

## REPORT OF THE DIRECTORS

The directors present their report together with the audited financial statements of the Company and the Group for the year ended 31 March 2003.

### PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the subsidiaries are the provision of multi-disciplinary building services, comprising electrical engineering, water pumping and fire services, air-conditioning, plumbing and drainage, environmental engineering, extra low voltage systems engineering and project management, and the trading of electrical and mechanical engineering materials and equipment. There were no significant changes in the nature of the Group's principal activities during the year.

### RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 March 2003 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 24 to 74.

The directors do not recommend the payment of any dividend in respect of the year (2002: Nil).

### MANAGEMENT DISCUSSION AND ANALYSIS

#### Liquidity and financial resources

The Group's cash and bank balances are mostly in Hong Kong Dollars. The cash and bank deposit balances were approximately HK\$54,173,000 as at 31 March 2003, while those of the previous year were approximately HK\$52,826,000. The total bank borrowings were approximately HK\$37,074,000 as at 31 March 2003, an increase of approximately HK\$15,105,000 as compared to those of last year. The increase was mainly due to the funding of the additional working capital for the building services contracting business made during the year. The total bank borrowings substantially comprised bank overdraft and bank trust receipt loans at various interest rates. As at 31 March 2003, the ratio of the total bank borrowings to shareholders' equity was approximately 38%. As the Group's transactions are mostly settled in Hong Kong dollars, the use of financial instruments for hedging purposes is not considered necessary.

#### Treasury and funding policy

The Group's overall treasury and funding policy is that of risk management and control. The assets and liabilities of the Group are mainly denominated either in Hong Kong dollars or United States dollars. Accordingly, the Group has minimal exposure to foreign exchange fluctuation. However, the Group will closely monitor the overall currency and interest rate exposures. When considered appropriate, the Group will hedge against currency exposure as well as interest rate exposure.

# REPORT OF THE DIRECTORS *(Continued)*

## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### **Pledge of assets**

As at 31 March 2003, certain of the Group's leasehold land and properties with a net book value of HK\$16.5 million and bank fixed deposits of HK\$27.3 million were pledged to secure general banking facilities granted to the Group.

### **Employees and remuneration policy**

The Group employed approximately 240 employees as at 31 March 2003.

Remuneration is determined by reference to market terms and the qualifications and experience of the staff concerned. Salaries are reviewed annually depending on individual merit. The Group also provides other benefits including a retirement benefits scheme, medical insurance and educational subsidies to all eligible staff. The Group had a share option scheme for its executives and employees, which expired in September 2002. No options were granted by the Company under the share option scheme during the year up to the date of the expiration of the scheme.

### **Business and operation review**

A review of the Group's business operations and outlook is included in the Chairman's Statement.

### **Investments and others**

As at 31 March 2003, the Group's long term investments comprising one listed securities and four unlisted securities were in carrying amount of approximately HK\$12.5 million after a further provision for impairment in value of approximately HK\$8.4 million made during the year. Further details of these long term investments are stated in note 17 to the financial statements.

During the year ended 31 March 2003, the Group spent approximately HK\$588,000 in the purchase of fixed assets to meet its operation. Further details of fixed assets are stated in note 14 to the financial statements.

As at the balance sheet date, the Group had no plan for any material investments or capital assets.

**REPORT OF THE  
DIRECTORS** (Continued)**SUMMARY FINANCIAL INFORMATION**

A summary of the published results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements and reclassified as appropriate, is set out below. The total liabilities as at 31 March 2002, 2001, 2000 and 1999 in the five year financial summary have been adjusted for the effects of the retrospective changes in accounting policy affecting the recognition of an accrual for paid leave carried forward by the Group's employees as detailed in note 2 to the financial statements. This summary does not form part of the audited financial statements.

**Results**

	<b>Year ended 31 March</b>				
	<b>2003 HK\$'000</b>	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000
<b>TURNOVER</b>					
Continuing operations	<b>644,019</b>	663,702	790,403	705,971	605,510
Discontinued operations	<b>291</b>	34,730	42,379	—	—
	<b>644,310</b>	698,432	832,782	705,971	605,510
Cost of installation and cost of sales	<b>(553,836)</b>	(572,382)	(712,885)	(609,676)	(528,337)
Gross profit	<b>90,474</b>	126,050	119,897	96,295	77,173
Other revenue	<b>2,718</b>	2,451	5,845	8,912	4,318
Administrative expenses	<b>(80,814)</b>	(119,684)	(93,320)	(64,093)	(55,776)
Provision against obsolete inventories	—	(179)	(2,922)	—	—
Legal expenses	—	(7,907)	—	—	—
Gain on disposal of a subsidiary	—	781	—	—	—
Loss on disposal of subsidiaries	—	(1,122)	—	—	—
Unrealised holding losses on long term investments	<b>(8,374)</b>	(6,567)	—	—	—
Realised loss on disposal of long term investments	—	—	(13,202)	—	—
Provision for impairment:					
– long term investments	—	—	(38,298)	—	—
– goodwill	—	(12,680)	(23,726)	—	—
– fixed assets	—	(826)	(7,972)	—	—
Profit/(loss) from operating activities	<b>4,004</b>	(19,683)	(53,698)	41,114	25,715
Finance costs	<b>(2,034)</b>	(3,194)	(4,645)	(3,562)	(4,262)
Share of profits less losses of associates	<b>(2)</b>	(3,605)	(19)	(158)	4
<b>PROFIT/(LOSS) BEFORE TAX</b>	<b>1,968</b>	(26,482)	(58,362)	37,394	21,457
Tax	<b>(4,872)</b>	(5,209)	(7,601)	(6,267)	(3,399)
<b>PROFIT/(LOSS) BEFORE MINORITY INTERESTS</b>	<b>(2,904)</b>	(31,691)	(65,963)	31,127	18,058
Minority interests	<b>(11,781)</b>	(3,631)	6,818	901	(33)
<b>NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS</b>	<b>(14,685)</b>	(35,322)	(59,145)	32,028	18,025

