



Zen Wej Pao, William  
Chairman

Dear shareholders,

The board of directors (the "Board") of the Company announces that the Group's audited turnover for the year ended 31st December, 2005 was HK\$595 million (2004: HK\$508 million) generating an audited consolidated profit attributable to shareholders of HK\$200 million (2004: HK\$609 million or HK\$134 million if exclusion of an one-off profit of HK\$475 million generated from the disposal of its interest in the property development project in Hung Hom Bay). If including turnover of jointly controlled entities shared by the Group, the Group's turnover for the year was HK\$747 million (2004: HK\$872 million).

At the forthcoming Annual General Meeting to be held on 12th May, 2006, the Board will recommend the payment of a final dividend of HK9 cents (2004: HK6 cents).

### BUSINESS REVIEW

#### Highway and Expressway

Road King Infrastructure Limited ("Road King"), an associate of the Group, contributed profit of HK\$214 million to the Group for the year ended 31st December, 2005 (2004: HK\$168 million). The contribution for the year was stated after taking into account discount on acquisition recognised as income arising from acquisition of additional interest in Road King and loss on deemed disposal of partial interest in Road King resulting from the exercise of share options by employees of Road King. As of the date of this report, the Group owns 46.46% of Road King.

For the year ended 31st December, 2005, Road King recorded an audited profit attributable to shareholders of HK\$428 million (2004: HK\$369 million), an increment of 16% as compared with that of year 2004. In 2005, profit contributions from toll road business continued to grow, and the property development business was making solid progress.

In 2005, the results of Road King's toll road business was rewarding. In line with its strategy to refine the existing toll road portfolio, in January 2005, Road King disposed of its entire interest of the Changzhou-Caoqiao Highway project in Jiangsu Province. The transaction was completed during the year. In 2005, Road King completed the acquisition of 45% equity interest in Tangshan-Tianjin Expressway in Hebei Province. The project commenced its profit contribution to Road King in February 2005.

In 2005, there was substantial progress in Road King's property development business. During the year, Road King secured the development right of certain pieces of land located in Guangzhou, Guangdong Province and Changzhou, Jiangsu Province boosting Road King's developable gross floor area to a total of 1.6 million square meters.



# Highway



## BUSINESS REVIEW *(Continued)*

### Highway and Expressway *(Continued)*

The structure of the property development projects located at Tianhe District in Guangzhou, Parkrise, was completed by the end of 2005. Presale was made in phases commencing from November 2005. Both the speed of sales and price achieved were better than expected. Construction works of the other two pieces of land in Guangzhou commenced in 2006.

The construction works of Road King's two residential and a shopping mall projects in Wujin District, Changzhou, Jiangsu Province will commence in 2006. Presale of certain residential units will be made in 2006.

It is expected that the property development business will start contributing profit to Road King in 2006.

On the financial front, apart from Road King's early repayment of the HK\$306 million HK dollar denominated loan facility in January 2005, no material financing and refinancing activities were carried out during 2005. As at 31st December, 2005, Road King's cash and bank balances were HK\$421 million.

### Civil Construction

The Group's construction sector, Build King Holdings Limited ("Build King") registered turnover and share of turnover of jointly controlled entities of HK\$696 million (2004: HK\$741 million) and profit attributable to shareholders of HK\$30 million (2004: HK\$50 million) for the year ended 31st December, 2005, of which the Group's share was HK\$15 million (2004: HK\$34 million). As of the date of this report, the Group owns 54.06% of effective interest in Build King.

Build King operates mainly in Hong Kong (over 85%) and Mainland China and during 2004 it started an operation in the Middle East. Build King's strategy is to reduce its reliance on Hong Kong market and it therefore sets itself a target to have one third of its turnover from outside of Hong Kong by 2008.

During the year, the actual number of major construction projects available for tender was extremely limited. This resulted in the continuation of the very competitive market and extreme pressure on margins that Build King has experienced during the last few years. Build King has continued to be rational and avoid "buying" contracts by cutthroat pricing and razor thin margins. But because of the need to keep a minimum core team to ensure effective execution, this strategy has inevitably led to a lower turnover and a higher overhead percentage and thus a lower profit. Build King prefers to stick to its strategy of targeting projects where it can add value, or clients who see the benefit of assessing contractors on performance as well as on price.

