A New Landscape

香港建設(控股)有限公司
HONG KONG CONSTRUCTION (HOLDINGS) LIMITED

Stock Code 股份代號: 190

Interim Report 2006
二零零六年度中期業績報告

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The Board of Directors ("the Board") of Hong Kong Construction (Holdings) Limited ("the Company") wishes to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries ("the Group") for the six months ended 30th June 2006 as follows:

Condensed Consolidated Interim Income Statement

for the six months ended 30th June 2006

	Note	Unaudited Six months ended 30th June 2006 HK$ Million	2005 HK$ Million
Turnover	4	125.9	162.8
Cost of sales		(86.3)	(96.7)
Gross profit		39.6	66.1
Other revenues		11.9	6.7
Other gains – net	5	178.4	127.7
Administrative expenses		(41.6)	(31.8)
Other operating expenses		(10.4)	(15.1)
Operating profit	6	177.9	153.6
Finance costs	7	(32.9)	(19.7)
Surplus on revaluation of investment properties		55.4	–
Share of losses less profits of associated companies		(61.0)	(44.3)
Share of property revaluation surplus of associated companies		110.7	–
Share of profits less losses of jointly controlled entities		2.3	14.8
Profit before income tax		252.4	104.4
Income tax expense	8	(3.0)	(0.9)
Profit for the period		249.4	103.5
Attributable to:			
Equity holders of the Company		247.9	103.5
Minority interest		1.5	–
		249.4	103.5
Dividends	9	130.6	–
Earnings per share for profit attributable to equity holders of the Company, expressed in cents per share	10		
Basic and diluted		10.5	5.0

Condensed Consolidated Interim Balance Sheet

as at 30th June 2006

	Note	Unaudited as at 30th June 2006 HK$ Million	Audited as at 31st December 2005 HK$ Million
ASSETS			
Non-current assets			
Investment properties	11	1,938.2	1,304.8
Land use rights	11	170.7	157.4
Property, plant and equipment	11	793.4	482.7
Intangible assets	11	57.2	57.3
Derivative financial instruments		10.0	11.0
Associated companies	12	1,003.6	1,037.5
Jointly controlled entities	13	65.8	173.1
Non-current receivables	14	114.6	120.2
Total non-current assets		4,153.5	3,344.0
Current assets			
Properties held for sale	15	107.0	104.8
Other financial assets at fair value through profit or loss		11.6	23.2
Trade and other receivables	16	555.2	373.7
Cash and cash equivalents			
– Pledged		62.8	12.6
– Unpledged		567.2	597.7
Total current assets		1,303.8	1,112.0
Total assets		5,457.3	4,456.0
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	17	27.9	23.3
Reserves		2,690.7	2,071.0
		2,718.6	2,094.3
Minority interest		(45.4)	28.2
Total equity		2,673.2	2,122.5

	Note	Unaudited as at 30th June 2006 HK$ Million	Audited as at 31st December 2005 HK$ Million
LIABILITIES			
Non-current liabilities			
Amount due to ultimate holding company	*18*	167.1	324.8
Borrowings and loans	*19*	1,317.9	842.5
Non-current payables	*14*	164.0	173.0
Deferred income tax liabilities		18.3	18.3
Total non-current liabilities		1,667.3	1,358.6
Current liabilities			
Trade and other payables	*20*	897.8	780.2
Borrowings and loans	*19*	192.3	157.0
Current income tax liabilities		26.7	37.7
Total current liabilities		1,116.8	974.9
Total liabilities		2,784.1	2,333.5
Total equity and liabilities		5,457.3	4,456.0
Net current assets		187.0	137.1
Total assets less current liabilities		4,340.5	3,481.1

Condensed Consolidated Interim Statement of Changes in Equity

for the six months ended 30th June 2006

		Unaudited					
		Attributable to equity holders of the Company					
	Note	Share capital HK$ Million	Other reserves HK$ Million	Retained earnings/ (Accumulated losses) HK$ Million	Total HK$ Million	Minority interest HK$ Million	Total equity HK$ Million
Balance at 1st January 2005		1,948.4	1,509.0	(1,726.2)	1,731.2	(110.5)	1,620.7
Currency translation differences		–	0.5	–	0.5	–	0.5
Net income recognised directly in equity		–	0.5	–	0.5	–	0.5
Profit for the period		–	–	103.5	103.5	–	103.5
Issue of bonus shares	17	380.0	–	–	380.0	–	380.0
Share premium movement		–	(380.0)	–	(380.0)	–	(380.0)
Balance at 30th June 2005		2,328.4	1,129.5	(1,622.7)	1,835.2	(110.5)	1,724.7
Balance at 1st January 2006		**23.3**	**1,628.1**	**442.9**	**2,094.3**	**28.2**	**2,122.5**
Currency translation differences		**–**	**5.0**	**–**	**5.0**	**–**	**5.0**
Net income recognised directly in equity		**–**	**5.0**	**–**	**5.0**	**–**	**5.0**
Employee share option benefits		**–**	**1.7**	**–**	**1.7**	**–**	**1.7**
Profit for the period		**–**	**–**	**247.9**	**247.9**	**1.5**	**249.4**
Change in minority interest arising from acquisition of additional interest in a subsidiary		**–**	**–**	**–**	**–**	**(76.0)**	**(76.0)**
Issue of new shares	17	**4.6**	**–**	**–**	**4.6**	**–**	**4.6**
Share premium arising from issue of shares		**–**	**481.5**	**–**	**481.5**	**–**	**481.5**
Dividends relating to 2005	9	**–**	**–**	**(116.4)**	**(116.4)**	**–**	**(116.4)**
Others		**–**	**–**	**–**	**–**	**0.9**	**0.9**
Balance at 30th June 2006		**27.9**	**2,116.3**	**574.4**	**2,718.6**	**(45.4)**	**2,673.2**

Condensed Consolidated Interim Cash Flow Statement

for the six months ended 30th June 2006

	Unaudited Six months ended 30th June 2006 HK$ Million	2005 HK$ Million
Net cash (used in)/generated from operating activities	(323.4)	132.2
Net cash used in investing activities	(370.7)	(93.8)
Net cash generated from/(used in) financing activities	663.6	(17.6)
Net (decrease)/increase in cash and cash equivalents	(30.5)	20.8
Cash and cash equivalents at 1st January	597.7	378.4
Cash and cash equivalents at 30th June	567.2	399.2
Analysis of balances of cash and cash equivalents		
Cash at bank and in hand	517.0	310.7
Short term bank deposits	113.0	101.2
Pledged deposits	(62.8)	(12.7)
	567.2	399.2

Notes to Condensed Consolidated Interim Financial Information

1. General information

Hong Kong Construction (Holdings) Limited ("the Company") and its subsidiaries (together, "the Group") engage in the business of construction, property development and investment, and infrastructure and alternative energy investment. The Group has construction contracts and investments mainly in Hong Kong and Mainland China.

