

Dialogue for growth

Sustainability Report 2007



Gammon at a Glance



■ Main Offices

Gammon is a leading construction and engineering services group. We have been building a wide range of construction projects in Asia for more than 50 years.

We are the market leading construction contractor in Hong Kong, where we are headquartered, and also operate extensively in Singapore, Macau and Mainland China. We also have group companies incorporated in Malaysia, Thailand, Vietnam, the Philippines and Indonesia and have completed projects in all of these countries.

With an annual turnover around US\$1 billion, we directly employ some 2,200 full-time staff, giving us one of the strongest construction teams in Asia.

We are a private company jointly owned by Jardine Matheson, an Asian-based conglomerate with extensive experience in the Region and Balfour Beatty, a world-class engineering, construction and services group.

With the support of our shareholders, we are able to deliver a unique combination of local presence, technical capability and financial strength.

Our Brands



Business Nature: civil, foundations, building and maintenance services, and support services covering plant and equipment, concrete technology and steel fabrication



Business Nature: engineering design services and material technology



Business Nature: specialist Public-Private Partnership business



Business Nature: electrical and mechanical contracting services

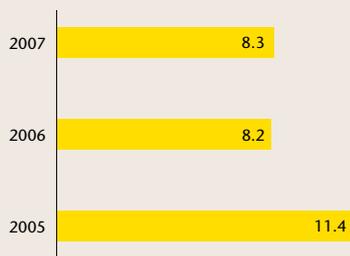
Contents

2	Chief Executive's Statement
3	Dialogue for Growth
7	Corporate Leadership
8	Health and Safety
12	Economic and Business
16	Social Responsibility
20	Environmental Protection
24	Verification Statement

Selected 2007 Performance Summary

Accident Incident Rate

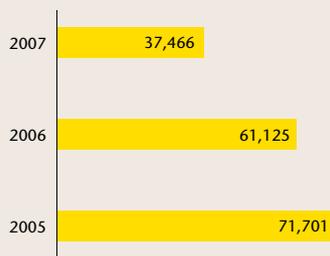
(per 1,000 workers)



- The accident incident rate for 2006 has been adjusted from that previously reported to reflect three late reported cases

Greenhouse Gas Emissions

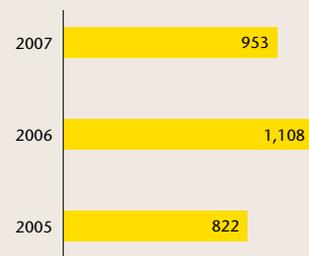
(tonnes CO₂ equivalent)



- Calculated based on Greenhouse Gas Protocol published by WBCSD/WRI
- Excluding air travel and landfill waste

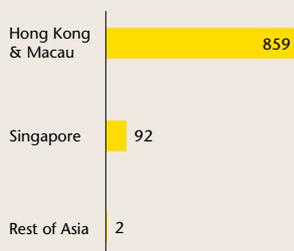
Group Turnover

(US\$ millions)

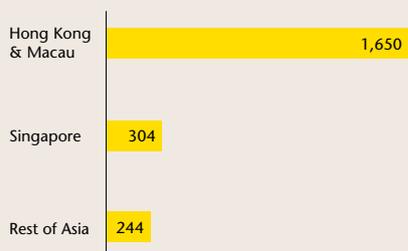


Turnover by Region

(US\$ millions)

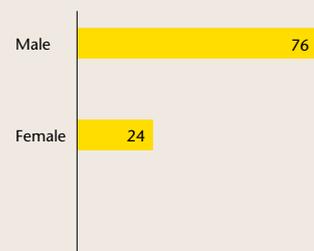


Employment by Region



- Represents number of monthly-paid staff at 31 December 2007
- The total number of staff including daily-paid workers was 3,653. Including subcontractors working on our sites the number swells to more than 12,000 people

Employment by Gender



- Represents percentage of monthly-paid staff at 31 December 2007

Chief Executive's Statement



There have been increasing signs of a resurgence in construction activity in our traditional markets, Hong Kong and Singapore, whilst China and other Asian countries continue to plan and expand their built environments. The challenge for us as a business and for the industry is to be equal to the demands stakeholders and the community will expect of us in managing sustainable and successful growth.

We are seeing a "pipeline" of projects that will provide all of us in the construction industry with tremendous long term opportunities.

However, coping with growth and delivering the right product at the right time with the right people presents considerable, if not daunting, challenges. Almost 10 years of dormant markets in Hong Kong and Singapore have resulted in many engineering professionals seeking stimulating work elsewhere in the world, notably the Middle East. Buoyant construction markets in Europe and the Americas may also be competing for the same engineering and construction resources that we will require in Asia. Yet these are arguably good "problems" to have and present us with exciting opportunities to revisit our industry and take the way we do business to a higher level.

First and foremost, we must act on what we all recognise, that construction

is still perceived to be dirty, dangerous and demanding, and take this time of growth to put pride back into our industry. Outside our air-conditioned offices, the situation in the field remains arduous and unappealing, particularly when compared with many other industries. The management of our human resource pool will therefore be the single most significant factor in coping with growth. We believe at Gammon that this particular challenge is directly linked to a proper procurement process. Only through good planning, sensible pricing and professional contract administration can we ensure that our professionals and the general workforce are compensated fairly and their safety and quality of life treated with the utmost respect. I have asked my fellow directors to express their views on this challenge and expand on these issues in the following pages of this report.

In 2006 our sustainability report "Dialogue for Change" we attempted to prompt discussion on a wide range of construction topics. These, I am pleased to report, were well received within the industry and have often been the focus at seminars, conferences and workshops throughout the last year. There is a greater sense of openness, discussion and willingness from both public and private sector leadership to address a collaborative approach to future challenges. This is very encouraging, but we still have a long way to go as too many of our colleagues, developers, customers and potential business partners remain unwilling to embrace any approach other than the traditional.

I hope that our Sustainability Report continues both to stimulate constructive debate for change and report responsibly on the efforts we are making at Gammon to play our part in leading a great industry.

A handwritten signature in black ink, appearing to read 'THO'.

Thomas Ho
Chief Executive
Gammon Construction Limited

May 2008

Dialogue for Growth

Inevitably growth also needs change and a willingness to challenge the “status quo”. The following dialogue reflects the thoughts and views of our Executive Directors on the core issues of Human Resources, Procurement and Safety.



A simultaneous global surge in construction demand, particularly in Mainland China, India and the Middle East, has placed tremendous pressure on manpower, materials and equipment resources. Notwithstanding their maturity, Gammon’s home markets are offering excellent business opportunities, but with a backdrop of similar resource challenges to those facing the global market.

The construction industry is not renowned for being “fast on its feet”, so given the opportunities now presenting themselves in the further development of our traditional markets there is a serious need to focus on the issues that will either facilitate success or inhibit organisations, communities and governments from delivering on development promises.

Growth in Hong Kong

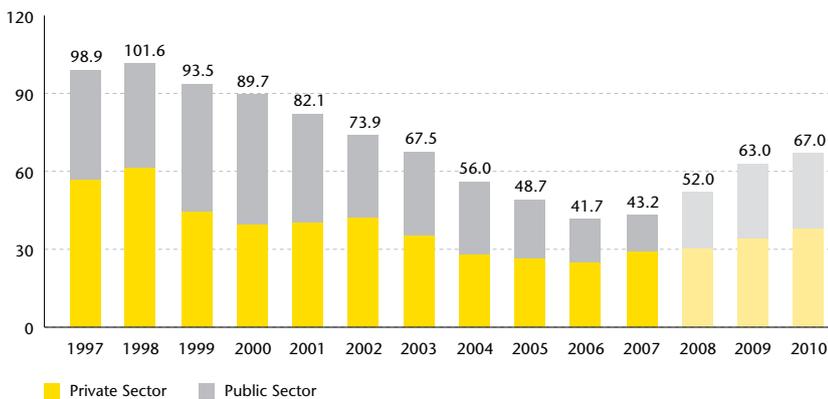
Hong Kong Selected Projects

Project	Budget (HK\$ billions)	Duration	Jobs Created
Tamar Government Complex	5.2	2008–2011	3,000
Central – Wanchai Bypass	20.5	2008–2016	4,100 (Est.)
Tuen Mun Road Improvements	4	2008–2012	1,200 (Est.)
Tolo Highway Improvements	3.7	2008–2042	1,100 (Est.)
Kai Tak Development	2.4	2009–2011	1,000 (Est.)
Regional Express Rail Link	30	2009–2015	7,000
West Island Line	8.9	2009–2014	2,800
Shatin to Central Link and Kwun Tong Line Extension	37.4	2010–2015	11,000
West Kowloon Cultural District		2010–2016	11,000
South Island Line	8	2011–2015	2,500
Tuen Mun Western Bypass and Tuen Mun – Chek Lap Kok Link	20	2010–2016	4,000 (Est.)
Hong Kong – Zhuhai – Macau Bridge	10	2010–2013	3,500 (Est.)
Central – Kowloon Route	12.5	2012–2016	3,700 (Est.)

