

I have pleasure to present to shareholders the annual report of the Group for the year ended 31st March, 2002.

REVIEW

Financial Performance and Positions

For the fiscal year ended 31st March, 2002, the Group's consolidated turnover decreased by 51% to approximately HK\$5,344 million when compared with that of last year. The decline is mainly due to the exclusion of the turnover of Downer, which is no longer consolidated in the accounts of the Group. Excluding the turnover of Downer for the corresponding period last year, reduction in turnover would be narrowed down to approximately 15% mainly due to the decrease in construction work in the building sector.

The Group's profit from operations decreased by 90% to approximately HK\$18 million. Such decrease was mainly due to the exclusion of Downer's contribution from operating profits, which is now reflected as share of results of associates. For the same reason and coupled with the lower borrowing costs, finance costs dropped substantially by 82% to HK\$38 million. Net investment income of about HK\$40 million comprised mainly interest income, net write-back of impairment loss of the Group's interests in properties net of loss on securities trading. Share of results of associates registered a profit of about HK\$104 million which was mainly attributable to the contribution from Downer. Profit for the year was HK\$71 million and basic earnings per share was 7.1 cents.

Special attention is being drawn to the fact that since Downer ceased to be a subsidiary in mid February 2001 and given that Downer is separately and independently listed on the Australian Stock Exchange, the Group's results for this year refer only to those publicly available information published by Downer. As such, only nine months results of Downer ended 31st December, 2001 have been accounted for in the Group's results for this year.

In addition, in order to provide a closer comparative basis between the Group's results for this year and those for last financial year, the following proforma

comparison has been prepared for reference. Such proforma income statement was prepared on the basis as if Downer was equity accounted for and reflected as a share of results of associates for the year ended 31st March, 2001.

When compared with the Group's financial position as at last year end, the total assets of the Group shown no material change and stood at HK\$6,193 million while net current assets increased by 21% to some HK\$468 million. Current assets have been maintained at 1.2 times of current liabilities. The net debt to equity ratio increased slightly by 0.03 to 0.23 times at this year end.

PROFORMA INCOME STATEMENT

	31/3/2002 HK\$'000	31/3/2001 HK\$'000
Turnover	5,343,810	6,272,345
Cost of sales	(5,174,038)	(6,149,942)
Gross profit	169,772	122,403
Other revenue	23,829	14,297
Administrative expenses	(175,413)	(222,997)
Other operating expenses	-	(1,933)
Profit (loss) from operations	18,188	(88,230)
Finance costs	(38,301)	(95,405)
Investment income (expenses) – net	39,584	(44,562)
Loss on disposal and dilution of interests in subsidiaries and associates	(6,688)	(289,190)
Share of results of associates	103,901	87,817
Share of results of jointly controlled entities	8,559	293
Profit (loss) before taxation	125,243	(429,277)
Taxation	(47,935)	(41,348)
Profit (loss) before minority interests	77,308	(470,625)
Minority interests	(6,605)	16,185
Profit (loss) for the year	70,703	(454,440)

As a result of the release of translation reserve amounting to some HK\$101 million due to the appreciation of the Australian dollars in relation to and the dilution of the Group's interest in Downer, dividends paid of HK\$11 million and the profit of HK\$71 million during this year, shareholders' funds increased by 6% to HK\$2,995 million which represents HK\$2.9 per share.

Net cash inflow from operations was about HK\$6 million and outflow of HK\$73 million in respect of investing, financing and other activities, resulting in a net decrease in cash of about HK\$67 million for the year. Operating cash flow per share was 0.6 cents. Cash on hand at year end was HK\$602 million.

