

Innovative Solution

I am pleased to present the second annual report of the Group since our successful listing on 9th April 2003. On behalf of the Board of Directors of the Group, I would like to express my appreciation to our management team, staff members, business partners and customers for their continuous dedication and support through out the years.

The year under review was a very challenging and certainly difficult year for the Group as the construction market in Hong Kong continued to experience difficulties. The business of the Group for the first half of the financial year ended 31st March 2004 was severely affected by the atypical pneumonia (Severe Acute Respiratory Syndrome) as major new construction projects either slowed down or halted. The second half of the financial year was still not very pleasant for the construction market. Excessive construction production capacity had kept the plants' utilization rate low and the unemployment rate high within the market and the tender price of the

foundation works in public and private contracts extremely competitive. In addition, due to the Iraqi war and demands in Mainland China, the price of major construction materials, such as steel reinforcement, concrete, fuel and lubricant, has escalated substantially throughout the past year thereby reducing the profitability of any construction contract.





Nevertheless, the poor market conditions did not deter our continuous commitment and eagerness in providing quality work and services to our customers as we reviewed our performance regularly. Besides, the safety award we received for our works will show our efforts put into providing a safe environment for our workers and business partners. During the year, we have further carried out measures to control cost and overheads. Besides our experienced management team, our full range of machinery and equipment, facilities and experienced workers continue to be important assets and competitive advantages of the Group. All the above will keep us competitive in the market and sail smoothly through the current poor market conditions.

Management is of the view that losses will result if the Group were to join in any cutthroat price competition with its competitors in bidding for foundation contracts. Although piling construction will still remain as its main operation, the Group is gradually shifting more attention to its machinery and equipment trading business where more attractive profits can be earned for shareholders. In fact the second-hand construction machinery market has become more active during the year as material cost for manufacturing machinery, especially steel, has escalated and rendered second-hand machinery a much more economical and reasonable alternative to buying or producing new machinery.



Although the Hong Kong Special Administrative Region's Government (the "Government") spending has still been very depressing due to its budget deficit, the Group's management expects the construction market to slightly improve in the coming year. The Government has announced to issue HK\$20 billion bonds in 2004. The proceeds from the bonds will mainly be allocated to the Capital Works Reserve Fund used for long term investment on infrastructure projects and this is especially good news for the construction market. It is expected that the number of contracts will gradually increase. While the economy picks up and the construction market starts to recover, the Group will continue to cautiously and sensibly bid for contracts that can provide reasonable profit margins with compatible and manageable risks.

The Group is also seeking suitable opportunities to diversify its business into other areas in the industry such as civil engineering works through merger and acquisition in order to complement the Group's existing foundation business and allow the Group to venture into large civil engineering construction projects.

Looking ahead, besides our business operation in Hong Kong, we have been discussing with different parties in other Asian countries and regions, such as Malaysia, South Korea and the Guangdong province, PRC, for business opportunities in the bored piling construction mainly related to major infrastructure projects. We are also actively seeking suitable business partners in the Guangdong province, PRC, to expand our business.

The recent signing of the Pan-Pearl River Delta Regional Cooperation Frame Agreement (the "Agreement") among Hong Kong, Macau and nine southern provinces from Mainland China signifies closer co-operation between Hong Kong and other provinces in the Pan-Pearl River Delta Region (the "Region"). This Agreement will not only speed up the economic development and collaboration within the Region, attracting more local and foreign capital investments and infrastructure construction, but will also increase the long-term competitiveness of the Region. Infrastructure construction is one of the key areas that the Agreement is focusing on and, therefore, more construction works to improve the logistics infrastructure of the Region are expected.



Besides the HK-Zhuhai-Macau Bridge and the proposed express railway among Hong Kong, Shenzhen and Guangzhou, other superhighways, mega ports, land and sea transport networks and related infrastructure facilities are proposed and needed to support the development and integration of the economies within the Region.

With so many large-scale infrastructure projects in the coming decade, we expect that the use of high quality bored pile in Mainland China's construction market will increase gradually to replace other piling construction methods. Our specialization and expertise in bored piling will put us at a good position while China's economy continues to grow and develop. We are confident of the Group's prospects and will keep on providing quality services to our customers and strive to be their first choice of contractor.

