

OPERATING RESULTS AND FINAL DIVIDEND

This is my second year as Chairman and though our results have seen some improvement, much remains to be done. While our net profit of HK\$1.1 million for the year represents significant progress from last year's net loss of HK\$246.9 million, the underlying results are less encouraging. Compared to the previous year, gross profit had dropped 43.6% to HK\$93.0 million. The reasons are two-fold — (a) lower order book leading to lower turnover by 18.6%; and (b) reduction of margin from 8.9% to 6.2% in the face of unrelenting market competition. This notwithstanding, I am pleased to report that our strategic refocusing of the business mix has begun to bear fruit. As a result, civil engineering works (including those executed through joint ventures with other reputable construction companies) now comprise 16% of turnover (2003: 6%) and construction work in the People's Republic of China ("PRC") comprise 19% of turnover (2003: 4%).

This year's financial performance is also affected by provisions and write-backs in respect of our property portfolio. Taking into account the varying fortunes and volatility of the Guangzhou and Hong Kong markets, a net provision of HK\$49.0 million has been made. Stripping out such non-operational factors, the de-consolidation gain of HK\$32.3 million and a write-back in retirement fund provision of HK\$17.6 million for the year, this year suffered an operating loss of HK\$38.2 million, compared with last year's loss of HK\$59.7 million.

In my last report, I alluded to the weakness in our civil engineering department and the internal restructuring of our various divisions to strengthen our capability to fulfill our commitment to quality and clients. I am pleased to report that notable progress had been made and this has continued into the new fiscal year. Not only are we expecting our civil engineering contracts to proceed on track to profitability, our overall competitiveness in the market has improved significantly, as evidenced by the new construction contracts across the whole range of our activities that we have managed to secure recently, after the end of the fiscal year end. They include — (a) a HK\$579.0 million contract for a high class residential development by a joint venture between Nan Fung Development Ltd and Wing Tai Asia for the building division; (b) a HK\$2.7 billion contract for the construction of the world's longest suspension bridge — Stonecutters Bridge, undertaken by a consortium in which our civil engineering division has a 20% participation; and (c) a RMB550 million contract for the electrical and mechanical work for the Beijing Morgan Centre, undertaken by Hsin Chong Aster, a 50-50 joint venture between the Group and Aster Associate Termoimpianti S.p.A. of Italy.

The above heralds a promising start for the coming year. Two achievements in particular epitomize our commitment to quality and clients. First is the timely and successful completion of the Venetian Sands Casino in Macau, the construction management of which we only took over in May 2003 when the project progress was found to be wanting. The second is Grosvenor Place, for which we acted as main contractor. It became the first Asian development project to receive the MIPIM residential development award from Cannes this year.

Progress made in the past year has, in no small part, been attributable to the strategic direction and advice given by our independent non-executive directors. Special thanks are due to Mr. Tobias Brown as chairman and Messrs. Herbert Hui and Jeffrey Lam as members of our audit committee. Similar gratitude is in order to Mr. Tobias Brown again, Messrs. Anthony Rademeyer and Peter Lau in their roles as members of an ad hoc advisory committee which met almost monthly to advise top management on strategic issues.

It is with sadness that I report our non-executive director, Mr. Mou-chong David Yeh, passed away on 7th June, 2004. David was not only my respected eldest uncle, but also a long serving Board member since 1995. Throughout the years, the Company has benefited much from his guidance. His presence and support are sorely missed by the Board and all staff.

Whilst industry conditions have not improved much, our competitiveness has, and we are confident that in the coming year will see continued improvement in our performance.

In view of the breakeven result for the year, the Board does not recommend the payment of a final dividend for the year. Total distribution per share for the year is therefore nil (2003: nil). Given that the strategic redirection and restructuring of the Group's business is now completed, barring unforeseen circumstances, your Board looks forward to restoring dividends in the future.

BUSINESS OF THE GROUP

Founded in 1939, the Group engages primarily in construction and related work mainly in Hong Kong, Macau and the PRC, in both the private and public sectors. Being one of the few full-service construction firms in Hong Kong, your Group undertakes a wide range of construction services including (a) building construction including design and build; (b) construction and project management, including integrated facility management; (c) civil engineering work; (d) electrical and mechanical installation; and (e) renovation and fitting-out work.

CORPORATE FOCUS

Strategy — The Board believes in the further strengthening and continued management focus on the Group's core businesses — construction and construction related value-added, fee based businesses — areas in which the Group has significant competitive advantages and goodwill due to its focus on “**Quality & Service**” and positive track record over the last six decades.

The Board believes that your Group's two-prong operational strategy of focusing on (a) value-added work and (b) structuring contractual terms more creatively, maximises benefits to your Group and its clients. The Group remains focused on serving a selective group of institutional clients, both private and public, who value quality in the builder, as well as in the product, and are prepared to pay premium for it.

Execution — Your Group's full-service integration and range of competence permit it to compete for a very broad spectrum of projects. Though this has the onus of higher overhead associated with more qualified personnel, it is countered by our flexibility in targeting cyclical opportunities and market niches.

Strategically, a certain proportion of your Group's operations has been structured as joint venture. With joint ventures, your Group can grow its core businesses by partnering with companies with complementary areas of expertise and quickly expand into new construction or construction-related fields while minimising risks and costly outlays. Though as associates, the Group cannot account for its share of turnover and outstanding contracts, the underlying economic benefits are no less.

Investor Relations — Your Group's Board and management are appreciative of shareholders' support throughout the industry's difficult period. The Group's recent restructuring and the expansion in geography are aimed at maximising shareholders' value whilst focusing on its core businesses.

MANAGEMENT AND STAFF

To preserve the market competitiveness of your Group, the Board pays close attention to the human resources policy particularly in recruiting and retaining talents. Remuneration policy for your Group has been designed to ensure strong alignment between management, employees and shareholders' interests. As at 31st March, 2004, the Group employed a total of 957 (2003: 776) full-time employees that included the directors of the Group. There is a decrease in directors' emoluments at HK\$6.7 million (2003: HK\$9.1 million). The remuneration includes a discretionary bonus portion of HK\$0.5 million (2003: HK\$0.9 million), which is based on a fixed formula tied to profits and return on equity. Such formula was approved by the Board in 1992. To enhance staff productivity, the Group also provides in-house and external training programmes for all level of staff.

Last but not least, I would like to pay tribute to our dedicated staff who have demonstrated their professionalism, commitment and perseverance in all that we have undertaken. Without their whole-hearted dedication and support, we would not have been able to achieve our strategic refocus in a relatively short period of time.



V-nee YEH
Chairman

Hong Kong SAR, 9th July, 2004