

## **CHAIRMAN'S STATEMENT**

Dear shareholders,

On behalf of the Board of Directors of I-China Holdings Limited ("Company") and its subsidiaries ("Group"), I am delighted to report that the restructuring of the Company was successfully completed on 23rd April, 2004 and trading of the shares of the Company on the Main Board of the Stock Exchange of Hong Kong Limited resumed on 27th April, 2004.

Provisional liquidators ("Former Provisional Liquidators") were appointed by High Court of Hong Kong SAR ("Hong Kong Court") and Supreme Court of Bermuda ("Bermuda Court") on 5th December, 2002 and 8th January, 2004 respectively. The Former Provisional Liquidators were subsequently discharged on 23rd April, 2004, pursuant to the terms of the order of the Hong Kong Court and Bermuda Court dated 20th April, 2004 and 16th April, 2004 upon the successful completion of the restructuring of the Company.

The preparation of the contents of the Directors' Report and the audited financial statements for the year ended 31st March, 2004 has been based the books and records available to the Former Provisional Liquidators.

As set out in the Company's Annual Report for the year ended 31st March, 2003, in light of the incomplete books and records maintained by the Group prior to the appointment of the Former Provisional Liquidators (and which form the basis of the contents in the Directors' Report and the audited financial statements for the year ended 31st March, 2004), the Former Provisional Liquidators and hence the Directors have been unable to give an unqualified representation as to (i) the completeness and accuracy of the recording of transactions for the Group prior to their appointment; and (ii) whether the financial statements present a true and fair view of the state of affairs of the Company and of the Group as at 31st March, 2004 or of the loss and cash flows of the Group for the year then ended.

## **RESTRUCTURING**

On 20th November, 2003, the Company, acting through the Former Provisional Liquidators, entered into an agreement for the implementation of a restructuring proposal ("Restructuring Agreement") with Wai Kee Holdings Limited ("Wai Kee") in relation to a restructuring proposal, which involves, amongst others, the capital restructuring, debt restructuring involving the schemes under section 99 of the Companies Act 1981 of Bermuda and section 166 of the Hong Kong Companies Ordinance ("Schemes"), the subscription of the Company's new shares and new preference shares by Wai Kee, the injection of the entire construction business of Wai Kee to the Company, whitewash waiver and general mandate to issue new shares and repurchase shares ("Restructuring Proposal").

The Restructuring Proposal, has now been successfully implemented, and, amongst other things, has resulted in the following:

- (a) A restructuring of the share capital of the Company through par reduction, share consolidation and increase in authorized share capital as contained in the capital restructuring;
- (b) All the creditors of the Company discharging and waiving their claims against the Company pursuant to the Schemes;
- (c) All the Company's subsidiaries prior to the completion of the restructuring with the exception of Trinity Rent A Car Limited be transferred to the Former Provisional Liquidators or scheme administrators (or their nominees) on trust for the scheme creditors of the Company;

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- (d) Injection of the entire construction business of Wai Kee to the Company;
- (e) Wai Kee holds a controlling interest in the enlarged issued share capital of the Company; and
- (f) the resumption of trading in the new shares of the Company.

The Restructuring Proposal was approved by the shareholders of the Company at the Special General Meeting on 18th March, 2004 and the Schemes were approved by the creditors of the Company on 2nd April, 2004 and sanctioned by the Hong Kong Court and Bermuda Court on 8th April, 2004 and 20th April, 2004 respectively. All the conditions precedent for the restructuring to be completed were satisfied on 23rd April, 2004 and the Schemes became effective (and the Former Provisional Liquidators were discharged) on the same day. All liabilities of the Company incurred prior to the effective date of the Schemes have been waived and discharged in full pursuant to the terms of the Schemes with the exception of the HK\$50,000 advanced by Wai Kee to the Company during the restructuring.

### BUSINESS REVIEW

This review relates to the affairs of the Group for the year ended 31st March, 2004, that is, prior to the completion of the restructuring on 23rd April, 2004 and, therefore, relates to the business of the Company before the waiver and discharge of all its liabilities (with the exception of the HK\$50,000 referred to the above) and the injection of the entire construction business of Wai Kee.

