



The Cross-Harbour (Holdings) Limited

(Stock Code : 32)



2006

INTERIM REPORT

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BOARD OF DIRECTORS

Executive Director

- # Cheung Chung Kiu (*Chairman*)
Yeung Hin Chung, John, OBE, JP
(*Managing Director*)
- Yuen Wing Shing
- Wong Chi Keung
- Leung Wai Fai
- Tung Wai Lan, Iris

Non-executive Director

- * Lee Ka Sze, Carmelo

Independent Non-executive Director

- * Wong Wai Kwong, David
- ** Wong Yat Fai
- ** Ng Kwok Fu

- # Remuneration committee member
- * Audit committee member

SECRETARY

Leung Shuk Mun, Phyllis Sylvia

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Fax: (852) 2810 8185

PRINCIPAL BANKER

The Hongkong and Shanghai Banking
Corporation Limited

AUDITORS

KPMG
Certified Public Accountants

SHARE LISTING

The Stock Exchange of Hong Kong Limited
Stock Code: 32

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the six months ended 30 June 2006 - unaudited

(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June	
		2006 \$'000	2005 \$'000
Turnover	2	127,477	107,585
Other revenue		5,670	5,350
Other net income		1,931	15,123
Direct costs and operating expenses		(55,828)	(50,679)
Selling and marketing expenses		(16,570)	(16,061)
Administrative and corporate expenses		(24,947)	(25,893)
Operating profit before finance costs		37,733	35,425
Finance costs	3(a)	(448)	(3,012)
Operating profit	2	37,285	32,413
Share of profits less losses of associates		52,007	44,822
Share of profit of a jointly controlled entity		8,979	7,672
Profit before taxation	3	98,271	84,907
Income tax	4	(3,401)	(5,992)
Profit for the interim period		94,870	78,915
Attributable to:			
Equity shareholders of the Company		85,405	72,931
Minority interests		9,465	5,984
Profit for the interim period		94,870	78,915
Dividends payable to equity shareholders of the Company attributable to the interim period:	5(a)		
First interim dividend declared during the interim period		—	18,050
First interim dividend declared after the interim period end		21,209	—
Second interim dividend declared after the interim period end		21,209	18,050
		42,418	36,100
Earnings per share	6		
Basic		27 cents	26 cents
Diluted		25 cents	22 cents
Profit for the period is retained by:			
The Company and its subsidiaries		24,419	20,437
Associates		52,007	44,822
Jointly controlled entity		8,979	7,672
		85,405	72,931

The notes on pages 9 to 19 form part of this interim financial statements.

CONSOLIDATED BALANCE SHEET

As at 30 June 2006 - unaudited
(Expressed in Hong Kong dollars)

	Note	30 June 2006		31 December 2005	
		\$'000	\$'000	\$'000	\$'000
Non-current assets					
Fixed assets					
- Property, plant and equipment			87,411		91,617
- Interest in leasehold land held for own use under operating leases			29,899		30,264
			<u>117,310</u>		<u>121,881</u>
Interest in associates			1,327,141		1,267,145
Interest in a jointly controlled entity			26,945		17,966
Available-for-sale securities			574,394		412,376
Deferred tax assets			460		400
			<u>2,046,250</u>		<u>1,819,768</u>
Current assets					
Inventories			660		621
Trade and other receivables	8		18,385		13,721
Cash and cash equivalents			539,030		485,877
			<u>558,075</u>		<u>500,219</u>
Current liabilities					
Trade and other payables	9		63,376		58,444
Course fees received in advance			70,720		60,017
Interest free loan			—		19,552
Taxation payable			7,976		6,499
Dividends payable			249		256
			<u>142,321</u>		<u>144,768</u>

CONSOLIDATED BALANCE SHEET

As at 30 June 2006 - unaudited

(Expressed in Hong Kong dollars)

	Note	30 June 2006		31 December 2005	
		\$'000	\$'000	\$'000	\$'000
Net current assets			415,754		355,451
Total assets less current liabilities			2,462,004		2,175,219
Non-current liability					
Deferred tax liabilities		1,850		2,390	
			1,850		2,390
NET ASSETS			2,460,154		2,172,829
CAPITAL AND RESERVES					
Share capital	11		353,488		300,841
Reserves	12		2,053,803		1,816,637
Total equity attributable to equity shareholders of the Company			2,407,291		2,117,478
Minority interests	12		52,863		55,351
TOTAL EQUITY			2,460,154		2,172,829

The notes on pages 9 to 19 form part of this interim financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2006 - unaudited

(Expressed in Hong Kong dollars)

	Share capital \$'000	Share premium \$'000	Capital reserve \$'000	Investment revaluation reserve \$'000	Share option reserve \$'000	Hedging reserve \$'000	Retained profits \$'000	Total \$'000	Minority interest \$'000	Total equity \$'000
At 1 January 2006	300,841	1,062,641	1,984	130,186	7,544	4,799	609,483	2,117,478	55,351	2,172,829
Dividends approved in respect of the previous financial year (note 5(b))	—	—	—	—	—	—	(35,349)	(35,349)	—	(35,349)
Net profit for the interim period	—	—	—	—	—	—	85,405	85,405	9,465	94,870
Minority interest's share of dividend	—	—	—	—	—	—	—	—	(12,000)	(12,000)
Changes in fair value of available-for-sale securities	—	—	—	26,380	—	—	—	26,380	47	26,427
Cash flow hedge: effective portion of changes in fair value, net of deferred tax	—	—	—	—	—	2,788	—	2,788	—	2,788
Shares issued upon exercise of share option	52,647	165,486	—	—	(7,544)	—	—	210,589	—	210,589
At 30 June 2006	353,488	1,228,127	1,984	156,566	—	7,587	659,539	2,407,291	52,863	2,460,154

