

# Management Discussion and Analysis

## FINANCIAL REVIEW

For the year ended 31 July 2004, turnover of the Group amounted to approximately HK\$19.6 million, as compared to HK\$23.8 million for the corresponding period in 2003. The continuous decrease in turnover was due to the continuous sluggish construction market in Hong Kong and in the region and the negative public sentiment towards reclamation projects over environmental issues and the effects of environmental protection laws.

Net loss for the year ended 31 July 2004 for the Group is approximately HK\$16.5 million as compared to HK\$18.2 million for the corresponding period in 2003. The Group's deficiency of capital and its net current liabilities is approximately HK\$44.7 million and HK\$28.3 million respectively as comparing to HK\$3.9 million and HK\$22.4 million respectively at 31 July 2003.

The Group continues to operate under a high gearing level. The Group's current ratio (current assets to current liabilities) as of 31 July 2004 was 42% as compared to 55% for the corresponding period in 2003.

## OPERATING REVIEW

For the year ended 31 July 2004, the Group continues to focus on its principal business of marine engineering projects, which contributed mainly to the Group's turnover. Although market condition in Hong Kong and the Southeast Asia Region remains sluggish, the PRC market appears to be very vibrant as the Group has allocated additional resources in pursuing engineering projects in this market.

As disclosed in the Annual Report 2003 and in the Company's announcement dated 13 May 2004, the Company is now considering various alternatives to secure adequate financial resources in fulfilling its business needs both in the short term and in the long-run which may or may not result in abandonment of the proposal for the issuance of preference shares.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 31 July 2004, the Group had in aggregate other borrowings of approximately HK\$99 million. Details of the Group's indebtedness and obligation are set out in note 16 to the financial statement.

## EMPLOYEES

As at 31 July 2004, there are approximately 13 staff members and 25 contract workers employed by the Company and/or its subsidiaries. The directors are actively reviewing staffing levels and remuneration packages with a view to maintain cost-effective management structure.

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### PROSPECT AND FUTURE PLANS

Given favorable policies to Hong Kong companies by the Central Chinese Government such as the Closer Economic Partnership Arrangement (CEPA) which was signed and concluded in June 2003 and the great market demand, the PRC market represents tremendous growth opportunity for the Group. The Group is committed and has planned to allocate more resources in seeking out business opportunity in the PRC on marine engineering and related business.

### CONTINGENT LIABILITIES

Save for the shortfall undertaking of HK\$176 million the Company has committed under the Scheme as disclosed in note 2(b) to the financial statements, a guarantee of payment issued by a subsidiary and interest dispute on banking facilities of a subsidiary as disclosed in note 26 to the financial statement, there is no other contingent liabilities that the Group is aware of.