7		STTL510 Tung Lo Wan Hill Road Shatin	363	
8		Design and Construction of Hin Tin Swimming Pool Phase 2, Shatin	172	
9	Civil Engineering Works	Sha Tin Heights Tunnel and Approaches	644	
10		East - West Corridor in the State of Madhya Pradesh	303	
11		Site Formation Works for Discovery Bay	163	
12		Replacement and Rehabilitation of Water Mains Stage 1 Phase 1-Mains in Yau Ma Tei, Tsim Sha Tsui, Mong Kok and Sham Shui Po	125	
13		North Point Sewage Pumping Station	26	
	Others	3 Projects	443	
Sub - Total			7,612	
1	Building Construction	Hyderabad International Airport-Passenger Terminal Building	1,250	2008
2		Foundation and Construction of Choi Wan Road Site 1 Phase 2	380	
3		Construction of Tin Shui Wai Area 103 Phase 1	363	
4		Construction of Eastern Harbour Crossing Site, Phase 3	278	
5		Foundation and Construction of Choi Wan Road Site 1 Phase 1	252	
6	Civil Engineering Works	Central Reclamation Phase 3	1,706	
7		Construction of Drainage Channels in Ma Wat and North of Hong Lok Yuen, Tai Po	167	
Sub - Total			4,396	
1	Civil Engineering Works	KCRC-Kowloon Southern Link Tunnels - Yau Ma Tei Ventilation Building to Nam Cheong Overrun	636	2009
2		KCRC-Kowloon Southern Link Tunnels-Jordan Road to Yau Ma Tei Ventilation Building	447	
3		Upgrading of Siu Ho Wan Sewage Treatment Plant - UV Disinfection Works	35	
Sub - Total			1,118	
Total			23,689	



A New Infectious Disease Centre at Princess Margaret Hospital



Deep Bay Link - Southern Section

Major projects in progress

Building Construction

- 1 Construction of Proposed Through-Train Schools at Tseung Kwan O
- 2 Centralised Science Laboratories, Chinese University
- 3 Shek Mun Campus for School of Continuing Education, HKBU
- 4 Asia Airfreight Terminal Expansion



- 5 Design and Construction for the Renovation of Libraries, Phase 1
- 6 A New Infectious Disease Centre at Princess Margaret Hospital
- 7 Design and Construction of Hin Tin Swimming Pool Phase 2, Shatin
- 8 Construction of Centre for Youth Development at Chai Wan
- 9 Foundation and Railway Depot Works for Ho Tung Lau
- 10 Wynn Resorts Macau
- 11 Construction of Eastern Harbour Crossing Site, Phase 3
- 12 Foundation and Construction of Choi Wan Road Site 1 Phase 2
- 13 Foundation and Construction of Choi Wan Road Site 1 Phase 1
- 14 Proposed Commercial/Residential Development at Hoi Fai Road



- 15 Cyberport Residential Development for Phases RIII & RIVa
- 16 Redevelopment of Members Stand I Building (Phase A) at Happy Valley

17 Enterprise Square 5, NKIL5927 Kowloon Bay

18 STTL510 Tung Lo Wan Hill Road Shatin

19 Construction of Tin Shui Wai Area 103 Phase 1

20 TWT398 Tai Ho Road, Tsuen Wan, Superstructure

21 New Kowloon Inland Lot 6196, Cornwall Street, Superstructure

Civil Engineering Works

22 Upgrading of Siu Ho Wan Sewage Treatment Plant – UV Disinfection Works

23 Formation and Associated Infrastructure Works for Development at Choi Wan Road and Jordan Valley

24 Castle Peak Road Improvement between Ting Kau and Sham Tseng, Tsuen Wan

25 Infrastructure for Penny's Bay Development – Contract 2

26 Central Reclamation Phase 3



27 Replacement and Rehabilitation of Water Mains, Stage 1 Phase 1 – Mains in Yau Ma Tei, Tsim Sha Tsui, Mong Kok and Sham Shui Po

