

REPORT OF THE DIRECTORS

The directors present their report together with the audited financial statements of the Company and the Group for the year ended 31 March 2004.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its subsidiaries consist of the provision of multi-disciplinary building services, comprising electrical engineering, water pumping and fire services, air-conditioning installation, plumbing and drainage, environmental engineering, extra low voltage systems engineering and project management, together with the trading of electrical and mechanical engineering materials and equipment. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 March 2004 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 18 to 60.

The directors do not recommend the payment of any dividend in respect of the year (2003: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and financial resources

The Group's cash and bank balances are mostly in Hong Kong Dollars. The cash and bank deposit balances were approximately HK\$36.9 million as at 31 March 2004 (2003: HK\$54.2 million). The total bank borrowings were approximately HK\$30.3 million as at 31 March 2004, a decrease of approximately HK\$6.8 million as compared to last year. The decrease in bank borrowings was mainly due to the repayment of bank loan during the year. The total bank borrowings substantially comprised bank overdraft, term loan and trust receipt loans at various interest rates. As at 31 March 2004, the ratio of the total bank borrowings to shareholders' fund was approximately 30%. As the Group's transactions are mostly settled in Hong Kong Dollars, the use of financial instruments for hedging purposes is not considered necessary.

Treasury and funding policy

The Group's overall treasury and funding policy is that of risk management and control. The assets and liabilities of the Group are mainly denominated either in Hong Kong Dollars or United States Dollars. Accordingly, the Group has minimal exposure to foreign exchange fluctuation. However, the Group will closely monitor the overall currency and interest rate exposures. When considered appropriate, the Group will hedge against currency exposure as well as interest rate exposure.

REPORT OF THE DIRECTORS *(Continued)*

8

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Pledge of assets

As at 31 March 2004, certain of the Group's leasehold land and properties with a net book value of HK\$16.1 million and bank deposits of HK\$26.8 million were pledged to secure general banking facilities granted to the Group.

Employees and remuneration policy

The Group employed approximately 230 employees as at 31 March 2004.

Remuneration is determined by reference to market terms and the qualifications and experience of the staff concerned. Salaries are reviewed annually depending on individual merit. The Group also provides other benefits including retirement benefits scheme, medical insurance and educational subsidies to all eligible staff.

Business and operation review

A review of the Group's business operations and outlook is included in the Chairman's Statement.

SUMMARY FINANCIAL INFORMATION

A summary of the results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements and reclassified as appropriate, is set out below. This summary does not form part of the audited financial statements.

REPORT OF THE DIRECTORS *(Continued)*

SUMMARY FINANCIAL INFORMATION *(Continued)*

Results

	Year ended 31 March				
	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
TURNOVER					
Continuing operations	734,189	644,019	663,702	790,403	705,971
Discontinued operations	—	291	34,730	42,379	—
	734,189	644,310	698,432	832,782	705,971
Cost of installation and cost of sales	(633,591)	(553,836)	(572,382)	(712,885)	(609,676)
Gross profit	100,598	90,474	126,050	119,897	96,295
Other revenue	1,842	2,718	2,451	5,845	8,912
Administrative expenses	(77,943)	(80,814)	(119,684)	(93,320)	(64,093)
Gain on dissolution of discontinued operations	4,105	—	—	—	—
Loss on dissolution of a subsidiary	(33)	—	—	—	—
Provision for amounts due from former subsidiaries	(2,179)	—	—	—	—
Unrealised holding losses on long term investments	(8,863)	(8,374)	(6,567)	—	—
Provision against obsolete inventories	—	—	(179)	(2,922)	—
Legal expenses	—	—	(7,907)	—	—
Gain on disposal of a subsidiary	—	—	781	—	—
Loss on disposal of subsidiaries	—	—	(1,122)	—	—
Realised loss on disposal of long term investments	—	—	—	(13,202)	—
Provision for impairment:					
– Long term investments	—	—	—	(38,298)	—
– Goodwill	—	—	(12,680)	(23,726)	—
– Fixed assets	—	—	(826)	(7,972)	—
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	17,527	4,004	(19,683)	(53,698)	41,114
Finance costs	(1,877)	(2,034)	(3,194)	(4,645)	(3,562)
Share of losses of associates	—	(2)	(3,605)	(19)	(158)
PROFIT/(LOSS) BEFORE TAX	15,650	1,968	(26,482)	(58,362)	37,394
Tax	(4,418)	(4,872)	(5,209)	(7,601)	(6,267)
PROFIT/(LOSS) BEFORE MINORITY INTERESTS	11,232	(2,904)	(31,691)	(65,963)	31,127
Minority interests	(9,427)	(11,781)	(3,631)	6,818	901
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	1,805	(14,685)	(35,322)	(59,145)	32,028

REPORT OF THE DIRECTORS *(Continued)*

10

SUMMARY FINANCIAL INFORMATION *(Continued)*

Assets, liabilities and minority interests

	As at 31 March				
	2004	2003	2002	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TOTAL ASSETS	321,713	369,642	331,201	447,862	453,652
TOTAL LIABILITIES	(202,489)	(261,462)	(214,117)	(327,086)	(251,775)
MINORITY INTERESTS	(19,081)	(9,842)	(4,061)	(430)	(2,830)
NET ASSETS	<u>100,143</u>	<u>98,338</u>	<u>113,023</u>	<u>120,346</u>	<u>199,047</u>

FIXED ASSETS

Details of movements in the fixed assets of the Group during the year are set out in note 14 to the financial statements.

