

**BUSINESS REVIEW**

For the six months ended 30 June 2006, the Group recorded a total turnover, including our share of jointly controlled entities, of HK\$439 million (“Group Total Turnover”), representing an increase of 43% compared to HK\$308 million for the six months ended 30 June 2005. This significant increase in turnover was mainly due to the acquisition of Kaden Construction Limited (“Kaden”) (formerly Kier Hong Kong Limited) in June 2005. The Group increased its shareholding in Kaden from 49% to 98.5% in June 2005 and therefore the turnover and results of Kaden for the first six months of 2006 were fully consolidated into the Group’s results.

The profit for the period was HK\$26 million, representing an increase of 44% compared to HK\$18 million for the six months ended 30 June 2005. The treasury function of the Group generated HK\$20 million profit from a portfolio of Hong Kong’s listed securities. The construction related net profit of HK\$6 million, represented 1.4% of the Group Total Turnover. The decrease of net profit from construction was mainly due to the protracted settlement of the final accounts on several major projects.

As at the date of this report, the Group has contracts-on-hand of total value of HK\$4,098 million, of which about HK\$1,723 million represents outstanding works.

**Hong Kong**

The Group has consistently adopted a strategy to improve works quality, site safety and environmental management. As a result, the performance scores of all construction subsidiaries with Environment, Transport and Works Bureau were above the industrial average resulting in a competitive advantage in bidding new public work projects.

During the first half of 2006, the Group secured seven new construction projects in Hong Kong of total value of HK\$810 million. These include a project to develop an EcoPark in Tuen Mun – this will take four years although the majority of the work is in the first year, works for Airport Authority Hong Kong and a major renovation project for a private client.

The projects awarded in previous years, have also progressed satisfactorily. The four projects at the Airport were completed on time. On the maintenance hangar for Hong Kong Aircraft Engineering Company Limited (“HAECO”), the critical milestone to lift the roof has been achieved. The roof covering and internal works are now progressing well and overall project completion is expected before end of this year.

### **BUSINESS REVIEW** (continued)

#### **Hong Kong** (continued)

The cable tunnel project for Hongkong Electric Holdings Ltd. on Lamma Island has also progressed well during the period. Both tunnels are complete and only minor external works remain. The project to construct a new flyover for Highways Department in Causeway Bay and widen part of Victoria Park Road progressed well; the new flyover was completed and demolition of the old one has commenced. On the Pak Shek Kok project, the seawall construction has been completed and the pedestrian walkways and cycle tracks are well advanced. Road works were completed at the north end whilst bridge works have now commenced at the south. At Fanling the installation of noise barriers for the Highways Department is nearing completion. Although this project has overrun the original completion date, the directors of the Company (“Directors”) are confident that an extension of time will be granted under the contract. All other contracts are generally progressing as planned.

#### **Overseas**

Our persistent effort to diversify our operations overseas progresses; in the PRC positive results were achieved and the overseas turnover climbed to 15% of the Group Total Turnover in the period.

The site formation project in Zhejiang Province was close to completion and recorded a small but reasonable profit margin.

Our first environmental infrastructure investment to build and operate a sewage treatment plant in Wuxi City has progressed well; the plant is now undergoing testing and commissioning whilst the pipelines are well advanced. The operation is expected to commence around October 2006 but will take 12 months or more to reach its operating capacity. A steady income for the Group is expected from 2008 onward for 30 years.

China Railway Tenth Group Third Engineering Co., Ltd. recorded breakeven results. It was engaged as a contractor in the construction of our sewage treatment plant in Wuxi City. The Group sees the strategic value of this joint venture and therefore has agreed to increase its shareholding to 49% at a consideration of RMB12 million. The acquisition of this additional 24% interest is expected to be complete in October 2006.

Our joint venture with Road King Infrastructure Limited (“Road King”), formed last year, has started work on Road King’s property development project in Changzhou. The contract value of the first phase of this seven-year project is RMB250 million.

In the Middle East, the marine operation has made a modest start and two dredging projects were completed. Recently the Group has entered into a strategic alliance with Arabian Construction Company (“ACC”), a major contractor in the United Arab Emirates (“UAE”) based in Abu Dhabi, to undertake marine civil engineering works in UAE. The first project with ACC has already commenced.