28 Construction of Drainage Channels in Ma Wat and North of Hong Lok Yuen, Tai Po

29 KCRC – Kowloon Southern Link Tunnels – Jordan Road to Yau Ma Tei Ventilation Building

30 KCRC-Kowloon Southern Link Tunnels – Yau Ma Tei Ventilation Building to Nam Cheong Overrun

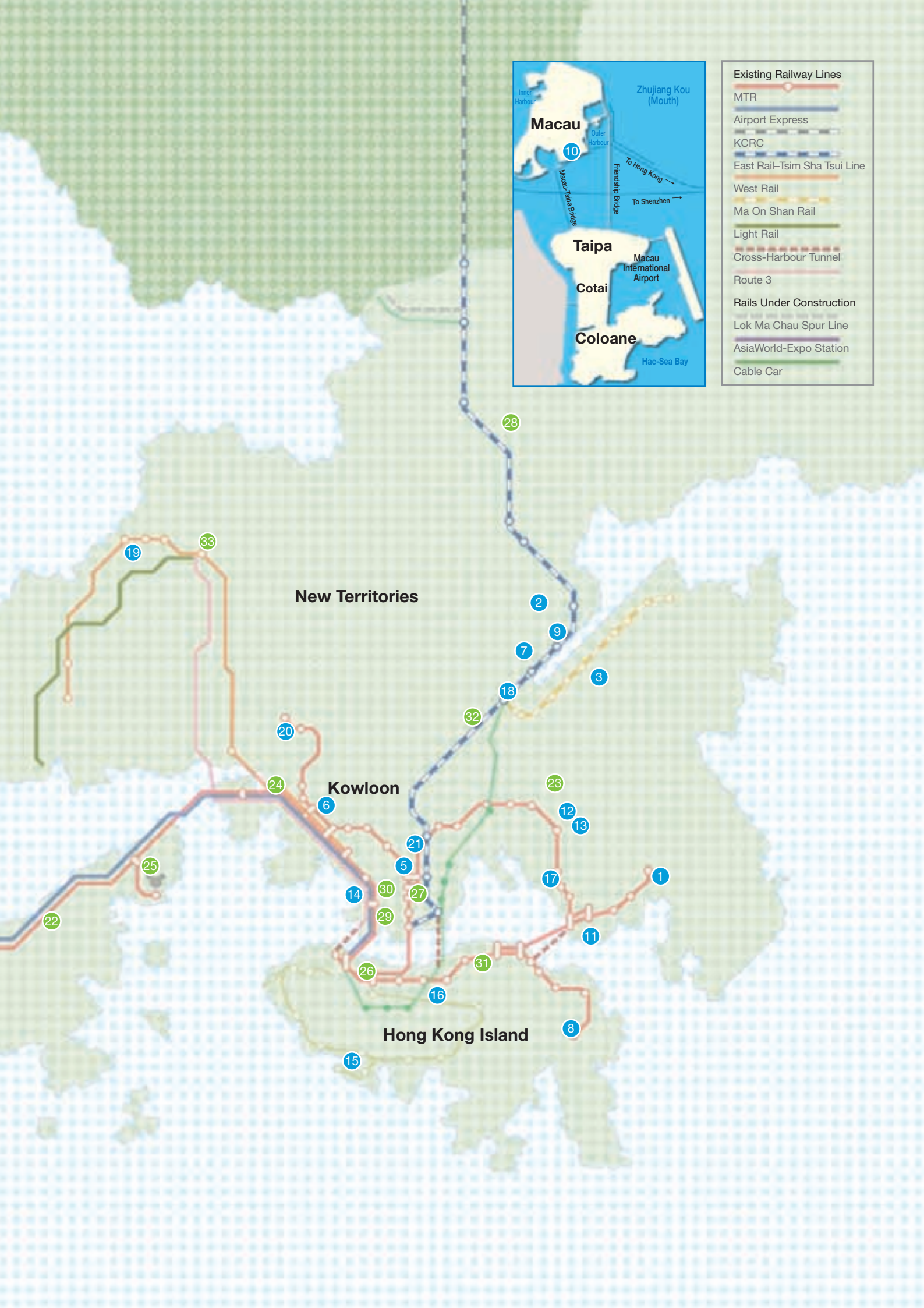
31 North Point Sewage Pumping Station

32 Sha Tin Heights Tunnel and Approaches

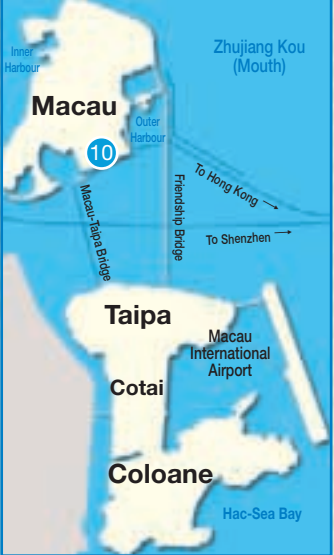
33 Deep Bay Link – Southern Section



Lantau Island



- Existing Railway Lines**
- MTR
 - Airport Express
 - KCRC
 - East Rail-Tsim Sha Tsui Line
 - West Rail
 - Ma On Shan Rail
 - Light Rail
 - Cross-Harbour Tunnel
 - Route 3
- Rails Under Construction**
- Lok Ma Chau Spur Line
 - AsiaWorld-Expo Station
- Cable Car**



New Territories

Kowloon

Hong Kong Island

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Hong Kong



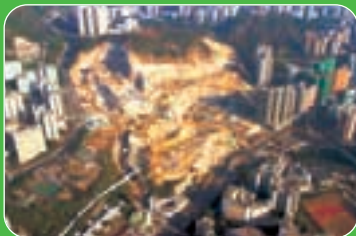
New Kowloon Inland Lot 6196,
Cornwall Street, Superstructure



Sha Tin Heights Tunnel
and Approaches



Construction of Centre for Youth
Development at Chai Wan



Formation and Associated Infrastructure
Works for Development at Choi Wan Road
and Jordan Valley