Data from "Infrastructure and Logistics" website and press releases, Transport and Housing Bureau, HKSAR Government.

Construction Market (Hong Kong)

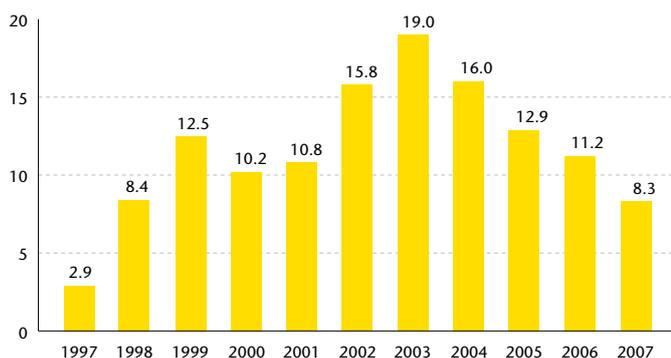
(in HK\$ billions)



Construction work performed by main contractors (excluding repair, maintenance, alterations and special trades). Information up to 2007 from Report on the Quarterly Survey of Construction Output Issued by Census and Statistics Department, HKSAR Government. Public expenditure forecast from the 2007/08 Budget speech.

Industry Unemployment (Hong Kong)

(%)



Data from Hong Kong Monthly Digest of Statistics, Census and Statistics Department, HKSAR Government.

Human Resources

“With a backdrop of surging construction demand, what needs to be done to move towards a long-term sustainable solution to human resource shortages?”

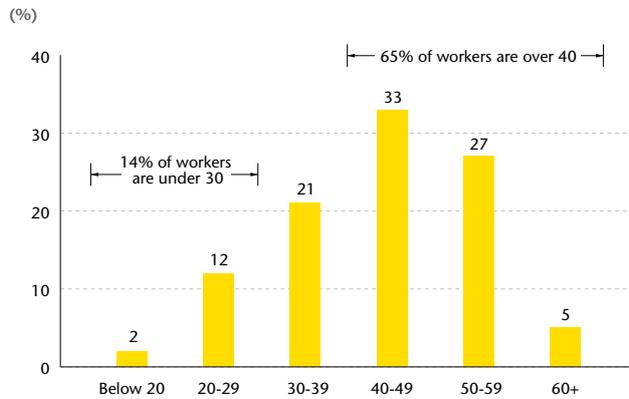
The development and retention of our human resources is the single most critical factor in our industry’s ability to deliver world class construction.

At the workforce level ageing demographics coupled with constantly, and quite rightly, increasing standards of education are depleting the pool of local frontline workers. People are attracted away from an industry that has a reputation for being “dirty, dangerous and demanding” to working environments that offer a better quality of life. To attract home grown young people to the frontline will require a step change in the working conditions on many construction sites, with new attitudes to training in trade skills that are not only essential for quality of product but for stimulation and retention. Morally, we need to do more for our workforce, whether imported or not, and address the calibre of the supervision that will be needed to sustain our industry in the long term.

Professionally, 30% of engineering graduates go to other industries to work after graduation and there is a constant attrition to other centres of construction around the world. In addition to looking at ourselves, tertiary institutions need to stimulate their courses to provide more fieldwork or overseas assignments in preparation for an industry that needs the softer skills and emotional intelligence required of project management and human interaction, as well as the hard technical skills of engineering design.

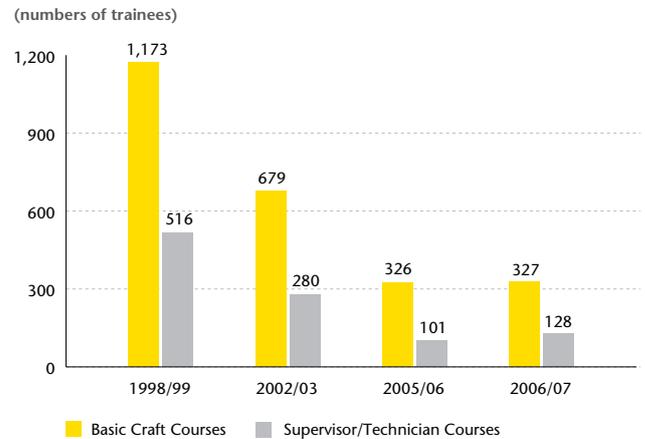
The number of technicians and craftsman being trained in Hong Kong has fallen by about 70% from the highs of the late nineties. The reversal of this decline in frontline supervising

Industry Demographic (Hong Kong)



Percentage of Registered Construction Workers as at 30 November 2007. The total number of workers is about 220,000. Information from Construction Workers Registration Authority, HKSAR Government.

Training Output (Hong Kong)



Information from the Construction Industry Council Training Academy of Hong Kong (formerly Construction Industry Training Authority).

tradesmen is critical in ensuring we build safely to the quality demanded.

This challenge can be met by ensuring that we structure our education facilities to provide stimulating, practical and cross-discipline training. Providing opportunities to see construction in terms of a career not a job.

In the longer term, are we to attract the youth of today to an industry that requires of them a six day week at best, with a reduced social life, whilst Government, service industries and many client organisations are homing in on a five day week?

Our opportunities for growth need to be sustainable.

Procurement

“The upsurge in potential projects gives renewed opportunities for innovative partnerships and business relationships, forms of contract and supply chain management. How can these procurement opportunities be effectively tapped?”

The longer term sustainability of our industry, society and environment demand a much more integrated approach to the pre-construction

process, where the best ideas producing the maximum added value can prevail. It will only be a matter of time before life cycle considerations, facility management and carbon considerations will become the norm not the exception. It is hard to see an encouraging platform for innovation in a bid process that restricts highly professional construction companies from submitting leading edge engineering alternatives that may be safer and more cost effective.

Once procured the supply chain must be assured of security of payment. Inflationary risks within volatile commodity and labour markets need to be fairly addressed by client organisations and an assurance cascaded through the supply chain that all are fairly treated. Mechanisms exist for this to happen but the uptake often remains painfully slow. The wider introduction of Dispute Resolution Advisors into contracts and the application of adjudication processes used in other jurisdictions will minimise confrontation, maintain all-important relationships that ensure projects succeed and facilitate fair and reasonable payment and cash flow through the supply chain. There is ample opportunity but a pressing need to address these issues both in the public and private sectors.

Safety

“Growth in construction output is often mirrored by a rise in construction accidents unless there is a fundamental shift in safety culture. What steps need to be taken by the industry to drive improvements in safety?”

It has to be a fundamental tenet of our industry that we provide a safe and healthy environment for both our workforce and the community we serve.

The stark reality is that we have a long way to go before our safety standards reach leading international levels. Morally, we need to question why our workforce should be at significantly greater risk than those of us who enjoy the comfort of an office environment.

Whilst the number of accidents has reduced in recent years, so has the size of the workforce. Consequently, there has been little or no improvement in accident incident rates. Tragically in Hong Kong, fatality rates within the construction industry are no better than they were when the Construct for Excellence Report was published in 2001.

We still need significant step changes in our industry to provide safe working environments. It is our duty of care.

There continues to be a considerable struggle to grasp the concept of Construction Design Management (CDM), an issue clearly aligned to the procurement process. Worldwide research indicates that the vast majority of fatal and serious accidents could have been "designed-out". Designing safety into the construction process needs to be given consideration at the concept stage, with all stakeholders prepared to take appropriate levels of accountability for safe design and developing realistic construction programmes. Currently this is not the case.

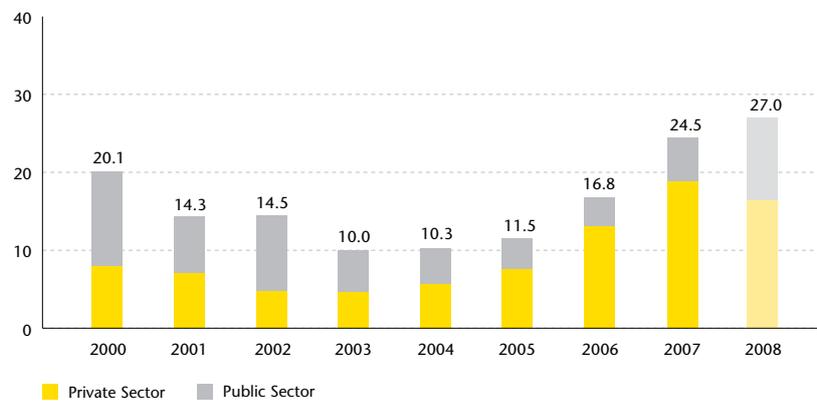
Whilst much is being done and must be done to address workforce training and behaviour, and indeed there are many grass root initiatives, the same cannot be said for corporate leadership and middle management. It is hard to convince the workforce to take safety seriously when leadership does not. From our tertiary education facilities, whose engineering programmes typically contain less than 2% (some zero) of their curricula devoted to safety, to the absence of committed safety leadership role models within corporate life, the management of our industry needs to come under greater scrutiny.

