

C h a i r m a n ' s S t a t e m e n t

Dear Shareholders,

We would like to present the annual report for the year ended 31st March, 2002.

The economic indicators for Hong Kong show no sign of recuperation, the growth of GDP in Hong Kong was reduced down to only 0.1% in real term for the year of 2001, deflation continued, with the Composite Consumer Price Index falling by 2.6% in the first quarter of 2002 while the costs and price continue their deflationary trend as a consequence of further decline in property prices. The growth rate in real term of expenditure on building and construction was down to -2.5% in the year of 2001.

In the budget speech of March 2002. The Financial Secretary proposed a number of fiscal measures to relieve the financial strains of the taxpayers such as reducing rates and freezing government fees. He further forecasted that there would be a GDP growth of 1% in real term for 2002 and that as the excess capacity within the global economy has yet to be digested and local deflationary pressure would remain.


With the property price fell by 13% on average in 2001, any further decrease in property price only causes further increase in the number of negative equity owners. The downturn of the economy and the restructuring of the Hong Kong economy hit hard to the middle class in Hong Kong and those who are stuck with the negative equity remain the hardest hit and desperate. The domino effect to the economy is now clearly visible with many of the business and service industry which catered for the middle class have gone or would go bankruptcy. Corporate and personal bankruptcies rate remain high throughout the first half of 2002. In the first half year of 2002, the seasonally-adjusted unemployment rate rose to 7.4%.

There will not be a bounce back of property market unless and until the negative equity owners will no longer be an issue in our economy.

Some voiced out that we should import more talent people to Hong Kong in order to rebuild or restructure our economy. We have yet to wait until these imported talent people start making Hong Kong home and purchase their own flats here.

There is no doubt that Hong Kong must overcome the difficulties due to the persistent economic downturn and uncertainly since 1997 because of the deterioration in the external economic environment and the slump in global demand for consumer goods resulted in an almost across-the-board fall-off in Hong Kong exports and re-exports. Hong Kong people are looking to the Government for any direction and/or change of policy which would map out the future economic development of the Hong Kong.

The temporarily suspension of the sale of Home Ownership Scheme flats by the Housing Authority and Housing Society for a period of 10 months in September last year was an effort to respond to the fragility of the private residential market. The Chief Secretary announced on June 5 this year that the moratorium on the sale of Home Ownership Scheme flats by the Housing Authority and Housing Society would cease to apply with effect from 1st July, 2002 and that it was expected that two phases of Home Ownership Scheme flats will be put on sale with about 2,400 and 2,500 units put on sale in September 2002 and April 2003 respectively. The future sale of Home Ownership Scheme flats would not exceed 9,000 a year up to 2005-2006 and a sale of no more than 2,000 units a year thereafter. Any cut back in Home Ownership Scheme flats each year would be matched by an increase in the number of loans offered to eligible households. The change of policy is to avoid the competition with the private market and to, hopefully, stabilize the private residential market, this would offer a partial relief for the negative equity owners.



In a practical term, the projection made in 1997^{1*}, which stipulated that, on average, the yearly production requirement for both public and private housing was 79,900 for the period 1997 to 2007 comprising a total of 456,300 public housing flats and 343,000 private housing flats for this period, would have now been readjusted in light of the recent change of the public housing policy.

In the premises, the sales of building materials for Government Housing Projects are unlikely to make a significant contribution to the Group in future and we must now re-focus on the private housing projects.

While the competition on price remains cut throat in the project sale market, as mentioned in our last year Annual Report, we have expanded the retail side of the business, we have noted an increase by 28% over last year in our retails operation, which has constituted 27% of our turnover. In addition, we have increased our services to customers not only in metal hardware, bathroom accessories and also increased our product range to cover kitchen fitting. We have a plan to open a new showroom for the supply of high end product lines to our prestigious customers later this year.

With the business potential presented to us by virtue of the China's full membership to WTO, and the 2008 Olympic Game in Beijing, we have acquired an office in Beijing last year with a view to capturing business opportunity in China.

The management believes that there will not be any materially change in the building industry in Hong Kong in the next few years. The management would focus on the core business of the group and would develop scheme to deal with the change and challenge, we would seek opportunities for both existing and new product lines of businesses.

It has been recently announced by the Hong Kong Government that the goal for all development in Hong Kong would be guided by the principle of sustainability in order to balance social, economic and environmental needs both for the present and future generations. A Sustainable Development Unit has now been established under the office of the Chief Secretary for coordinating all the projects such as land use planning building safety health and environment assessment, etc. within

^{1*} Assessment of Housing Demand (1997-1998 – 2006-7) published in November 1997 by the inter-departmental Working Group on Housing Demand of Hong Kong SAR Government.

the government departments. No doubt, the “green culture” would be visible in the years to come.

We would examine the new business opportunity in this direction, we will develop a new business unit for supplying affordable and efficient devices or equipment which would meet the criteria of this new technological orientated business. We are now in the process of identifying the potential systems related to the building industry which would improve the quality of water and also technology for wastewater treatments with both home and commercial applications. We are considering the potential business catered for the health anxious public such as Bio-therapeutic equipment. The management believes that these new lines of business will make a positive contribution to the existing operation of the group in future.

Undoubtedly, this year has been the most challenging year for Hong Kong and for the Group's business. Our management has worked diligently to tackle business issues and to explore any business potential or opportunities. Without the devotion and loyalty of our colleagues towards the Group, we would not be able to consolidate our position and get ourselves ready for any change of business environment for which I am sincerely grateful and thankful to them. Indeed, they are the most important assets of our business.

Finally, I would like to express my appreciation to our customers and shareholders for their confidence in and continuing support to us during this difficult year.



TSE Sun Fat, Henry
Chairman
19th July 2002