MANAGEMENT DISCUSSION AND ANALYSIS

OPERATING ENVIRONMENT

The economy of Hong Kong has been in continuous recovery. The recovery has been enhanced by the implementation of the "Closer Economic Partnership Arrangement (CEPA)" providing measures to facilitate economic co-operation between Hong Kong and the Mainland, in particular, the provinces of the Pan-Pearl River Delta region, creating tens of thousands of job opportunities and billions of service receipts and capital investments for Hong Kong in the past 2 years. In the financial year under review, the recovery of the economy lowered the unemployment rate but led to higher wage demands. At the same time, "unhealthy" competition in the general cleaning service industry prevailed. Service providers were struggling hard to retain their market shares and service contracts were quoted or tendered at unrealistic prices, rendering the profits derived therefrom most marginal. The Group is still affected by intensified competition. As discussed in the Annual Report of last year, the Group will continue to concentrate on expanding its businesses in professional specialized cleaning services, such as external wall cleaning and maintenance, pest control treatments, stone finishing care, maintenance and restoration, agency for stone care and maintenance chemical products and property renovation and maintenance, the profit returns of all of which are expected to be more reasonable.

OPERATING RESULTS

Revenue of the Group for the year ended 31 March 2006 amounted to HK$183,339,000, representing a 2.8% increase as compared with the previous financial year. A net loss of HK$4,557,000 was recorded compared with a net profit of HK$1,917,000 of last year. The slight increase in revenue was mainly owing to the expiry of some major cleaning service contracts which was counter-balanced by new contracts obtained and secured and revenue from property renovation and maintenance work. The change from making a profit to reporting a loss was because of, as discussed above, firstly the fierce competition in general cleaning services resulting in the drop of marginal profits and secondly, the up-surging of labour costs as a result of the economy recovery. Operating expenses increased by 77.5% which was mainly because of the businesses of property renovation and maintenance work, while general overhead expenses had been under control. Looking forward to the coming year, the Group will continue its efforts to reduce operating costs and overhead expenses in difficult operating environment.

BUSINESS REVIEW

The past year remained a year of re-positioning for the Group. The severely keen competition from the increasing number of cleaning providers, some of whom operating at minimum overheads, coupled with the up-surging of labour and materials costs had lowered the profit margins. With the formation of Mak Tai Construction and Engineering Ltd ("Mak Tai"), a subsidiary of the Group, for the businesses of renovation, fitting out, repair works of estates, shopping malls, public sitting-outs, department stores and retail and food outlets, the Group had stepped into the threshold of the industry. A number of renovation and fitting-out contracts had been secured by Mak Tai and are due to complete in the coming financial year.

The contract with Kowloon-Canton Railway Corporation for the provision of cleaning and pest and rodent control services completed at the end of November 2005.

MANAGEMENT DISCUSSION AND ANALYSIS

Three contracts for the provision of cleaning and repair works for the external walls of three residential estates, namely, Sceneway Garden, Kenswood Court and Laguna City, Phase 3 completed in November and December 2005 respectively, on schedule, notwithstanding the inclement weather repeatedly encountered during the work periods.

The promotion of a celebrated Italian brand of stone care and maintenance chemical products, for which the Group through an associated company is the sole agent, is going smoothly. The Group is now expanding its sales networks by setting up more sales offices and expecting increased distribution in various cities and locations in Mainland China and Macau.

The marble finishing restoration work for 290 guest rooms in a 5-star hotel was completed shortly after the Lunar New Year. The client was impressed by quality of work achieved and as a result, the Group has successfully obtained contracts from this hotel for marble restoration for another lot of guest rooms and entrance lobbies. The work still continues.

Having satisfactorily completed the trial period, a formal contract has been entered into with a leading laundry workshop for providing supervisors and workers, day and night, for sorting and folding laundry items. The Group's revenue base is broadened by diversifying its services.

The Group is discussing with the Mental Health Association of Hong Kong for organizing and providing a "cleaning skills training course" to groups of vulnerable members and has committed to the employment of those members who have satisfactorily completed the course. The Group has therefore for the third year been nominated for the award of a "Caring Company Logo" organized by The Hong Kong Council of Social Service for its enthusiastic participation in assisting the needy of the society. The Group will consistently maintain its corporate culture of giving back to the community by devoting to the community activities.

FINANCIAL REVIEW

During the year under review, the Group enjoyed a healthy financial position with a current ratio of 4.5 as at 31 March 2006 (2005: 5.2). The cash and bank balances as at 31 March 2006 was approximately HK$51,520,000 (2005: approximately HK$65,595,000). The Group did not have any bank borrowing as at 31 March 2006 and therefore, the Group's gearing ratio was nil. The Group's shareholder's equity amounted to HK$72,570,000 as at 31 March 2006 (2005: HK$78,332,000).

During the year under review, the Group carried out its transactions mostly in the currency of Hong Kong dollars. In addition, the Group's cash and bank balances were primarily denominated in Hong Kong and United States dollars. As such, the Group has no significant exposure to fluctuations in exchange rates.

As at 31 March 2006, the Group's banking facilities were secured by the Group's cash at bank and time deposits of HK$19,428,000 (2005: HK$18,995,000) in aggregate. The facilities have not been utilized as at 31 March 2006. Save as disclosed above, the Group did not have any charges on any of its assets as at 31 March 2006.

CONTINGENT LIABILITIES

At the balance sheet date, the Group had contingent liabilities as follows:

(a) The Group has executed performance guarantees to the extent of an aggregate amount of HK$6,252,000 (2005: HK$7,118,000) in respect of certain services provided to various customers by the Group.

(b) The Group had a contingent liability in respect of possible future long service payments to employees under the Hong Kong Employment Ordinance, with a maximum possible amount of approximately HK$1,852,000 as at 31 March 2006 (2005: HK$3,035,000), as further explained under the heading "Employee benefits" in note 2.5 to the financial statements. The contingent liability has arisen because, at the balance sheet date, a number of current employees have achieved the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance if their employment is terminated under certain circumstances. A provision of HK$1,039,000 (2005: HK$1,632,000) in respect of such payments has been made in the consolidated balance sheet as at 31 March 2006.

(c) During the ordinary course of its business, the Group may from time to time be involved in litigation concerning personal injuries sustained by its employees or third party claimants. The Group maintains insurance cover and, in the opinion of the directors, based on current evidence, any such existing claims should be adequately covered by the insurance as at 31 March 2005 and 2006.

EMPLOYEES AND REMUNERATION POLICIES

The total number of employees of the Group as at 31 March 2006 was 1,958 (2005: 2,273). Total staff costs, including director's emoluments and net pension contributions, for the year under review amounted to HK$139,112,000 (2005: HK$148,944,000). The Group provides training programmes for its employees.

Remunerations are commensurate with the nature of jobs, experience and market conditions; and performance related bonuses are granted to some of the employees on a discretionary basis. In addition, all employees of the Group, including directors, are eligible to participate in the Company's share option scheme.

USE OF PROCEEDS FROM NEW ISSUE

The Company's shares became listed on the Stock Exchange on 25 July 2003 after its successful placing and issue of 90 million offer shares at an offer price of HK$0.56 per share. With half of the offer shares being a new issue, the Group raised net proceeds of approximately HK$20.1 million. As at the end of the year under review, the Group had applied HK$8.2 million to external wall cleaning business, HK$3 million to stone care and maintenance business and HK$8 million to building renovation and maintenance business.