

REVIEW OF OPERATIONS

Over the passing months, the Hong Kong economy was undergoing a slowdown and the sluggish global economic environment further speeded up the downturn. Overall construction output during the period continued to decline in both the private and public sector. The interest rates decreased to a significantly low level towards the end of the period, which helped to restore optimism to a certain extent and lessen the financing cost to many businesses.

Under such circumstances, the Group experienced some decline in turnover in this period as compared with the last corresponding one. Nevertheless, the Group remains busy in the pursuit of numerous projects in its wide spectrum of works. At the time of reporting, the Group's reckoned value of contracts in hand is at HK\$8.8 billion level, with about HK\$5.3 billion outstanding.

During the reporting period, our building team successfully delivered the cable landing station, a "telecom hotel" at Tong Fuk, South Lantau within an extremely tight schedule to the satisfaction of the client. The renovation works of "Paradise Mall", Heng Fa Chuen Shopping Centre, was completed in September, turning the shopping arcade into a new attraction and was well accepted by the client. The VTC School of Business and Information Systems, Phase 1 at Lily House, So Uk Estate was also completed within a tight schedule and well appreciated by the client on its timely completion and good performance.

Works of on-going projects were progressing smoothly in pace with planning. On building construction, the Tin Shui Wai Private Sector Participation Scheme development, using the design and build arrangement and adopting innovative precast and metal formwork construction methods for the eleven high-rise residential towers, was in good progress. Housing Authority's Shek Lei Estate Phase 9 redevelopment and the 5-block private residential development at Tuen Mun Town Lot 386 were progressing satisfactorily and on schedule.

On civil construction, capital works for the Water Supplies Department Tan Kwai Tsuen North Fresh Water Service Reservoir in Yuen Long, road and drainage works for the Territory Development Department West Kowloon Reclamation and the Black Hill tunneling works for the Mass Transit Railway Tseung Kwan O extension proceeded on schedule. Excavation of the tunnels with sections in soft layers and in close proximity with each other was successfully completed. During the reporting period, a contract for the construction of required facilities to provide fresh water supply for the future theme park has been added to the Group's water works projects as part of the infrastructural development for phase 1 Hong Kong Disneyland. Work commenced in August and was proceeding well.

Regarding progress of the KCRC railway contracts, the West Rail tracklaying through Kam Sheung Road Station and the adjacent crossover, one of the most complicated parts of the project had been completed. Work continued to proceed from Kam Tin towards Yuen Long according to schedule. As for the West Rail Viaducts from Kam Tin to Tin Shui Wai, and from Tin Shui Wai to Tuen Mun North, the longest viaduct in Hong Kong, sections of the deck was progressively completed and handed over for tracklaying according to schedule. The structure of the Tin Shui Wai Station, the longest station of West Rail, had been completed and the remaining works were proceeding as planned.

As for the Hung Hom Station modifications, since the station has to be maintained in full operation, a lot of the works have to be executed only during the time when the railway system is shut down at night and within limited working spaces. As we were working in close proximity to the busy passenger and pedestrian flows, we paid extra effort on safety management under restricted working conditions. With our good site management and close coordination among all external parties, the project was running smoothly.

On foundation construction, the Group had completed the foundation works for the West Rail Viaducts from Tin Shui Wai to Tuen Mun North. Current foundation works including NKIL 6275 West Kowloon Reclamation, redevelopment of Shek Pai Wan Estate Phase 1, KCRC Hung Hom Station Extension minipiles, and the remaining piling works for West Rail Tin Shui Wai Station were progressing satisfactorily.

On the maintenance front, term contracts for Highways Department including Northern and Western Districts of Hong Kong Island, Wong Tai Sin and Kwun Tong Districts, Tai Po and North Districts, Tuen Mun and Yuen Long Districts; waterworks for Water Supplies Department on Hong Kong Island and Ap Lei Chau; maintenance works for Hong Kong International Airport; Light Rail maintenance and construction of permanent way and civil works for KCRC moved forward smoothly. Traffic management and minimizing disturbances to neighbourhood are onerous tasks for waterworks maintenance under tight schedules for completion. Despite these demanding requirements, through careful planning and skillful handling, our waterworks maintenance team was able to avoid or resolve these problems in advance of the works and continued to deliver quality work to the satisfaction of the Water Supplies Department.

The MTRC Choi Hung Park and Ride Development, awarded in July, marked the Group's further diversification into property development. With direct access to the MTR Kwun Tong Line, the Development is strategically located at the transport hub of the district, which forms part of the major transportation network leading to other parts of Hong Kong. Targeted for completion in 2005, this development will include 450 parking spaces for park and ride users, a two-storey public transport interchange, and a high rise residential tower with commercial floors below podium level. Work commenced in October and was proceeding well.

On electrical and mechanical ("E&M") works, the E&M installations by the Group's in-house E&M team at Hung Hom Station modifications and the Tin Shui Wai Station provided coordinated supports to the building team for satisfactory and smooth running of these projects.

The Group's security business arm under City Security Company Limited continued its normal core operations in providing security services to construction sites and premises, expanding into new fields including guarding major industrial complex and oil/gas depots, and participating in crowd control on public facilities. The licence obtained for security system installation in the previous reporting period has been enhancing broader business opportunities for the subsidiary.

As for the information technology field, the Group continued cautiously to explore diversification opportunities along with the information technology business initiatives set up by the Group with strategic partners in Beijing.