

**FOREWORDS**

I have pleasure to present to the Shareholders the Group's annual report for the year ended 31 March 2006.

During the year under review, the Group's continuing operations achieved the highest turnover in history, which demonstrates our strengths in construction business, property development and investment business, and fitness club and related business. The profit attributable to equity holders of the Company decreased significantly as compared to last year, this is mainly because there was a non-recurring gain on disposal of discontinued operation (through the disposal of all shareholding interest in Chinese People Gas Holdings Company Limited, a former subsidiary of the Company) aggregating approximately HK\$98 million in the last year, no such disposal with similar size was reported in current year. Despite of this, the Group achieved satisfactory net profit attributable to equity holders of the Company of HK\$10,181,000.

**BUSINESS REVIEW**

The Group's turnover for the year for continuing operations was HK\$617,414,000 which represented an increase of 8% as compared with last year. The net profit attributable to equity holders of the Company amounted to approximately HK\$10,181,000 representing a decrease of 75% as compared with last year. Earnings per share is approximately HK2.04 cent.

The Group's major business segment during the year comprises (i) construction, as a main contractor, as well as the provision of contracting intelligent building engineering, and electrical and mechanical ("E&M") services; (ii) property development and investment; and (iii) the operation of fitness club and trading of fitness equipment business.

During the year, the Group already completed projects such as the fitting out for Sogo New Department Store at 12 Salisbury Road, Tsim Sha Tsui, Kowloon, main contractor for office fitting out works including E&M works at Two International Finance Centre, and main contractor for construction of a 7-storey secondary school at Nam Fung Road, Aberdeen, Hong Kong. Segment result achieved in this year increased by HK\$46 million as compared to last year, to HK\$16 million.

More to note, during the year, the Group sold certain units in Phase II and Phase III, Asian Villas, Haikou, Hainan Province, and certain villas in Parkview Garden, Shanghai, which contributed a meaningful turnover and profit to the Group. Also, the Group started to recognise sales for the residential units at Phase I of Asian Villas City Square, Haikou, Hainan Province since its completion during the year, which the enthusiastic sales response was demonstrated by the 73% and 111% increase in the segment turnover and segment results as compared to last year.

On the other hand, the fitness club and related business generated a meaningful turnover totalling HK\$69 million to the Group during the year. In July 2005, a new fitness centre was opened at Hong Kong New World Tower (Shanghai), Shanghai, PRC. In addition, the Group had purchased the 5th floor of Fortune-King Plaza in Chengdu, PRC in September 2005, for the purpose of opening a new fitness club, the trial opening of this new fitness club was May 2006. Positive feedback was received since the trial opening of this fitness club.

### PROSPECTS

#### **Construction business (including E&M works)**

The Group will uphold an on-going parallel development of its construction business (including E&M works) in both the PRC and Hong Kong. With its proven track records and adequate expertise in the main contracting business, in April 2006, the Group had been promoted from "List of Approved Contractors for Public Works under Group C (on probation) of the Building Category under Environment, Transport and Works Bureau of the HKSAR" to "List of Approved Contractors for Public Works under Group C of the Building Category under Environment, Transport and Works Bureau of the HKSAR". Together with the license in Group II under the "Turn-key Interior Design and Fitting-out Works" under the "List of Approved Suppliers of Materials and Specialist Contractors for Public Works" and the 11 licenses held under the "List of Approved Suppliers of Materials and Specialist Contractors for Public Works under Environment, Transport and Works Bureau of the Government of the HKSAR", enables the Group to take an active part in the construction business development (including E&M works).

During the year, new projects such as main contractor for construction of four residential houses at 10 Pollock's Path, The Peak, Hong Kong, main contractor for construction of a residential building at no.1, the Peak, Hong Kong, building services installation for the construction of a direct subsidy scheme school in Shatin, Hong Kong, two years' team contract for inspection, repair, overhaul and testing of E&M installations at various sewage treatment works and pumping station in the New Territories, Hong Kong, and a three years' team contract for telemetry and plant control installation of Water Supplies Department were awarded. As at the date of this announcement, the Group has contracts on hand with a total contract sum of over HK\$679 million.

#### **Property development and investment**

The development of high-class residential property development project, Parkview, near the Botanical Gardens in Shanghai with a gross floor area of approximately 56,000 sq. metres was completed in December 2003. Certain units of the Parkview project were sold at a total contractual sum of over RMB311 million. As Shanghai is now vigorously developing into a metropolis serving as an international financial, information and logistic center, the Directors believe that this project has great market potential and bright prospects by virtue of its unique Botanical Gardens surroundings.

In addition, Southern Area of Asian Villas, Haikou, Hainan Province (also known as "Asian Villas City Square"), will be developed into a residential and commercial complex with a total gross floor area of approximately 130,000 sq. metres, construction is on schedule and 8 blocks of residential building of Phase I was completed during the year, and it is expected the whole development will be completed by the end of 2006. During the year under review, the above mentioned blocks had contributed RMB87 million to the turnover of the Group. Up to the date of this report, the total contract sum achieved amounted to approximately RMB122 million.

On 9 June 2005, the Group has been obtained through an open auction the land use rights of a development site in Long Ting District of the City of Kai Feng. The Directors intends to develop a commercial complex on the site with an estimated gross floor area of approximately 177,000 sq. metres. Up to now, the development is at the removal and demolish stage, and is processing according to schedule, it is expected to contribute return to the Group commencing year 2007.

