

MANAGING DIRECTOR'S STATEMENT



Mr. FAN Cheuk Hung, Managing Director

Dear Shareholders,

As our Chairman stated, the FY2003/04 was a remarkable and banner year for Synergis. Synergis was established over 25 years ago as the property management arm of Hsin Chong Group to help manage properties developed by our sister companies. We have since grown into one of the largest and leading independent property and facility management companies in Hong Kong with over 4,100 employees and managing 214 sites as of 31st March 2004. We accomplished that by our relentless pursuit of excellence and refusal to be complacent with what are considered "standard" industry practices. It therefore gives me great pleasure to share with our shareholders regarding Synergis' accomplishments for FY2003/04 and our outlook for the 2004/05 financial year ("FY2004/05") and beyond.

BUSINESS AND OPERATIONS

Despite the challenging economic climate, Synergis achieved significant growth in both turnover and profit for FY2003/04. Turnover increased by 61.9% to HK\$388.0 million in FY2003/04 against HK\$239.6 million in the year ended 31st March 2003 ("FY2002/03"), while profit attributable to shareholders was HK\$31.6 million, representing an increase of 39.4% over that of HK\$22.7 million for FY2002/03. Over 90% of the turnover was from the property and facility management business.

Property and Facility Management

While the property management market in Hong Kong is relatively mature, Synergis is still able to continue to expand its portfolio by increasing the number of sites it manages from 170 sites to 199 sites, or 17.1%, the number of residential units in Hong Kong from 124,230 units to 140,026 units, or 12.7%, and the size of its non-residential facilities portfolio from 1.33 million sq.m. to 1.34 million sq.m., or 0.75%, when comparing FY2002/03 to FY2003/04. This growth is all the more noteworthy if one takes into account the expiration of two property services contracts ("PSC Contracts") which the Housing Authority temporarily "withdrew" from the market, as discussed more fully below.

It is also important to note that the above figures do not take into account the sites managed in the Mainland of China. If the number of sites and size of those managed properties were included, the number of managed sites would increase to 214 and the size of our total non-residential facilities portfolio would increase to 1.8 million sq.m., as of 31st



March 2004. This business growth contributes to our financial performance by providing steady growth in revenues and will help fuel our strategic investments in management and technological infrastructure and our expansion in the Mainland of China and the facility management business.

With respect to the Hong Kong residential market, on the basis of the total housing stock figure published by the Housing Authority and the Rating and Valuation Department, the Government of HKSAR for 31st December 2003 (the latest available published figure), Synergis manages around 6.3% of the total housing stock in Hong Kong. In other words, Synergis is providing property management services to 1 out of every 16 residential units in Hong Kong.

As discussed more fully under the Financial Review section, Synergis' turnover growth for FY2003/04 was primarily driven by (i) our success in securing all four PSC Contracts by the Housing Authority for its "Batch 7" tender, which covered the management of 11 public rental estates with an aggregate of 31,094 residential units and 3,831 sq.m. in gross floor area ("GFA") of commercial space, and (ii) the change of contract terms from manager remuneration contracts ("MR Contracts") to lump sum contracts ("LS Contracts") for several housing estates upon contract renewal with the owners' incorporations. The contract term of these four Batch 7 contracts are for three years (April 2003 to March 2006) and has an aggregate contract value of approximately HK\$361 million.

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On the other hand, turnover was adversely affected by the expiration of two PSC Contracts (No. 52 and No. 55), covering four public housing estates – an aggregate 25,800 residential units and 41,853 sq.m. in GFA of commercial space, which expired in November 2003 and January 2004, respectively. These estates were essentially “withdrawn” from the market by the Housing

Authority as it was reviewing the capacity of its own internal resources as well as the tender requirements relating to minimum wages for non-skilled workers for new outsourced contracts. Thus, for the time being, the Housing Authority had chosen not to include these four estates in its outsourcing programme. Notwithstanding these short-term adjustments to its outsourcing policy, we believe that the long-term outsourcing strategy initiated by the Housing Authority would remain unchanged as the Housing Authority has stated explicitly in its 2002/03 annual report that it “will continue to make use of private sector resources to deliver high-quality estate maintenance and management services for our residential and commercial tenants...”.

