



中國建築國際集團有限公司

CHINA STATE CONSTRUCTION INTERNATIONAL HOLDINGS LIMITED

Stock Code : 3311

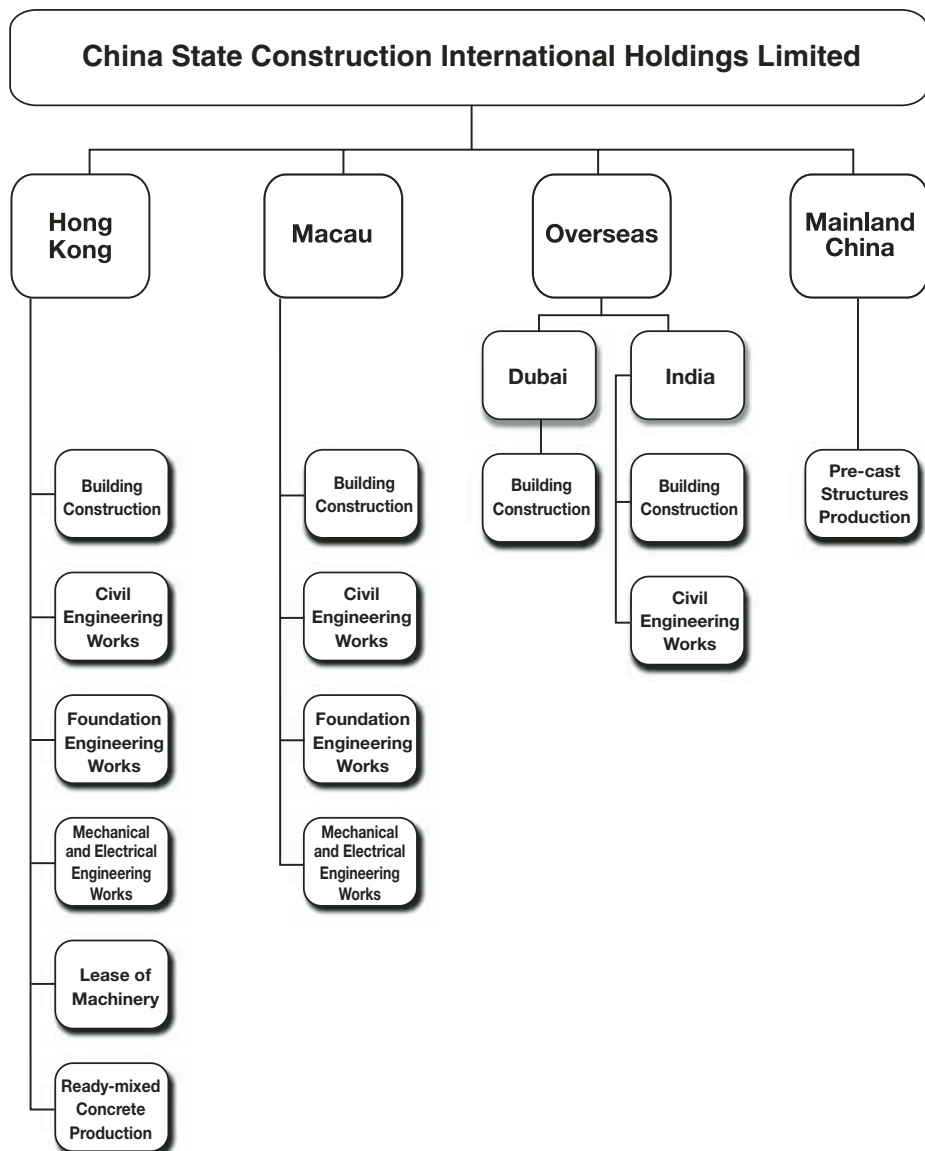


Interim
Report 2006

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CORPORATE STRUCTURE



BOARD OF DIRECTORS AND COMMITTEES

Board of Directors

Chairman and Non-executive Director

Kong Qingping

Honorary Chairman (Non-Board Member)

Sun Wen Jie

Executive Directors

Zhou Yong

(Vice-chairman and Chief Executive Officer)

Yip Chung Nam

Fu He

Zhou Hancheng

Cheong Chit Sun

Independent Non-executive Directors

Raymond Ho Chung Tai

Adrian David Li Man Kiu

Raymond Leung Hai Ming

Lee Shing See

Audit Committee

Raymond Ho Chung Tai

(Chairman)

Adrian David Li Man Kiu

Raymond Leung Hai Ming

Lee Shing See

Remuneration Committee

Kong Qingping

(Chairman)

Raymond Ho Chung Tai

Adrian David Li Man Kiu

Raymond Leung Hai Ming

Lee Shing See

Nomination Committee

Kong Qingping

(Chairman)

Zhou Yong

Fu He

Raymond Ho Chung Tai

Adrian David Li Man Kiu

Raymond Leung Hai Ming

Lee Shing See

CORPORATE INFORMATION

Qualified Accountant

Chan Sim Wang

Company Secretary

Connie Chiang Yuet Wah

Authorised Representatives

Kong Qingping

Zhou Yong

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

Standard Registrars Limited

26th Floor, Tesbury Centre

28 Queen's Road East

Hong Kong

Registered Office

Century Yard, Cricket Square

Hutchins Drive, P.O. Box 2681 GT

George Town

Grand Cayman

British West Indies

Head Office and Principal Place of Business in Hong Kong

28th Floor

China Overseas Building

139 Hennessy Road

Wanchai

Hong Kong

Compliance Adviser

ICEA Capital Limited

Auditors

Deloitte Touche Tohmatsu

Certified Public Accountants

Legal Adviser

Johnson Stokes & Master

Principal Bankers

The Hongkong and Shanghai Banking Corporation Limited

Bank of Communications, Hong Kong Branch

Bank of China (Hong Kong) Limited

CALYON, Hong Kong Branch

Standard Chartered Bank Limited

BNP Paribas Hong Kong Branch

The Development Bank of Singapore Limited, Hong Kong Branch

Stock Code

3311

Web Site

www.csci.com.hk

Financial Calendar

Interim Results Announcement	21 August 2006
Closure of Register of Members	13 September 2006 to 15 September 2006 (both days inclusive)
2006 Interim Dividend Payable	28 September 2006