**REPORT OF THE  
DIRECTORS** (Continued)**SUMMARY FINANCIAL INFORMATION** (Continued)**Assets, liabilities and minority interests**

	<b>2003</b>	<b>Year ended 31 March</b>			
		2002	2001	2000	1999
	<b>HK\$'000</b>	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Restated)	(Restated)	(Restated)	(Restated)
TOTAL ASSETS	<b>369,642</b>	331,201	447,862	453,652	340,019
TOTAL LIABILITIES	<b>(261,462)</b>	(214,117)	(327,086)	(251,775)	(203,613)
MINORITY INTERESTS	<b>(9,842)</b>	(4,061)	(430)	(2,830)	(731)
NET ASSETS	<b><u>98,338</u></b>	<u>113,023</u>	<u>120,346</u>	<u>199,047</u>	<u>135,675</u>

**FIXED ASSETS**

Details of movements in the fixed assets of the Group during the year are set out in note 14 to the financial statements.

**SHARE CAPITAL AND SHARE OPTIONS**

Details of the Company's share capital and share options are set out in notes 28 and 29 to the financial statements.

**PRE-EMPTIVE RIGHTS**

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws in Bermuda, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

## REPORT OF THE DIRECTORS *(Continued)*

### **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY**

During the year, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

### **RESERVES**

Details of movements in the reserves of the Company and the Group during the year are set out in note 30 to the financial statements and in the consolidated statement of changes in equity, respectively.

### **DISTRIBUTABLE RESERVES**

At 31 March 2003, the Company did not have any reserves available for distribution. The Company's share premium account in the amount of HK\$110,632,000 may be distributed in the form of fully paid bonus shares.

### **MAJOR CUSTOMERS AND SUPPLIERS**

In the year under review, sales to the Group's five largest customers accounted for 74% of the total sales for the year and sales to the largest customer included therein amounted to 41%. Purchases from the Group's five largest suppliers accounted for 39% of the total purchases for the year and purchases from the largest supplier included therein amounted to 16%.

None of the directors of the Company or any of their associates or shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and suppliers.

## REPORT OF THE DIRECTORS *(Continued)*

### DIRECTORS

The directors of the Company during the year were:

*Executive directors:*

Mr. WONG Sai Wing, James (*Chairman*)

Mr. CHAN Yuen Keung, Zuric

Mr. AU Shiu Wai, Frank

Mr. OU Ka Chi

*Non-executive directors:*

Mr. YU Sek Kee, Stephen

Mr. HONG Yiu

*Independent non-executive directors:*

Mr. LI X Sinclair

Dr. CHAN Chok Ki (Appointed on 1 August 2002)

Mr. YUEN Yiu Bun, Kenneth (Resigned on 31 July 2002)

In accordance with the Company's bye-laws, Messrs. AU Shiu Wai, Frank and OU Ka Chi will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

### DIRECTORS' AND SENIOR MANAGERS' BIOGRAPHIES

Biographical details of the directors of the Company and the senior managers of the Group are set out on pages 3 to 5 of the Annual Report.

## REPORT OF THE DIRECTORS *(Continued)*

### DIRECTORS' SERVICE CONTRACTS

Mr. Chan Yuen Keung, Zuric has an employment contract with one of the Company's subsidiaries as senior executive. The employment contract is terminable by either party by giving one month's prior written notice to the other.

Mr. Au Shiu Wai, Frank entered into a service contract with the Company with effect from 1 February 1994. The service contract is terminable by either party by giving two months' prior written notice to the other.

Mr. Ou Ka Chi has an employment contract with one of the Company's subsidiaries as senior executive. The employment contract is terminable by either party by giving one month's prior written notice to the other.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

### DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 32 to the financial statements, no directors had a material interest in any contract of significance to the business of the Group to which the Company, or any of its subsidiaries or fellow subsidiaries was a party during the year.