Safety is not a cost; work currently being undertaken is beginning to show a clear link between profitable sites and safe sites. Safety drives a discipline that in turn drives good attitudes to housekeeping, environmental protection and indeed all facets of good management.

Growth in Singapore

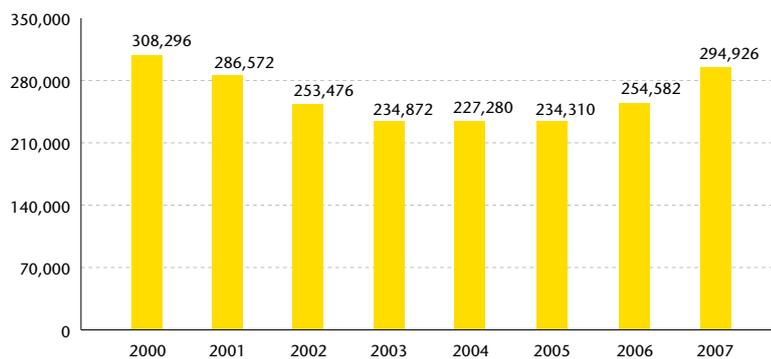
Construction Market (Singapore)

(in S\$ billions)



Value of contracts awarded. Projected demand for 2008 is an upper bound figure published by the Building and Construction Authority, Singapore Government. The range is S\$23–27 billion.

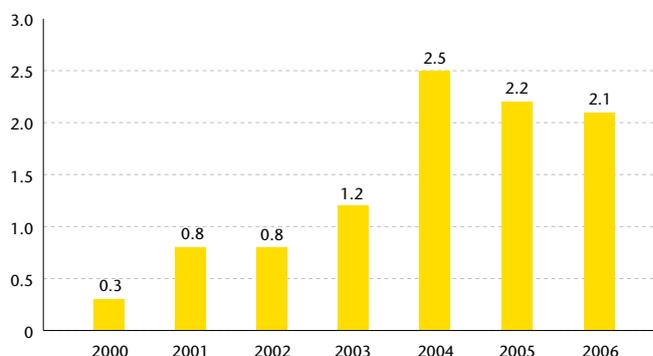
Industry Workforce (Singapore)



Employment data from "Administrative Records" published on the website of the Ministry of Manpower, Singapore Government.

Industry Exports (Singapore)

(in S\$ billions)



Data from media release: Singapore Construction and Engineering firms clinched S\$2.1 billion overseas contracts in 2006, issued on 22 May 2007 by the Building and Construction Authority, Singapore Government.

Growth of the construction workforce in Singapore has lagged behind market growth. The frequency of construction accidents has risen broadly in parallel with local demand. This in part is due to bold steps taken by Singapore Government to improve accident reporting but it may also be due to other factors. With workforce shortages, it may be the case that management time on safety is being spread too thinly or the experience level and quality of imported workers may be declining.

Corporate Leadership

Governance

Governance is vested in the Board of Directors. The Board is accountable to shareholders for the Group's performance in safety, health, the environment, risk management, compliance, business and social issues. The Board formulates policy for financial and non-financial matters of importance, which set out how people are expected to act. Group wide and unit specific management systems provide a common platform for providing assurance and controlling operations as well as reporting risks. Health, safety and environmental issues are subject to meticulous measurement, audit and reporting.

Code of Conduct

We live in a fast changing world where changes in information and communication technology and in the external environment present companies with increasingly complex issues. In response, Gammon developed a Code of Conduct, published in 2007, wherein the company accepts responsibility to ensure that a professional, respected, economically sound and prosperous business is maintained in the face of these present and future challenges. The belief is that by communicating good practice guidelines, as articulated in the Code, we clarify what is expected of those who contribute to the business.

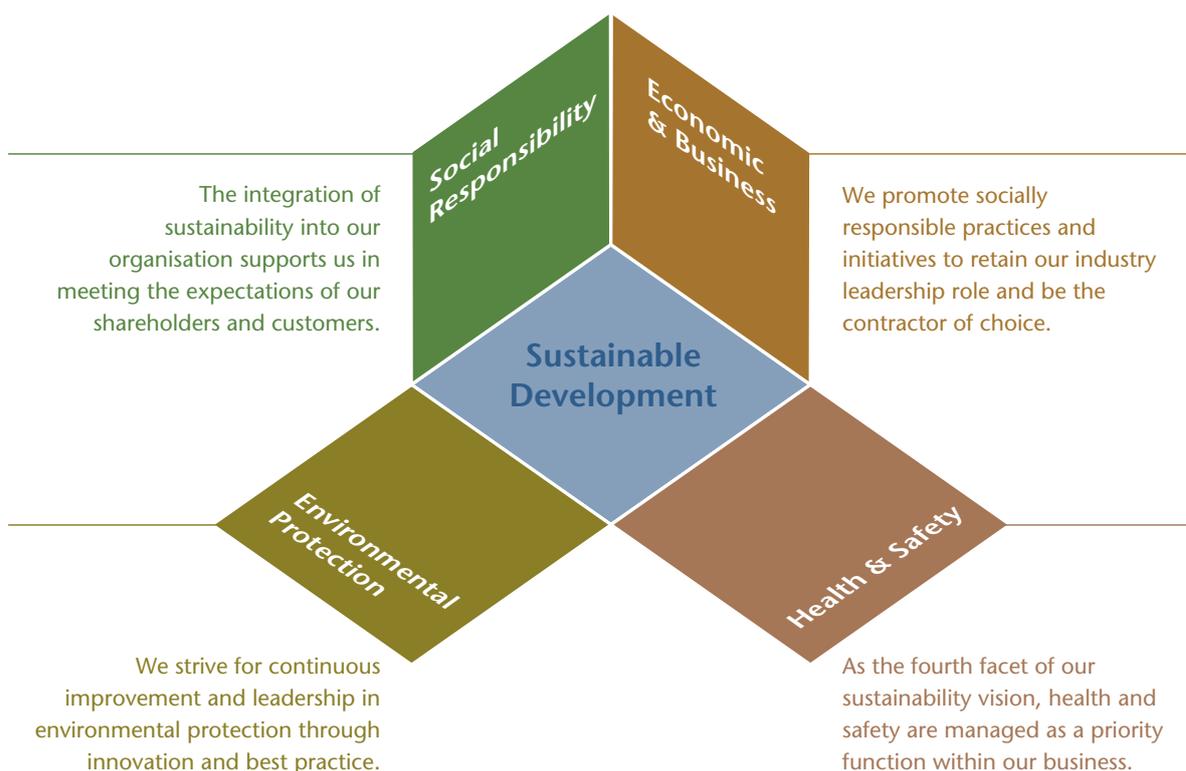
Sustainability to Gammon

We see sustainability as the pursuit of our long-term economic and business goals in an environmentally and socially responsible manner.

In pursuit of our sustainability journey, we operate under the accepted triple bottom line captured in the World Commission of Environment and Development guidelines, with the addition of health and safety. Avoidance of construction accidents and work related ailments are key business objectives and therefore health and safety is added as the fourth component in our sustainability framework.

Gammon's Chief Executive, Mr Thomas Ho, received on behalf of the Company, the Director of the Year Award in 2007 from the Hong Kong Institute of Directors. The award was given in recognition of Gammon's "outstanding corporate governance".

Gammon's Sustainability Framework



Health and Safety

“Gammon is clearly committed to raising health and safety standards. Leadership shown on issues such as hot weather working, behavioural safety and on the safe operation of tower cranes is prompting industry review.”

Russell Black

Project Director,
MTR Corporation Limited



In 2007 Giant Hypermarket in Singapore reached the milestone, through several years of effort, of one million man hours without an accident.

Leadership and Behaviour

A safety leadership review programme ran throughout 2007. The programme was designed to help management staff understand how their behaviour and interactions with their team can have a significant impact on operational safety. Areas for improvement were identified and an action plan was drawn up for implementation in 2008.

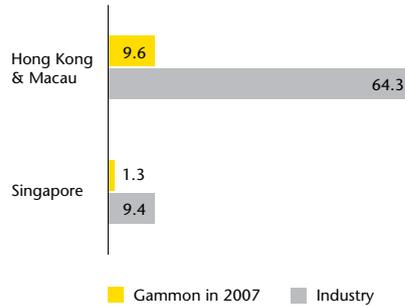
Pro-active Engagement and Positive Encouragement

In 2007 there was a greater emphasis on near miss reporting. Spot gifts and cash bonuses were introduced to reward employees and workers who identified potential hazards.

