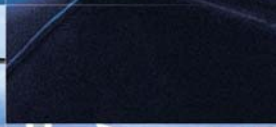




CATIC International Holdings Limited

(Incorporated in Bermuda with limited liability)

Stock Code : 232



Interim Report 2006

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CHAIRMAN'S STATEMENT

BUSINESS REVIEW

Overall review

The Group's consolidated results for the first half of 2006 improved satisfactorily in comparison with those of the corresponding period last year. Turnover reached HK\$543,534,000 (2005: HK\$216,474,000), representing a rise of 151% over the corresponding period last year, which was mainly due to the significant increase in the turnover of facade contracting works. Profit attributable to equity holders amounted to HK\$27,076,000 (2005: HK\$8,586,000), representing a rise of 215% over the corresponding period last year, and a rise of 20% if excluding the gain on deemed disposal of interest in an associate of HK\$16,777,000 during the period. Basic earnings per share was HK¢0.70 (2005: HK¢0.23).

Facade contracting works

Turnover for the first six months of 2006 soared to HK\$461,010,000 which is equal to the turnover of the entire 2005 in the amount of HK\$450,431,000 and when compared to HK\$144,327,000 for the corresponding period in 2005, represents more than two fold increase. Significant increase in turnover during the period was largely attributable to HK\$850,000,000 worth of new contracts secured in 2005. Notwithstanding the substantial increase in turnover, the corresponding gross profit margin nevertheless suffered from the recent price hike in aluminium. Prior to 2005, the prices of major metals including aluminium, copper, nickel and zinc were relatively stable and increases were moderate; however, since the second half of 2005, the prices of different metals, in particular aluminium, which is the principal material in the Group's facade contracting works, rose abruptly. Prior to 2005, the price of aluminium averaged US\$1,700 per metric ton and during the first six months of 2005, hovered around US\$1,800 per metric ton. Then driven by much heated speculations in the market from mid 2005 to mid 2006, the price per metric ton in such a short period of time shot up from US\$1,700 to more than US\$2,600 and at one point as high as over US\$3,200; in term of percentage, the increases ranged from 50% to almost 100%. Recently, the price has come down and settled down around US\$2,400 per metric ton. The Group has taken different measures, include seeking compensation from owners for price escalation and discussing price stabilization measures with suppliers, to alleviate the erosive effect which the rising material cost of aluminium extrusions and panels has made to the gross profit. In all, the facade contracting works has managed to make a profit contribution of HK\$7,990,000 to the Group during the period (2005: HK\$8,078,000).

For the first six months of 2006, new contracts secured by the Group amounted to HK\$109,000,000 including the following major ones:

- (1) Hopson International Tower, Shanghai
- (2) Skyplaza at Chek Lap Kok – South Office Tower, Hong Kong

As at 30 June 2006, the remaining value of contracts in hand amounted to HK\$552,200,000 (31 December 2005: HK\$840,000,000). Since 1 July 2006 to the date of this report, the Group has secured further projects with an aggregate contract value in excess of HK\$1.5 billion. The Group successfully secured a major resort and casino development complex in Las Vegas, Nevada, U.S.A. which witnesses the Group's presence in the U.S. market; furthermore the Group achieved a breakthrough by winning a project in Dubai, the fastest growing city in the Middle East Gulf Region.

Electric and steam power supply

During the first half of 2006, Hangzhou Sealand Electric Power Company Limited ("Hangzhou Sealand"), a subsidiary of the Company, continued to enjoy a steady growth. In comparison with those of the corresponding period last year, the sales volume of electric and steam power increased by approximately 26% and 8%, respectively, and the turnover increased by 15% from HK\$71,619,000 to HK\$82,603,000. The cost of coal dropped by approximately 11% as compared with the corresponding period last year. As a result, the gross profit increased sharply by 192% from HK\$3,872,000 for the corresponding period last year to HK\$11,294,000. For the six months ended 30 June 2006, electric and steam power supply business contributed HK\$10,895,000 (2005: HK\$6,110,000) to the Group's profit.

To cope with the instability in the coal market, in April of this year, Hangzhou Sealand contributed fund to establish a company in Qinhuangdao engaging in the coal business, namely 秦皇島晉杭電力燃料有限公司. The cash consideration was RMB1,500,000 and Hangzhou Sealand held its 30% equity interests. The investment was accounted for as an associate of the Group.

