

During 2004 our gain in net worth was HK\$47 million, which increased the net assets per share (including ordinary shares and preference shares) by 73% to HK\$0.12.

The target of the board is to achieve a long-term average rate of increase in the net assets per share of 15% per annum and in any case to significantly outperform the average growth of the Hang Seng Index ("HSI"). Our shareholders can buy the HSI fund at very low cost. Unless we achieve gains in net assets per share in future that outdo the HSI's performance, we will be adding nothing to what you can accomplish on your own.

Our core business is construction; this is where the majority of our turnover and profit comes from. There are a few characteristics of construction of which I believe you should be aware:

- Essentially, construction is a service industry. We earn our keep by providing construction management and engineering resources as well as labour, plant and material to clients who wish to undertake projects.
- With a few exceptions, contracting services are viewed by clients as a commodity and hence historically most contracts are awarded on a 'lowest price' basis. Due to the relatively low entry barrier and the high number of contractors in operation both here in Hong Kong as well as worldwide, contracting has always been a competitive business with relatively low profit margins on turnover. However, with little physical inventory to take care of and progress payments normally received monthly for work performed, the working capital required is low. As a result the return on equity, which I believe is an important indicator of economic of any business, is attractive and is usually at the higher end of twenty plus percent.
- Unlike manufacturing, the workload of a contractor is never evenly distributed. At any point in time, much depends on the availability of projects in the market and on the success rate of tendering.
- Construction, by its very nature, deals with physical works in the open air, and is thus vulnerable to risk, including the effects of weather and unforeseen ground conditions. With experienced and sound engineering management, construction risks can be foreseen and controlled. A key element is however a carefully managed value for money insurance programme.

This therefore is the business we are in and the annual results are likely to fluctuate, depending on the stage of completion of the various contracts in hand. This is best illustrated by our 2004 results. I understand that not all of our shareholders are interested or familiar with accounting statements, so I will make this brief.

Chairman's Letter

In 2004 the group turnover and share of turnover of jointly controlled entities were HK\$741 million and we registered a net profit of HK\$50 million. Given that the industry in general is netting 1% to 3% profit on turnover, our result of 7% seems extra-ordinary. However it must be realized that the results are distorted by the accounting practices we are required to adopt, in particular:

- The turnover of associated companies (e.g. Kier Hong Kong Limited) cannot be treated as the Group's turnover.
- The profit on a project is not taken into account until 25% of the forecast value of that project has been completed.
- Changes ordered by clients during the course of any contract is a norm. This renders accurate forecasting of the total revenue from any individual project very difficult until the final account value has been agreed with the client for that project. Typically this can take more than a year, and in extreme cases, three to four years after physical completion.

However, though the results of a single individual year may be distorted, a picture based on a 3-5 years' average tends to be a true reflection of how a construction business is performing. I therefore ask all our shareholders to look at Build King's longer-term average results rather than focus on the single year performance. I always prefer a lumpy 15% average return to a smooth annual 12%; temporary volatility should not concern those with a long-term business view.

CORPORATE GOVERNANCE

In judging whether any company is serious about corporate governance, the acid tests are senior executive pay (in particular the CEO), the policy on share options, the dividend policy and communication with the shareholders. It is therefore essential that our shareholders know my views on these aspects.

- **Executive pay**
In Build King, we try to be logical with executive pay. As construction is a very competitive industry, we cannot afford to pay our staff higher than the prevailing market rate without losing competitiveness. On the other hand, success relies 90% on management's expertise, judgement and decision making. In order to reward achievement, we have therefore initiated a bonus scheme whereby each year 30% of the profit from our construction activities will be shared by staff at all levels (distributed on a discretionary basis) thus encouraging good performance, loyalty and aligning the interests of staff, the Company and its shareholders. So far this scheme is working satisfactorily.

- **Share option**

As long as I am the Chairman of the Company I will not support the issuing of share options (in a conventional sense) to any individual director or manager. The one to whom an option is granted need only to pay a minimum sum (typically HK\$1) to have the right to purchase a number of Company's shares two/three years in the future at a pre-determined price (usually the trading price at time of issue). There are two things wrong here; an "option" is without risk to the individual manager whilst if it is exercised it dilutes and so reduces the share value to existing shareholders. I believe this is grossly unfair to shareholders. A second flaw is that it focuses the mind of the manager on the wrong target. In any business it is always the long-term financial performance that is important and not the temporary fluctuation of the Company's share price in the market.

Thus in our current bonus scheme we prefer to pay cash to the management in a profitable year. If they have confidence in the future of the Group, they can then use this cash to purchase the Company's shares from the market. In this way, they are assuming the same benefit/risk as all the other shareholders and equity is restored.

