

Choi Yuk Keung,
Lawrence
Managing Director

CONSTRUCTION DIVISION

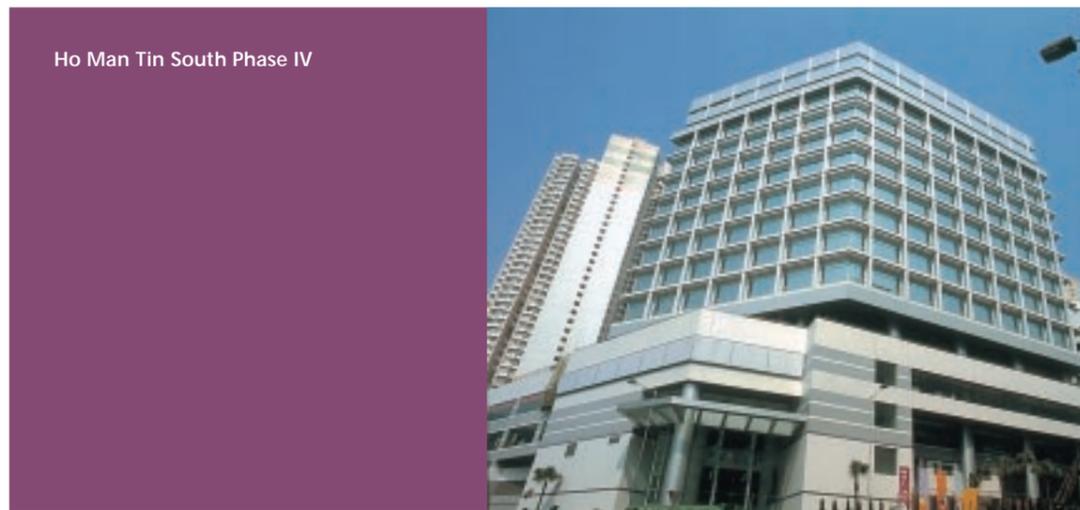
Turnover for the year was HK\$3,546.5 million, a decrease of 16 percent compared with HK\$4,242.4 million last year. Pre-tax profit of HK\$287.2 million however represented an increase of 14 percent over the previous year. This favourable result was largely due to our efforts in improving efficiency of our operations, the adoption of innovative construction methods and the continuing fall in subcontractor prices in a deflationary environment. However, with the slowing down of the Hong Kong Housing Authority's (HKHA) public housing programme, it will be difficult to maintain this exceptional performance before strategic growth areas start to contribute significantly in the next two to three years.

Public Housing - Shui On Building Contractors (SOBC)

Public housing works carried out for the HKHA and the Hong Kong Housing Society amounted to approximately HK\$2,540 million and accounted for around 72 percent of the Division's turnover. Six contracts were completed, comprising 3,950 residential units and various commercial premises. They included Ma On Shan Area 77 Phase II, Ho Man Tin South Phase IV, Redevelopment of Shek Yam Estate Phase III, Ma Hang Village Phase 3, Tseung Kwan O Area 34/44 Phase III and the Sandwich-Class Housing Development at Ma On Shan Area 77 with a total contract sum of HK\$4.1 billion.

Four contracts, comprising 3,300 residential units, were awarded by the HKHA with a total value of around HK\$1,590 million. Three maintenance contracts for HK\$232 million were also won. Margins in recent tenders have however been eroded in light of the shrinking portfolio of HKHA.

The conclusions and recommendations in two reports, namely, "Quality Housing Initiatives" by HKHA in 2000 and the paper compiled by the Construction Industry Reform Committee at the beginning of 2001, prompted HKHA to step up the enforcement of much more stringent standards to safeguard the quality of public housing works. Six large contractors, including SOBC, assessed based on their past performance, management and control procedures in place, have been selected for inclusion in a coveted Premier League. Due recognition will be given to this status and certain design-and-build as well as complex projects will be made available for tender for this small group of superior contractors. HKHA is now also assessing tenders with reference to the overall past performance of contractors and is not necessarily awarding contracts to companies submitting the lowest bids. Notwithstanding the competitive environment, SOBC is therefore well placed to expand its market share in the dwindling public housing sector.



Ho Man Tin South Phase IV

To enhance the quality of maintenance services, the Housing Department also adopted various reform proposals, one of which was the introduction of a new status called Quality Maintenance Contractor (QMC), and preferential tender opportunities will be offered to this category of maintenance contractors. Having successfully passed the assessment and been included in the QMC list, SOBC will enjoy more tendering opportunities on maintenance sector contracts valued at over HK\$2 billion per annum.

Other Government and Institutional Buildings - Shui On Construction (SOC)

The three existing contracts, namely the Public Health Laboratory Centre at Nam Cheong Street, Castle Peak Hospital Redevelopment Phase II Stage I and the Government Departmental Quarters at Hong Ning Road, all progressed smoothly and on schedule.

With the accelerated public housing development in the last few years and the massive urban redevelopment plans in the future, the government has plans for substantial increases in infrastructure and ancillary facilities to match the population growth in redeveloped areas and new towns. A large number of educational, recreational, health, and government facilities will be built over the next few years. More than 200 schools, youth centres and community halls, for example, are already on the drawing board. SOC, with design-and-build capability and good track record, will actively submit tenders for such works.

Renovation and Fitting-out - Pat Davie

With the property, banking, finance, retail and entertainment sectors all suffering from the sluggish economy and the downturn in the technology industry, very few businesses, institutions and public organizations have been willing to

commit large sums on renovation and fitting-out works. Contracts of reasonably large size were very limited, and only four contracts won in the past fifteen months were of values exceeding HK\$20 million, the largest of which being an alteration contract of HK\$88 million for the City University. The total value of new jobs secured amounted to approximately HK\$330 million compared with HK\$450 million in the previous year. Major projects handed over to clients satisfactorily during the year included works for Time Warner, ABN-AMRO Bank and the Open University of Hong Kong.

Contracts on Hand

At 30 June 2001, the gross and outstanding value of contracts on hand of the Construction Division amounted to approximately HK\$10.0 billion and HK\$5.6 billion respectively which should provide sufficient workload for the next two years.

SOCAM.com

SOCAM.com offers a comprehensive electronic construction management system designed to enhance efficiency in tendering, site management and workflow. Since its official launch in December 2000, over 400 suppliers and subcontractors have registered as users of its electronic tendering system and over HK\$200 million of tender value has been processed which has generated about HK\$2 million revenue in membership registration fees and transaction levies. An electronic Project Management System has been implemented at our new construction sites to facilitate efficient communication with the head office, eliminating the need to circulate a vast amount of management information and documents. On hand-held computer applications, we have begun making use of pocket computers for the management of traditional construction works to streamline site inspection and reporting procedures. It is expected that when the system is fully implemented, substantial savings can be achieved.



The Public Health Laboratory Centre site at Nam Cheong Street won the "Considerate Contractor Site Award" from the Works Bureau