Macau



Wynn Resorts Macau

Dubai



Dubai Mall Hotel



Armada Towers



Lease Office Building, JAFZ South

India

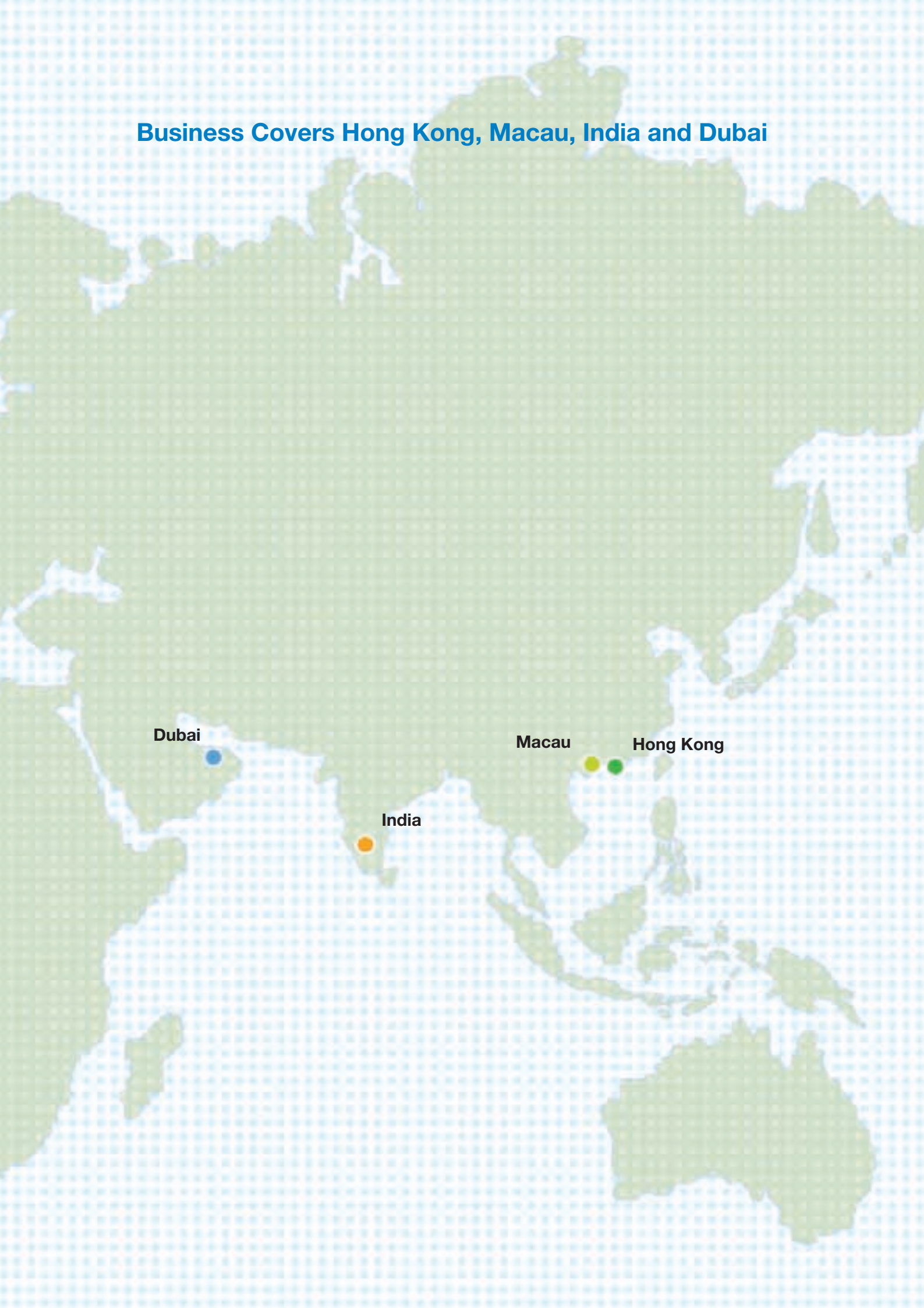


Hyderabad International Airport -
Passenger Terminal Building



East - West Corridor in the State of
Madhya Pradesh

Business Covers Hong Kong, Macau, India and Dubai



Dubai

Macau

Hong Kong

India

Review of Operations (con't)



Pre-cast structures are related to the construction business of the Group.

Construction-related Operations

The Group has maintained a “through-train” vertical integration business model by engaging in diversified operations such as foundation engineering, site investigation, mechanical and electrical engineering project, concrete production and pre-cast structures production, machinery leasing. These diversified operations are complementary to our building construction and civil engineering businesses and have enabled us to obtain first-hand information on market prices and trends of different relevant projects and materials in respect of the construction industry. This not only helps us to estimate the cost more accurately in a bid but also facilitates controlling project costs.



The Group frequently organises various quality promotional activities to raise its staff's awareness in providing services of the highest quality.

Quality and Technology

Quality is the life of an enterprise and is also an integral part of the market competitiveness of an enterprise. It is a fundamental guarantee for an enterprise to advance from being outstanding to being excellent. The strategy of “high quality management, low cost competition” established by the Group has fully demonstrated its emphasis on quality work.

The Group has been awarded the ISO9001 certification since 1992, and have been awarded the ISO14001 certification since 1998 and the OHSAS18001 certification since 2002.

On 28 December 2004, the “Project Dynamic Management System (工程動態管理系統)” implemented by the Group won the “National Engineering Construction Enterprise Management Modernisation Achievement 1st Prize (全國工程建設企業管理現代化成果一等獎)” awarded by the Construction Enterprise Management Association of China.

In March 2005, the Science Park Building No.4 project undertaken by China State Construction Engineering (Hong Kong) Limited, a subsidiary of the Group, was awarded the Bronze Prize at the 2004 Building Manager of the Year Awards organized by Chartered Institute of Building (Hong Kong).

In June 2005, Xun An Engineering Company Limited, a subsidiary of the Group was awarded the Hong Kong Quality Circle Award 2005 at the 11th Hong Kong Quality Management & 1st Six Sigma Convention.

