Management Discussion and Analysis

GENERAL

Upon the completion of the unconditional cash offer to acquire all the issued shares of the Company by Kingston Securities Limited on behalf of Smart Town Holdings Limited by early June 2004, the new management stepped in and tookover the management of the Group.

FINANCIAL REVIEW

For the year under review, the turnover of the Group was approximately HK$23.2 million representing a drop of 58.3% compared to the corresponding period last year (2003: HK$55.6 million).

The net loss attributable to shareholders of the Group was HK$14.6 million comparing to last year's loss of HK$3.0 million. Such loss was mainly due to the decrease in turnover and the squeezing in profit margin.

REVIEW OF OPERATION

This year is definitely a tough year for basically all industries whereby consolidation and rationalization is the primary trend in reaction to global economic and geo-political conditions. The Group is of no exception. This year is the year for the Group to trim down the highly competitive "project" line of business, to think again the relative strength and weakness of the Group and to re-orientate its medium to long term strategic move.

During the year under review, the Group has continued submitting a number of bids for projects for the installation of timber door sets and interior decorations. However, the result is not positive due to the still slow economy, the cut throat price competition of other bidders, the Group has only been able to get a contract for amount of approximately HK$19.8 million during the year and with a very low profit margin. The Board has reviewed the same and decided that this would not be for the best interests of the shareholder, in particular, with the long receivable days, the interest factor associated and the possibility of bad debt.

An important development during the year was the acquisition of the timber trading business, MFT Epping Trading Limited (the "Epping" and formerly known as Epping Trading Limited) in September 2003. Although the acquisition only contributed approximately HK$3.3 million to the Group's turnover and HK$0.4 million to the Group's profit from operating activities, the Board still anticipates that the benefits arising from Epping should be fully reflected in the next financial year.

The Group, in view of the competition and difficulties in the construction business, has taken remedial moves in order to reduce the impact of the restriction in new buildings to be constructed. The moves of the Group in the coming year would include:

a. the reduction in the bidding of projects that can only bring in low profit margin but high receivables;

b. the recruitment of suitable staff to fill the appropriate positions;

c. effecting vertial and horizontal integration in supplying timber to either itself or to other companies involving in timber industry; and

d. adopting a two-dimensional approach to expand the timber trading business. On the one hand, we strive to move up the market by broadening both the products and the customer base. The Group would make efforts in modernising and enhancing the operating efficiency of its trading and distribution processes so as to translate to a cost-efficient, automated platform. On another dimension, we continue to push the concession owner in expanding the production output to cope with the rising demand. While the existing capacity is adequate to meet the shipment, we plan to push the concession owner to add the output to cater for the foreseeable growth for the next financial year.

Management Discussion and Analysis

REVIEW OF OPERATION *(Continued)*

These moves are all in position and pave the way for the Group to make use of its principal relationship and strength.

In conclusion, the loss for current year was due to

a. the lower profit margin obtained from projects vis-a-vis the past;

b. the lower project number undertaken; and

c. the amortization of goodwill arisen from the acquisitions of a subsidiary and an associate;

The Board appreciate the importance of circumspection, vigilance and resilience in advancing through prudence adherence to existing strengths, keen awareness of macroeconomic factors and market trends, adopt to exceptional circumstances and to integrate the strength of various partners.

Liquidity and Financial Resources

The Group has maintained a stable financial position.

Despite the loss of the Group for circa HK$14.6 million during the year, the acquisition of companies during the interim period, the cash position of the Group has been maintained at roughly the same level as the last year via the chasing after and getting back of long receivables, the getting of additional suppliers' credit and the disposal of non-core operations. It has to say that the Group is in a net cash position and is relying on its own working capital. As such, the Group envisages no difficulty to meet its financial obligations as when they fall due in the foreseeable future.

As at 31 March 2004, shareholder equity was approximately HK$72.0 million (2003: HK$86.6 million), total asset of HK$91.4 million (2003: HK$98.4 million) and the outstanding hire purchase contract payables of HK$5.3 million (2003: HK$7.1 million). Gearing ratio, calculated on the basis of total debts divided by total equity, was decreased from 8.2% to 7.4%.

The current ratio, calculated on the basis of current assets divided by current liabilities, of the Group as at 31 March 2004 was 4.4 (2003: 12.6). The drop in the ratio was due to the reduction of account receivables and increase in account payable.

As the majority of the inflow and outlay are both denominated in Hong Kong Dollars and the United States Dollars which are pegged together, the Group has not adopted any hedging policy.

As at 31 March 2004, the Group had not pledged any kind of asset and had no significant capital commitment or contingent liabilities.

Employment and Remuneration Policy

The Group has a total of 19 employees as at 31 March 2004 (2003: 21). During the year, total staff costs amounted to approximately HK$5.8 million. Employees are remunerated based on their performance and the prevailing industry practice, with remuneration policies and packages being reviewed on a regular basis. The Group has also established discretionary bonus and employee share option scheme which are designed to motivate and reward employees to achieve the Company's business performance targets. Other staff benefits provided by the Group include mandatory provident fund and medical insurance schemes.

Management Discussion and Analysis

Employment and Remuneration Policy *(Continued)*

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 report.

Use of Proceeds

The net proceeds from the Company's issue of new shares at the time of its listing on The Stock Exchange of Hong Kong Limited on 24 July 2002 amounted to approximately HK$39.4 million. As at 31 March 2004, the Group had utilised a total of approximately HK$14.5 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 Prospects

The new management has endeavoured to implement both the re-engineering of staff to their appropriate positions and to continuously rationalize the existing businesses by centralising operations, controlling the daily operating expenses and getting rid of unprofitable and no prospect businesses. Meanwhile, the management would continue to improve the overall efficiency of existing and newly acquired operations. These developments help us prepare for the ever-changing business developments.

The new management continues anticipating that the PRC will be the world's fastest growing economic region within the next decade. Despite the slowdown of global economy, the Group remains confident that there would be abundant business opportunities with respect to our existing operations as well as new potential investments. With the anticipated soft landing of the economy in the PRC, it is expected that the demand for timber related products would be increased further, whether it is on the construction, the fire protection or on the decoration aspects.

The Board will continue to further integrate its timber trading operation to ensure its long-term success. To maximize shareholder value, the management team will continue to open doors to new business opportunities that are relating to the core business of the Group's operation that can make use of the existing resources of the Group. Additionally, the Group would build up a greater PRC and Hong Kong presence and gain greater industry acknowledgement. While the PRC growth strategy has proven to be promising, the management team believes that more resources would be devoted over there. This is an important strategic breakthrough, taking the Teem Foundation to the next level of market position.

The Group would also closely monitor the progress of the vertical and horizontal integration strategy. The management would follow closely, hold discussions and explore possibilities of participating in joint ventures and investments that could provide strategic and operational synergies to the Group's core value.

The management is optimistic in the future development and believes that the plan will materialize in the years to come and will reward its long-term investors and shareholders. Nonetheless, the management intends to pursue an aggressive yet prudent approach in terms of participating in new contracts, projects and investments.