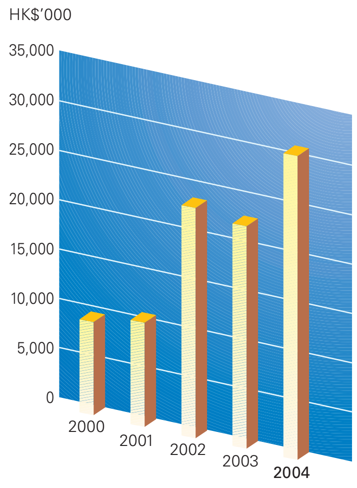
Board of Directors

Notwithstanding the sluggish economic environment in Hong Kong in FY2003/04, especially for the several months after the outbreak of SARS, 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 FY2002/03. 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; while earnings before interest, taxes, depreciation and amortisation ("EBITA") increased to HK$40.8 million from HK$31.5 million during the same period. Earnings per share was 11.1 HK cents for the year under review (FY2002/03: 9.5 HK cents). As there were no dilutive potential ordinary shares outstanding as at 31st March 2004, dilutive earnings per share is not presented.

Profit Attributable to Shareholders

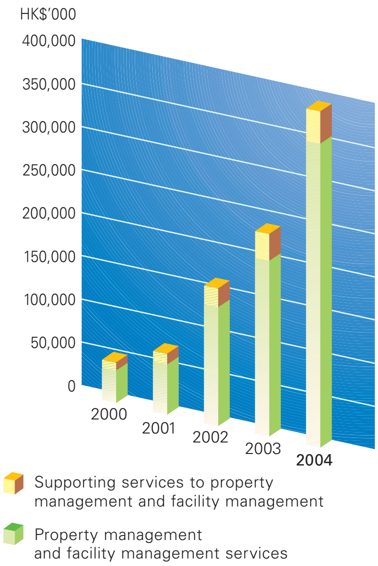


With the increase in shareholders' fund after the listing of the Group, return on average equity decreased from 38.9% for FY2002/03 to 29.7% for the year under review. Return on average total assets remained stable at 18.4% for FY2003/04 as compared with 18.5% for FY2002/03.

ANALYSIS OF TURNOVER, CONTRACT MIX AND GROSS MARGINS

The growth in turnover resulted from an increase in LS Contracts in both the private and public sectors, offset in part by a decrease in turnover from MR Contracts. The substantial increase in turnover of LS Contracts is due to the award by the Housing Authority of all four of its Batch 7 PSC Contracts to Synergis. The total contract sum for the Batch 7 PSC Contracts is approximately HK$361 million for the three-year period ending March 2006. On the other hand, two other PSC Contracts, No. 52 and No. 55, expired in November 2003 and January 2004, respectively (see also discussion under section entitled "Managing Director's Statement"). Contribution from those two PSC Contracts to turnover amounted to HK$43.5 million during FY2003/04.

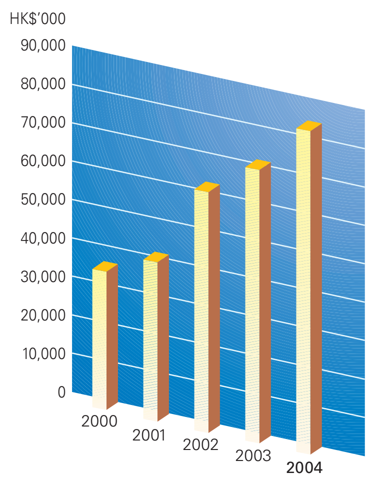
Turnover by Business Segment



The shift in contract mix from a ratio of 85% LS Contracts : 15% MR Contracts as of 31st March 2003 to 93% LS Contracts: 7% MR Contracts as of 31st March 2004 results in an apparent decrease in our overall gross margin. However, this shift is primarily a reflection of the different accounting treatments of the two types of contracts as explained below.

