

## **BUSINESS REVIEW AND PROSPECTS**

### **Operating Results**

For 2006 the total of group turnover and share of turnover of jointly controlled entities (“Group Turnover”) rose from HK\$696 million in 2005 to HK\$989 million. This was mainly due to consolidating a full year results for Kaden. This company was acquired in June 2005 and thus its turnover was only partially consolidated last year. The overseas turnover for the Group, which came largely from business in the PRC, was still below expectations at HK\$130 million and accounted for only 13% of Group Turnover.

The net profit recorded was HK\$7 million representing a drop of HK\$24 million compared to 2005. This came from investments in various securities, which overall appreciated 68% in the year resulting in a profit of HK\$33 million after tax. This was offset by a loss from the Group’s construction activities of HK\$6 million and a one-off tax charge on the profits of construction joint ventures in prior years of HK\$20 million.

During 2006, the Group was successful in securing eighteen new contracts with a total value of HK\$503 million. A further five contracts have been secured to date in 2007. As at the date of this report, the Group’s order book stood at HK\$4,466 million whilst the value of work outstanding was approximately HK\$1,700 million.

### **Hong Kong**

Hong Kong has continued to be the main operating base of the Group but the market conditions have again been difficult with public sector tenders few and far between. The major new public works contract secured was the development of the Ecopark at Tuen Mun Area 38 valued at over HK\$200 million. In the private sector the Group was able to expand its client base further. Significant private sector contracts were secured for an aircraft hangar for Hong Kong Business Aviation Centre, Ltd. at the airport, a major building refurbishment project in Hung Hom for a prestigious developer and several smaller contracts for Airport Authority Hong Kong (“AA”).

During the year several contracts were completed successfully including the major hangar project for Hong Kong Aircraft Engineering Company Limited. Just 13 months after commencement, the first aircraft to use the facility rolled in on 15 December 2006 – an impressive performance by all concerned. Also an aircraft maintenance apron and the SkyCity carpark were completed for AA valued over HK\$80 million. Other contracts were substantially completed during the year; amongst these were tunnels on Lamma Island for Hong Kong Electric Company Limited, noise barriers works on the Fanling Highway and a new flyover complex in Causeway Bay for Highways Department.

### **BUSINESS REVIEW AND PROSPECTS (Continued)**

#### **Hong Kong (Continued)**

Our strategy of improving the quality of our service has been successful and the performance scores of the various operating companies as measured by ETWB have improved or been maintained and are above the industry average. We have continued to give considerable attention to site safety and the Group's accident frequency rate is also better than the industry average. The continuous improvement in safety over the last three years reflects the effort by all concerned and should bode well for us when the market picks up.

Although we predicted last year that the civil engineering market would improve in 2006, this was not the case. The public works programme for 2007 does not show any improvement in spending but we will continue to tender wherever possible. In the private sector, neither Kowloon-Canton Railway Corporation ("KCRC") nor MTR Corporation Limited ("MTRC") called for any major tenders. It is now unlikely that any new rail projects will be tendered until 2008, after the merger of MTRC and KCRC is complete. However we are prepared and ready to bid when they do come out. AA is expected to continue their programme of enhancement work at the airport and we will also continue to bid for Hong Kong Electric Company Limited projects as well as for other private sector projects.

#### **The PRC**

##### *Civil Engineering*

Civil engineering continues to be an important but difficult market for us. During the year our civil engineering construction activity in the PRC generated a turnover of HK\$97 million for the Group. A small profit was recorded, being an improvement of loss situation in the past.

In the environmental sector, the construction of our first build-operate-transfer project for which we are investors – a 20,000-tonne per day sewage plant at Wuxi City, Jiangsu Province – was completed after the year end, slightly late but within budget. We are now focusing on the operation of the plant, which will be for a period of 30 years. Whilst the treatment and quality of the effluent is satisfactory, the throughput to date is disappointingly low. We expect a significant improvement during 2007. We are now actively seeking further suitable environmental projects in which to invest. However we are well aware of the limitations of our balance sheet and we will examine only those projects that are within our capacity as well as our capability.

As stated last year, we have now agreed to increase our stake to 49% in our joint venture company – China Railway Tenth Group Third Engineering Co., Ltd. This will provide an operating platform from which to develop our construction activity in the PRC. During the year, this company substantially completed one pipeline project in Wuxi City and secured one major highway project – Shang Man Highway No. 28 in Shaanxi Province valued at over RMB70 million.

Our joint venture with STAMsteel Sdn. Bhd. to undertake long span steel structures in the PRC has yet to produce any meaningful results but we remain optimistic. Some consultancy work has been secured for an aircraft hangar and we will continue to seek opportunities for construction.