SHARE CAPITAL

There are no movements in either the Company's authorised or issued share capital during the year. Details of the Company's share capital are set out in note 27 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws in Bermuda, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 28 to the financial statements and in the consolidated statement of changes in equity, respectively.

REPORT OF THE DIRECTORS *(Continued)*

DISTRIBUTABLE RESERVES

At 31 March 2004, the Company did not have any reserves available for distribution. The Company's share premium account, in the amount of HK\$110,632,000 may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 68% of the total sales for the year and sales to the largest customer included therein amounted to 36%. Dr. Wong Sai Wing, James and Mr. Chan Yuen Keung, Zuric have beneficial interests in one of the Group's five largest customers. Purchases from the Group's five largest suppliers accounted for 43% of the total purchases for the year and purchases from the largest supplier included therein amounted to 16%.

Save as disclosed above, none of the directors of the Company or any of their associates or shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and suppliers.

DIRECTORS

The directors of the Company during the year were:

Executive directors

Dr. WONG Sai Wing, James (*Chairman*)

Mr. CHAN Yuen Keung, Zuric (*Managing Director*)

Mr. AU Shiu Wai, Frank

Mr. AU Yu Fai, Patrick

(appointed on 8 March 2004)

Mr. OU Ka Chi

(resigned on 7 March 2004)

Non-executive directors

Mr. YU Sek Kee, Stephen

Mr. HONG Yiu

Independent non-executive directors

Dr. CHAN Chok Ki

Mr. HO Hin Kwan, Edmund

(appointed on 1 August 2003)

Mr. YU Hon To, David

(appointed on 26 March 2004)

Mr. LI X Sinclair

(resigned on 31 August 2003)

In accordance with the Company's bye-laws, Messrs. Au Yu Fai, Patrick, Chan Chok Ki, Hong Yiu and Yu Hon To, David will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

REPORT OF THE DIRECTORS *(Continued)*

12

DIRECTORS' AND SENIOR MANAGERS' BIOGRAPHIES

Biographical details of the directors of the Company and the senior managers of the Group are set out on pages 3 to 5 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Mr. Chan Yuen Keung, Zuric has an employment contract with one of the Company's subsidiaries as senior executive. The employment contract is terminable by either party by giving one month's prior written notice to the other.

Mr. Au Shiu Wai, Frank entered into a service contract with the Company with effect from 1 February 1994. The service contract is terminable by either party by giving three months' prior written notice to the other.

Mr. Au Yu Fai, Patrick has an employment contract with one of the Company's subsidiaries as senior executive. The employment contract is terminable by either party by giving one month's prior written notice to the other.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 30 to the financial statements, no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, or any of its subsidiaries or fellow subsidiaries was a party during the year.

REPORT OF THE DIRECTORS *(Continued)*

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 March 2004, the interests and short positions of the directors of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"), were as follows:

Long positions in ordinary shares of the Company:

Name of director	Nature of interests	Directly beneficially owned	Percentage of the Company's issued share capital
Mr. Chan Yuen Keung, Zuric	Personal	10,000,000	2.2
Mr. Au Shiu Wai, Frank	Personal	600,000	0.1
Mr. Au Yu Fai, Patrick	Personal	354,000	0.1
Mr. Hong Yiu	Personal	27,200,000	5.9

Save as disclosed above, as at 31 March 2004, none of the directors of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any directors or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

REPORT OF THE DIRECTORS *(Continued)*

14

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

At 31 March 2004, the interests of those persons in the shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

Long positions

Name	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's share capital
Chinney Alliance Group Limited	Directly beneficially owned	138,790,000	29.93
Mr. Hong Yiu	Directly beneficially owned	27,200,000	5.9

Save as disclosed above, the Company had not been notified of any interests or short positions in the shares or underlying shares of the Company which had been recorded in the register required to be kept under Section 336 of the SFO.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the year and up to the date of this report, none of the directors or management shareholders of the Company have an interest in a business which competes or may compete, either directly or indirectly, with the businesses of the Group.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the accounting period covered by the annual report, except that three independent non-executive directors are not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation in accordance with the Company's bye-laws.

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code for the purposes of reviewing and providing supervision over the Group's financial reporting process and the internal control systems of the Group.

REPORT OF THE DIRECTORS *(Continued)*

AUDITORS

The financial statements for the year ended 31 March 2001 were audited by Arthur Andersen & Co. Ernst & Young have acted as auditors of the Company for the years ended 31 March 2002, 2003 and 2004. There have been no other changes of auditors in the past three years. Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Wong Sai Wing, James
Chairman

Hong Kong
15 July 2004