- **Dividend policy**

The majority of you will understand Build King is essentially a spin-off from Wai Kee, and hence even with the good financial performance last year, our balance sheet is still rather thin. As a result, given the opportunities available (I will come back to this later) and to fulfill clients' requirements for working capital levels, etc. as well as preparing for a larger turnover in the future, we do not have the luxury of paying out dividends in the near future. A little patience please!

- **Communication with shareholders**

I will be candid with you in my reporting and I will emphasize the pluses as well as the minuses that are important in appraising the Group. My guideline will be to tell you business facts that I would want to know if our positions were reversed. I owe you nothing less. We also believe candour benefits us as managers – those who mislead others in public may eventually mislead themselves in private.

We will be communicating with you in two ways: firstly by way of the annual report in which we will give all shareholders as much value-defining information as can be conveyed and secondly at our annual meetings. I know that as a general rule, shareholders in Hong Kong are not keen to attend annual meetings, but I would like to encourage all of you to make an effort to attend; there is no better way of communicating than by face to face dialogue. Mr. Yu Sai Yen (our Vice Chairman) and I will be delighted to answer any questions that you may have about Build King and its business.

Chairman's Letter

BUSINESS ANALYSIS

Our group turnover and share of turnover of jointly controlled entities last year were HK\$741 million, well below our historical norm of HK\$1.5 billion – HK\$2 billion. This has resulted in an overhead that exceeds our long-term target of 3.5%. The obvious solution is either to increase our turnover or reduce our overhead. However, both avenues are easier said than done.

In recent years, due to the Hong Kong economy and government budget deficit, new projects are hard to come by; as a result, the annual value of work undertaken by construction industry as a whole has reduced by over 50% compared with 1999. The outcome is intense competition. We are aware that some industry participants have opted for a strategy of pricing below cost to gain market share. This is a game that Build King has no intention of joining. We are convinced that there is a need for good quality construction services now as well as in future and those who are able to deliver value for money can always not only survive, but also eventually grow. Though we do not expect 2005 to be a recovery year for construction in Hong Kong, we are reasonably optimistic for the prospects in 2006.

Shareholders should also realize that due to various government requirements, there is a certain size of head office one needs to keep to ensure the Group is able to function effectively.

It is unlikely to expect that without a strong franchise, any company can significantly outperform the industry in general, so it is unrealistic to expect our performance of 2004 (in terms of profit margin) to be repeated year in and year out. Nevertheless given the current contracts we are undertaking and our predictions for 2005/2006, I am confident that the forthcoming 12 months will prove satisfactory to our shareholders when measured against our long-term objective. The longer term prospects will, however, depend on the level of success we achieve in our following strategies.

- **To diversify geographically**

In 2003, in order to reduce our long term dependence on the local construction market, we set a 5-year target to realize at least one third of the Group's turnover from outside Hong Kong. During the past 5 years or so we have been targeting both Taiwan and the People's Republic of China ("PRC") markets; recently however we have opened a small office in Dubai, initially targeting marine construction and we are also tendering for projects in Macau. In 2004, we only achieved 15% of our turnover from outside Hong Kong though lately we see some slightly positive signs for us in the PRC.

This entire strategy to diversify will however take time and considerable effort and persistence before we can see significant financial results. Nevertheless, we believe that this is the sensible way to achieve our long-term goals and we will not let any temporary

setbacks undermine our determination. But, neither will we be blinded by any obsession to secure work, noble intention must always be checked against reality. I will keep you updated on our progress and performance in this area.

- **Environmental infrastructure projects**

We believe that the skills and experience we have acquired in Hong Kong in construction and, in particular environmental projects can be beneficial to us in other areas. One market we have identified is liquid and solid waste disposal in the PRC. Given the population and rising economic standard in the PRC, emphasis on environmental protection will become more and more important. We believe that the scope for development of our business in this area is significant. We will seek to identify and pursue medium size projects particularly where the local government require a Build, Operate & Transfer (“BOT”) arrangement. In the long term we expect a satisfactory return on the equity and also a long term steady stream of new income for the Group.

- **Investment**

Shareholders who study our financial statements carefully may notice a gain of HK\$6.9 million from investment income. This is your Chairman's attempt to improve the return on equity by investing the cash that we will not be using in construction operation during the next 12 months. In so doing my overriding concern has been the safety of our capital. The last year's result has been promising and I have confidence that in the longer term the securities we have purchased will give us satisfactory returns; however, the stock market in the short term will be volatile, so the 2005 investment result may not be as encouraging.

APPRECIATION

I would like to take this opportunity to express my hearty gratitude to our shareholders, our business partners, directors and loyal and dedicated colleagues.

Zen Wei Peu, Derek

Chairman

1 April 2005