

## Management Discussion and Analysis

### Business Overview

For the year ended 31 March 2003, the Group recorded a turnover of approximately HK\$55.6 million, representing a decrease of approximately 49% as compared with last year. The Group sustained a loss attributable to shareholders of approximately HK\$3.0 million, for the year while there was profit attributable to shareholders of approximately HK\$22.6 million in 2002. The performance of the Group for the year was mainly affected by the substantial decrease in turnover and a considerable increase in administrative expenses following the listing on the Stock Exchange on 24 July 2002. Loss per share was approximately HK0.48 cents for the year (2002: earnings per share of approximately HK4.48 cents).

During the year, the Group successfully completed several substantial contracts including installation of timber door sets at Wan Hoi Street and interior decoration at West Kowloon Reclamation. However, due to the Government's policy on slowing down the public housing construction and reducing the budgeted expenditure on infrastructure projects, together with the adverse private property market, the number of projects available for tender was seriously reduced. As a result, the Group's turnover was dropped significantly this year. In order to maintain a fair successful tendering rate among the severe competition, the Group's prices on some projects were under pressure, which led to a decrease in the gross profit margins.

In order to capture the growing opportunities in the construction market of the People's Republic of China ("PRC"), the Group is participating in the PRC market through an investment in a joint venture which is currently participating in construction projects located in Shanghai.

### Liquidity and Financial Resources

On 24 July 2002, the Company's shares were listed on the Stock Exchange. The Group raised approximately HK\$39.4 million, net of related issuance expenses, from the issue of 168 million new ordinary shares in the Company. The listing enlarged the base of shareholders and provided additional funds for the Group's future expansion.

As at 31 March 2003, the Group had cash and bank balances of approximately HK\$28.8 million (2002: HK\$26.7 million) and the total assets of approximately HK\$98.4 million (2002: HK\$81.2 million). The shareholder equity was of approximately HK\$86.6 million (2002: HK\$58.6 million) and the outstanding hire purchase contract payables were of approximately HK\$7.1 million (2002: HK\$0.04 million), and accordingly the gearing ratio, calculated on the basis of total debts divided by total equity, was increased from 0.068% to 8.2%.

As at 31 March 2003, the Group's net current assets were approximately HK\$74.8 million. The Board is therefore in the opinion that the Group has sufficient resources and working capital to meet its future development.

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The Group's business transactions are denominated in Hong Kong dollars, and thus the Group did not engage in any hedging activities.

As at 31 March 2003, neither the Group nor the Company had any significant commitments.

### Employees and Remuneration Policies

The Group had a total of 21 employees as at 31 March 2003. During the year, total staff costs amounted to approximately HK\$3.3 million. Employees are remunerated based on their performance and the prevailing industry practice, with remuneration policies and packages being reviewed on a regular basis. Other staff benefits provided by the Group include mandatory provident fund, medical insurance schemes and life insurance schemes.

The Company maintains a share option scheme, pursuant to which share options are granted to selected director or employee of the Group, with a view to attract and retain quality personnel and to provide them with incentive to contribute to the business and operation of the Group. However, no share option has yet been granted under the share option scheme up to the date of this announcement.

### Use of Proceeds

The net proceeds from the Company's issue of new shares at the time of its listing on the Stock Exchange on 24 July 2002 amounted to approximately HK\$39.4 million. As at the date of announcement, the Group had utilised a total of approximately HK\$4.4 million in market development in the PRC and HK\$2 million as the general working capital. The remaining proceeds are placed on short-term deposits with licensed banks in Hong Kong.

### Future Prospect

The outbreak of the Severe Acute Respiratory Syndrome ("SARS") in the Asia Pacific region has created a significant and adverse impact on the economy of Hong Kong and the market conditions are expected to remain difficult in the next few years. The number of construction projects in Hong Kong is substantially decreased following the suspension of Home Ownership Scheme and the reduction in Government's budgeted expenditure on infrastructure projects, as a result, private and institutional property owners are likely to hesitate to incur expenses for either refurbishment plans, renovation or fitting-out works. However, with policies from both Hong Kong Government and private sector to enhance the recovery of local economy, the Board is optimistic in the long-term prospect of the construction industry.

Despite the unfavourable environment in the construction industry, the Group is paying effort to maintain the market share and improve the profit margin. The management is taking cautious approach in selecting projects to tender and offering competitive prices. On the other hand, the Group will continue to implement effective cost control, quality enhancement and efficient operation.

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During the year, the Group has participated in the PRC market through a long-term investment for the electrical and mechanical projects in Shanghai. The PRC market of high quality interior decoration and renovation business is expected to bloom subsequent to the entry into the World Trade Organisation and the hosting of the Olympic Games in 2008. In order to further explore the PRC construction market, a sales and marketing team specialised in the PRC construction market will be developed and a representative office will be set up in the PRC.

Looking forward, the Group will continue to strengthen its core business by adopting above measures and to explore different investment opportunities. The Group is well prepared to take up the challenges lying ahead.