

# Management Discussion and Analysis



"The audited profit attributable to shareholders of the Group for the year ended 31 December 2006 increased by 46.2% to HK\$222,182,000 and the earnings per share was HK45.05 cents. The shareholders' fund increased 17.6% to HK\$974,201,000. Return on shareholders' equity was 22.8%. The Board recommends the payment of a final dividend for the year 2006 of HK10 cents per share. The total dividends for the year increased by 111% as compared with the year 2005.

## SUMMARY OF RESULTS

- Turnover increased by 34.3% to HK\$10.29 billion, gross profit margin of 4.5%
- Profit attributable to shareholders HK\$222 million, representing an increase of 46.2%
- New projects awarded with contract value of HK\$14.09 billion, projects in progress with attributable contract value of HK\$32.20 billion
- Bank deposits of HK\$1.74 billion, total assets value of HK\$5.41 billion, equity attributable to shareholders of HK\$974 million

## OVERALL RESULTS PERFORMANCE

The audited profit attributable to shareholders was HK\$222,182,000 for the year ended 31 December

2006, representing an increase of 46.2% as compared with HK\$152,021,000 of last year. If the listing fee incurred in 2005 was excluded, the growth in 2006 was 31.5% as compared to 2005. Basic earnings per share was HK45.05 cents, increased by 20% from HK37.54 cents as compared with the last year. The Board of Directors proposed that the payment of a final dividend of HK10 cents, together with the payment of interim dividend of HK9 cents in September 2006, the total dividends for the year will be HK19 cents, increased by 111% as compared with HK9 cents of 2005.

Equity attributable to shareholders was HK\$974,201,000 as at 31 December 2006 (2005: HK\$827,806,000), increased by HK\$146,395,000, net assets per share was HK\$1.95 (2005: HK\$1.68), increased by HK\$0.27.

## BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

The Group completed the acquisition of the entire share capital of China Construction Engineering (Macau) Company Limited ("CCEM") from China Overseas Holdings Limited ("COHL") and its wholly-owned subsidiary on 29 June 2006. The acquisition was deemed as common control combination. The Group's consolidated financial statements have been prepared using the principle of Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the Hong Kong Institute of Certified Public Accountants, as if CCEM had been in existence as a wholly-owned subsidiary of the Company during the years under review.

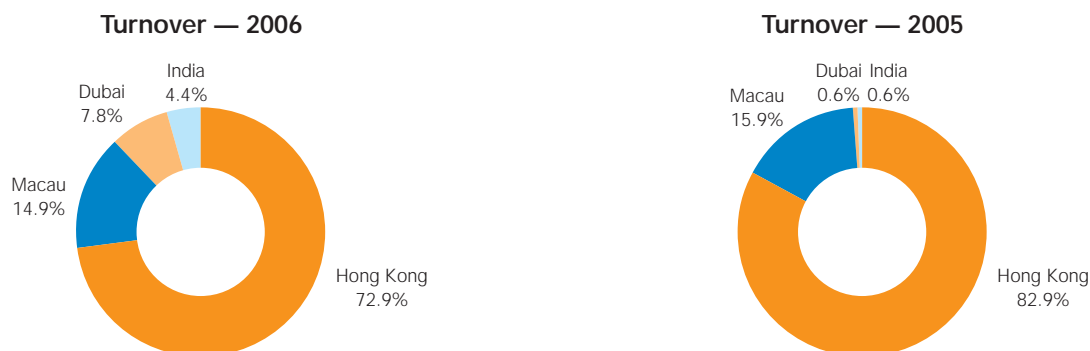
## TURNOVER

The Group recorded consolidated turnover of HK\$10,294,826,000 (2005: HK\$7,664,252,000), increased of 34.3% as compared with 2005, of which the contribution by overseas markets (Dubai and India) and Macau were HK\$1,248,648,000 (2005: HK\$94,055,000) and HK\$1,536,636,000 (2005: HK\$1,213,930,000) respectively. The significant growth indicated that the strategy of developing overseas markets for expanding the stable revenue of the Group was successful.

**Mr. ZHOU Yong**  
*Vice-chairman and  
Chief Executive Officer*



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Those markets are currently amid high-growth period, in particular Macau. Driven by the releasing of gambling licenses by the Macau SAR government and individual visitors from Mainland China, the Macau market experienced robust economic growth within such a short period as two to three years. Considerable foreign investments flow in and enhances the vigorous development of Macau construction market. In June 2006, the Group seized right the opportunity of acquiring CCEM from the Parent Company and used that as a platform for entering into the Macau construction market. Stable growth in terms of number of projects and contract value in Macau can be expected. On the other hand, not much turnover was accounted for in 2005 for overseas projects. This was because several overseas projects were awarded in the second half of the year 2005 and the turnover could be recognised was less in accordance with the actual works done. Substantial works were done in the year 2006 for these projects and taking into account that two new projects in Dubai were awarded in January 2006, therefore the turnover from overseas projects has been increased tremendously in the year.