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2006 - unaudited

(Expressed in Hong Kong dollars)

	Share capital \$'000	Share premium \$'000	Capital reserve \$'000	Investment revaluation reserve \$'000	Share option reserve \$'000	Other reserves \$'000	Hedging reserve \$'000	Retained profits \$'000	Total \$'000	Minority interest \$'000	Total equity \$'000
At 1 January 2005											
- As previously reported	279,698	994,306	1,984	139,846	5,000	—	—	536,672	1,957,506	47,209	2,004,715
- Opening balance adjustments arising from changes in accounting policies	—	—	—	—	2,544	7,021	(27,734)	(7,008)	(25,177)	—	(25,177)
- As restated, after opening balance adjustments	279,698	994,306	1,984	139,846	7,544	7,021	(27,734)	529,664	1,932,329	47,209	1,979,538
Dividends approved in respect of the previous financial year (note 5(b))	—	—	—	—	—	—	—	(28,021)	(28,021)	—	(28,021)
Net profit for the interim period	—	—	—	—	—	—	—	72,931	72,931	5,984	78,915
Minority interest's share of dividend	—	—	—	—	—	—	—	—	—	(7,740)	(7,740)
Dividends declared in respect of the current interim period (note 5(a))	—	—	—	—	—	—	—	(18,050)	(18,050)	—	(18,050)
Changes in fair value of available-for-sale securities	—	—	—	(2,040)	—	—	—	—	(2,040)	(15)	(2,055)
Impairment loss realised	—	—	—	6,195	—	—	—	—	6,195	—	6,195
Cash flow hedge: effective portion of changes in fair value, net of deferred tax	—	—	—	—	—	—	23,493	—	23,493	—	23,493
Shares issued upon conversion of convertible notes	21,143	68,335	—	—	—	(7,021)	—	—	82,457	—	82,457
Realisation upon disposal of available-for-sale securities	—	—	—	(25,000)	—	—	—	—	(25,000)	—	(25,000)
At 30 June 2005	300,841	1,062,641	1,984	119,001	7,544	—	(4,241)	556,524	2,044,294	45,438	2,089,732

The notes on pages 9 to 19 form part of this interim financial statements.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2006 - unaudited

(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2006 \$'000	2005 \$'000
Cash generated from operations	22,192	18,441
Tax paid	(2,524)	(542)
Net cash from operating activities	19,668	17,899
Net cash (used in)/from investing activities	(109,748)	25,136
Net cash from/(used in) financing activities	143,233	(38,593)
Net increase in cash and cash equivalents	53,153	4,442
Cash and cash equivalents at 1 January	485,877	442,266
Cash and cash equivalents at 30 June	539,030	446,708
Analysis of the balances of cash and cash equivalents		
Deposits and cash at banks	539,030	446,708

The notes on pages 9 to 19 form part of this interim financial statements.

(Expressed in Hong Kong dollars)

1 Basis of preparation

These interim financial statements have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), including compliance with Hong Kong Accounting Standard ("HKAS") 34, Interim financial reporting, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The interim financial report was authorised for issuance on 12 September 2006.

The interim financial statements have been prepared in accordance with the same accounting policies adopted in the 2005 annual financial statements.

The preparation of interim financial statements in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

These interim financial statements contain condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the group since the 2005 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with new and revised Hong Kong Financial Reporting Standards (HKFRSs, which term collectively includes HKASs and Interpretations).

The interim financial statements are unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700, Engagements to review interim financial reports, issued by the HKICPA. KPMG's independent review report to the Board of Directors is included on page 20.

The financial information relating to the financial year ended 31 December 2005 that is included in the interim financial statements as being previously reported information does not constitute the company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2005 are available from the company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 7 April 2006.

NOTES ON THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

2 Turnover and operating profit

The analysis of the principal activities of the operations of the Company and its subsidiaries during the financial period is as follows:

	Turnover Six months ended 30 June		Operating profit Six months ended 30 June	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<i>Principal activities</i>				
Motoring school operations	107,121	93,465	22,381	13,158
Investment and other activities	<u>20,356</u>	<u>14,120</u>	<u>25,050</u>	<u>31,930</u>
	<u>127,477</u>	<u>107,585</u>	47,431	45,088
Unallocated operating expenses			(9,698)	(9,663)
Finance costs			<u>(448)</u>	<u>(3,012)</u>
			<u>37,285</u>	<u>32,413</u>

During the interim financial period, more than 90% of the operations of the Company and its subsidiaries in terms of both turnover and operating profit were carried out in Hong Kong.

