Chairman's Letter

During 2006 our gain in equity was HK$8 million(M) whilst our equity per share (including ordinary shares and convertible preference shares) increased by 5% to 17 HK 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.

Last year I mentioned that 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. Is the company able to meet its future obligations? and

3. How good a job are its managers doing, given the hand they have been dealt?

However, recently it has become somewhat difficult to understand our audited income statement and balance sheet. This comes as a result of accounting rules to prevent management from misleading investors. However those rules do sometimes have the unfortunate effect of rendering the official audited accounts so distant from the business reality that shareholders who are not involved in the day-to-day management of the business will find it difficult to find accurate answers to the captioned three questions.

I will therefore attempt to re-present our financial statements in a much simpler way so that any layman can understand. I have in my mind shareholders who take a long term view, have trust in the management, and who however once a year want to hear directly from your Chairman in unambiguous terms how the company has performed in the previous 12 months; whether the company is on the right track, and what the Chairman's honest view is for the foreseeable future – i.e. to clearly answer the three questions above. I offer no apology for the over simplified approach I am going to adopt.

FINANCIAL STATEMENT ANALYSIS

Our income statement for 2006, in its simplest form, looks like this.

	HK$ Million
Construction Turnover	1,019
Project Costs	(941)
Gross Profit	78
Administrative Costs	(54)
Operating Profit	24
Finance Costs	(7)
Profit Before Tax (Construction Business)	17
Tax	(2)
Profit After Tax (Construction Business)	15
Profit on Disposal of Equipment	9
Share of Profit of Minority Holdings in Local Listed Securities	9
Net Profit	33

The only thing I need to elaborate is what I define as "Share of profit of minority holdings in local listed securities". As you are aware, we have minor interests in a number of businesses through owning their shares. I see it as only legitimate for Build King to assume that if we own 1% of Company X, and this company makes HK$100M after tax profit this year, then regardless of this company's dividend policy, I should be fully entitled to say that Build King's share of profit from that company is HK$1M. This is the way I have calculated this item in the above.

FINANCIAL STATEMENT ANALYSIS (Continued)

Now come some twists which need some explanation:

Twist No. 1

Income from joint venture projects – Our core business is construction and management of civil engineering projects. We undertake construction works solely on our own ("Solo Projects"). But when projects are sizeable or technically complicated, it is also common practice that we join with one or more contractors to undertake the works together through an unincorporated joint venture ("JV Projects"). These are dissolved upon finalisation of the contract concerned. The only difference between Solo Projects and JV Projects is the legal form. In both types of projects, we have to input management, technical and financial resources. However, under the current accounting policy, our share of turnover and gross profit of JV Projects are excluded from the profit statement. Instead, profits of JV Projects are separately reported as "share of results of jointly controlled entities". Therefore, in order to reflect our real business activity I have included in my simplified income statement our share of JV Projects i.e. turnover (HK$383M), gross profit (HK$30M) and income tax (HK$2M).

Twist No. 2

Profit Recognition (Construction) – Our accounting policy requires us to recognise turnover and profit of our projects only when the projects are 25% completed. This I fully concur as until we are well advanced into a contract, we may not be in a position to realistically forecast its profit/loss with a reasonable degree of certainty. Accounting policy also require us to recognise for 100% of the loss of any project once the loss is anticipated, whereas for profitable job, the profit recognition is on percentage completion basis, i.e. if a project is expected to generate HK$10M profit, when the job is 70% done, only HK$7M profit will be recognised. Again, I fully buy into this prudent approach and this is also the spirit under which my simplified income statement is prepared.

FINANCIAL STATEMENT ANALYSIS (Continued)

Twist No. 2 (Continued)

However, I have a different view in treatment of contract claims and disputed variations, let me tell you why:

In civil engineering projects, during the course of any contract, there are bound to be a number of changes, initiated either by the employer or made necessary due to unforeseen conditions. Sometimes such issues can be settled relatively quickly between the employer/ engineer and the contractor. However, others will be settled only after the project is completed and on occasions requiring mediation or arbitration. Such "claim" income is now a normal part of a contractors' revenue. Although the exact amount of claim income cannot be quantified prior to the final settlement, one would have thought common sense would call for management to provide a "conservative" figure in the income statement. Unfortunately, the current accounting standards are so stringent that claims are not allowed to be included as revenue until negotiations have reached an advanced stage. In reality, this means claims are only booked when money is received. To illustrate how absurd this approach can be, we have a project where we believe the claim income is above HK$50M, conservatively assessed, and the project was completed early 2006. If our assessment is correct, we should at least registered a major chunk of this HK$50M in our audited accounts, which is exactly what I do in my simplified approach (in the order of HK$30M). Now, however, this 30M is moved from the 2006 financial statements. Given our profit from construction activities is only HK$15M, this accounting treatment can distort the overall bottom line by over 100%. So if you see a better than average result next year, don't get too excited and start praising the management.