## GROSS PROFIT

The Group's gross profit margin slightly decreased to 4.5% in 2006 (2005: 4.8%). The Group continued to adopt the steady profit recognition policy (if the results of construction contracts cannot be reliably estimated, revenue is recognized only to the extent of extract cost incurred that is reasonable. Also, contract cost is recognized as expenses in the period it is incurred). In accordance with this policy, because of the contract value of the Dubai Mall Hotel project was increased by the employer during year, the outcome of this project cannot be estimated reliably, thus, only the turnover could be recognized.

## INVESTMENT AND OTHER REVENUE

Investment revenue and other revenue were HK\$77,743,000 of the year, significant increased by 43.8% from HK\$54,051,000 of 2005. Due to the higher advance payments received from the employers of a few overseas projects and better cash flow management, that resulted in an increase in the cash balance for the year. The bank deposit rates increased as compared with 2005. At the same time, the Group invested some of its cash in sound financial instruments (mainly fixed rate bonds with high credit ranking). All these accounted for the significant increase of the investment and other revenue.

## ADMINISTRATIVE EXPENSES

The Group's administrative expenses were HK\$249,711,000 for the year, increased by 33.1% as compared to HK\$187,624,000 in 2005. The increase was attributable to the followings:

- in order to capture the business opportunities in Macau market and to expand the operation scale in Macau, the relevant administrative expenses increased accordingly;
- the Group strengthened its cross-regions operation strategy, in particular the Dubai market, a global focused market which is in fast growth with increasing number of construction projects and contract value. With the Group's two new projects awarded in Dubai in 2006, resulted in expansion of the Group's operation scale in Dubai thereby increase of the administration expenses.
- Pursuant to Hong Kong Financial Reporting Standards 2 "Share-based Payment", the Group was required to calculate the cost of the unexercised options granted in last September 2005 and therefore an amounted of HK\$4,779,000 was recognized as expense for the year.

## FINANCE COSTS

The Group's finance costs were HK\$1,553,000, representing a significant drop of 89.0% from HK\$14,096,000 of last year. The drop was attributable to the repayment of interest-bearing loans HK\$200 million of the Group to COHL in July last year and full payment of bank loans of HK\$200 million in December last year. At the end of 2005, there was no interest-bearing loan in Hong Kong. In addition, CCEM commenced repayment of bank loans in the second half of year 2005, and bank loans of HK\$48,388,000 and bank overdraft of HK\$4,439,000 which were outstanding at the end of 2005, had been repaid in full by the middle of year 2006. The finance costs this year mainly came from CCEM and several jointly controlled entities.

## OPERATING PROFIT

For the year 2006, the Group's operating profit was HK\$265,737,000 (2005: 206,336,000), increased by 28.8% as compared with last year. Operating profit for the year was mainly contributed from Hong Kong of HK\$289,319,000, from Macau of HK\$79,081,000, and from India HK\$13,173,000 while Dubai recorded an operating loss of HK\$17,630,000. The unallocated corporate expenses during the year was HK\$98,206,000.

The Group was benefited from the robust market conditions of Macau, which explained the significant increase of profits from Macau. The Group will increase its developing pace in the construction business in Macau but with a steady attitude.

On the other hand, the operating loss incurred in Dubai was mainly due to an increased in the contract value of the Dubai Mall Hotel project during the year, the result of the construction contract cannot be estimated reliably, thus, no profit can be recognized from this project.

## CORPORATE FINANCE

### Liquidity

The Group continued to adopt a prudent financial policy by maintaining a high level of liquidity. As at 31 December 2006, the Group's bank balance and cash was HK\$1,742,887,000 and bank overdraft was HK\$14,275,000. The financial position is sound. The Group also had unutilized banking facilities (including bank borrowings, surety bonds and letter of credit) of HK\$2.56 billion which could satisfy the needs of its business development requirement. Among the Group's bank balances, in term of currency, 69% was in Hong Kong dollar, 3% was in Macau Pataca, 11% was in US dollar, 10% was in Indian Rupee and 7% was in UAE Dirham.

### Utilization of Financial Resources

Since the Group has a large amount of cash in hand, in order to increase the shareholders' value, the Group started in early 2006 to invest a small portion of its fund in reliable investing activities (mainly fixed rate bonds with higher credit ranking) so as to get a higher yield than those from bank deposits. In 2006, the relevant investment income was HK\$7,406,000.

In addition, the Group is actively studying various construction-related investment projects such as BT (Build-Transfer) model and PPP (Public-Private-Partnership) model projects in the Mainland China, Hong Kong and Macau regions and overseas regions. By fully taking advantage of its own strong financial capability and studying the feasibility of bringing contract projects through investment. The Group will continue to seek for more room for development opportunity with a view to creating better returns to shareholders.





# Management Discussion and Analysis

## Financing Credit

As the Group has a sound operation for over twenty years, it maintains a good relationship with a number of large-scaled banks in Hong Kong. Apart from the projects operated by a jointly controlled entity and the requirement in Dubai, all the Group's present banking facilities were clean and without collateral. As at 31 December 2006, HK\$41,783,000 of the Group's bank deposits were pledged mainly for the issuance of surety bonds in respect of the projects of a jointly controlled entity. In addition, some of the local bank deposits were pledged for the guarantee of employment for staff and workers from foreign countries in accordance to the requirements of Dubai government.