NOTES ON THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

3 Profit before taxation

Profit before taxation is arrived at after charging/(crediting):

	Six months ended 30 June	
	2006 \$'000	2005 \$'000
(a) Finance Costs		
Interest on convertible notes	—	2,403
Other borrowing costs	448	609
	<u>448</u>	<u>3,012</u>
(b) Other items		
Amortisation of land lease premium	365	365
Depreciation	9,880	8,806
Cost of inventories consumed	3,426	4,453
Contributions to defined contribution retirement schemes	2,379	2,343
Net gain on disposal of fixed assets	(1,801)	(1,385)
Net gain on sale of available-for-sale securities	(130)	(19,932)
Provision for impairment in value of available-for-sale securities	—	6,195
Dividend income from available-for-sale securities	(8,089)	(6,468)
Interest income	(14,178)	(9,150)
	<u>(14,178)</u>	<u>(9,150)</u>

NOTES ON THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

4 Income Tax

	Six months ended 30 June	
	2006 \$'000	2005 \$'000
Current tax - Hong Kong Profits Tax	4,001	4,772
Deferred taxation	(600)	1,220
	<u>3,401</u>	<u>5,992</u>

The provision for Hong Kong Profits Tax is calculated at 17.5% (2005: 17.5%) of the estimated assessable profits for the six months ended 30 June 2006.

Share of taxation of associate for the six months ended 30 June 2006 amounted to \$10.8 million (2005: \$9.8 million) was included in share of profits less losses of associates in the consolidated profit and loss account.

Share of taxation of a jointly controlled entity for the six months ended 30 June 2006 amounted to \$1.3 million (2005: \$1.6 million) was included in share of profit of a jointly controlled entity in the consolidated profit and loss account.

5 Dividends

(a) Dividends attributable to the interim period

	Six months ended 30 June	
	2006 \$'000	2005 \$'000
First interim dividend declared during the interim period of Nil cents per share (2005: 6 cents per share)	—	18,050
First interim dividend declared after the interim period end of 6 cents per share (2005: Nil cents per share)	21,209	—
Second interim dividend declared after the interim period end of 6 cents per share (2005: 6 cents per share)	21,209	18,050
	<u>42,418</u>	<u>36,100</u>

The first and second interim dividend declared after the interim period end have not been recognised as a liability at the interim period end date.

NOTES ON THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

5 Dividends (Continued)

(b) Dividends attributable to the previous financial year, approved and paid during the interim period

	Six months ended 30 June	
	2006 \$'000	2005 \$'000
Final dividend in respect of the previous financial year, approved and paid during the interim period, of 10 cents per share (2005: 10 cents per share)	<u>35,349</u>	<u>28,021</u>

6 Earnings per share

(a) Basic

The calculation of basic earnings per share is based on the profit attributable to shareholders of \$85,405,000 (2005: \$72,931,000) and the weighted average of 312,475,856 ordinary shares (2005: 283,880,628 shares) in issue during the period.

(b) Diluted

The calculation of diluted earnings per share is based on the profit attributable to shareholders of \$85,775,000 (2005: \$73,885,000) and the weighted average number of ordinary shares of 339,064,627 (2005: 335,050,009 shares) after adjusting for the effects of all dilutive potential ordinary shares.

(c) Reconciliations

	2006 Number of shares	2005 Number of shares
Weighted average number of ordinary shares used in calculating basic earnings per share	312,475,856	283,880,628
Deemed issue of ordinary shares for no consideration	11,607,744	34,093,750
Deemed issue of ordinary shares from conversion of convertible notes/loan	<u>14,981,027</u>	<u>17,075,631</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>339,064,627</u>	<u>335,050,009</u>

NOTES ON THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

7 Segment reporting

Segment information is presented in respect of the Group's business segments. Business segment information is chosen as the reporting format because this is considered by management to be more relevant to the Group's internal financial reporting.

Business segments

The Group comprises the following business segments:

Motoring school operations
Tunnel operations
Electronic toll operations
Treasury
Unallocated

	Motoring school Operations		Tunnel Operations		Electronic toll Operations		Treasury		Unallocated		Consolidated	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Turnover	107,121	93,465	1,463	1,557	1,800	1,800	16,598	10,268	495	495	127,477	107,585
Other revenue	—	—	5,202	5,350	—	—	468	—	—	—	5,670	5,350
Total revenue	<u>107,121</u>	<u>93,465</u>	<u>6,665</u>	<u>6,907</u>	<u>1,800</u>	<u>1,800</u>	<u>17,066</u>	<u>10,268</u>	<u>495</u>	<u>495</u>	<u>133,147</u>	<u>112,935</u>
Segment result	22,381	13,158	6,665	6,907	1,765	1,689	17,141	23,877	(521)	(543)	47,431	45,088
Unallocated operating expenses	—	—	—	—	—	—	—	—	—	—	(9,698)	(9,663)
Operating profit before finance costs	—	—	—	—	—	—	(448)	(3,012)	—	—	37,733	35,425
Finance costs	—	—	—	—	—	—	—	—	—	—	(448)	(3,012)
Operating profit	—	—	—	—	—	—	—	—	—	—	37,285	32,413
Share of profits less losses of associates	—	—	52,007	44,822	—	—	—	—	—	—	52,007	44,822
Share of profit of a jointly controlled entity	—	—	—	—	8,979	7,672	—	—	—	—	8,979	7,672
Profit before taxation	—	—	—	—	—	—	—	—	—	—	98,271	84,907
Income tax	(3,085)	(2,224)	—	—	(294)	(295)	(22)	(3,473)	—	—	(3,401)	(5,992)
Profit for the interim period	—	—	—	—	—	—	—	—	—	—	<u>94,870</u>	<u>78,915</u>
Depreciation for the interim period	7,346	6,431	—	—	—	—	—	—	2,534	2,375	9,880	8,806
Amortisation of land lease premium	365	365	—	—	—	—	—	—	—	—	365	365

NOTES ON THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

8 Trade and other receivables

Included in trade and other receivables are trade receivables with an aging analysis as at the interim period end as follows:

	30 June 2006 \$'000	31 December 2005 \$'000
Amounts receivable due:		
0-30 days	2,133	836
31-60 days	275	346
61-90 days	32	70
Over 90 days	64	116
	<u>2,504</u>	<u>1,368</u>

Debts are normally due within one month from the date of billing, however, further credit may be granted to individual customers when appropriate.