The Company is a limited liability company incorporated in Hong Kong. The address of its registered office is Rooms 801–2, East Ocean Centre, 98 Granville Road, Tsimshatsui, Kowloon, Hong Kong.

The Company has its primary listing on The Stock Exchange of Hong Kong Limited.

This condensed consolidated interim financial information was approved for issue on 15th September 2006.

2. Basis of preparation

This condensed consolidated interim financial information for the half-year ended 30th June 2006 has been prepared in accordance with HKAS 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants. The interim condensed financial report should be read in conjunction with the annual financial statements for the year ended 31st December 2005.

3. Accounting policies

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31st December 2005, as described in the annual financial statements for the year ended 31st December 2005.

The following new standards, amendments to standards and interpretations are mandatory for financial year ending 31st December 2006.

(a) Amendment to HKAS 19, "Actuarial gains and losses, group plans and disclosures", effective for annual periods beginning on or after 1st January 2006. This amendment is not relevant for the Group;

(b) Amendment to HKAS 39, Amendment "The fair value option", effective for annual periods beginning on or after 1st January 2006. This amendment does not have any impact on the classification and valuation of the Group's financial instruments classified as at fair value through profit or loss prior to 1st January 2006 as the Group is able to comply with the amended criteria for the designation of financial instruments at fair value through profit and loss;

(c) Amendment to HKAS 21, Amendment "Net investment in a foreign operation", effective for annual periods beginning on or after 1st January 2006. This amendment does not have significant impact on the Group's results and financial position;

(d) Amendment to HKAS 39, Amendment "Cash flow hedge accounting of forecast intragroup transactions", effective for annual periods beginning on or after 1st January 2006. This amendment is not relevant for the Group;

(e) Amendment to HKAS 39 and HKFRS 4, Amendment "Financial guarantee contracts", effective for annual periods beginning on or after 1st January 2006. This amendment is not relevant for the Group;

(f) HKFRS 6, "Exploration for and evaluation of mineral resources", effective for annual periods beginning on or after 1st January 2006. This amendment is not relevant for the Group;

(g) HK(IFRIC)-Int 4, "Determining whether an arrangement contains a lease", effective for annual periods beginning on or after 1st January 2006. This interpretation is not relevant for the Group;

(h) HK(IFRIC)-Int 5, "Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds", effective for annual periods beginning on or after 1st January 2006. This interpretation is not relevant for the Group; and

(i) HK(IFRIC)-Int 6, "Liabilities arising from participating in a specific market – waste electrical and electronic equipment", effective for annual periods beginning on or after 1st December 2005. This interpretation is not relevant for the Group.

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

(a) HK(IFRIC)-Int 7, "Applying the Restatement Approach under HKFRS 29", effective for annual periods beginning on or after 1st March 2006. Management do not expect the interpretation to be relevant for the Group;

(b) HK(IFRIC)-Int 8, "Scope of HKFRS 2", effective for annual periods beginning on or after 1st May 2006. Management is currently assessing the impact of HK(IFRIC)-Int 8 on the Group's operations;

(c) HK(IFRIC)-Int 9, "Reassessment of Embedded Derivatives", effective for annual periods beginning on or after 1st June 2006. Management believes that this interpretation should not have a significant impact on the reassessment of embedded derivatives as the Group already assess if embedded derivative should be separated using principles consistent with HK(IFRIC)-Int 9; and

(d) HKFRS 7, "Financial instruments: Disclosures", effective for annual periods beginning on or after 1st January 2007. HKAS 1, "Amendments to capital disclosures", effective for annual periods beginning on or after 1st January 2007. The Group assessed the impact of HKFRS 7 and the amendment to HKAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and capital disclosures required by the amendment of HKAS 1. The Group will apply HKFRS 7 and the amendment to HKAS 1 from annual periods beginning 1st January 2007.

4. Segment information

Primary reporting format – business segments

At 30th June 2006, the Group comprises the following main business segments:

(1) Construction;

(2) Property leasing;

(3) Property development and sales; and

(4) Infrastructure and alternative energy.

The segment results for the six months ended 30th June 2006 are as follows:

	Construction *HK$ Million*	Property leasing *HK$ Million*	Property development and sales *HK$ Million*	Infrastructure and alternative energy *HK$ Million*	Other operations *HK$ Million*	Total Group *HK$ Million*
Turnover	**89.9**	**25.1**	**–**	**10.9**	**–**	**125.9**
Operating profit	**10.6**	**29.6**	**–**	**3.7**	**134.0**	**177.9**
Finance costs						**(32.9)**
Surplus on revaluation of investment properties						**55.4**
Share of losses less profits of associated companies						**(61.0)**
Share of property revaluation surplus of associated companies						**110.7**
Share of profits less losses of jointly controlled entities						**2.3**
Profit before income tax						**252.4**
Income tax expense						**(3.0)**
Profit for the period						**249.4**

The segment results for the six months ended 30th June 2005 are as follows:

	Construction *HK$ Million*	Property leasing *HK$ Million*	Property development and sales *HK$ Million*	Infrastructure and alternative energy *HK$ Million*	Other operations *HK$ Million*	Total Group *HK$ Million*
Turnover	75.6	25.3	61.9	–	–	162.8
Operating profit	15.5	27.7	9.8	–	100.6	153.6
Finance costs						(19.7)
Share of losses less profits of associated companies						(44.3)
Share of profits less losses of jointly controlled entities						14.8
Profit before income tax						104.4
Income tax expense						(0.9)
Profit for the period						103.5

Other segment terms included in the income statements are as follows:

	Six months ended 30th June 2006					
	Construction *HK$ Million*	Property leasing *HK$ Million*	Property development and sales *HK$ Million*	Infrastructure and alternative energy *HK$ Million*	Other operations *HK$ Million*	Total Group *HK$ Million*
Depreciation	–	–	–	6.0	1.6	7.6
Amortisation	–	–	–	–	0.1	0.1

	Six months ended 30th June 2005					
	Construction *HK$ Million*	Property leasing *HK$ Million*	Property development and sales *HK$ Million*	Infrastructure and alternative energy *HK$ Million*	Other operations *HK$ Million*	Total Group *HK$ Million*
Depreciation	–	–	–	–	0.8	0.8

The segment assets and liabilities at 30th June 2006 and capital expenditure for the six months then ended are as follows:

	Construction *HK$ Million*	Property leasing *HK$ Million*	Property development and sales *HK$ Million*	Infrastructure and alternative energy *HK$ Million*	Unallocated *HK$ Million*	Total Group *HK$ Million*
Assets	291.9	1,943.1	108.0	1,092.1	952.8	4,387.9
Associated companies and jointly controlled entities	–	–	–	–	1,069.4	1,069.4
Total assets	291.9	1,943.1	108.0	1,092.1	2,022.2	5,457.3
Liabilities	474.2	10.6	5.1	796.9	1,497.3	2,784.1
Capital expenditure	–	578.0	–	332.1	3.9	914.0

The segment assets and liabilities at 31st December 2005 and capital expenditure for the six months then ended 2005 are as follows:

	Construction *HK$ Million*	Property leasing *HK$ Million*	Property development and sales *HK$ Million*	Infrastructure and alternative energy *HK$ Million*	Unallocated *HK$ Million*	Total Group *HK$ Million*
Assets	315.4	1,307.0	106.5	757.1	742.7	3,228.7
Associated companies and jointly controlled entities	–	–	–	–	1,227.3	1,227.3
Total assets	315.4	1,307.0	106.5	757.1	1,970.0	4,456.0
Liabilities	412.1	7.9	5.6	407.1	1,500.8	2,333.5
Capital expenditure	–	–	–	–	3.2	3.2

Secondary reporting format – geographical segments

The Group is organised into two main geographical segments, comprising Hong Kong and Mainland China. There are no other significant identifiable separate geographical segments.