Review of Operations (con't)

In June 2005, “Box Girder Fabrication Technology with Slug Process (短線法箱樑預製工藝)” and “Dioxin-contaminated Soil Non-direct Thermal Desorption Processing Technology (二噁英污染土非直接熱力解吸法處理技術工法)” developed by the Group were accredited as the work standards (provincial and ministerial) of China State Construction Engineering Corporation, the ultimate holding company of the Group.

In October 2005, the “Study and Systematic Application of the Management Technology of Construction Projects (建築工程施工管理技術研究與系統應用)” project the Group undertook to develop was awarded the 2nd Prize of the 2005 National Science and Technology Progress Award.

Safety and Environmental Protection

The Group has attached much importance to safety and environmental protection. That has been widely recognized by customers and all parties. The Group has also actively participated in various safety and environmental protection activities. Through the joint efforts of all its staff, the Company achieved remarkable results in 2005.

- Occupational safety - the Cyberport Residential Development for Phases RIII & RIVa project won the Silver Prize of the “Technical Safety Award Scheme” and Foundation and Railway Depot Works for Ho Tung Lau won the Silver Prize of the “Construction Safety Award Scheme”;
- Environmental – the head office and two projects simultaneously got the “Gold Wastewi\$e Scheme Logo”; Sha Tin Heights Tunnel and Approaches project got the Silver Prize of the “Waste Management”; and
- Five Considerate Contractors Site awards and Four Site Cleanliness and Tidiness awards.

The “5+3” Project Management Model

It is a well-known fact that the construction industry is a labour intensive industry. Perfect market competition has led to limited gross profits of the industry. Therefore, to survive and develop in the highly competitive market, construction companies should have sound cost control capabilities. To fully improve its management efficiency and effectively control its cost, the Group, through continued exploration and innovation for more than 20 years, has created a unique “5+3” project management model suited to the industry’s conditions by combining the

characteristics of this industry. By integrating the model with computer technology, the Group has successfully developed the “Study and Systematic Application of the Management Technology of Construction Projects (建築工程施工管理技術研究與系統應用)” system which was awarded the 2nd Prize of the 2005 National Science and Technology Progress Award (no winner of the 1st Prize). The system is a practical management model and system suited to the entire industry’s conditions and provides a comprehensive project management solution for construction enterprises. The system has been widely applied in the Group’s major engineering projects. The application of the system has significantly improved the management efficiency of the Group in all aspects, effectively controlled costs and increased the Group’s market competitiveness.



The Group actively participates in maintaining an environmentally friendly construction site to minimize its pollution to the environment.

The “5+3” engineering project management model has been derived from the Group’s repeated attempts and summations in respect of the management model over the years. The Group’s major practice is to divide project management into five major elements and three guarantee systems. The five major elements are progress, quality, cost, safety and environmental protection. The three guarantee systems are flow guarantee system, procedure guarantee system and liability guarantee system.

In the entire course of project management, the balanced development of the five key elements are ensured through the three guaranteed systems so that harmonious unification of social responsibility and operating responsibility can be achieved at the decision making, management and project operation levels.

Review of Operations (con't)

The flow guarantee system makes use of the modern management concept, the PDCA management flow, to run through all levels and stages of the project. Through the four management processes of PLAN, DO, CHECK and ACTION, review and revision is continuously conducted, forming a loop and thereby improving the management flow.

The procedure guarantee system ensures the balanced unification of all management elements and their integration through configurations and strategies. The three configurations include time and space configuration, resources configuration and management structure selection and configuration. Meanwhile, partnership and a contract business strategy are established in the form of a covenant and business management is implemented.

The liability guarantee system includes putting into practice the harmonious unification of social, operating and contract responsibilities. Enterprises perform their social responsibility and concern about the impact of construction on human and safety and the interests they are entitled to so as to reduce the consumption of natural resources and environmental pollution and implement a sustained development strategy. As for enterprises' operating responsibility, reducing costs and increasing revenue are the cores of corporate operation. Contract responsibility refers to commitment to customers.