Twist No. 3

Profit Recognition (Investment) – Our proportion of the profit of the businesses in which we have shares was HK$9M last year and this is what I present in my simplified income statement above. However this is not allowed by the current accounting standards. We are required to record profit based on market prices of the securities we hold. I can't disagree more with this approach. The price of any securities in the short term is merely a result of supply and demand, whereas the real thing we should measure is the performance of the businesses that we own. This year instead of HK$9M profit reported by these businesses, we need to register a HK$39M gain as a result of the increase in the price of our securities which rose significantly from being previously undervalued to now being fairly valued – a HK$30M difference. In the longer term (10 years or more) the business fundamentals should go in lockstep with the share prices but in the short term this treatment again hugely distorts the business reality.

FINANCIAL STATEMENT ANALYSIS (Continued)

Twist No. 4

Tax charge – Last year our construction business was not subjected to profits tax. The tax charge of HK$25M shown in audited financial statements for 2006 comprises HK$5M tax on the HK$39M gain on listed securities and HK$20M in relation to the tax treatment of JV Projects in previous years. More detailed analysis of this dispute are disclosed in the note 14 to the audited consolidated financial statements. However the HK$20M tax deduction is not money that will be taken away from us permanently; rather, this means that in succeeding years we will have a tax loss reserve and as long as we are profitable, this HK$20M will gradually be deducted from future tax liabilities. It is however a distortion of the current business reality.

Having taken into account all the above, my simplified income statement is now transformed to this version:

	HK$ Million
Construction Turnover	606
Project Costs	(587)
Gross Profit	19
Administrative Costs	(54)
Operating Profit	(35)
Profit from JV Projects	27
Finance Cost	(7)
Profit Before Tax (Construction Business)	(15)
Tax	(26)
Profit After Tax	(41)
Profit on Disposal of Equipment	9
Investment Income	39
Net Profit	7

You will note that the effect of profit recognition of the listed securities (+HK$30M) is by coincidence offset by the non-recognition of claims income (– HK$30M) and the only major difference between the two versions above is the tax charge of HK$25M. Imagine what our bottom line will be if both "error" go in the same direction......

FINANCIAL STATEMENT ANALYSIS (Continued)

Whilst I can still explain to you on the above four twists, I am totally lost by what follows:

Twist No. 5

Minority Interests – Minority interests in audited accounts normally refers to the interest of minority shareholders of a subsidiary in a group. However the minority interest in our audited financial statement represents approximately 5% shareholders of Build King. You may recall Build King was spun off from Wai Kee Holdings Limited ("Wai Kee") in 2004 by taking over then I-China Holdings Limited (provisional liquidators appointed) ("I-China"). When we injected our construction business, the original shareholders of I-China saw their 100% share in I-China diluted to 5% in Build King. Since then we are required under the rules to record this 5% interest as minority interest in audited financial statements. And these continued to increase by sharing 5% of our annual results. In reality these shareholders are no different from any other shareholders of Build King. Practically there is no way (and no need) for anyone to differentiate the "old" & "new" shareholders. My advice to you is simply to ignore this item in our audited statement. Nobody has yet been able to give me a satisfactory answer as to who those "minority" are and why is this need, except that they insist this is the correct treatment.

I hope that my comments will assist you in reading our audited report for a "formal" result. However please remember the following when you are reading any annual report:

1. The financial statements should only be the beginning and never the end of your understanding of the company.

2. You should pay attention to what really "counts" and not how it is "counted".

3. Beware of companies having annual reports with a lot of accounting gimmickry as its probably true that the management wants to hide the real picture from you.

4. Though they may be able to create "magic" tricks for a year or two, the acid test of performance is one that no management can ever escape – it is the annual increase in equity per share over a reasonable span of time (say 5 years). If the company you hold is producing less than an average of 10% increase in equity per annum per share during the past 5 years (dividend included), then the management cannot be said to have performed a very good job, you will probably do better by simply invest in the Tracker Fund.