Aero-technology related business

The delivery quantity of EC120 helicopters in the first half of 2006 was lower than expectation. The main reason was the short in supply of materials and parts which caused the delay in the production progress. Having considered the profit and cashflow forecast of Project EC120, the Group made a provision for impairment of HK\$1,000,000 (2005: HK\$1,000,000) against the financial assets thereunder. Together with the accrued income in respect of an exclusive distributorship of certain helicopter engines as mentioned below, the aero-technology related business recorded a loss of HK\$681,000 (2005: profit of HK\$671,000).

During the period, in respect of the exclusive distributorship owned by the Company for the first 20 helicopter engines produced by an independent third party for the three years ending 31 December 2006, the Group recorded an income of approximately HK\$851,000 (2005: HK\$1,560,000), as included in other income.

During the period, the Group recorded a share of profit in an aggregate of HK\$1,060,000 (2005: HK\$683,000) from CATIC Siwei Co., Ltd. (“CATIC Siwei”) (an associate which is engaged in the provision of aero-photographic services in the Mainland) and China Nav-Info Co., Ltd. (“China Nav-Info”) (an associate which is engaged in the business of utilising geographical information system and global positioning system technologies to manufacture location-based navigation products and to provide related services).

Others

Sino Gas Group Limited (“Sino Gas”), the Group’s associate, is a Hong Kong listed company and is principally engaged in the trading of conversion parts and gas station equipment and in the operation of natural gas station. During the first half of 2006, the Group recorded a share of profit of HK\$3,520,000 (2005: loss of HK\$2,562,000) from Sino Gas. In addition, Sino Gas issued new shares during the period and the Group’s shareholding in Sino Gas was diluted from 26.42% to 20.93%. As a result, the Group recorded a gain on deemed disposal of interest in an associate of HK\$16,777,000.

PROSPECTS

The Group, whilst successfully executing the supply contract for the Japanese project and completing the site installation for the Singapore project, has succeeded in tapping the U.S. market. Apart from the projects in Las Vegas which the Group has secured already, the Group is closely monitoring other major U.S. cities for significant property developments. Furthermore, the Group remains focused on winning more projects in Dubai and other cities in the Middle East Gulf Region. In short, the Group, whilst remaining firmly committed to Hong Kong and Macau as its home base, is focusing on the U.S., the Middle East Gulf Region and other overseas markets in order to capture greater development opportunities.

It is expected that the steady economic growth in the Mainland will lead to continuously increasing demand for electric and steam power. In order to meet the market demand, Hangzhou Sealand is actively improving its production efficiency and expanding its production capacity at present by measures such as maintenance, alteration and installation of plant and machinery. Moreover, in coordination with the stringent cost control and high quality management implemented, Hangzhou Sealand is expected to continue to make satisfactory contribution to the Group's profit.

In respect of the aero-technology related business, the production progress of EC120 helicopters has resumed in the second half year. Totally ten helicopters were sold in July and August. CATIC Siwei and China Nav-Info are still in the developing stage and a continuing improvement in result is expected. The Group will continue to develop this business actively in order to groom it to become one of the core businesses in the future.

Due to the high oil price and increasing awareness on environment protection in the Mainland, the demand for the natural gas from the motor vehicles in the Mainland also increases gradually. The Group is optimistic in the future development of Sino Gas and expects that it can derive stable income for the Group.

FINANCIAL REVIEW

Liquidity, capital structure and financial resources

The Group has consistently maintained sufficient working capital. As at 30 June 2006, the Group had current assets of HK\$554,227,000 (31 December 2005: HK\$521,882,000), including cash and bank balances and time deposits in an aggregate of HK\$211,556,000 (31 December 2005: HK\$130,079,000). The Group's current liabilities as at 30 June 2006 were HK\$441,572,000 (31 December 2005: HK\$435,941,000).

In March 2006, the Company issued 268,500,000 new shares at HK\$0.115 per share. As at 30 June 2006, the Group's equity attributable to equity holders of the parent amounted to HK\$528,938,000 (31 December 2005: HK\$471,851,000), comprising issued capital of HK\$400,998,000 (31 December 2005: HK\$374,148,000) and reserves of HK\$127,940,000 (31 December 2005: HK\$97,703,000). The Group's outstanding bank borrowing as at 30 June 2006 amounted to HK\$176,376,000 (31 December 2005: HK\$156,342,000). The Group's gearing ratio, calculated on the basis of total borrowings as a percentage of equity attributable to equity holders of the parent, was 33% (31 December 2005: 33%).

