

CHAIRMAN'S STATEMENT

RESULTS

During the financial year 2004/2005, the Group recorded a net profit from ordinary activities attributable to shareholders of HK\$13,078,000 or earnings of HK4.55 cents per share basic and HK3.93 cents diluted, compared with a net loss from ordinary activities attributable to shareholders for the year 2003/2004 of HK\$2,862,000 or loss of HK1.0 cent per share basic.

DIVIDEND

The directors do not recommend the payment of any dividend in respect of the year ended 31 March 2005 (2004: Nil).

BUSINESS REVIEW

During the year under review, the Group has emerged from a loss situation in the previous financial year and achieved an operating profit. Operating efficiency has improved despite a 17% reduction in Group Turnover to HK\$434 million. This promising improvement is attributed to the broad base cost control measures implemented by the Group and new revenue sources from diversified business pursuits such as landscaping and wastewater treatment plants EPC (Engineering-Procurement-Construction) contracts.

Construction and Building

The Group has secured a number of substantial contracts during the last financial year, which include a road maintenance contract for the Highways Department, the upgrading works for an existing sewage treatment plant in Tai Po for the Drainage Services Department, a piling contract for a secondary school in Tseung Kwan O, a piling contract for a proposed residential development at Po Kong Village Road, a substructure works contract for an office development at King Lam Street and a slope upgrading works at Plunkett Road. Together with contracts previously secured, the total value of current contracts on hand amounted to about HK\$460 million. Some of these new contracts are secured through joint-ventures with China Harbour Engineering Co. (Group), a prominent PRC contractor operating globally.

In March 2005, the Group has been successfully enlisted as a Group C (Confirmed) Approved Contractor for Public Works under Buildings Category. This is a milestone of the Group as it represents an industrial recognition of our quality standing and enables the Group to undertake public building works involving any amount of contract value.

As regards major completed projects, the Group has satisfactorily completed several landscape contracts and ride installation contracts for an internationally reputed theme park operator at Lantau Island, a residential building at Tai Yuen Street, an EPC contract for a wastewater treatment project in Zhuhai (in which the Group has also taken up equity participation), as well as the exhibition works at the new Electrical and Mechanical Services Department Headquarters. Under joint ventures with China Harbour Engineering Co. (Group), the Group has also accomplished several projects which include the refurbishment of two markets and road works under the West Rail.



Wastewater Treatment

With the view of counter-balancing the cyclical construction incomes and leveraging on our construction expertise, the Group, through a jointly-controlled entity has undertaken a 130,000m³/day wastewater treatment TOT/BOT (Transfer-Operate-Transfer/Build-Operate-Transfer) contract in Zhuhai, China with one of the world's leading water operators. It is expected that the TOT/BOT contract will provide long-term steady incomes to the Group after full commissioning of the sewage treatment plants. The Group will capitalize on this valuable experience and expertise gained by seeking other water projects in China should appropriate opportunities arise.

Property Development

During the year under review, the Group, through an associate company, has participated in a property development project and has acquired a plot of land at No. 111 King Lam Street, Kowloon for an office building development. Planning and design are underway, and construction of the foundation is in progress. This major transaction has been approved by the shareholders at the Special General Meeting on 15 November 2004.

PROSPECTS

Looking ahead, it is anticipated that construction market in both the private and public sectors will steadily recover in tandem with Hong Kong's rising economic activities and consumer confidence. In light of this imminent economic recovery, the future offers a promising new horizon for the Group. With the newly acquired Group C (Confirmed) Buildings Category status, and drawing upon decades of experience in the private sector under prudent tendering policies, the Group looks forward to developing into a leading player in the high-end and professional construction market. Accordingly, the Group anticipates acquiring more profitable contracts. An area of particular interest to the Group is construction works related to major theme parks as the Group is one of the few professional contractors in Hong Kong who possess the in-depth and professional expertise ranging from specialist construction to landscaping and rides installation, a fundamental prerequisite for the successful execution of construction projects in operational theme parks.

The Group will continue to explore new business opportunities. In China, the Group will focus mainly on environmental and landscaping markets. With the experience of the wastewater treatment plant in Zhuhai, the Group has been looking for new investments and contracts in this sector and expects to secure new projects in the near future.

