

## BUSINESS REVIEW

The construction market remains sluggish in Hong Kong during the period under review and intense competitions have also exerted downward pressure on the tender prices. To cope with the difficult market, the Group has taken measures to increase our competitiveness such as tightening costs control, employing high quality team members and improving work efficiencies and quality. As a result of these measures, we can remain competitive in the construction market, meet those challenges and able to increase our contracts on hand.



*Reprovisioning of Police Dog Unit and Force Search Unit at Sha Ling*

Despite the difficult business environment in Hong Kong, with the continued management efforts and focus on cost effectiveness review and high quality of work, the construction division successfully clinched the following eight construction projects with total contract value of HK\$1.188 billion during the year under review:

- Construction of Building 9, Science Park at Pak Shek Kok, Phase 1c, New Territories
- Construction of a Rehabilitation Complex in Tuen Mun, New Territories
- Construction of a Secondary School in Area 36C, Shatin, New Territories
- Conversion & Extension to 4 Nos. Existing Aided Schools – Group 1 under School Improvement Programme Final Phase Package 2
- Conversion & Extension to 5 Nos. Existing Aided Schools – Group 2 under School Improvement Programme Final Phase Package 5
- Framework Agreement for Minor Works, MTR Corporation
- Conversion & Extension to 7 Nos. Existing Aided Schools – Group 2 under School Improvement Programme Final Phase Package 3
- Conversion & Extension to 6 Nos. Existing Aided Schools – Group 2 under School Improvement Programme Final Phase Package 6



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

## CHAIRMAN'S STATEMENT

The performance of the construction division has been very encouraging with a breakthrough to attain a record achievement of total contract on hand of HK\$3.135 billion in this depressed construction market and poor economic environment.

The Group has completed several construction projects with total contract value of HK\$336 million during the year under review.

High quality and standard of construction work has always been the emphasis of our construction division. This can be demonstrated by the award we received from the Environment, Transport & Works Bureau for our good site management on environmental consciousness and safety for the construction of Indoor Recreation Centre cum Library in Ma On Shan.

With the efforts to diversify the customers' base and maintain the good quality of products, the manufacturing division of the high precision parts managed to minimize the impact of adverse effect of the economic downturn. However, the Iraq War and SARS outbreak in Hong Kong and other cities in the first quarter of 2003 had dampened the already weak business environment and jeopardized the progress of the growing business. As a result, the target performance of the manufacturing division had been slightly affected in the last two quarters of the financial year.

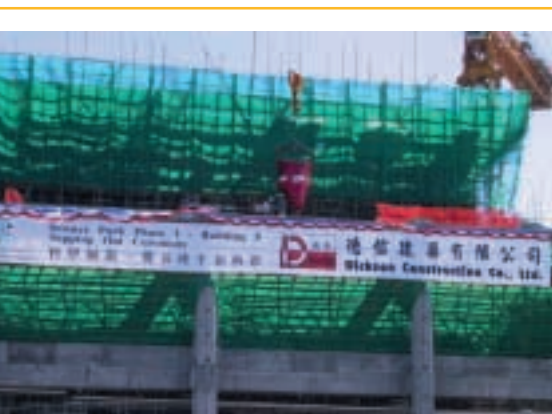
With a view to concentrating on core business and to better allocating the resources, the Group has disposed of its non-core investments, the investment in the manufacturing of printed circuit board and the leasing of machineries, which did not generate favourable return to the Group, to independent third party in July 2002 without incurring substantial capital loss.



*At the Considerate Contractors Site Award Presentation Ceremony 2002*



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



*Topping-out Ceremony of Building 5, Science Park at Pak Shek Kok, Phase 1b*

## FINANCIAL REVIEW

The turnover of the Group for the year ended March 31, 2003 was HK\$1,366 million, an increase of 3.65 times as compared with the previous year of HK\$374 million.

The Group incurred a loss of approximately HK\$11.2 million this year as compared to the loss attributable to shareholders of HK\$49.7 million for the last corresponding year.

Although the Group is still in a loss position for the financial year, it has greatly improved as compared to the last corresponding year. The loss was mainly due to the poor market conditions and the price competitions which resulted in thin margin for most of the

construction projects. Nevertheless such negative impacts have been minimized during the financial year. With the continued efforts in implementing cost-containment programs and procedures to better utilize the Group's resources, the operation costs remain in a similar level even the turnover increased by 3.65 times.

