

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.

The Group anticipates to evolve gradually from a traditional low-value construction group to a diversified conglomerate comprising construction, property development, environmental engineering and investment, and high-value specialist construction in various areas related to leisure markets.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 September 2005, the Group had total outstanding borrowings of approximately HK\$6,983,000, comprising secured interest-bearing bank borrowings repayable within one year.

The Group's banking facilities were supported by (1) legal charges over the Group's leasehold land and buildings, which are all situated in Hong Kong, with carrying value of HK\$9,000,000, (2) pledged deposits of approximately HK\$38,552,000 and (3) corporate guarantees from the Company and certain subsidiaries of the Company.

The Group's gearing ratio as at 30 September 2005 was 0.02 (31 March 2005: 0.06), calculated based on the Group's total outstanding borrowings of HK\$6,983,000 (31 March 2005: HK\$18,887,000) over the Group's total assets of HK\$297,611,000 (31 March 2005: HK\$295,061,000). The Group continues to adopt a policy of dealing principally with clients with whom the Group has enjoyed a long working relationship, so as to minimize risks in its business.

EMPLOYEES

As at 30 September 2005, the total number of employees, excluding workers under exclusive sub-contracting arrangement, of the Group was approximately 200. Performance of the staff is normally reviewed on an annual basis with adjustment compatible to the market. There is no material change in the information as compared to the most recently published annual report.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

Since the functional currencies of the Group's operations are mainly Hong Kong dollars and Renminbi, the Directors consider that the potential foreign exchange exposure of the Group during the six months ended 30 September 2005 is limited.