The Group's banking facilities are mainly utilised for the issue of documentary credits for purchase of materials, for the issue of bid bonds and performance guarantees in accordance with contractual terms, and for capital expenditure and general working capital requirements.

Charges on the Group's assets

As at 30 June 2006, the following Group's assets were pledged to secure the Group's bank facilities:

- (a) certain of the Group's land and buildings with an aggregate net book value of HK\$41,347,000 (31 December 2005: HK\$32,826,000);
- (b) certain of the Group's available-for-sale investments with an aggregate carrying value of HK\$19,364,000 (31 December 2005: HK\$20,809,000);
- (c) certain of the Group's long term and short term time deposits amounting to HK\$2,200,000 (31 December 2005: HK\$10,000,000) and HK\$67,451,000 (31 December 2005: HK\$44,812,000) respectively; and

- (d) the Group's investment property with carrying value of HK\$14,900,000 (31 December 2005: HK\$14,900,000).

None of the Group's generation plant and related structure were pledged as at 30 June 2006 whereas certain of the Group's generation plant and related structure with an aggregate net book value of HK\$7,596,000 were pledged as at 31 December 2005.

Exposure to fluctuations in exchange rates

The Group's monetary assets, liabilities and transactions are principally denominated in Hong Kong dollars, Renminbi or United States dollars. As Hong Kong dollars are being pegged to United States dollars, the foreign exchange risk associated with United States dollars is minimal. Nevertheless, as the Renminbi's peg to United States dollars have been replaced by a more elastic exchange rate regime, the Renminbi exchange rate movement might become more volatile which creates an uncertainty on the Group's foreign exchange risk. The Group will continue to monitor the movement in Renminbi's exchange rate and take necessary measures if the situations so justify so as to minimise any adverse impact that fluctuations of exchange rates might have on the Group.

MATERIAL ACQUISITIONS AND DISPOSALS

On 4 January 2006, Sino-Aviation Investments Limited ("Sino-Aviation Investments"), a wholly-owned subsidiary of the Company, entered into an agreement ("JV Agreement") with Chengdu Aircraft Industry (Group) Corporation Ltd ("Chengdu Aircraft") and China National Aero-Technology Import & Export Corporation ("CATIC"), the Company's ultimate holding company, for the establishment of a joint venture to engage in the research and development, design and manufacture of, and provision of technical services for, parts and components for commercial aircraft. According to the JV Agreement, the total registered capital of the joint venture will be RMB100 million (equivalent to approximately HK\$96 million), of which 40%, 45% and 15% will be contributed by Sino-Aviation Investments, Chengdu Aircraft and CATIC respectively. The JV Agreement is effective conditional upon, (i) internal approval obtained by each of the three parties; and (ii) the obtaining of the relevant approvals from the relevant PRC authorities. Further details of the transactions are set out in the circular of the Company dated 26 January 2006. As at 30 June 2006, the JV agreement has not yet been effective.

Saved as disclosed above, the Group had no other material acquisitions or disposals during the period.

CONTINGENT LIABILITIES

Details of the significant contingent liabilities of the Group are set out in note 15 to the interim financial statements.

POST BALANCE SHEET EVENT

Details of the significant post balance sheet event of the Group are set out in note 17 to the interim financial statements.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2006, there were 1,453 (31 December 2005: 1,552) employees in the Group. Staff remuneration packages are determined in consideration of market conditions and the performance of the individuals concerned, and are subject to review from time to time. The Group also provides other staff benefits including medical insurance and grants discretionary incentive bonuses and share options to eligible staff based on their performance and contributions to the Group.

APPRECIATION

I would like to take this opportunity to express my appreciation to my fellow directors and all our staff for their support, hard work and dedication.

By Order of the Board

Fu Shula

Chairman

Hong Kong, 28 September 2006

ADDITIONAL INFORMATION

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

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

(a) Long position in ordinary shares of the Company

Name of director	Number of shares held Personal interests	Percentage of the Company's issued share capital
Ren Haifeng	11,282,000	0.28

(b) Underlying shares in respect of share options

At the annual general meeting held on 14 May 2001, the share option scheme adopted in 1991 (the "1991 Scheme") with a life span of 10 years was terminated and concurrently a new share option scheme (the "2001 Scheme") was adopted.