CHAIRMAN'S STATEMENT

Results

The Board of Directors (the "Board") of China State Construction International Holdings Limited (the "Company") hereby announces the unaudited interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2006 together with the unaudited comparative figures for the corresponding period in 2005. The profit attributable to the shareholders was HK\$86,608,000, representing an increase of 110.5% compared to the corresponding period of last year. Basic earnings per share increased 35.4% from the corresponding period of last year to HK 17.6 cents.

Business Review

Despite the adverse impacts of the inequilibrium of the global economic development, with the strong growth impulse of the previous year, the global economy continued to a sustain stable with faster growth in the first half of 2006.

Hong Kong Market

Benefited from the favourable external environment, the external trade of Hong Kong performed well in the first half of the year. With significantly rising consumer demands together with the drive of upsurging demand for investment in machines and equipments, the Hong Kong economy continued growing in all aspects. However, the value of net production and new contracts in the construction industry keep on declining. The unemployment rate of the construction industry is still high. The construction industry is far behind from the overall recovery pace of the economy and the competition in the industry is vigorous.

The Group insists on a stable operation strategy of "low-cost competition, high-quality management". Under the unfavourable impact of the continuous decline of the total market turnover, the Group continued to maintain its competitiveness in the Hong Kong market in the first half of 2006 and achieved better operating results.

Macau Market

The Macau economy sustained rapid growth in recent years. Positive development prospects have attracted investors from all over the world to enter into the Macau market. At the same time, Macau government improves and optimises its local business environment through increasing investment in infrastructure, triggers off an investment fervor in the construction market in Macau. These led to an explosive rise of the Macau construction sector.

On 9 May 2006, a sale and purchase agreement has been entered between the Company, China Overseas Holdings Limited (“COHL”) and its wholly-owned subsidiary, China Overseas Construction Limited (“COCL”). COHL and COCL agreed to sell the entire paid up share capital of China Construction Engineering (Macau) Company Limited (“CCEM”) at a cash consideration of HK\$86,185,000. This acquisition displayed the full support of the parent company to the Group, enhanced the development potentials of the Group in both the Hong Kong and Macau markets and created favourable conditions for the Group to enter into the Macau construction market.

Dubai Market

The Dubai economy sustained the growth momentum. The local government committed to change its sole reliance on petroleum resources to initiate economic growth, strongly promote the tourism, entertainment, commercial and services sectors. The United Arab Emirates is incubating amendment to its existing company law to attract more foreign investment and further stimulate the demand in the leasing market. The implementation of the new measures will drive the continuous growth of the Dubai construction market.

Despite founded on the breakthrough achievement in the Dubai market in 2005, the Group still insisted on a prudent operation strategy and has made new progress in the first half of 2006.

Indian Market

The Indian economy continued to record a rapid growth that called for a higher demand for infrastructure. The Indian government has increased investments in infrastructure and residential property sectors allowed individual investors to participate in the construction of the relevant projects, bringing new motivating force into the Indian construction market.

The Indian construction market still maintained satisfactory growth in the first half of 2006. The Group adhered to its prudent, levelheaded operation strategy, fully carried out construction projects on schedule, selectively submitted tenders for target projects, thus ensuring steady development of the Company in the Indian market.

Completed Projects

In Hong Kong, the Group completed 10 projects in the first half of 2006, major completed projects included Cyberport Residential Development for Phases RIII & RIVA, the Construction of Proposed Learning Resource Centre at Chai Wan for Vocational Training Council, Infrastructure for Penny’s Bay Development – Contract 2, Deep Bay Link-Southern Section, Enhancement of Bridge Parapets, Discovery Bay North Development Resort Hotel, as well as Building Services Installation for Marine Police North Division at Ma Liu Shui.

New Awarded Projects

In the first half of 2006, the Group was awarded 23 new projects with contract value of HK\$6.03 billion, among which:

	Hong Kong Market	Macau Market	Overseas Market
Number of projects	17	4	2
Contract value (HK\$ Billion)			
Building construction	0.82	1.98	1.56
Civil engineering works	1.24	0.14	—
Other engineering works	0.20	0.09	—
Total	2.26	2.21	1.56

Major new awarded projects were Design and Construction for a Sports Ground at Area 45, Tseung Kwan O, Proposed Commercial Building at 196-206 Queen's Road East, Wanchai, Design and Construction of Sewerage Pumping Station at Colane Extension, Macau, Landslide Preventive Works at Po Shan Road, Mid-Levels, 2008 Olympic Equestrian Venue, Foundation for Redevelopment of Shatin Pass Estate, Lease Office Building, JAFZ South and Residential Development of Golf Tower Phase III in Dubai.

Projects in Progress

As at 30 June 2006, the Group had 72 projects in progress (including those from CCEM) amounting to HK\$28.85 billion. The incomplete contract value was HK\$17.52 billion.

Between 30 June 2006 and the date of this report, the Group was further awarded 3 new projects, totalling HK\$1.04 billion, among which two are C9 Residential Development of Praya Grande, Macau and Construction of Foundation and Basement Structure for St. Paul's Hospital Redevelopment, Hong Kong respectively.