One of the main reasons why in my report to you I prefer to emphasise the increase in net worth of the company is exactly because, though it may be easier to distort the profit and loss statement, the balance sheet is a lot harder to manipulate. You will thus be able to see clearly how Build King is measuring up to meet our long term target.

FINANCIAL STATEMENT ANALYSIS (Continued)

Now is the time to take a look at our Balance Sheet, the simple version of which looks more or less like this:

	HK$ Million
Fixed Assets	51
Goodwill/Intangible Assets	63
Interests in Joint Ventures	47
Current Assets	460
Current Liabilities	(365)
Long Term Liabilities	(94)
Shareholders Equity	162

A few remarks are also necessary for a better understanding of the above:

1. Fixed Assets – These are plant and equipment that we purchased over several years. Whilst in some other companies the book value of plant may be overstated, in our case the reverse is probably true. Most of our assets are marine vessels and land plant which have been depreciated over a number of years. The book value of many items is low and for some almost nil. This is why we have a capital gain of HK$9M on the sale of three barges (which were fully written down) last year. All in all, I believe this column is understated.

2. Interests in Joint Ventures, Current Assets, Current & Long term liabilities – All these are "real" figures that you can take to the bank. The only reservation I have is our securities are entered on current market price which as already discussed above will fluctuate depending on the sentiment of the market.

3. Goodwill/Intangible Assets – This is more difficult to assess. We bought Kaden Construction Limited (formerly known as Kier Hong Kong Limited) ("Kaden") in two stages in 2002 and 2005 at a total net price of HK$33M. We have turned the company around and now Kaden has a solid and efficient management team (not there before), a good performance record with Environment, Transport and Works Bureau ("ETWB") of the Government of the Hong Kong Special Administration Region ("HKSAR") (not there before) and a healthy portfolio of projects on hand (not there before). Next year we are forecasting a profit for Kaden. So what is goodwill of Kaden? I am inclined to believe it has gone up but no one is ever allowed to put an increase in goodwill in balance sheet. On the other hand, Leader Civil Engineering Corporation Limited also has licenses with ETWB, but no goodwill value can be assigned. Surely in a business sense this is not correct. Such is the difficulty in accurately assessing goodwill. Goodwill arising from acquisition of I-China is basically the price we paid for listing status. How should we actually value this status? The value varies from zero to HK$80M, depending on whom you ask. We do not claim we know the answer when we adopt the historical figure, we just are not aware of a better alternate treatment. However overall the figure for goodwill adopted in our balance sheet is, I believe, close to the business reality.

FINANCIAL STATEMENT ANALYSIS (Continued)

I hope the above does not give anyone the impression that I am taking on accounting profession. The problem arises from an unrealistic expectation most people have. Many naive readers, when they see an earnings figure that is accomplished by an unqualified auditor's certificate, they expect that figure to be comparable in certitude to π, calculated to dozens of decimal places. We should understand that all businesses operate in a complex environment that is also constantly changing, and future is never certain. The business value (or its annual results) of any enterprise necessarily can only be assessed within a reasonable range, there is never an "exact" answer.

In the past, accounting is more "principle based" and professionals are permitted to use their common sense and judgment, as the situation requires. Accounting scandals of a very few in the past, however, results in relevant authority, general public exerts a pressure on accounting profession to impose more and more rules, rigidly applied across all businesses, regardless of their nature, all in the name of protecting the interest of investors in general.

In their relentless pursuit of "accuracy" and eliminate judgment/flexibility (for fear of fraud/ manipulation by the very few), trying to give an exact answer on things that is by nature never exact, most people forget the fundamental principle that, to quote Warren Buffett "it is better to be approximately right than precisely wrong".

BUSINESS ANALYSIS

Our core businesses are civil engineering construction, investment in environmental infrastructure projects and investment in other businesses through security holdings. In near term the majority of our turnover will continue to come from construction and the contribution to our bottomline from construction as well as our investment activities.

