

BUSINESS REVIEW

For the six months ended 30th June, 2005, the Group recorded the total of group turnover and share of turnover of jointly controlled entities of HK\$308 million, representing a decrease of 20% compared to HK\$385 million for the six months ended 30th June, 2004. This was a result of continuous declining construction market in Hong Kong. However, the Group successfully achieved a reasonable net profit of HK\$18 million, representing 6% margin of the total of group turnover and share of turnover of jointly controlled entities.

The Group has consistently adopted strategy to improve works quality, site safety and environmental conformance. As a result of this strategy, the Group was able to secure contracts even though our tender price was not the lowest. During the first half of 2005, the Group secured four construction projects of total contract sum of HK\$183 million.

Our effort in extending our operation outside Hong Kong is beginning to show some results. Build King is in the process of setting up a joint venture construction company with Road King Infrastructure Limited (“Road King”) to undertake Road King’s property development projects in the People’s Republic of China (“PRC”). In addition to securing quality and timely completion for Road King, this will hopefully provide the Group a long-term new stream of construction revenue.

The Group has made its first move into environmental infrastructure market in the PRC. In April 2005, the Group entered into an agreement with local government of Wu Xi City, Jiang Su Province, the PRC to build and operate a sewage water treatment plant for a term of thirty years.

Through joint venture with local partners in the PRC, the Group secured two construction projects of total contract sum of HK\$148 million during the first half of 2005.

Our venture into the United Arab Emirates’ market is moving steadily. However, we expect meaningful result will only be forthcoming earliest 2006.

As at the date of this report, the Group has contracts-on-hand of total value of HK\$3,688 million, of which outstanding work is about HK\$1,112 million.

BUSINESS PROSPECT

Despite the general recovery of Hong Kong economy, the construction industry has not yet benefited from it. The overall turnover of the industry is at a relatively low level and one can only expect a gradual and slow pick up of activities in the next 12 to 18 months.

We firmly believe that locally or worldwide, there is always a need for high quality construction, and clients (including government and other quasi-government organisations) are beginning to look for ‘value for money’ rather than awarding contract purely based on lowest price. We trust this trend should be encouraged and lead our industry in the right direction.

MANAGEMENT DISCUSSION AND ANALYSIS

As explained in Annual Report December 2004, one of our strategies for growth is to tap the market of environmental infrastructure projects in the PRC. Our sewage water treatment project in Wu Xi City, Jiang Su Province, the PRC is progressing smoothly and we expect actual commissioning in the second half of 2006. We are in the process of looking for similar investment opportunities in the PRC and do wish to develop this area to eventually become one of sources of income.

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 30th June, 2005, the Group had liquid assets of HK\$95 million (as at 31st December, 2004: HK\$107 million) comprising held-for-trading investments of HK\$56 million (as at 31st December, 2004: HK\$55 million) and bank balances and cash of HK\$39 million (as at 31st December, 2004: HK\$52 million). The Group has sufficient liquid assets to meet its commitment of HK\$9 million as detailed in below.

As at 30th June, 2005, the Group had a total of interest bearing borrowings of HK\$29 million (as at 31st December, 2004: HK\$20 million) with the following maturity profile:

	As at 30th June, 2005 HK\$ million	As at 31st December, 2004 HK\$ million
Borrowings due within one year	12	–
Borrowings due in the second year	7	7
Borrowings due in third to fifth year inclusive	<u>10</u>	<u>13</u>
Total borrowings	<u><u>29</u></u>	<u><u>20</u></u>

The Group's borrowings, bank balances and cash and held-for-trading investments were principally denominated in Hong Kong dollars. Hence, there is no exposure to foreign exchange rate fluctuations. During the period, the Group had no borrowings at fixed interest rate and had no financial instrument for hedging purpose.

Capital Structure and Gearing

There was no change during the period to the share capital of HK\$93 million comprising ordinary shares of HK\$78 million and convertible and non-redeemable preference shares of HK\$15 million which are convertible into 150,000,000 ordinary shares of HK\$0.1 each.

As at 30th June, 2005, the gearing ratio, representing total interest bearing borrowings as a percentage of total equity, was 21% (as at 31st December, 2004: 17%).

