

# Chairman's Statement



## SUSTAINABILITY. VALUE-ADDING. HARMONY. WIN-WIN.

"In 2006, the Group adhered to its sound operation strategy of "Competing by Low Cost and High Quality of Management" and succeeded in maintaining its competitiveness in the Hong Kong market and in expanding the markets of Macau, Dubai and India energetically, and achieved satisfactory results of operation. In 2007, the Group will continue to focus on its core business, to enhance its competitiveness, to maintain its position as an industry leader, and to apply the principle of prudent financial management to strengthen its cash flow management, so as to maximize the shareholders' value. The Group will gradually be developed into an evergreen corporation."

## THE ANNUAL RESULTS

The Group's audited profit attributable to shareholders for the year ended 31 December 2006 increased by 46.2% to HK\$222,182,000, and earnings per share was HK45.05 cents. The equity attributable to shareholders increased by 17.6% to HK\$974,201,000. Net assets per share amounted to HK\$1.95, an increase of 16.1% over 2005.

## PAYMENT OF DIVIDENDS

The Board recommends the payment of a final dividend of HK10 cents per share for the year ended 31 December 2006, together with the interim dividend of HK9 cents per share, the annual total dividends per share will be amounted to HK19 cents, an increase of 111% over last year.

## REVIEW OF OPERATION

In 2006, the rapid economic growth of emerging nations such as China and India spur the global economy to maintain a steady increase. The Group adheres to its sound operation strategy of "Competing by Low Cost and High Quality of Management" and succeeds in maintaining its competitiveness in the market of Hong Kong, expanding to other markets, and has achieved satisfactory results of operation.

### The Hong Kong Market

The economy of Hong Kong continued to recover. The robust economy of China again gave impetus to the growth of the export trade and economy of Hong Kong. However, the construction industry still lagged behind

the overall economic development amid the intense competition. In the long-term, with the sound fundamentals of Hong Kong economy and a host of new investments in infrastructure to follow soon, the construction industry will recover. The total number of contract works as well as the contract value will rise steadily with it.

### The Macau Market

The overall economy of Macau is rosy. With the continuous rapid growth in GDP, investors from around the world came pouring into Macau. Also, the Macau government has done a lot to maintain Macau being attractive to the investors by increasing investment in infrastructure and improving the local operation environment and hardware facilities. As such, the Macau market in future remains optimistic.



**Mr. KONG Qingping**  
*Chairman and  
Non-executive Director*

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On 9 May 2006, a sales and purchase agreement was entered between the Company, China Overseas Holdings Limited ("COHL") and its wholly-owned subsidiary China Overseas Construction Limited ("COCL"), pursuant to which COHL and COCL agreed to transfer the entire share capital of China Construction Engineering (Macau) Company Limited ("CCEM") at a cash consideration of HK\$86,185,000. The transfer of controlling interest demonstrated the strong support by the Group's parent company. It has opened up further room for the Group's development by creating the platform on which the Group may participate more fully in the market of Macau with the operations of both Hong Kong and Macau at its feet.

## The Market of the United Arab Emirates

The economy of Dubai of the United Arab Emirates enjoys strong growth and becomes one of the fastest economic growth areas in the world, drawing a large number of investors to the Dubai market. The construction business of Dubai continues to see a prosperous future as it has become an important driver for the local employment, increasing in income and economic growth. Large projects from both the public and the private sector have been launched onto the market one after another. As the investment environment of the United Arab Emirates favors business expansion, the Group has the strategy in place to seize opportunities at the right time, while adhering to its prudent operation strategy to explore the local business and to make new progress.

## The Indian Market

India is a major country in the South Asia region with an emerging economy, where the growth is rapid. In 2006, the construction market of India continued to be thriving, and with its prudent and sound operation strategy, the Group worked hard to implement its construction-in-progress and selectively took part in a few targeted tender processes, thus ensuring its steady development in the Indian market.

## Projects Completed During the Year

In 2006, the Group completed 29 projects. Projects completed in Hong Kong mainly included Asia Airfreight Terminal Expansion; Cyberport Residential Development for Phases RIII & RIVa; Proposed Commercial/Residential Development at Hoi Fai Road; A New Infectious Disease Centre at Princess Margaret Hospital; New Kowloon Inland Lot 6196, Cornwall Street, Superstructure; Shek Mun Campus for School of Continuing Education, HKBU; Redevelopment of Members Stand I Building (Phase A) at Happy Valley; Construction of Proposed Through—Train Schools at Tseung Kwan O; Infrastructure for Penny's Bay Development—Contract 2; Deep Bay Link—Southern Section. Projects completed in Macau mainly included Wynn Resorts Phase I and Construction of Nova Taipa Gardens, Phase 2C.

## New Contracts

The Group secured 36 new contracts in 2006, the aggregate attributable contract value of which amounted to approximately HK\$14.09 billion, of which the Hong Kong market accounted for 32.2%, the Macau market accounted for 56.7% and the overseas market accounted for 11.1%.

