

BUSINESS REVIEW AND PROSPECTS

Operating Results

The total of Group turnover and share of the turnover of jointly controlled entities for the year 2005 was HK\$696 million, a decrease of 6% compared with 2004. The reduction was due to the continuing tight market conditions in Hong Kong.

The Group recorded a net profit of HK\$30 million for the year, a decrease of 40% against the year 2004 when several major completed joint venture contracts had been finalised.

Hong Kong

In 2005, Hong Kong accounted for 93% (85% in 2004) of total of Group turnover and share of the turnover of jointly controlled entities. Hong Kong will continue to be the Group's major operating base for the foreseeable future.

The Group increased its shareholding in Kier Hong Kong Limited ("Kier HK") to 98.5% in June 2005. The management has however remained unchanged. A total of five projects were secured during the year, four from the Airport Authority and one from Hong Kong Aircraft Engineering Company Limited. The latter was in joint venture with a Malaysian company. The value of the new work secured was almost HK\$300 million. Kier HK has continued to grow in strength and expertise and will substantially add to the Group's ability to undertake more complex projects in the future.

Despite an upturn in the Hong Kong economy, the construction market remained stagnant in 2005. However, there are signs of improvement in the future. The Government is planning more infrastructure projects in public transport, urban redevelopment, drainage, etc. As a result the consulting business is showing signs of recovery and we expect that construction activity should follow suit and therefore begin to pick up in 2007.

During the last few years the Group has prepared for a market recovery. Our strategy has been to improve the quality of our service and achieve a continuous improvement in the Environment, Transport and Works Bureau of the HKSAR performance scores of all Group companies; all construction subsidiaries have achieved this and maintained scores above the industrial average. As the evaluation of government tenders is now based not only on price but also on past performance as measured by a company's performance score, it is pleasing to report that during the year some projects were secured in situations where the Group was not the lowest bidder on price. The Group is committed to maintain its performance in this respect and to continue to strengthen its position for bidding future government projects.

BUSINESS REVIEW AND PROSPECTS (Continued)

The PRC

Approximately 4% of the Group turnover and share of turnover of jointly controlled entities was from activities in the PRC. The PRC market continues to be difficult but attractive. There is a need for improved infrastructure including highways, mass transit, airports, water supply, sewage treatment and municipal waste treatment. The current Eleventh Five-Year Plan indicates expenditure on airports and railways of RMB3,000 billion as well as expenditure on environmental projects of RMB1,400 billion.

To position us in this expanding market, during 2005 the Group acquired a 25% share in China Railway Tenth Group Third Engineering Company Limited (“Third Company”). In 2006 the Group intends to further acquire shares in the Third Company and to strengthen the management. The aim is to provide a vehicle for the Group to develop its construction business in the PRC market and Third Company is now actively tendering to this end.

The Group has successfully entered the “build-operate-transfer” (BOT) market during the year. A sewage treatment project was secured in Wu Xi City. The project involves a 20,000 tonnes per day plant and includes the provision of 20 kilometers of collection pipeline. On completion the Group will be responsible for the operation and maintenance of the project for 30 years. During 2005 the design was substantially completed and construction commenced. Overall completion and commencement of operation is targeted for late 2006. Suitable personnel for the day-to-day management of the plant are in the process of being recruited and trained. It is the Group’s target to have a fully localised, professional operating team by the start of the operation.

In August 2005 the Group formed a joint venture with Road King to manage the construction of Road King’s major property project at Chang Zhou in Jiang Su Province. Construction will commence during 2006 and is expected to take more than 5 years. The joint venture will thus provide the Group with a long-term steady income.

Middle East – United Arab Emirates (“UAE”)

The Group recorded a loss of HK\$2 million in its first full year of operation in the UAE. This was however better than planned.

All the vessels that were mobilised from Hong Kong in 2004, have obtained the temporary navigation licence within the UAE and started operation. As a start in this new market, the Group is currently targeting small to medium-size marine construction projects as well as chartering of our vessels to third parties. Our long term strategy is under review with an in-depth study to commence during the first quarter of 2006.

BUSINESS REVIEW AND PROSPECTS (Continued)

Middle East – United Arab Emirates (“UAE”) (Continued)

In addition, with the approval of the Government of Sharjah, the Group is currently in the process of forming a contracting company, Leader Marine Contracting L.L.C. and of registering as a first class (unlimited value) contractor for specialist marine construction.

Our first project was secured during the year. This was in the Dubai Dry-dock and work commenced in October 2005; completion will be in early 2006. Since the second half of 2005 all our vessels have been 100% utilised with payment in advance from third parties ensuring a healthy cashflow. Our 8000 tonnes semi-submersible has been chartered as a floating dock for the repair of vessels and oil rigs. The future of this as a long-term business is under review.