In Hong Kong, the Group will concentrate on a few other areas on top of the traditional construction activities. With the long and harmonious relationship established with China Harbour Engineering Co. (Group) in the last ten years, the Group anticipates to explore more co-operation opportunities in different areas. Already proven to be successful in a major theme park in Hong Kong, the Group will expand into other high-end landscaping markets. The satisfactory completion of an exhibitions contract at the new Electrical and Mechanical Services Headquarters has strengthened the relationship between the Group and Hypsos B.V., a leading design-and-build exhibitions contractor from the Netherlands, and an incorporated joint-venture will be established to pursue this challenging market. The other diversification which potentially contributes significant incomes is the property development market and the Group will prudently look for new investment opportunities.



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While actively diversifying its business initiatives and earning bases, the Group has also at the same time strengthened its working capital in order to grow upon healthy financial positions. In May 2004, the Group has issued a convertible note of HK\$11,500,000, the full amount of which has been exercised and converted into new shares in May 2005. A further HK\$1,000,000 of unlisted warrants will also be issued, subject to shareholders' approval in a Special General Meeting to be held on 25 August 2005, which when exercised will allow the Group to raise HK\$15,000,000 additional equity capital.

In implementing the above, the Group anticipates to evolve within the coming years from a traditional low-value construction group to a diversified conglomerate comprising conventional construction, property development, environmental engineering and investment, and high-value specialist construction in landscaping, permanent exhibitions and other areas related to leisure markets.

EMPLOYEES

During the year under review, the Group employed approximately 180 staff, excluding workers under exclusive sub-contracting arrangements.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

In the opinion of the board, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules (in force prior to 1 January 2005) throughout the year ended 31 March 2005, except that the non-executive director and the independent non-executive directors are not appointed for specific terms but are subject to retirement by rotation in accordance with the Company's Bye-laws.

The Audit Committee was established with written terms of reference which deal clearly with its authorities and duties in pursuance of Appendix 14 of the Listing Rules. Amongst the Audit Committee's principal duties are the review and supervision of the Company's financial reporting process and internal controls, including the review of the Group's audited financial statements for the year ended 31 March 2005. The Audit Committee met on two occasions during the year.

On 1 January 2005, the Code of Best Practice was replaced by the Code on Corporate Governance Practices (the "new Code"). Listed issuers are expected to comply with the new Code's provisions starting from 1 January 2005.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2005, the Group's outstanding borrowings amounted to HK\$18,887,000 comprising interest bearing bank borrowings repayable within one year of HK\$7,387,000 and a convertible note with principal amount of HK\$11,500,000 (the "Note"). As at 31 March 2005, the Group's banking facilities were supported by (i) legal charges over the Group's leasehold land and buildings and an investment property with carrying values of HK\$10,000,000 (2004: HK\$1,900,000) and HK\$4,000,000 (2004: HK\$1,500,000), respectively; (ii) pledged deposits of HK\$35,025,000 (2004: HK\$37,375,000) of the Group; and (iii) corporate guarantees executed by the Company and certain subsidiaries of the Company.



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The Note is interest bearing at the rate of 1% per annum on the outstanding principal amount of the Note from its date of issue to the maturity date which is eighteen calendar months after the date of issue of the Note (the "Maturity Date"). The Note may be converted at the option of the Subscriber at a conversion price of HK\$0.20 per ordinary share at any time after the date of issue of the Note and up to the Maturity Date. The completion of the Note Subscription Agreement took place after all the conditions as set out in the Note Subscription Agreement had been fulfilled in June 2004. Subsequent to the balance sheet date, the Note was converted in full by the Subscriber at a conversion price of HK\$0.20 per share and accordingly, 57,500,000 new shares of the Company were issued to the Subscriber. All shares issued upon conversion rank pari passu in all respects with the then existing shares of the Company.

The Group's gearing ratio as at 31 March 2005 was 0.06 (2004: 0.06), calculated based on the Group's total borrowings of HK\$18,887,000 (2004: HK\$14,826,000) over the Group's total assets of HK\$295,061,000 (2004: HK\$262,456,000).

The Group continues to adopt a policy of dealing principally with clients with whom the Group has enjoyed a long working relationship so as to minimize risks in its business.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

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

On behalf of the Board

Ng Tat Leung, George

Chairman and Managing Director

Hong Kong SAR, 20 July 2005