For MR Contracts, because the costs incurred for the management of a property or facility are borne by the clients, and not Synergis as the property manager, only the manager's remuneration is accounted for as turnover. Thus, the gross margin for MR Contracts is 100.0%. For LS Contracts, the costs incurred for the management of a property or facility is often borne first by Synergis as the property manager. Thus, those costs are included in Synergis' turnover, in addition to the manager's remuneration. Therefore, the gross margin for LS Contracts, by definition, is lower than that for MR Contracts. As a result, the shift in contract mix has contributed to the bulk of the decrease in the overall gross margin from 29.9% in FY2002/03 to 22.0% in FY2003/04.

Gross Profit



Margin on LS Contracts declined slightly from 17.3% last year to 15.6% during FY2003/04. This is primarily attributable to the lower tender margin for the four PSC Contracts Batch 7, which commenced in April 2003, as a result of more stringent service levels imposed by the Housing Authority as well as additional conditions relating to minimum wages. The PSC Contracts which were awarded prior to April 2003 did not contain those contract terms. Nevertheless, because of a strong management team, well established support infrastructure and rigorous cost controls, the effect of the lower tender margin of the Batch 7 PSC Contracts on LS Contracts generally is limited.

SUPPORTING SERVICES TO PROPERTY AND FACILITY MANAGEMENT

Revenue generated from supporting services to the Group (before inter-segment elimination) for FY2003/04 amounted to HK$55.4 million (FY2002/03: HK$50.6 million), reporting a year-on-year growth rate of 9.3%.

Except for laundry services, which experienced a slight reduction, all other support services reported some growth. Turnover for repair and maintenance increased significantly by 25.9% to HK$15.1 million because of programmes developed specifically to address our customers' concerns over piping and minor repair works as a result of the SARS outbreak. Operating profit contributed by support services for the year under review was HK$5.6 million (FY2002/03: HK$5.0 million), an increase of 12.0%.

ANALYSIS OF GENERAL AND ADMINISTRATIVE EXPENSES

As compared with FY2002/03, general and administrative expenses before reversal of the one-off provision for retirement fund benefit costs increased by 34.5% (HK$14.4 million) to HK$56.1 million during the year. The sizeable increase is a result of a number of different factors, namely:

- *Investment in Technological Infrastructure:* As mentioned in the "Managing Director's Statement", in order to compete effectively in future years, including in the Mainland of China and facility management markets, our strategy is to leverage on state-of-the-art but tested technology in the delivery of our services and the provision of solutions to our customers. Synergis has also strengthened its human resources management to ensure that there is proper training for and implementation of these new systems and technologies.

- *Expenses Associated with Listing:* Additional expenses have been incurred following Synergis' listing, including annual listing fees, costs associated with results announcements and increased accounting and legal expenses.

- *Plan for Business Expansion:* To cater for the rapid expansion of the Group's business, especially for the Mainland of China, resources were added to the areas of business development, staff training, quality control and financial control.

- *Brand Repositioning:* As our Chairman noted, SYNERGIS 新昌 is our brand platform and represents our value proposition to our clients. In connection with this brand repositioning, we incurred an one time expense of HK$4.3 million to develop and launch SYNERGIS 新昌.

The increase in these expenses was partially offset by an one-off write back in the amount of HK$5.2 million. The write back was a result of a revaluation of the underlying assets of the Hsin Chong Group retirement fund scheme (the "Fund") in which Synergis participates. As the value of the underlying assets of the Fund improved, the shortfall which was provided for in FY2002/03 reverted to a surplus. On 1st October 2003, the members of the Fund resolved to amend the rules of the Fund such that the employers have no further obligation to make good any deficit incurred by the Fund. Therefore, future fluctuations in the value of the Fund will no longer have any direct impact on Synergis' financial performance.

SHARE OF LOSSES OF JOINTLY CONTROLLED ENTITIES

Our joint venture in Beijing, in which the Group has a 50% interest, reported its first full year result since incorporation in November 2002, with a loss of HK$1.2 million for the year under review (FY2002/03: HK$0.2 million). Our 50% share of loss for FY2003/04 was equivalent to HK$0.6 million. This loss is mainly attributable to the up-front establishment costs as originally anticipated.