	Projects in progress as at 30 June 2006			New contracts awarded after period end date	
	No.	Contract value HK\$ Billion	Incomplete contract value HK\$ Billion	No.	Contract value HK\$ Billion
Hong Kong Project					
Building construction	27	8.75	4.70	1	0.11
Civil engineering works	19	8.46	4.12	—	—
Other engineering works	9	0.42	0.30	1	0.02
Macau Project	11	5.89	3.56	1	0.91
Dubai Project	4	3.78	3.54	—	—
India Project	2	1.55	1.30	—	—
Total	72	28.85	17.52	3	1.04

The progress of projects in progress is satisfactory. The Group strictly adhered to the relevant statutory regulations of different regions and contract requirements and through strengthening the quality, safety, environmental protection, also cost controls together with professional management provided high-quality services to customers.

In conclusion, as at the date of this report, the Group has a total of 75 projects in progress with contract value of HK\$29.89 billion, and the sum of incomplete contract value is HK\$18.56 billion.

Corporate Governance

The Group is fully committed to maintain the high standard of corporate governance. Since its listing, the Group has established and integrated the structure of various committees under the Board, well defined the duties and responsibilities and the functions of each committee. Through effective supervision by the Board, the Group proactively communicate with the community; release relevant information on time; enhance investors' knowledge and understanding about the Company; and promote the continuous strengthening of the standard of corporate governance.

Corporate Citizenship

The Group is enthusiastic of taking part in various safety and environmental protection activities. In the first half of 2006, the Group achieved brilliant results and was awarded several safety and environmental protection awards:

- (a) The joint venture site of the North Point Sewerage Pumping Station won the only gold prize in the "Public Sector Category" in the 2005 Considerate Contractors Site; the joint venture site of Sha Tin Heights Tunnel and Approaches was awarded the silver prize; the Centralised Science Laboratories of the Chinese University, Foundation and Railway Depot Works for Ho Tung Lau and Construction of Proposed Through-Train Schools at Tseung Kwan O were awarded excellence prizes by the Environment, Transport and Works Bureau respectively;
- (b) For occupational safety, the Company was awarded numerous safety awards by the Labour Department, including a silver prize for the Civil Engineering Site Award for its joint venture North Point Sewerage Pumping Station, two bronze prizes for its Central Reclamation Phase III joint venture site and its residential and commercial site at Tsuen Wan 398 and other five sites were awarded for excellence prizes in the Construction Industry Safety Awards 2005/2006. The residential and commercial site at Tsuen Wan 398 was also awarded "Excellence Achievement Award" by the Hong Kong Occupational Safety and Health Council and other authorities in "Hearing Conservation Best Practices Award Scheme 2006"; and
- (c) For environmental protection, the offices of the Company were awarded the "Gold Wastewi\$e Logo" by the Environmental Protection Department. China State Construction Engineering (Hong Kong) Limited was awarded "The Environmental Merit Award" by the Hong Kong Construction Association. The joint venture site of Sha Tin Heights Tunnel and Approaches was awarded a bronze prize in waste management by the Environment, Transport and Works Bureau and other authorities in the Considerate Contractors Site Award Scheme 2005 while the Centralised Science Laboratories of the Chinese University and the joint venture site of the North Point Sewerage Pumping Station won excellence prizes.

Business Prospects

The trends of the oil price and interest rate are still an important factors for the future global economic development. Although both of them are at a high level, it is expected that the global economy would achieve a stable growth this year.

The Board believes that with the favourable factors such as the continuously improving external environment and the expected interest rate cap, and overall sentiment in consumer market Hong Kong economy will continue to sustain a moderate growth. The improvement of the overall economic position will also urge the Government to speed up the launch of infrastructure projects and realise the Government's promise in the 2006 Budget. The operation environment of the construction sector will be improved progressively. With its years of in-depth knowledge of the market, the Board is confident that the Group can maintain its position as one of the biggest construction contractors in Hong Kong.

The successful acquisition of CCEM has created favourable conditions for the Group to take part in Macau buildings construction, civil engineering works and structural engineering projects, as well as building up an operation platform between Hong Kong and Macau. The Board believes that CCEM's knowledge about the local market developed over the years together with the Group's management and financial strength can attain complementing and resources sharing, thus facilitating the promotion of CCEM's competitiveness in the Macau market. CCEM will become another important profit centre of the Group.

Becoming a "leading international contractor" is the long-term goal of the Group. It is necessary to adopt an internationalisation strategy in order to achieve this goal and establishing an overseas regional operation platform is an important strategic measure to explore the international contracting market. The Board is confident in the prospects of the Dubai market. The Group will well perform the existing projects as the base to capture opportunities arising in the booming Dubai construction market. It will also capitalise the advantage of the Group's ability to employ labour forces from China, enthusiastically and steadily expand the market scale, and build up the Dubai market as an important regional platform of overseas development of the Group. Simultaneously, the Group will pay close attention to the development of the Indian construction market and prudently select projects.

It is expected that 12 projects will be completed in the second half of 2006. The Board believes that these projects will be completed on time, meeting the Group's target of attaining a continual growth of profit.

Other Business Opportunities

The Group will closely attend to the development of the Mainland China market, and study the feasibility of investing in the land resources related projects in the Mainland China. The Group will further diverse into construction related services, specifically setting up an Investment and Development Department, actively seeking investment opportunities and expanding investment channels. It will also study other business opportunities like BT ("Build-Transfer" mode), PPP ("Public Private Partnership" mode) and participate in first-hand land development as well as the possibility of investing in projects which will bring in contracting business in order to capitalise the financial strength of the Group and maximize shareholders' value.

Appreciation

I would like to take this opportunity to express gratitude for the leadership of the members of the Board, support of all shareholders, assistance of all levels of the society and diligence of the staff.

