

Management Discussion and Analysis

RESULTS

The Group's turnover for the financial years ended 31st March, 2005 amounted to HK\$9,491,207. Loss attributed to the shareholders for the year totalled HK\$21,642,239.

PROPERTY & HOSPITALITY DIVISION

Shangri-La Dingshan Nanjing Hotel, Nanjing, China

The 5-star hotel remains only partially completed with the fitting out of 309 rooms still to be done. The delay in completing the work was prompted by a change in business strategy of our China partner.

The hotel nevertheless still managed to generate a positive contribution for the year ended 31st March, 2005, thanks to the high occupancy level and the popularity of the hotel as an ideal conference venue.

However, after allowing for interests on bank loan and depreciation, the joint venture company showed a loss for the year. With a view to fully realize the anticipated positive economic results of this investment, the Group expects to find an acceptable programme with its China partner to resolve the impasse and complete the stalled work.

Shanghai Garden City, Shanghai, China

The joint venture formally entered its second phase of development of mostly residential accommodation with the ground breaking taking place in September 2004. The successful launch of the second phase was a significant and meaningful development to the Group following the satisfactory resolution of past disputes with its China partner, signifying a new era of cooperation between the parties. The latest phase shall provide a total saleable area of approximately 15,000 square metres comprising 120 apartments and 10 shops. To date, the superstructure works of the residential apartments have been completed. Pre-selling of some apartments started in early July 2005. Although macro-economic measures introduced by the China Government to cool down the overheated investment activity across the mainland may adversely affect buyer sentiment, it is anticipated that the development will be in high demand. Based on the current prices of comparable residential properties in the market, the second phase is expected to generate a handsome profit to the Group.

The joint venture is now aggressively looking for further opportunities in Shanghai that will help generate sustainable profits for the Group.

TRADING SALES AND CONTRACT WORKS

This year, project-based sale figures in Hong Kong failed to match expectations because of keen competition for projects tendering activities for various hotels renovation and decoration. As for China, furnishing projects in Shanghai and Beijing have slowed down due to the soaring property market which saw developers selling their properties instead of leasing them out as serviced apartments. This sector was traditionally a major source of business for us.

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TRADING SALES AND CONTRACT WORKS (Continued)

Much of our efforts are now focused towards export sales, and we have managed to reach target geographical areas in North America, South East Asia and Europe. We expect a steady growth in export sales in the coming year.

Meanwhile, the Group is mitigating the impact of dropping sales in Hong Kong and China by adopting stringent cost control, and improving product quality. It is expected that these measures, together with advances in export sales, will eventually bring the furnishing business back to the profitability track.

FINANCIAL POSITION

The financial position of the Group remained healthy and apart from the HK\$2.2 million in bank overdrafts, the Group had a minimal amount of trade liabilities and commitments. The gearing ratio, representing the ratio of total bank borrowings to total assets, was 1.22% (2004: 1.51%).

The majority of income and expenses of the Group are dominated either in Yuan or Hong Kong Dollar. Hence the Group's exposure to fluctuations in the exchange rate is considered to be minimal and there is seldom the need to make use of financial instruments for hedging purposes.

At 31st March 2005, the Group had HK\$29 million net current assets in hand. This forms a solid foundation for the Group's forthcoming expansion and development.

CHARGES ON ASSETS

The Group did not have any charge on its assets as at 31st March, 2005 (2004: nil).

EMPLOYEES AND REMUNERATION POLICIES

Total number of employees in the Group excluding those under the payroll of the associates and a jointly controlled entity at 31st March, 2005 was 34 compared with 83 at 31st March, 2004. Their remuneration, promotion and salary increments were assessed according to individual performance, as well as professional and working experience, and in accordance with prevailing industry practices.

The Group reviews remuneration packages from time to time and special adjustments are also made when required. Aside from salary payments other staff benefits include contributions to a retirement benefit scheme and medical insurance scheme.