The Group's car rental operation in Hong Kong leased motor vehicles to customers on a contract basis. Following the appointment of the Former Provisional Liquidators to the Company, as a result of lack of working capital, the car rental operation was maintained on a limited scale. For the year ended 31st March, 2004, the Group recorded a consolidated turnover of approximately HK\$359,000 which was attributable to the car rental business. The net loss for the year was approximately HK\$47,840,000. The loss from operations was approximately HK\$628,000 for the year, compared with approximately HK\$158,177,000 for the year ended 31st March, 2003.

### OUTLOOK

With the injection of assets completed in April 2004, the core business of the Company has changed from being a car rental business to a construction related business. It is therefore important that our shareholders have a clear understanding of the nature of the business in which we are involved.

Essentially, construction is a service industry. We earn our keep by providing construction management and engineering resources as well as labour, plant and material resources to clients who wish to undertake projects.

There are a few characteristics of construction business of which I believe you should be aware:

- (a) With a few exceptions, contracting services are viewed by most clients as commodity and hence historically most contracts were awarded purely on lowest price basis. Due to the relatively low entry barrier and number of contractors in operation both here in Hong Kong as well as worldwide, contracting has always been a competitive business with relatively low profit margin on turnover. However, the working capital required for construction is low. Also there is no physical inventory to take care of and normally progress payments are received monthly for work performed. As a result, the return on equity, which I believe is an important indicator of economic of any business, is very attractive, usually in the higher end of twenty plus percent.

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- (b) Unlike manufacturing, the workload for any contractor is never evenly distributed. At any point in time, it much depends on the availability of projects in the market and on how successful we are in tendering.
- (c) Construction, by its very nature deals with physical works in the open air, and is thus vulnerable to risk, including the effects of weather and unforeseen ground conditions. With experienced and sound engineering management, construction risks can be foreseen and controlled. A key element is however a carefully managed value for money insurance programme.
- (d) Changes in client requirements during the course of any contract is a norm, rendering accurate forecasting of individual project results very difficult until the final account value has been agreed between the client and the contractor. Typically this can take a year or more after project completion.

This therefore is the market we are in and the annual company results are likely to fluctuate, depending on the various stages of the contracts we have on hand. This volatility is acceptable bearing in mind our expected average 20% plus return on equity. I will therefore ask you to review our performance on a three-year average basis rather than on any single year.

In recent years, there has been a tendency for a lot of our clients to seek “value for money” and not just the lowest price. The typical example is the Works Bureau of HKSAR Government who now awards construction contracts based both on the financial offer received from a contractor as well as the individual past and present performance of that contractor on existing projects. We welcome this trend and our management continually seek to match the clients’ expectations by providing quality service on all our construction projects.

We are keenly aware that despite the fact that some clients may be willing to pay a premium price for performance, we should not bet our future on this premise. In any commodity business, the ultimate long term winner is always the lowest cost operator and we have every intention to excel in this area, provided we are not sacrificing quality in the process.

It is essential that all our shareholders know some of my views on management incentives. Firstly, as long as I am the Chairman of this Company I will not support the issuing of any share option (in a conventional sense) to individual managers. For any typical share option, the one who is granted the option needs only to pay a minimum sum (typically HK\$1) to have the right to purchase the Company’s share at a pre-determined price (usually the trading price at time of issue) two/three years in the future. Two things are wrong here; an “option” is without risk to the individual manager whilst if it is exercised it dilutes and so reduces the share value to existing shareholders. I believe this is grossly unfair for shareholders. A second flaw is that it focuses the mind of the manager on the wrong target. In any business it is always the long term financial performance that is important and not the temporary fluctuation of Company’s share price in the market.

Thus in our current bonus scheme, we prefer to pay cash to the management in a profitable year. If they have confidence in the future of the Company, they can then use this cash to purchase Company’s shares from the market. In this way, they are assuming the same benefit/risk as all the other shareholders and equity is restored.

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We have a strong and experienced management team together with a reasonable workload. We are looking for steady profitable growth, building upon our successful track record. We are convinced that there is always a need for good quality construction services now and in the future. With this in mind we are confident that the long term performance of the Company will prove satisfactory to all of our shareholders.

**Zen Wei Peu, Derek**

*Chairman*

19th May, 2004