Although the residual effect of the macro-economic tightening measures have added uncertainties to the growth of the PRC economy, however, the Directors believe that the austerity measure had only a moderate and short term impact on the property market in PRC. With strong sustained economic growth in PRC, coupled with the expected appreciation of RMB, the PRC property market offers tremendous opportunities, and the Directors are now looking for property development projects in PRC prime cities and may acquire additional land bank for property development purpose, however, the Group has no specific investment plan in relation to any particular project.

Noteworthy is the fact that Directors believe the hosting of the World Expo in 2010 which will have a positive impact on the PRC property market and the property development and investment segment will continue to provide a sizable contribution to the Group's operating results in the coming years.

### **Operation of sports club, fitness and spa centres and related business**

In the past few years, several fitness and spa centres were opened in various locations in the PRC including Shanghai, Xian, Wuhan, Urumqi and Shenzhen. In May 2004, one of the biggest sport club in the PRC was opened in Jinqiao, Shanghai, PRC, this sports club has a total gross floor area of approximately 11,000 square meters equipped with swimming pool, tennis court, spa and gym facilities. In addition, one new fitness centre was opened at Hong Kong New World Tower (Shanghai), Shanghai, PRC during the year, and another one with a gross floor area of approximately 4,933.73 square meters was at Fortune-King Plaza, Chengdu, PRC under trial opening in May 2006. There are currently 10 fitness clubs which are operating under the brand name "Megafit" and 1 fitness and spa center operating under the brand name "Sensation". The Group currently has over 10,500 members. As Beijing has won the right to host the 2008 Olympic Games, the Directors believe that such event will stimulate the public's enthusiasm in fitness and sports and this business segment will provide a favourable contribution to the Group's revenue in the future.

## CHAIRMAN'S STATEMENT

Subsequent to the year end, the Group had signed an agreement to open another fitness club at Xinjiangwan, Shanghai, PRC, the theme of this fitness club is high-class and leisure, it will have a gross floor area of approximately 4,500 square metres, fine-equipped with indoor heated swimming pool, squash field, gymnasium and aerobic exercise equipment etc.. It is expected this new fitness club will be open by August 2006.

### Hotel

Subsequent to year end, in April 2006, the Group had purchased a hotel in Haikou, the capital of Hainan Province, PRC through the acquisition of a subsidiary. The hotel is a three-star hotel with a total of 208 guest rooms and suites with a gross floor area of 22,739.05 square meters. In view of the great potential which Hainan Province has as an upscale tourist destination, the Group intends to make use of the acquisition as a stepping stone for the Group to participate in the hotel business in Hainan, as the Directors consider the growth prospects of this business to be promising.

### LIQUIDITY AND CAPITAL RESOURCES

As at 31 March, 2006, the Group had total assets of HK\$649,676,000 and current liabilities, long term liabilities, shareholders' equity and minority interests of HK\$241,917,000, HK\$31,377,000, HK\$374,107,000 and HK\$2,275,000, respectively.

The gearing ratio for the group is at 7.7% (31 March 2005: 0.2%). It was calculated based on the long term borrowings of HK\$31,377,000 (31 March 2005: HK\$671,000) and long term capital of HK\$407,759,000 (31 March 2005: HK\$336,476,000).

The bank borrowings and cash and bank balances were principally denominated in Hong Kong dollars and Renminbi. Hence, there is no significant exposure to foreign exchange rate fluctuations. In view of the fact that Hong Kong dollars interest rate had risen in the past few months to a level similar to Renminbi interest rate, the Group have increase its Renminbi borrowings to an appropriate level in line with our actual need.

### CAPITAL STRUCTURE

The Group's long-term capital mainly comprised of shareholders' equity which is confirmed with the low gearing ratio as discussed in the section "Liquidity and capital resources" above.

### RISK OF CURRENCY FLUCTUATION

The Group's receivables and payables were denominated mainly in Hong Kong dollar and Renminbi. Since Renminbi is relatively stable, we consider the exchange risk is not significant.

### CONTINGENT LIABILITIES

Details of contingent liabilities for the Group and the Company are set out in note 35 to the financial statements.

### EMPLOYEE SCHEMES

As at 31 March 2006, the Group had 469 employees, 306 of whom were based in the PRC.

The remuneration policy and package of the Group's employees are reviewed and approved by the directors. Apart from pension funds, discretionary bonus and share options are linked to individual performance as recognition of and reward for value creation.

### CHARGES ON GROUP ASSETS

Details of the charges on asset of the Group are set out in note 29 to the financial statements.

### AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code of Best Practice (the "Code") for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises three independent non-executive directors of the Company.

### SUMMARY

The Group's on going parallel development of its construction business in both PRC and Hong Kong and the fruitful achievement in the property development business in PRC, were confirmed by the satisfactory operating results in current year. In the future, the Group will strengthen the development of its core business in construction business (including E&M), property development and hotel investment business, the "Megafit" fitness club brand marketing and expansion. On the other hand, the Group will keep on seeking new opportunities and corporate development so as to enhance its profitability.

### ACKNOWLEDGEMENTS

On behalf of the directors, I would like to express my gratitude to our Shareholders, business partners and customers for their continued support, I would also like to thank my colleagues for their hard work and continuous commitment over the past few years, their work has contributed significantly to our favorable results. We will carry on dedicating our efforts towards the Group's long-term development.

#### **Tjia Boen Sien**

*Managing Director and Deputy Chairman*

Hong Kong  
21 July 2006