	Six months ended 30th June	
	2006 ***HK$ Million***	2005 *HK$ Million*
Turnover		
Hong Kong	**46.8**	47.4
Mainland China	**79.1**	115.4
	125.9	162.8

Turnover are allocated based on places in which customers are located.

	As at	
	30th June 2006 ***HK$ Million***	31st December 2005 *HK$ Million*
Total Assets		
Hong Kong	**150.6**	173.4
Mainland China	**3,284.5**	2,312.6
	3,435.1	2,486.0
Associated companies and jointly controlled entities	**1,069.4**	1,227.3
Unallocated assets	**952.8**	742.7
	5,457.3	4,456.0

Total assets are allocated based on where the assets are located.

	Six months ended 30th June	
	2006	2005
	HK$ Million	*HK$ Million*
Capital expenditure		
Hong Kong	**0.9**	2.2
Mainland China	**913.1**	1.0
	914.0	3.2

Capital expenditure is allocated based on where the assets are located.

5. Other gains – net

	Six months ended 30th June	
	2006	2005
	HK$ Million	*HK$ Million*
Write back of provision for impairment loss on properties held for sale	**2.2**	50.0
Wavier of other loans and payables	**–**	67.6
Negative goodwill on acquisition of additional interest in a subsidiary	**178.7**	–
Fair value (loss)/gain on other financial assets at fair value through profit or loss	**(3.7)**	4.6
Net exchange (loss)/gain	**(1.6)**	0.5
Others	**2.8**	5.0
	178.4	127.7

6. Operating profit

Operating profit is stated after crediting/(charging) the following:

	Six months ended 30th June 2006 HK$ Million	2005 HK$ Million
Crediting:		
Write back of provision for foreseeable losses	**8.8**	–
Charging:		
Employee share option benefits	**(1.7)**	–
Depreciation of property, plant and equipment	**(7.6)**	(0.8)

7. Finance costs

	Six months ended 30th June 2006 HK$ Million	2005 HK$ Million
Interest on bank loans and other borrowings		
Wholly repayable within 5 years	**(22.6)**	(17.3)
Not wholly repayable within 5 years	**(29.2)**	(2.4)
	(51.8)	(19.7)
Less: Capitalised in property, plant and equipment	**18.9**	–
	(32.9)	(19.7)

8. Income tax expense

Hong Kong profits tax has not been provided as the Group has sufficient tax losses brought forward to offset taxable profit for the period (2005: Nil). Mainland China income tax has not been provided as the Group has no estimated assessable profit for the period. In 2005, Mainland China income tax has been provided on the estimated assessable profits of subsidiaries operating in the Mainland China at the rates ranging from 15% to 33%.

	Six months ended 30th June 2006 HK$ Million	2005 HK$ Million
Current income tax		
Mainland China income tax	**–**	(0.9)
Underprovisions in prior years	**(3.0)**	–
	(3.0)	(0.9)

Share of taxation of associated companies and jointly controlled entities amounting to HK$65.0 million (2005: HK$17.7 million) are included in the condensed consolidated interim income statement as share of losses less profits of associated companies and jointly controlled entities.

9. Dividends

	Six months ended 30th June	
	2006	2005
	HK$ Million	*HK$ Million*
Interim dividend declared, of HK4.5 cents (2005: Nil) per ordinary share	**130.6**	–

On 15th September 2006, the Board of Directors declared an interim dividend of HK4.5 cents per ordinary share, which HK1.5 cents will be payable in cash with an option to select scrip while HK3.0 cents will be payable by the issue of bonus shares. Failure to select, all dividend will be paid in scrip shares. The interim dividend is not reflected as a dividend payable in this condensed consolidated interim financial statements, but will be reflected as an appropriation of the retained earnings for the year ending 31st December 2006.

A 2005 final dividend of HK5.0 cents (2004: Nil) per ordinary share, totalling HK$116.4 million was approved at the annual general meeting held on 13th June 2006 and paid in July 2006. It has been reflected as an appropriation of retained earnings for the six months ended 30th June 2006.

10. Earnings per share

The calculation of earnings per share is based on profit attributable to equity holders of HK$247.9 million (2005: HK$103.5 million) and the weighted average of 2,351.6 million (2005: 2,059.7 million) ordinary shares in issue during the period.

11.Capital expenditure

	Investment properties *HK$ Million*	Land use rights *HK$ Million*	Property, plant and equipment *HK$ Million*	Intangible assets *HK$ Million*
Six months ended 30th June 2005				
Opening net book amount at 1st January 2005	1,244.7	–	8.6	–
Acquisition of a subsidiary	–	114.7	141.1	33.6
Additions	–	–	3.2	–
Disposals	–	–	(0.2)	–
Depreciation and amortisation	–	–	(0.9)	–
Closing net book amount at 30th June 2005	1,244.7	114.7	151.8	33.6
Six months ended 30th June 2006				
Opening net book amount at 1st January 2006	**1,304.8**	**157.4**	**482.7**	**57.3**
Acquisition of additional interest in a subsidiary *(note 21)*	**578.0**	–	**0.2**	–
Additions	–	**16.0**	**319.8**	–
Surplus on revaluation	**55.4**	–	–	–
Disposals	–	–	**(0.5)**	–
Depreciation and amortisation	–	**(2.7)**	**(8.8)**	**(0.1)**
Closing net book amount at 30th June 2006	**1,938.2**	**170.7**	**793.4**	**57.2**

(a) Amortisation expenses for land use rights of HK$2.7 million (2005: Nil) have been capitalised in property, plant and equipment as it represents construction-in-progress.

(b) Depreciation expenses for property, plant and equipment of HK$0.2 million (2005: HK$0.1 million) have been charged to construction costs, HK$1.0 million (2005: Nil) have been capitalised in property, plant and equipment as it represents construction-in-progress and HK$7.6 million (2005: HK$0.8 million) have been expensed in administrative expenses.

