

## **INTERIM DIVIDEND**

The directors do not recommend the payment of an interim dividend for the period ended September 30, 2003 (six months ended September 30, 2002: Nil). No dividend was paid during the period.

## **BUSINESS REVIEW**

The turnover for the construction division for the interim period ended September 30, 2003 was HK\$617 million, an increase of 3.75% as compared with the same period of the preceding year.

The slowdown in public sector due to the change in Government's policy on housing projects and the reduction of capital expenditure by the Government on infrastructure projects have posed additional pressures on the depressed construction industry.

In order to secure more contracts under this severe market, the Group has made prompt effort to reduce operating cost and positive efforts have been made by the construction division to trim down the operating cost in order to enhance the profitability. Furthermore, the construction division has strengthened their capability in submitting more competitive tenders by adopting pro-active approach and establishing partnering relationship with suppliers and subcontractors.

During the period under review, the construction division has secured eight contracts with total contract sum of HK\$905 million. They are:

- Conversion and Extension to 4 Nos. Existing Aided Schools – Group 4 under School Improvement Programme Final Phase Package 4
- Conversion and 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 in designated contract area: Hong Kong Island and Outlying Islands
- Term Contract for the Maintenance and Repair of buildings and lands and other properties in designated contract area: Hong Kong Island West & South



- Construction of Superstructure Works for Extension Blocks at Tseung Kwan O 400 kv Substation
- Redevelopment of Shek Pai Wan Estate, Phase 2 from Hong Kong Housing Authority
- Framework Agreement for Minor Works from MTR Corporation Limited

Together with the abovementioned new contracts, our construction division has contracts on hand with a total value of HK\$3,690 million as at October 31, 2003 with outstanding contracts value of HK\$2,510 million.

Other than the subcontracting costs, the management believes that the pricing of the construction materials has significant impact on the overall performance of the construction division. In an attempt to fully integrate the construction operations, a sales and marketing team was set up for sourcing and trading of building materials. During the period under review, certain types of building materials have been identified which will have development potential in both the Hong Kong and PRC markets.

With a view to diversifying its business, the Group has formed a joint venture engaged in property management. The joint venture has successfully secured a contract in June 2003 on estate management for a public estate housing for Hong Kong Housing Authority. The penetration into this business sector will certainly enhance the opportunity for the construction division to secure more maintenance contracts for large housing estate.

In relation to the manufacturing division, only marginal profit has been maintained due to the fact that the appreciation of the Japanese Yen has eroded the normal profit of the products.

## **FINANCIAL REVIEW**

The financial position of the Group has continuously improved during the period. At September 30, 2003, the shareholders' funds increased by 7% to HK\$122 million from HK\$114 million (as restated) at March 31, 2003.

With a view to enhancing the shareholder's base and to raise funding to finance the working capital, agreement was entered with independent subscribers on 20 August 2003 for the issuance of Convertible Notes in the total amount of HK\$10 million. Two Convertible Notes with a total principal sum of HK\$4 million had been converted into shares of the Company on September 5, 2003.

As at September 30, 2003, the Group had total financial borrowings of approximately HK\$54.2 million as compared to approximately HK\$72.4 million as at March 31, 2003. The gearing ratio which is measured on the basis of the Group's total borrowings over the shareholders' funds as at September 30, 2003 was 44% (as compared to 64% (as restated) as at March 31, 2003).



The Group continues to adopt a conservative treasury policy with all bank deposits in Hong Kong Dollars currency. The Group has not engaged in the use of any derivative products as all the accounts receivables and payables are denominated in Hong Kong Dollars.

Properties with net book value of HK\$13.7 million together with bank deposits in the amount of HK\$10.5 million were pledged to secure banking facilities granted to the Group. Deposits with total amount of HK\$2.9 million were pledged to an insurance company for issuing bonds to its clients.

## PROSPECTS

The construction industry in Hong Kong has further deteriorated despite there have been some signs of recovery of the property market. HKSAR Government has further cut the budgets for infrastructure projects and public housing projects. The Group is therefore holding an extremely prudent view about the recovery of the Hong Kong construction market in the future.

In order to enhance the business opportunities for the Group, the management has been putting in more efforts to explore the construction market in the PRC. An initial success has been achieved by securing a HK\$30 million contract for constructing a clubhouse building for a golf course in Beijing. This contract is expected for completion in April 2004.

A substantial construction contract with value close to HK\$800 million for the construction of a recreational and residential project in Beijing is also under negotiation.

The Group has now mounted a sales and marketing force to develop the supply chain network on building materials for both Hong Kong and the PRC markets. Distributorships for certain products have been secured and relevant projects for the applications of such materials are being identified. Smooth progress is being made in this area.

In the industrial area, as the Group decided to concentrate its resources on the core business or construction related business, it has disposed of the investment in the manufacturing of high precision machine parts in October 2003.

For the e-commerce business, the Group is still holding minority interest in an associate, however, the development potential of which is not promising. The Group has been considering to dispose of its interest therein.

The management has prepared the Group well enough to take up the business challenges lying ahead and is confident in delivering concrete operating and financial results in the second half of this financial year as well as the forthcoming years.

