

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group's turnover for the year ended 31 December 2005 was approximately HK\$51.7 million (2004: HK\$36.8 million) representing an increase of 40.5% as compared with that for the year ended 31 December 2004, because of the continuing effort of the Group to expand its business. In view of the austerity measures adopted by the authorities of the People's Republic of China to curb overheating of the economy, the Group has been prudent and selective in accepting new contracts in order to minimize the risk of bad debts.

During the year, the Group recorded a net loss of HK\$4.6 million as against a net profit of HK\$161.8 million for 2004. The net profit in 2004 included gains of approximately HK\$100.3 million arising from debts discharged under the Creditors' Scheme sanctioned by courts in March 2004; a gain of approximately HK\$50.2 million arising from deconsolidation of Prosperity Construction and Decoration Limited, formerly a wholly-owned subsidiary of the Company, upon receiving a winding-up order made by the court; and a gain of approximately HK\$23.0 million arising from the disposal of several subsidiaries. Excluding such gains, the Group had incurred a loss of HK\$11.7 million in 2004.

Construction contract costs comprised of direct materials, subcontracting costs and government tax other than profit tax for construction projects. The total construction contract costs increased by 39.0% from approximately HK\$34.2 million in 2004 to HK\$47.5 million in 2005, which was close to the percentage change in turnover.

General and administrative expenses, which included staff costs, professional fees, consultancy fees and general administrative expenses decreased by 41.8% from approximately HK\$12.2 million in 2004 to HK\$7.1 million in 2005 due to the reduction in corporate activities and resolution of litigation disputes in 2004 and implementation of strict costs control on the operating expenses

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group's gearing ratio, defined as total interest bearing debts less bank and cash balances amounted to HK\$3.6 million (2004: HK\$5.6 million) expressed as a percentage of the shareholders' equity of HK\$1.2 million (2004: HK\$5.6 million), resulting in a gearing ratio of 300% at 31 December 2005 (2004: 98%). Interests on the Group's borrowings were based on the normal commercial interest rates.

Total interest bearing debts as at 31 December 2005 included loan from a then shareholder and loan from a finance company amounted to HK\$4.4 million and HK\$1.2 million respectively. The continuing operation of the Group depends on its ability to obtain adequate external finance to meet its liabilities as they fall due and the Group has obtained a financial support from the existing substantial shareholder of the Company, at a level sufficient to finance the working capital requirements of the Group.



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The Group's activities were transacted in Hong Kong dollars and Renminbi. As the exchange rate of Renminbi against Hong Kong dollar was relatively stable over the years, notwithstanding a minor appreciation of Renminbi by around 2% against Hong Kong dollar in the second half of 2005, the Group's exposure to fluctuations in foreign exchange rates is considered to be low and hedging instruments have not been used.

CHARGES OF ASSETS

As at 31 December 2005, the property of the Group with carrying value of approximately HK\$2.1 million (2004: HK\$2.1 million) was pledged as a security for a loan from a finance company.

CONTINGENT LIABILITIES

As at 31 December 2005, the Group did not have any material contingent liabilities.

EMPLOYEES

As at 31 December 2005, the Group had approximately 103 employees (2004: 82 employees) in Hong Kong and the PRC.