## Exchange Risk and Corresponding Hedging Arrangement

Since the Group's operations relate to various overseas regions, the Group pays close attention to foreign exchange exposure and continuously tracks economic development, monetary policies and conditions that would have an impact on exchange rates in local markets. The currency of UAE Dirham has been linked to the US dollar and has remained relatively stable. The exchange rate of the Indian rupee is subject to greater fluctuation and has drawn the attention of the Group. A staff was designated to observe the trend of the India Rupee and report to management regularly. The Group has also in conjunction with various financial institutions, conducted a study on exchange risk management and

on avoidance or offsetting exchange risk. No hedging arrangement is required at present but the management will continue to pay close attention and implement efficient measures for hedging arrangement when necessary.

## EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2006, the Group had a total of 3,041 employees of which 2,332 of them were based in Hong Kong, 84 of them were in the Mainland China, 163 of them were in Macau, 306 of them in Dubai and 156 were in India. Each department has set up a target responsibility system, which has started to have positive effect. To enhance the quality and capability of its employees as well as their team spirit and corporate culture, the Group has organized many professional and comprehensive training programs during the year. The staff can perform their own professions and at the same time, enhance their personal value thereby further making better results for the Company.

People is an important asset to a company and the Group has put strong emphasis on the value of each employee. The employees' remuneration is regularly reviewed by the Group according to the job nature, staff performance, results of the Group as well as market trend, and is evaluated on a regular basis.



Proposed Commercial/Residential Development at Hoi Fai Road



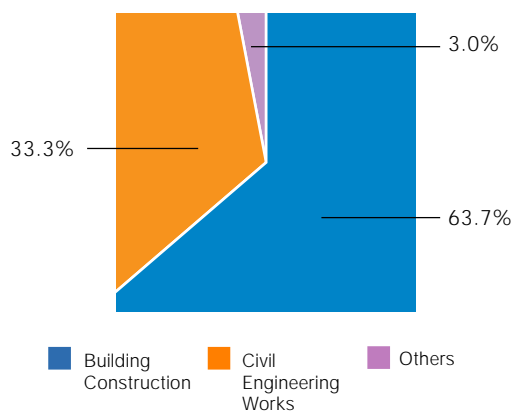
Main Contract for Proposed Commercial Building at 196-206 Queen's Road East

## COMPLETED PROJECTS IN 2006

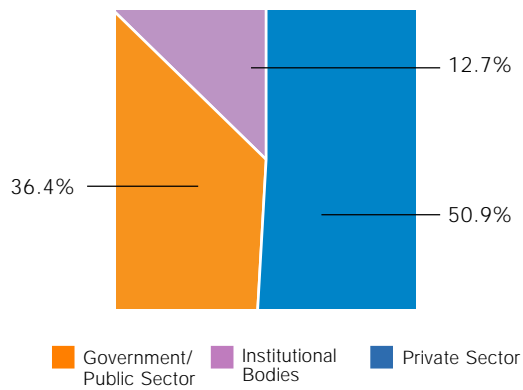
### Summary for the year

- 29 completed projects
- Attributable contract value for completed projects was HK\$6.89 billion