Programmes of workforce engagement were encouraged throughout the business with Directors, Senior Managers and staff spending time,

Accident Incident Rate By Region

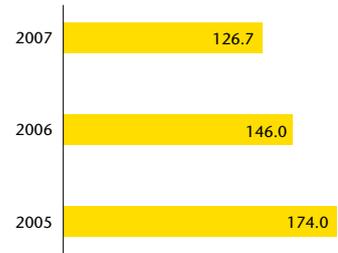
(per 1,000 workers)



Industry accident incident rates are those reported for 2006 by Labour Department of HKSAR Government, Ministry of Manpower of Singapore Government and Labour and Employment Bureau of Macao Government.

Accident Severity Rate

(total man-days lost/number of accidents)



through lunches, formal workshops and social sessions, listening to and communicating with our wider workforce.

These approaches we are finding are invaluable in generating a care and concern culture across our employee and workforce network.

Health Safety Environment and Quality Roadmap

As part of our continual drive to improve the implementation of our health and safety systems, in 2007 we introduced a Health Safety Environment and Quality Roadmap, an intranet portal to help staff navigate the system more effectively, around which we developed a training programme. More than 600 staff attended this training programme, which was held in Hong Kong, Singapore and Macau. The programme will be extended to supervisory staff in the coming year.

Frontline Training

Training of frontline trainers was reinforced. The aim of this training was to ensure that the quality of training being given to frontline workers during morning briefings and toolbox talks, was of an acceptable standard and that consistent messages were being delivered. In 2007 more than 400 supervisory staff attended frontline training.

Supply Chain and Subcontractors

Engendering safety awareness in the workforce of our subcontractors and suppliers forms a key element of our management strategy. A total of seven Workers Registration Centres have been established by Gammon in Hong Kong, Singapore and Macau. From inception up until the end of 2007, the Centres have provided safety and environmental training for 46,674 staff employed by our project partners and 5,100 directly employed staff. Only registered staff can enter Gammon's construction sites. Sub-contractors are required to attend Gammon-led briefings and workshops on safety and environmental protection and also to participate at a senior level in weekly construction site inspections.

Promoting Health and Safety



Several new publications were launched to promote health and safety in the workplace and environmental

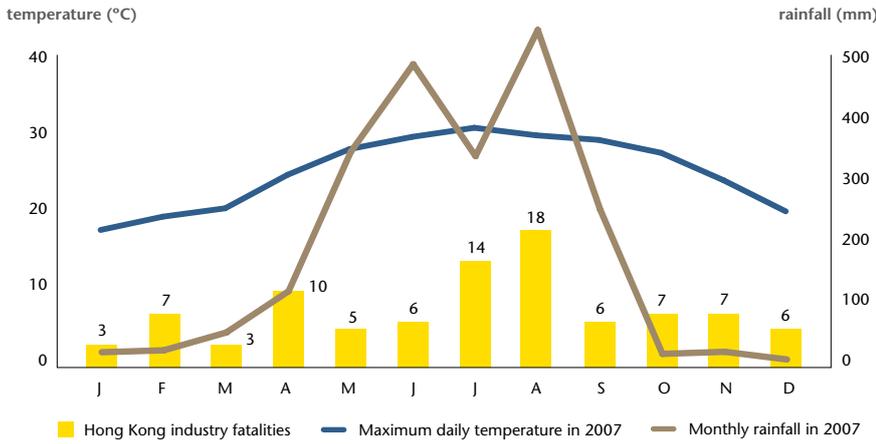
protection. These included "HS&E News", a newsletter written in Chinese and English, that covers a range of topics such as changes in health, safety and environmental legislation, articles on company awards and initiatives, and a safety quiz with cash prizes.

Safe working practices were reinforced with the publication of Specialised Work Rules, Personal Protective Equipment Handbook, Tower Crane Operator Handbook and Mobile Crane Operator Handbook, adding to the suite of safety publications produced by the company. Safety Alerts, recording lessons learnt from accidents in the industry, were also introduced to improve awareness.

Gammon's Safety Conference attracted more than 700 participants including staff, industry leaders and business partners. A wide range of subjects was covered, including experience sharing from frontline staff and a client's perspective on safety by design.

In excess of 2,000 staff and family members enjoyed the Gammon Safety Family Fun Day.

Fatal Construction Accidents in Hong Kong 2004-2007



Gammon initiated a study to understand the effects of occupational exposure to hot working environments better. Serious construction accidents in Hong Kong and Macau tend to be more frequent in the hot and wet months of July and August.

Safety by Design

The European Agency for Safety and Health at Work reports that up to 60% of the accidents on Europe’s construction sites and over 25% of the fatalities could be avoided by more careful design, planning and procurement before construction starts. Gammon strongly believes in the significant benefits of addressing safety risks from early on in the life of a project at the design stage, well before a project becomes a physical reality on site.

In 2006, Gammon and its in-house design consultant Lambeth formed an internal working group on Safety by Design. The Working Group established a Safety by Design website on Gammon’s intranet in 2007 through which best practice guidelines and technical directives are communicated across the company. These documents typically comprise drawings or sketches on the safe use of temporary works.

Gammon has continued its proactive approach in industry in 2007, by promoting the adoption of Safety by Design principles through trade organisations and at forums of professionals and members of government.

Hot Weather Working

The frequency of accidents on construction sites in Hong Kong and Macau, in general, tends to be higher during the summer months when the weather is hot and wet. Summer months also tend to be peak periods for holidays by management so as an industry there may be less focused supervision. The spike in fatalities in July and August may be due to a combination of these factors.

In 2007, Gammon initiated a study to understand better the effects of occupational exposure to hot working environments and current world best practices. Working in a hot environment lowers mental alertness and physical performance. An increased body temperature and physical discomfort promote irritability, anger and other emotional states, which sometimes cause workers to overlook safety procedures or to divert their attention from hazardous tasks.

The study concluded that there are strong justifications for some form of legislative control to limit exposure of workers to very hot working conditions, possibly by the introduction of shift work or longer breaks during the hottest times of the year. Immediate

steps were taken to increase the number of shaded areas with drinking facilities on our construction sites. We also launched an awareness campaign on the hazards of hot weather working.

Gammon presented the findings of the study to the Construction Industry Council, which has now set up a task force to carry out further research into this area. In 2008, Gammon will undertake an in depth study to identify trades at greater risk and to formulate specific recommendations and control for working in hot weather.

Safety Performance for 2007

In 2007, there were four workforce fatalities. We are greatly pained and deeply regret the loss of these lives and our aspiration remains to have no accidents and no harm to people. No expense or effort is spared in totally open and transparent investigation of all serious incidents. The outcomes of which are disseminated around the whole company.

We recorded a fairly consistent accident incident rate for Group, with an annual figure of 8.3 per 1,000 workers, similar to our lowest ever recorded level in

Safety Performance for 2007

Top Performing Projects	Consecutive Accident-free Man-days (at 31 Dec 2007)
Venetian, Macau	3,402,680
Drainage Contract DC/2003/04, Hong Kong	1,266,460
Giant Hypermarket, Singapore	1,035,170
Nam Wan Tunnel, Hong Kong	897,260
Penny's Bay Reclamation Stage 2, Hong Kong	733,980
Maintenance of High Speed Roads, Hong Kong	681,200
KCRC Contract LCC300, Hong Kong	657,020
URA Seawall Removal Project, Singapore	653,614
KCRC Contract KDB200, Hong Kong	617,240
Mandarin Oriental, Hong Kong	575,640

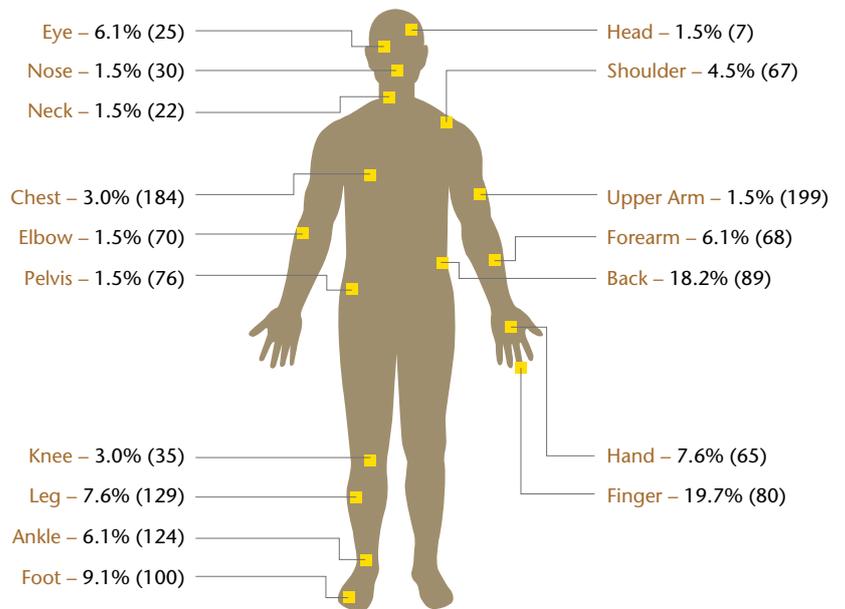
For some projects includes accident-free man-days worked before reporting period.