Kong Qingping

Chairman and Non-executive Director

Hong Kong, 21 August 2006

MANAGEMENT DISCUSSION AND ANALYSIS

Overall Performance

For the six months ended 30 June 2006, the revenue of the Group was HK\$4.87 billion (the corresponding period in 2005: HK\$4.52 billion), representing an increase of 7.8% as compared to the corresponding period last year. The profit attributable to the shareholders was HK\$86,608,000 (the corresponding period in 2005: HK\$41,139,000), representing an increase of 110.5%. When compared both using the same basis, the actual growth of 2006 would be 17% over the same period of last year. Basic earnings per share increased 35.4% from HK 13.0 cents of the corresponding period of last year to HK 17.6 cents while diluted earnings per share was HK 16.6 cents (the corresponding period in 2005: N/A). The Board of Directors declared an interim dividend of HK 9 cents per share. No interim dividend was declared for the six months ended 30 June 2005 as the Company was listed on the Main Board of the Hong Kong Stock Exchange on 8 July 2005.

Revenue

The Group recorded a consolidated revenue of HK\$4.87 billion (the corresponding period in 2005: HK\$4.52 billion), representing an increase of 7.8% from the same period in 2005. The Hong Kong market made up the largest proportion of 74.4% of the total revenue. The Macau market made up 16.7% of the total revenue. The overseas markets (Dubai and India) began to contribute a significant portion making up 8.9% of the total revenue. This indicated that the Group has achieved an important progress in the strategy of developing overseas markets with an expanding and stabilising income sources. The Macau and overseas markets are still under the growing stage and it is expected that there would be a stable growth in the number and value of construction contracts.

Gross Profit

During the period reported, the gross profit margin was 3.5% (the corresponding period in 2005: 3.8%). The Group will continue to pursue its stable profit recognition policy. When the outcome of construction contracts cannot be reliably estimated, the incurred and recoverable contract costs will be recognised as revenue. The contract costs are recognised as expenses in the period in which they are incurred. According to such policy, no profit has yet been recognised for the Dubai and India projects. If the revenue of the Dubai and India projects were not accounted for, the gross profit margin of the Group would be 3.9%, a slight increase over the corresponding period of 2005.

Other Income

In the first half of the year, other income substantially increased from HK\$13,026,000 to HK\$38,432,000, representing an increase of 195% which was mainly due to considerable higher interest income on bank deposits.

Administrative Expenses

In the first half of this year, administrative expenses were HK\$99,707,000, an increase of 19.1% over the corresponding period of last year. The main reasons for the increase were as follows:

- (a) In order to cope with the increased operation scale in both Macau and overseas markets, the Group's administrative expenses increased in these locations accordingly. The administrative expenses in Dubai increased significantly to HK\$12,717,000 (the corresponding period in 2005: HK\$6,068,000), representing an increase of 109.6%; and
- (b) Adoption of Hong Kong Financial Reporting Standard ("HKFRS") 2 – Share-based Payments. The share options of the Company were granted in September 2005. HKFRS 2 requires an expense to be recognised for the fair value of the share option over the vesting period. Accordingly, an expense of HK\$2,629,000 was recognised in the first half of the year.

Finance Costs

In the first half of 2006, the finance costs of the Group were HK\$723,000 (the corresponding period in 2005: HK\$7,995,000), representing a significant decline of 91.0% over the corresponding period of last year. The low finance cost was mainly due to repayment of approximately HK\$400 million of shareholder's loan and bank loans in the second half of 2005.

Liquidity and Financial Resources

The Group continued to adopt a prudent finance strategy in order to maintain a high liquidity level. As at 30 June 2006, the Group had bank balances and cash of HK\$1.65 billion (including the pledge deposits of HK\$32.4 million). The proportion of each currency is listed below:

Hong Kong Dollar	70%
India Rupee	10%
AED Dirhams	8%
MOP	6%
US Dollar	5%
Renminbi	1%
	<hr/>
	100%

As at 30 June 2006, the Group had unsecured bank loans and overdrafts of HK\$743,000 (all in Hong Kong Dollars). The financial position is sound. At the same time, the Group had unutilised banking facilities (including bank loans, surety bonds and letter of credit) of HK\$1.95 billions.

In order to utilize financial resources effectively, the Group invested in listed debt securities issued by the corporations with sound financial standing and high credit ranking. The Group expects attractive returns from existing portfolio in terms of yield, and will continue to strictly monitor the investment market to seek other investment portfolio to safeguard and create value to its shareholders.

For the overseas markets, the Group has been paying close attention to their economic development, monetary policies and conditions that would have an impact on exchange rates in relevant regions, and will continue to explore ways to minimize foreign exchange exposures. Up to now, the Group has not taken any hedging measure.

Assets Pledged

As at 30 June 2006, the bank deposits of HK\$32.4 million was pledged to bank for the issuance of surety bonds in respect of the jointly controlled entity.

Employees and Remuneration Policies

As at 30 June 2006, the Group had a total of 2,855 employees in which 2,426 of them were based in Hong Kong, 100 of them were in Macau and 329 in Dubai and India. Each department has set up a target responsibility system, which has started to have positive effect. To enhance the quality and capability of our human resources as well as their team spirit and the corporate culture, the Group has organized many professional and comprehensive training programs during the period. The employees' remuneration is regularly determined by the Group according to the nature of work, staff performance, group results as well as market conditions, and is evaluated on a regular basis.