OPERATIONS

Contracting and Construction Materials

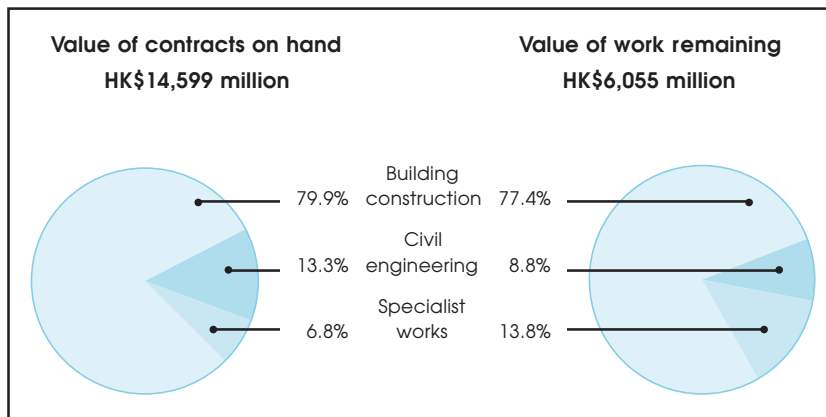
During the year, the Group secured new contracts with an aggregate attributable value of approximately HK\$5,261 million, which comprised some HK\$3,305 million of building construction contracts, some HK\$853 million of civil engineering contracts and some HK\$1,103 million of specialist works. When compared with last financial year end, contracts on hand and the value of work remaining at this year end increased by 29% to approximately HK\$14,599 million and 12% to approximately HK\$6,055 million respectively.

Subsequent to the year end, the Group secured further new contracts with an aggregate attributable value of approximately HK\$1,295 million, which comprised some HK\$1,241 million of building construction contracts and some HK\$54 million of specialist works.

In general, contracts in Hong Kong progressed well. Turnover of building construction recorded a 20% drop to HK\$3,117 million which reflected the substantial decrease in public housing works. The civil engineering and specialist segments also recorded 8% and 22% turnover drops to HK\$1,329 million and HK\$587 million respectively. Despite highly competitive market conditions, the Group managed to improve the margin by implementing various cost control measures. Both building construction and civil engineering work delivered positive contributions to the operating margin while specialist works suffered a loss due to severe market competition.

The construction materials division suffered losses due to a 50% reduction in its turnover which was caused by a shrinking public housing market.

Contracts On Hand as at 31st March, 2002



Site formation for Lamma Power Station Extension



Tiu Keng Leng Station & Tunnels

Some of the major contracts are as follows:

	Value of contracts on hand as at 31/3/2002 HK\$'million	Value of work remaining as at 31/3/2002 HK\$'million
Cheung Kong Center, Central	2,890	187
Cyberport Residential Development (Contract R1a & R1b)	2,558	2,558
Cyberport Commercial Development (Contract C1)	1,131	275
The Victoria Towers, Tsim Sha Tsui	951	395
Harbourfront Landmark, Hung Hom	800	84
Lei Yue Mun Estate, Phase 1	796	269
Site Formation for Lamma Power Station Extension	724	334
Tiu Keng Leng Station & Tunnels (MTRC Contract 602)*	709	23
Tseung Kwan O Area 73A Phase 3	490	402
Sheraton Hong Kong Hotel & Towers Guestroom Refurbishment	232	232
Others	3,318	1,296
Total	14,599	6,055

*70% joint venture



Harbourfront Landmark



Tamar 275kv substation

Property, Hotel and Catering Operations

Total value of the property portfolio, excluding those self-occupied properties, amounted to some HK\$1,289 million as at the year end, equivalent to 21% of the total assets of the Group. Included in the property portfolio are Paul Y. Centre, the Group's headquarters in Kwun Tong, Best Western Rosedale on the Park in Causeway Bay, In-Zone, a shopping arcade in Wanchai, and certain investment properties in Mainland China.

Although the overall rental rates of the investment properties had been reduced, the occupancy rate was maintained at the satisfactory level of around 91% at the year end. In-Zone has been 52% let at the year end. Sales of properties delivered a satisfactory contribution of HK\$28 million to the operating margin with only a few residential flats of Cathay Lodge remained for sale which were all sold subsequent to year end. Though hotel and catering business was severely affected by the stagnant economy and the 911 Crisis and recorded a negative margin, there is a gradual recovery in 2002.