2006, but still above our balanced scorecard target of 7.2. A positive outcome was that the severity of accidents, a measure of how serious an incident has been on the basis of time away from work, decreased during 2007. Whilst we perform very well against industry benchmark results, such as the Hong Kong and Singapore construction industry averages, we maintain the need to remain vigilant and focused on our zero accident vision.

We set discipline-specific accident incident rate targets and closely monitor project performance to identify areas for improvement. Data on the nature and causes of accidents, types of injury, severity rates and demographics of workers involved, amongst other information, are collated on a monthly basis and posted on Gammon's intranet. The data is used to target safety management strategies and to monitor performance.

Project performance is also tracked in terms of consecutive accident-free man-hours worked. At the end of 2007, a number of our projects had achieved over 500,000 accident free man-hours.

Accident Man for 2007



Percentage of total accidents (Average man-days lost per case)

A Glove Campaign was launched in 2007 to target personal injuries to hands and fingers. The campaign included providing free gloves to all stakeholders and raising awareness at toolbox talks and morning briefings. Steps to reduce back injuries were activity focused and led by project teams. Front line staff in Singapore developed a "mono-wheel", a simple but clever device comprising of a metal guide supported by two rubber wheels that was used to transport heavy building materials and thereby reduce carrying and lifting hazards.

Economic and Business

“Your Sustainability Report has clearly demonstrated Gammon’s firm commitment to sustainability in your business development.”

Cherry Tse

Commissioner for Labour,
The Government of the Hong Kong SAR



Group businesses performed strongly through 2007. The outlook for 2008 is positive with growth in construction demand forecast for our home markets.

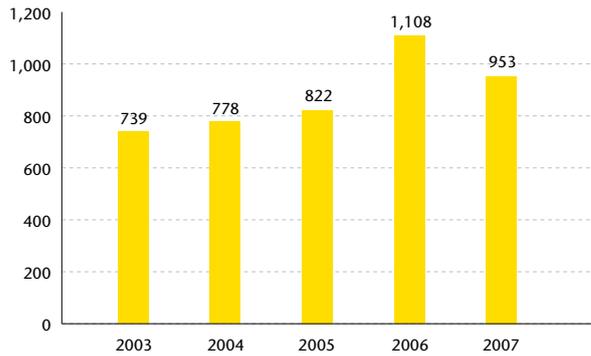
Balanced Scorecard

Gammon uses the balanced scorecard approach to communicate corporate strategy and measure the Group’s performance in achieving key objectives. Whilst the scorecard incorporates economic and business goals it also reinforces our commitment to environmental and social responsibility.

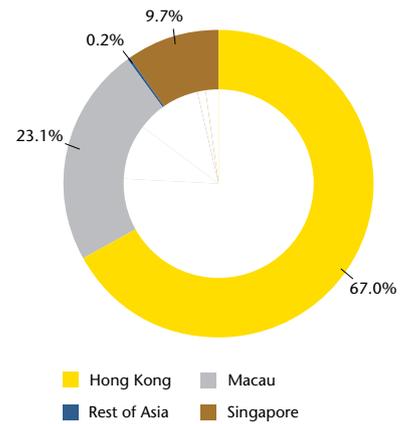
In communicating corporate strategy, the balanced scorecard ensures that our core drivers, which for 2007 included our people, safety, risk and supply chain management, are recognised as key performance areas for all business units. Employee remuneration is linked to balanced scorecard performance.

Group Turnover for 2007

(in US\$ millions)



Turnover by Location for 2007



Gammon's Balanced Scorecard for 2007

Financial

- ✓ Achieve net profit
- ✓ Control corporate overheads to meet budget
- ✓ Achieve claims
- ✗ All business units to achieve negative working capital

Internal Business Processes

- ✗ Meet HSE objectives and targets
- ✓ Improve the management and control of project risk
- ✓ Implement supply chain management preferred and strategic partners
- ✓ Optimise material procurement through China sourcing

People and Future Growth

- ✓ Improve internal staff morale and engagement
- ✓ Structured succession planning for senior management

Customers and Markets

- ✓ Increase customer satisfaction in private sector
- ✓ Increase percentage of contracts awarded through negotiation from not low bid positions
- ✓ Issue Sustainability Report
- ✓ Build capabilities for recurring and lifecycle earnings opportunities

✓ achieved ✗ substantially achieved ✗ not achieved

Financial Performance

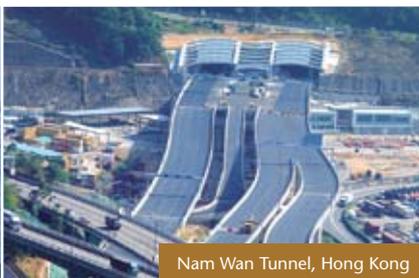
Group businesses performed strongly in 2007, exceeding our financial targets. The results provide an excellent springboard for our business plans in 2008. We maintained our share in the key markets in which we have a permanent presence. The contribution from Singapore was encouraging and accounted for about 9% of total business turnover. The award of the Institute of Technical Education West Campus to Gammon Capital, the first PPP procured education facility in Singapore, was a significant achievement.

A substantially increased order book was secured across our disciplines and the successful conclusion to outstanding claims and older contracts helped 2007 results.

Selected Major Projects Completed



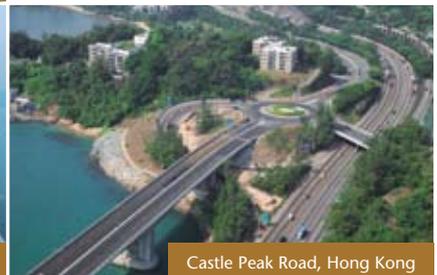
Venetian Hotel, Macau



Nam Wan Tunnel, Hong Kong



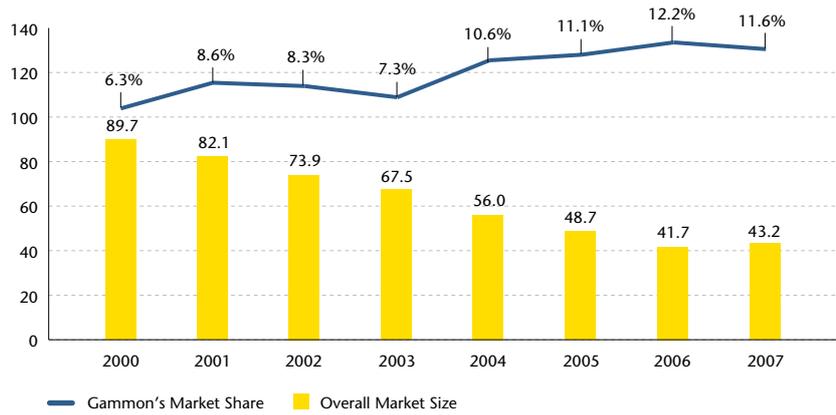
Shenzhen Western Corridor, Hong Kong



Castle Peak Road, Hong Kong

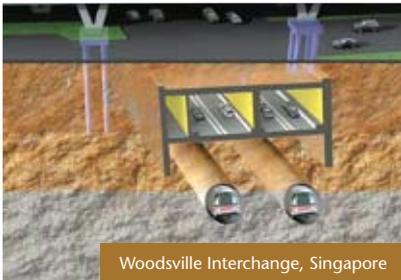
Hong Kong Construction Market

(in HK\$ billions)



Construction work performed by main contractors (excluding repair, maintenance, alterations and special trades). Information from Report on the Quarterly Survey of Construction Output issued by Census and Statistics Department, HKSAR Government.

Selected Major Projects Secured



Woodsville Interchange, Singapore



Institute of Technical Education Campus, Singapore



Tamar Development Project, Hong Kong



Chinatown Station, Singapore

Risk and Opportunity Management

The management of risk is at the heart of everything we do at Gammon. As a result, the systematic identification and assessment of risk are an integral part of our management skills and processes. We believe implementation of our risk management framework helps us to improve stakeholder confidence in our ability to deliver on our commitments. It assists us to improve the balance of risk and return against potential issues that relate directly to the sustainability agenda, such as social or environmental impacts.

During 2007 we have continued to upgrade the quality and scope of our risk and opportunity management processes through extensive training, monthly reviews and internal reporting of our performance in managing risk. Training on safety risks has been extended to the frontline, where workforce risk assessments are undertaken with the workers themselves.