UNAUDITED CONSOLIDATED INCOME STATEMENT

		For the six months ended 30 June	
	Notes	2006 HK\$'000	2005 HK\$'000 (Restated)
Revenue	(c)	4,867,069	4,516,954
Contract cost		(4,697,814)	(4,343,634)
Gross profit		169,255	173,320
Other income		38,432	13,026
Administrative expenses		(99,707)	(83,708)
Distribution costs		(1,228)	(2,408)
Other expenses		(4,665)	(26,473)
Share of results of associates		5,444	4,393
Finance costs		(723)	(7,995)
Profit before tax		106,808	70,155
Income tax expense	(f)	(20,184)	(13,148)
Profit for the period		86,624	57,007
Attributable to:			
Equity holders of the parent		86,608	41,139
Minority interests		16	15,868
		86,624	57,007
Interim dividend	(g)	44,290	—
Earnings per share:	(h)		
Basic (HK cents)		17.60	13.00
Diluted (HK cents)		16.66	N/A

UNAUDITED CONSOLIDATED BALANCE SHEET

		As at 30 June 2006 HK\$'000	As at 31 December 2005 HK\$'000 (Restated)
	Notes		
Non-current Assets			
Property, plant and equipment		81,176	65,536
Investment properties		10,252	10,534
Prepaid lease payments – non-current		11,765	12,388
Interests in associates		34,952	45,545
Held-to-maturity financial assets		127,312	–
Available-for-sales investments		971	20,388
Amounts due from an investee company		10,909	10,909
		277,337	165,300
Current Assets			
Inventories		7,787	6,659
Properties for sales		20,408	20,408
Amounts due from customers for contract work		139,574	215,301
Trade and other receivables	(i)	2,436,821	2,417,383
Deposits and prepayments		216,334	143,224
Amounts due from jointly controlled entities		37,613	79,426
Tax prepaid		15,210	20,101
Prepaid lease payments – current		345	425
Pledged bank deposits	(k)	32,413	32,223
Bank balances and cash		1,616,255	1,710,944
		4,522,760	4,646,094
Assets held for sales		21,283	–
		4,544,043	4,646,094

UNAUDITED CONSOLIDATED BALANCE SHEET (continued)

	Notes	As at 30 June 2006 HK\$'000	As at 31 December 2005 HK\$'000 (Restated)
Current Liabilities			
Amounts due to customers for contract work		492,085	707,429
Trade and other payables	(j)	2,946,239	2,978,160
Deposits received and receipt in advance		352,458	93,289
Amounts due to jointly controlled entities		23,276	5,739
Amounts due to holding company		10,175	100,792
Amounts due to fellow subsidiaries		14,442	7,088
Amount due to an associate		7,218	5,959
Tax payable		55,962	31,308
Dividend payable		44,290	—
Obligations under finance lease – current		202	135
Bank loans and overdrafts, unsecured		743	52,826
		3,947,090	3,982,725
Net Current Assets		596,953	663,369
Total Assets Less Current Liabilities		874,290	828,669
Capital and Reserves			
Share capital		49,211	49,211
Reserves		824,335	778,595
Equity attributable to equity holders of the parent		873,546	827,806
Minority interests		541	525
		874,087	828,331
Non-current Liabilities			
Obligations under finance lease – non-current		203	338
		874,290	828,669

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Equity attributable to equity holders of the parent							
	Share capital	Special reserve (Notes)	Share options reserve	Translation reserve	Statutory reserve	Retained profits	Minority interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2005	31,642	913,999	–	(233)	358	131,679	207,578	1,285,023
Income recognised directly in equity								
Exchange differences arising on translation of foreign operations	–	–	–	(507)	–	–	–	(507)
Profit for the period	–	–	–	–	–	41,139	15,868	57,007
Total recognised income and expense for the period	31,642	913,999	–	(740)	358	172,818	223,446	1,341,523
Arising from reorganisation	17,569	(600,319)	–	–	–	179,331	(205,335)	(608,754)
At 30 June 2005	<u>49,211</u>	<u>313,680</u>	<u>–</u>	<u>(740)</u>	<u>358</u>	<u>352,149</u>	<u>714,658</u>	<u>732,769</u>
At 1 January 2006	49,211	313,680	1,500	21	489	462,905	525	828,331
Income recognised directly in equity								
Exchange differences arising on translation of foreign operations	–	–	–	793	–	–	–	793
Profit for the period	–	–	–	–	–	86,608	16	86,624
Total recognised income and expense for the period	49,211	313,680	1,500	814	489	549,513	541	915,748
2005 final dividend paid	–	–	–	–	–	(44,290)	–	(44,290)
Recognition of equity-settled share-based payments	–	–	2,629	–	–	–	–	2,629
At 30 June 2006	<u>49,211</u>	<u>313,680</u>	<u>4,129</u>	<u>814</u>	<u>489</u>	<u>505,223</u>	<u>541</u>	<u>874,087</u>

Notes:

Special reserve represents reserve arisen from group reorganizations:

- (a) Special reserve as at 1 January 2005 was arisen from the common controlling 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.
- (b) Special reserve arising during the period ended 30 June 2005 represents the consideration paid by the Company upon completion of 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 (details set out in note 1 to the financial statements of the Company's annual report 2005).

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended 30 June	
	2006 HK\$'000	2005 HK\$'000 (Restated)
NET CASH INFLOW FROM OPERATING ACTIVITIES	160,357	51,314
NET CASH (OUTFLOW) INFLOW FROM INVESTING ACTIVITIES	(115,986)	10,138
NET CASH OUTFLOW FROM FINANCING ACTIVITIES	(135,364)	(35,915)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(90,993)	25,537
CASH AND CASH EQUIVALENTS AT 1 JANUARY	1,706,505	1,366,190
CASH AND CASH EQUIVALENTS AT 30 JUNE	<u>1,615,512</u>	<u>1,391,727</u>
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	1,616,255	1,412,062
Bank loans and overdrafts, unsecured	(743)	(20,335)
	<u>1,615,512</u>	<u>1,391,727</u>

NOTES TO THE FINANCIAL STATEMENTS

(a) Basis of Preparation

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

The acquisition of the controlling interests in CCEM as mentioned above is regarded as common control combinations. Accordingly, the unaudited interim consolidated financial statements of the Group have been prepared using the principle of Accounting Guideline 5 "Merger Accounting for Common Control Combinations" ("AG5") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), as if CCEM had existed and had been a wholly-owned subsidiary of the Company throughout the reporting periods.

