Managing Director's Review

Operating Results

Operating results for the year ended 31st March, 2005 recorded a net profit after tax and minorities of HK$23.0 million, an increment of 20.2x against last year (2004: HK$1.1 million). Earnings per share were HK3.6 cents (2004: HK0.2 cents).

The Group's turnover for the year of HK$1,153.7 million decreased by 23.2% compared with last year. This was due to a marked reduction in construction work resulting from the completion of significant projects last year and was also partly attributable to the shift of some work especially in the civil engineering segment now undertaken through joint ventures, which activity is not consolidated in turnover. Despite the decline in turnover, gross profit increased by 49.5% to HK$139.0 million from the HK$93.0 million last year. This was due to improved contract profit margins as a result of cost savings from completed building projects, improvement in building project management and the increase in construction management activities. In the property development and rental business, a release of HK$24.9 million on the impairment provision was made in respect of Hsin Chong Center given the improved valuations in Hong Kong's property market. In addition, with the introduction of an improved contract review system, as described in note 1(j) to the accounts, the Group considered the deferred income policy was no longer appropriate and recognised a gain of HK$21.4 million this year. Accordingly, coupled with a net loss of HK$6.9 million from the jointly controlled entities and associates, the Group reported profit before taxation of HK$39.1 million for the year (2004: loss of HK$37.6 million).

Segment Analysis

(1) Building construction and civil engineering

Turnover for the building and civil engineering divisions was HK$1,123.2 million (after eliminating inter-group construction work of HK$15.1 million for Guangzhou Wen Chang Pavilion), a decrease of 23.7% compared with last year. The decrease was mainly attributable to the completion of significant projects last year, resulting in a comparatively reduced amount of work this year. Profit after finance costs was HK$18.6 million (2004: loss of HK$28.8 million) as margins were improved resulting from cost savings from completed projects, better managed building projects and the developing construction management activities. However, building construction and civil engineering activities undertaken through jointly controlled entities performed unsatisfactorily and incurred a loss of HK$51.8 million (2004: HK$0.7 million) for the year.

(2) Property development and rental

The segment reported turnover of HK$21.6 million mainly being rental income from Hsin Chong Center not occupied by the Group, No. 3 Lockhart Road and Lung Mun Oasis, Tuen Mun. No. 3 Lockhart Road was fully let throughout the year. Lease renewal and new letting rentals were in line with market rates. Profit after finance costs of HK$27.9 million included a write-back of HK$24.9 million of the impairment provision for Hsin Chong Center given the increase in property values in Hong Kong's property market (2004: loss of HK$42.5 million, included an impairment loss of HK$109.0 million against Guangzhou Wen Chang Pavilion, partly offset by a write-back of the impairment provision of HK$60.0 million for Hsin Chong Center).

Share of profit from associated companies of HK$16.3 million mainly represented a gain on disposal of a site in Malaysia in October, 2004 (2004: HK$5.0 million which was a write-back for residential properties at 18A La Salle Road, upon disposal of the remaining units).

(3) Electrical and mechanical ("E&M") installation

Gross profit generated from Hsin Chong Aster was insufficient to cover its overheads and resulted in a loss of HK$2.5 million (2004: HK$0.5 million, including a write-back in the retirement fund provision of HK$0.9 million). The increased overhead was mainly due to tendering costs spent on bidding projects in the PRC.

(4) Other operations

These are the integrated facility management ("IFM") in the PRC. IFM reported turnover of HK$8.8 million (2004: HK$8.5 million) and an operating loss of HK$0.7 million (2004: profit of HK$0.1 million). In light of the heavy overhead for the business, the Group intends to create a new platform in alliance with strategic partners in this field. Accordingly, the Group has disposed of its existing IFM business in the PRC at a consideration of HK$4.2 million which resulted in a minimal profit over book value.