Galaxy Room at Rosedale on the Park

MAJOR ASSOCIATE – DOWNER

Downer reported a revenue of A\$1,624 million (HK\$6,729 million) and A\$1,242 million (HK\$5,146 million) and a net profit after tax of A\$46 million (HK\$189 million) and A\$20 million (HK\$84 million) for the year ended 30th June, 2001 and six months ended 31st December, 2001 respectively. As at this year end, the Group held 352,727,322 shares in Downer which is equivalent to about 36.86% of the then issued ordinary share capital or about 33.49% on a fully diluted basis.

Downer is a preferred supplier of engineering and infrastructure management services to the rail, public and private road, telecommunications, power, and mining and resource sectors in Australia, New Zealand and Asia.

Downer, a top 150 listed company on the Australian Stock Exchange, has total assets of A\$1.7 billion, 11,000 employees and an annual turnover of over A\$2.5 billion.

Its services are organised through five operating divisions that have common core competencies. These core competencies include value-adding skills in engineering, design and asset management and maintenance to provide clients with single source solutions.

Downer's divisions are: EDI Rail (rail division), Downer Engineering (engineering division), Works Infrastructure (infrastructure division), Roche Mining (mining division) and Century Resources (resource services division).

MAJOR INVESTMENT – CHINA STRATEGIC HOLDINGS LIMITED ("CHINA STRATEGIC")

The 17.45% equity interest in China Strategic, a diversified investment holding and property group with its shares listed on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange"), continues to be a long-term strategic investment of the Group. It is expected that the Group will benefit not only from the investment in but also the business networking capabilities of China Strategic in Mainland China.

Pursuant to a share placement of China Strategic completed after the balance sheet date, the Group's equity interest in China Strategic is diluted to 14.55%.



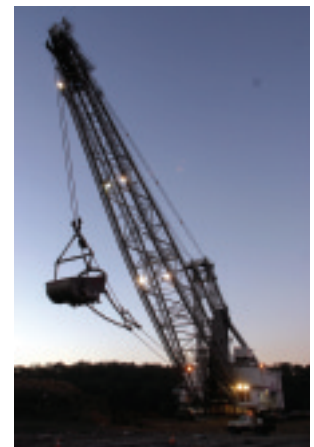
Millennium Train manufacture and maintenance



Telecommunication tower installation and maintenance



Mt. Piper Power Station electrical contracting and maintenance



Mining work at the Ulan Coal Mine

LIQUIDITY AND CAPITAL RESOURCES

The Group currently maintains a variety of credit facilities to meet its working capital requirements. During the year, the Group obtained new bank loans in the amount of HK\$889 million. The loans bear interest at market rates and are with terms of repayment ranging from one year to eight years. The proceeds were used for general working capital purposes and to refinance the repayment of the convertible note. As at 31st March, 2002, the Group's total borrowings amounted to HK\$1,296 million with HK\$468 million repayable within one year and HK\$828 million repayable after one year. Cash balances at 31st March, 2002 amounted to HK\$602 million.



Roadwork Maintenance



Drilling work by Century Resources

As at the year end, all of the Group's borrowings bear interest at floating rates and are denominated in Hong Kong dollars. The Group's gearing ratio increased slightly from 0.41 at last year end to 0.43 which is calculated based on the total borrowings of HK\$1,296 million and the Group's shareholders' funds of HK\$2,995 million.

NUMBER OF EMPLOYEES, REMUNERATION POLICIES AND SHARE OPTION SCHEME

Including the directors of the Group, as at 31st March, 2002, the Group employed a total of approximately 1,780 full time employees. Remuneration packages comprised of salary and year-end bonuses based on individual merits. No share options were granted or exercised during the year.

PLEDGE OF ASSETS

As at 31st March, 2002, certain of the Group's properties and debtors with an aggregate value of approximately HK\$1,554 million and the issued shares of certain subsidiaries of the Company and its benefits under certain construction contracts, have been pledged to banks and financial institutions to secure general credit facilities granted to the Group.

CONTINGENT LIABILITIES

As at the year end, the Group has contingent liabilities in respect of outstanding performance bonds on construction contracts and guarantees given to banks and financial institutions on general banking facilities granted to associates and a jointly controlled entity of HK\$607 million and HK\$93 million respectively.

