FINANCIAL REVIEW

Liquidity

As of 30 September 2006, the Group had cash and cash equivalents of approximately HK$94,616,000, an increase by 23% from HK$77,010,000 as of 31 March 2006, and pledged deposits of approximately HK$8,327,000, an increase of approximately 2% from HK$8,180,000 as of 31 March 2006. Current ratio, measured as total current assets divided by total current liabilities, was 1.1 as of 30 September 2006 (31 March 2006: 1.0).

Financial resources

The Group used net cash of approximately HK$88,415,000 in its operating activities during this period (2005: HK$84,706,000). Excluding the bank loan directly associated with the non-current asset classified as held for sale, bank overdrafts and loans stood at HK$584,394,000 as of 30 September 2006, increased by 21% from HK$484,461,000 as of 31 March 2006. The gearing ratio, measured on the basis of net borrowings (total bank borrowings and finance lease payables less total cash and cash equivalents and pledged deposits) over total shareholders' equity, was 166% as of 30 September 2006 (31 March 2006: 147%).

The Group's borrowings are principally on a floating rate basis and denominated in Hong Kong dollars, except for a bank loan of GBP870,000, which is denominated in British Pound Sterlings and directly associated with a property located in London, the United Kingdom, classified as held for sale. Due to the substantial increase in bank loans as compared to the balance as of 30 September 2005, interest expenses for this period increased to approximately HK$13,541,000 by 55% from HK$8,727,000 (as restated) for the previous corresponding period.

Whilst the Group's bank borrowings bear interest at market floating rates, the Group has entered into interest rate swap arrangements denominated in Hong Kong dollars with a bank for a total notional amount of HK$150 million to mitigate the risk of interest rate upward trends.

Total banking facilities, comprising primarily bank overdrafts and loans, amounted to approximately HK$845 million as of 30 September 2006 (31 March 2006: HK$873 million), of which approximately HK$181 million (31 March 2006: HK$306 million) was unutilised.

Charges on assets

As of 30 September 2006, the Group's banking facilities were secured by (i) charges on the investment properties of the Group with an aggregate carrying value of approximately HK$504,590,000; (ii) charges on the Group's properties held for and under development of approximately HK$160,900,000; (iii) charges on the Group's leasehold land and building classified as held for sale of approximately HK$16,199,000; (iv) charges on the Group's time deposits of approximately HK$8,327,000 plus any interest accrued thereon. In addition, receivables of certain construction and maintenance contracts have been assigned in favour of certain banks to secure the banking facilities as of 30 September 2006.

FINANCIAL REVIEW *(Continued)*

Contingent liabilities

Details of the Group's contingent liabilities are set out in note 15 to the condensed consolidated financial statements.

PROSPECTS

The construction industry in Hong Kong has remained competitive. Whilst it is not expected that the Government will change its cautiousness with public spending on new building constructions in the near future, we have been diverting our effort and resources to maintenance projects and the private sector.

Our effort has proved a great success in bidding maintenance jobs. Following the awarding by the Architectural Services Department to Able Engineering of the 3-year term contract worth HK$683 million for design and construction of minor works to government and subvented properties covering the whole of Hong Kong in early 2006, during this period, Excel Engineering was awarded by the Water Supplies Department (WSD) a significant contract worth HK$223 million for the replacement and rehabilitation of water mains on Hong Kong Islands. Subsequent to the period end, in October 2006, WSD has further awarded Excel Engineering with another significant contract worth HK$203 million for the replacement and rehabilitation of water mains in Kowloon City, Wong Tai Sin and Kwun Tong. Currently, around 50% of the total outstanding value of our contracts on hand are attributable to maintenance projects. We expect that these maintenance projects will make positive contributions to our future earnings.

In addition, we have also expanded our customer base to the private sector. During this period, Able Engineering successfully secured three significant contracts worth HK$1,200 million in total for the construction and interior fitting out works for three residential developments of leading property developers in Hong Kong. Leveraging on our high reputation in the public building construction sector, we will continue to keep up our quality of work and endeavor to obtain more jobs from quality clients in the private sector.

On the other hand, the Directors have positive views about the diversification of its businesses to mainland China, especially Beijing, as mainland China is considered a wider and bigger market than Hong Kong. As such, we have been exploring opportunities in mainland China. On 28 October 2006, the Group entered into a cooperation agreement with China Radio and TV International Techno-Economic Cooperation Co. (中國廣播電視國際經濟技術合作總公司) regarding a property development project at No. 1 Guangqu Road, Chaoyang District, Beijing, People's Republic of China, which occupies a land area of 34,715 sq. meter. The existing buildings on this site will be demolished and redeveloped as a commercial and office complex with a gross floor area of 6,174 sq. meter. Pursuant to the cooperation agreement, the Group is responsbile for the total redevelopment costs of RMB18,120,000 (approximately HK$17,943,000). In return, the Group will be entitled to the use and earnings of the ground to 4th floors of the redeveloped commercial and office complex for 12 years. The redevelopment is expected to be completed by August 2007. The Directors consider that this property development project presents a good opportunity for the Group to tap the potentials of diversification of its businesses to mainland China.