

## SO WHAT? THE BNP PARIBAS ANGLE

- Our 2008 earnings forecast is above consensus as the market has underestimated WCT's improving construction margins.
- Consensus target price is heading our way.

Net Profit 08..... MYR189m  
..... (Unchanged)

Diff from Consensus.. 21.3%  
Consensus (mean) ... MYR155.8m  
Consensus (momentum) ..... ↑

Target Price ..... MYR7.95  
..... (Unchanged)

Diff from Consensus 13.6%  
Consensus (median) .... MYR7.00  
Consensus (momentum) ..... ↑

Current Price.....MYR6.25  
Upside/(Downside)..... 27.2%

**BUY**  
(Unchanged)

Recs in the Market

Positive..... 8  
Neutral..... 0  
Negative ..... 1  
Consensus (momentum) .... ↔

Sources: Thomson One Analytics; BNP Paribas estimates

**We estimate WCT's current jobs in the Middle East at 1% of potential development value of USD73b for two major projects, giving scope for order book replenishment. The company is on track to meet its MYR2.0b order book guidance for 2007. We understand margins will be higher in 2H07, and raise our 2007 net earnings forecast by 3.9%.**

## One thing leads to another

- Most projects are part of grander scheme of things.
- On track to meet MYR2b new order book guidance for 2007.
- Margins moving up in 2H07, raised 2007 forecast.
- Reiterate BUY; target price of MYR7.95/share.

Most projects are part of grander scheme of things  
We attended WCT's analyst briefing, and remain positive on the stock. We sense that WCT is becoming more entrenched in its operations in the Middle East as the company has just set up an office in Dubai, and we see this as a positive move for networking. Already, its two local partners – Arabtec and Cebarco – have been excellent sources of referrals/partners. With Cebarco, WCT had clinched the Bahrain F1 circuit, which lead to the Abu Dhabi F1 circuit. Next was the Bahrain City Centre project, which lead to Bahrain City Centre fit-out works project.

With Arabtec, WCT managed to clinch the Dubai World Central International Airport (Stormwater Drainage and Sewerage System (Phase 1). Note that Phase 1 of the airport project clinched is part of grander scheme of things – the Dubai World Central (DWC) project – as the entire project will span a period of 10 years, estimated at USD33b.

DWC is a 140 sq km urban aviation community centred around the Dubai World Central International Airport, said to be almost twice the size of Hong Kong Island. There will be six cluster zones: Dubai World Central International Airport, Dubai Logistics City, DWC Commercial City, DWC Residential City, DWC Aviation City and DWC Golf City.

Another of WCT's scalable projects include the Abu Dhabi F1 track project (WCT's portion is MYR650m) that is part of a grander scheme of things – the Yas Island development. The Island is completely empty now, and the circuit is only a portion of development. We understand the entire development of the Yas Island could cost more than USD40b, to be developed by property developer Aldar Properties of Abu Dhabi.

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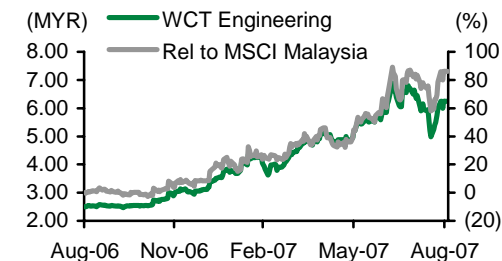
### Earnings Estimates And Valuation Ratios

YE Dec (MYR m)	2006	2007E	2008E	2009E
Revenue	1,370	1,748	2,666	2,391
Reported net profit	88	121	189	212
Recurring net profit	88	121	189	212
Previous rec net profit	88	116	189	212
Chg from previous (%)	—	3.9	0.1	0.2
Recurring EPS (MYR)	0.30	0.37	0.57	0.64
Prev rec EPS (MYR)	0.30	0.36	0.57	0.64
Rec EPS growth (%)	8.2	24.3	53.5	11.8
Recurring P/E (x)	20.9	16.8	10.9	9.8
Dividend yield (%)	1.3	1.6	1.1	1.4
EV/EBITDA (x)	10.3	7.8	4.8	5.1
Price/book (x)	3.1	2.5	2.1	1.9
ROE (%)	15.6	18.2	23.6	23.0
Net debt/equity (%)	37.1	28.6	18.7	17.5