SECURITIES IN ISSUE

As at 31st March, 2002, there were 1,036,744,924 shares in issue and outstanding share options over a total of 54,449,206 shares. Subscription prices remained at HK\$0.6048 and HK\$0.5552 for the share options over 38,349,206 shares and 16,100,000 shares respectively.

During the year, an aggregate of 44,256,532 shares were issued by way of scrip dividend while the secured convertible redeemable note of HK\$450,000,000 was repaid in full. In addition, the Company granted bonus warrants to shareholders at a pro-rata basis of one warrant for every five shares then held which confer rights to the holders to subscribe up to approximately HK\$82 million in cash for shares of HK\$0.10 each at an initial subscription price of \$0.40 per share. These warrants are exercisable at any time on or before 29th August, 2003 and none has been exercised up to 31st March, 2002.

FINAL DIVIDEND

The board of directors has resolved to recommend the payment of a final dividend of 1 cent per share for the year ended 31st March, 2002 (2001: 1 cent per share) to shareholders whose names appear on the Company's register of members as at the close of business on 4th October, 2002. The final dividend is expected to be paid to shareholders by post on or around 31st October, 2002.

The board of directors has also proposed that the final dividend should be satisfied by way of a scrip dividend of shares, with an option to elect cash in respect of part or all of such dividend. The market value of the shares to be issued under the scrip dividend proposal will be fixed by reference to the average of the closing prices of the Company's shares for the three consecutive trading days ending 4th October, 2002 less a discount of five per cent of such average price or the par value of shares, whichever is the higher. The proposed scrip dividend is conditional upon the Hong Kong Stock Exchange granting listing of, and permission to deal in, the new shares to be issued and the passing at the forthcoming annual general meeting of the Company of an ordinary resolution to approve the final dividend. A circular giving full details of the scrip dividend proposal and a form of election will be sent to shareholders.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year ended 31st March, 2002, there were no purchases, sales or redemptions by the Company, or any of its subsidiaries, of the Company's listed securities.

OUTLOOK

In light of the continuing global economic downturn, it is expected that the local economy will also remain stagnant. Gross value of construction work in Hong Kong has been on a downward trend in the past few years. This has led to intensified competition and consequently tighter margin. Facing these difficulties, the Group continued to implement cost reduction and streamlining measures to enhance its cost competitiveness. This is evident in the 29% growth of the Group's work on hand in the past year. With its comprehensive skill base, proven track records and diversified client base, the Group is confident in securing new prospects in local construction market.

Mainland China is the Group's targeted growth market. With established track record and networking in China since the late 80's, the Group has further plans of forming alliances to take advantage of the opportunities in the Mainland arising from China's entry to World Trade Organisation and hosting of the 2008 Olympic Games. The Group will also focus on the export of Mainland based expertise, personnel and products to the international markets. To support this expansion strategy, the Group has already entered into an agreement to acquire a significant equity interest in a state-owned grade 1 construction company based in Beijing. This company operates with a large national footprint and over 40 years of successful track record. It is anticipated that permission to proceed with this acquisition will be granted by the relevant attributes in this summer. This mature and fully localised operation will enable the Group to accelerate the Group's growth plans in Mainland China.

In Australia and the South Pacific region, Downer has continued to increase its forward order book and, as the global trend towards outsourcing engineering services continues, its outlook is



Tai Tao Tsuen Substation



Cyberport Commercial Development (Contract C1)



Lei Yue Mun Estate, Phase 1

encouraging and promising. With its track record of steady earnings growth, the board of directors is confident that Downer will continue to enhance the Group's ability to maintain a stable income stream and create investment value.

In the years to come, the Group will continue its business and investment diversification strategy by venturing into different geographical markets where sound business opportunities are identified, with its primary focus on the China market, and investments generating earnings growth. Barring unforeseeable circumstances, the Group is well positioned to capture its prospects and meet the challenges ahead.

APPRECIATION

On behalf of the board of directors, I would like to take this opportunity to express my appreciation to the shareholders for their support, to the management and staff for their dedicated efforts and to our client, consultants and partners for all their valuable assistance offered during this past year.

Dr. Chan Kwok Keung, Charles

Chairman

Hong Kong, 18th July, 2002