Looking ahead, Build King believes 2006 is going to be another tough year and any recovery of the market will not be before 2007. However, despite the difficult market, based on the contracts it has on hand, Build King is reasonably confident that 2006 will be another profitable year.



# Construction



## BUSINESS REVIEW *(Continued)*

### Civil Construction *(Continued)*

One of Build King's long-term growth strategies is to identify and pursue investment in medium-size environmental infrastructure projects in Mainland China that require a build, operate and transfer format. Build King's subsidiary, Wai Kee China Construction Company Limited signed its first project in April last year, a 20,000 ton per day sewerage treatment plant in Wuxi, with a total investment of HK\$40 million. Construction work commenced in September 2005 and is proceeding on schedule for completion in September of this year; full operation will start in October. Build King does not expect any meaningful contribution from this project from its first year operation, but from 2008 onwards, the investment in this treatment plant will generate a satisfactory return and provide a new long-term steady income stream for Build King.

As of the date of this report, Build King had contracts on hand of about HK\$3,760 million of which about HK\$1,222 million has yet to be completed.

### Quarrying

The turnover of quarrying division for the year ended 31st December, 2005 was HK\$32 million (2004: HK\$120 million). The quarrying division recorded profit from operations of HK\$4 million for the year (2004: loss of HK\$37 million, after allowance of HK\$34 million on prepaid royalties in relation to Niu Tou Quarry).

The total tonnage of quarry material sold in 2005 was 999,000 ton, a significant drop of 45% compared with the 2004 figure. This is a result of reduced construction activities in Hong Kong and the suspension of the quarry operation in Shanghai since June 2005.

Despite the reduction in scale, as a result of the effort in downsizing and cost cutting, the quarrying division was still able to achieve some profit. In this regard, the hard work of our quarrying staff in achieving such result should be praised.

The construction material market is still going to be competitive in 2006. There is a ray of hope that 2007 will be a better year. The Group is always looking for new business opportunities in quarrying or other construction related business in Hong Kong and elsewhere. However, due to high capital requirement, the Group will only act when it is quite sure that those new ventures will bring in a long-term double-digit return on equity.

Last year, we mentioned that the Group's long-term supply contract with one of its major clients would likely expire by end 2005. We are glad to tell the shareholders that by mutual agreement the supply contract is now extended to beyond 2009. In addition, under this renewed contract, the Group will also be allowed to sell to other buyers after June 2007, thus providing opportunities for quarrying division to expand its client base as well as creating a synergy with the Group's construction division.



# Quarry



## BUSINESS REVIEW *(Continued)*

### Quarrying *(Continued)*

We believe 2006 will be another profitable year though again, the amount will be small when compared with the Group's overall result.

### Bio-technology

The turnover of bio-technology division for the year ended 31st December, 2005 was HK\$18 million (2004: HK\$11 million). The division recorded a loss of HK\$13 million for the year (2004: HK\$13 million).

In 2005, change in weather variation pattern throughout the year in some regions in China disrupted the application of the pesticides and the overall demand of pesticide products in China. Thus, the targeted increase in sales of our bio-pesticide products could not be achieved. In addition, delay in completion of the construction work of the new factory by a few months to the second half of the year has significantly reduced the expected sales of fermentation products, fertilizers and aquatic products for fisheries.

Despite an increase in sales compared with that in last year, the gross profit has not improved as the overall profit margin was unsatisfactorily low due to low awareness of our self-developed products with higher profit margins by the end users.

After thorough evaluation of the economic condition, market situation and internal resources, management has developed an action plan and put it into effect in early 2006 in order to improve the performance of the division. With the operations of two production factories in full swing and three more bio-pesticide products being launched in early 2006, it is anticipated that there will be a growth of production and sales in 2006. By shifting the product focus to those with higher profit margins and by enhancing and promoting the brand image of our own products, management anticipates an improvement in the overall profit margin.

Through innovation, vigorous effort, and determination to revitalise the business, management expects to see greater competitiveness in the coming years.