12.Associated companies

	As at 30th June 2006 *HK$ Million*	As at 31st December 2005 *HK$ Million*
Share of net liabilities	(266.0)	(734.5)
Amounts due from associated companies	1,292.4	1,794.8
Provision for impairment losses	(22.8)	(22.8)
	1,003.6	1,037.5

The balances with associated companies are unsecured and have no fixed terms of repayment except for the amounts due from associated companies of HK$68.2 million (at 31st December 2005: HK$403.3 million) which bears interests at Hong Kong dollar prime rate (at 31st December 2005: ranging from Hong Kong dollar prime rate to 1% plus Hong Kong dollar prime rate).

On 26th June 2006, Ivy Garden Investments Limited, a wholly owned subsidiary of the Company, entered into the sale and purchase agreement with an independent third party to acquire an additional 30% equity interest and the assignment of a shareholder loan in Dorboy Investment Limited which holds 100% interests in the operation of the Jing Guang Centre in Shenzhen, the PRC, for a total consideration of HK$240 million. Accordingly, the respective associated company became an 80% owned subsidiary as at 26th June 2006.

13. Jointly controlled entities

	As at	
	30th June 2006 *HK$ Million*	31st December 2005 *HK$ Million*
Share of net assets	**8.7**	7.0
Amounts due from jointly controlled entities	**62.4**	188.1
Portion due within one year, classified as current assets	**–**	(16.7)
Provision for impairment losses	**(5.3)**	(5.3)
	65.8	173.1

Balances with jointly controlled entities are unsecured, interest-free and have no fixed terms of repayment.

14. Non-current receivables and payables

The carrying amounts of non-current receivables and payables approximate their fair value.

15. Properties held for sale

At 30th June 2006, the carrying amount of properties held for sale that are carried at net realisable value amounted to HK$107.0 million (31st December 2005: HK$104.8 million), and in which the land use rights amounted to HK$39.4 million (31st December 2005: HK$39.4 million).

16. Trade and other receivables

	As at	
	30th June 2006 *HK$ Million*	31st December 2005 *HK$ Million*
Gross amount due from customers for contract works	**57.9**	61.2
Amount due from a jointly controlled entity	**–**	16.7
Amount due from a related company	**1.4**	20.4
Trade receivables	**15.0**	23.2
Retention receivables	**34.3**	41.6
Other receivables and deposits	**446.6**	210.6
	555.2	373.7

At 30th June 2006 and 31st December 2005, the ageing analysis of trade receivables, net of provision for impairment, were as follows:

	As at 30th June 2006 HK$ Million	As at 31st December 2005 HK$ Million
0 to less than 2 months	**2.6**	15.4
2 to less than 6 months	**3.4**	0.6
6 to less than 12 months	**0.8**	0.9
12 months and more	**8.2**	6.3
	15.0	23.2

The Group's credit terms for contracting business are negotiated with and entered into under normal commercial terms with its trade customers. Retention money receivables in respect of contracting services are settled in accordance with the terms of respective contracts.

17. Share capital

	Number of shares *(Million)*	**Ordinary shares** *HK$ Million*
Opening balance at 1st January 2005	1,948.4	1,948.4
Issue of bonus shares	380.0	380.0
At 30th June 2005	2,328.4	2,328.4
Opening balance at 1st January 2006	**2,328.4**	**23.3**
Issue of new shares	**465.7**	**4.6**
At 30th June 2006	**2,794.1**	**27.9**

On 22nd June 2006, the Company had issued and allotted and Creator Holdings Limited ("Creator"), the controlling shareholder of the Company, had subscribed for 465,681,854 new shares at HK$1.044 per share in accordance with the terms of the subscription agreement dated 8th May 2006 entered into between the Company and Creator.

The details of the share option scheme of the Company are set out in pages 28 to 30.

18. Amount due to ultimate holding company

The amount due to ultimate holding company is unsecured, interest bearing at Hong Kong dollar prime rate as quoted by HSBC plus 2% and is not expected to be settled within one year.

19. Borrowings and loans

	As at 30th June 2006 HK$ Million	As at 31st December 2005 HK$ Million
Non-current	1,317.9	842.5
Current	192.3	157.0
	1,510.2	999.5

Movements in borrowings are analysed as follows:

	HK$ Million
Six months ended 30th June 2005	
Opening amount at 1st January 2005	808.0
Acquisition of a subsidiary	297.1
Borrowings	185.8
Repayments of borrowings	(181.0)
Closing amount as at 30th June 2005	1,109.9
Six months ended 30th June 2006	
Opening amount at 1st January 2006	**999.5**
Acquisition of additional interest in a subsidiary *(note 21)*	**76.0**
Borrowings	**511.2**
Repayments of borrowings	**(76.5)**
Closing amount as at 30th June 2006	**1,510.2**

20. Trade and other payables

	As at 30th June 2006 HK$ Million	As at 31st December 2005 HK$ Million
Gross amount due to customers for contract works	60.3	46.7
Amount due to a related company	–	70.0
Trade payables	210.5	126.2
Retention payables	27.2	36.8
Other payables and accruals	599.8	500.5
	897.8	780.2

At 30th June 2006 and 31st December 2005, the ageing analysis of the trade payables were as follows:

	As at	
	30th June 2006	31st December 2005
	HK$ Million	*HK$ Million*
0 to less than 2 months	**134.7**	25.9
2 to less than 6 months	**–**	25.1
6 to less than 12 months	**26.9**	4.9
12 months and more	**48.9**	70.3
	210.5	126.2

21. Business combinations

On 26th June 2006, the Company, through its wholly-owned subsidiary acquired an additional 30% equity interest and the assignment of a shareholder loan in Dorboy Investment Limited ("Dorboy"), a limited company incorporated in Hong Kong which is principally engaged in property development and investment in Shenzhen, the PRC for a cash consideration of HK$240 million. Before the acquisition, Dorboy was an associated company of the Group and it became an 80% owned subsidiary of the Group upon completion of the acquisition.

If the acquisition had occurred on 1st January 2006, the Group's turnover would have been HK$8.3 million and the profit for the period would have been HK$1.0 million.

Details of net assets acquired are as follows:

	HK$ Million
Purchase consideration – cash paid and payable	240.0
Fair value of net assets acquired (see below)	418.7
Negative goodwill	(178.7)

The assets and liabilities arising from the acquisition are as follows:

	Acquiree's carrying amount *HK$ Million*	Fair value *HK$ Million*
Investment property	578.0	578.0
Property, plant and equipment	0.2	0.2
Trade and other receivables	2.2	2.2
Cash and cash equivalents	16.8	16.8
Trade and other payables	(26.0)	(26.0)
Loans from shareholders *(Note i)*	(1,033.0)	(316.0)
Loan from the Group	(536.4)	(536.4)
	(998.2)	(281.2)
Minority interests		76.0
Loan from the Group *(Note ii)*		776.4
		571.2
Interest in associated company originally held by the Group		(152.5)
Net assets acquired		418.7
Outflow of cash to acquire business, net of cash acquired:		
Purchase consideration		
– to be settled in cash		(120.0)
– paid		(120.0)
Cash and cash equivalents in subsidiary acquired		16.8
Cash outflow on acquisition		(223.2)

Notes:

(i) The 30% equity interest shareholder has assigned its loan of HK$957 million with fair value of HK$240 million to the Group.