Subsequent to the adoption of the 2001 Scheme on 14 May 2001, the Stock Exchange introduced a number of changes to Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") on share option schemes. These new rules came into effect on 1 September 2001. In compliance with the amended Chapter 17 of the Listing Rules, a new share option scheme (the "Existing Scheme") was adopted by the Company at the annual general meeting held on 13 May 2003 and at the same time the 2001 Scheme was terminated. Since the adoption of the Existing Scheme, no options have been granted thereunder.

Notwithstanding the termination of the 1991 Scheme and the 2001 Scheme, the relevant provisions thereof remain in full force and effect to the extent necessary to give effect to the exercise of any outstanding share options granted thereunder prior to their respective terminations. Share options granted under the 1991 Scheme were lapsed after 27 July 2005. Details of share options granted under the 2001 Scheme prior to their respective terminations and outstanding as at 30 June 2006 were as follows:

Eligible person	Number of shares options					Date of grant	Exercise period (i)	Exercise price per share (ii) HK\$
	Outstanding at 1 January 2006	Granted during the period	Exercised during the period	Cancelled/lapsed during the period	Outstanding at 30 June 2006			
2001 Scheme								
Director								
Ji Guirong	20,000,000	-	-	-	20,000,000	25/2/2003	25/8/2003 to 24/8/2008	0.13
Other employees	22,000,000	-	-	-	22,000,000	25/2/2003	25/8/2003 to 24/8/2008	0.13
	42,000,000	-	-	-	42,000,000			

- (i) Share options must be held for a minimum of six months before exercise. Exercise period shall not exceed a period of five years commencing on the expiry of a period of not less than six months after the date the option is accepted.
- (ii) The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

Certain directors have non-beneficial personal equity interests in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed above, as at 30 June 2006, none of the directors of the Company had registered any interest or short position in the shares, underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 June 2006, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

Name of shareholder	Number of ordinary shares held	Percentage of the Company's issued share capital	<i>Notes</i>
Tacko International Limited ("Tacko")	1,335,767,000*	33.31	(1)
CATIC (H.K.) Limited ("CATIC (H.K.)")	1,335,767,000#	33.31	(1)
Speed Profit Enterprises Limited ("Speed Profit")	508,616,000*	12.68	(2)
Catic International Finance Limited ("Catic Finance")	508,616,000#	12.68	(2)
China National Aero-Technology Import & Export Corporation ("CATIC")	1,844,383,000#	45.99	(3)
China Aviation Industry Corporation I ("AVIC I")	1,844,383,000#	45.99	(3)
China Aviation Industry Corporation II ("AVIC II")	1,844,383,000#	45.99	(3)

* These shares were directly beneficially owned by these shareholders.

These shares were owned through controlled corporation.

Notes:

- (1) Tacko is a wholly-owned subsidiary of CATIC (H.K.), which is in turn a wholly-owned subsidiary of CATIC. Pursuant to the SFO, both CATIC (H.K.) and CATIC are deemed to be interested in the 1,335,767,000 shares held by Tacko.
- (2) Speed Profit is a wholly-owned subsidiary of Catic Finance, which is in turn a wholly-owned subsidiary of CATIC. Pursuant to the SFO, both Catic Finance and CATIC are deemed to be interested in the 508,616,000 shares held by Speed Profit.
- (3) CATIC is owned as to 50% by AVIC I and as to 50% by AVIC II. Pursuant to the SFO, each of CATIC, AVIC I and AVIC II is deemed to be interested in the aggregate of the shares stated in (1) and (2) above (i.e. an aggregate of 1,844,383,000 shares held by Tacko and Speed Profit).

Save as disclosed above, as at 30 June 2006, no person, other than the directors of the Company, whose interests are set out in the section “Directors’ Interests and short positions in shares and underlying shares” above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities during the period.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to the establishment of good standards of the corporate governance practices by emphasising transparency, accountability and responsibility to its shareholders.

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

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as the Company's code of conduct for dealings in securities of the Company by the directors. Based on specific enquiry of the Company's directors, the directors have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2006.

AUDIT COMMITTEE

The Company has an Audit Committee which was established in compliance with Rule 3.21 of the Listing Rules for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. It currently comprises three Independent Non-executive Directors of the Company.

REVIEW OF INTERIM FINANCIAL STATEMENTS

The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2006 have been reviewed by the Audit Committee, and have been reviewed by Ernst & Young in accordance with Statement of Auditing Standards 700 "Engagement to review interim financial reports" issued by the Hong Kong Institute of Certified Public Accountants.