Innovation

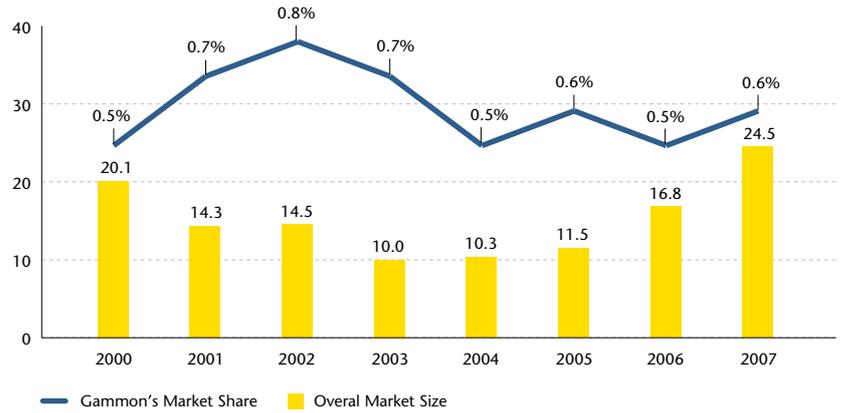
Innovation and continuous improvement are vital to the sustainability of the business. As an ongoing strategy, appreciable energy was channelled to developing, promoting and measuring our innovation culture through 2007.

For a number of years Gammon has been holding innovation competitions for staff, subcontractors and sponsored students, with the aim of generating ideas to improve performance in everything we do. In 2007 there were over 40 competition entries, many of which have already been implemented across the business.

Gammon has seven Innovation Centres, covering all of our main business areas, with Singapore added in 2007. The Centres include a spectrum of staff, ranging from Directors to front line workers, who promote innovation and collect improvement ideas from every tier in the business. Technology exchanges between the Centres and Balfour Beatty's Innovation Forums in Europe are encouraged to ensure that there is truly a global reach. Funds made available to the Innovation Centres for research and development were more than doubled to HK\$2 million in 2007.

Singapore Construction Market

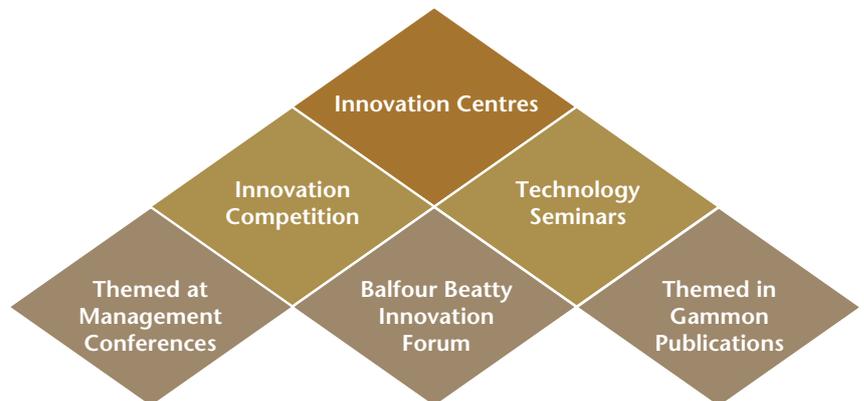
(in S\$ billions)



Construction Demand, BCA Annual Report, Singapore Government.

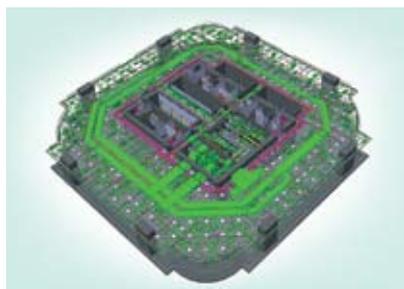
Recognising that new staff entering the business are a source of fresh creativity, we have prioritised initiatives in 2008 to encourage recent graduate recruits, in addition to staff at the front line, to play a more significant role in the innovation drive. The innovation competition will be expanded in 2008, with more categories added, to draw ideas from a wider spectrum of staff.

Gammon's Innovation Framework



Truck Dust Covers

Front line innovation is encouraged. Site staff developed a novel mechanical system to secure dustsheets on trucks. The idea improved safety by minimising working at height and also provided improved protection against dispersion of dust during the transport of debris.



Building Information Modelling

Building Information Modelling was piloted on several Gammon projects in 2007. Powerful computers are used to model every aspect of structures digitally. The system improves data transactions with designers and provides digital logs of all building components for facility management during the life cycle of the structure.



Concrete Technology

Gammon, in conjunction with Hong Kong City University, developed a very high strength concrete mix that was used to construct One Island East, a 70-storey office tower in Hong Kong. The very high strength concrete allowed the sizes of the elements forming the frame of the building to be reduced by about 30%, thereby reducing the consumption of raw materials and improving the building's efficiency.

Social Responsibility

“ I am delighted that Gammon is taking a leadership role in corporate social responsibility in the construction industry. ”

Keith Kerr

Chairman,
Construction Industry Council



We are very appreciative of the many staff within the company who give freely of their time in support of those less fortunate. More than 230 walkers from Gammon participated in the Hong Kong-Shenzhen Western Corridor "Walk for Millions" to raise funds for local charities.

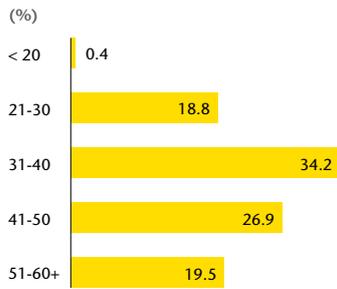
Stakeholders

Gammon has long recognised that the long-term success of its business depends not only on the continued delivery of a high quality service but also on a demonstrable achievement in fulfilling our wider responsibilities. Our commitments therefore must stretch beyond the benefits created by our projects. We seek to give something tangible back to the communities in which we operate not

only through our work and direct employment but also by helping to deliver additional social benefits.

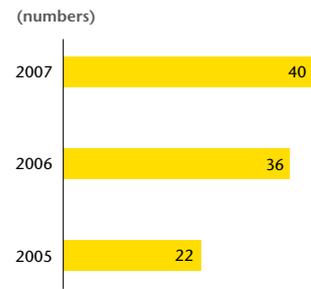
Our shareholders, employees, customers, supply chain and the wider community represent the key stakeholders of our business. As the business continues to grow we aim to meet the needs of present and future stakeholders, but to do this we must keep in tune with their expectations. We encourage open dialogue,

Employment by Age Demographic



Represents percentage of monthly paid staff at 31 December 2007.

Graduate Recruitment



partnerships and engagement as these often offer the best approach to capture feedback. However, we also use various accepted systematic approaches such as stakeholder opinion and satisfaction surveys, as well as facilitated conferences and workshops.

We received a commendation for Disclosure on Material Industry Issues and Organisations Response for our 2006 Sustainability Report "Dialogue for Change" from ACCA Hong Kong.

Customers

A Gammon core value is "being customer centric". For us this means focusing on the broader needs of our customers and not simply the structures we build for them or the services we provide. We survey our customers, typically every six months, to gauge the importance of various behavioural, process and result attributes of our operations and ask them to rate our performance against each. This allows us to identify priorities and gaps in meeting needs and expectations. We promote transparency in reporting by providing a summary of the feedback on key results, both positive and negative. Key results in 2007 give us some confidence that our actions are being viewed positively.

Overall customer satisfaction

Up from 3.88 (2006) to 4.17(2007)

Using Gammon on next project

Up from 4.17(2006) to 4.39 (2007)

Recommending Gammon to others

Up from 4.17 (2006) to 4.44 (2007)

Through early involvement in our customer's projects we can actively promote opportunities to demonstrate technical competence, innovation and flexibility in our approach. Gammon can play a key role in lowering overall project costs, meeting building energy efficiency standards, improving programme certainties, increasing productivity and reducing waste.

Workforce

Our employees are key to ensuring that we rise to the challenges of sustainability, safely deliver on our customer's expectations and effectively build on our relationships with our suppliers, subcontractors and communities. As we organise our resources to manage rising market demand, one of the biggest challenges we face is recruiting and retaining people, particularly those with skills and leadership qualities.

Attracting and Developing Talent

We encourage new talent to join the construction industry by offering university fellowships, sponsorships and recognised professional training agreements in Hong Kong and Singapore. Fellowships are unique 1-year programmes that provide students with an opportunity to work in construction and participate in various company functions. Mentors provide guidance and advice during and after placement and evaluate their potential for a permanent role.

One strategy to retain and develop talent is to offer training opportunities unmatched by our competitors. Since the launch of the Gammon Academy six years ago, it has continued to enhance the ability and competency of staff and business partners. In 2007, the Gammon Academy offered a wide range of subjects, from site supervision to management training and technical workshops. A number of training methods were used including trainer presentations, role-plays, case studies and structured exercises.

Charitable Organisations supported by Gammon



Engaging with Our People

We know that higher levels of employee engagement are linked to changing behaviour that can result in numerous benefits such as increased productivity, improved safety and better business performance. We also believe this can foster a greater sense of pride, belonging and loyalty. Therefore during 2007 both the extent and range of group wide communications increased. Monthly bilingual messages from the Chief Executive and quarterly briefings by the Board of Directors encouraged direct dialogue on company performance and topical issues.