Customer Service and Human Resources

As at 31 December 2005 the Group has 2,602 employees of which 2,460 are based in Hong Kong and 142 are based in Dubai and India. Each department has formulated a target responsibility mechanism which has become effective. In order to increase the quality and capabilities of staff, and to strengthen team spirit and encourage the corporate culture, the Group conducted various professional and comprehensive training programmes during the period. The Group regularly reviews the salaries of its employees based on job nature, staff performance, results and market conditions. Besides, evaluations are carried out on a regular basis.

Operating Profit

The Group's gross profit margin for its construction projects business in Hong Kong was 4.83%, up 12.8% from 4.28% over the same period in 2004. The Group's contracted business generated an operating profit of approximately HK\$183 million, down 18.2% from last year. The operating profit decreased because the turnover decreased by 19.0% compared with last year and the profit contribution decreased accordingly. In addition, the Group incurred HK\$17 million for the listing cost and the preliminary expenses for overseas business increased during the year.

Administrative Expenses

The Group's administrative expenses in 2005 were HK\$169 million, representing a sharp increase of 28.2% from HK\$132 million in 2004. That was mainly due to the Group's administrative and preliminary expenses of HK\$20 million for overseas business development in Dubai and India. The other staff cost was increased as a special bonus was paid to staff in 2005.

Finance Costs

Despite the increasing interest rate in the Hong Kong financial market, the Group recorded a slight reduction in finance cost by 3.2% to HK\$10.2 million for 2005 from HK\$10.5 million for 2004. It was because the Group repaid a loan from holding company of HK\$200 million in July 2005 and a bank loan of HK\$200 million in December 2005 and no material finance costs is expected in 2006.

Review of Operations (con't)

The Group's Finance

The Group adopts a prudent financial policy. The Group's objectives are:

- Maintain a sound financial structure through controlling credit facility level and cash flow
- Maintain a considerable amount of available credit limit to strengthen the Group's financial strength
- Paying close attention to the foreign exchange trend and strictly monitoring foreign exchange risks in overseas markets

The Group has sufficient operating cash with a sound financial position. As at 31 December 2005, the bank borrowing was nil (2004: HK\$200 million). Capitalising on its relatively large scale of operation, good cash flow and reputation, the Group had committed unutilised bank loans of HK\$179 million, which was favourable to the Group's business development. The Group did not participate in any speculative derivative transactions.

Liquidity and Financial Resources

Imposing strict control over the cash flow of projects was one of the financial policies the Group has persisted in. Through the establishment of an effective internal control system, the Group has stepped up its efforts in recovering construction fee income from projects in progress and completed projects, significantly increasing cash flow from projects. As at 31 December 2005, cash and bank deposits (including the pledged deposit of HK\$32 million) held by the Group reached HK\$1,648 million. The Group repaid bank borrowing of HK\$200 million in 2005. As at 31 December 2005, the Group did not have any bank borrowing and had various credit facilities to meet its daily requirement of working capital.

Assets Pledged

As at 31 December 2005, the bank deposits of HK\$32 million was pledged to bank for the issuance of surety bonds in respect of a jointly controlled entity.

Risks Associated with Volatility in Exchange Rates and Corresponding Hedging Arrangement

Since the Group's operations relate to various overseas regions, the Group has been paying close attention to foreign exchange exposure management and continuously tracking economic development, monetary policies and conditions that would have an impact on exchange rates in relevant regions. The currency of Dubai AED Dirhams has been linked to the US dollar and has remained relatively stable. The exchange rate of the Indian rupee is subject to greater fluctuations. Therefore, the Group is highly concerned about the trend of the Indian rupee and in conjunction with various financial institutions, has conducted various studies on controlling exchange rate exposure so as to select most suitable measure to the Company.

Contingent Liabilities

As at 31 December 2005, the Company provided a counter-indemnity of HK\$1,205 million in respect of the project performance bond issued for the construction projects contracted by the subsidiaries of the Group.