INTERIM FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED INCOME STATEMENT

		For the six months ended 30 June	
	<i>Notes</i>	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
REVENUE	3	543,534	216,474
Cost of sales		(498,613)	(178,826)
Gross profit		44,921	37,648
Other income and gains	4	7,077	8,557
Administrative and other operating expenses		(35,353)	(34,213)
Impairment of a financial asset under Project EC120		(1,000)	(1,000)
Impairment of available-for-sale investments		(580)	–
Finance costs	5	(3,114)	(2,776)
Gain on deemed disposal of interest in an associate		16,777	–
Share of profits and losses of associates, net of tax		4,580	(1,879)
Excess over cost of acquisition of an associate recognised as income		–	6,215
PROFIT BEFORE TAX	6	33,308	12,552
Tax	7	(4,119)	(2,941)
PROFIT FOR THE PERIOD		29,189	9,611
ATTRIBUTABLE TO:			
Equity holders of the parent		27,076	8,586
Minority interests		2,113	1,025
		29,189	9,611
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	8		
– Basic		0.6971 cent	0.2295 cent
DIVIDEND PER SHARE	9	Nil	Nil

CONDENSED CONSOLIDATED BALANCE SHEET

	<i>Notes</i>	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
NON-CURRENT ASSETS			
Investment property		14,900	14,900
Property, plant and equipment	10	176,053	174,489
Prepaid land premiums/land lease payments		28,098	28,578
Goodwill		38,117	38,117
Interests in associates		142,111	113,629
Financial asset under Project EC120		29,759	30,759
Available-for-sale investments		19,744	10,067
Deferred tax assets		2,705	4,606
Rental and utility deposits		1,200	1,200
Pledged time deposits		2,200	10,000
Total non-current assets		454,887	426,345
CURRENT ASSETS			
Inventories		13,330	11,606
Amounts due from contract customers		21,919	72,904
Accounts and retentions receivable	11	226,151	212,802
Prepayments, deposits and other receivables		56,240	44,569
Prepayment and related receivable in respect of an exclusive distributorship		25,031	38,220
Available-for-sale investments		–	11,702
Pledged time deposits		67,451	44,812
Cash and cash equivalents		144,105	85,267
Total current assets		554,227	521,882
CURRENT LIABILITIES			
Amounts due to contract customers		51,653	103,166
Accounts and bills payable	12	134,587	98,447
Tax payable		1,564	3,299
Warranty provision		9,740	10,230
Other payables and accruals		67,436	64,248
Interest-bearing bank borrowings		176,376	156,342
Finance lease payables		216	209
Total current liabilities		441,572	435,941
NET CURRENT ASSETS		112,655	85,941
TOTAL ASSETS LESS CURRENT LIABILITIES		567,542	512,286

CONDENSED CONSOLIDATED BALANCE SHEET (cont'd)

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
<i>Notes</i>		
NON-CURRENT LIABILITIES		
Deferred tax liabilities	6,401	6,084
Finance lease payables	171	280
Total non-current liabilities	6,572	6,364
Net assets	560,970	505,922
EQUITY		
Equity attributable to equity holders of the parent		
Issued capital	400,998	374,148
Reserves	127,940	97,703
	528,938	471,851
Minority interests	32,032	34,071
Total equity	560,970	505,922

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the parent										
	Issued share capital HK\$'000	Share premium account HK\$'000	Share options reserve HK\$'000	Property, plant and equipment revaluation reserve HK\$'000	Available- for-sale investment revaluation reserve HK\$'000	Reserve fund HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total equity HK\$'000
At 1 January 2006 (unaudited)	374,148	1,973	-	320	-	4,601	4,279	86,530	471,851	34,071	505,922
Exchange realignment	-	-	-	-	-	-	127	-	127	-	127
Change in fair value of available-for-sale investments	-	-	-	-	(1,443)	-	-	-	(1,443)	-	(1,443)
Net profit for the period	-	-	-	-	-	-	-	27,076	27,076	2,113	29,189
Share of movements in post-acquisition reserves of an associate	-	-	673	-	-	-	925	-	1,598	-	1,598
Transfer to reserve fund	-	-	-	-	-	533	-	(533)	-	-	-
Issue of shares	26,850	4,028	-	-	-	-	-	-	30,878	-	30,878
Share issue expenses	-	(1,149)	-	-	-	-	-	-	(1,149)	-	(1,149)
Dividend to a minority shareholder	-	-	-	-	-	-	-	-	-	(4,152)	(4,152)
At 30 June 2006	400,998	4,852	673	320	(1,443)	5,134	5,331	113,073	528,938	32,032	560,970
At 1 January 2005 (unaudited)	374,148	1,973	-	342	-	3,740	795	61,337	442,335	30,464	472,799
Net profit for the period	-	-	-	-	-	-	-	8,586	8,586	1,025	9,611
Transfer to reserve fund	-	-	-	-	-	12	-	(12)	-	-	-
At 30 June 2005	374,148	1,973	-	342	-	3,752	795	69,911	450,921	31,489	482,410