Trade and other receivables include deposits paid amounting to \$3,433,500 (31 December 2005: \$3,487,000) which are expected to be recovered after one year. Apart from the above, all of the balances are expected to be recovered within one year.

9 Trade and other payables

Included in trade and other payables are trade payables with an aging analysis as at the interim period end as follows:

	30 June 2006 \$'000	31 December 2005 \$'000
Amounts payable within:		
0-30 days	2,236	1,476
31-60 days	234	250
61-90 days	126	311
Over 90 days	862	771
	<u>3,458</u>	<u>2,808</u>

All of the balances are expected to be settled within one year.

NOTES ON THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

10 Share option

On 9 May 2003, the Company entered into a share option agreement with Honway Holdings Limited ("Honway") in relation to the subscription by Honway, a substantial shareholder of the Company, for a maximum of 60,000,000 new shares. In consideration for Honway paying to the Company the sum of \$50 million (\$5 million being the amount for purchasing the option and \$25 million being a non-refundable deposit payable in advance for exercise of the option and \$20 million being a 3-year interest-free term loan advanced by Honway to the Company), the Company has agreed to grant the option to Honway to subscribe for new shares in the Company. The option was exercisable from 24 June 2003 for a period of three years, at an option price of \$3.4 per share in the first year, \$3.7 per share in the second year and \$4.0 per share in the third year, subject to adjustment.

On 18 June 2004, the \$25 million non-refundable deposit was converted into 7,352,941 ordinary shares. On 22 May 2006, 52,647,059 new shares were issued under the share option agreement and the \$20 million 3-year interest free loan was used as part of the consideration.

11 Share capital

	No. of shares '000	Amount \$'000
Authorised:		
Ordinary shares of \$1 each	<u>1,000,000</u>	<u>1,000,000</u>
Issued and fully paid:		
At 1 January 2006	300,841	300,841
Shares issued on exercise of share options	<u>52,647</u>	<u>52,647</u>
At 30 June 2006	<u>353,488</u>	<u>353,488</u>

On 22 May 2006, the holder of share options exercised its right to subscribe 52,647,059 ordinary shares at a value of \$4.0 per share. An amount of \$165.5 million was credited to the share premium account upon the issue of new shares.

NOTES ON THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

12 Reserves

	Share premium \$'000	Capital reserve \$'000	Investment revaluation reserve \$'000	Share option reserve \$'000	Hedging reserve \$'000	Retained profits \$'000	Total \$'000	Minority Interest \$'000	Total \$'000
At 1 January 2006	1,062,641	1,984	130,186	7,544	4,799	609,483	1,816,637	55,351	1,871,988
Dividends approved in respect of the previous financial year (note 5(b))	—	—	—	—	—	(35,349)	(35,349)	—	(35,349)
Net profit for the interim period	—	—	—	—	—	85,405	85,405	9,465	94,870
Minority interest's share of dividend	—	—	—	—	—	—	—	(12,000)	(12,000)
Changes in fair value of available-for-sale securities	—	—	26,380	—	—	—	26,380	47	26,427
Cash flow hedge: effective portion of changes in fair value, net of deferred tax	—	—	—	—	2,788	—	2,788	—	2,788
Shares issued upon exercise of share option	165,486	—	—	(7,544)	—	—	157,942	—	157,942
At 30 June 2006	1,228,127	1,984	156,566	—	7,587	659,539	2,053,803	52,863	2,106,666

The application of the share premium account is governed by Section 48B of the Hong Kong Companies Ordinance. The capital reserve and investment revaluation reserve have been set up and will be dealt with in accordance with the accounting policies adopted for goodwill arising on subsidiaries, associates and jointly controlled entities and the revaluation of available-for-sale securities.

The share option reserve which represents amounts received in advance of the exercise of share options was utilised and transferred to the share premium account when the options were exercised during the period.

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used by the associate in cash flow hedges pending subsequent recognition of the hedged cash flow.

NOTES ON THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

13 Capital commitments

Capital commitments outstanding at 30 June 2006 and not provided for in the interim financial statements were as follows:

	30 June 2006 \$'000	31 December 2005 \$'000
Contracted for	4,096	2,131
Authorised but not contracted for	—	—

14 Material related party transactions

During the period, the Group was involved in the following material related party transactions, none of which is regarded as a “connected transaction” as defined under the Listing Rules.

- (a) The Group extended a loan to and received interest from an associate, Western Harbour Tunnel Company Limited (“WHTCL”). The balance of the loan and interest receivable at 30 June 2006 was \$1,058.6 million (31 December 2005: \$1,053.4 million).