Note: EPS is diluted for new shares arising from Irredeemable Convertible Preference Shares (ICPS)

Sources: WCT Engineering; BNP Paribas estimates

### Share Price Daily vs MSCI



Next results/event	November 2007
Market cap (USD m)	521
12m avg daily turnover (USD m)	1.2
Free float (%)	62
Major shareholder	WCT Capital (24%)
12m high/low (MYR)	6.90/2.48
ADR (USD)	Nil
Avg daily turnover (USD m)	Nil
Discount/premium (%)	Nil
Disc/premium vs 52-wk avg (%)	Nil

Source: Datastream

Yas Island occupies a total land area of 2,500 ha, featuring attractions such as the Abu Dhabi Formula 1 track, signature hotels, a Ferrari theme park, water park, and a retail development of 300,000 sqm, golf courses, lagoon hotels, marinas, polo clubs, apartments, villas and numerous food & beverage outlets. Please refer to Appendix 1 for more details.

All in all, DWC and the Yas Island development totalling USD73b provides avenue for WCT to increase its order book over time. This alone exceeds Malaysia's development expenditure plans under the 9<sup>th</sup> Malaysia Plan (2006-10) of USD57.1b. It is important that WCT has the required skillsets as well as the execution capabilities to complete projects ahead of schedule. Together with its local joint-venture partners Cebarco and Arabtec, we believe more construction orders will come its way as WCT has so far clinched USD659m or only 1% of total development. So long as petro-dollars are sloshing, so will WCT's coffers.

On track to meet MYR2b new order book guidance for 2007  
Meanwhile, WCT has submitted MYR9b worth of tenders for fewer than five construction jobs (including the Abu Dhabi F1 track), mainly in the Middle East. Its portion of work is roughly half of that, as WCT is likely to be partnering with local companies that offer familiarity with local conditions.

In the next few months, the projects WCT are likely to clinch include the balance of works for the Abu Dhabi Formula 1 track, totaling at least MYR650m. Another major project would be the Dubai Racing Club's Meydan Race Course (for horse racing), reported to be worth MYR4.5b. Due to tight contracting capacity, we believe WCT has a strong chance of securing the project. The project has to be completed by 2010, in time for the Dubai World Cup. Therefore, we believe a contractor like WCT, with a good track record of fast turnarounds, stands a very good chance of securing the bid. It helps that WCT built the Selangor Turf Club in Malaysia. This project is not in our forecast. We understand a decision is likely to be made within the next two-four weeks.

With tremendous scope for upside revision in earnings, we expect that WCT will be trading at even more attractive valuations. So far, 71% of our MYR1.4b new-construction order-book assumption and 50% of management's guidance of MYR2b. That leaves only MYR400m outstanding to meet our numbers. Of that, MYR650m could be from additional work on the Abu Dhabi F1 track as WCT is still in negotiations for the remaining mechanical and electrical work, landscaping and special electronics. This is the new guidance by management, above the MYR400m guidance earlier. This is, in our view, a done deal, as WCT already has site possession. This excludes further potential work for hotel and commercial properties within the vicinity of the track.

Assuming WCT confirms MYR2b (in line with management's guidance) of new construction orders (against our MYR1.4b assumption), our 2007-09 net profit forecast should rise by 9.8-13.7%. Assuming MYR2.5b of new construction orders, net profit for 2007-09 should rise by 16.3-25.8%. As a result, WCT's P/E for 2009 could potentially fall to just 7.9x.