Employee Satisfaction

Getting feedback from our staff about what is important to them and how satisfied they are helps us to understand their feelings about company strategies and direction. Whilst one-on-one feedback is encouraged and part of daily business, we appreciate the need for a more systematic approach that can provide suitable indicators at specific times. In 2007, 590 out of 1117 respondents participated at their own convenience in our newly created online survey. The feedback obtained from this form of anonymous engagement verifies that while many of our recent actions are yielding positive results, we must never be complacent and areas for improvement remain.

Quality Life, Quality Work

Gammon recognises that work stress can be a factor in quality of life, staff retention and business performance. We have therefore taken steps to generate awareness in achieving a work-life balance.



Quality Life, Quality Work

In 2007 Gammon published a Quality Life, Quality Work booklet to all staff to promote a healthy lifestyle. It gives useful guidance and related information to help in understanding and addressing the influences and links between health, stress, diet and exercise.

Gammon made strides to improve staff retirement planning during 2007. It is recognised by many workers that participation in Hong Kong's Mandatory Pension Fund scheme alone may not generate sufficient income for retirement. The company searched for ways to help workers on the pension

scheme to achieve their retirement aims and at the same time reward loyalty. From 1 January 2008 Gammon will start adding voluntary monthly contributions to each eligible employee's mandatory fund allocation.

Community

Gammon is a regular contributor and participant in local charities and events and an active supporter of the construction industry's own charity, the Lighthouse Club.



Maggie's office

Gammon donated an office for cancer patients and their families at Tuen Mun Hospital. This is the first physical and public evidence of the presence in some form of Maggie Services in Hong Kong.

Gammon was delighted to have a nomination as a “Caring Company” accepted by the Hong Kong Council of Social Services in 2007. The Caring Company Scheme was launched to recognise private companies, which demonstrate good corporate citizenship and community awareness of corporate social responsibility.

Supply Chain

Our subcontractor selection and appraisal processes have been made more robust. We have expanded the range of assessment criteria for initial approval status and also as a basis for regular performance appraisal. For example, we now include innovation and safety by design and have adjusted score weightings to reflect our emphasis on quality, health, safety and the environment more accurately. A monthly safety league table is now published for all subcontracts in Hong Kong and Macau to encourage improvements and help ensure concerns are addressed before placing new contracts.



“The Gammon Promise” and “Cementing the Link” – gifts to the community and our business partners to celebrate engineering achievements.

Gammon published two books in 2007. “The Gammon Promise” records a 50 year history of Gammon’s involvement in shaping the cities in which we operate. “Cementing the Link” highlights the progress and achievements on two major civil engineering projects in Hong Kong.

At all times we aim to balance expansion of approved providers from the market against the desire for longer term partnerships that offer repeat business and the chance to work together to enhance services. We strive to embed social responsibility considerations so deeply that they become automatic considerations in purchasing decisions and supply chain management in the same way as costs and delivery.

Environmental Protection

“ I read your Sustainability Report 2006 with interest. It is encouraging that Gammon are embedding protection of the environment as a key corporate strategy. ”

Anissa Wong

*Permanent Secretary for the Environment,
The Government of the Hong Kong SAR*



'Green branding' at Penny's Bay reclamation in Hong Kong. As a Gammon initiative, 400,000 cubic metres of rock sorted from public fill waste was used in the construction of seawalls.

Taking Ownership

Our environmental management systems provide a framework for control. We recognise that the degree of control and ownership varies depending upon the actual activities undertaken and the delivery process. We own offices, production facilities, construction equipment and vehicles and are able to optimise their performance to minimise environmental impacts. On our construction projects

we can influence environmental performance through our working methods, procurement and relationships with stakeholders.

When project procurement allows involvement in design, we can demonstrate our comprehensive management of environmental issues and provide sustainable solutions to improve energy efficiency, waste management and the efficient use of natural resources.

“ I am impressed by the progress that Gammon Construction Singapore has made in reducing waste and saving energy and water. I commend the company for its efforts towards achieving sustainable construction and hope it will strive for even higher goals in future. ”

Joseph Hui

*Director General (Environmental Protection),
The National Environment Agency, Singapore Government*

Performance Monitoring

We treat compliance as the minimum acceptable performance standard and continually seek to improve. During 2007 we did not have any environmental incidents of a serious nature and achieved zero prosecutions. Regrettably, we did receive two warnings for noise and dust control incidences, neither of which were significant in nature in terms of their impact. However, as compliance breaches they are unacceptable and corrective actions have been implemented to prevent re-occurrence.

In 2007 we collated monitoring records and identified indicators to track the environmental performance of each of our business units in relation to energy and fuel consumption, water use and waste generation. The data was used to quantify our direct environmental impacts and manage resources better.

Following on from the positive performance recorded in 2006, ambitious targets of a 5% reduction in landfill waste generation and a 15% reduction in electricity and diesel usage per unit turnover were set for 2007. An 18% reduction in diesel consumption per unit of turnover was achieved, even after adjusting for the near completion of a major land reclamation in Hong Kong, which itself accounted for another 20% reduction. For electricity usage we failed to meet our targets,



Optimising re-use at Singapore “Mole”

Six thousand tonnes of steel tubes and frames, are being re-used up to 4 times, during the removal of an old seawall buried deep underground at Marina Bay in Singapore. The environmental merits of this project have also been recognised with a Friend of Water award from Singapore Public Utility Board for minimising the use of potable water.

increasing consumption by 20% per unit of turnover compared to 2006. Our overall energy management did improve; in the year we achieved a 23,000 tonne reduction in total carbon emissions compared with the previous year.

Waste Management

Waste management is a strategic part of our business planning. A number of initiatives were implemented in 2007 to minimise construction waste. Examples include the re-design of structures to optimise re-use of materials and maximise offsite fabrication, increased sorting of waste and working with suppliers to reduce packaging.

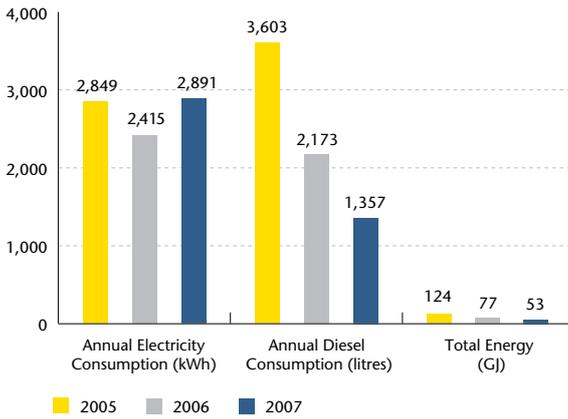
For waste sent to landfill we achieved a 74% reduction compared with 2006. Waste disposal to public fill, typically used by Government to form new land, increased by about 10% as a result of increased segregation of waste,

particularly on foundations and civil engineering projects. Overall quantities of waste increased by 2% compared with 2006. This increase was significantly influenced by the volume of public fill waste generated by tunnelling works on a large railway construction project in Hong Kong.

Throughout the business there was a heightened focus on recycling waste. We collaborated more with local registered waste recycling contractors, who established collection points for metals, plastics and packaging. Income generated from the sale of recycled materials was used to reward workers who demonstrated commitment to good housekeeping and minimising waste.

Group Energy Consumption KPIs

(per HK\$1 million turnover)



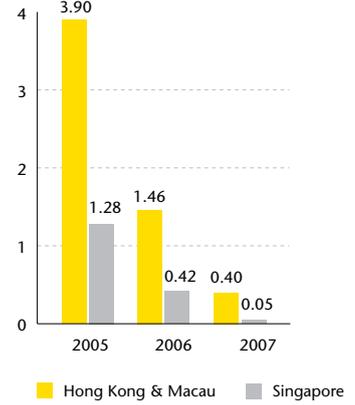
Water Consumption KPI

(m³ per HK\$100,000 turnover)



Landfill Waste Generation KPI

(m³ per HK\$100,000 turnover)



Tackling Climate Change through Innovation

More than 570 "windmills" have been installed at Gammon Technology Park to provide wind generated energy for lighting.

Commitment to Climate Change

Climate change and air pollution are key concerns for society. As a leading construction company we must play our part by working with clients to understand and reduce potential carbon impacts arising from our projects. We actively pursue construction procurement approaches such as design-and-build, which provide us with greater influence and hence the opportunity to promote energy-efficient designs. These may include passive ventilation, building envelope design, solar gain, renewable energy and energy efficient building services. Longer-term asset management contracts take these opportunities a step further and allow us to consider the importance of total life costs and maintenance to promote a more holistic approach to energy and carbon management.

We monitor our regional activities for transport, construction equipment usage and electricity consumption,

which are our principal sources of emissions and seek to improve performance.

We remain committed to the Clean Air Charter, which is championed by the Business Coalition on the Environment in Hong Kong, and seeks to promote regional cooperation amongst businesses and Governments to manage proactively the air pollution problems that the greater Pearl River Delta faces.

