

OPERATING ENVIRONMENT

The Hong Kong economy had been on a roller coaster ride in 2003, making a deep dive in the second quarter before rising sharply in the third quarter. The drastic changes were mainly due to the outbreak and containment of the SARS, which led to an upsurge in demand for cleaning services and intensified competition in the cleaning service market respectively.

OPERATING RESULTS

Turnover of the Group for the year ended 31 March 2004 amounted to HK\$217,072,000, representing an increase of 6 per cent from that of the previous year. The increased turnover was attributable to a number of new contracts signed during the year under review. However, in the face of intensified competition and attrition of certain higher margin contracts, the Group saw a retreat in its profit margin. While operating expenses decreased slightly by 3 per cent, staff costs increased by 18 per cent during the year. As a result, the Group reported a net profit of HK\$11,766,000 for the year under review, whereas that of the previous year was HK\$21,654,000.

BUSINESS REVIEW

The Group faced both opportunities and challenges in 2003. While the increase in “short-term” cleaning projects as a direct result of the SARS outbreak in April 2003 generated additional income, the Group encountered intensified market competition, especially in the second half of the year when the overall economy began to recover. The rivalry for market share had caused the industry to squeeze profit margin, which led to the Group’s reduced profitability. Despite these challenges, the Group succeeded in leveraging its well-established reputation and professionalism to secure new contracts. Revenue from these new contracts thus helped offset the impact from the expiry of certain contracts during the year under review resulting in a net increase in turnover of HK\$12,997,000.

The external wall cleaning work for 31 blocks at Laguna City has been carried out smoothly and on schedule since the commencement date of July 2003 and the work is scheduled to be fully completed by August 2004.

In August 2003, the Group was awarded a contract from Kowloon-Canton Railway Corporation under which the Group would provide cleaning and pest and rodent control services for all of the nine West Rail stations. The contract has already started to contribute a monthly income of about HK\$1.6 million to the Group since it took effect at the end of October 2003. The contract will be valid through the end of November 2005.

FINANCIAL REVIEW

The Group's financial position remained healthy during the year under review, with a current ratio of 5.1 as at 31 March 2004 (2003: 5.3). The cash and bank balance as at 31 March 2004 was approximately HK\$70.7 million (2003: approximately HK\$82.2 million). Given a strong cash position, the Group did not have any bank borrowings and, therefore, the Group's gearing ratio as at 31 March 2004 was nil (2003: nil). The Group's shareholder's equity amounted to HK\$86,915,000 as at 31 March 2004 (2003: HK\$94,319,000).

During the year under review, the Group carried out its transactions mostly in the currency of Hong Kong dollars and was not exposed to foreign exchange risk.

As at 31 March 2004, the Group's banking facilities were secured by the Group's time deposits of HK\$23,748,000 (2003: HK\$25,011,000). The facilities have not been utilised as at 31 March 2004. Save as disclosed above, the Group did not have any charges on any of its assets as at 31 March 2004.

CONTINGENT LIABILITIES

At 31 March 2004, the Group had contingent liabilities as follows:

- (a) The Group has executed performance bonds to the extent of HK\$4,791,000 (2003: HK\$4,791,000) in respect of certain services provided to a customer by the Group. Subsequent to the year under review, in April 2004, the performance bonds were cancelled.
- (b) The Group has executed performance guarantees to the extent of an aggregate amount of HK\$10,300,000 (2003: HK\$4,300,000) in respect of certain services provided to various customers by the Group.
- (c) The Group had a contingent liability in respect of possible future long service payments to employees under the Hong Kong Employment Ordinance, with a maximum possible amount of approximately HK\$3,600,000 as at 31 March 2004 (2003: HK\$7,400,000). The contingent liability has arisen because, as at 31 March 2004, a number of current employees have achieved the required number of years of service to the Group and will be eligible for long service payments under the Hong Kong Employment Ordinance if their employment is terminated under certain circumstances. A provision of HK\$1,949,000 (2003: HK\$4,658,000) in respect of such possible payments has been made in the balance sheet as at 31 March 2004.

CONTINGENT LIABILITIES (continued)

- (d) During the ordinary course of its business, the Group may from time to time be involved in litigation concerning personal injuries sustained by its employees or third party claimants. The Group maintains insurance cover and, in the opinion of the directors, on current evidence, any such existing claims should be adequately covered by the insurance as at 31 March 2004.

EMPLOYEES AND REMUNERATION POLICIES

The total number of employees of the Group as at 31 March 2004 was 2,533. Total staff costs, including directors' emoluments and net pension contributions, for the year under review amounted to HK\$164.2 million (2003: HK\$138.8 million). The Group provides training programmes for its employees.

Remunerations are commensurate with the nature of jobs, experience and market conditions, and performance related bonuses are granted to some of the employees on a discretionary basis. In addition, all employees of the Group, including directors, are eligible to participate in the Company's share option scheme.

USE OF PROCEEDS FROM NEW ISSUE

The Company's shares became listed on the Stock Exchange on 25 July 2003 after its successful placing and issue of 90 million offer shares at an offer price of HK\$0.56 per share. With half of the offer shares being new issue, the Group raised net proceeds of approximately HK\$20.1 million. As at the end of the year under review, the Group had applied HK\$4.2 million to the purchase of gondolas and staff recruitment for external wall cleaning services. The balance of approximately HK\$15.9 million was placed into fixed deposit and savings account and is expected to be applied to the businesses set out in the Company's prospectus dated 15 July 2003 if and when tenders for such business are successful or when negotiations are finalised.

PROSPECTS

The Group looks into the new financial year with hope and confidence. Although severe market competition is expected to prevail, the Group is well poised to timely capture business opportunities arising from government projects and demand for external wall cleaning and repair services.

At present, there are a large number of residential complexes in Hong Kong that are over 10 years old and require external wall cleaning and repair. In view of the enormous potential of this market, the Group has established a new company – Yangi Construction & Engineering Limited – mainly for providing external wall repair and maintenance works. This new company is expected to produce synergetic benefits to the Group's external wall cleaning operations, making the Group a provider of vertically integrated external wall cleaning and maintenance services.

PROSPECTS (continued)

The Group is also eyeing on government contracts, as cleaning companies providing medium to high-end services like the Group have a better chance to win these tenders. The recent notice issued by the Financial Services and the Treasury Bureau of Hong Kong regarding public works tenders requires contractors to pay workers at a level not lower than the average market level. To the Group, the latest guideline on wage level requirement will help enhance the quality of work and healthy development of the cleaning industry, where market players are currently cutting margins to fight for market share. The Group, which has been providing quality and professional cleaning services, sees greater chance for winning public tenders after the issue of the notice.

Apart from its existing cleaning and related services, the Group has been exploring the opportunities for direct sales to enlarge its revenue base. Products intended for direct sales range from household cleaning products and cosmetics to snacks and beverages. The Group has already secured respectable suppliers, among of which include its long-standing partner for cleaning product supplies. As the Group will target its direct sales at contracted projects for which it is currently providing cleaning services, the Group can easily identify its prospective customers and can also save cost.

Pursuant to the training courses co-organised with Employees Retraining Board and certain adult education service centres in the year under review, the Group looks forward to participating in more similar programmes in the future in order to raise its professional image and leading position. Meanwhile, the Group continues to provide training programmes for its staff to ensure their professionalism and quality of work.