**Clinched only 1.3% of estimated USD73b total development value for DWC and Yas Island**

**MYR4.5b Meydan Race Course likely to be awarded within 2-4 weeks**

**Secured MYR1b projects in 2007, on track to meet management's guidance of MYR2b for the year**

**Exhibit 1: Sensitivity Analysis**

Year-end 31 Dec	2007E	2008E	2009E
<b>Base case (MYR1.4m new construction order in 2007)</b>			
Net profit (MYR m)	120.8	189.2	212.2
EPS – fully diluted (sen)	37.3	57.1	63.9
P/E (x)	16.8	10.9	9.8
<b>Assuming MYR2b new construction order in 2007</b>			
Net Profit (MYR m)	132.2	206.5	241.2
EPS – fully diluted (sen)	40.6	62.2	72.3
Change (%)	9.5	8.9	13.4
P/E (x)	15.4	10.0	8.6
<b>Assuming MYR2.5b new construction order in 2007</b>			
Net profit (MYR m)	141.7	221.0	265.3
EPS – fully diluted (sen)	43.3	66.4	79.4
Change (%)	17.3	16.3	24.5
P/E (x)	14.4	9.4	7.9

Source: BNP Paribas estimates

Margins moving up in 2H07, raised 2007 forecast

Management has confirmed that construction margins will improve further in 2H07, on the back of higher margin job billings. As of August 2007, WCT's order book stands at MYR4.0b, of which MYR1b new jobs were secured since January 2007. This represents 3.3x 2006 construction revenue, suggesting that earnings momentum for the next two years will be strong.

**Exhibit 2: Projects Secured In 2007**

	(MYR m)	(Months)
Drainage and sewerage facilities at the cargo airport in Jebel Ali, Dubai	243	18
Abu Dhabi F1 circuit	650	18
Bahrain City Centre Hotel fit-out works	135	14
<b>Total</b>	<b>1,028</b>	

Sources: WCT Engineering; BNP Paribas

**Exhibit 3: Outstanding Construction Orderbook (As At 31 March 2007)**

Contracts	Contract value (MYR m)	Contribution (%)
<b>Local Jobs</b>		
Kaseh Highway	290.0	
Pricinct 3, Plot3C4, Putrajaya	51.0	
Kudat Water Supply Project	93.0	
Tijani 2	134.0	
Kota Kinabalu International Airport upgrading project	579.0	
Jusco Shopping Centre (BBT)	183.0	
UiTM campus	411.0	
Bakun dam	33.0	
Others	61.0	
<b>Total</b>	<b>1,835.0</b>	<b>46.0</b>
<b>Overseas jobs</b>		
Durat- Al-Bahrain Highway Link	6.0	
Dukhan Highway Project	191.0	
New Doha International Airport	600.0	
Bahrain City Centre, Bahrain	359.0	
Dubai World Central International Airport (Stormwater Drainage and Sewerage System (Phase 1)	236.0	
Abu Dhabi F1 Track	650.0	
Additional Fit-Out works for Bahrain City Centre project	135.0	
<b>Total</b>	<b>2,177.0</b>	<b>54.0</b>
<b>Total order book</b>	<b>4,012.0</b>	

Sources: WCT Engineering; BNP Paribas

As it is, we have seen an expansion of WCT's construction margins from 4% in 1Q07 to 8.1% in 2Q07. This indicates that WCT is now beginning to book in the higher margin portion of its MYR4.0b outstanding order book, leading to 37% q-q growth in construction profits in 2Q07. We expect a further expansion in construction margins as the new jobs secured by WCT typically command pretax margins in excess of 12%.

We have also raised our net earnings forecast for 2007 by 3.9%. With a propensity for 2H earnings to be seasonally stronger, we believe there may be more surprises on the upside. This adjustment is made on the back of recognition of higher construction progress billings, as well as higher margins for its Bandar Bukit Tinggi 2 property project, that is coming to a tail-end. This allows premium-priced properties to be launched, typically semi-detached houses.

Reiterate BUY; target price of MYR7.95/share

The strong flow of construction orders reaffirms our positive view on WCT. The stock is trading at only 10.9x 2008 P/E, against 2007-09 EPS CAGR of 32.6% pa. As such, we retain our BUY recommendation on the stock and our RNAV-derived target price of MYR7.95/share.