The Company completed its group reorganization including the acquisition of the construction business of China Overseas Land & Investment Ltd. ("COLI") and China State Construction Engineering (Hong Kong) Limited ("CSCEHK") in June 2005. COLI and CSCEHK are both controlled by COHL and the reorganization was regarded as common control combinations. As AG5 has not yet been issued when the interim report of 2005 was prepared, the interim report of 2005 was prepared using Hong Kong Financial Reporting Standard ("HKFRS") 3 "Business Combinations" which requires using acquisition method for business combinations. After AG5 became effective from November 2005, the Group adopted AG5 for common control combinations and the consolidated financial statements were prepared using merger accounting. Accordingly, the comparative figures in the interim report of 2006 were restated.

The unaudited interim consolidated financial statements have been prepared under the historical cost convention and complied with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the HKICPA. The unaudited interim consolidated financial statements are presented in Hong Kong dollars, which is also the functional currency of the Company.

NOTES TO THE FINANCIAL STATEMENTS (continued)

(b) Adoption of new/amended Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards

The accounting policies and methods of computation used in the preparation of these unaudited interim consolidated financial statements are consistent with those adopted in the consolidated financial statements for the year ended 31 December 2005. The following new standards, amendments and interpretations which are relevant to Group's operations are mandatory for financial year ending 31 December 2006.

HKAS 21 (Amendment)	The Effects of Changes in Foreign Exchange Rates
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 & HKFRS 4 (Amendment)	Financial Guarantee Contracts
HK (IFRIC) - Int 4	Determining Whether an Arrangement Contains A Lease
HK (IFRIC) - Int 5	Rights to Interests Arising from Decommissioning Restoration and Environmental Rehabilitation Funds
HK (IFRIC) - Int 6	Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

The adoption of new/amended HKAS 21 (Amendment), 39 (Amendment), HKFRS 4 (Amendment), HK (IFRIC) – Int 4, 5 and 6 did not result in substantial changes to the Group's accounting policies.

The following new standards, amendments and interpretations have been issued but are not effective for 2006 and have not been early adopted by the Group:

HKAS 1 (Amendment)	Capital Disclosure
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) - Int 7	Applying the Restatement Approach under HKAS 29 "Financial Reporting in Hyperinflationary Economics"
HK(IFRIC) - Int 8	Scope of HKFRS 2
HK(IFRIC) - Int 9	Reassessment of Embedded Derivatives

NOTES TO THE FINANCIAL STATEMENTS (continued)

(c) Revenue

	For the six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000 (Restated)
Revenue from construction contracts	4,829,651	4,483,091
Project management fee income	8,000	7,429
Sales of goods	26,698	20,249
Income from leasing of machinery	2,720	6,185
	4,867,069	4,516,954

(d) Segment Information

	For the six months ended 30 June			
	2006		2005	
	Revenue HK\$'000	Profit before tax HK\$'000	Revenue HK\$'000 (Restated)	Profit before tax HK\$'000 (Restated)
Hong Kong	3,620,845	111,727	3,763,569	109,299
Macau	810,369	36,513	723,363	23,598
Other	435,855	(10,898)	30,022	(13,423)
	4,867,069	137,342	4,516,954	119,474
Unallocated corporate expenses		(35,255)		(28,606)
Unallocated other expenses		—		(17,111)
Share of results of associates		5,444		4,393
Finance costs		(723)		(7,995)
Profit before tax		106,808		70,155

NOTES TO THE FINANCIAL STATEMENTS (continued)

(e) Profit Before Tax

	For the six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000 (Restated)
Profit before tax has been arrived at after charging (crediting)		
Depreciation	4,011	2,225
Interest income	(27,067)	(5,211)

(f) Income Tax Expense

	For the six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000 (Restated)
The charge comprises of		
Current period:		
Hong Kong profits tax	14,933	11,125
Other jurisdictions income tax	5,251	3,842
	20,184	14,967
Under (over) provision in prior periods:		
Hong Kong profits tax	–	(1,500)
Other jurisdictions income tax	–	(319)
	–	(1,819)
	20,184	13,148

Hong Kong Profits Tax is calculated at the rate of 17.5% (2005: 17.5%) of the estimated assessable profits for the period. Taxation on profits generated in other jurisdictions has been provided at the rate of taxation prevailing in the country in which those profits arose.

(g) Interim Dividend

The Board declared an interim dividend of HK9 cents (2005: nil) per share.

NOTES TO THE FINANCIAL STATEMENTS (continued)**(h) Earnings Per Share**

The calculation of the basic earnings per share is based on the profit attributable to shareholders for the period of HK\$86,608,000 (2005: HK\$41,139,000) and on the number of 492,108,002 (2005: 316,425,445) ordinary shares in issue during the period. The calculation of the diluted earnings per share is based on the profit attributable to shareholders for the period of HK\$86,608,000 and on the weighted average number of 519,734,847 ordinary shares in issue during the period (2005: N/A).

(i) Trade and Other Receivables

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

	As at 30 June 2006 HK\$'000	As at 31 December 2005 HK\$'000 (Restated)
Trade receivables, ageing		
0 – 30 days	1,113,373	1,054,520
31 – 90 days	325,292	422,926
Over 90 days	143,473	118,924
	1,582,138	1,596,370
Retention receivables	854,683	821,013
	2,436,821	2,417,383
Retention receivables		
– due within one year	295,887	222,875
– due more than one year	558,796	598,138
	854,683	821,013

The fair value of the Group's trade and other receivables at 30 June 2006 and 31 December 2005 were approximate to the corresponding carrying amount.