Results from associates and joint ventures included a write-back of HK$29.7 million of the impairment loss provision for Novotel Century Harbourview, again given the improvement in property values in Hong Kong's property market. Novotel Century Harbourview's average occupancy rate for the year was 90% (2004: 73%) and average room rates were 43% higher than the rate recorded last year. These results reflect the recovery in Hong Kong's hotel and tourism industry, as well as the management's successful migration of customers towards the high-yield segments of the market. Results from other associates and joint ventures are minimal.

The Group's net profit showed a return on equity improved to 5.1% this year, from the 0.3% of last year.

Outlook

The Economy

Improvements in the domestic and regional economies have been sustained throughout the year resulting in some inflationary pressure on property prices with buyer sentiment returning in the top end of the market. This has encouraged landlords to reassess their returns and has resulted in substantial increases in both residential and commercial rents and will inevitably lead to an increase in new starts the private property development sector. In conjunction with this, the Government has announced the release of new land parcels for development in Hong Kong which will revitalize the urban redevelopment programme. In Macau, the economy has attained previously unknown levels with the excitement generated on the back of the casino and entertainment developments being planned and undertaken. This has generated a significant increase in Government revenue and put pressure on the existing infrastructure with resulting capital works programmes being announced. Inflation is now a serious risk in this small market due to demand across the board for materials and labour resources. Similarly the general growth in the PRC continues, fuelled by general industrial development and the major construction projects directly and indirectly related to preparations for the Olympics and other regional events to be hosted by the PRC. Despite the attempts by Central Government to restrain rampant inflation particularly in the residential and commercial property sectors through restrictions in bank lending and land supply, we still see strong demand and high inflation in most sectors.

Industry

Strong regional growth has fuelled private sector's interest in entertainment and tourism related infrastructure and attention within the industry has moved to Macau where most of the major players have significant orderbook commitments for the next two years. Limited private sector's work in Hong Kong and continued constraint in Government capital expenditure have maintained pressure on pricing and the domestic market remains highly competitive with awards still generally being driven by price not quality. This situation provides little hope for significant improvement in the medium term and industry attention is being directed towards other markets such as India, China and the middle east.

The Group

The management has continued to focus its attention on improved cost and resource management as it implements its long term strategy to broaden the operating base of the Group and the change to a service driven approach to the market with a clear focus on quality clients looking for added value and performance. This has resulted in a more selective attitude in all areas of our existing business and a corresponding overall improvement in trading performance. In addition to this, we have achieved significant growth in certain key areas of new business, most particularly in our Construction Management Services Division which has established a strong business relationship with the Las Vegas Venetian group in Macau following the successful delivery of the Sands Casino in May of last year, within both time and cost anticipation of the client. In April, 2005, the Group was formally appointed to manage the implementation of the next phase of this US$1.5 billion mega resort project and its supporting infrastructure which must rank amongst the biggest such development being constructed in the region. The Group anticipates the mobilization of more than 400 senior technical/commercial management staff to successfully deliver this project in 2007, many of whom will form the core team for the Group's future development in this new business sector in Macau, Hong Kong and in Mainland China where we see most sustainable growth. In our traditional construction market in Hong Kong, we have had a year of consolidation with existing projects proceeding well and we are much encouraged by the strong start to the next trading period following the award of three new projects since April, 2005. In China, the management of Hsin Chong Aster Building Services has concentrated on establishing a sustainable business platform through the acquisition of a China E&M company which now has a Class 1 licence and is developing its base of operations in Beijing. The management of the Group's construction subsidiary in China has also made a strong start to the year with a major project award in Beijing and with the registration of its Class 1 licence, it will be well placed to secure further quality contracts from both local and foreign direct investment initiatives.

The strategic development of the Group's business has in some areas exceeded the key targets set by the Board in 2002 and with the management's commitment to proactive cost management and the further development of a broad service based culture, we are confident that we shall create a successful and sustainable regional business in which all stakeholders may benefit and be proud to belong.

Rodney Gordon FRANKS
Managing Director

Hong Kong SAR, 8th July, 2005