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Net cash inflow/(outflow) from operating activities	37,336	(18,042)
Net cash outflow from investing activities	(28,286)	(67,891)
Net cash inflow from financing activities	49,661	25,948
Net increase/(decrease) in cash and cash equivalents	58,711	(59,985)
Cash and cash equivalents at 1 January	85,267	144,015
Effect of foreign exchange rate changes, net	127	–
Cash and cash equivalents at 30 June	144,105	84,030
Analysis of balances of cash and cash equivalents		
Cash and bank balances	96,402	84,030
Non-pledged time deposits with original maturity of less than three months when acquired	47,703	–
	144,105	84,030

NOTES TO INTERIM FINANCIAL STATEMENTS

1. *Accounting policies and basis of preparation*

The condensed consolidated interim financial statements are prepared in accordance with the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and are in compliance with the Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

The accounting policies and basis of preparation adopted in the preparation of the condensed consolidated interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2005, except for the adoption of certain new or revised Hong Kong Financial Reporting Standards (“HKFRSs”, which also include HKASs and Interpretations (“Ints”)) in the current period for the first time as disclosed in note 2 below.

2. *Impact of new or revised HKFRSs*

The HKICPA has issued a number of new or revised HKFRSs, which are effective for accounting periods beginning on or after 1 January 2006. The Group has adopted the following new or revised HKFRSs which are relevant to its operations:

HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
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In accordance with the amendments to HKAS 39 and HKFRS 4 regarding financial guarantee contracts, financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of (i) the amount determined in accordance with HKAS 37 “Provision, Contingent Liabilities and Contingent Assets” and (ii) the amount initially recognised, less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 “Revenue”.

2. *Impact of new or revised HKFRSs (cont'd)*

The adoption of the above new or revised HKFRSs has had no material impact on the Group's condensed consolidated financial statements.

The Group has not early adopted the following new or revised HKFRSs which have been issued but not yet effective, in these condensed consolidated financial statements:

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

The adoption of these new or revised HKFRSs is not expected to result in material impact on the Group's financial statements in the period of initial application.

3. Segmental information

The following table presents revenue and results for the Group's business segments.

	2006				2005			
	Facade contracting works (Unaudited) HK\$'000	Electric and steam supply (Unaudited) HK\$'000	Aero-technology related business (Unaudited) HK\$'000	Consolidated (Unaudited) HK\$'000	Facade contracting works (Unaudited) HK\$'000	Electric and steam supply (Unaudited) HK\$'000	Aero-technology related business (Unaudited) HK\$'000	Consolidated (Unaudited) HK\$'000
Segment revenue:								
Sales to external customers	461,010	82,603	(79)	543,534	144,327	71,619	528	216,474
Other income	71	4,001	851	4,923	17	5,691	1,560	7,268
Total	461,081	86,604	772	548,457	144,344	77,310	2,088	223,742
Segment results	7,990	10,895	(681)	18,204	8,078	6,110	671	14,859
Interest income, rental income and unallocated gains				2,153				1,289
Unallocated expenses				(5,292)				(5,156)
Finance costs				(3,114)				(2,776)
Gain on deemed disposal of interest in an associate				16,777				-
Share of profits and losses of associates, net of tax				4,580				(1,879)
Excess over cost of acquisition of an associate recognised as income				-				6,215
Profit before tax				33,308				12,552
Tax				(4,119)				(2,941)
Profit for the period				29,189				9,611

4. Other income and gains

	For the six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Income accrued in respect of an exclusive distributorship of certain helicopter engines	851	1,560
Interest income	1,825	1,015
Income from installation of infrastructure for steam supply	29	1,966
Government grants	769	1,780
Income from sale of coal residues	3,202	1,893
Gross rental income	294	291
Gain on disposal of items of property, plant and equipment	35	–
Others	72	52
	7,077	8,557