The Group received interest income and management fee income from WHTCL of \$5.2 million (2005: \$5.3 million) and \$1.3 million (2005: \$1.3 million) respectively.

- (b) The Group received consultancy fees from a jointly controlled entity of \$1.8 million (2005: \$1.8 million).

15 Contingent liabilities

At 30 June 2006, the Group had the following contingent liabilities:

(a) *In respect of the Company*

The Company has given two letters of undertaking in relation to the bank facilities of the Group to two banks for general facilities totalling \$150 million (31 December 2005: \$150 million) granted to the Company. The banking facilities granted are also secured by a negative pledge of certain listed investments held by the Group. At 30 June 2006, these facilities were not utilised by the Company.

(b) *In respect of The Hong Kong School of Motoring Limited (“HKSM”)*

There is an arrangement between HKSM and its banker whereby the bank provides guarantees in favour of third parties. Under this arrangement, HKSM has a charge over a time deposit with that bank amounting to not less than \$2.1 million (31 December 2005: \$1.8 million).

(Expressed in Hong Kong dollars)

15 Contingent liabilities (Continued)

(c) *In respect of Hong Kong Tunnels and Highways Management Company Limited ("HKTHMCL")*

The Group has given a guarantee to the extent of \$18.9 million (31 December 2005: \$18.9 million) to a bank in return for it providing a guarantee in favour of the Government of the HKSAR on behalf of HKTHMCL to secure the performance of an agreement in relation to the operation and management of the Cross-Harbour Tunnel and the operation and maintenance of the tunnel equipment by HKTHMCL.

(d) *In respect of Western Harbour Tunnel Company Limited ("WHTCL")*

A joint and several guarantee given by the Company and the other shareholders of WHTCL, namely, High Fortune Group Limited (as well as by its ultimate shareholder, China Merchants Holdings (International) Company, Limited) and Adwood Company Limited (as well as by its ultimate shareholders, CITIC Pacific Limited and Kerry Properties Limited) to the Government of the HKSAR to advance to WHTCL by way of share capital injection and/or subordinated debt an amount equal to any excess of the total costs over the budgeted cost of \$7,534 million, incurred by WHTCL in connection with the construction, financing, administration and maintenance of the Western Harbour Tunnel ("WHT") up to the date WHT opened for use by the public (the "operating date") and with the replacement or repair of any of the works after the operating date but prior to the issuance of the maintenance certificate in relation to WHT. The maintenance certificate had not been issued at 30 June 2006.

16 Post balance sheet event

On 7 July 2006 and 12 September 2006, the Directors declared a first and second interim dividend respectively. Further details are set out in note 5(a) "Dividends".

INDEPENDENT REVIEW REPORT TO THE BOARD OF DIRECTORS THE CROSS-HARBOUR (HOLDINGS) LIMITED

(Incorporated in Hong Kong with limited liability)

We have been instructed by the Company to review the interim financial statements set out on pages 3 to 19.

Respective responsibilities of directors and auditors

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of the interim financial statements to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The interim financial statements are the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial statements and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Review work performed

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the HKICPA. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial statements and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the interim financial statements.

Review conclusion

On the basis of our review, which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial statements for the six months ended 30 June 2006.

KPMG

Certified Public Accountants

Hong Kong, 12 September 2006

The board of directors of The Cross-Harbour (Holdings) Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2006. The interim results have been reviewed by the Company's audit committee and KPMG. KPMG's independent review report is set out on page 20.

The Group's unaudited profit attributable to shareholders for the first half of 2006 amounted to HK\$85.4 million, a 17.1% increase compared with HK\$72.9 million for the first half of 2005. Basic earnings per share were HK\$0.27.

DIVIDENDS

A first quarterly interim dividend of HK\$0.06 per share, absorbing a total amount of HK\$21.2 million, was paid on 4 August 2006. Your directors have today declared a second quarterly interim dividend of HK\$0.06 per share payable on 6 October 2006 to shareholders registered on 29 September 2006. The member register and transfer books of the Company will be closed on 28 September 2006 and 29 September 2006.

BUSINESS REVIEW AND PROSPECTS

Stepping into 2006, the performance of the global economy remains robust and our local economy continues to show strong signs. Consumer spending is rising and exports are also on the uptrend. The unemployment rate continues its measured drop and wages are rising. Due to abundant liquidity, Hong Kong interest rates did not follow the last two US rate increases, benefiting the property market and the overall economy. Though the financial market may continue to adjust and fluctuate in the near future, we remain confident in the medium-term outlook of the economy as the end of the US rate hike cycle is already in sight.

The Autopass Company Limited ("Autopass") – 70% owned

Autotoll Limited ("Autotoll") – effectively 35% owned

The main asset of Autopass is its 50% stake in Autotoll, which provides electronic toll clearing facilities in Hong Kong covering ten different toll roads and tunnels. There are forty-eight auto-toll lanes in operation at present. The total number of tags in circulation as at 30 June 2006 was about 212,000. The overall usage of auto-toll facilities in all ten toll roads and tunnels maintained at about 50%, with the highest usage at the Western Harbour Tunnel at over 60%. The daily transactions handled by Autotoll were about 323,000 with toll amount of approximately HK\$6.3 million. The number of subscribers for the Global Positioning System at the end of June was 1,550.