Construction

Our group turnover in 2006 including our share of jointly controlled entities was HK$989M, still well below our target of HK$1.5 – 2 billion. As a result although we were able to contain our overhead in terms of absolute dollar amount, the overhead as a percentage of turnover was unsatisfactory at 5.5%. This was well above our target to give us the long term competitiveness of 3.5%. Tight contract prices coupled with some lack of efficiency in site operation, as well as delays in the settlement of several final account have all contributed to a most disappointing bottom line. In addition, we took on board a few contracts in Hong Kong where the project cash flow has been and in some cases continues to be poor. This has put the Group under pressure and driven up borrowings and interest costs. You would have thought that cash flow planning is such a simple concept in construction business that your Chairman, having spent over 30 years in this business, should be well familiar of the significances. Unfortunate for Build King shareholders, I have to learn this the hard way, as a matter of fact, I have to learn this several times over. There is no excuse for my oversight in this critical area and it is costing you and me quite some money. Steps have been taken to avoid similar situations in future and I believe that during 2007 we should be able to bring the operation back to normal.

BUSINESS ANALYSIS (Continued)

Construction (Continued)

The group operates mainly in Hong Kong (>85%) but also in the People's Republic of China ("PRC"), as well as limited activities in Middle East and Taiwan. Our objective is to reduce our reliance on the Hong Kong market and have a third of our turnover outside Hong Kong by 2008. The performance by geographic areas during 2006 has been as follows:

Hong Kong

We registered a loss of HK$6M in 2006. For the past few years I have been telling you that the market is very competitive and new contracts are hard to come by. Unfortunately I have to tell you again that 2006 has been no different. We did see a little improvement on the building side towards the end of the year, but the civil engineering contractors (where we belong) are still seriously short of work. We had some reasonable success in securing new contracts in 2006 but our work load in Hong Kong is still inadequate.

Looking ahead, I am afraid 2007 is going to be a repeat of 2006 and any recovery in Hong Kong will likely to be in 2008 or beyond. However, based on the contracts we have on hand, 2007 should yield a better result than 2006.

The PRC

Our PRC sector produced a small profit less than HK$1M. Given that we have put in a total of HK$63M in the PRC, the result significantly fails to meet our criterion of 15% return on equity. If truth be told, we are still trying to identify a successful business model and establish ourselves in the niche markets we have identified and where we believe we may have an edge. It is an uphill battle and I will keep you updated on our progress.

Changzhou Valueahead Construction Limited 常州利駿建築工程有限公司 (alias "Li Jun"), our joint venture with Road King Infrastructure Limited ("Road King") to undertake Road King property projects in China, is now fully operational. The turnover in 2006 was minimal but we should see significant increase in 2007. I am optimistic that Li Jun will provide Build King with long term steady revenues and reasonable returns.

Middle East/United Arab Emirates ("UAE")

Last year I predicted that this year we will be able to generate profit in the Middle East. But in reality the result was breakeven in 2006. However, we have not lost our optimism on this booming but competitive market. Last September we formed an alliance with a local contractor, Arabian Construction Company ("ACC") who have been operating in the UAE for the past 30 years and are one of the leading contractors there. We believe there is good synergy between ACC and Build King and to date we have secured one small contract together. As a result we have been able to tender for a lot more projects than before. In addition to marine work, we have decided to increase our resources to be able to participate with ACC in general civil engineering works in the UAE.

BUSINESS ANALYSIS (Continued)

Investment

Last year the market price of our securities portfolio increased by an unbelievable 68% from HK$56M to HK$94M. But frankly I do not expect this kind of percentage increase will ever be repeated during my remaining investment life span. However, I do not believe our securities are over-priced even after the price increases, the current prices of our portfolio can still be comfortably supported by the underlying fundamentals of the various businesses.

Our objective is to put a portion of our money into businesses and securities that we believe will give us a satisfactory long term return and also give us steady income. This will assist to somewhat smooth the volatility of construction activity. Again, we are looking for business that can grow their net worth at a rate not less than 15% per year.

Our initial investment starting April 2004 was HK$50M and by end 2006 the market value had risen to HK$94M. Nevertheless, I still prefer to gauge our progress in this area by the growth in profit of underlying business. If we are looking for a 15% growth, then we should expect by end 2007, the total profit should be around HK$10.5M. Given the understanding we have on those businesses, I fully expect this profit figure will be achieved. On the other hand, I would not like to predict the performance of the share price, all I need to monitor is if the share is trading way above what I believe it is worth I will sell, whereas if shares are trading below its "true" value, I will hold or buy more, provided there is sufficient safety margin between price and value. This approach has served me well so far in the past 3 years and I do not intend to make any change in this regard. In the long run this should also serve our shareholder well. However, investment results need to be judged on a time span not less than 5 years, short term performance should always be viewed with certain degree of scepticism.