During FY2003/04, Synergis’ success in providing consistently high quality services to its customers resulted in a contract renewal rate of 91.5% – 43 out of 47 contracts in Hong Kong. As noted above, the Housing Authority “withdrew” four estates covered by two PSC Contracts from its current outsourcing programme. In addition, Synergis chooses not to compromise its



quality of service by lowering its tender bids simply for the purpose of contract renewal. On the other hand, it is worth noting that Synergis had successfully secured the contract with Leung King Estate, which was one of the sites previously covered under the “withdrawn” PSC Contracts, upon the formation of its owners’ incorporation in April 2003. In addition, because of our employees’ focus on the customer and our ability to be responsive to their unique needs, one of Synergis’ major clients, the Government Property Agency (“GPA”), increased the number of sites under management by us from five government office buildings to seven government office buildings and purpose-built properties and the number of staff quarters from 19 to 20. We believe that this was primarily because Synergis was able to demonstrate its performance to the GPA by consistently achieving high scores in the GPA’s annual customer satisfaction survey, monthly site inspection reports and feedback from end users.

Operational Excellence

As Synergis expands its business and continues to challenge the accepted norms in the property and facility management industries, we realise that we need to leverage on technology in the delivery of our services and solutions to our customers. Therefore, in 2003, Synergis has allocated a significant portion of the proceeds (approximately HK\$30.0 million) raised in the initial public offering to build a state-of-the-art technological infrastructure which is customised to suit our management infrastructure, including an enterprise resource planning system which integrates financial, procurement and human resources information. This infrastructural development will continue in the next few years. While this investment will increase our "selling, general and administrative" expenses in the near term, we believe that the overall improvement in efficiency through the increased timeliness of management and operational data analysis will be reflected in the long-term performance of Synergis.



An important component of the technological infrastructure is the *Synergis Customer Service Centre (the "Centre")*, a 24-hour, 365-day call centre operating in conjunction with our computerised maintenance management system that commenced operations in March 2004. *The Centre* allows us to effectively respond to customer needs because we are able to track and classify call requests, track service delivery against previously agreed service levels with our customers, provide objective data with which to analyse the performance of our customers' assets – in other words, higher value generating services, beyond the traditional minor repair and maintenance or order taking.

Synergis has always recognised the importance of organisational learning as the key to sustaining its leadership position and as a means of developing its employees at all levels. In 2003, we developed our *Centre of Excellence* to provide a platform for our employees to share best practices and to learn from the experience of their colleagues. Highlights of best practices which we consider as new industry benchmarks are also shared with the community at large through our website to demonstrate how Synergis implements our vision and mission and lives up to our core values. As a testament to our commitment to innovative and practical solutions for our customers, Synergis launched the *Synergis Environmental Hygiene Management System* in October 2003, with the Hong Kong Food and Environmental Hygiene Department and the Department of Health. This system was the first to be

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developed by a Hong Kong property management company which addresses environmental hygiene in a holistic approach versus the traditional emphasis on cleaning alone.

MAINLAND OF CHINA

Leveraging on its experience and success in Hong Kong over the past 25 years, Synergis began expanding into the markets in the Mainland of China, focusing on major cities – Beijing, Shanghai, Guangzhou and Shenzhen – and developing strategic relationships with partners and clients who understand and value not only Synergis' experience and operational expertise but also our management philosophy and systems.