BUSINESS REVIEW AND PROSPECTS *(Continued)*

The Hong Kong School of Motoring Limited ("HKSM") – 70% owned

As a result of vigorous sales and marketing efforts, HKSM recorded a significant increase in the demand for driving lessons for the period under review as compared with the previous corresponding period. The demand for motorcycle training courses, however, continued to decline. A brand rejuvenation program was launched to rejuvenate and revitalize the brand of the Motoring School, aiming at achieving a higher lesson income unit rate and spending per customer. To make way for the Ocean Park Re-development Project, the tenancy for Wong Chuk Hang Centre will be terminated by the end of this year, and the operation on Hong Kong Island will be relocated to a new site at Apleichau.

Western Harbour Tunnel Company Limited ("WHTCL") – 37% owned

Due to the diversion of traffic caused by the toll increase at the Eastern Harbour Tunnel in May 2005, the daily throughput of the Western Harbour Tunnel during the first half-year under review has increased significantly by 8% to about 42,500 vehicle journeys. Bolstered by the positive sentiment of the economy and continued growth in consumption, the performance of the WHTCL is expected to continue to improve in the second half year.

Hong Kong Tunnels and Highways Management Company Limited ("HKTHMCL") – 37% owned

HKTHMCL has managed the busiest Cross-Harbour Tunnel at Hunghom ("CHT") under a Management, Operation and Maintenance ("MOM") Contract with the Government for a period of four years since 1 September 2002 and the contract expired on 31 August 2006.

Hong Kong Transport, Logistics and Management Company Limited ("HKTMCL") – 37% owned

HKTMCL, a newly formed associate, was awarded a new MOM Contract for the operation and management of the CHT. The contract commenced on 1 September 2006 for a period of twenty-six months, with an option for the Government to extend for further periods of up to twenty-four months upon expiry.

COMMENTARY ON INTERIM RESULTS

(I) Review of 2006 Interim Results

The Group's unaudited profit attributable to shareholders for the six months ended 30 June 2006 amounted to HK\$85.4 million, an increase of 17.1% compared with HK\$72.9 million for the last corresponding period. Earnings per share were HK\$0.27, an increase of 3.8% compared with HK\$0.26 for the last corresponding period. The improvement in 2006 interim results was the aggregate result of increase in profit contribution from motoring school and tunnel operations.

The Group's turnover for the period under review was HK\$127.5 million, an increase of HK\$19.9 million or 18.5% as compared to the HK\$107.6 million recorded in the same period last year.

HKSM recorded an increase in turnover of 14.6% to HK\$107.1 million as a result of an increase in tuition fees income due to higher demand for driving lessons despite a decrease in the lesson income unit rate as compared with the last corresponding period. The operating profit increased by HK\$9.2 million or 70.1% as compared to the HK\$13.2 million recorded in the same period last year.

The Group's share of net profits less losses of associates, primarily contributed by the operations of the Western Harbour Tunnel, has increased by 16.0% to HK\$52.0 million from HK\$44.8 million in the last corresponding period. Improvement in the performance of WHTCL was primarily due to an increase in toll revenue resulting from improved throughput and market share as compared to the last corresponding period. The Group's share of taxation of associates was primarily due to the utilization of deferred tax assets by WHTCL. With effect from 1 January 2003, in order to comply with HKAS 12 "Income taxes", WHTCL has recognized deferred tax assets in respect of the future benefit of tax losses, as the management of WHTCL considers it probable that future taxable profits will be available against which the tax losses can be utilized. As a result, WHTCL recorded a taxation charge for the period under review.

HKTHMCL, an associate undertaking the management contract for the Hunghom Cross-Harbour Tunnel, maintained stable income for the period.

The Group's share of net profit from a jointly controlled entity, Autotoll Limited, which operates an electronic toll collection system, was HK\$9.0 million for the first half year under review against the HK\$7.7 million recorded in the last corresponding period, representing an increase of HK\$1.3 million or 17.0% as a result of increase in interest income.

COMMENTARY ON INTERIM RESULTS *(Continued)*

(II) Investments

As at 30 June 2006, the Group maintained a portfolio of investments, primarily in blue-chip securities, with an aggregate market value of HK\$574.4 million. During the period under review, a wholly owned subsidiary of the Group acquired shares listed on the Main Board of the Hong Kong Stock Exchange in a total amount of HK\$135.6 million. Dividend income received in the first six months amounted to HK\$8.1 million.

(III) Liquidity and Financial Resources

As at 30 June 2006, the Group had bank balances and deposits in the amount of HK\$539.0 million. Banking facilities available are sufficient to meet the foreseeable funding needs for working capital and capital expenditure. These facilities had not been utilized by the Group during the period under review.

Since its sources of income and borrowings are denominated in Hong Kong dollars, the Group is not exposed to foreign exchange rate fluctuations. The Group did not have long-term debts outstanding as at 30 June 2006 and 31 December 2005.

(IV) Comments on Segmental Information

The principal activity of the Company is investment holding.

The principal activities of the Company's subsidiaries, associates and a jointly controlled entity are the operation of motoring schools, tunnels and an electronic toll collection system, and investment. Further information on the segmental details is provided in note 7 of the interim financial statements.