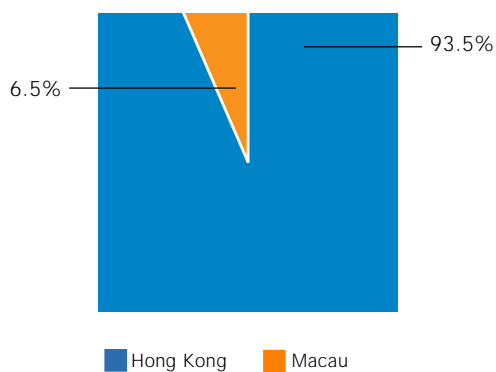
By Project Categories



By Customers



By Markets



# Management Discussion and Analysis

## Major Completed Projects

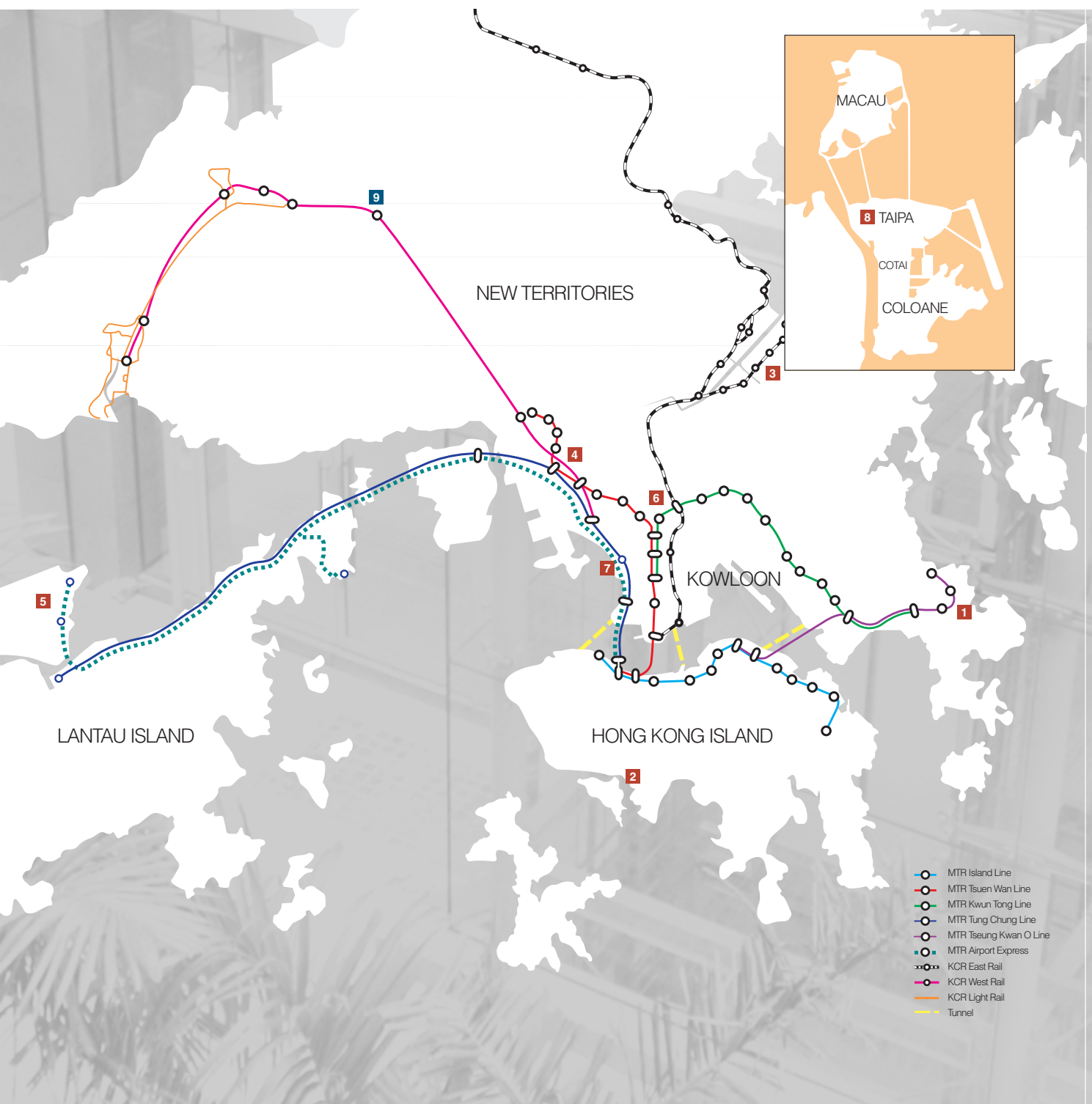
### BUILDING CONSTRUCTION

- 1 Construction of Proposed Through-Train Schools at Tseung Kwan O
- 2 Cyberport Residential Development for Phases RIII & RIVa
- 3 Shek Mun Campus for School of Continuing Education, HKBU
- 4 A New Infectious Disease Centre at Princess Margaret Hospital
- 5 Asia Airfreight Terminal Expansion
- 6 New Kowloon Inland Lot 6196, Cornwall Street, Superstructure
- 7 Proposed Commercial / Residential Development at Hoi Fai Road
- 8 Construction of Nova Taipa Gardens, Phase 2C

### CIVIL ENGINEERING WORKS

- 9 Deep Bay Link – Southern Section







# Management Discussion and Analysis

## NEW PROJECT AWARDED IN 2006

### Summary for the year

- 36 new projects awarded
- Attributable contract value for new projects awarded was HK\$14.09 billion

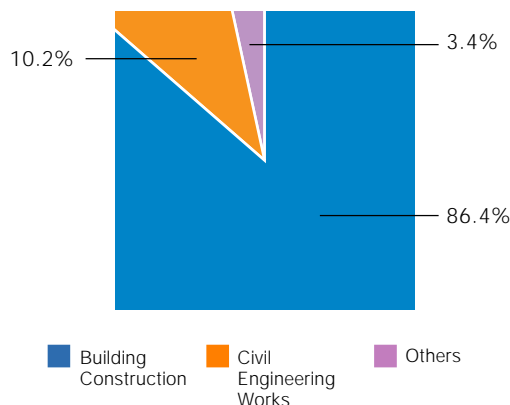
In 2006, the group was awarded 36 new projects with a total attributable contract value of HK\$14.09 billion, of which 86.4%, 10.2% and 3.4% were contributed by building construction, civil engineering works and other works respectively.