A joint venture company was formed with Shui On in December 2003 for establishing an operating subsidiary in Shanghai, namely Synergis Shui On Property Management (Shanghai) Limited ("Synergis Shui On Joint Venture"), in which the Group has a 50% interest. After four months of operation, Synergis Shui On Joint Venture reported a loss of HK$328,000, primarily attributable to up-front establishment costs. Our 50% share of loss was equivalent to HK$164,000.

TAXATION

With the increase in assessable profit for the year under review, the Group's taxation increased by HK$843,000 to HK$6.0 million (FY2002/03: HK$5.2 million). The effective tax rate for the year was 16.1% against last year's 18.5%.

DIVIDENDS

The directors recommend the payment of a final dividend of 3.0 HK cents per ordinary share. Together with the interim dividend of 2.0 HK cents paid in December 2003, total dividends of 5.0 HK cents per ordinary share will be paid for the year under review. The total dividends paid will in aggregate amount to HK$16.6 million for the year as a whole. Dividend cover was 1.9 times and dividend yield based on the issued price of HK$0.75 was 6.7% per annum.

CASH FLOW

Cash generated from operating activities during the year under review amounted to HK$9.2 million, which was relatively low when compared with the operating profit of HK$38.8 million for the year. Free cash flow per dollar of operating profit decreased from 101.8% in FY2002/03 to 12.8% for FY2003/04. The significant reduction in free cash flow is primarily due to a substantial increase in the amount of trade receivables, of which HK$34.0 million or 66.1% is associated with PSC Contracts, including HK$31.1 million for the PSC Contracts Batch 7. While the payment term for PSC Contracts is 51 days after issuance of the monthly invoice and supporting documentation, the recent public scrutiny over minimum wages have led the Housing Authority to adopt stringent verification processes and standards before supporting documentation is considered sufficient, including examination of the attendance records of each security guard and cleaner. As of 20th May 2004, over 40% of the outstanding trade receivables as at 31st March 2004 have been received and approximately 70% of the trade receivables over 90 days have been settled. We are working with the Housing Authority to improve the processing arrangement.

Cash flow from investing activities during the year amounted to a net outflow of HK$9.0 million (FY2002/03: HK$3.2 million). Shareholders' advance to a jointly controlled entity amounted to HK$1.25 million, representing our contribution to the operating funds call from Synergis Shui On Joint Venture. HK$3.0 million had been used to fund the purchase of furniture, office equipment and the investments in leasehold improvement for expansion of business operations. As stated earlier, a significant portion of the initial public offering proceeds (approximately HK$30.0 million) has been allocated to the development of a customised computerised maintenance and management system, the implementation of an enterprise resource planning system and related technology infrastructure and the establishment of *the Centre*.

Net cash inflow from financing activities was HK$32.0 million, comprising HK$58.1 million of net cash inflow from the issuance of shares upon the successful listing on the Stock Exchange on 9th October 2003. The major cash outflow during the year was the repayment of bank loans of HK$20.0 million and the payment of interim dividend of HK$6.6 million.

NET WORKING CAPITAL

While the total current liabilities increased by 9.7% to HK$57.4 million (FY2002/03: HK$52.4 million) as at 31st March 2004 to match the payment terms of PSC Contracts Batch 7 as explained in the section on "Trade Receivables" below, total current assets surged by 52.7% to HK$195.2 million (FY2002/03: HK$127.8 million) at the balance sheet date. Net working capital increased by HK$62.3 million to 137.8 million as at 31st March 2004 (FY2002/03: HK$75.4 million). With an even stronger balance sheet than prior years, as demonstrated by a current ratio of 3.4:1 (FY2002/03: 2.4:1) and the reputation gained from the listing on the Main Board of the Stock Exchange, Synergis is well positioned to capture future business opportunities in both Hong Kong and the Mainland of China.

The surge in total current assets was mainly attributable to the increase in accounts receivables and bank balances. With the net proceeds received from the successful listing of the Group and cash generated from operations, the bank balances increased by HK$32.2 million after repayment of bank borrowings of HK$20.0 million and reached to HK$117.1 million as at 31st March 2004.

