

BUSINESS REVIEW

Construction

The turnover for the construction division for the year ended March 31, 2002 was HK\$338,670,000, a decrease of 66.51% as compared with last year. The substantial decrease in our turnover was mainly due to the fact that we have completed most of the construction projects in the last financial year and most of the contracts on hand were new contracts secured during the year. The shrinking economy and slow down of the property and infrastructural developments during the year resulted in a sluggish construction market. Faced with a shortage of projects, the Group saw not only fewer orders but also the profits from operations being further depressed by intense competitions among the competitors.

Nevertheless, despite of the poor market condition in the local construction industry, with our policy aiming to ensure the profitability, competitiveness and cost effectiveness of our tender price, the construction division successfully secured the following 7 construction projects with a total contract value of HK\$1.417 billion during the year under review.

- Term Contract for Maintenance and the Vacant Flat Refurbishment for Lei Yue Mun District;
- Office Fitting-Out Works at Redevelopment of Upper Wong Tai Sin Estate Phase 4;
- Construction of Building 5, Science Park at Pak Shek Kok, Phase 1b, New Territories;
- Construction of Tung Chung Area 31 Phase 5;
- Construction of Indoor Recreation Centre cum Library at Area 100, Ma On Shan, New Territories;
- Reprovisioning of Police Dog Unit and Force Search Unit at Sha Ling, New Territories and
- Construction of a Primary School in Area 56 Tuen Mun, New Territories.

As most of our contracts on hand were new contracts secured during the year and most of the contracts have not yet been completed by more than 10%, the profits generated from most of the new contracts could not be accounted for during the year under review pursuant to our policy of accounting profit from projects upon the 10% work in progress completion rule. The delay in our work in progress was mainly due to the continual delay in the commencement date of the projects and the slow down on projects released from our client. Amongst all the new projects secured during the year, approximately HK\$1.056 billion worth of contracts have not recognized any profits during the year under review.



Construction of Building 5, Science Park at Pak Shek Kok, Phase 1b

The management has continued to exercise tight cost control and cash management with a view to ensuring that all facets of the operations are cost effective. Furthermore, the application of the e-



Reprovisioning of Police Dog Unit & Force Search Unit at Sha Ling

Chairman's Statement (Continued)

construction management systems and e-project solution in our construction business has enabled the construction division to reduce cost and enhance the management efficiency.

During the year under review, the construction division has completed the office fitting-out works at redevelopment of Upper Wong Tai Sin Estate Phase 4 with a contract value of HK\$33 million.

Manufacturing and Trading

The 911 event has significant adverse effects on the global market for computer and telecommunication related products. There has been a drastic decrease in demand for computer hardware and telecommunication related products.



Construction of Tung Chung Area 31, Phase 5

Despite the poor market condition, the manufacturing division of high precision parts focused on the diversification of customers with a view to minimizing the impact of the adverse effect. The manufacturing division of high precision parts has turned to the right track and recorded steady growth. With improved management structure, stringent cost control and upgraded production capacity, the division was able to widen its customers base and secured new multinational customers during the year.

On the other hand, our manufacturing of printed circuit board business undertaken by the Group's associated company has been badly affected due to the worsening market condition. The target for securing its market share cannot be achieved as scheduled.

With the joint force of its business partner, Tradelink Electronic Commerce Limited (Tradelink), the e-business of i-LegalService developed an ASP (Application Service Provider) version secure Document Exchange and Document Management System specifically designed for law firms in Hong Kong. Such system is expected to be launched in September 2002.

During the year under review, the Group converted the convertible note into equity in a profitable and leading Smart Card manufacturer and solution provider. This Smart Card manufacturer and solution provider, Cardlink Technology Group Limited ("Cardlink") (Stock Code 8066) was listed on the Hong Kong Growth Enterprise Market on December 20, 2001. The conversion of the notes into equity in Cardlink has resulted in a gain during

the year under review. It is expected that the investment in Cardlink has resulted in a gain during the year under review. It is expected that the investment in Cardlink will generate a fruitful return to the Group.



Production line for production of high precision machine parts at Dongguan factory

Certain part of the losses reported during the year was due to the write off on some of the historical investments on certain associated companies pursuant to the new Statement of Standard Accounting Practice 31 (SSAP 31) – Impairment of Assets on valuation of assets.

FINANCIAL REVIEW



Construction of a Government Complex in Lee On Estate, Area 108, Ma On Shan

As most of the contracts on hand are new contracts secured during the year and there has been delay in the commencement date of the projects and slow down on projects released from the client, only a small portion of profit from these new contracts was recognized during the year. The Group has incurred losses in the amount of HK\$30,466,000 from its operations during the year. Nevertheless, the loss has been minimized through effective cost control method to reduce the total operating costs by 16.85%. Certain part of the losses reported during the year was due to the write off on some of the historical investments on certain associated companies in accordance with SSAP 31 – Impairment of Assets.