(ii) Together with the above-mentioned assigned loan, the total loan from the Group was eliminated in the condensed consolidated interim financial statements.

22. Contingent liabilities

(a) The Group has contingent liabilities in respect of banking facilities granted to certain buyers of properties of the Group and its associated companies.

(b) The Group has contingent liabilities in respect of performance bonds and guarantees under contracts and other agreements entered into in the normal course of business.

(c) On 22nd November 2005, Smiling Sky Investments Limited, a wholly owned subsidiary of the Company disposed of an 8% share interest in First Choice International Development Limited which holds Tower One of Apartments of CITIC Plaza in Guangzhou, the PRC. In accordance with the sale and purchase agreement, the Company provides warranties to indemnify up to 8% of losses arising from cancellation or deprivation of concessions of Profits Tax and Urban Real Estates Tax in the PRC and liabilities not recorded in the Completion Accounts as of 30th November 2005. The warranties will be expired after 30th November 2008.

23. Commitments

Capital commitments at the balance sheet date but not yet incurred is as follows:

	As at 30th June 2006 HK$ Million	As at 31st December 2005 HK$ Million
Property, plant and equipment		
Contracted but not provided for	**534.3**	782.1
Authorised but not contracted for	**275.3**	248.2
	809.6	1,030.3

24. Related-party transactions

(a) On 23rd January 2006, the Company entered into the framework agreement with Sinar Mas Group, a group indirectly controlled by the Oei family, for establishment of a joint venture to engage in a real estate development project in Shanghai, the PRC. The Company has contributed 10% of the registered capital of RMB3.5 billion to the joint venture. The ordinary resolution in relation to this connected transaction was approved by the independent shareholders in the extraordinary general meeting on 13th March 2006.

(b) Yangpu Water Supply Company Limited, held as to 65% indirectly by the Company entered a water supply agreement with Jinhai Paper Pulping Industrial Company Limited ("Jinhai"), a company indirectly controlled by the Oei family, for a period of 3 years commencing from 1st January 2006. It constituted continuing connected transaction for the Company under the Listing Rules and it was approved by the independent shareholders in the extraordinary general meeting on 13th June 2006. Income received from Jinhai for the supply of raw water during the period was amounting HK$8.8 million.

(c) On 8th May 2006, the Company entered an Agreement of Loan Capitalisation and Subscription of New Shares with Creator, under which Creator agreed to subscribe for 465,681,854 new shares of the Company at HK$1.044 per share. The issued share capital of the Company was increased from HK$23,284,092.72 divided into 2,328,409,272 ordinary shares of HK$0.01 each to HK$27,940,911.26 divided into 2,794,091,126 ordinary shares of HK$0.01 each. The ordinary resolution in relation to this connected transaction was approved by the independent shareholders in the extraordinary general meeting on 13th June 2006.

(d) Key management compensation amounted HK$6.7 million as of 30th June 2006 (HK$5.0 million as of 30th June 2005). See below.

	Six months ended 30th June 2006 HK$ Million	Six months ended 30th June 2005 HK$ Million
Director's fees	**0.1**	0.1
Salary	**6.6**	4.9
	6.7	5.0

25. Events occurring after the balance sheet date

(a) On 27th July 2006, a total of 108,598,829 new ordinary shares were duly issued and allotted to shareholders who had elected to receive scrip shares in lieu of cash for all or part of the final dividend of HK5.0 cents for the year ended 31st December 2005. Accordingly, the issued and fully paid up share capital was increased from HK$27,940,911.26 divided into 2,794,091,126 ordinary shares of HK$0.01 each to HK$29,026,899.55, divided into 2,902,689,955 ordinary shares of HK$0.01 each.

(b) The special resolutions in relation to the proposed change of domicile of the holding company of the Group from Hong Kong to Bermuda by way of the Scheme of Arrangement (under section 166 of the Companies Ordinance, Chapter 32 of the Laws of Hong Kong) dated 11th August 2006 were approved by the shareholders at the court meeting and extraordinary general meeting dated 13th September 2006.

Upon the confirmations and approvals obtained from relevant authorities, the structure of the Group will be reorganised such that, HKC (Holdings) Limited, a company incorporated in Bermuda with limited liability, will become the new holding company of the Group and the shares of which will be listed on the Main Board of The Stock Exchange of Hong Kong Limited.

(c) On 11th September 2006, the joint tender submitted by the Company and China Energy Conservation Investment Corporation* ("CECIC") for a wind power project in Danjinghe, Zhangbei, Hebei Province, the PRC, was accepted by the relevant government authority. The Company and CECIC will establish a joint venture within 2 months from the date when the application for approval was approved, and will invest in, construct and operate the wind power plant with total capacity of 200 megawatt. The Company and CECIC will contribute 40% and 60% of the registered capital respectively of the project whose total investment is approximately RMB1.6 billion.

* *The unofficial English transliterations or translations are for identification purposes only.*

Management Discussion and Analysis

Financial Review and Analysis

The Group achieved a turnover of HK$125.9 million in the six months ended 30th June 2006, a decrease of 22.7% from the HK$162.8 million of the corresponding period last year. This decrease was mainly due to the fact that the Group did not sell any property in the period under review. During the same period, the gross profit was HK$39.6 million, compared to HK$66.1 million for the corresponding period last year. Net profit amounted to HK$247.9 million, as against HK$103.5 million for the corresponding period last year. This represented a rise that mainly resulted from property revaluation, and the acquisition of additional share interest in a property company. Basic earnings per share during the period were HK10.5 cents, up from HK5.0 cents in the corresponding period last year.

Liquidity and financial resources

As at 30th June 2006, the Group's total borrowings were HK$1,677.3 million. These included Hong Kong Dollar borrowings of HK$386.0 million, US Dollar borrowings of HK$1.2 million equivalent, and Renminbi borrowings of HK$1,290.1 million equivalent. All these borrowings are interest bearing, with interest rates fixed at market rates plus margin at various intervals of time, from one month to one year after the previous fixing. The Group had pledged deposits of HK$62.8 million, and unpledged cash and cash equivalents amounting to HK$567.2 million at the balance sheet date. The Group has not used financial instruments for currency hedging purposes.

In May 2006, the Group entered into an Agreement of Loan Capitalisation and Subscription of New Shares with Creator Holdings Limited ("Creator"), the controlling shareholder which will improve the Group's gearing and make available an additional HK$166 million for working capital.

Details of charges on Group assets

As at 30th June 2006, the Group and certain of its subsidiaries had charged certain properties as security for bank and other loans.