## REPORT OF THE DIRECTORS *(Continued)*

### DIRECTORS' AND SENIOR EXECUTIVES' INTERESTS IN SHARES

As at 31 March 2003, the directors' and senior executives' interests in the share capital of the Company or its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

Name	Capacity	Number of shares held and nature of interest			
		Personal	Family	Corporate	Other
Mr. Chan Yuen Keung, Zuric	Managing Director	10,000,000	—	—	—
Mr. Au Shiu Wai, Frank	Director	600,000	—	—	—
Mr. Hong Yiu	Director	27,200,000	—	—	—
Mr. Ou Ka Chi	Director and Company Secretary	1,400,000	—	—	—
		<u>39,200,000</u>	<u>—</u>	<u>—</u>	<u>—</u>

Save as disclosed above, none of the directors, senior executives or their associates had any personal, family, corporate or other interests in equity or debt securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

### DIRECTORS' AND SENIOR EXECUTIVES' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed above or under the heading "Share option scheme" below, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any directors and senior executives or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

### SHARE OPTION SCHEME

Particulars of the Company's share option scheme are set out in note 29 to the financial statements.



## REPORT OF THE DIRECTORS *(Continued)*

### ONGOING CONNECTED TRANSACTIONS

Terms used in this section shall, unless the context otherwise requires, have the same meaning as in the circular dispatched to all shareholders of the Company on 26 February 2001.

On 7 February 2001, the Company announced that certain subsidiaries of the Company, namely Shun Cheong Electrical Engineering Company Limited, Westco Airconditioning Limited, Speedlink Limited and KOD Hong Kong Limited would from time to time enter or continue to enter into transactions with Diyixian.com Limited (“Diyixian”). These transactions constitute connected transactions for the Company under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) which would normally require disclosure by way of a press announcement and prior approval of the independent shareholders of the Company, when each such transaction occurs. As these transactions are ongoing in nature, the Company applied to The Stock Exchange of Hong Kong Limited (“SEHK”) for ongoing waivers from the disclosure and/or shareholders’ approval requirements in respect of these transactions on each occasion they arose. A detailed circular concerning the application for ongoing connected transaction waivers was dispatched to shareholders of the Company on 26 February 2001. The conditions of these ongoing connected transactions waivers were approved by the Independent Shareholders of the Company in the Special General Meeting held on 16 March 2001 and the waivers were granted by the SEHK to the Company on 3 May 2001.

Connected transactions required to be disclosed in accordance with Chapter 14 of the Listing Rules for the year ended 31 March 2003 comprised the following:

Name of subsidiary	Nature of transactions	2003	2002
		HK\$’000	HK\$’000
Speedlink Limited	Payment to Diyixian of rental for server co-location at Diyixian’s data centres and for access to the Internet together with related set-up charges	192	1,453

Diyixian is a minority shareholder of Speedlink Limited, a subsidiary of the Company. Speedlink Limited commenced creditors’ voluntary winding up on 19 August 2002.

## REPORT OF THE DIRECTORS *(Continued)*

### ONGOING CONNECTED TRANSACTIONS *(Continued)*

The independent non-executive directors of the Company had confirmed that the aforesaid ongoing connected transactions conducted by the Group during the year ended 31 March 2003 were:

1. in the ordinary and usual course of the Group's business;
2. on normal commercial terms or on terms not less favourable than terms available to or from independent third parties;
3. fair and reasonable so far as the shareholders of the Company are concerned; and
4. within the relevant amounts as stipulated under the relevant waivers.

### SUBSTANTIAL SHAREHOLDERS

At 31 March 2003, the following interest of 10% or more of the share capital of the Company was recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

<b>Name</b>	<b>Number of shares held</b>	<b>Percentage of the Company's share capital</b>
Chinney Alliance Group Limited	138,790,000	29.93

Save as disclosed above, no person, other than the directors and senior executives of the Company, whose interests are set out in the section "Directors' and senior executives' interests in shares" above, had registered an interest in the share capital of the Company that was required to be recorded pursuant to Section 16(1) of the SDI Ordinance.

### DIRECTORS' INTERESTS IN A COMPETING BUSINESS

None of the directors or management shareholders of the Company have an interest in a business which competes or may compete with the businesses of the Group.

## REPORT OF THE DIRECTORS *(Continued)*

### CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the accounting period covered by the Annual Report, except that two of the independent non-executive directors are not appointed for specific terms as they are subject to retirement by rotation and re-election at annual general meetings in accordance with the Company's bye-law 99(A).

### AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code of Best Practice as set out in Appendix 14 of the Listing Rules for the purposes of reviewing and providing supervision over the Group's financial reporting process and the internal control systems of the Group.

The audit committee during the year comprised three members, namely Dr. Chan Chok Ki and Mr. Li X Sinclair, both being the independent non-executive directors of the Company, and Mr. Yu Sek Kee, Stephen, a non-executive director of the Company. Dr. Chan was appointed as an independent non-executive director of the Company on 1 August 2002 and as a member of the audit committee on the same date. Mr. Yuen Yiu Bun, Kenneth resigned as an independent non-executive director of the Company and as a member of the audit committee on 31 July 2002.

### AUDITORS

The financial statements for the year ended 31 March 2001 were audited by Arthur Andersen & Co.. Ernst & Young have acted as auditors of the Company for the years ended 31 March 2002 and 2003. There have been no other changes of auditors in the past three years. Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

**Wong Sai Wing, James**  
*Chairman*

Hong Kong Special Administrative Region  
18 July 2003