As at March 31, 2003, the Group had total financial borrowings of approximately HK\$72.4 million as compared to approximately HK\$68.6 million at last financial year-end date, of which approximately HK\$11.7 million represented obligations under finance leases (2002: Nil). The additional borrowings were mainly due to

the project loans required to finance the working capital of the newly awarded

construction contracts secured during the year and the acquisition of plant and machinery to upgrade the manufacturing capabilities. The Group's certain properties, certain bank deposits and other deposits have been pledged to certain banks and an insurance company as securities for the banking facilities and for the issuance of performance bonds in respect of construction contracts. The Group's total financial borrowings were denominated in Hong Kong dollars and bear interest at floating rates.

Cash and bank balances amounted to approximately HK\$55.7 million as at March 31, 2003 as compared to HK\$29.1 million as at the end of last year.

With a view to widening the shareholder base and strengthening the financial resources, the Group has raised approximately HK\$9.5 million through the placing of 79,200,000 new shares to independent investors in June 2002.

Shareholders' funds of the Group as at March 31, 2003 amounted to approximately HK\$108 million (2002: HK\$110 million). The Group's gearing ratio measured on the basis of the Group's total borrowings over the shareholders' funds as at March 31, 2003 was 67% (2002: 62%).

### PROSPECTS

Going into the second half of 2003, we doubt that there will be any real sign of rebound in local economic activities. In anticipation of the continuous slowdown in the construction sector, the Group will continue to enhance its competitiveness through vigorous cost control measures and efficient project management. Furthermore, emphasis will be placed on training to ensure that our high standard and quality of work will be maintained. The Group has been reshaped in the past few years to cope with the change in the market and the Board is confident that

the Group is well positioned to face the challenges ahead and take advantage of any business opportunities arising in future.

*Construction of Tung Chung Area 31, Phase 5*



*Construction of a Secondary School in Area 36C, Shatin*



*Construction of a Primary School in Area 56, Tuen Mun*



## CHAIRMAN'S STATEMENT

Subsequent to the year-end, the construction division has secured an additional six contracts with total contract sum of HK\$339.74 million, namely:

- Conversion & Extension to 4 Nos. Existing Aided Schools – Group 4 under School Improvement Programme Final Phase Package 4
- Conversion & Extension to 4 Nos. Existing Aided Schools – Group 4 under School Improvement Programme Final Phase Package 2
- Church and Kindergarten Redevelopment at Lot 2127 in D.D. 121, Tong Yan San Tsuen, Yuen Long
- Term Contract for the Design and Construction of Fitting-Out Works to buildings and lands and other properties (designated contract area: Hong Kong Island and Outlying Islands)
- Term Contract for the Maintenance and Repair of buildings and lands and other properties (designated contract area: Hong Kong Island West & South)
- Construction of Superstructure Works for Extension Blocks at Tseung Kwan O Substation

As at the date of this report, the Group has outstanding contracts with a total value of approximately of HK\$2.3 billion. Furthermore, the construction division has been short-listed for two construction projects with a total value of HK\$623 million.

The Mainland-Hong Kong Closer Economic Partnership Arrangement will provide Hong Kong service providers more access to the PRC market than other World Trade Organization members and such preferential treatment will commence on January 1, 2004. Being one of the service providers in the construction sector, though Hong Kong will remain the operation base, the Group will explore the market in the PRC that provides ample opportunities for the Group's business growth.

In an attempt to fully integrate the construction operations, the Group is in the process of establishing a supply chain network for building materials in Shenzhen, the PRC. By strengthening our core construction business, expanding further into the PRC market, simultaneously controlling overall expenditures and enhancing effectiveness of its operations, we remain optimistic for the coming years.



Primary Substation at Shatin Racecourse



Shatin Racecourse Substation Topping-out Ceremony



Conversion and extension works to 30 existing aided schools under the School Improvement Programme



*Construction of a Rehabilitation Complex in Tuen Mun*

Despite the poor market conditions in the manufacturing sector, the Board believes that there would still be potential growth in this market upon recovery. The manufacturing division will continue to explore its resources to upgrade the existing production lines and enhance the product quality aiming at satisfying the different requirements of the customers.

Under the prevailing stagnant and recessionary economic conditions, the Group will continue to take a conservative and cautious posture in seeking more viable business ventures that could help maintaining

the long-term value of both the Group and its shareholders.

### EMPLOYEES

The Group currently employs 253 staff in Hong Kong and 746 workers in the PRC.

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 their hard work and dedication to the Group for the past year.

**FUNG WING MOU, BERNARD**

*Chairman*

Hong Kong, July 26, 2003



*Construction of Building 9, Science Park at Pak Shek Kok, Phase 1c*