Environmental Infrastructure Projects

Our first private finance initiative ("PFI") for a sewage treatment plant in Wuxi City, Jiangsu Province in the PRC was completed and put into operation a few weeks later than planned after the end 2006. The design capacity is 20,000-tonne per day but for the first few months of operation the inflow of sewage has been disappointingly low. We now expect it will take a year or so for the flow reaches the design capacity. As I said last year, we do not expect any meaningful contribution from this project in its first year operation but from 2008 onwards, we believe the plant will generate a satisfactory return.

It is our intention to identify further PFI opportunities but at present our balance sheet will limit our ability to invest as fast as we would wish. We will ensure that we do not over leverage our balance sheet just for the sake of a marginal improvement on the overall return. Prudence is definitely called for in Build King's case. Nevertheless, we will continue to seek potential co-investors, people who believe in the long term return of environmental infrastructure business in PRC and see benefit in utilising the platform Build King is able to provide.

BUSINESS ANALYSIS (Continued)

In conclusion and to answer the questions I raised at the very beginning in respect of 2006:

1. The audited figure should not be too far away from the real business value of Build King. If there is any deviation it lies in the individual's assessment of "Goodwill" that I have explained above.

2. There should be no problem for the company to meet its future obligations.

3. It is a fact that our construction activities are facing a difficult market and hence one would not expect any nice surprise in profit from this sector. As a result of this and with some poor management decisions explained above, we were unprofitable which is disappointing. In addition we have also had some problems with our Wuxi treatment plant. Therefore one is forced to come to the conclusion that last year the management was only "so so" and not great. There is a lot of room for improvement. Nevertheless my optimism lies in the belief that mistakes made one year often contributes to competence and success in succeeding years.

CORPORATE GOVERNANCE

Dividend Policy

Given our thin balance sheet (shareholders' equity of HK$162M as at 31 December 2006) and the working capital requirements of our business, we are not in a position to pay out dividends. However, I am confident that we will be able to put your money to good use and generate satisfactory returns in the longer term.

Let me elaborate on this: when Build King was spun off from Wai Kee in April 2004, the total equity was then HK$96M. Since then we haven't paid out any dividend but neither have we raised any new money from the market. During these three years, the equity has increased to HK$162M and the equity per share has risen from 10 HK cents to 17 HK cents. So your money has grown with the company, though so far you haven't received any dividend. I said last year that we might be in a position to consider a dividend when our total equity exceeds HK$300M. I hope it will not take too long for us to reach that position.

CORPORATE GOVERNANCE (Continued)

Business Philosophy & Asset Allocation

In the construction industry late settlement of final accounts is common. This inevitably requires contractors to arrange finance, usually project related. This is generally acceptable although at times it results in higher short term overall company gearing than one would expect. However, I will not chase an extra percent or two percents return on equity and in so doing over leverage our balance sheet and place the Group in an unhealthy position. This approach may have the effect of limiting our growth rate in construction turnover, but we do not have any better option.

We will also be extra careful in committing shareholders' money to new ventures or acquisitions. Here we need to be aware of and guard against an ever present natural bias which most senior managers possess. Due to an abundance of animal spirit and ego, they are easily attracted to new acquisitions or new deals. As Peter Drucker once said "I will tell you a secret: Deal making beats working. Deal making is exciting and fun and working is grubby. Running any business is primarily an enormous amount of grubby detail work. Deal making is romantic and sexy. That is why you have deals that make no sense".

Theoretically for any company, there is no need to proceed in any ordained direction but should instead simply decide what makes sense for its owner. In doing so, one should mentally compare any move he/she is contemplating with dozens of other opportunities, including the purchase of small pieces of good businesses via the stock market. However, this is a discipline that mangers focused simply on expansion seldom use.

Regrettably, we are not totally immune from the contagious fever of this animal spirit, and in the past you had paid some of our tuition in this regard. To put a check on our ego, for all the decisions we made, we put on record in my report to you as to why we make such a decision, and the return we expect to achieve. In handing out my annual score card, at least I need to explain to you why and how we failed, and more importantly, this will prevent us from finding excuses and cheat ourselves, force us to focus on weak spots in our prediction & execution, and if necessary, change course in time to avoid throwing good money after bad.

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. There may be some queries or issues that you wish to raise with myself or our Vice Chairman, Mr. Yu Sai Yen 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.

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

3 April 2007