BUSINESS REVIEW AND PROSPECT

Group Results

For the year ended 31 December 2004, the Group reported a total of group turnover and share of turnover of jointly controlled entities of HK$741 million, recording a decrease of 39% as compared to HK$1,207 million for the last year. However, as a result of finalisation of several contracts this year, a significant portion of the profit of those contracts was realised. Therefore, the Group achieved a net profit of 7% as compared to a net profit of 2% for the last year. The results for this year were better than market norm due to the accounting practices as mentioned in the Chairman's Letter. In the long run, we are confident that the Group's performance will be better than the market norm.

Hong Kong

The key factor attributable to the significant decrease of turnover was the continuously adverse construction market in Hong Kong. Over the past few years, the construction market in Hong Kong was seriously hit by a series of cuts in capital expenditures in both the public and private sectors. Although there are some ongoing construction and infrastructure projects in Hong Kong, the cut-throat competition in bidding contracts among the construction peers has made the business environment even more difficult. In spite of this, the Group was not daunted by the poor market conditions and remained its commitment to provide high quality works and high standard of services. This has further driven the Group's commitment to enhance its bidding chances by performing well in its projects and therefore scoring high in its performance ratings. These ratings proved especially useful when bidding for government projects, as every bid is evaluated based on both the price as well as its performance scores.

The PRC

There is certainly a continuous growth in the infrastructure market in the PRC. With high economic growth, there is new demand for better and more infrastructures such as highways, mass transit, airports, ports, water supply, sewage treatment works and municipal waste treatment. The Group will draw on its experience and resource from Hong Kong to develop these sectors.

In November 2004, the Group acquired 25% of China Railway Tenth Group Third Engineering Company Limited ("Third Company") at RMB12.5 million. As Third Company has First Class Main Contractor Licence of Municipal Works in the PRC, this strengthens the Group's position to develop the PRC market.

Currently, the Group's focus is on environmental sector. Environmental projects in the PRC are funded by various sources, that is, by local government, foreign funds such as World Bank and Asia Development Bank, and by private funds such as Build-Operate-Transfer ("BOT") arrangement. The Group is going to focus on all these projects by bidding competitively for the government and foreign funded tenders. At the same time, the Group is also entering the BOT sector provided that the return on investment meets certain criteria.

BUSINESS REVIEW AND PROSPECT (Continued)

Taiwan

The construction market in Taiwan is also very difficult. With the successful completion of the Anping Port Project and Taiwan High Speed Rail Corporation Contract T200 for track laying, there remains two track laying projects to be completed by mid-2005. From our experience gained in previous years, we will have an edge only in projects requiring special technique that could not be acquired locally. The Group will therefore be very selective and focus on future projects.

United Arab Emirates

Under a tighter control of environmental requirements, the marine construction market in Hong Kong is diminishing. Further to Taiwan and the PRC, the Group has explored the marine works market in the Middle East. After a six-month study of the United Arab Emirates ("UAE") market, the Board could see opportunities and decided to enter into the UAE market in August 2004. A fleet of eight vessels arrived at the UAE in November 2004. Strategically, the Group also allied with a PRC state owned company, China Railway Middle East, the main contractor of the huge man-made island development, the Palm Jebel Ali in Dubai, for the development of the Middle East market. Together with the marine vessels owned by China Railway Middle East, the synergy is our ability to carry out a wide scope of marine works by our own vessels immediately available in the market. Dredging, rubble mound breakwater, piling, precasting large caissons, quay construction, and reclamation are our areas of expertise.

In January 2005, we started to provide floating dock service to a local company and recorded the first turnover in the Middle East market.

Our short-term business plan is to provide floating dock service and marine plant on charter basis, and to contract small to medium size marine projects. The long-term business plan is to expand our floating dock service to docking and repairing of ships, and to contract medium to large scale marine and civil projects.

Macau

The Group has also actively prepared to enter Macau market. A local company was established and several tenders for civil works have been submitted.

Head Office overhead

The Group was very cautious in maintaining a lean overhead. The increase of HK$14 million in administrative expenses was mainly due to the increase of staff performance bonus, being in line with the increase of net profit. Since 2002, the Group has introduced a scheme of staff performance bonus under which 30% of profit of construction activities will be paid to staff at all levels on a discretionary basis to reward good performance.

Contracts on Hand

During the year ended 31 December 2004, the Group was successfully in securing a total of 11 new projects with total contract sum of HK$710 million. As at the date of this report, the Group had contracts on hand of about HK7,905 million, of which about HK$961 million has yet to be completed.

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 31 December 2004, the Group had borrowings of HK$20 million (as at 31 December 2003: HK$20 million) and bank balances and cash amounted to HK$71 million (as at 31 December 2003: HK$72 million).

With an objective to enhance the return on cash, the Company invested in a portfolio of listed securities. These investments amounted to HK$55 million as at 31 December 2004 (as at 31 December 2003: HK$9 million).

Due to low level of bank borrowings during the year, the Group's net finance costs for the year ended 31 December 2004 were kept to a minimal level below HK$0.2 million.

The Group's borrowings, investment in listed securities and cash balances were principally denominated in Hong Kong dollars. Hence there is no exposure to foreign exchange rate fluctuations. During the year, the Group had no borrowings at fixed interest rate and had no financial instruments for hedging purposes.

Capital Structure and Gearing Ratio

As at 31 December 2004, the Company has issued and fully paid up share capital of HK$93 million comprising ordinary shares of HK$78 million and preference shares of HK$15 million which are convertible into 150,000,000 ordinary shares of HK$0.1 each.

As at 31 December 2004, the shareholders' fund was HK$111 million, representing HK12 cents per share on the basis that all preference shares have been converted into ordinary shares.

As at 31 December 2004, the Group had net cash balance of HK$51 million (i.e. bank balances and cash less bank borrowings). Accordingly, the net gearing ratio was zero.

Pledge of Assets

As at 31 December 2004, the Group's bank deposits amounting to HK$19 million (31 December 2003: HK$54 million) were pledged to secure the banking facilities granted to the Group and a jointly controlled entity.

Contingent Liabilities

As at 31 December 2004, the Group had contingent liabilities set out as follows:

	31 December 2004 HK$million	31 December 2003 HK$million
Guarantee given to a bank in respect of banking facilities granted to an associate	**35**	285
Outstanding tender/performance/retention bonds in respect of construction contracts	**24**	209

MATERIAL ACQUISITION

Joint Venture with China Railway Tenth Group Co., Ltd. ("CRTG")

As announced in November 2004, Wai Kee (Zens) Construction and Transportation Company Limited ("WKC&T"), a wholly owned subsidiary of the Company, entered into the joint venture agreement ("JV Agreement"), pursuant to which WKC&T and CRTG agreed to invest RMB12.5 million and RMB37.5 million respectively, in China Railway Tenth Group Third Engineering Co., Ltd. ("CRTE") which holds the "First Class Main Contractor Licence of Municipal Public Works". The capital contribution of WKC&T was made in February 2005.

As the investment allowed the Group to invest in a company which holds the appropriate licence for municipal public works, this provided the Group an opportunity to enter the PRC civil construction engineering industry. The Directors believed that with the good reputation and strong management of the Group, this market would provide an opportunity for future growth thereby moving towards its long term objective of profitable growth. Details of this transaction are set out in the circular dated 15 December 2004.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2004, the Group had a total of approximately 573 employees (2003: 516), of which 521 were in Hong Kong, 41 were in the PRC and 11 were in Taiwan. Competitive remuneration packages are structured to commensurate with individual responsibilities, qualification, experience and performance.