### New contracts awarded in 2006

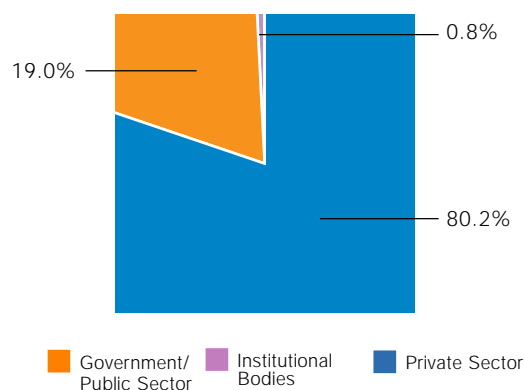
Unit: HK\$' million

No.	Project Name	Attributable Contract Value
1	City of Dreams	3,600
2	KCRC Wu Kai Sha Station, Ma On Shan	1,360
3	Golf Towers III	950
4	Residential Development at Nam Van Lake Lot C9	865
5	青洲社會房屋綜合體建造工程 — B 及 C 大樓的承攬工程	776
6	Lease Office Building, JAFZ South	611
7	TWTL 394 Yeung Uk Road Tsuen Wan	546
8	Construction of Nova Taipa Gardens Phase 2A	410
9	Design and Construction of a Sports Ground at Area 45 Tseung Kwan O	349
10	Completion Contract for Construction of Fanling Area 36 Phase 2	263
<b>Major Building Construction Sub-Total</b>		<b>9,730</b>
1	Highways Department Term Contract (Management and Maintenance of roads in Sha Tin, Sai Kung and Islands Districts excluding high speed roads)	600
2	2008 Olympic Equestrian Venues Core Venue Main Construction Contract	283
<b>Major Civil Engineering Works Sub-Total</b>		<b>883</b>
<b>Others - 24 Projects Sub-Total</b>		<b>3,477</b>
<b>Total</b>		<b>14,090</b>

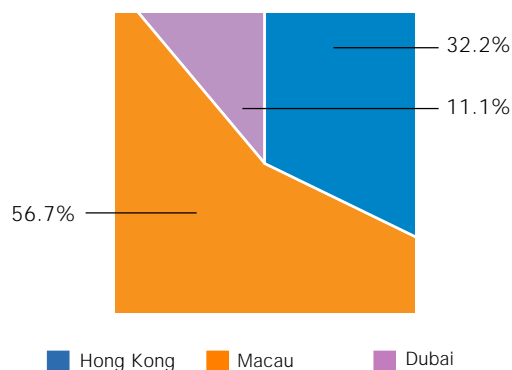
By Project Categories



By Customers



By Markets



## PROJECTS IN PROGRESS AT THE END OF 2006

### Summary at the year end

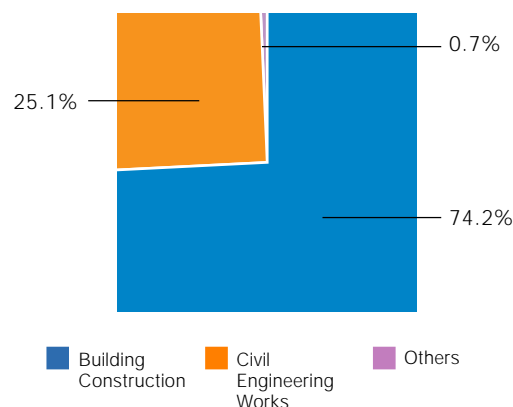
- 60 projects in progress
- Total attributable contract value for projects in progress was HK\$32.20 billion
- Contract value for incomplete works was HK\$20.03 billion

In addition, from 1 January 2007 to the date of this report, the Group was awarded 5 new projects, with a total contract value of HK\$1.46 billion.

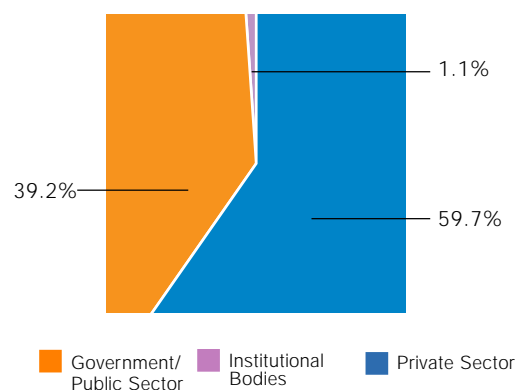
	Contracts on hand as at 31 December 2006			New contracts awarded subsequent to the year end	
	Number of Contracts	Attributable Contract value	Value of Incomplete Contract	Number of Contracts	Attributable Contract Value
		HK\$'million	HK\$'million		HK\$'million
Hong Kong Projects	43	16,051	7,754	4	800
Building Construction	23	8,253	4,484	3	481
Civil Engineering Works	15	7,583	3,116	1	319
Other Works	5	215	154	-	-
Macau Projects	11	10,820	8,356	-	-
Dubai Projects	4	3,777	2,983	1	660
India Projects	2	1,553	940	-	-
<b>Total</b>	<b>60</b>	<b>32,201</b>	<b>20,033</b>	<b>5</b>	<b>1,460</b>

In summary, as at the date of this report, the Group has a total of 65 projects on hand, with a total attributable contract value of HK\$33.66 billion.