#### Exhibit 4: RNAV Computation

	FY08 net earnings	P/E	Value
		(x)	(MYR m)
Construction	84.4	15	1,265.3
Property	81.9	12	982.6
Trading division	13.5	12	161.8
Toll concessions: Swarna Tollway:			103.6
Durgapur			5.1
Panagarh-Palsit			11.2
AEON shopping mall lease			256.9
Net debt – 2008E			(219.3)
<b>RNAV</b>			<b>2,567.2</b>
Issued shares (m)			291.354
RNAV/share (MYR m)			8.81
<b>RNAV/share – fully diluted (MYR)</b>			<b>7.95</b>

Note: Dilution includes 51.7m new shares from ICPS conversion  
Source: BNP Paribas estimates

## Appendix

### Exhibit 5: Summary of proposed development on Yas Island

Ferrari Theme Park – 24 themed attractions

Race Track – ~~Abu Dhabi Formula 1 track~~, Rally driving, Drag Racing, Go-Karting, Dune Buggies

Signature Hotel overlooking the race track

Marina Hotel

Ferrari Theatre

Retail Centre (300,000 sqm)

Italian Piazza

Exhibition Hall

Restaurants/cafes

Food and beverage outlets

Beaches

Beach clubs

Water Sports

Marinas

Floating Harbour

Water park – over 12 acres

4 Polo Fields

Equestrian Centre

Links Golf Courses and Championship Golf Course

Clubhouses/Golf Centres

Driving Ranges

Golf Villas

Nature Reserve

Beach Resort Hotels

Lagoon resort Hotels

Business Park

Business and Commercial Towers

Offices and Residential Unites

Apartments

Waterfront Apartments

Sources: [www.yasisland.ae](http://www.yasisland.ae); BNP Paribas

WCT has only clinched this, with lots more to come, in our view given its skillset and delivery track record

## FINANCIAL STATEMENTS

## WCT Engineering

<b>Profit and Loss (MYR m)</b>					
<b>Year Ending December</b>	<b>2005A</b>	<b>2006A</b>	<b>2007E</b>	<b>2008E</b>	<b>2009E</b>
Revenue	816	1,370	1,748	2,666	2,391
Cost of sales ex depreciation	-	-	-	-	-
<b>Gross profit ex depreciation</b>	<b>816</b>	<b>1,370</b>	<b>1,748</b>	<b>2,666</b>	<b>2,391</b>
Other operating income	-	-	-	-	-
Operating costs	(662)	(1,163)	(1,464)	(2,207)	(1,931)
<b>Operating EBITDA</b>	<b>154</b>	<b>207</b>	<b>284</b>	<b>459</b>	<b>461</b>
Depreciation	(26)	(38)	(60)	(85)	(109)
Goodwill amortisation	-	-	-	-	-
<b>Operating EBIT</b>	<b>128</b>	<b>169</b>	<b>225</b>	<b>374</b>	<b>352</b>
Net financing costs	(24)	(23)	(16)	(11)	(9)
Associates	26	4	8	26	6
Recurring non operating income	(1)	(0)	-	-	-
Non recurring items	-	-	-	-	-
<b>Profit before tax</b>	<b>129</b>	<b>150</b>	<b>216</b>	<b>389</b>	<b>350</b>
Tax	(34)	(35)	(58)	(101)	(91)
<b>Profit after tax</b>	<b>95</b>	<b>115</b>	<b>158</b>	<b>288</b>	<b>259</b>
Minority interests	(14)	(27)	(37)	(99)	(46)
Preferred dividends	-	-	-	-	-
Other items	-	-	-	-	-
<b>Reported net profit</b>	<b>81</b>	<b>88</b>	<b>121</b>	<b>189</b>	<b>212</b>
Non recurring items & goodwill (net)	-	-	-	-	-
<b>Recurring net profit</b>	<b>81</b>	<b>88</b>	<b>121</b>	<b>189</b>	<b>212</b>
<b>Per share (MYR)</b>					
Recurring EPS *	0.28	0.30	0.37	0.57	0.64
Reported EPS	0.28	0.30	0.41	0.65	0.73
DPS	0.16	0.08	0.10	0.07	0.09
<b>Growth</b>					
Revenue (%)	2.5	67.8	27.6	52.5	(10.3)
Operating EBITDA (%)	23.0	34.1	37.5	61.2	0.5
Operating EBIT (%)	8.4	32.1	32.9	66.4	(5.8)
Recurring EPS (%)	(11.4)	8.2	24.3	53.5	11.8
Reported EPS (%)	169.0	8.1	37.1	56.6	12.2
<b>Operating performance</b>					
Gross margin inc depreciation (%)	na	na	na	na	na
Operating EBITDA margin (%)	18.9	15.1	16.3	17.2	19.3
Operating EBIT margin (%)	15.7	12.3	12.8	14.0	14.7
Net margin (%)	10.0	6.4	6.9	7.1	8.9
Effective tax rate (%)	26.4	23.1	27.0	26.0	26.0
Dividend payout on recurring profit (%)	56.6	26.4	27.1	11.6	14.1
Interest cover (x)	6.4	7.4	14.3	37.3	40.6
Inventory days	na	na	na	na	na
Debtor days	173.7	153.6	175.5	163.0	208.1
Creditor days	na	na	na	na	na
Operating ROIC (%)	15.5	14.9	15.6	22.4	18.7
Operating ROIC - WACC (%)	4.9	4.3	5.0	11.8	8.1
ROIC (%)	15.8	13.5	14.8	21.9	17.4
ROIC - WACC (%)	5.2	2.8	4.2	11.3	6.8
ROE (%)	16.9	15.6	18.2	23.6	23.0
ROA (%)	7.7	6.9	6.8	9.5	7.7