New contracts awarded in Hong Kong mainly included Design and Construction of a Sports Ground at Area 45, Tseung Kwan O; KCRC Wu Kai Sha Station, Ma On Shan; TWTL 394 Yeung Uk Road Tsuen Wan; St. Paul's Hospital Redevelopment; Landslide Preventive Works at Po Shan Road, Mid-levels; 2008 Olympic Equestrian Venues Core Venue Main Construction Contract. Major new projects in Macau included City of Dreams, Residential Development at Nam Van Lake Lot C9; 青洲社會房屋綜合體建造工程 — B及C大樓的承攬工程; Construction of Nova Taipa Gardens, Phase 2A; Design, Supply, Installation, Construction and Commissioning of the Macao MSR Drinking Water Treatment Plant

Extension; 路環污水處理站第二期設計及建造. Major new projects in Dubai mainly included Lease Office Building, JAFZ South and Golf Towers III residential project.

### Projects in Progress

As at 31 December 2006, the Group had 60 projects in progress. The contract value of these projects amounted to HK\$32.20 billion, and the contract value of projects to be completed amounted to HK\$20.03 billion.

Projects in progress has been smoothly undertaken and the Group continues to put great efforts in the quality, safety, environmental protection, progress and cost control area in accordance with the laws of the local government and contract requirements, so as to provide products and services of the best quality.

### Corporate Governance

The Group strictly complies with the Rules and Regulations and the Rules of The Stock Exchange of Hong Kong Limited. By effective monitoring of the Board and regular communication with the investors and timely release of the relevant information to let investors have a better understanding of the Company, the standard of corporate governance is further improved.

The Group will maintain an effective corporate governance structure and continue to improve the internal risk monitoring system to ensure that the interests of shareholders are better protected.

### Financial Management

The Group has been adhering to the principle of prudent financial management. The Group's financial, capital management and external financing function are centralized at head office level. As at 31 December 2006, the Group had bank deposits of HK\$1.74 billion, bank overdrafts of HK\$14 million, thus, the financial position was very healthy. The Group also has sufficient committed but unused facilities (including bank loans, surety bonds and letter of credit, etc.) of HK\$2.56 billion to meet the need for business development. As for the overseas market, the Group is closely monitoring the local economic to heed any risk in currency or interest rate.

At the annual inhouse business and finance conference, the Group has made a strategic evaluation and financial analysis on its overall operations which become an important guideline to the Group's business development.

### Human Resources Management

The Group firmly believes that people are the most important asset of a company. The Group has been consistently trying its best to provide the staff with a working environment which is both challenging and harmonious. The Group promotes life-time learning culture and provides training and development opportunities, thereby widening the perspective of the staff and improving the quality of the staff to help them to grow and mature. The Group also provides opportunities for promotion. The Group firmly believes



Asia Airfreight Terminal Expansion



Central Reclamation Phase 3

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Construction of Nova TaiPa Gardens, Phase 2B



Design and Construction of a Sports Ground at Area 45 Tseung Kwan O



New Kowloon Inland Lot 6196, Cornwall Street, Superstructure

that people are the base of everything and the Group shares the fruits of operation with them. This is a way to pay back the community and to practice good corporate citizenship.

## Social Responsibilities

Taking to heart its traditional idea and value for the corporate social responsibilities, other than the pursuit of the best interests for the shareholders, the Group also emphasizes customer service, environmental protection and staff welfare.

The Group regularly organizes voluntary workers to visit with care those elderly who are living alone, and the Group also organizes voluntary team of workers to play programs for the senior citizens, and in doing so, we bring them joy and blessings. The Group also participated in community activities and charity, including the love and care team of 300 persons for the "Community Chest Walks for Millions" held on Hong Kong Island, the "Community Chest Treasure Hunt Corporate Challenge", and the "MTR Race Walking" to raise money to help the needed.

## Key Awards

The Group received the "2006 Hong Kong Awards For the Industries: Productivity and Quality Award" organized by the HKSAR Government and seven industrial or commercial organizations. The Group is the only construction company that was awarded the honour in the year.

The infrastructure works of Hong Kong Penny's Bay Disneyland (Phase I and II) undertaken by the Group received the "Sixth Zhan Tianyou Grand Price for Civil Engineering" awarded jointly by the China Civil Engineering Academy and the Zhan Tianyou Development Fund for Civil Engineering Technology.

The Group has also actively participated in various safety and environment protection campaign. In 2006, the Group has achieved splendid results and won a number of safety and environmental protection prizes.

## Corporate Culture

The Group as a creative enterprise is filled with a culture of progressing with time. The Group is not only a platform for creating wealth to shareholders, but is also creating a two-way stream for feelings and fun for employers, business partners and its staff. The Group practice of "to serve with heart every day", serving its customers satisfactorily with love, patience, enthusiasm, sincerity, perseverance, truthfulness and care.

## **BUSINESS PROSPECTS**

The movements of oil price and interest rate remain important factors affecting the global economic development in future. It is anticipated that the global economy this year will see steady growth.