## **BUSINESS REVIEW AND PROSPECTS (Continued)**

### **The PRC (Continued)**

#### *Building*

During the year our 40% joint venture with Road King known as Li Jun, contributed HK\$14 million of turnover to the Group. The development project being undertaken by Li Jun in Changzhou is progressing well and three towers were topped out by the year-end. A new phase is now commencing and the volume of work under construction is increasing significantly.

Subsequent to Road King's recent acquisition of a major real estate development company in the PRC, Sunco Group, the Group is pursuing further opportunities with Road King, either as a contractor or as developer-construction manager. It is anticipated that such a relationship would generate a steadily increasing turnover and margin in the next few years.

The Group is now positioning itself in the PRC building market to be a preferred business partner that can deliver quality services and products to those clients seeking value-added solutions. Our strategy for future growth is to become an important strategic partner with Road King as well as with other foreign investors in the PRC.

### **Middle East/UAE**

The profit predicted for 2006 was not achieved and the level of activity has not increased as fast as expected. A breakeven result was recorded.

During the first half of the year two projects were secured and completed, namely the Sila Harbour Seawall and the Dubai Dry-dock dredging works. The latter was secured as a result of our outstanding performance on the first Dubai Dry-dock project executed last year.

In September 2006, we formed a long term, exclusive, 50:50 joint venture with ACC to undertake marine engineering construction. ACC is a major contractor in the UAE and we believe that its local contacts, knowledge and experience will benefit the Group whilst we will bring to them specialist marine experience. One small project for a cooling water intake at the Taweelah Power Plant in Abu Dhabi has been secured and is in progress. Currently several tenders are outstanding and we are optimistic of some success. It has recently been agreed with ACC to extend the activities of the joint venture to general civil engineering as well as marine related work.

### **BUSINESS REVIEW AND PROSPECTS (Continued)**

#### **Middle East/UAE (Continued)**

To date our vessels in the UAE have been working under a foreign flag with temporary navigation licenses. Nevertheless, our application for ship classification status is progressing. The possession of this status will prove that the safety of our vessels is up to the international standards and will facilitate the future renewal of the navigation licenses. During 2006 the utilisation of the vessels was satisfactory. In addition to hiring of our dredging spread for projects, our 8000T semi-submersible barge was chartered for vessel and oil rig repair; it was also used for launching of two 2000-tonne light displacement ocean-going tugboats in Qatar. The Group had reviewed the market from time to time and, without jeopardizing the performance and efficiency of our fleet, three split barges were sold.

#### **Taiwan**

There has been very little activity during the year but the final accounts of the joint ventures for the various trackwork contracts related to the Taiwan High Speed Railway have substantially been wrapped up successfully. These have all been profitable and contributed HK\$2 million profit to the Group in 2006.

The Group remained selective in tendering local government projects in Taiwan. One new marine project with a contract value NT\$460 million, was secured in 2007.

#### **Employees and Remuneration Policies**

As at 31 December 2006, the Group had a total of 1,039 employees and total remuneration for the year ended 31 December 2006 was approximately HK\$161 million. Competitive remuneration packages are structured for each employee to commensurate with individual responsibility, qualifications, experience and performance. In addition, discretionary bonuses may be paid depending upon the financial performance of the Group as well as that of the individual.

## FINANCIAL REVIEW

### Liquidity and Financial Resources

As at 31 December 2006, the Group had liquid assets of HK\$153 million (as at 31 December 2005 : HK\$122 million) comprising held-for-trading investments of HK\$94 million (as at 31 December 2005 : HK\$56 million) and bank balances and cash of HK\$59 million (as at 31 December 2005 : HK\$66 million).

As at 31 December 2006, the Group had a total of interest bearing borrowings of HK\$161 million (as at 31 December 2005 : HK\$91 million) with the following maturity profile:

	<b>As at 31 December 2006 HK\$ million</b>	As at 31 December 2005 HK\$ million
Borrowings due within one year	<b>107</b>	38
Borrowings due in the second year	<b>32</b>	18
Borrowings due in the third to fifth year inclusive	<b>22</b>	35
Total borrowings	<b><u>161</u></b>	<b><u>91</u></b>

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

### Capital Structure and Gearing

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

As at 31 December 2006, the gearing ratio, representing total interest bearing borrowings as a percentage of total equity, was 100% (as at 31 December 2005 : 59%).

## FINANCIAL REVIEW (Continued)

### Pledge of Assets

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

Certain equity securities with market value of HK\$42 million (as at 31 December 2005: HK\$20 million) were pledged to bank to secure general banking facilities granted to the Group.

### Commitment

As at 31 December 2006, the Group had capital commitment of HK\$12 million (as at 31 December 2005 : nil) to increase the Group's shareholding in a joint venture established in the PRC from 25% to 49%.

### Contingent Liability

	<b>As at 31 December 2006 HK\$ million</b>	<b>As at 31 December 2005 HK\$ million</b>
Outstanding tender/performance/retention bonds in respect of construction contracts	<u><u>55</u></u>	<u><u>38</u></u>