NOTES TO THE FINANCIAL STATEMENTS (continued)

(j) Trade and Other Payables

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

	As at 30 June 2006 HK\$'000	As at 31 December 2005 HK\$'000 (Restated)
Trade payables, ageing		
0 – 30 days	1,571,917	1,597,057
31 – 90 days	270,409	437,074
Over 90 days	379,483	275,819
	2,221,809	2,309,950
Retention payables	724,430	668,210
	2,946,239	2,978,160
Retention payables		
– due within one year	216,498	275,509
– due more than one year	507,932	392,701
	724,430	668,210

The fair value of the Group's trade and other payables at 30 June 2006 and 31 December 2005 were approximate to the corresponding carrying amount.

(k) Pledge of Assets

As at 30 June 2006, bank deposit amounting to HK\$32,413,000 (31 December 2005: HK\$32,223,000) was pledged to a bank for the issuance of surety bonds in respect of a construction project which was operated by a jointly controlled entity.

OTHER INFORMATION

Interim Dividend

The Board declared an interim dividend of HK 9 cents (2005: nil) per share to the shareholders whose names appear in the register of members of the Company on 15 September 2006. The interim dividend will be payable on 28 September 2006.

Closure of Register of Members

The register of members of the Company will be closed from 13 September 2006 (Wednesday) to 15 September 2006 (Friday), both days inclusive, during such period no transfer of shares will be registered.

In order to qualify for the interim dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar, Standard Registrars Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong, no later than 4:00 p.m. on 12 September 2006 (Tuesday).

Share Options

The Company's share option scheme (the "Scheme"), was adopted pursuant to a resolution passed on 9 June 2005 for the primary purpose of providing incentives to directors, employees, officers and suppliers of goods and services of the Group. The Scheme may terminate by resolution in general meeting. Under the Scheme, the Board of Directors of the Company ("Board") may grant options to qualifying grantees, including employees, directors or contractors of the Group.

Share options of 49,200,000, representing approximately 10% of the shares of the Company in issue at that date, were granted on 14 September 2005 at an exercise price of HK\$1.03. At 30 June 2006, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 49,200,000, amongst which 5,700,000 were held by directors of the Company, 20,430,000 were held by employees working under employment contracts that are regarded as "continuous contracts" for the purposes of the Employment Ordinance and 23,070,000 were held by consultants. No option was exercised, cancelled and lapsed during the six months ended 30 June 2006.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 30% of the shares of the Company in issue at any point in time. No options may be granted under any schemes of the Company if it will result in the limit being exceeded. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK\$5 million must be approved in advance by the Company's shareholders.

Options granted must be taken up within 28 days from the date of offer. An aggregate of HK\$1 is payable by each qualifying grantee on acceptance of the offer. Options may be exercised within the option period (must not exceed 10 years from the date of grant of the relevant option) which shall be determined by the Board in its absolute discretion at the time of grant. The exercise price is determined by the Board, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

The vesting period and exercise period regarding the options granted on 14 September 2005 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

Directors' Interests in Shares and Underlying Shares

As at 30 June 2006, the interests of the directors and their associates in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

(a) Long positions in ordinary shares of the Company and associated corporation

	Interest in	Name of Director	Capacity	Nature of interests	Number of ordinary shares held	% of total issued shares
1.	The Company	Kong Qingping	Beneficial owner	Personal	200,000	0.041%
		Yip Chung Nam	Beneficial owner	Personal	122,222	0.025%
		Zhou Hancheng	Beneficial owner	Personal	10,000	0.002%
2.	China Overseas Land & Investment Ltd. ("COLI") (associated corporation)	Kong Qingping	Beneficial owner	Personal	15,012,000	0.231%
		Zhou Yong	Beneficial owner	Personal	654,000	0.010%
		Yip Chung Nam	Beneficial owner	Personal	2,600,000	0.040%
		Fu He	Beneficial owner	Personal	310,000	0.005%
		Zhou Hancheng	Beneficial owner	Personal	228,000	0.004%
		Cheong Chit Sun	Beneficial owner	Personal	80,000	0.001%

(b) Long positions in underlying shares of the Company and associated corporation

			Share options							
			Number of ordinary shares attached to the share options							
Interest in	Name of Director	Date of grant	Outstanding at 1 January 2006	Granted during the period	Exercised during the period	Cancelled during the period	Outstanding at 30 June 2006	Exercise price	Exercise Period	
1.	The Company	Kong Qingping	14.09.2005	1,200,000	–	–	–	1,200,000	HK\$1.03	14.09.2006 to 13.09.2015
		Zhou Yong	14.09.2005	1,050,000	–	–	–	1,050,000	HK\$1.03	14.09.2006 to 13.09.2015
		Yip Chung Nam	14.09.2005	750,000	–	–	–	750,000	HK\$1.03	14.09.2006 to 13.09.2015
		Fu He	14.09.2005	750,000	–	–	–	750,000	HK\$1.03	14.09.2006 to 13.09.2015
		Zhou Hancheng	14.09.2005	700,000	–	–	–	700,000	HK\$1.03	14.09.2006 to 13.09.2015
		Cheong Chit Sun	14.09.2005	450,000	–	–	–	450,000	HK\$1.03	14.09.2006 to 13.09.2015
		Raymond Ho Chung Tai	14.09.2005	200,000	–	–	–	200,000	HK\$1.03	14.09.2006 to 13.09.2015
		Adrian David Li Man Kiu	14.09.2005	200,000	–	–	–	200,000	HK\$1.03	14.09.2006 to 13.09.2015
		Raymond Leung Hai Ming	14.09.2005	200,000	–	–	–	200,000	HK\$1.03	14.09.2006 to 13.09.2015
		Lee Shing See	14.09.2005	200,000	–	–	–	200,000	HK\$1.03	14.09.2006 to 13.09.2015
				5,700,000				5,700,000		

