### FINANCIAL REVIEW

For the year under review, the turnover of the Group was approximately HK$67.1 million representing a growth of 189% compared to the corresponding period last year (2004: HK$23.2 million).

The net loss attributable to shareholders of the Group was HK$11.6 million comparing to last year's loss of HK$14.6 million, an improvement of HK$3 million. Net loss per share was 1.73 cents (2004: 2.17 cents) representing a reduction of 21% comparing to that of 2004. This is a result of improved contribution due to improved profit margin and increased turnover as well as lowering of various expenses except "Other operating expenses". Other operating expenses increased mainly due to the one-off written off of HK$1.7 million for the leasehold improvements following the relocation of principal place of business in Hong Kong to the Two International Finance Centre and the bad-debt written off of HK$0.7 million due to the inability to collect certain long overdue receivables.

### REVIEW OF OPERATION

The 2004/05 remained a difficult year for the Group whereby the Closer Economic Partnership Agreement (the "CEPA") has not benefited the Group, the booming gaming business in Macau has pushed the labour charges in Hong Kong to a higher level, the continuous upsurge of the oil prices worldwide, thereby, dampening the world economy, the increase in discount/interest rate in the United States, the austerity measures imposed by the PRC government to cool down the overheated property market, etc. had all acted against the Group.

As such, the operation of the Group under the new management is basically a follow through of the strategy adopted by the management except:

(a) re-allocation of resources to more promising trading of logs while discarding the declining sector; and

(b) trimming down of unnecessary expenses while carefully adding resources when deem necessary towards the area that seems to be promising.

The financial results for the period support and affirm the strategic move of the management's efforts in both its strategic move, rationalizing its operation and implementation of cost control measures over the period.

During the year, after evaluating the pros and cons of submitting the bid for projects, particularly in view of the long receivable days, the interest factor thereby associated, the bad-debt incurred, the Board continued to reduce in the bidding of projects that can only bring in low profit margin but high receivables.

Instead, more resources in term of both financial and human resources had been vested in the trading of timber sector which contributed to the bread and butter of the Groups' operation with proper result. Turnover increased and a positive contribution towards the payment of various expenses been recorded.

**REVIEW OF OPERATION** *(Continued)*

Yet, the captioned development is not without pitfalls, the taking into consideration factors such as control in volume of logs allowed to be exported, the increasing pressure from the environmental party had been considered, the exceptional heavy rainfall during the summer season, and the like had all caught us to a surprise and the result is not as good as originally anticipated. Hence, instead of having a jump in business during the second half of the financial year through the familiarization of operation and the building up of "brand" and reputation during the past months, the Group could manage to get a similar turnover as the first half of the year.

To conclude, a company's bottom line net profit comes from the increase in revenue/profit and reduction of unnecessary expenses. The existing business segment has achieved improvements both in term of increase in turnover and brought in positive contribution, thus, reduced the extent of losses for the Group.

**LIQUIDITY AND FINANCIAL RESOURCES**

In line with the Group's pre-defined criteria, the Group has continued a prudent policy in maintaining its financial position.

The liquidity of the Group had improved during the second half of the financial year despite additional loss incurred during the period.

Certain receivable has been collected during the year, with the absence of fund utilization and the anticipated receivables to be collected subsequent to the year end, some funds have been vested in short term investments, mainly listed shares for dividend yield as well as possible capital appreciation. Yet, the cash position remains sound at HK$11.5 million which is more than suffice to pay off all liabilities.

Liabilities, in form of short term nature of accounts payable or hire purchase payables, had been substantially repaid, leaving a total liability of only HK$5.5 million. Corresponding, the gearing ratio, represented by total debt to equity stood low at 0.8% (2004: 7.4%). In fact, the Group is at a net cash position of HK$6 million after using the cash to apply to charge off all debts as at 31 March 2005. The net cash position would even be more prominent subsequent to the year end when the remaining receivables had been largely collected.

The Group has a net current asset of HK$50.7 million (2004: HK$53.4 million) as at 31 March 2005. The current ratio, calculated on the basis of current assets divided by current liabilities, of the Group as at 31 March 2005 was 10.2 (2004: 4.4). The improvement in current ratio is due to the disposal of motor vehicles and pleasure craft acquired in the past years.

As the majority of the inflow and outflow 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 2005, the Group had provided corporate guarantee of HK$3.4 million (2004: Nil) to banks in connection with hire purchase contracts granted to certain subsidiaries ("Disposed Subsidiaries") disposed of during the year.

## LIQUIDITY AND FINANCIAL RESOURCES *(Continued)*

Pursuant to the agreements for the disposal of the Disposed Subsidiaries, the buyer of the Disposed Subsidiaries agreed to provide counter indemnities to the Company for its corporate guarantees provided to the Disposed Subsidiaries.

The Group's bank loan is secured by the pledge of the Group's motor vehicle with a net book value of HK$0.6 million as at 31 March 2005.

The Group has no significant capital commitment as at 31 March 2005.

## EMPLOYMENT AND REMUNERATION POLICY

The Group has a total of 15 employees as at 31 March 2005 (2004: 19). During the year, the Group had recruited additional staff to take care of the logs operation which resulted in a maximum of 26 staff. However, with the streamlining of the operation and the departure of certain "projects" related employees, the staff has been reduced to the current level. Total staff costs amounted to approximately HK$6.2 million (2004: HK$5.8 million) and is expected to reduce further in the next financial year unless additional business or headcount being recruited.

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.

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 date of this report.

## FUTURE PROSPECTS

With the prime objective of turning around the Group, the management would adopt the following strategies, namely,

(a) rationalize the existing businesses;

(b) controlling the daily operating expenses;

(c) improving the overall efficiency of existing and to be acquired operations, if any; and

(d) exploring business that can capitalize on the resources of the Group's reputation established and/or management's expertise.

The Board would continue the proven successful story of placing resources on the trading of timber section. Yet, as mentioned above, there are factors that may affect the overall performance of this particular section.

**FUTURE PROSPECTS** *(Continued)*

To play safe, the Group has effected additional measures to reduce the reliance on this particular section/supplier of logs.

Apart from locating additional logging sites in other countries to diversify the concentration risk and to achieve further economy of scale, the management is evaluating the potential return vis-a-vis the additional commitment in both financial and managerial resources in order to achieve such return, in particular, the difficulty in locating candidates with relevant experience.

In fact, on 22 July 2005, the Group has entered into a provisional sales & purchase agreement over a piece of land in Tuen Mun ("the Land") for a consideration of HK$10 million from an independent third party. The Board considered that the acquisition of the Land represented an investment opportunity for the Group and enhanced its property portfolios in view of the prevailing upturn of the Hong Kong economy and the property market. The acquisition will be funded by the Group's internal resources.

At the same time, the Group would explore possibilities of engaging in related projects which can make use of the expertise so far developed, the reputation built and the financial resources available.

Nonetheless, the management would continue adopting the existing proven acceptable strategy that can bring contribution to the shareholders. Moreover, the management will continue exercising stringent cost control to minimize operating costs through enhanced flexibility and efficiency.

The management is conservatively optimistic about the future development and is confident that the Group will weather through the winter timing and achieve a turnaround in the coming years.