Gearing ratio

The Group's gearing ratio as at 30th June 2006 was 36.2%, compared with 33.5% as at 31st December 2005. This figure is the ratio of total borrowings (excluding the amounts due to minority shareholders) less cash and cash equivalents and pledged deposits, divided by the total equity.

Contingent liabilities

Details of the Group's contingent liabilities are set out in note 22 to condensed consolidated interim financial information.

Business Review

In the six months under review, the Group has maintained the momentum built up over the past two years since its acquisition by Creator in April 2004. While maintaining steady activity within its construction segment, the Group has been expanding and developing its business activities in the property, infrastructure and alternative energy sectors. This emphasis on diversification has seen the Group successfully moves into the Mainland China market on a large scale, becoming involved in a range of activities that is now beginning to bring in higher gross profits and higher net profit ratios.

Property Investment, Development and Management

The Group expects its property division – which includes both property leasing and property investment, development and management – to become one of the largest contributors to its turnover and profit in the near future. As such, it is looking to expand its property portfolio prudently, and to look for opportunities to maximize returns from its current investments. The Group did not receive any revenue from property sales in the first six months of 2006, but revenue from its property leasing business was steady.

In Shanghai, the Group holds a 10% stake in a prestigious hotel, office and retail development project on the North Bund. The land price was agreed in January 2006, and the Group paid the final instalment of its share in August 2006. Top worldwide architects have been invited to tender for designing the building, and construction is expected to start by December 2006, with a partial opening scheduled for 2010 to coincide with the Shanghai Expo in that year.

At the same time, land tendering process of the Group's proposed property project in Tianjin is underway. Once these are successfully completed, the Group plans to construct a 150,000 sq.m. project that will include a hotel and shopping centre, with plans for a 2008 partial opening in time for the 2008 Beijing Olympic Games. The Group will hold a 95% stake in this project.

Nanxun is famous as a trading centre for construction materials in China, and the Group's project will become a new central trading venue for construction materials and furniture that will replace existing markets. Negotiations over the land price are currently underway, and completion of the three-storey complex is expected by 2008. The Group will hold a 100% interest in this project.

The Group also maintained its property investment portfolio in first-class commercial and residential developments in Shenzhen, Guangzhou and Beijing, all of which are generating a steady stream of rental revenue. As a long-term investment, the Group also has interests in the Peninsula Beijing Hotel and Jing-Guang New World Hotel in Beijing. Revenue from its property leasing activities remains stable in comparison with the same period last year.

In June 2006, the Group increased its interest in Dorboy Investment Limited ("Dorboy") by 30%, making Dorboy an 80%-owned subsidiary of the Group. Dorboy's principal asset is the Jing Guang Centre in Shenzhen, the PRC. The move gave the Group greater control over the Jing Guang Centre, and will allow it to repackage the Centre so as to enhance its value and returns.

Infrastructure

The Group has two major infrastructure projects on hand. The first is its water supply business in Hainan; the second is its Build-Operate-Transfer ("BOT") toll road project in Guilin, the PRC, a 40.6 km road that will link up with China's Western Expressway. The Group intends its infrastructure division to remain stable with these two projects in the immediate future.

The Group's water supply business is now in full operation. It is in a strong position as a sole supplier for the Yangpu Economic Development Zone in Hainan, enjoying a monopoly-like position and reliable, large-scale industrial customers. The contribution from the infrastructure segment increased by comparison with the same period last year as the water company began to contribute profits.

As for the Group's BOT toll road project, the license is a 29-year one. Traffic projections for the road have increased beyond initial expectations, suggesting the possibility of excellent returns once the road opens in November 2007.

Alternative energy

The Group's commitment to diversification into the alternative energy sector is one that it hopes will make it into one of the leading wind energy producers in China, in a high-potential sector providing stable returns which is still relatively fragmented in terms of market players. Chinese government policy, meanwhile, favours energy generated by alternative sources and offers incentives for its production. Alternative energy is expected to account for 15% of the total energy supply in China by 2020.

The Group's first wind power plant, at Heilongjiang in Northeastern China, is on target to begin partially generating electricity by early October 2006. This 60,000 kW plant includes 70 wind turbines manufactured in and imported from Denmark, the first batch of which arrived in March 2006.

During the period under review, the Group took a further step towards consolidating itself as a major player in the alternative energy field, when it acquired the preferential right to develop a wind power plant in an area in Siziwang Qi in Inner Mongolia. This project will be on a much larger scale than the Heilongjiang one. Sited on an area of 1,000 sq.km in a region of China noted for its strong reliable winds, the Group hopes to develop generation capacity of between 100,000 kW and 150,000 kW for the project by 2008, and it aims to increase generation capacity of the project to between 1 million kW and 1.5 million kW by 2020. The Group is currently carrying out wind resources assessment at the site, which will last from 12 to 14 months.

Construction

Revenue from the Group's construction segment in the period under review rose slightly over the same period last year with the completion of certain projects. Excluding the shares of joint venture partners, the Group's construction division had contracts on hand valued at a total of HK$1,188 million as at the end of June 2006. Currently it also has several tenders awaiting confirmation.

The Group has begun to specialise its construction activities and focus on selective projects. The Group will explore global markets besides keeping its presence in Hong Kong. The move represents a first step in the Group becoming a more regional player in the construction industry. At the same time, the construction division will provide technical support to other business sectors of the Group, as it will continue to be the main contractor for the Group's projects.

Internal Control

In order to deliver on its commitment to add transparency for its shareholders, the Group established an Internal Control and Risk Management Department ("ICRMD") in 2005. Fully compliant with the listing requirements as laid down in Appendices 14 and 23 of the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited, the ICRMD has taken up its responsibility in undertaking regular, systematic reviews and enhancements of existing internal control frameworks during the period under review. The new body is also responsible for providing constant updates on, and early warnings of, significant issues flagged by the Group's risk management mechanisms. The ultimate aim of the ICRMD is to assist to ensure increased financial reporting reliability and achieve better compliance with all applicable rules and regulations governing the running of a publicly listed company.

Employees

At the end of June 2006, the Group's operations in Hong Kong and Mainland China employed a total of approximately 280 employees. In addition, the Group has appointed technical and engineering consultants on contract terms for its ongoing construction projects. All employees are remunerated according to the nature of their jobs, their individual performance, the Group's overall performance, and prevailing market conditions.

Outlook

The Group's achievements in the past two years of reinvigorating its business activities and diversifying its business into the additional three strategic cores, property, infrastructure and alternative energy in China, bore fruit in 2005 and have continued to move the Group forward in the six months under review.

The Group plans as part of its restructuring exercise to change its holding company domicile from Hong Kong to Bermuda. The holding company of the Group will be renamed to HKC (Holdings) Limited with subsidiaries established to specialise in its additional three business cores of China property, infrastructure and alternative energy sectors. This will give the Group greater flexibility.