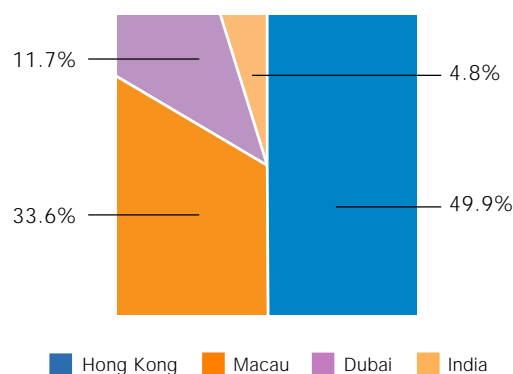
By Project Categories



By Customers



By Markets



# Management Discussion and Analysis

## Jointly controlled projects in progress at the end of 2006

No.	Project Name	Attributable Contract Value (HK\$' million)	Interest Held by the Group (%)
1	City of Dreams	3,600	30
2	Wynn Resorts Macau	1,783	50
3	Central Reclamation Phase 3	1,706	45
4	Sha Tin Heights Tunnel and Approaches	644	60
5	East-West Corridor in the State of Madhya Pradesh	303	50
6	路環污水處理站第二期設計及建造	115	48.45
7	Landslide Preventive Works at Po Shan Road, Mid-levels	87	60
8	Upgrading of Siu Ho Wan Sewage Treatment Plant – UV Disinfection Works	35	39.6
9	North Point Sewage Pumping Station	26	13
10	澳門跨境工業區污水處理站設計 / 建造、營運 / 保養	24	39.23
<b>Total</b>		<b>8,323</b>	



Central Reclamation Phase 3



Upgrading of Siu Ho Wan Sewage Treatment Plant – UV Disinfection Works



Armada Towers



Sha Tin Heights Tunnel and Approaches

## Major projects in progress

Unit: HK\$'million

No.	Category	Project Name	Attributable Contract Value	Estimated Year of Completion
1	Building Construction	Wynn Resorts Macau	1,783	2007
2		Dubai Mall Hotel	1,550	
3		TWTL398, Tai Ho Road, Tsuen Wan, Superstructure	1,106	
4		Enterprise Square 5 NKIL 5927 Kowloon Bay	1,047	
5		Armada Towers	666	
6		Lease Office Building, JAFZ South	611	
7		Construction of Centre for Youth Development at Chai Wan	471	
8		STTL510 Tung Lo Wan Hill Road Shatin	363	
9		Construction of Nova Taipa Gardens, Phase 2B	309	
10		Centralised Science Laboratories, Chinese University	249	
11	Civil Engineering Works	Formation and Associated Infrastructure Works for Development at Choi Wan Road and Jordan Valley	1,338	
12		Castle Peak Road Improvement between Ting Kau and Sham Tseng, Tsuen Wan	963	
13		Sha Tin Heights Tunnel and Approaches	644	
14		2008 Olympic Equestrian Venues Core Venue Main Construction Contract	284	
	Others	19 Projects	2,127	
		<b>Sub-Total</b>	<b>13,511</b>	
1	Building Construction	City of Dreams	3,600	2008 or after
2		KCRC Wu Kai Sha Station, Ma On Shan	1,360	
3		Hyderabad International Airport – Passenger Terminal Building	1,250	
4		Golf Towers III	950	
5		Residential Development at Nam Van Lake Lot C9	865	
6		青洲社會房屋綜合體建造工程 — B 及 C 大樓的承攬工程	776	
7	Civil Engineering Works	Central Reclamation Phase 3	1,706	
8		KCRC Kowloon Southern Link Tunnels – Yau Ma Tei Ventilation Building to Nam Cheong Overrun	684	
9		KCRC Kowloon Southern Link Tunnels – Jordan Road to Yau Ma Tei Ventilation Building	663	
	Others	18 Projects	6,836	
		<b>Sub-Total</b>	<b>18,690</b>	
		<b>TOTAL</b>	<b>32,201</b>	



