

CHAIRMAN'S STATEMENT



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



Redevelopment of Shek Pai Wan Estate, Phase 2



Church and Kindergarten Redevelopment at Tong Yan San Tsuen, Yuen Long

BUSINESS REVIEW

During the year under review, the tender prices for construction contracts are still throat-cutting in Hong Kong. The construction industry remains sluggish and competitive. The Construction Division has successfully implemented an effective project cost control and project management system to keep the construction costs more competitive. Under such difficult economic and market situation, the Group has been able to secure the construction contracts for the following eight projects with total contract value of HK\$904 million:

- The 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 (Designated Contract Area: Hong Kong Island and Outlying Islands)
- The Conversion and Extension to 4 nos. Existing Aided Schools – Group 4 under School Improvement Programme Final Phase, Package 4
- Redevelopment of Shek Pai Wan Estate, Phase 2
- Construction of Superstructure Works for Extension Blocks at Tseung Kwan O 400 kv Substation
- Term contract for the Maintenance and Repair of Buildings and Lands and Other Properties for EMSD – Hong Kong Island West and South
- Estate Term Contract for Maintenance and Vacant Flat Refurbishment Works for Lung Tin, Kam Peng, Ngan Wan Estates and part of Tung Chung Area 31, New Territories, Hong Kong

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

The Group has completed several construction projects with total amount of HK\$850 million.

In order to concentrate the resources on the core construction business, the Group has disposed all of its non-core investments in the manufacturing of high precision parts and in the e-commerce business. The disposal of the non-core investments did not incur substantial capital loss.

The joint venture company engaged in property management has successfully secured a contract in June 2003 from the Hong Kong Housing Authority for the management of Kwai Fong Housing Estate.

The joint venture has been able to make profit in the first year of its operation.

Aiming for further and integrated expansion of the construction business, the Group acquired 100% equity interest in a group of companies which engaged in subcontracting works in the construction field at a consideration of HK\$21.2 million of which HK\$8 million was satisfied by cash and HK\$13.2 million was satisfied



At the Topping-out Ceremony of a Secondary School in Area 36C, Shatin



Construction of a Secondary School in Area 36C, Shatin

by issuing 110,000,000 shares in the capital of the Company.

In an attempt to enter into the construction and property markets outside Hong Kong and to look for further opportunities to diversify its operation and income source, the Group entered into an agreement

with a vendor on 20 February 2004 to acquire 40% of the issued share capital of a company which had investments in the development and construction of a real estate project in Beijing, the PRC. However, due to certain conditions precedent to the agreement were not fulfilled as of 31 May 2004, the agreement was terminated on the same date. The Group and the vendor had been released from all obligations and did not have any claim against each other arising from the termination of the agreement.



Construction of Tung Chung Area 31, Phase 5

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FINANCIAL REVIEW

The turnover of the Group for the year ended 31 March 2004 was HK\$1,386 million, an increase of 1.46% as compared with the previous year of HK\$1,366 million.

The Group achieved a profit of approximately HK\$8.6 million this year as compared to the loss attributable to shareholders of HK\$10.8 million for the last corresponding year.

As at 31 March 2004, the Group had total borrowings of approximately HK\$43.4 million as compared to approximately HK\$72.4 million at last financial year-end date, of which HK\$0.4 million represented obligations under finance leases (2003: HK\$11.7 million). The reduction in borrowing was due to repayment of project loans and disposal of the manufacturing business. The Group's certain properties, certain bank deposits and other deposits have been pledged to certain banks and insurance companies as securities for the banking facilities. The Group has no significant exposure to foreign currency fluctuation

as financial borrowings, cash balance,

trade receivables and trade payables were denominated in Hong Kong Dollars. The Group's borrowings bear interest at floating rates.

Cash and bank balances amounted to approximately HK\$35.5 million as at 31 March 2004 as compared to HK\$55.7 million as at the end of last year.

Shareholder's funds of the Group as at 31 March 2004 amounted to approximately HK\$145.8 million (2003: HK\$114 million). The Group's gearing ratio measured on the basis of the Group's total borrowings over the shareholders' funds as at 31 March 2004 was 29.7% (2003: 63.5%).

During the year, the Company had issued three convertible notes of a total principal amount of HK\$10 million to three independent third parties. The Company had used the net proceeds of the subscription of approximately HK\$9.8 million as additional general working capital for a new



At the Topping-out Ceremony of a Rehabilitation Complex in Tuen Mun



Construction of a Rehabilitation Complex in Tuen Mun



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



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

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

construction project. The three note holders had exercised their conversion rights in full in last year and a total of 100,000,000 shares in the capital of the Company had been issued upon their exercise of the conversion rights.

In order to have flexibilities in allotting and issuing new shares to improve the Company's financial structure, the Company changed its domicile from Cayman Islands to Bermuda effective on 11 February 2004. The Company successfully implemented capital reorganization on 10 March 2004 by reducing the par value of each share from HK\$0.10 to HK\$0.01 in order

to facilitate future issues of new shares.

PROSPECTS

In the first half year of 2004, there has been a sign of recovery of the Hong Kong economy due to the speedy improvements of tourism and retail sectors with the support of the PRC Government who has relaxed the restrictions for the PRC citizens to visit Hong Kong. Although this policy has contributed to the improvements of the Hong Kong Government's deficit, yet there has still been no intention from the Government to increase their budget in putting up more public housings and Government buildings. Therefore, the public sector of the construction industry is extremely tough and competitive.

As at 30 June 2004, the Construction Division has contracts on hand with a total value of HK\$2,362 million of which the outstanding contract value amounts to HK\$1,293 million.



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

Furthermore, the Group has been short

listed for two construction contracts with a total value of HK\$260 million.

It is strongly believed that the PRC should be the market where the Group can identify more business opportunities and more room for business growth. Aiming at further enhancing the Group's construction or construction related business in the PRC market, the Group has mounted a marketing force in an effort to identify both projects or



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

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The Group recruits and promotes individuals based on their competencies, merit and development potential and ensures remuneration packages are competitive. Salaries are reviewed periodically depending on individuals' performance and responsibility, market trend and company performance. The Group also provides other benefits including bonuses awarded on a discretionary basis, medical schemes, retirement schemes and educational subsidy to all eligible staff.

business partners that would provide opportunities for the Group to grow. Certain successes have been met in major cities such as Beijing and Shanghai. A number of small contracts to start with have been secured.

Along with the Construction Division's penetration into the PRC market, the Group's joint venture company in property management has also started its marketing activities in the PRC in view of the country's speedy increasing demand for real estate management expertise for new housing developments.

In order to combat the continuous difficult market situation, the Group, other than looking for business opportunities in the PRC market, has also adopted various measures to control the overall expenditures of the operation so as to survive through the recessionary economic conditions. The Group will continue to seek for viable business ventures in the future and remain prudently optimistic for the coming years.

EMPLOYEES AND REMUNERATION POLICIES

The Group currently employs a total of 437 staff in Hong Kong and in the PRC. Total remuneration of employees for the year ended 31 March 2004 amounted to approximately HK\$68.1 million.

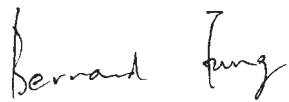


Conversion and extension works to one of the existing aided schools under the School Improvement Programme

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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, 23 July 2004



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