



# 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 this year included:

- Construction of a Primary School and a Secondary School in Area 38A, Shatin
- Pile Cap and Superstructure Works for La Salle College under School Improvement Programme, Final Phase
- Conversion and Extension to Existing Aided Schools – Group 5, Final Phase, Package 4
- Conversion and Extension to Existing Aided Schools – Group 6, Final Phase, Package 2
- Construction of an Ambulance Depot with Ambulance Command & Fire Safety Command Headquarters at Anchor Street, Mongkok
- School Improvement Works to Group 2 Schools of the Hong Kong Council of the Church of Christ in China
- Carcass Contract for Tiu Keng Leng Station Development at Tseung Kwan O
- Outstanding and Defect Rectification Works to Residential Tower at Beacon Hill Road
- 39-Month Term Contract for the Alterations, Additions, Maintenance and Repair of Buildings and Lands and Other Properties in Shamshuipo, Tsuen Wan and Kwai Tsing
- Term Contract for Design and Construction of Minor Works to Government and Subvented Properties in Shamshuipo, Tsuen Wan, Kwai Tsing, Tuen Mun, Yuen Long, Tai Po, North and Outlying Island (North)
- Fitting Out Works to Flats at Yau Mei Court, Yau Tong
- Fitting Out Works for International Christian Quality Music Secondary and Primary Schools
- Replumbing Works at Lung Tin Estate, Lantau Islands

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During this year, Able was awarded the following substantial contracts with an aggregate contract value of approximately HK\$1,525 million:

- Design and Build of a Footbridge for Rhine Garden, Sham Tseng, New Territories
- Conversion Works of Kom Tong Hall into Dr Sun Yat Sen Museum at Castle Road, Central Mid-levels
- Construction of Canopies and Covered Walkway at Lotus Tower & Kwun Tong Garden Estate, Kowloon
- Construction of a Joint-User Complex at Tseng Choi Street, Area 10, Tuen Mun, N.T.
- T.W.T.L. 394, Yeung Uk Road, Tsuen Wan, N.T. (Urban Renewal Project K17) Phase II Excavation and Basement Construction Works
- Retro-fitting of Air-Conditioning and General Improvement Works to San Hui Market, Tuen Mun
- Term Contract for the Alterations, Additions, Maintenance and Repair of Buildings and Lands and Other Properties for which the Architectural Services Department is Responsible (Designated Area: Kwun Tong, Mongkok and Yaumatei)
- Term Contract for the Alterations, Additions, Maintenance and Repair of Buildings and Lands and Other Properties for which the Architectural Services Department is Responsible (Designated Area: Sham Shui Po, Tsuen Wan and Kwai Tsing)
- Fitting Out Works for the Proposed Hotel and Serviced Apartment at 33 Wo Yi Hop Road, Kwai Chung
- Term Contract for Design and Construction of Minor Works to Government and Subvented Properties for which the Architectural Services Department is responsible at Hong Kong, Kowloon, New Territories and Outlying Islands

### Excel Engineering Company Limited

Substantial contracts completed by Excel during this year included:

- Reconstruction of Catchwater Channels and Upgrading of Adjoining Priority Slopes in Hong Kong Island and Lantau Island
- Construction of a Sewerage Along Sha Tau Kok Road and Village Sewerage
- Site Formation Works for Wind Turbine for HEC Ltd.
- Replacement of Fresh Water Supply Pipes at Block E & F of Lok Man Sun Chuen
- Contract No. 04/8001 for Trenching Works for 132kV Cable Overlaying from Kennedy Road to Hennessy Road for HEC Ltd.
- The Drainage Upgrading Works Along Tin Wing Road, Tin Shui Wai, N.T.
- Contract for the Slope Upgrading Works at Slope No. 11 NW-B/F60 at Phoenix House, Shamshuipo

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During this year, Excel was awarded the following substantial contracts with an aggregate contract value of approximately HK\$142 million:

- Contract for the Slope Upgrading Works at Slope No. 11 NW-B/F60 at Phoenix House, Shamshuipo
- Building Repairs and Maintenance Term Contract 2005/2008, The Hong Kong Polytechnic University
- Proposed Elevated Walkway Linking The Hong Kong Polytechnic University to the Existing Footbridge Over Cross Harbour Tunnel Toll Plaza
- The Construction of Permanent Public Transport Terminus at Tin Yan Road Contract for the Proposed G.I.C./Public Car Park and Residential Development at Tin Shui Wai Lot No. 24, Area 33, New Territories

### Property investment

The Group has noted a steady growth in rental income from its investment properties. A total rental income of approximately HK\$12,152,000 (2005: HK\$1,304,000) and a gross profit of approximately HK\$11,034,000 (2005: HK\$1,127,000) were recorded for this year.

## FINANCIAL REVIEW

### Liquidity and Financial Resources

At 31 March 2006, the Group's cash and bank balances amounted to HK\$77,010,000 (excluding pledged deposits of HK\$8,180,000), representing a decrease by 8% from 2005 of HK\$83,613,000 (excluding pledged deposits of HK\$32,239,000). Current ratio, measured as total current assets divided by total current liabilities, was 1.0 as of 31 March 2006, as compared to 2005 of 1.2.

Meanwhile, bank overdrafts and loans at 31 March 2006 increased by 149% to approximately HK\$484,461,000, as compared to 2005 of HK\$194,912,000. The increase was due to the new mortgage loans obtained by the Group for the purposes of acquiring the shops at Fou Wah Centre, Tsuen Wan, the whole block of No. 36 Jardine's Bazaar, Causeway Bay and the whole and portion of two adjacent blocks at No. 123-125 and No. 127 Tung Choi Street, Mongkok. At 31 March 2006, the Group's net gearing was 147% (2005: 34.5%), measured as total bank borrowings and finance lease payables less pledged deposits and cash and cash equivalents, divided by total shareholders' equity.

The Group's bank borrowings are all denominated in Hong Kong dollars, except for a bank loan of £870,000 (equivalent to approximately HK\$11,762,000), which is denominated in British Pounds Sterling. Whilst the Group's borrowings are principally on a floating rate basis, in order to mitigate the risk of interest rate upward trends, we entered into interest rate swaps with a bank for an aggregate notional amount of HK\$150 million.

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Due to the substantial increase in bank borrowings and the increases in interest rates over the year, interest expenses, excluding the amount capitalised of approximately HK\$897,000 (2005: HK\$403,000) increased significantly to HK\$20,903,000 for this year (2005: HK\$980,000).

Our banking facilities, comprising primarily bank loans and overdrafts, amounted to approximately HK\$873 million at 31 March 2006, of which approximately HK\$306 million was unutilised.

### Charges on Assets

At 31 March 2006, fixed deposits of approximately HK\$8,180,000 (2005: HK\$32,239,000), investment properties with an aggregate carrying value of approximately HK\$518,450,000 (2005: HK\$229,500,000), leasehold land and building of HK\$14,432,000 (2005: HK\$14,700,000), properties held for development of HK\$115,500,000 (2005: nil) and properties under development of HK\$44,730,000 (2005: HK\$42,355,000) 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 2006.

### Capital commitment

At 31 March 2006, the Group had capital commitments in respect of purchases of investment properties of approximately HK\$943,000 (2005: HK\$313,267,000).

### Contingent liabilities

At 31 March 2006, the Group had contingent liabilities in relation to guarantees in respect of performance bonds in favour of contract customers of approximately HK\$82,698,000 (2005: HK\$69,398,000). In addition, at 31 March 2006, 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\$567 million (2005: HK\$266 million).

### STAFF AND REMUNERATION POLICY

At 31 March 2006 the Group employed 263 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.