Management Discussion and Analysis

OPERATING ENVIRONMENT

The Hong Kong economy as a whole recovered strongly in the year under review. The healthy growth in tourism, due partly to the success of the individual travel visa scheme, supplemented by a beneficial operating environment for businesses with relatively steady and low interest rates, low operating costs and a reversal of a deflationary environment which had been with Hong Kong for the past few years, sparked a general improvement in investors' as well as consumers' sentiments. The property market in Hong Kong made a dramatic turnaround resulting in a significant increase not just in the volume of transactions but also in price appreciations. As business improved overall for the majority of the companies in Hong Kong, the job market improved. All these factors led to a lower unemployment rate and a greater demand for higher wages by the workers. In addition, the competition in the provision of general cleaning services industry is fierce because of its low entry barrier level. As each company will try to maintain its market share, contracts are therefore tendered at cut-throat prices, which undoubtedly has squeezed the profit margins. The Group has been affected by this industry trend. It is expected that competition will remain fierce.

However, the Group will make concerted efforts to obtain more businesses on providing professional specialized cleaning services, such as external wall cleaning and maintenance, pest control treatments, stone care maintenance and restoration, where the profit margins are higher.

OPERATING RESULTS

For the year ended 31 March 2005, the Group's turnover and net profit from ordinary activities attributable to shareholders amounted to HK$178,285,000 and HK$1,917,000 respectively, representing a 17.9% and 83.7% decrease as compared with the previous year. The expiry of the Airport cleaning contract in January 2004 and the thinning profit margins of general cleaning contracts resulted in the decrease in turnover and net profit. Total operating expenses decreased by approximately 13% as a result of the reduction in turnover and cost cutting exercises. In view of the difficult operating environment that the Group faces, continuous measures will be taken by the Group to try to reduce and contain costs.

BUSINESS REVIEW

The past year had been a year of consolidation and re-positioning for the Group. The expiry of the Airport cleaning contract coupled with the severely keen competition in the cleaning services market led to a drop in the Group's turnover by 17.9% to HK$178,285,000 for the financial year ended 31 March 2005. The furious competition among the ever-increasing volume of cleaning services providers, the increase in labour costs as a result of the reviving economy and the change in attitudes of customers who are now more price-oriented than looking for a certain standard of services, resulted in weakening the Group's overall profit margin because the Group would have to adapt in order to maintain its market share. As a result, net profit from ordinary activities attributable to shareholders of the Company for the year ended 31 March 2005 was down by 83.7% to HK$1,917,000.

Management Discussion and Analysis

BUSINESS REVIEW (continued)

As a progressively growing company in the market, the Group accepts the difficult operating environment that it is facing in the general cleaning services market. However, the Group always believes that sustainable growth is built upon continual innovation. Consequently, the Group started to re-position itself to focus on the development of the niche market of professional cleaning services, where the Group believes that its sophisticated strength in technical cleaning can be fully leveraged and can create a better business opportunity which can in turn improve the Group's profit margin. The Group's new strategy was somewhat rewarded in the year under review with the gaining of a number of professional cleaning services contracts among the industry including external wall cleaning contracts and a warewash and soaking contract for one of the biggest flight-kitchens in Hong Kong. The management is optimistic on the Group's development in the future.

Since November 2000, the Buildings Department has launched a "Coordinated Maintenance of Buildings Scheme" in various districts throughout Hong Kong to assist building owners and owners' corporations in pursuing a comprehensive building management and maintenance program. The issue of the ruling on the compensation for the victims in the Albert House accident had forced several owners and the Incorporated Owners of the building into bankruptcy and this further boiled up the social anxiety of the problem of lack of maintenance of dilapidated buildings. The social alertness of building maintenance produces a positive impact on the Group which has been reflected in the Group's fast accumulating orders and enquiries on external wall cleaning and buildings repairing services. According to the Buildings Department, there are 42,000 private buildings territory-wide of which approximately 11,400 are 20 to 40 years old and are more susceptible to maintenance problems, particularly those without proper management. In order to capture the potential room for expansion in the buildings renovation and maintenance market, the Group has established a 60% owned subsidiary, Mak Tai Construction & Engineering Limited ("Mak Tai"), specializing in carrying out building maintenance and renovation work with two experienced surveyor and engineer in February 2005 to further leverage the Group's existing external wall cleaning customers network and resources. The Group is poised to reap rewards from this set up and current signs are promising.