# Management Discussion and Analysis

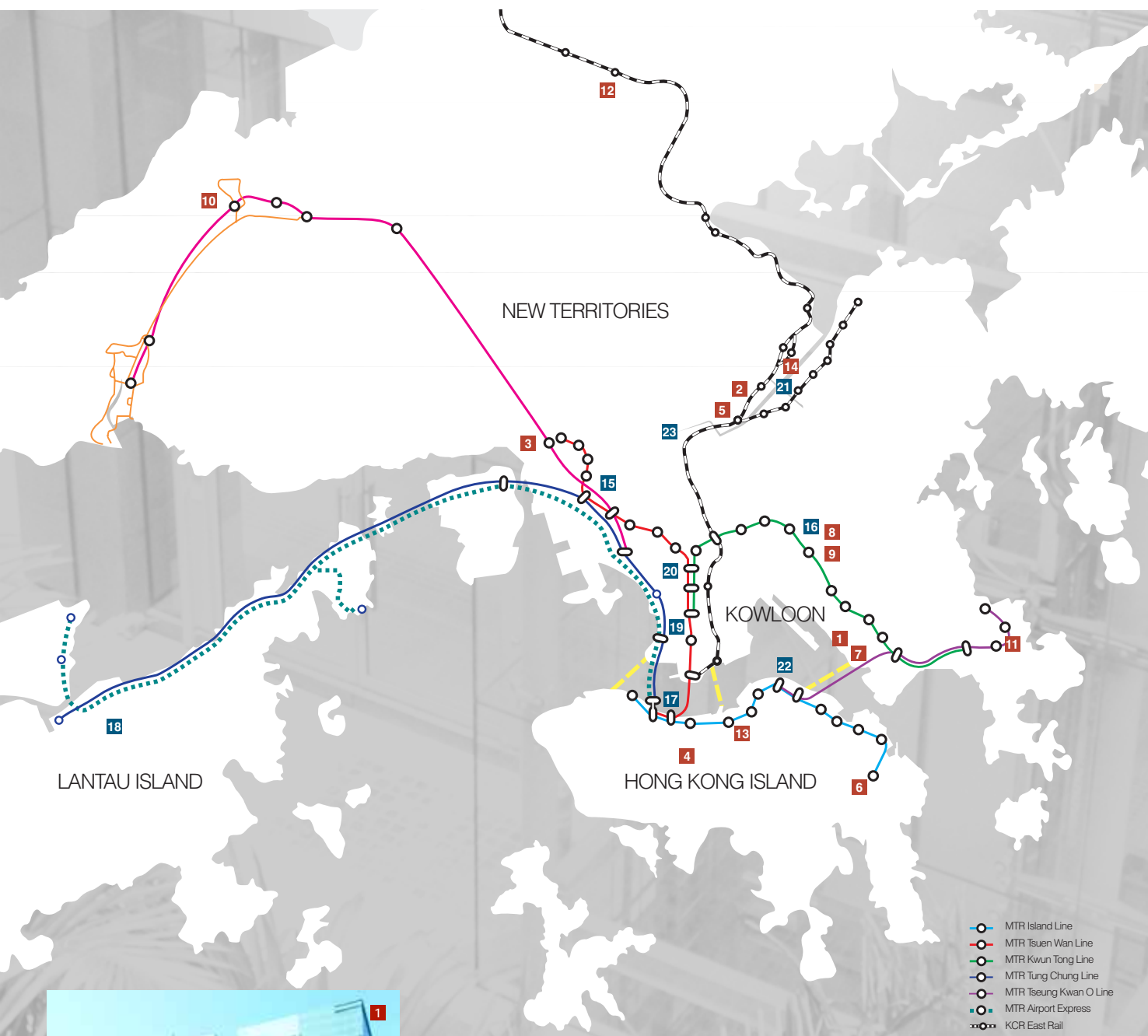
## Major Projects in Progress — Hong Kong

### **BUILDING CONSTRUCTION**

- 1 Enterprise Square 5 NKIL5927 Kowloon Bay
- 2 STTL510 Tung Lo Wan Hill Road Shatin
- 3 TWTL398 Tai Ho Road, Tsuen Wan, Superstructure
- 4 Main Contract for Proposed Commercial Building at 196-206 Queen's Road East
- 5 Design and Construction of Hin Tin Swimming Pool Phase 2, Shatin
- 6 Construction of Centre for Youth Development at Chai Wan
- 7 Construction of Eastern Harbour Crossing Site, Phase 3
- 8 Foundation and Construction of Choi Wan Road Site1 Phase 2
- 9 Foundation and Construction of Choi Wan Road Site1 Phase 1
- 10 Construction of Tin Shui Wai Area 103 Phase 1
- 11 Design and Construction of a Sports Ground at Area 45, Tseung Kwan O
- 12 Completion Contract for Construction of Fanling Area 36 Phase 2
- 13 St Paul's Hospital Redevelopment
- 14 Foundation and Railway Depot Works for Ho Tung Lau

### **CIVIL ENGINEERING WORKS**

- 15 Castle Peak Road Improvement between Ting Kau and Sham Tseng, Tsuen Wan
- 16 Formation and Associated Infrastructure Works for Development at Choi Wan Road and Jordan Valley
- 17 Central Reclamation Phase 3
- 18 Upgrading of Siu Ho Wan Sewage Treatment Plant-UV Disinfection Works
- 19 KCRC-Kowloon Southern Link Tunnels-Jordan Road to Yau Ma Tei Ventilation Building
- 20 KCRC-Kowloon Southern Link Tunnels-Yau Ma Tei Ventilation Building to Nam Cheong Overrun
- 21 2008 Olympic Equestrian Venues Core Venue Main Construction Contract
- 22 North Point Sewage Pumping Station
- 23 Sha Tin Heights Tunnel and Approaches



- MTR Island Line
- MTR Tsuen Wan Line
- MTR Kwun Tong Line
- MTR Tung Chung Line
- MTR Tseung Kwan O Line
- MTR Airport Express
- KCR East Rail
- KCR West Rail
- KCR Light Rail
- Tunnel