\* Pre exceptional, pre-goodwill and fully diluted

<b>Revenue By Division (MYR m)</b>	<b>2005A</b>	<b>2006A</b>	<b>2007E</b>	<b>2008E</b>	<b>2009E</b>
Engineering & Construction	465	1,049	1,441	2,115	1,617
Trading	28	86	103	113	125
Property development	321	229	200	400	603
Property & investment holding	3	5	4	37	47

Sources: WCT Engineering; BNP Paribas estimates

Strong EPS growth led by record MYR4.0b outstanding construction order book and rising property earnings

Our new order-book replenishment assumption is conservative

Several new property projects underpin robust revenue

<b>Cash Flow (MYR m)</b>					
<b>Year Ending December</b>	<b>2005A</b>	<b>2006A</b>	<b>2007E</b>	<b>2008E</b>	<b>2009E</b>
Recurring net profit	81	88	121	189	212
Depreciation	26	38	60	85	109
Associates & minorities	(12)	23	29	73	40
Other non-cash items	(131)	110	(12)	(94)	(46)
<b>Recurring cash flow</b>	<b>(35)</b>	<b>259</b>	<b>198</b>	<b>253</b>	<b>315</b>
Change in working capital	32	(7)	22	10	(40)
Capex - maintenance	(8)	(207)	(220)	(250)	(200)
Capex - new investment	-	-	-	-	-
<b>Free cash flow to equity</b>	<b>(11)</b>	<b>46</b>	<b>(0)</b>	<b>13</b>	<b>75</b>
Net acquisitions & disposals	1	54	-	-	-
Dividends paid	(46)	(23)	(29)	(19)	(26)
Non recurring cash flows	-	-	-	-	-
<b>Net cash flow</b>	<b>(56)</b>	<b>77</b>	<b>(30)</b>	<b>(6)</b>	<b>49</b>
Equity finance	69	4	-	-	-
Debt finance	83	(24)	157	(3)	(74)
<b>Movement in cash</b>	<b>96</b>	<b>57</b>	<b>127</b>	<b>(10)</b>	<b>(25)</b>

Improving free-cash flows

<b>Per share (MYR)</b>					
Recurring cash flow per share	(0.12)	0.89	0.68	0.87	1.08
FCF to equity per share	(0.04)	0.16	(0.00)	0.04	0.26