## BUSINESS OPPORTUNITIES AND PROSPECTS

The overall Hong Kong construction market remained difficult and very competitive in first half of 2006. The value of public works awarded by government during the first half has increased by 3% compared to the same period last year; this follows the recovery in other sectors of Hong Kong economy. However the Group still maintains its cautious view but expects this limited pick up to continue.

Our strategy for future growth in the PRC will have three limbs. One is to seek environmental infrastructure projects in the PRC. We are targeting to build up one investment project in this sector each year thereby in the long term creating a steady income source. The second is the development of the building market. The joint venture with Road King provides very important platform for the Group to build up a track record and to obtain a Class I building license in future. The third is to develop the China Railway Tenth Group Third Engineering Co., Ltd. to its full potential. In Dubai, the Directors are of the view that the alliance with ACC will be beneficial for the Group in the longer term.

## FINANCIAL REVIEW

### Liquidity and financial resources

As at 30 June 2006, the Group had liquid assets of HK\$121 million (as at 31 December 2005: HK\$122 million) comprising held-for-trading investments of HK\$80 million (as at 31 December 2005: HK\$56 million) and bank balances and cash of HK\$41 million (as at 31 December 2005: HK\$66 million).

As at 30 June 2006, the Group had a total of interest bearing borrowings of HK\$126 million (as at 31 December 2005: HK\$91 million) with the following maturity profile:

	<b>30 June 2006</b>	31 December 2005
	<b>HK\$ million</b>	HK\$ million
Borrowings due within one year	<b>82</b>	38
Borrowings due in the second year	<b>18</b>	18
Borrowings due in third to fifth year inclusive	<b>26</b>	35
	<hr/>	<hr/>
Total borrowings	<b>126</b>	91
	<hr/> <hr/>	<hr/> <hr/>

The Group's borrowings, bank balances and cash and held-for-trading investments were principally denominated in Hong Kong dollars. Hence, there is limited exposure to foreign exchange rate fluctuations. During the period, the Group had no borrowings at fixed interest rate and had no financial instrument for hedging purpose.

**FINANCIAL REVIEW** (continued)

**Capital structure and gearing**

There was no change during the period to the share capital of HK\$93 million comprising ordinary shares of HK\$78 million and convertible and non-redeemable preference shares of HK\$15 million which are convertible into 150,000,000 ordinary shares of HK\$0.10 each (“Shares”).

As at 30 June 2006, the net gearing ratio, representing the total of interest bearing borrowings and bank balances and cash as a percentage of total equity, was 47% (as at 31 December 2005: 16%).

**Pledge of assets**

As at 30 June 2006, bank deposits amounting to HK\$7 million (as at 31 December 2005: HK\$7 million) of the Group were pledged to banks for the purpose of satisfying the terms and conditions of certain construction contracts entered into by the Group.

Certain equity securities with market value of HK\$32 million (as at 31 December 2005: HK\$20 million) were pledged to a bank to secure general banking facilities granted to the Group.

In addition, the assets classified as available-for-sale investments of HK\$28 million were pledged to secure an interest free other borrowing of HK\$28 million.

**Commitment**

As at 30 June 2006, the Group had no significant capital commitment (as at 31 December 2005: nil).

**Contingent liabilities**

	<b>As at 30 June 2006 HK\$ million</b>	<b>As at 31 December 2005 HK\$ million</b>
Guarantee given to financial institution in respect of banking facilities granted to a jointly controlled entity	<u>32</u>	<u>–</u>
Outstanding tender/performance/retention bonds in respect of construction contracts	<u>40</u>	<u>38</u>

**FINANCIAL REVIEW** (continued)**Employees and remuneration policies**

As at 30 June 2006, the Group had a total of approximately 900 employees and total remuneration for the six months ended 30 June 2006 was approximately HK\$93.56 million. Competitive remuneration packages are structured for each employee to commensurate with individual responsibilities, qualification, experience and performance. In addition, discretionary bonuses may be paid depending upon the financial performance of the Group as well as that of the individual.