In September 2006, a joint tender submitted by the Group and its PRC joint venture partner, China Energy Conservation Investment Corporation* ("CECIC") has been accepted by the relevant government authority. The Group and CECIC will establish a joint venture to invest in, construct and operate a wind power plant with total capacity of 200 megawatt at Danjinghe, Zhangbei, Hebei Province, the PRC. The Group and CECIC will hold 40% and 60% respectively in the registered capital of the project which will cost an estimated total investment of RMB1.6 billion.

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Plans are being developed to further expand the Group's involvement in the alternative energy sector, with a project to construct a waste-to-energy plant in Shandong, the PRC. The RMB280 million project will be 40% financed by the Group and 60% by its partner, a subsidiary of CECIC. The project containing two plants shall begin operations in August 2007, with a 24,000 kW output capacity. It holds good potential for returns. Besides its ability to generate electricity for sale, the project will also generate additional revenue from the production of steam, trading of Clean Development Mechanism, waste collection activities and ash-based raw materials.

Generally, the Group is looking to continue its diversification into the property and energy businesses, through a process of expansion. It is optimistic about the potential of both the property market and the alternative energy sector in China, given government policy on the environment and energy generation. The Group will continue to look closely at opportunities as they arise, with the intention of continuing its strong showing of the past couple of years and providing excellent returns to shareholders.

Interim Dividend

The Directors have declared an interim dividend of HK4.5 cents per share for the six months ended 30th June 2006 (for the six months ended 30th June 2005: Nil). The interim dividend will be payable on 20th November 2006.

Advances and Guarantees to Affiliated Companies – Disclosure Pursuant to Rules 13.13 to 13.22 of the Listing Rules

The Company itself and through its subsidiaries have entered into contractual joint venture agreements with several joint venture members and have undertaken substantial investments for development of certain properties and infrastructure projects, and construction works. Pursuant to these agreements, investments were made to joint venture companies in the form of capital and advances in proportion to the respective joint venture members' capital contribution ratios or in accordance with the terms of the joint venture agreements. These investments were classified under the headings "Jointly controlled entities" and "Associated companies" in the consolidated balance sheet of the Group. Details of such investments as at 30th June 2006 are disclosed below:

Affiliated companies	% interest attributable to the Group	Amounts due from affiliated companies *HK$ Million*	Annual interest rate on advances
Quick Wealth Investments Limited *(note d)*	50	468.2	Partial interest free/ partial bearing interest at HK$ prime rate
Hong Kong Construction Kam Lung Limited *(note d)*	45	482.9	Interest free
		951.1	

Notes:

(a) The advances are unsecured, without fixed repayment terms and are repayable in cash out of net cash surplus from operation of the affiliated companies.

(b) The advances made were funded by internal resources and by bank borrowings for general working capital purposes.

(c) Save for those mentioned above, no guarantee has been given by the Group for facilities granted to the above mentioned affiliated companies.

(d) The amounts due from these affiliated companies, which individually exceed 8% of the Company's market capitalisation as at 30th June 2006, are related to these companies' property development/investment projects and/or working capital funds.

As at 30th June 2006, total advances made to affiliated companies given by the Group for facilities utilised by affiliated companies, in aggregate, amounted to approximately HK$951.1 million which represented approximately 17.4% of the total assets of the Group as at 30th June 2006.

As the circumstances giving rise to this disclosure will probably continue to exist, the Board will ensure that the required details will be disclosed in the subsequent interim reports and annual reports providing adequate and sufficient information to allow investors to make an informed assessment of the financial position of the Group.

Pro Forma Combined Balance Sheet of Affiliated Companies

A pro forma combined balance sheet of certain affiliated companies with major financial assistance from the Group and the Group's attributable interest in these affiliated companies as at 30th June 2006 is presented below:

	Combined total	
	HK$ Million	*HK$ Million*
Property, plant and equipment		
Hotel properties	1,162.7	
Land and buildings	8.4	
Others	9.5	1,180.6
Other non-current assets		19.8
Current assets		
Other current assets		163.0
Total assets		1,363.4
Capital and reserves		
Share capital	0.1	
Reserves	(964.6)	(964.5)
Non-current liabilities		
Advances from shareholders	1,732.4	
Borrowings and loans	87.0	1,819.4
Current liabilities		
Amounts due to shareholders	84.6	
Borrowings and loans	227.9	
Other current liabilities	196.0	508.5
Equity and liabilities		1,363.4

Attributable interest of the affiliated companies to the Group as at 30th June 2006 amounted to a deficit of HK$328.7 million.

Share Option Scheme

The share option scheme of the Company was adopted on 3rd June 2004 (the "Option Scheme").

During the six months ended 30th June 2006, there were 43,600,000 share options being granted under the Option Scheme. Details of the share options granted under the Option Scheme were as follows:

	Number of options outstanding at 1st January 2006	Number of options granted during the period	Number of options outstanding at 30th June 2006	Date of grant	Exercise period *(Note)*	Exercise price per share *HK$*	Closing price per share immediately before the date of grant *HK$*
Directors	–	22,600,000	22,600,000	8th March 2006	8th March 2007 to 7th March 2016	0.83	0.83
Employees	–	21,000,000	21,000,000	8th March 2006	8th March 2007 to 7th March 2016	0.83	0.83

No share option was exercised by directors and employees during the six months ended 30th June 2006.

Note:

The share option shall vest as to 20% on the date one calendar year after the date of grant, as to a further 30% on the date two calendar years after the date of grant and as to the final 50% on the date three calendar years after the date of grant.

Directors' Interests

As at 30th June 2006, the interests or short positions of the Directors and Chief Executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), to be notified to the Company and the Stock Exchange were as follows:

(i) Interests of the Directors in shares and underlying shares of the Company:

Name of Director	Nature of interest	Number of Shares (long position)	Approximate percentage of existing issued share capital of the Company	Number of Shares (short position)	Approximate percentage of existing issued share capital of the Company
OEI Kang, Eric ("Mr. OEI")	Personal	124,241,000[1]	4.447	–	–
	Corporate	1,900,090,426[2]	68.004	32,624,000	1.168
	Joint	1,383,000[3]	0.049	–	–
	Family	2,300,000[4]	0.082	–	–
CHEN Libo ("Mr. CHEN")	Personal	66,300,000[5]	2.373	–	–
TSANG Sai Chung, Kirk ("Mr. TSANG")	Personal	6,373,000[6]	0.228	–	–
TANG Sau Wai, Tom ("Mr. TANG")	Personal	5,100,000[7]	0.183	–	–
	Family	142,000	0.005	–	–
CHENG Sum Hing, Sam ("Mr. CHENG")	Personal	3,000,000[8]	0.107	–	–

Notes:

1. The personal interest of Mr. OEI represents an interest in 121,941,000 Shares and an interest in 2,300,000 underlying Shares in respect of options granted by the Company as stated below.