TRADE RECEIVABLES

As highlighted in the "Cash Flow" section, trade receivables as at 31st March 2004 increased substantially by 102.5% to HK$51.5 million (FY2002/03: HK$25.4 million) due to the in-take of PSC Contracts Batch 7 during the year. Average turnover days of trade receivables were 36.2 days for FY2003/04 as compared to 39.9 days for FY2002/03. However, because of the stringent documentation and verification requirements imposed by the Housing Authority for the Batch 7 PSC Contracts, it is likely that the average turnover days will increase in the coming fiscal year.

The unique payment pattern associated with PSC Contracts is reflected in the aging of the trade receivables over 90 days. Management has been liaising closely with the Housing Authority staff to better understand their changing requirements and to develop more efficient means of providing them with the detailed information requested. Trade receivables with aging over 90 days had been reduced from HK$14.3 million as of 30th September 2003 to HK$9.7 million as of 31st March 2004 and further reduced to HK$2.9 million as of 20th May 2004.

In recognition of the payment pattern for the PSC Contracts, we negotiated similar payment terms for outgoings under our PSC Contracts. However, the imperfect matching between the payment cycles of accounts receivables and payables has still resulted in lower cash flows during the year because a substantial portion of Synergis' costs, as service provider, are salaries and benefits, which are payable monthly.

BANK BORROWINGS AND AVAILABLE BANKING FACILITIES

As at 31st March 2004, total bank borrowings fell by 50.0% to HK$20.0 million (FY2002/03: HK$40.0 million). Internal cash resources were utilised for the repayment of bank loans during the year. The outstanding bank loan of HK$20.0 million was due in April 2004 and has been repaid on time.

Leveraging on the strong balance sheet, the Group had arranged adequate banking facilities with bankers in aggregate of HK$100.0 million in the form of term loan; revolving loan; overdraft and bank guarantees as standby facilities to serve the needs of the Group's business operations and also to enable the Group to undertake business acquisitions when the opportunity arises. Out of the total HK$100.0 million banking facilities, HK$20.0 million in terms of term loan had been utilised as at 31st March 2004 but has since been repaid.

Gearing ratio of the Group, defined as the ratio of total interest bearing borrowings to total assets of the Group, fell from 29.1% as at 31st March 2003 to 9.7% at the balance sheet date.

SHAREHOLDERS' FUNDS AND SHARE CAPITAL

With the increase in share capital and the Group's reserves, shareholders' funds as at 31st March 2004 raised by 127.6% to HK$147.8 million (FY2002/03: HK$64.9 million).

As a result of the corporate restructuring in preparation for the listing of the Company's shares on the Main Board of the Stock Exchange and the successful completion of the public offer and placement of the Company's shares, 332,000,000 new shares of HK$0.1 each, amounting to HK$33.2 million in total, were issued during the year under review.

Increase in the Group's reserves is mainly attributable to the profit generated by the Group during the year and share premium arising from the issue of new shares under the exercise of public offer and placement.

FINANCIAL MANAGEMENT AND TREASURY POLICY

Most of the Group's assets and liabilities are denominated either in Hong Kong dollars or in US dollars. Hence there is no significant exposure to foreign exchange fluctuation. With the strong bank balances held by the Group, we are in a net cash position after allowing for the repayment of bank loans. Thus, the financial risk on interest rate fluctuation is minimal. An investment policy has been established for monitoring the investments of the Group's uncommitted funds with the objective of achieving the highest practicable return on the investments consistent with maintaining adequate liquidity and preservation of capital. The Directors closely monitor the financial risks associated with the Group's assets, liabilities, rights or obligations.

CHANGE IN THE COMPOSITION OF THE GROUP DURING THE YEAR

During the year under review, the Group had undergone a group reorganisation to rationalise the group structure in preparation for the listing of the Company's shares on the Stock Exchange, details of which are disclosed in Appendix V of the prospectus in relation to the public offer and placing.