



Management Discussion and Analysis

REVIEW OF OPERATIONS

Our construction and engineering works are principally carried out by the Company's two major subsidiaries, Able Engineering Company Limited ("Able") and Excel Engineering Company Limited ("Excel").

Able Engineering Company Limited

Substantial contracts completed by Able during the year included:

- Conversion and Extension to Existing Aided Schools – Group 3 under School Improvement Programme Phase IV Package 3
- Conversion and Extension to Existing Aided Schools – Group 1 Final Phase Package 5
- Conversion and Extension to Existing Aided Schools – Group 1 Final Phase Package 4
- Conversion and Extension to Existing Aided Schools – Group 1 Final Phase Package 1
- Main Building Works for Proposed International Christian Quality Music Secondary and Primary School
- Construction of a 24-Classroom Primary School at Hing Ping Road, Tuen Mun, N.T.
- Construction of a Primary School and Two Secondary Schools in Area 13, Tseung Kwan O
- Extension of Oi Kwan Road Baptist Church at 36 Oi Kwan Road, Wanchai
- Construction of Public Mortuary in Area 26E, Kwai Chung, N.T.
- Construction of District Open Space in Tung Chung
- Term Contract for the Maintenance and Repair of Buildings and Lands and Other Properties for which the Electrical & Mechanical Services Department (Health Section Division) is Responsible in Designated Contract Area: Kowloon West

During the year, Able was awarded the following substantial contracts with an aggregate contract value of approximately HK\$420 million:

- Construction of Second Primary School & Second Secondary School in Area 104, and a Primary School at Junction of Tin Shing Road and Tin Pak Road, Tin Shui Wai, N.T.
- Outstanding and Defect Rectification Works to Residential Tower at Beacon Hill Road
- Term Repair Contract for Urban Renewal Project at Fuk Wing Street/Hing Wah Street/Castle Peak Road at Sham Shui Po

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- Fitting Out Works to Flats at Yau Mei Court, Yau Tong
- Hospital Authority Term Contract for Minor Works 2005
- Fitting Out Works for International Christian Quality Music Secondary and Primary Schools
- Replumbing Works at Lung Tin Estate, Lantau Island

Excel Engineering Company Limited

Substantial contracts completed by Excel during the year included:

- Extension of Water Supply to Pok Fu Lam Areas Mainlaying Works Roads and Drainage
- Proposed Residential Development at Tin Sui Wai Lot No. 24 Area 33 N.T. Temporary Public Transport Terminus (PTT) and Public Access Road Contract Works
- Hong Kong International Distribution Centre (HIDC) Sewage Connection Work
- Civil Engineering Works Term Contract No. CWT E/28/2002 for PCCW

During the year, Excel was awarded the following substantial contracts with an aggregate contract value of approximately HK\$111 million:

- The Drainage Upgrading Works Along Tin Wing Road, Tin Shui Wai, N.T.
- Site Formation Works for Wind Turbine for HEC Ltd.
- Replacement of Fresh Water Supply Pipes at Block E & F for Lok Man Sun Chuen
- Main Contract for the Renovation Works to Swimming Pool & Changing Rooms at Jat Min Chuen
- Outline Agreement No. 4600002385 for Distribution Cable Trenching and Laying Works in the CLP Power, North Region for CLP Power Hong Kong Ltd.
- Contract No. 04/8001 for Trenching Works for 132kV Cable Overlaying From Kennedy Road to Hennessy Road for HEC Ltd.
- Civil Engineering Works Term Contract No. CWT E/29/2005 for PCCW

Property investment

Following the completion of acquisition in January 2005, the shops at Argyle Centre have commenced to generate rental income for the Group. A total rental income of approximately HK\$1,304,000 and a gross profit of approximately HK\$1,127,000 were recorded for the year.

FINANCIAL REVIEW

Liquidity and Financial Resources

At 31 March 2005, the Group's cash and bank balances (excluding pledged deposits) amounted to HK\$83,613,000, representing a decrease by 18% from 2004 of HK\$102,522,000. This was primarily caused by the payments made for the acquisitions of properties during the year. Current ratio, measured as total current assets divided by total current liabilities, was 1.21 at 31 March 2005, as compared to 2004 of 1.57.

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Meanwhile, bank overdrafts and loans increased substantially to approximately HK\$194,912,000, as compared to 2004 of HK\$80,000. As a result, the gearing ratio, measured on the basis of total bank borrowings and finance lease payables as a percentage of total shareholders' equity, increased to 84% at 31 March 2005 (2004: 0.1%). The significant increase in bank borrowings was due to the new bank loans of HK\$126 million and £870,000 (equivalent to approximately HK\$13 million) respectively obtained by the Group for the purposes of acquiring a number of shop units at Argyle Centre in Mongkok, Kowloon and a residential flat at Cadogan Square, London, the United Kingdom.

The Group's borrowings are denominated in Hong Kong dollars, except for a bank loan of £870,000, which is denominated in British Pounds Sterling. While the new bank loans were only drawn down by the Group near the financial year end, interest expenses on bank borrowings (including the amount capitalised of approximately HK\$403,000) decreased by 26% to HK\$1,377,000 for this year (2004: HK\$1,870,000).

Whilst the Group's borrowings are principally on a floating rate basis, in order to hedge against the risk of interest rate upward trends, we obtained a banking facility for interest rate swap for an aggregate notional amount of HK\$150 million which has become effective subsequent to 31 March 2005 but before the date of this report.

Other banking facilities, comprising primarily bank loans and overdrafts, amounted to approximately HK\$591 million at 31 March 2005, of which approximately HK\$325 million was unutilised.

Charges on Assets

At 31 March 2005, fixed deposits of approximately HK\$32,239,000 (2004: HK\$21,758,000), investment properties with an aggregate carrying value of approximately HK\$229,500,000 (2004: HK\$16,500,000), leasehold land and building of HK\$14,700,000 (2004: nil) and property under redevelopment of approximately HK\$42,355,000 (2004: nil) were pledged in favour of certain banks to secure the banking facilities granted by those banks to the Group. In addition, accounts receivable of certain construction contracts of the Group were assigned in favour of certain banks to secure the banking facilities at 31 March 2005.

Capital commitment

At 31 March 2005, the Group had capital commitments in respect of purchases of investment properties of approximately HK\$313,267,000 (2004: HK\$8,174,000).

Contingent liabilities

At 31 March 2005, the Group had contingent liabilities in relation to guarantees in respect of performance bonds in favour of contract customers of approximately HK\$69,398,000 (2004: HK\$24,102,000). In addition, at 31 March 2005, the Company had contingent liabilities in respect of guarantees given to banks against the facilities granted to subsidiaries of the Company utilised to the extent of approximately HK\$266 million (2004: HK\$24 million).

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Capital structure

On 16 February 2004, the Company completed a private placement of 95,958,000 shares to several independent investors ("Placees"). Pursuant to this placement of shares, on 29 April 2004, the Company issued options to the Placees to subscribe for up to 95,958,000 new shares in the Company at an exercise price of HK\$0.8 per share within 36 months from the date of the grant of the options.

STAFF AND REMUNERATION POLICY

At 31 March 2005, the Group employed 226 full-time staff in Hong Kong. The Group remunerates its staff based on their performance and work experience and the prevailing market rates. Staff benefits include mandatory provident fund, medical insurance and training programmes.

The Company also maintains a share option scheme. The purposes of the share option scheme are to provide incentives for the full-time employees and executives, to recognise their contributions to the growth of the Group and to provide more flexibility for the Group in formulating its remuneration policy. No share option was granted under the scheme during the year.