

During 2005 our gain in equity was HK\$34 million and equity per share (including ordinary shares and convertible preference shares) increased by 30% to HK16 cents.

Our long-term economic goal is to achieve an average rate of increase in equity per share of 15% per annum and to significantly out-perform the average growth of the Hang Seng Index.

A good annual report should be able to help financially literate readers answer the following key questions:

1. Approximately how much is this company worth?
2. What is the likelihood that the company can meet its future obligations? and
3. How good a job are its managers doing, given the hand they have dealt?

With these objectives in mind, I will try my best to report to you.

BUSINESS ANALYSIS

Our core businesses are civil engineering construction and investment in environmental infrastructure project. Through security holdings we are also investors in other businesses. However, for the coming year or two, the majority of the group turnover and probably profit will be derived from construction. It should also be noted that due to the nature of our business, there is no way Build King will produce a smoothly ever increasing profit. Our result is bound to be volatile somewhat.

Construction

Our group turnover and share of turnover of jointly controlled entities during 2005 were HK\$696 million, still well below our target of HK\$1.5 – 2 billion. I said in Annual Report 2004 that our 2004 high 7% profit on turnover was an exception rather than the rule. Unfortunately I was correct on this prediction. Our overhead costs were in line with budget and we registered a net profit of HK\$30 million, representing a 4% profit on turnover during 2005. Given the tough Hong Kong construction market environment, I believe the result for the year is reasonably satisfactory although for reasons that I explained in last year's annual report, the performance of a construction company should be looked at over a 5-year period rather than any single year's performance.

The Group operates mainly in Hong Kong (93%) and the People's Republic of China ("PRC"). During 2004 we started an operation in the Middle East. Our strategy is to reduce our reliance on Hong Kong market and we therefore set ourselves a target to have one third of our turnover from outside of Hong Kong by 2008. The performance by geographical area during 2005 has been as follows:

BUSINESS ANALYSIS (Continued)

Construction (Continued)

- *Hong Kong*

During the year, despite the claim by the HKSAR government to expand spending on infrastructure, 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 we have experienced during the last few years. We have continued to be rational and avoid 'buying' contracts by cut-throat pricing and razor thin margins. This is a game we will not enter. 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. We continue to believe however that irrational pricing for the sake of market share is damaging to survival and growth. It is at time like this that one needs to have the courage and discipline to accept and absorb a short-term setback to ensure long-term well-being. We prefer to stick to our strategy of targeting projects where we can add value, or clients who see the benefit of assessing contractors on performance as well as on price. This strategy has served us well in the past and we expect it to continue for the foreseeable future.

Looking ahead, I believe 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 we have on hand, I am reasonably confident that 2006 will be another profitable year.

- *The PRC*

The PRC is a more difficult market than we originally thought and will take time to develop. Given the time and resources that we had put in, we have to improve quite significantly in order to achieve a satisfactory return on our money invested. Nevertheless, we now have a much better "feel" of the areas on which we should concentrate. We also have a better understanding of how to deal with the local culture and industry practices, and we have begun to identify potential niche markets for our organisation. In addition, using our expertise in construction, we are able to optimise design and construction as well as operation to get the best results from investment in potential infrastructure projects. The fact that we are established in the PRC was one of the main reasons that Road King Infrastructure Limited ("Road King") has formed a joint venture ("JV") with our subsidiary to manage the construction of their major property project in Chang Zhou, Jiang Su Province. I am optimistic that this JV will provide long-term steady revenue and reasonable profits.

BUSINESS ANALYSIS (Continued)

Construction (Continued)

- *Middle East*

Our recent venture into the Middle East construction market is looking promising. The emphasis has been on marine related construction work. In 2005, the first year of operation, we registered a small loss of HK\$2 million, but the outlook is encouraging and we believe we will be able to generate profit in 2006. If our strategy continues to work favorably, we will consider allocating more resources to this area in the future.

