

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the period under review, the Group recorded a net profit from ordinary activities attributable to shareholders of approximately HK\$3.7 million compared with a net profit from ordinary activities attributable to shareholders of approximately HK\$6.5 million for the corresponding period of last year.

Construction and Building

The construction and building contracts secured in the first half of the financial year include a proposed godown extension at Gemstar Tower, Hung Hom, an office development at No.111 King Lam Street, a school development at Kowloon Tong, a piling contract for a residential development at No.464-474 Castle Peak Road, a substructure works at No.23 Kent Road and a term contract for an internationally reputed theme park at Lantau. The aggregate value of contracts secured during the period was approximately HK\$296 million.

As regards major completed projects, the Group has satisfactorily completed the residential development at Tai Yuen Street, Wanchai, the piling contract for a secondary school in Tseung Kwan O, the school improvement works at Heep Woh College, and the substructure works contract at No.111 King Lam Street.

Wastewater Treatment

With the view of counter-balancing the cyclical construction incomes and leveraging on our construction expertise, the Group, through a jointly-controlled entity, has undertaken a 130,000 m³/day wastewater treatment TOT/BOT (Transfer-Operate-Transfer/Build-Operate-Transfer) contract in Zhuhai, China with one of the world's leading water operators. It is expected that the TOT/BOT contract will provide long-term steady incomes to the Group after full commissioning of the sewage treatment plants. The Group will capitalize on this valuable experience and expertise gained by seeking other water projects in China should appropriate opportunities arise.

Property Development

During the last financial year, the Group, through an associate company, has participated in a property development project and has acquired a plot of land at No.111 King Lam Street, Kowloon for an office building development. The project has been progressing smoothly with substructure works completed. Construction of the superstructure has been commenced recently with completion to be expected in early 2007.

During the period under review, the Group, through two associated companies, has further participated in two property development projects, one at Kowloon Bay for an industrial building development and one at San Po Kong for a shopping complex development.

PROSPECTS

Looking ahead, in the medium term, it is anticipated that construction market in both the private and public sectors will steadily recover in tandem with Hong Kong's rising economic activities and consumer confidence. In the short term, as a result of the uncertainties in the interest rates trend, the construction market arising from property-development projects will continue to be sluggish. The Group will focus on the high-end and professional construction markets, in particular the leisure areas like theme parks. The Group will also continue to adopt a prudent tendering approach and to increase competitiveness by consolidation of the operation.

In China, with the experience of the wastewater treatment plant in Zhuhai, the Group will prudently explore new investment opportunities.

In Hong Kong, the Group will concentrate on a few other areas on top of the traditional construction activities. With the long and harmonious relationship established with China Harbour Engineering Co. (Group) in the last ten years, the Group anticipates to explore more co-operation opportunities in different areas. In August 2005, in joint venture with two European partners, Hypsos Leisure (Asia) Limited has been incorporated to pursue the permanent exhibitions markets.