<b>Balance Sheet (MYR m)</b>					
<b>Year Ending December</b>	<b>2005A</b>	<b>2006A</b>	<b>2007E</b>	<b>2008E</b>	<b>2009E</b>
Working capital assets	696	1,146	1,355	1,860	1,708
Working capital liabilities	(459)	(794)	(1,025)	(1,541)	(1,349)
<b>Net working capital</b>	<b>237</b>	<b>352</b>	<b>330</b>	<b>319</b>	<b>359</b>
Tangible fixed assets	436	611	785	964	1,069
<b>Operating invested capital</b>	<b>673</b>	<b>962</b>	<b>1,114</b>	<b>1,283</b>	<b>1,429</b>
Goodwill	(6)	-	-	-	-
Other intangible assets	-	-	-	-	-
Investments	105	58	66	92	98
Other assets	27	34	34	34	34
<b>Invested capital</b>	<b>799</b>	<b>1,054</b>	<b>1,214</b>	<b>1,409</b>	<b>1,560</b>
Cash & equivalents	(345)	(392)	(519)	(509)	(485)
Short term debt	133	300	381	348	350
Long term debt *	365	373	404	381	364
<b>Net debt</b>	<b>152</b>	<b>281</b>	<b>266</b>	<b>219</b>	<b>229</b>
Deferred tax	10	8	8	8	8
Other liabilities	-	9	9	9	9
Total equity	534	594	731	874	969
Minority interests	102	162	200	298	345
<b>Invested capital</b>	<b>799</b>	<b>1,054</b>	<b>1,214</b>	<b>1,409</b>	<b>1,560</b>

\* Includes convertibles and preferred stock which is being treated as debt

<b>Per share (MYR)</b>					
Book value per share	1.84	2.04	2.51	3.00	3.33
Tangible book value per share	1.86	2.04	2.51	3.00	3.33
<b>Financial strength</b>					
Net debt/equity (%)	24.0	37.1	28.6	18.7	17.5
Net debt/total assets (%)	9.5	12.5	9.6	6.3	6.8
Current ratio (x)	1.8	1.4	1.3	1.3	1.3
CF interest cover (x)	0.5	3.0	1.0	2.2	9.5

Declining net gearing

<b>Valuation</b>	<b>2005A</b>	<b>2006A</b>	<b>2007E</b>	<b>2008E</b>	<b>2009E</b>
Recurring P/E (x) *	22.6	20.9	16.8	10.9	9.8
Recurring P/E @ target price (x) *	28.7	26.5	21.3	13.9	12.4
Reported P/E (x)	22.3	20.7	15.1	9.6	8.6
Dividend yield (%)	2.5	1.3	1.6	1.1	1.4
P/CF (x)	neg	7.0	9.2	7.2	5.8
P/FCF (x)	neg	39.6	neg	141.0	24.2
Price/book (x)	3.4	3.1	2.5	2.1	1.9
Price/tangible book (x)	3.4	3.1	2.5	2.1	1.9
EV/EBITDA (x) **	10.4	10.3	7.8	4.8	5.1
EV/EBITDA @ target price (x) **	12.9	12.6	9.5	5.8	6.1
EV/invested capital (x)	2.6	2.1	1.9	1.7	1.5

\* Pre exceptional, pre-goodwill and fully diluted

\*\* EBITDA includes associate income and recurring non-operating income

Sources: WCT Engineering; BNP Paribas estimates



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All share prices are as at market close on 31 August 2007 unless otherwise stated. Stock recommendations are based on absolute upside (downside), which we define as  $(\text{target price} - \text{current price}) / \text{current price}$ . If the upside is 10% or more, the recommendation is BUY. If the downside is 10% or more, the recommendation is REDUCE. For stocks where the upside or downside is less than 10%, the recommendation is HOLD. In addition, we have key buy and key sell lists in each market, which are our most commercial and/or actionable BUY and REDUCE calls and are limited to at most five key buys and five key sells in each market at any point in time.

Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause a temporary mismatch between upside/downside for a stock based on market price and the formal recommendation.

\*In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.

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