Environmental Infrastructure Projects

I mentioned in Annual Report 2004 that one of our long-term growth strategies is to identify and pursue investment in medium-size environmental infrastructure projects in the PRC that require a build-operate-transfer (“BOT”) format. I am pleased to report that significant progress has been made in this area. Wai Kee China Construction Company Limited, our subsidiary, signed the first project in April 2005, 20,000 ton/day sewage treatment plant in Wu Xi, with a total investment of RMB42.68 million. Construction work commenced in September 2005 and is proceeding on schedule for completion in September of 2006; full operation will start in October 2006.

We do not expect any meaningful contribution from this project from its first year operation, but from 2008 onwards, we expect our investment in this treatment plant will generate a satisfactory return and provide a new long-term steady income stream for the Group.

We believe the business potential for investment in this area is significant, but due to limitation of our balance sheet, we will only be able to add at most one new project per year to our portfolio. To solve the funding problem, we have been seeking long-term finance from infrastructure investment funds. In this regard, we are negotiating a 7-year EUR5 million loan with Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (Netherlands Development Finance Company) specifically for environmental projects and expect to reach an agreement very soon. This will assist significantly in achieving our target.

In the long term, we expect such investments in environmental infrastructure projects can contribute significantly to the Group results.

We are also looking for potential co-investors; people who believe in the long-term benefits of environmental infrastructure business in the PRC but who may not have the time or energy to take on the workload required. We believe our presence can offer an attractive platform for such investors. I will be glad if you can spread this message to attract those who are interested in this opportunity to contact me.

BUSINESS ANALYSIS (Continued)

Investment

Our objective in this area is to put a portion of our money into businesses and securities that we believe will give us a satisfactory long-term return on our investment. Again, we are looking for companies that can grow their net worth at a rate of not less than 15% per year.

In 2005, if measured by the market price of the shares, the result was rather poor. Our portfolio decreased in value by 0.73% while the Hang Seng Index rose by 4.54%. However, I always believe a better measure of performance is the profit generated by the businesses in which we invest. In this regard, I am satisfied with the underlying profit produced by businesses (roughly HK\$9 million) though, according to the prevailing accounting practices, this sum is not reflected in our own audited results. At some point I fully expect the share prices will increase to reflect the underlying growth of these businesses.

CORPORATE GOVERNANCE

Dividend Policy

Given our thin balance sheet (shareholders' equity of HK\$145 million as at 31 December 2005) and the working capital requirements of our business as well as our intended investment in environmental infrastructure projects, we are not in a position to pay out dividends. We are confident however, that we will be able to put your money to good use and generate satisfactory returns in the longer term.

As owners of the Company, your long-term view and patience is required. If we do achieve 15% growth in net worth of the Company per year, this will mean in 10 years' time your interest in the Company will be quadrupled. So even though we are not handing out dividends, your money grows with the Company. My job as a safe keeper of your money is to ensure it grows at a reasonable (or better still, an unreasonable) rate. So please do not pay attention to the daily fluctuation of the share price, do focus on whether or not your money is growing satisfactorily over the long run.

We might be in a position to consider a dividend when our shareholders' equity reaches HK\$300 million or so. I hope it will not be too long before we reach this position.

CORPORATE GOVERNANCE (Continued)

Asset Allocation

We understand the common errors that we all tend to make in overestimating ourselves by attributing success to our skill but failure to bad luck, and also in wasting time finding excuses whilst we should be finding out what actually went wrong and identifying a remedial solutions. To minimise the impact of those pitfalls, we rely on actual result to tell us whether we are on the right track, and allocate our assets to areas where the return is proved to be the best; management's wishes and ambition should never be allowed to take priority over our duty to our shareholders – which is to maximise long-term increase of their net worth in the Company with minimum risk possible.

Communication with Shareholders

I will be candid with you in my reporting and I will emphasise the pluses as well as 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. I understand there may be some queries or issues that you want to know from our vice chairman, Mr. YU Sai Yen and myself direct in the forthcoming Annual General Meeting ("AGM"), so I would strongly encourage shareholders to attend the AGM. This is the occasion where the management and owners of the Company can discuss the business face to face.

In 2005 I made the mistake in the AGM of not inviting questions from our shareholders in Cantonese as well as in English. I will make sure this time I will not repeat this mistake.

APPRECIATION

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

Zen Wei Peu, Derek

Chairman

31 March 2006