Pledge of Assets

As at 30th June, 2005, bank deposits amounting to HK\$7 million (as at 31st December, 2004: HK\$19 million) of the Group were pledged to secure the banking facilities granted to the Group.

In addition, the assets classified as available-for-sale investments of HK\$28 million were pledged to secure an interest free other borrowing of HK\$28 million.

Commitment

As at 30th June, 2005, the Group had committed to invest approximately HK\$9 million (as at 31st December, 2004: HK\$12 million) into a joint venture established in the PRC. The joint venture is principally engaged in property construction in the PRC.

Contingent Liabilities

	As at 30th June, 2005 HK\$ million	As at 31st December, 2004 HK\$ million
Guarantee given to financial institutions in respect of banking facilities granted to an associate	—	35
Outstanding tender/performance/retention bonds in respect of construction contracts	46	24

MATERIAL ACQUISITIONS

Joint Venture with Wu Xi Qian Qiao Sewage Treatment Company Limited and Wu Xi Hui Shan Qian Qiao Economic Development Company Limited (“JV Partners”)

As announced on 14th April, 2005, Wai Kee China Construction Company Limited (“WKCCCL”), a wholly owned subsidiary of the Company, entered into a joint venture agreement (“JV Agreement”) with JV Partners, pursuant to which WKCCCL and the JV Partners agreed to invest RMB42.68 million and RMB2 million respectively into the Joint Venture (“JV”). Pursuant to the JV Agreement, WKCCCL and the JV Partners hold approximately 95.6% and approximately 4.4% of the equity interest in the JV respectively. The business licence of the JV was issued on 21st June, 2005 and the JV is a non-wholly owned subsidiary of the Company.

The JV is engaged in the construction and operation of a sewage treatment plant in Qian Qiao Zhen, Hui Shan District, Wu Xi City, Jiang Su Province, the PRC under a franchise agreement.

MANAGEMENT DISCUSSION AND ANALYSIS

The JV has a term of 30 years commencing from the date of the issuance of the business licence of the JV. The JV Partners have agreed not to share any profit generating from the operation of the sewage treatment plant for the first five years and WKCCL is therefore be entitled to receive 100% of the profit from the operation of the sewage treatment plant during such period. The JV Partners and WKCCL will be entitled to share the profit generating from the operation of the sewage treatment plant in accordance with their contribution to the registered capital of the JV thereafter. Details of the transaction were disclosed in the circular dated 6th May, 2005.

Acquisition of 2,450,000 Shares in Kier Hong Kong Limited (“Kier HK”)

As announced on 13th June, 2005, Profound Success Limited (“Profound”), a wholly owned subsidiary of the Company, entered into an agreement with Kier International Limited (“KIL”), pursuant to which Profound agreed to acquire and KIL agreed to dispose of 2,450,000 shares in Kier HK, representing 49% of the total issued share capital of Kier HK, at the total consideration of approximately US\$2,799,000. Prior to the acquisition of 2,450,000 shares in Kier HK, Profound was interested in 2,475,000 shares in Kier HK. The acquisition was completed on 15th June, 2005. Kier HK is a non-wholly owned subsidiary of the Company.

Kier HK, being an approved Group C contractor of the Hong Kong Works Bureau in five categories of public works, namely ports works, site formation, roads and drainage, water works and building (probation), has a very significant strategic value to the Group in such competitive market.

A circular containing, among the others, details of the acquisition will have to be despatched to the shareholders of the Company. Due to the substantial scale of operation and the need to adjust the financial statements of Kier HK in accordance with the accounting standards in Hong Kong, the Company applied for a waiver from the Stock Exchange from strict compliance with the Listing Rules and for an extension of deadline for the despatch of the circular to on or before 2nd August, 2005. Details of the acquisition and the delay in despatch of the circular were disclosed in the announcements dated 13th June, 2005 and 4th July, 2005 respectively.

EMPLOYEES AND REMUNERATION POLICIES

As at 30th June, 2005, the Group had a total of approximately 1,040 employees and total remuneration for the six months ended 30th June, 2005 was approximately HK\$64 million. Competitive remuneration packages are structured to commensurate with individual responsibilities, qualification, experience and performance.