In the year under review, income from the provision of general cleaning services was still the main drive of the Group's revenue, while external wall cleaning services expanded at a satisfactory pace. The efficient completion of external wall cleaning work of totally 31 blocks in Phases 1, 2 and 4 at Laguna City in as short as 250 days in the reviewing year marked a new industry record and marked a significant milestone for the Group. New contracts acquired in the reviewing year included 17 blocks at Sceneway Garden, 14 blocks at Kenswood Court of Kingswood Villa and 7 blocks at Laguna City Phase 3. The contracts for Sceneway Garden are expected to be completed by the third quarter of 2005 and those for Kenswood Court and Laguna City by the end of 2005.

Management Discussion and Analysis

FINANCIAL REVIEW

During the year under review, the Group enjoyed a healthy financial position with a current ratio of 5.2 as at 31 March 2005 (2004: 5.1). The cash and bank balance as at 31 March 2005 was approximately HK$65.6 million (2004: approximately HK$70.7 million). Given a strong cash position, the Group did not have any bank borrowing as at 31 March 2005 and therefore, the Group's gearing ratio was nil (2004: nil). The bank borrowing for HK$15.3 million previously mentioned in the 2004/05 interim report, which was entirely used for the investment in overseas unlisted debt securities, had been repaid when the investment was redeemed on 5 November 2004. The Group's shareholder's equity amounted to HK$78,332,000 as at 31 March 2005 (2004: HK$86,915,000).

During the year under review, the Group carried out its transactions mostly in the currency of Hong Kong dollars. In addition, the Group's borrowings and cash and bank balances were primarily denominated in Hong Kong and United States dollars. As such, the Group has no significant exposure to fluctuations in exchange rates.

As at 31 March 2005, the Group's banking facilities were secured by the Group's time deposits of HK$18,995,000 (2004: HK$23,748,000). The facilities have not been utilized as at 31 March 2005. Save as disclosed above, the Group did not have any charges on any of its assets as at 31 March 2005.

CONTINGENT LIABILITIES

At 31 March 2005, the Group had contingent liabilities as follows:

(a) The Group has executed performance guarantees to the extent of an aggregate amount of HK$7,118,000 (2004: HK$10,300,000) in respect of certain services provided to various customers by the Group.

(b) The Group had a contingent liability in respect of possible future long service payments to employees under the Employment Ordinance, with a maximum possible amount of approximately HK$3,035,000 as at 31 March 2005 (2004: HK$3,600,000). The contingent liability has arisen because, at the balance sheet date, a number of current employees have achieved the required number of years of service to the Group in order to be eligible for long service payments under the Employment Ordinance if their employment is terminated under certain circumstances. A provision of HK$1,632,000 (2004: HK$1,949,000) in respect of such possible payments has been made in the consolidated balance sheet as at 31 March 2005.

(c) 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 based on current evidence, any such existing claims should be adequately covered by the insurance as at 31 March 2004 and 2005.

Management Discussion and Analysis

EMPLOYEES AND REMUNERATION POLICIES

The total number of employees of the Group as at 31 March 2005 was 2,273 (2004: 2,533). Total staff costs, including director's emoluments and net pension contributions, for the year under review amounted to HK$148,944,000 (2004: HK$164,153,000). 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$8.2 million to external wall cleaning business and HK$0.2 million to stone care and maintenance business. The balance of approximately HK$11.7 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 finalized.

PROSPECTS

Looking into the future, the Group will focus on enhancing the profitability of its business by exploring more on high-end cleaning services with larger profit margins such as external wall cleaning and maintenance, old buildings maintenance and restoration works, pest control treatments and stone care, maintenance and restoration and by implementing effective cost control strategies such as to speed up the mechanization of labour intensive cleaning tasks.

The Group has been keen to seek for growth by vertical integration in order to serve customers with value added services and improve competitive strengths. The establishment of Mak Tai was a maiden step in this direction. The expertise of Mak Tai's surveyor and engineer in building construction and engineering would differentiate and distinguish the Group from its competitors, and would open up a new avenue for the Group in the years to come.