天恩楼

# Bio-Technology



## FINANCIAL REVIEW

### Liquidity and Financial Resources

During the year, total borrowings were increased from HK\$56 million to HK\$167 million with the maturity profile summarised as follows:

	As at 31st December,	
	2005	2004
	<i>HK\$'million</i>	<i>HK\$'million</i>
Within one year	114	21
In the second year	18	12
In the third to fifth year inclusive	35	23
	167	56

Included in the total borrowings as at 31st December, 2005, there was a loan of HK\$28 million from an equity holder of Shanghai Environment Investment Company Limited ("SEICL") which was secured by the Group's equity interest in SEICL. Other than a bank loan of HK\$9.6 million bearing a fixed interest rate, the Group had no other borrowing at fixed interest rate.

As at 31st December, 2005, the Group's cash and bank balances amounted to HK\$125 million (2004: HK\$167 million), of which HK\$7 million (2004: HK\$19 million) bank deposits were pledged to banks for the purpose of meeting the terms and conditions of certain construction contracts entered into by the Group.

The Group recorded finance expenses for the year ended 31st December, 2005 of HK\$5.1 million (2004: HK\$1.5 million).

With an objective to enhance the return on surplus cash on hand, the Group had invested for the short term in a portfolio of held for trading investments started from first half of last year. As at 31st December, 2005, the held for trading investments were stated at their fair values in a total amount of HK\$71 million (2004: HK\$86 million), of which HK\$66 million (2004: HK\$61 million) were investments in listed securities. For the year ended 31st December, 2005, the Group suffered a net loss of HK\$2 million (2004: a net gain of HK\$12 million) from the held for trading investments, being the realised and unrealised losses incurred less dividend and interest incomes received from the held for trading investments.

The Group's borrowings, investments and cash balances were principally denominated in Hong Kong dollars and Renminbi. Hence, there is no significant exposure to foreign exchange rate fluctuations. As at 31st December, 2005, the Group had no financial instrument for hedging purpose.

**FINANCIAL REVIEW** *(Continued)***Capital Structure and Gearing Ratio**

As at 31st December, 2005, the shareholders' funds amounted to HK\$2,610 million, representing HK\$3.29 per share (2004: HK\$2,472 million, representing HK\$3.12 per share). Increase in shareholders' funds was mainly attributable to the profit generated in the year after deduction of dividends paid during the year.

The net gearing ratio, being the ratio of net borrowings (total borrowings less cash and bank balances) to shareholders' funds, was 1.6% at the balance sheet date.

**Pledge of Assets**

As at 31st December, 2005, apart from the bank deposits pledged to banks for the purpose of meeting the terms and conditions of certain construction contracts entered into by the Group and the Group's equity interest in SEICL pledged to secure loan from an equity holder of SEICL and certain listed securities were pledged to a bank to secure general banking facilities granted to the Group, no other asset of the Group was pledged.

**Contingent Liabilities**

The contingent liabilities of the Group were as follows:

	As at 31st December,	
	2005	2004
	<i>HK\$'million</i>	<i>HK\$'million</i>
Guarantees given to financial institutions in respect of banking and other facilities granted to an associate	—	41
Guarantees/counter indemnities given in respect of outstanding tender/performance/retention bonds for construction contracts	<b>106</b>	148
	<b>106</b>	189

During the year, the Group acquired additional interest in Kier Hong Kong Limited ("Kier HK"). Upon completion of acquisition, Kier HK changed from an associate to a subsidiary of the Group. Accordingly, guarantees given to financial institutions in respect of banking and other facilities granted to Kier HK were excluded from the Group's contingent liabilities. In addition, certain guarantees/indemnities in respect of tender, performance and retention bonds for construction contracts were released during the year.

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# Chairman's Statement

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## FUTURE OUTLOOK

The Board will continue exploring the possibility of any new investment with care and prudence. In line with Road King's property development project, the Board is studying the feasibility of concrete supply business in China as well as any other businesses that will enhance the overall performance of the Group.

## APPRECIATION

With our committed and diligent staff, the Board is optimistic on the Group's performance and future. The Board would like to take this opportunity to extend its heartiest thanks to the entire loyal and dedicated staff.

Zen Wei Pao, William  
*Chairman*

31st March, 2006