Having established footholds in Beijing, Guangzhou and Shenzhen in FY2002/03, Synergis formed a 50/50 joint venture with a subsidiary of Shui On Holdings Limited ("Shui On") in December 2003, focused exclusively on the provision of property and facility management services to the properties developed by Shui On in Shanghai. Since January 2004, we have assumed management of projects with an aggregate floor area of approximately 528,000 sq.m.,

including Shui On's showcase commercial development, Corporate Avenue, and its showcase luxurious residential development, Lake Ville at Taipingqiao. We strongly believe that our focus on not only operational excellence but also proper management systems, and the instillation of Synergis' core values in our employees in the Mainland of China, will enhance our ability to succeed in that market.



OUTLOOK FOR 2004

In 2003, we established the "Synergis" brand as a means of communicating to our stakeholders what makes us different and unique. It embodies our management philosophy of "Unbounded Thinking, Meaningful Results". Our achievements and financial results in FY2003/04 reflect that philosophy.

For FY2004/05, although the Hong Kong economy has rebounded from its historical low of the past year, we believe that because property management is a relatively mature industry, competition will remain tough. On the other hand, there is continued pressure on organisations in both the public and private sectors to reduce costs and to focus their resources on their core activities. Outsourcing will continue to be a means for them to achieve that objective, providing growth opportunities for Synergis.



In addition, there are a number of regulatory proposals or developments which, on the surface, may seem to present additional hardships for the property management industry, but which, we believe, will, in fact, present opportunities for Synergis because of our management, know-how and solid reputation.

First is the Hong Kong government's proposal to amend the Building Management Ordinance to facilitate private building owners in the management and maintenance of their properties, including, among other things, the exercise of their voting powers. While no timetable has been set for the amendments' passage in the legislature, we believe that it is likely to occur in FY2004/05. If passed, the amended regulatory environment should benefit high quality independent property management companies.

Second, the outbreak of Severe Acute Respiratory Syndrome ("SARS") in 2003 heightened public concern at the possible dire consequences if buildings not being properly maintained. In April 2004, the Housing, Planning and Lands Bureau issued a consultation paper on building management and maintenance to seek the public's view on the Bureau's policy on integration of proper maintenance with effective management for those buildings without owners' incorporations and no professional management services. According to the consultation paper, the number of buildings in this category is estimated to be 11,000. With the government's financing arrangement for owners and the proactive role it proposes to take in educating the public about the building owners' responsibilities, we believe the proposals, if implemented, will provide growth opportunities for professional property management companies in both property management and building maintenance.

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Third, as the media have highlighted repeatedly in recent months, the government, and in particular, the Housing Authority is reviewing ways in which they can better protect the interests of non-skilled workers, primarily cleaners and security guards. On 10th May 2004, the Housing Department announced that it would impose certain wage and contractual and verification



requirements in the upcoming service contract tenders. We welcome these requirements because it raises industry standards and helps weed out unscrupulous service providers.



In the Mainland of China, our focus in the coming year will be on properly implementing our management systems and processes and on operational excellence in our existing joint ventures. Because property and facility management are people driven business, it is vitally important that we recruit, train and develop our employees within the Synergis' system and culture. It is

equally important that our management in the Mainland of China businesses understand, establish and develop a proper subcontractor base so that our suppliers and subcontractors can work with us as a team to deliver consistently high quality and relevant services to our customers. We believe that once this foundation is solidly in place and given the scalability of our business, our growth in the Mainland of China will in the longer term outpace that of Hong Kong.

A NOTE OF THANKS

Finally, I want to join our Chairman in thanking our customers, business partners and shareholders for the support we have received from all of them. In addition, I would especially like to express my appreciation for the hard work and commitment of my colleagues at Synergis, especially those in the front lines. Without their dedication and commitment to servicing our customers, Synergis would not be in the leading position that it is in today. Thanks to their efforts, Synergis is a stronger, better positioned and more capable and competitive company than ever before. As we go forward, through 2004 and beyond, I am confident that, with our 4,100 strong workforce in Hong Kong and the Mainland of China working together as a team, Synergis is well positioned to capture market opportunities and to realise its long-term strategic plans.

A handwritten signature in black ink, appearing to read 'Fan Cheuk Hung', is written over a white background.

Fan Cheuk Hung
Managing Director