Business and financial review

The Group's turnover for the financial years ended 31st March 2004 (the "Year") and 31st March 2003 (the "Previous Year") were HK$137.1 million and HK$203.0 million respectively. The drop in turnover indicated the tough market conditions for the Year. At the same time, the prices of steel reinforcement and concrete for piling construction and gasoline for running machinery and equipment all went up substantially during the Year. These factors together rendered adverse impact on the Group's operating results.

The drop in turnover and increase in direct costs and administrative expenses together led to a drop in the net profit attributable to shareholders from HK$56.4 million for the Previous Year to HK$1.1 million for the Year.

The decrease in the Group's interest expense was mainly attributable to the reduction of interest rates and gradual repayment of the debts of the Group.

The Group's total liabilities were HK$216.8 million as at 31st March 2003 and HK$237.4 million as at 31st March 2004. During the Year, taking the advantage of the low interest rates, the Group has been shifting some short term financing to longer term to better match with the useful economic lives of the plant and equipment of the Group. The Group's gearing ratio[1] dropped from 1.39 as at 31st March 2003 to 0.80 as at 31st March 2004. The drop in the ratio was mainly attributable to the settlement of debts during the Year and the receipt of the net proceeds from the initial public offering on 9th April 2003.

Note:–

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

Segment information

Revenue from foundation works represented 67.8 per cent. (2003: 94.9 per cent.) of the Group's total turnover. The remaining 32.2 per cent. (2003: 5.1 per cent.) of turnover represented rental and sale of machinery and equipment.

Number and remuneration of employees, remuneration policies and bonus

The Group had about 115 (excluding directors) staff members as at 31st March 2004. The staff costs (excluding directors' emoluments) were HK$31.3 million (2003: HK$48.4 million).

Contracts

During the Year, all the Group's contracts are related to public sector foundation works. These included projects from Kowloon-Canton Railway Corporation, Highways Department, Hospital Authority and Architectural Services Department.

The Group also adopted a provident fund scheme for its employees in Hong Kong as required under the Mandatory Provident Fund Scheme 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 2004, the total assets of the Group was HK$390.7 million which included HK$263.8 million of fixed assets. The Group purchased HK$14.3 million and disposed HK$17.6 million of machinery and equipment during the Year.

As at 31st March 2004, current assets and current liabilities were HK$126.7 million and HK$142.9 million, respectively. As at 31st March 2003, current assets and current liabilities were HK$50.7 million and HK$143.0 million, respectively. The current ratio of the Group improved from 0.35 as at 31st March 2003 to 0.89 as at 31st March 2004.

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

In July 2004, the Group obtained a standby banking facility of HK$30 million, which is secured by deposits from a related company controlled by a director of the Company. Given the current poor market conditions and severe competition in the construction market, this additional facility will allow the Group to maintain its financial flexibility to undertake more profitable and diverse projects in the future.

Contingent liabilities

As at 31st March 2004, the Group had contingent liabilities of HK$6.2 million in respect of a number of litigation proceedings arising in the normal course of its business. These include both claims and counterclaims made by defendants of actions initiated by the Group. The Directors 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.

Exposure to foreign exchange fluctuation

The Group's major operation was transacted in Hong Kong dollars. Some of the plant and machinery and parts 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 record any material gain or loss due to the fluctuation of the currency exchange rates.

Charges on the Group's assets

The net book values of machinery and equipment held under finance leases amounted to HK$135.1 million and fixed assets pledged for certain long-term loans amounted to HK$55.9 million. Certain banking facilities were secured against bank deposits of HK$43.7 million.