5. Finance costs

	For the six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Interest on bank overdrafts and bank loans wholly repayable within five years	4,722	2,987
Less: Amount capitalised to long term construction contracts	(1,622)	(231)
	3,100	2,756
Interest on a finance lease	14	20
	3,114	2,776

6. Profit before tax

The Group's profit before tax is arrived at after charging/(crediting):

	For the six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Depreciation	8,219	9,397
Less: Amount capitalised to long term construction contracts	(1,814)	(1,656)
	6,405	7,741
Recognition of prepaid land premiums/land lease payments	480	220
Provision/(write-back of provision) for doubtful debts	(169)	600
Loss on disposal of items of property, plant and equipment	-	23

7. Tax

No Hong Kong profits tax has been provided as the Group had available tax losses brought forward to offset the estimated assessable profits arising in Hong Kong for the current and prior periods. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislations, interpretations and practices in respect thereof.

	For the six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Current		
– Mainland China	1,801	1,105
– Elsewhere	100	–
Deferred	2,218	1,836
Total tax charge for the period	4,119	2,941

8. Earnings per share attributable to ordinary equity holders of the parent

The calculation of basic earnings per share are based on:

	For the six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Earnings		
Profit for the period attributable to ordinary equity holders of the parent	27,076	8,586

8. Earnings per share attributable to ordinary equity holders of the parent
(cont'd)

	Number of shares	
	2006 '000	2005 '000
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	3,883,890	3,741,481

Diluted earnings per share amounts for the six months ended 30 June 2005 and 2006 have not been disclosed as the share options outstanding during these periods had an anti-dilutive effect on the basic earnings per share for these periods.

9. Dividend

The directors do not recommend the payment of any interim dividend for the six months ended 30 June 2006 (six months ended 30 June 2005: Nil).

10. Property, plant and equipment

During the period, the Group incurred HK\$7,068,000 in development of construction in progress, HK\$1,116,000 in purchasing furniture, fixtures and equipment, HK\$671,000 in purchasing motor vehicles, HK\$614,000 in purchasing plant and machinery, and HK\$281,000 in purchasing generation plant and related structure.

11. Accounts and retentions receivable

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Accounts receivable	147,531	140,271
Retentions receivable	96,381	90,461
	243,912	230,732
Less: Provision for doubtful debts	(17,761)	(17,930)
	226,151	212,802

An aged analysis of accounts receivable as at the balance sheet date, based on invoice date, is as follows:

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Current	113,716	112,643
31-60 days	27,189	21,522
61-90 days	2,267	1,278
Over 90 days	4,359	4,828
	147,531	140,271
Less: Provision for doubtful debts	(3,984)	(3,984)
	143,547	136,287

Retentions receivable represent certified contract payments in respect of works performed, for which payments are withheld by customers for retention purposes, and are released to the Group pursuant to the provisions of the relevant contracts after the completion of the projects in question. No aged analysis of retentions receivable is presented as the amount retained is provided for on each payment up to a maximum amount calculated on a prescribed percentage of the contract sum.

12. Accounts and bills payable

An aged analysis of accounts and bills payable, as at the balance sheet date, based on the invoice date, is as follows:

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Current	121,182	94,739
31-60 days	–	1,028
61-90 days	11,045	198
Over 90 days	2,360	2,482
	134,587	98,447

13. Share capital

	Number of ordinary shares (Unaudited) '000	Nominal value (Unaudited) HK\$'000
Ordinary shares of HK\$0.10 each, issued and fully paid:		
At 1 January 2006	3,741,481	374,148
Issue of shares	268,500	26,850
At 30 June 2006	4,009,981	400,998

During the period, 268,500,000 ordinary shares of HK\$0.1 each were issued to an existing shareholder for cash at a subscription price of HK\$0.115 per share for a total cash consideration, before issue expenses, of HK\$30,877,500.

14. Commitments

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Contracted, but not provided for:		
Acquisition of plant and machinery	11,558	14,333
Establishment of a joint venture (a)	38,462	–
	50,020	14,333
Authorised, but not contracted for:		
Establishment of a joint venture (a)	–	38,462
	50,020	52,795

- (a) On 4 January 2006, Sino-Aviation Investments Limited, a wholly-owned subsidiary of the Company, entered into an agreement with Chengdu Aircraft Industry (Group) Corporation Ltd and China National Aero-Technology Import & Export Corporation ("CATIC"), the Company's ultimate holding company, for the establishment of a joint venture. Further details are set out under the heading of "Material Acquisitions and Disposals" in the Chairman's Statement.

