Net profit attributable to shareholders for the year increased 7.0 per cent. from HK$52.7 million to HK$56.4 million.

Business and financial review

Net profit attributable to shareholders for the year increased 7.0 per cent. from HK$52.7 million to HK$56.4 million. Due to poor performance of the overall Hong Kong economy in the past year, the construction industry was negatively affected. The turnover for the year dropped from HK$450.1 million for the year ended 31st March 2002 to HK$203.0 million for the year ended 31st March 2003.

Nonetheless, gross profit margin of the Group rose from 20.8 per cent. for the year ended 31st March 2002 to 44.1 per cent. for the year ended 31st March 2003. The increase was mainly due to the smooth completion of one of the major contracts which took place in the second half of the financial year. Accordingly, contract costs were lower than original budgeted and the additional profit arising was fully recognised upon the completion of that contract.

Tin Shui Wai Further Development
(Tin Ying Road and Tin Tsz Road External Links)

The Group's administrative expenses decreased by 29.7 per cent. to HK$15.2 million comparing with the financial year ended 31st March 2002 as a result of an effective cost control programme to control the operation expenses of the Group.

The Group's interest expense for the year was HK$8.4 million, representing a 34.1 per cent. decrease from the previous year. The decrease was mainly attributable to the reduction of interest rates and gradual repayment of the bank debts of the Group.

The interest expense cover ratio improved from 5.9 times for the year ended 31st March 2002 to 8.9 times for the year ended 31st March 2003.

The Group's total liabilities were HK$379.3 million as at 31st March 2002 and HK$216.8 million as at 31st March 2003. This led to a drop in the gearing ratio(1) from 2.33 as at 31st March 2002 to 1.39 as at 31st March 2003. The drop in the ratio was mainly attributable to the settlement of bank debts during the financial year. Gearing ratio would be further reduced to 0.81 taking into account the net proceeds from the initial public offering in April 2003.

Note:–

(1) The Group's total borrowings (after deducting cash and bank balances) over shareholders' funds

Contracts

In the past year, all the Group's contracts on hand are related to public sector foundation works. These included projects from Kowloon-Canton Railway Corporation, Territory Development Department, Hospital Authority and Architectural Services Department.

Segment information

Revenue from foundation works represented 94.9 per cent. (2002: 94.1 per cent.) of the Group's total turnover. The remaining 5.1 per cent. (2002: 5.9 per cent.) of turnover represented sale of machinery and equipment.

Number and remuneration of employees, remuneration policies and bonus

The Group around 120 staff members as at 31st March 2003. The staff costs (excluding directors' emoluments) were HK$48.4 million (2002: HK$91.7 million).

The Group has adopted a provident fund scheme for its employees in Hong Kong as required under the Mandatory Provident Fund Schemes Ordinance.

The Company conditionally adopted a share option scheme (the "Scheme") on 25th March 2003 for the purpose of providing incentives or rewards to eligible persons for their contribution to the Group. The subscription and exercise price of the share options, exercisable period and the maximum number of options to be granted are determined in accordance with the prescribed terms of the Scheme.

Liquidity, financial conditions and capital structure

As at 31st March 2003, the total assets of the Group were HK$334.3 million which consisted of HK$283.6 million of fixed assets. The Group purchased HK$11.2 million and disposed of HK$23.9 million of machinery and equipment during the year ended 31st March 2003.

Current assets amounted to HK$50.7 million as at 31st March 2003, comprising trade receivables of HK$20.1 million, deposits, prepayments and other receivables of HK$6.8 million, amounts due from customers for contract works of HK$15.1 million, inventories of HK$4.0 million and cash and bank balances of HK$4.7 million.

As at 31st March 2003, current liabilities amounted to HK$143.0 million, comprising trade payables of HK$9.4 million, accrual and other payables of HK$5.8 million, short-term bank loans and overdrafts of HK$70.6 million, tax payable of HK$0.5 million and current portion of long-term liabilities of HK$56.7 million.

Long-term liabilities amounted to HK$73.8 million, comprising non-current portion of long-term bank loans and finance leases of HK$40.3 million and deferred taxation of HK$33.5 million as at 31st March 2003.

Sources of funds of the Group include funds generated internally, from banking facilities and hire purchase loans with an average of three to four years' maturity. The Group's borrowings were primarily on floating interest rates basis.

Exposure to foreign exchange fluctuation

All of the Group's revenues and most of its operating expenses are denominated in Hong Kong dollars.

Some of the plant and machinery purchased for the Group were transacted in US dollars or Euro. However, this represented a comparatively smaller amount of the Group's total purchase. The Group did not have any material gain or loss due to the fluctuation of the currency exchange rates.

Charges on the Group's assets

As at 31st March 2003, the net book values of machinery and equipment held under finance leases amounted to HK$215.1 million and fixed assets pledged for certain long-term loans amounted to HK$3.0 million. Certain banking facilities were secured by a bank deposit of a subsidiary of HK$3.7 million.

Contingent liabilities

As at 31st March 2003, the Group had contingent liabilities of HK$6.1 million in respect of a number of litigation proceedings arising in the normal course of its business. These include both claims on the Group and counterclaims made by defendants of actions initiated by the Group. The Directors, having taken into consideration the advice from the Group's legal counsels, are of the opinion that the ultimate liability under these proceedings, if any, would not have a material impact on the financial position of the Group.

KCRC West Rail (Yuen Long Station)

Management strategies and prospect

Having suitable machinery and equipment for each foundation works contract and possessing the knowledge to manage and utilize them are critical factors for the successful completion of each project. With a full range of machinery and equipment and a professional management team having over 20 years of experience and expertise in the construction industry and in machinery and equipment management, the Group is able to manage different projects of different sizes and with different levels of technical complexities.

Although the year ahead will be full of challenges, the Group remains confident about the construction industry in the future. The Group believes that the business environment of the construction sector in Hong Kong will improve in the coming years as the Hong Kong economy picks up speed. The Government of the Hong Kong Special Administrative Region has also carried out policies to stabilise the property market and planned to launch more public infrastructure works in the coming decade.

With the commitment to strive for excellence, the Group is confident that it will be able to bring sustainable returns to its shareholders and build a reliable foundation for tomorrow.