### **The Hong Kong Market**

With the peripheral environment continues to be favourable, improvement in consumers' confidence and the perception that interest rate may drop, the economy of Hong Kong will continue to enjoy moderate growth. This is favorable to the government's realizing its undertakings in the financial budget for 2007 to speed up the implementation of large infrastructure projects and improve the business environment step by step. The Board is confident that the Group can maintain its position as one of the largest construction contractors in Hong Kong.

### **The Macau Market**

The Group has successfully entered the Macau market by acquiring CCEM. The Board believes that CCEM is well-positioned as it is familiar with the local market. In addition, with its professional management and financial strength, the Group shall be able to achieve synergy and resources sharing to enhance its competitiveness in the Macau market and to turn Macau as an important source of profit.

### **The Market of the United Arab Emirates**

The Group is highly confident in the prospects of the United Arab Emirates market. On the basis of executing well projects which the Group is undertaking, the Group seizes the further opportunity of the growing construction market in Dubai and fully displays its

competitive strengths, so that the Group shall grow stronger and bigger in Dubai. Where its resources permit, the Group may enter into the market of Abu Dhabi.

### **The Indian Market**

The Board will closely monitor the development of the Indian construction market. The Indian government further expands its investment in infrastructure and real estate market, and the private investment is now permitted to participate in the construction of related projects, this adds new momentum to the construction market of India. It is anticipated that the volume of contracting for Indian projects will be huge and the prospects are thus very attractive. The Group will prudently select target investment and explore the Indian market step by step.

### **Operation Strategy**

**Business layout** – The Group will give more emphasis on the balance between scale and benefits, opportunities and risk, and in consolidating its market shares in Hong Kong and Macau and expanding the markets in the United Arab Emirates and India. The Group insists that operation on its own should be the main stream and joint venture should be the supplement. The major overseas market is Dubai, but the Group is also well-prepared to enter into the Abu Dhabi market. At the same time, the Group will maintain its construction operations in India and explore selectively.

# Chairman's Statement

**Project management** – The Group believes in “Pursuit for Excellence”. While its business development is moving on a fast track, the Group enhances on project management and to implement comprehensive quality service. The Group promotes the [5+3] project management model, namely: balanced development in five major aspects: project quality, progress, safety, environmental protection and cost. The Group also emphasizes that the three assurance systems on workflow, process and responsibility are practiced at the decision-making, management and operating levels so that the contract responsibility, operation responsibility and social responsibility are organically integrated. All these are aimed at making sure that projects are managed superbly. The Group will extend its proven [5+3] project management model to other places in the world and have it adjusted according to the local regulatory requirements and practices so as to minimize any disparity which will affect the quality. The Group aims at consolidating its advantage in brand name and maintains its good reputation.

**Investment opportunities** – With construction as the core business, the Group shall further expand into other construction-related businesses, thereby balancing

market risk and increasing its profitability. As such, the Group has formed an Investment and Development division to look for investment opportunities, “generate sustainable profit” is the fundamental target for the Group's business expansion and operations. The Group will closely study the development of the domestic market on the Mainland and examine the BT (Build-Transfer) model and PPP (Public-Private-Partnership) model and seek to enter the Mainland market, thereby maximizing shareholders' value.

## Financial Management

The Group will continue to strengthen its financial management, pay more attention to taxation management, and increase the utilization rate of capital by optimizing cash flow efficiency while meeting the need of business development, the financial safety will not be undermined. The Group will also continue to make an active effort to promote its ERP system aiming at strengthening the flow of project and financial information and cost control, so as to ensure the overall financial safety and improve its operation efficiency and risk management capability.



TWT 398, Tai Ho Road, Tsuen Wan, Superstructure



Dubai Mall Hotel

### **Company Mission**

The Group has been engaged in the construction business for over 20 years, and by its continued development and accumulation of experience, the Group has established competitive advantages in five major aspects: firstly, well-experienced highly efficient and talented management team; secondly, mature and highly efficient internal management control systems; thirdly, good working relationships with subcontractors and suppliers; fourthly, reputation and proven track records; fifthly, strong financial and technical support from its parent company.

The Group strongly believes that by using people well, and by continued innovations and reinforcing its core competitiveness, added value will be created for the Group's products, customers, shareholders and staff. To further enhance the interests of the Company, the Group places more emphasis on the creation of a harmonious and win-win operating and working environment. The Group has also put effort on raising its standard on corporate governance and ethical values to strengthen the proactive attitude of its staff and responsible to community, which will eventually turn into a win-win situation for shareholders, business partners, staff, the community and the Group.

The Group will continue to focus on its core business, to enhance its competitiveness, and to maintain its position as an industry leader, and to apply the principle of prudent financial management to strengthen its cash management so as to maximize the shareholders' value. The Group will then develop into an evergreen corporation.

### **ACKNOWLEDGEMENT**

May I take this opportunity to express my gratitude to the Board for its brilliant leadership, to the shareholders for lending their strong support, and to the community for their enthused help, and last but not least, to our staff for their dedicated efforts!

### **Kong Qingping**

*Chairman and Non-executive Director*

Hong Kong, 21 March 2007