2. The corporate interest of Mr. OEI represents an interest in 1,506,671,759 Shares held by Creator Holdings Limited ("Creator"), a company wholly-owned by Mr. OEI and an interest in 393,418,667 Shares held by Genesis Capital Group Limited ("Genesis"), a company owned as to 50% by Mr. OEI and as to the remaining 50% by his wife, Mrs. OEI Valonia Lau ("Mrs. OEI"). Mr. OEI is also a director of Creator and Genesis.

3. The joint interest of Mr. OEI represents the Shares jointly held with Mrs. OEI.

4. The family interest of Mr. OEI represents an interest in 2,300,000 underlying Shares in respect of options granted by the Company to Mrs. OEI.

5. The personal interest of Mr. CHEN represents an interest in 45,800,000 Shares, an interest in 15,500,000 underlying Shares pursuant to the placing agreement dated 19th October 2004 made with Creator and an interest in 5,000,000 underlying Shares in respect of options granted by the Company as stated below.

6. The personal interest of Mr. TSANG represents an interest in 1,373,000 Shares and an interest in 5,000,000 underlying Shares in respect of options granted by the Company as stated below.

7. The personal interest of Mr. TANG represents an interest in 100,000 Shares and an interest in 5,000,000 underlying Shares in respect of options granted by the Company as stated below.

8. The personal interest of Mr. CHENG represents an interest in 3,000,000 underlying Shares in respect of options granted by the Company as stated below.

(ii) Options to subscribe for Shares granted under the share option scheme adopted on 3rd June 2004

Name of Director	Nature of interest	Number of options outstanding as at the Latest Practicable Date	Date of grant	Exercisable period	Exercise price per Share
Mr. OEI	Personal	2,300,000	8th March 2006	8th March 2007 to 7th March 2016	HK$0.83
	Family	2,300,000 *(Note)*	8th March 2006	8th March 2007 to 7th March 2016	HK$0.83
Mr. CHEN	Personal	5,000,000	8th March 2006	8th March 2007 to 7th March 2016	HK$0.83
Mr. TSANG	Personal	5,000,000	8th March 2006	8th March 2007 to 7th March 2016	HK$0.83
Mr. TANG	Personal	5,000,000	8th March 2006	8th March 2007 to 7th March 2016	HK$0.83
Mr. CHENG	Personal	3,000,000	8th March 2006	8th March 2007 to 7th March 2016	HK$0.83

Note: The family interest of Mr. OEI represents an interest in 2,300,000 underlying Shares in respect of options granted by the Company to his wife, Mrs. OEI.

(iii) Interests and short positions in the shares, underlying shares and debentures of associated corporation(s) of the Company

Mr. OEI owns 1 ordinary share (representing its entire issued share capital) in Creator as his personal interests.

Save as disclosed above, none of the Directors or chief executive of the Company held any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Listing Rules, to be notified to the Company and the Stock Exchange.

Substantial Shareholders' Interests

As at 30th June 2006, according to the register of interests kept by the Company under Section 336 of the SFO and so far as was known to the Directors and Chief Executive of the Company, the following persons (other than a Director or Chief Executive of the Company) had an interest or short position in the Shares and underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who were, directly or indirectly, interested in 10% or more of nominal value of any class of share capital (including any option in respect of such capital) carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Name of Shareholder	Nature of interest	Number of Shares (long position)	Approximate percentage of existing issued share capital of the Company	Number of Shares (short position)	Approximate percentage of existing issued share capital of the Company
Mrs. OEI	Personal	2,300,000[1]	0.082	–	–
	Corporate	393,418,667[2]	14.080	–	–
	Joint	1,383,000[3]	0.049	–	–
	Family	1,630,912,759[4]	58.370	32,624,000	1.168
Creator	Beneficial owner	1,506,671,759	53.924	32,624,000	1.168
Genesis	Beneficial owner	393,418,667	14.080	–	–
Shanghai Construction (Group) General Corporation	Beneficial owner	189,000,000	6.764	–	–

Notes:

1. The personal interest of Mrs. OEI represents the underlying Shares in respect of options granted by the Company to Mrs. OEI.
2. The corporate interest of Mrs. OEI represents the Shares held by Genesis.
3. The joint interest of Mrs. OEI represents the Shares jointly held with Mr. OEI.
4. The family interest of Mrs. OEI represents an interest in 1,506,671,759 Shares held by Creator, an interest in 121,941,000 Shares held by Mr. OEI and an interest in 2,300,000 underlying Shares in respect of options granted by the Company to Mr. OEI.

Purchase, Sale or Redemption of Listed Securities

During the period under review, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities.

Corporate Governance

The Company has complied with all the code provisions as set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Listing Rules during the period.

The Company has adopted the Model Code for Securities Transactions by the Directors ("Model Code") set out in Appendix 10 of the Listing Rules as its own code of conduct regarding directors' securities transactions. None of the Directors is aware of any information that would reasonably indicate that the Company is not or was not for any time of the period in compliance with the Code. Specified employees who are likely to be in possession of unpublished price-sensitive information of the Group are also subject to compliance with guidelines on no less exacting terms than the Model Code. A Code for Securities Dealings by Employees has also been adopted in this regards.

On specific enquiries made, all Directors have confirmed that, in respect of the six months ended 30th June 2006, they have complied with the required standard set out in the Model Code.

Closure of Share Transfer Registration

The register of members of the Company will be closed from 16th October 2006 to 17th October 2006 (both days inclusive). In order to qualify for the 2006 interim dividend, all transfer of shares accompanied by the relevant share certificates must be lodged with the Company's Branch Registrars, Computershare Hong Kong Investor Services Limited at Shops 1712–16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:00 p.m. on 13th October 2006, for registration.

Audit Committee

The audit committee comprises three independent non-executive Directors and one non-executive Director with written terms of reference in accordance with the requirements of the Listing Rules, and reports to the Board. The audit committee has reviewed the unaudited condensed consolidated interim financial information of the Group for the six months ended 30th June 2006, which has also been reviewed by the Company's auditors, PricewaterhouseCoopers, in accordance with Statement of Auditing Standards 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Institute of Certified Public Accountants.

By order of the Board
HONG KONG CONSTRUCTION (HOLDINGS) LIMITED
OEI KANG, ERIC
Managing Director and Chief Executive Officer

Hong Kong, 15th September 2006

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Independent Review Report to the Board of Directors of Hong Kong Construction (Holdings) Limited

(Incorporated in Hong Kong with limited liability)

Introduction

We have been instructed by the Company to review the interim financial report of the Company set out on pages 2 to 22.

Respective responsibilities of directors and auditors

The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited requires the preparation of consolidated condensed interim financial information to be in compliance with Hong Kong Accounting Standard 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on this interim financial report 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 SAS 700 "Engagements to review interim financial reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report 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 report.

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 report for the six months ended 30th June 2006.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 15th September 2006

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