**(b) Long positions in underlying shares of the Company and associated corporation
(continued)**

			Share options						
			Number of ordinary shares attached to the share options						
Interest in	Name of Director	Date of grant	Outstanding at 1 January 2006	Granted during the period	Exercised during the period	Cancelled during the period	Outstanding at 30 June 2006	Exercise price	Exercise Period
2.	COLI Kong (associated corporation)	17.07.1997	1,000,000	–	–	–	1,000,000	HK\$4.06	17.07.1998 to 16.07.2007
		14.02.1998	10,440,000	–	(9,880,000)	–	560,000	HK\$1.08	14.02.1999 to 13.02.2008
		30.09.1998	460,000	–	(460,000)	–	–	HK\$0.52	30.09.1999 to 29.09.2008
		04.01.2000	800,000	–	(400,000)	–	400,000	HK\$0.58	04.01.2001 to 03.01.2010
		18.06.2004	3,360,000	–	(672,000)	–	2,688,000	HK\$1.13	18.06.2005 to 17.06.2014
			<u>16,060,000</u>				<u>4,648,000</u>		
	Zhou Yong	17.07.1997	20,000	–	–	–	20,000	HK\$4.06	17.07.1998 to 16.07.2007
		14.02.1998	150,000	–	(90,000)	–	60,000	HK\$1.08	14.02.1999 to 13.02.2008
		30.09.1998	60,000	–	(60,000)	–	–	HK\$0.52	30.09.1999 to 29.09.2008
		04.01.2000	180,000	–	(120,000)	–	60,000	HK\$0.58	04.01.2001 to 03.01.2010
		18.06.2004	1,920,000	–	(384,000)	–	1,536,000	HK\$1.13	18.06.2005 to 17.06.2014
			<u>2,330,000</u>				<u>1,676,000</u>		

(b) Long positions in underlying shares of the Company and associated corporation
(continued)

Interest in	Name of Director	Date of grant	Share options					Exercise price	Exercise Period
			Number of ordinary shares attached to the share options						
			Outstanding at 1 January 2006	Granted during the period	Exercised during the period	Cancelled during the period	Outstanding at 30 June 2006		
2.	COLI (associated corporation)	17.07.1997	800,000	–	–	–	800,000	HK\$4.06	17.07.1998 to 16.07.2007
		18.06.2004	1,600,000	–	–	–	1,600,000	HK\$1.13	18.06.2005 to 17.06.2014
			<u>2,400,000</u>				<u>2,400,000</u>		
	Fu He	17.07.1997	250,000	–	–	–	250,000	HK\$4.06	17.07.1998 to 16.07.2007
		14.02.1998	210,000	–	(70,000)	–	140,000	HK\$1.08	14.02.1999 to 13.02.2008
		30.09.1998	120,000	–	(120,000)	–	–	HK\$0.52	30.09.1999 to 29.09.2008
		04.01.2000	240,000	–	(120,000)	–	120,000	HK\$0.58	04.01.2001 to 03.01.2010
		18.06.2004	1,600,000	–	–	–	1,600,000	HK\$1.13	18.06.2005 to 17.06.2014
			<u>2,420,000</u>				<u>2,110,000</u>		

**(b) Long positions in underlying shares of the Company and associated corporation
(continued)**

			Share options						
			Number of ordinary shares attached to the share options						
Interest in	Name of Director	Date of grant	Outstanding at 1 January 2006	Granted during the period	Exercised during the period	Cancelled during the period	Outstanding at 30 June 2006	Exercise price	Exercise Period
2.	COLI (associated corporation)	17.07.1997	100,000	–	(100,000)	–	–	HK\$4.06	17.07.1998 to 16.07.2007
		14.02.1998	120,000	–	(40,000)	–	80,000	HK\$1.08	14.02.1999 to 13.02.2008
		30.09.1998	80,000	–	(80,000)	–	–	HK\$0.52	30.09.1999 to 29.09.2008
		04.01.2000	160,000	–	(80,000)	–	80,000	HK\$0.58	04.01.2001 to 03.01.2010
		18.06.2004	512,000	–	(128,000)	–	384,000	HK\$1.13	18.06.2005 to 17.06.2014
		<u>972,000</u>				<u>544,000</u>			
	Cheong Chit Sun	18.06.2004	320,000	–	–	–	320,000	HK\$1.13	18.06.2005 to 17.06.2014
		<u>320,000</u>				<u>320,000</u>			

Save as disclosed above, as at 30 June 2006, none of the Directors and their associates hold any shares and underlying shares and debentures of the Company or any of its associated corporation (within the meaning of part XV of the SFO) which are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

Substantial Shareholders

As at 30 June 2006, the following person (other than a director or chief executive of the Company) had interests in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Long positions of substantial shareholders in the shares and underlying shares of the Company

Name of Shareholder	Capacity	Number of shares held	Number of underlying shares held	% of total issued share
China Overseas Holdings Limited ("COHL")	Beneficial owner	316,318,956	–	64.28%
China State Construction Engineering Corporation ("CSCEC")	Interest of a controlled corporation/beneficial owner	316,318,956	–	64.28%

COHL is a direct wholly owned subsidiary of CSCEC, thus CSCEC is deemed by the SFO to be interested in 316,318,956 Shares directly owned by COHL.

Save as disclosed above, as at 30 June 2006, according to the records required to be kept by the Company under section 336 of the SFO, there was no other person who had an interest or short position in the shares or underlying shares of the Company.

Purchase, Sale or Redemption of the Company's Listed Securities

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2006.

Corporate Governance

During the six months ended 30 June 2006, the Company had complied with the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules").

Model Code for Securities Transactions by Directors

The Company has adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard of the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules. Having made specific enquiry to all directors, the directors confirmed that they have complied with the required standard of dealings set out therein throughout the six months ended 30 June 2006.

Review of Accounts

The Group's unaudited interim results for the six months ended 30 June 2006 have been reviewed by the Audit Committee which comprises four Independent Non-executive Directors.

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