15. Contingent liabilities

As at 30 June 2006, the Group had contingent liabilities in respect of guarantees under performance bonds for construction contracts in the amount of HK\$150,408,000 (31 December 2005: HK\$58,815,000) and guarantees for banking facilities granted to major suppliers of HK\$65,385,000 (31 December 2005: HK\$44,231,000). In addition, the Group had a contingent liability in respect of possible future long service payments to employees under the Hong Kong Employment Ordinance with a maximum possible amount of HK\$622,000 (31 December 2005: HK\$493,000) which has not been recognised as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

16. Related party transactions

- (a) In addition to the transactions and balances described elsewhere in the interim report, the Group had the following material transactions with related parties during the period:

	Notes	For the six months ended 30 June	
		2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Rental income received from a shareholder	(i)	294	274
Interest received from an associate	(ii)	-	57
Net income/(loss) from Project EC120	(iii)	(79)	528

Notes:

- (i) During the period, the Company renewed the tenancy agreement with CATIC (H.K.) Limited ("CATIC (H.K.)"), a deemed shareholder of the Company, to lease the Company's investment property to CATIC (H.K.) for a term of one year commencing on 1 January 2006 at a monthly rental of HK\$48,980 (exclusive of rates, management fees and air-conditioning charges). The rental was determined with reference to open market rentals.
- (ii) During the six months ended 30 June 2005, the Company had granted loans in aggregate of HK\$4,500,000 to Sino Gas Group Limited ("Sino Gas"). The loans bore interest at 2.5% over the 3-month Hong Kong Interbank Offered Rate per annum, which was either equal to or above the costs of fund of the Company. The loans and the related interest expenses had been fully settled during that period.
- (iii) Balance represented net income or loss from CATIC generated from Project EC120.
- (iv) As at 30 June 2005, the Group had a loan of RMB3,000,000 granted to 北京中油潔能環保科技有限責任公司, a subsidiary of Sino Gas registered in the People's Republic of China. The loan was interest-free and had been fully settled during the year ended 31 December 2005.

16. Related party transactions (cont'd)

- (v) On 15 March 2006, Billirich Investment Limited ("Billirich"), a wholly-owned subsidiary of the Company, entered into (i) a placing agreement with Sino Gas and an independent third party in relation to a placement of 100,000,000 ordinary shares of Sino Gas held by Billirich at a placing price of HK\$0.52 per share to that independent party; and (ii) a subscription agreement with Sino Gas in relation to a subscription of 100,000,000 new ordinary shares of Sino Gas at a subscription price of HK\$0.52 per share by Billirich. Upon completion of the aforesaid placement and subscription, the Group's interests in Sino Gas had been reduced from 26.42% to 24.03%.
- (b) Compensation of key management personnel of the Group:

	For the six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Short term employee benefits	3,276	3,250
Post-employment benefits	213	212

17. Post balance sheet event

- (a) On 10 July 2006, Billirich Investment Limited, a wholly-owned subsidiary of the Company, entered into a subscription agreement with Sino Gas to subscribe for 25,000,000 new ordinary shares of Sino Gas at a subscription price of HK\$0.53 per share for a total cash consideration of HK\$13,250,000. Together with other subscription agreements entered into by Sino Gas, Sino Gas agreed to issue and allot an aggregate of 165,000,000 ordinary shares at the subscription price of HK\$0.53 per share. The aforesaid subscriptions were completed in August 2006. The Group's interest in Sino Gas has been diluted from 20.93% to 20.27%.
- (b) During the period from 10 August 2006 to 16 August 2006, the Company repurchased on the Stock Exchange a total of 24,678,000 shares of the Company at prices ranged from HK\$0.092 to HK\$0.099 per share. The total consideration paid for these shares amounted to approximately HK\$2,402,000. As at the date of the interim report, all the relevant share certificates in respect of the repurchased shares had been duly cancelled and destroyed.

INDEPENDENT REVIEW REPORT



TO THE BOARD OF DIRECTORS OF CATIC INTERNATIONAL HOLDINGS LIMITED

Introduction

We have been instructed by the Company to review the interim financial report set out on pages 14 to 30.

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 an interim financial report to be in compliance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) 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 the 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 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 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 30 June 2006.

Ernst & Young

Certified Public Accountants

Hong Kong

28 September 2006