During the year we reduced our overall carbon footprint by 38%, achieving our 5% reduction target set in 2006. The reduction in our carbon footprint was mainly due to a reduction in diesel consumption.

In 2007 we looked at ways to reduce our electricity consumption. We improved the energy efficiency of site offices by upgrading electrical equipment to energy saving devices. At Gammon's head office we changed all of our lighting to energy saving bulbs.



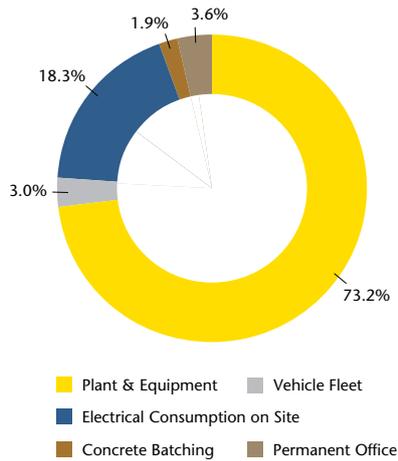
Green Site Office

Containers are commonly used in remote and smaller construction sites to accommodate staff. Gammon's electrical and mechanical business embarked on a site-based comparative study of power consumption between a conventional yellow Gammon site container office and one painted white. Painting with reflective white paint, installing a pitched roof, energy-saving lighting, shading devices and installing air-conditioners with energy labels, saved 30% in cooling energy during summer. This initiative led to a drive to change the colour of all site container offices to white, promotion of energy conservation behaviour and the wider introduction of energy saving devices.

Materials Management

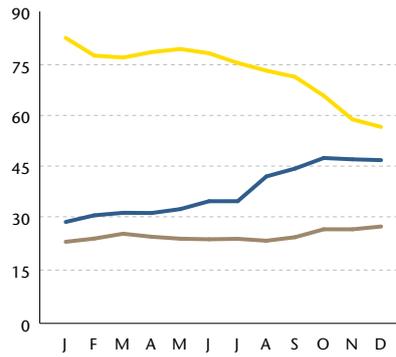
Under our procurement environmental awareness programme we continue to focus on fuel management and timber procurement. We have increased the use of ultra-low sulphur diesel on sites in place of higher polluting commercial diesel. We are working with our fuel supplier and plant department to improve the efficiency of our plant and equipment.

CO₂ Equivalent from Hong Kong, Macau and Singapore Operations

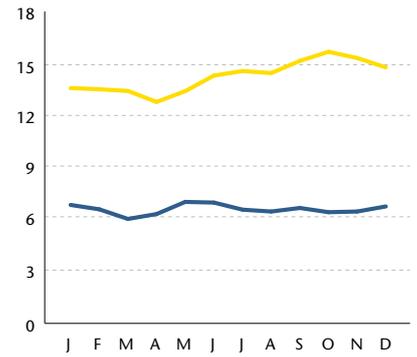


Energy Consumption (12-month Rolling Average KPI) for 2007 – Group Operation

Energy Consumption KPI (GJ per HK\$1 million turnover)



Energy Consumption KPI (GJ per unit production)



The majority of our plywood is procured from China. Since 2007 we have been exploring the availability of timber certified by the Forest Stewardship Council, but have found it lacking. All plywood is, however, manufactured from timber from managed forests. We are conducting trials using bamboo plywood as a more sustainable material.

Ecology Protection

We strive to ensure that our construction activities do not have a negative impact on the surrounding environment. Where sites are located in areas of ecological interest we put measures in place to protect the wildlife.



White Bellied Sea Eagles at Penny's Bay, Hong Kong

Gammon employed an avian specialist to ensure that construction activities close to a breeding area of white bellied sea eagles did not cause undue disturbance. Detailed records of the behaviour of the birds were made including time spent feeding, perching, preening, soaring, flying, nesting and territorial guarding. No detrimental impacts were observed.

Environmental Awareness



Green Roof and Environmental Corner at Hong Kong University

A harmonious work environment helps create successful projects. At the Hong Kong University we have constructed a green roof garden using recycled materials from other projects. Adorned with plants and shaded seating areas, it encourages staff and workers to relax during their break time. Environmental news and information posted on the Green Corner educates our staff about the latest environmental technologies and Gammon's environmental performance. The green roof also enhances the thermal insulation of the site offices below, reducing energy demand and our carbon loading.

Industry Recognition

Our efforts have been recognised and in 2007 we received four environmental awards. Our joint venture railway contract in Hong Kong, the KDB200 Kowloon Southern Link, won two awards, the Considerate Contractors Site Award and the Outstanding Environment Management and Performance Grand Award. Gammon

was also awarded the 2007 Hong Kong Construction Association Environmental Merit Award. In addition, the Singapore Public Utility Board recognised Gammon as a Friend of Water in recognition of our contributions towards maintaining the sustainability of the island's water supply.

Verification Statement

The Business Environment Council (BEC) was commissioned by Gammon Construction Ltd (Gammon) to provide a verification statement for its 2007 Sustainability Report "Dialogue for Growth" (the Report). BEC conducted sample checks of the data, claims and case studies in the Report through document and data review and interviews with responsible personnel. Our findings are set out as below.

Completeness of the report scope

"Dialogue for Growth" provides a comprehensive account of Gammon's sustainability commitments and performance in relation to its core business activities and key markets for the reporting period. The Report covers Gammon's approach to sustainability in working with business partners and the industry to address health and safety, social, environmental and economic considerations. The Report also presents the socio-economic context faced by Gammon and the industry – especially in Hong Kong and Singapore – and highlights Gammon's leadership in promoting change within the construction industry towards a more sustainable future.

Adequacy of data

The relevance and clarity of the Report's presentation of economic and business, social, health and safety, and environmental performance is considered adequate. In particular, the presentation of industry statistics is useful in presenting the sustainability challenges confronting Gammon and the industry. Indicators in the Report have given a useful insight to readers on the Company's vigorous performance monitoring. They also form a sound basis for performance benchmarking in the construction industry.

Accuracy of data

BEC is satisfied that the content presented in this Report is consistent with the documents and data reviewed and interviews conducted during the verification process. Nothing has come to our attention that causes us to believe that the Report contains or communicates any significant errors or interpretations that cannot be supported by existing strategies, documentation or procedures at Gammon. Recommendations to clarify minor ambiguities identified during verification have been incorporated into this Report to BEC's satisfaction. Existing data and information management systems are considered both effective and reliable, but will need to continue to mature as Gammon's sustainability initiatives evolve.

Opinion

BEC considers this Report an accurate and reliable presentation of Gammon's initiatives and achievements towards corporate sustainability in 2007.



Kevin Edmunds
Chief Operating Officer
Business Environment Council



About this Report

We have used the Global Reporting Initiative G3 Guidelines (2006) only as a broad framework for certain sections and performance indicators. In parallel, we have also prepared this Report giving due consideration to BS8900: Guidance for Managing Sustainable Development (2006).



This report is printed on Novatech Matt Art paper which carries FSC (Forest Stewardship Council) certification. It has been made with ECF pulp (Elemental Chlorine-free) and is derived from well managed forests.

We would like to thank the members of Gammon staff who have contributed photographs to this publication:

Page 3 Edmund Tong
Page 8 Joe Chan
Page 16 Steven Cheong
Page 20 Lee Wai Man

Designed by Sedgwick Richardson



HONG KONG SAR

Headquarters

Gammon Construction Limited

28th Floor, Devon House
TaiKoo Place, 979 King's Road
Hong Kong
Tel: 852 2516 8823
Fax: 852 2516 6260

SINGAPORE

Gammon Pte. Limited

Co Reg No: 198001094M
29 International Business Park #06-05
Acer Building, Tower B
Singapore 609923
Tel: 65 6722 3600
Fax: 65 6722 3601

MACAU SAR

**Gammon Building Construction
(Macau) Limited**

168 EDIF Tong Nam Ah Centre Com
19/R Macau
Tel: 853 2882 7789
Fax: 853 2882 7938

CHINA

Gammon Construction (China) Limited

Shenzhen
30/F Fortune Building
No. 88, 3rd Fuhua Road
Futian District
Shenzhen 518000
People's Republic of China
Tel: 86 755 3396 0088
Fax: 86 755 3332 9288

Shanghai
Room 903, Dongchen Building
60 Mu Dan Road
Shanghai, 201204
People's Republic of China
Tel: 86 21 6845 7590
Fax: 86 21 6845 7270

We value and encourage dialogue on our reporting mechanism. Feedback provides invaluable insight to judge how to best communicate what is important and of interest to our stakeholders so that in future we can establish better platforms for dialogue on relevant issues. We encourage questions or comments by contacting environment@gammonconstruction.com. This Report and other corporate information are available on our website at www.gammonconstruction.com.

Jointly owned by Jardine Matheson and Balfour Beatty