

MANAGEMENT DISCUSSION AND ANALYSIS



Redevelopment of Shek Pai Wan Estate, Phase 2

BUSINESS REVIEW

During the year under review, the construction industry in the public sector remained sluggish. Despite the strong recovery in the property market since the second quarter of 2004, very little effect has been felt in the construction market. The number of new construction contracts awarded by the public sector is limited due to the budget cut in the Government. Nevertheless, the Group has been able to secure two construction contracts from the Hong Kong Housing Authority with total contract value of HK\$740.6 million:

- Housing Development at Fanling Area 36, Phase 1
- Housing Development at Fanling Area 36, Phase 2

During the year, the following construction projects, with total amount of approximately HK\$954.9 million, were successfully completed:

- Construction of superstructure works for Extension Block at Tseung Kwan O 400kv Substation;



Construction of Building 9, Hong Kong Science Park at Pak Shek Kok, Phase 1c



Construction of a Secondary School in Area 36C, Shatin

- Construction of Building 9, Hong Kong Science Park at Pak Shek Kok, Phase 1c, N.T.;
- Construction of Indoor Recreation Centre cum Library at Area 100, Ma On Shan, N.T.;
- Construction of a Secondary School at Area 36C, Shatin, N.T.;

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Construction of a Government Complex in Lee On Estate at Area 108, Ma On Shan, Shatin

- Construction of a Government Complex in Lee On Estate at Area 108, Ma On Shan, Shatin;
- Conversion and extension works to 4 Nos. Existing Aided Schools, Group 1 under School Improvement Programme, Final Phase, Package 2;
- Church and Kindergarten Redevelopment at Lot 2127 in D.D. 121, Tong Yan San Tsuen, Yuen Long

The joint venture company engaged in property management has been profitable.

In order to diversify the operation and strengthen shareholders' return, a wholly owned subsidiary incorporated in the People's Republic of China (the "PRC") was established. It has successfully obtained a business license to carry out construction works in the PRC.



Construction of a Rehabilitation Complex in Tuen Mun



Conversion and extension works to one of the existing aided schools under the School Improvement Programme



Redevelopment of Shek Pai Wan Estate, Phase 2

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Housing Development at Fanling Area 36, Phase 1

FINANCIAL REVIEW

The turnover of the Group for the year ended 31 March 2005 was HK\$1,028 million, a decrease of 25.8% as compared with the previous year of HK\$1,386 million.

The Group made a profit of approximately

HK\$9.7 million this year as compared to the profit attributable to shareholders of HK\$8.6 million for the last corresponding year.

As at 31 March 2005, the Group had total borrowings of approximately HK\$141 million as compared to approximately



Conversion and extension works to one of the existing aided schools under the School Improvement Programme

HK\$43.4 million at last financial year-end date, of which HK\$0.3 million represent obligations under finance leases (2004: HK\$0.4 million). The increase in borrowing was due to new project loans for financing new projects of the Company. Some properties, bank deposits and other deposits had been pledged to certain banks and insurance companies as securities for the banking facilities. The Group had no significant exposure to foreign currency



Conversion and extension works to one of the existing aided schools under the School Improvement Programme

fluctuation as financial borrowings, cash balance, trade receivables and trade payables were denominated in Hong Kong Dollars. The Group's borrowings bore interest at floating rates.

Cash and bank balances amounted to approximately HK\$55.1 million as at 31 March 2005 as compared to HK\$35.5 million as at the end of last year.



Housing Development at Fanling Area 36, Phase 2

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Design and Construction of Fitting-Out Works

Shareholder's funds of the Group as at 31 March 2005 amounted to approximately HK\$184.6 million (2004: HK\$145.8 million). The Group's gearing ratio measured on the basis of the Group's total borrowings over the shareholders' funds as at 31 March 2005 was 76.4% (2004: 29.7%).

In view of the gradual increase in interest rate in the coming years, it would be prudent to finance the Group's long-term growth in the form of equity capital, which would not increase the Group's finance costs while strengthening its capital structure.

In last August, the Company issued two convertible notes in a total amount of HK\$5.4 million to two independent subscribers. Net proceeds of HK\$5.2 million had been used as additional general working capital for construction and maintenance projects.

In January 2005, the Company raised a gross amount of HK\$16.2 million by way of rights issue to all its shareholders in the proportion of one rights share for every two shares held. The proceeds from the rights issue had been used as additional working capital for the Group's construction and maintenance business.

In February 2005, the Company successfully placed new shares to independent investors raising approximately HK\$6.5 million which was used as initial registered capital and general working capital of the PRC subsidiary.



Design and Construction of Fitting-Out Works

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Design and Construction of Fitting-Out Works

At a special general meeting held on 21 March 2005, shareholders of the Company approved the consolidation of every five shares of HK\$0.01 each in the issued and unissued share capital of the Company into one consolidated share of HK\$0.05. The share consolidation would ensure the Company's compliance with Rule 13.64 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

PROSPECTS

The local economy has been benefited by the substantial increase in tourists from China and CEPA since the middle of 2004. It is expected that the HKSAR Government's deficit will be reduced sharply because of the increase in various tax income. However, there is no intention from the HKSAR Government to raise public spending in housing and government buildings. As a result, competition in the public sector remains tough.



Design and Construction of Fitting-Out Works

As at 30 June 2005, the total contracts on hand of the Construction Division amounted to HK\$2,161 million, of which HK\$1,168 million is incomplete. Furthermore, the Group has been shortlisted for one construction contract with a value of HK\$134 million.



Design and Construction of Fitting-Out Works

In view of the difficulties faced by the local construction market, the Group has been looking for other business opportunities in the region, including but not limited to construction works in the PRC. The Group will continue to solicit investment opportunities to increase shareholders' value. In early July 2005, the Group has entered into preliminary discussions with a substantial shareholder to

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acquire an energy-related project. Up to the date of this financial report, the Group has not come to any agreement with the aforesaid substantial shareholder on any material terms of this possible acquisition.

EMPLOYEES AND REMUNERATION POLICIES

The Group currently employs a total of 351 staff in Hong Kong and in the PRC. Total remuneration of employees for the year ended 31 March 2005 amounted to approximately HK\$73.7 million.

The Group recruits and promotes individuals based on their competencies, merit and development potential and ensures remuneration packages are competitive. Salaries are reviewed periodically depending on individuals' performance and responsibility, market trend and company performance. The Group also provides other benefits including bonuses awarded on a discretionary basis, medical schemes, retirement schemes and educational subsidy to all eligible staff.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to thank all the staff members for their hard work and dedication to the Group for the past year.



Chin Wai Kay, Geordie

Executive Director

Hong Kong, 21 July 2005



Renovation of Olympic Square, Hong Kong Park



Mr. Zhou Junming, Vice-Minister of the Liaison Office of the Central People's Government in the HKSAR, delivered a speech at the Group's Spring Dinner.



Business conference held by the Management in Thailand