(V) Employees

The Group has 663 employees. Employees are remunerated according to job nature and market trends, with a built-in merit component incorporated in the annual increment to reward and motivate individual performance. Apart from provident fund schemes and medical insurance, discretionary bonuses and employee share options are awarded to employees of the Group at the discretion of the directors, depending upon the financial performance of the Group. Total staff costs for the first six months amounted to HK\$59.8 million.

DISCLOSURE UNDER RULES 13.20 AND 13.22 OF THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE OF HONG KONG LIMITED

(I) Financial Assistance

In relation to the provision of financial assistance by the Company to WHTCL, a 37%-owned associate of the Company, as previously disclosed in the Company's annual report and financial statements for the year ended 31 December 2005, obligations in relation to the abovementioned financial assistance by the Group continued to exist as at 30 June 2006. Total advances given by the Group to WHTCL including accrued interest thereon amounted to HK\$1,058.6 million as at 30 June 2006.

Terms of the Financial Assistance

WHTCL, a consortium, was granted a thirty-year franchise to construct and operate the Western Harbour Tunnel ("WHT") in accordance with the Western Harbour Crossing Ordinance enacted on 22 July 1993. The construction of the WHT was completed in April 1997 at a total cost of HK\$7 billion. In addition to external loan finance, the project was partly financed by the shareholders' fund of the consortium in the form of equity and shareholders' loan in proportion to their shareholdings.

The loan to WHTCL bears interest at such rate as may be agreed from time to time among all the shareholders of WHTCL, currently being fixed at 1% per annum. The loan is repayable on demand as may from time to time be agreed among WHTCL's shareholders, subject to certain financial parameters of a syndicated loan being fulfilled. No security is provided to the Group for the loan.

(II) Guarantee

The Company entered into a new guarantee ("Guarantee") on 6 July 2006 in favour of The Hongkong and Shanghai Banking Corporation Limited ("HSBC"), given for the benefit of HKTLMCL, a company which is owned as to 37% by the Company, to the extent of approximately HK\$28.5 million, which becomes effective as from 1 September 2006 (the commencement date of the new MOM Contract). The Guarantee is given to HSBC in return for it providing a guarantee in favour of the Government of the Hong Kong SAR on behalf of HKTLMCL to secure the performance of an agreement in relation to the operation and management of the Cross-Harbour Tunnel at Hunghom and the operation and maintenance of the tunnel equipment by HKTLMCL.

As at 30 June 2006, the Company had given a guarantee of HK\$18.9 million to HSBC for the benefit of HKTLMCL in respect of the MOM Contract expired on 31 August 2006.

DISCLOSURE UNDER RULES 13.20 AND 13.22 OF THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE OF HONG KONG LIMITED *(Continued)*

(III) Combined Balance Sheet of Affiliated Companies

Set out below is a combined unaudited balance sheet of WHTCL and HKTHMCL as at 31 July 2006 (being the latest practicable date for determining the relevant figures):

	<i>HK\$'000</i>
Total assets	5,728,532
Other liabilities	(2,119,312)
	<hr/>
	3,609,220
	<hr/> <hr/>
Share capital and reserves	745,730
Shareholders' loans	2,863,490
	<hr/>
	3,609,220
	<hr/> <hr/>

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

The register kept under section 352 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO") shows the following interest of a director in the shares of the Company as at 30 June 2006:

Name	Nature of interest	No. of shares	% of issued share capital
Cheung Chung Kiu	Interest of controlled corporation	142,669,432	40.36%

Note:

Mr. Cheung Chung Kiu ("Mr. Cheung") was deemed to be interested in the above shares by virtue of his indirect shareholding interest in Honway Holdings Limited ("Honway") which owned these shares. Honway was a wholly owned subsidiary of Y. T. Investment Holdings Limited ("Y. T. Investment") which was, in turn, a wholly owned subsidiary of Y. T. Realty Group Limited ("Y. T. Realty"). Yugang International (B.V.I.) Limited ("Yugang BVI"), through its wholly owned subsidiary, Funrise Limited ("Funrise"), owned 34.14% of the issued share capital of Y. T. Realty. Yugang BVI was a wholly owned subsidiary of Yugang International Limited ("Yugang"). Mr. Cheung, Timmex Investment Limited (a company wholly owned by Mr. Cheung) and Chongqing Industrial Limited ("Chongqing Industrial") owned 0.61%, 3.11% and 36.62% of the issued share capital of Yugang respectively. Chongqing Industrial was owned as to 35% by Mr. Cheung, as to 30% by Prize Winner Limited (a company owned by Mr. Cheung and his associates), as to 30% by Peking Palace Limited ("Peking Palace") and as to 5% by Miraculous Services Limited ("Miraculous Services"). Peking Palace and Miraculous Services were companies controlled by Palin Discretionary Trust, the objects of which included Mr. Cheung and his family.

Mr. Cheung's interest disclosed above represented a long position in the shares of the Company.

Save as disclosed herein, as at 30 June 2006, there was no interest recorded in the register kept under section 352 of the SFO or as otherwise notified to the Company pursuant to the Code for Securities Transactions by Directors adopted by the Company on 1 January 2005.

SHARE OPTIONS

On 29 April 2005, the Company adopted a share option scheme (the "New Scheme") whose terms are in line with the provisions of Chapter 17 of the Main Board Listing Rules, and terminated the one it previously adopted on 8 May 2001 (the "Old Scheme"). Details of the adoption of the New Scheme and the termination of the Old Scheme are given in the Company's circular dated 13 April 2005.