During the year, the total property, plant and equipment of the Group increased by HK\$8,713,000 as compared with last year. Efforts have been made to ensure that all the assets of the Group are being utilized in an efficient and effective manner. During the year under review, the Group disposed of the grab and dredgers that were unable to generate good returns. On the other hand, the Group acquired more machines for the manufacturing division of high precision parts with a view to enhancing the production capability and to meet the requirements of the customers. Also more computers are being installed on the new construction sites so as to enable the implementation of the e-construction management systems and e-project solution.

As at March 31, 2002, the Group has total borrowings of HK\$68,610,000 as compared to HK\$19,800,000 at last financial year end. The additional borrowings were mainly due to the projects loans required to finance the working capital of the newly awarded construction contracts secured during the year. The Group's investment properties have been pledged to bank as securities for the banking facilities. All the borrowings were on floating rate basis.

Shareholders' funds of the Group as at March 31, 2002 amounted to approximately HK\$109,818,000 (2001 : HK\$158,563,000). Accordingly, the Group's gearing ratio which is measured on the basis of the Group's total borrowings over the shareholders' funds as at March 31, 2002 was 62% (2001 : 12%). The deterioration of the gearing ratio of the Group was mainly due to the increase in projects loans obtained to finance the new contracts and the reduction in the Group's shareholders' funds as a result of the operating losses incurred during the year.

Chairman's Statement (Continued)

In June 2002, the Company has successfully placed new shares to independent investors raising approximately HK\$9.4 million for working capital purpose. The management anticipates that with the contracts on hand in the total value of approximately HK\$2 billion, the Group should be in a position to enhance the shareholder value going forward.



Construction of Primary Substation at Shatin Racecourse,
Hong Kong Jockey Club

The Group's receivables and payables were dominated mainly in Hong Kong dollars and hence the Group would not be exposed to any significant exchange risk.

Share Placement

In June 2002, the Group has raised approximately HK\$9.4 million through the placing of 79,200,000 new shares to independent investors. This share placement has widened our shareholder base and strengthened our financial resources. The proceeds are to finance the working capital of the Group.

PROSPECTS

Construction

The restructuring of the Hong Kong economy will take time to materialize. The construction projects available for tender from both the public and private sectors have been substantially reduced. Hence, the Group envisages that contributions from the Hong Kong operation would, in the meantime, be further reduced before recovery.

With a view to striving for more projects by having competitive tendering prices with reasonable profit margin during this difficult period, the management will constantly review and monitor the project cost base by reassessing the materials price from suppliers through global sourcing. Three tenders for the ASD projects with a total value of approximately HK\$758m are being short-listed. As at the date of this report, the Group has a outstanding contracts with a total value of approximately HK\$2 billion. The management believes that the construction division will achieve a better result in the forthcoming year.

Apart from the local market, the Group will explore other markets with a view to increasing its business opportunities. The China's accession into the World Trade Organization and the successful bid to host the Olympic Games by Beijing will add further momentum and transform into a growth engine with strong economic expansion and increased dominance in the region. The Group grasps every business opportunity for further development and enhancement of its market competitiveness. Continuous efforts will be made to explore opportunities available in China market in order to capture the vast market in China.

In selecting new business opportunities, the Group places emphasis on management skill, technical expertise, innovation and technological advancement. With our innovative e-construction management systems and e-project solution, it is believed that the construction division should be in the better position to explore business opportunities in Greater China for construction project management.



Construction of Indoor Recreation Centre cum Library at Area 100,
Ma On Shan

Chairman's Statement (Continued)

It is believed that the real estate business in China will continue to bloom. A new business unit focusing on real estate business in China has been set up.

Furthermore, the management is in the process of exploring the opportunities in developing the construction material supply chain in China with a view to capturing the growing market in China. It is believed that the construction material supply chain in China would be able to provide a synergy effect to our existing local construction division by supplying materials to the division with competitive prices.

Manufacturing and Trading

Regarding our industrial division, it is intended to focus on strengthening the engineering development aspect for the manufacturing of high precision parts with a view to increasing its production capacity and the diversification of customer base.

The management constantly reviews the new and existing investment by comparing their investment return and potential effects to the Group with a view to selecting the suitable investment for the Group. Effects are being made in eliminating some historical investments with a slow and unfavourable return. In early July 2002, the Group was able to enter into agreements with third parties for the disposal of its interests in an associate engaged in the manufacturing of printed circuit boards and its interest in certain leased machines which did not generate a favourable return to the Group without incurring substantial losses. In assessing new investment opportunity, the management will exercise a prudent and cautious approach so as to ensure that the resources of the Group are being utilized efficiently and effectively and to maximize the investment return.

The Group will continue to explore our relationship with existing business partners and to identify new strategic partners to create synergy that will bring to the Group more fruitful investment opportunities in China.

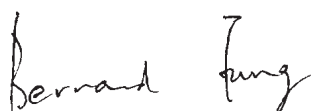
EMPLOYEES

The Group currently employs 197 staff in Hong Kong and 624 workers in China.

The Group recruits and promotes individuals based on their competencies, merit and development potential and ensures remuneration packages are competitive.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to thank all the staff members for the hard work and dedication to the Group for the past year.



FUNG WING MOU, BERNARD

Chairman

Hong Kong, July 23, 2002



Construction of a primary school in Area 56, Tuen Mun.