# Management Discussion and Analysis

## Major Projects in Progress — Macau

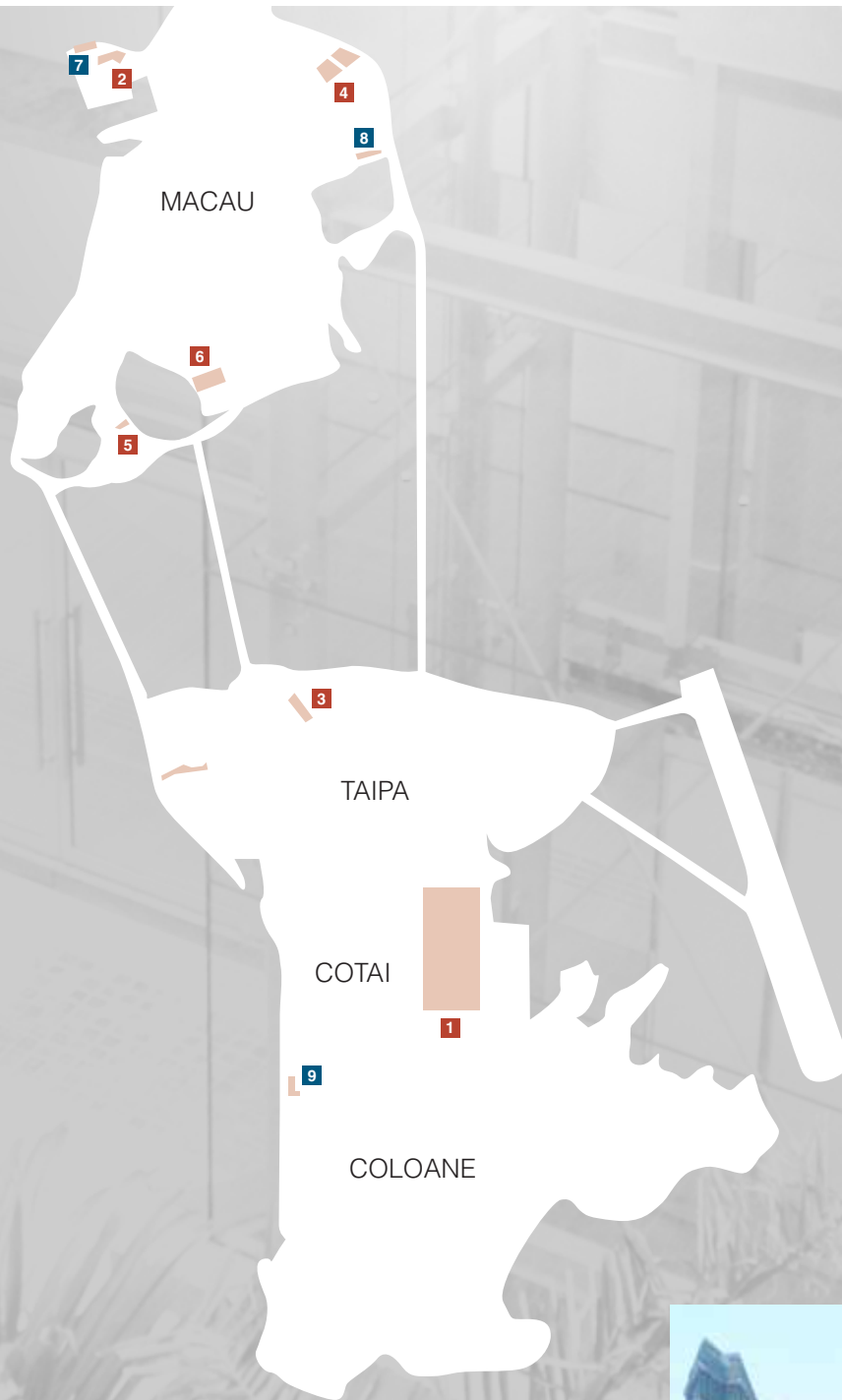
### BUILDING CONSTRUCTION

- 1 City of Dreams
- 2 青洲社會房屋綜合體建造工程 — B及C大樓的承攬工程
- 3 Construction of Nova Taipa Gardens Phase 2A & 2B
- 4 Proposed Commercial/Residential Development at Lot R +R1, Rau Central Da Areia Preta
- 5 Residential Development at Nam Van Lake Lot C9
- 6 Wynn Resorts Macau

### CIVIL ENGINEERING WORKS

- 7 Design/Construction, Operation/Maintenance of Macau's cross-border industrial area sewage treatment plant
- 8 Design, Supply, Installation, Construction and Commissioning of the Macao MSR Drinking Water Treatment Plant Extension
- 9 Design and construction of the Coloane Sewage Treatment Plant Phase II







# Management Discussion and Analysis

## Major Projects in Progress — Overseas

### DUBAI

- 1 Armada Towers
- 2 Lease Office Building, JAFZ South
- 3 Dubai Mall Hotel
- 4 Golf Towers III

### INDIA

- 5 East-West Corridor in the State of Madhya Pradesh
- 6 Hyderabad International Airport – Passenger Terminal Building





DUBAI ■

INDIA ■

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