Pursuant to the Old Scheme, options over 19,200,000 shares had been granted to eligible participants and all such options remained exercisable as at 30 June 2006. Particulars of these outstanding options at the beginning and at the end of the period under review are set out in the table below.

Type of participant	No. of outstanding options at the beginning and at the end of the period	Date of grant	Vesting period	Exercise period	Exercise price per share
Directors	Nil	N/A	N/A	N/A	N/A
Other employees	19,200,000	30 August 2001	Nil	30 August 2001 to 7 May 2011	HK\$2.492

During the period, no option lapsed and no option was granted, exercised or cancelled under the Old Scheme and the New Scheme.

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS

As at 30 June 2006, so far as is known to the directors of the Company, the following persons, other than the directors, had, or were deemed to have, interests in the shares of the Company as recorded in the register kept under section 336 of the SFO:

Name	Nature of interest	No. of shares	% of issued share capital
Palin Holdings Limited	Interest of controlled corporation	142,669,432 (Note 1)	40.36%
Chongqing Industrial	Interest of controlled corporation	142,669,432 (Note 1)	40.36%
Yugang	Interest of controlled corporation	142,669,432 (Note 1)	40.36%
Yugang BVI	Interest of controlled corporation	142,669,432 (Note 1)	40.36%
Funrise	Interest of controlled corporation	142,669,432 (Note 1)	40.36%
Y. T. Realty	Interest of controlled corporation	142,669,432 (Note 1)	40.36%
Y. T. Investment	Interest of controlled corporation	142,669,432 (Note 1)	40.36%
Honway	Beneficial owner	142,669,432 (Note 1)	40.36%
PMA Capital Management Limited (Note 2)	Investment manager	29,030,000	8.21%
PMA Prospect Fund (Note 2)	Beneficial owner	21,282,000	6.02%
Deutsche Bank Aktiengesellschaft	Investment manager & security interest	28,614,000	8.09%
Sheldon Fenton Kasowitz (Note 3)	Interest of controlled corporation	17,705,000	5.01%
David Nathan Kowitz (Note 3)	Interest of controlled corporation	17,705,000	5.01%
Indus Capital Partners, LLC (Note 3)	Investment manager	17,705,000	5.01%

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS *(Continued)*

Notes:

- (1) Each of the 142,669,432 shares represents the same shareholding interest of Honway, which is duplicated in Mr. Cheung's interest in shares on page 27. Of these 142,669,432 shares, 52,647,059 shares were acquired by Honway on 22 May 2006 by way of exercise of the remainder of the option granted by the Company to Honway pursuant to the share option agreement dated 9 May 2003 at the then prevailing exercise price of HK\$4.00 per share. Each of Palin Holdings Limited, Chongqing Industrial, Yugang, Yugang BVI, Funrise, Y. T. Realty and Y. T. Investment was deemed to be interested in these shares held by Honway by virtue of its direct/indirect shareholding interest in Honway.
- (2) PMA Capital Management Limited controlled 100% of PMA Prospect Fund.
- (3) Messrs. Sheldon Fenton Kasowitz and David Nathan Kowitz owned 35.3% each of Indus Capital Partners, LLC.

All the interests disclosed above represented long positions in the shares of the Company.

Save as disclosed herein, there was no person known to the directors of the Company, who, as at 30 June 2006, had, or was deemed to have, any interest or short position in the shares and underlying shares of the Company as recorded in the register kept under section 336 of the SFO, other than as disclosed on page 27.

The Company is committed to good corporate governance. During the period under review, it has taken appropriate steps to ensure compliance with the code provisions of the Code on Corporate Governance Practices (the "CG Code") in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

CODE ON CORPORATE GOVERNANCE PRACTICES

Throughout the six months to 30 June 2006, the Company has met the requirements under the CG Code except for the deviation from code provision A.4.2.

At the beginning of the period, as referred to in the report on corporate governance practices contained in the 2005 Annual Report, under the then articles of association of the Company: (a) any director appointed to fill a causal vacancy or as an addition to the board shall hold office only until the next following annual general meeting (article 94); and (b) all directors except the chairman shall be subject to retirement by rotation at least once every three years (articles 81, 82). In the latter connection, Mr. Cheung Chung Kiu, chairman of the directors, had never been subject to retirement by rotation since his appointment on 21 March 2001; nor had he been taken into account in determining the number of directors to retire each year.

Subsequent to the issue of the 2005 Annual Report, a special resolution was passed at the annual general meeting held on 29 May 2006 to amend the relevant articles of association to the effect that, as stipulated in code provision A.4.2, all directors appointed to fill a causal vacancy should be subject to election by shareholders at the first general meeting after their appointment and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted codes of conduct regarding securities transactions by directors and by relevant employees (within the meaning of the CG Code) on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in Appendix 10 to the Listing Rules.

All directors have confirmed, following specific enquiries by the Company, that they have complied with the required standard set out in the Model Code and the Company's code of conduct regarding directors' securities transactions throughout the period.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the period under review, neither the Company nor any of its subsidiaries purchased, sold or redeemed any shares in the Company.

REVIEW BY AUDIT COMMITTEE

The interim report has been reviewed by the Company's audit committee and KPMG. The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of the unaudited interim financial statements.

On behalf of the board

Yeung Hin Chung, John
Managing Director

Hong Kong, 12 September 2006