Management Discussion and Analysis

BUSINESS AND FINANCIAL REVIEW

The Group recorded a turnover of HK$62.5 million and a gross profit of HK$1.2 million for the financial year ended 31st March 2005 (the "Year") as compared to a turnover of HK$137.1 million and gross profit of HK$36.0 million for the year ended 31st March 2004 (the "Previous Year"). The drop in turnover was resulted from the continuous contraction of the construction market. The drop in gross profit for the Year was mainly attributable to the sharp increase in prices of construction materials, including petroleum products and steel which prices has risen by 50% in the past year and had watered down the gross margin, and the incurrence of fixed costs, such as depreciation and equipment maintenance.

To cope with the tough operating conditions, cost control measures had been strengthened to conserve resources, which yielded a saving of over 14% in administrative expenses for the Year.

The Group recorded an operating loss of HK$21.5 million for the Year as compared to a profit of HK$11.6 million for the Previous Year. The operating loss is mainly attributable to the Group's nearly static business activities in the first half of the Year, which created a loss before taxation of HK$34.2 million for the interim period ended 30th September 2004. The Group's results in the second half of the Year experienced improvement, primarily as a result of the collection of variation works of certain completed contracts which was previously not recognised, and the Group was able to recover part of the loss incurred during the first half of the Year.

CONSTRUCTION CONTRACTS

The keen competition in conventional land piling foundation business and high material costs had rendered the returns on such projects unattractive. Nevertheless, the Group had the advantage to exploit on its expertise in marine engineering and construction and successfully contracted for the marine piling section of a multi-phase urban infrastructure project in the second half of the Year. Given its requirement for higher level of technical difficulties and corresponding capital resources, the marine contract is expected to provide the Group with a reasonable level of return. The Group is confident in attaining further appointments in subsequent phases of the extensive project with our many competitive advantages over other contenders.

LIQUIDITY, FINANCIAL RESOURCES, CAPITAL STRUCTURE AND GEARING

The Group's total assets and net assets as at 31st March 2005 amounted to HK$326.0 million (2004: HK$390.7 million) and HK$131.0 million (2004: HK$153.2 million) respectively.

As at 31st March 2005, the Group had cash and bank balances of HK$50.6 million (2004: HK$56.9 million) and total borrowings of HK$148.9 million (2004: HK$180.2 million). Current portion of long term borrowings, short term bank loans and bank overdrafts as at 31st March 2005 amounted to HK$129.2 million (2004: HK$123.0 million). The Group's gearing ratio, calculated by dividing the Group's net borrowings by total equity, was 0.75 at the end of the Year. Interest on the Group's borrowings was mainly on floating rate basis.

Management is closely monitoring the level of debts becoming due in the short term and has already taken measures to alleviate the pressure on the Group's cash flow. Considerable efforts was spent to recoup payments for variation works done, with which the Company has successfully obtained settlement for completed projects from several customers during the Year and up to this date. Management is confident that favourable progress will be achieved on the collection from other remaining completed projects in the foreseeable future.

Furthermore, management has been continuously pursuing businesses in the trading of equipment and machinery, which will serve to provide streams of cash inflow and lessen both the short and long term financial burden of the Group. A steady pattern in equipment sales has been achieved in the last few months and is expected to further develop in the coming year.

A substantial shareholder of the Company has also expressed intention to provide sufficient financial resources to the Group so as to enable it to meet its liabilities as they fall due and to carry on its business without significant curtailment of operations in the foreseeable future.

EXPOSURE TO FOREIGN EXCHANGE FLUCTUATION

The Group's borrowings are denominated and operations are conducted mainly in local currency and United State dollars and have minimal exposure to foreign exchange fluctuations.

CHARGES ON THE GROUP'S ASSETS

The net book value of machinery and equipment held under finance leases amounted to HK$79.7 million and fixed assets pledged for certain long terms loans amounted to HK$43.4 million. Certain banking facilities were secured by bank deposits of HK$46.6 million.

NUMBER AND REMUNERATION OF EMPLOYEES, REMUNERATION POLICIES AND BONUS

The Group has about 59 (excluding directors) staff members as at 31st March 2005 and provides competitive remuneration packages to employees which commensurate with individual job nature and performance.

The Group adopted a share option scheme as incentives to eligible persons for their contribution to the Group. Details of the scheme are set out under separate heading in this report.

CONTINGENT LIABILITIES

Contingent liabilities of the Group are disclosed in note 23 to the accounts.