Taiwan

The track laying projects being carried out in joint venture with others on the Taiwan High Speed Railway, were successfully completed in 2005 and the account being finalised. Other than these major specialist contracts, there has been little Group activity in Taiwan. We will continue to be selective and focus on special projects in 2006.

Contracts On Hand

During the year 2005, the Group was successful in securing a total of 14 new projects with a total value of HK\$895 million. As at the date of report, the Group had contracts on hand of HK\$3,760 million, of which HK\$1,222 million has yet to be completed.

Employees and Remuneration Policies

As at 31 December 2005, the Group had a total of 966 employees and total remuneration for the year ended 31 December 2005 was approximately HK\$175 million. Competitive remuneration packages are structured for each employee commensurate with individual responsibility, qualifications, experience and performance. In addition discretionary bonuses may be paid depending upon the financial performance of the Group as well as that of the individual.

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 31 December 2005, the Group had liquid assets of HK\$122 million (as at 31 December 2004: HK\$107 million) comprising held-for-trading investments of HK\$56 million (as at 31 December 2004: HK\$55 million) and bank balances and cash of HK\$66 million (as at 31 December 2004: HK\$52 million).

As at 31 December 2005, the Group had a total of interest bearing borrowings of HK\$91 million (as at 31 December 2004: HK\$20 million) with the following maturity profile:

	As at 31 December 2005 HK\$ million	As at 31 December 2004 HK\$ million
Borrowings due within one year	38	–
Borrowings due in the second year	18	7
Borrowings due in third to fifth year inclusive	35	13
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Total borrowings	91	20
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The Group's borrowings, bank balances and cash and held-for-trading investments were principally denominated in Hong Kong dollars. Hence, there is limited exposure to foreign exchange rate fluctuations. During the year, 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 year to the share capital of HK\$93 million comprising ordinary shares ("Shares") of HK\$78 million and convertible preference shares of HK\$15 million which are convertible into 150,000,000 Shares of HK\$0.10 each.

As at 31 December 2005, the gearing ratio, representing total interest bearing borrowings as a percentage of total equity, was 59% (as at 31 December 2004: 17%).

Pledge of Assets

As at 31 December 2005, bank deposits amounting to HK\$7 million of the Group were pledged to banks for the purpose of satisfying the terms and conditions of certain construction contracts entered into by the Group.

Certain equity securities with market value of HK\$20 million were pledged to a bank to secure general banking facilities granted to the Group.

FINANCIAL REVIEW (Continued)

Pledge of Assets (Continued)

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

At 31 December 2004, bank deposits of the Group amounting to HK\$19 million were pledged to banks to secure the banking facilities granted to the Group and jointly controlled entities.

Commitment

As at 31 December 2004, the Group had committed to invest approximately HK\$12 million into a joint venture established in the PRC. The joint venture is principally engaged in construction in the PRC. The above joint venture commitment is fully satisfied during the year.

As at 31 December 2005, the Group had no significant capital commitment.

Contingent Liabilities

	As at 31 December 2005 HK\$ million	As at 31 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	38	24

MAJOR TRANSACTIONS

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 14 April 2005, Wai Kee China Construction Company Limited (“WKCCL”), a wholly owned subsidiary of the Company, entered into a joint venture agreement (“JV Agreement”) with JV Partners, pursuant to which WKCCL and the JV Partners agreed to invest RMB42.68 million and RMB2 million respectively into the Joint Venture (“JV”). Pursuant to the JV Agreement, WKCCL 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 21 June 2005 and the JV is an indirect 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.

MAJOR TRANSACTIONS (Continued)

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

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 WKCCCL 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 WKCCCL 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 JV Agreement were disclosed in the circular dated 6 May 2005.

Acquisition of 2,450,000 shares in Kier HK

As announced on 13 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 of Kier HK, representing 49% of the total issued share capital of Kier HK, for the total consideration of approximately US\$2,799,000. Prior to the acquisition of 2,450,000 shares of Kier HK, Profound was interested in 2,475,000 shares of Kier HK. The acquisition was completed on 15 June 2005. Kier HK is an indirect non-wholly owned subsidiary of the Company.

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

Details of the acquisition were disclosed in the circular dated 31 December 2005. As the reporting accountants of Kier HK were unable to determine whether proper books of account have been kept, they issued a qualified opinion on the results and cashflow of Kier HK for each of three years ended 30 June 2005 and on the state of affairs as at 30 June 2003 and 2004. The directors of the Company (“Directors”) considered that it was in the interests of the shareholders of the Company (“Shareholders”) to convene the special general meeting to allow the Shareholders to consider the aforesaid agreement in a forum for discussion. The resolution to approve, confirm and ratify the acquisition was passed unanimously by the Shareholders present at the special general meeting held on 16 January 2006.