

MANAGEMENT DISCUSSION AND ANALYSIS

Review of Operation

The Group's turnover for the six months ended 30th September, 2001 was approximately HK\$354.64 million which had not changed materially over that of the same period last year. Net loss for the period was approximately HK\$10.71 million (*2000 – net profit of approximately HK\$5.9 million*) was mainly due to an increase in the general and administrative expenses of the Group which were related to new business in broadband connectivity and karaoke on demand systems.

Building Services Engineering

During the period under review, there were no improvements in the availability of building services projects resulted from marked slow down in housing developments in both private and public sectors since last year. As a result, the Group faced a very fierce competition amongst eligible contractors and the margins for profits in building services and related trading activities are relatively lower than previous years. However, the Group continues to streamline its operation with a view to consolidate and reinforce its competitive edge in the market place.

As at 30th September, 2001, the Group's uncompleted contracts on hand was approximately HK\$241 million, a further decrease from that of HK\$435 million as at 31st March, 2001.

Broadband Connectivity

In view of the fact that the performance of broadband connectivity business was unlikely to improve in the near future and after some short term measures to reduce the operating loss, the Board had decided to cease the business of broadband connectivity during the period under review. It was expected that no further substantial loss would be incurred by the Group resulted from the cessation of the broadband connectivity business.

Karaoke on Demand Systems

The performance of karaoke on demand systems was affected by the poor economy of Hong Kong during the period under review. As no light of an improvement in the economy in Hong Kong is expected in the near future, it was expected that the performance of karaoke on demand systems business is likely to suffer in the second half of this fiscal year.

Liquidity and Financial Resources

The Group's cash and bank balances were approximately HK\$57 million as at 30th September, 2001 representing a decrease of approximately 27% as compared to that of as at 31st March, 2001. The decrease was mainly due to the repayment of certain bank loans and overdraft and the injection of working capital for the completion of two building maintenance term contracts made during the period under review. The total bank borrowings were approximately HK\$19 million as at 30th September, 2001, a decrease of approximately HK\$10 million as compared to that of as at 31st March, 2001. The total bank borrowings substantially comprised bank overdraft and bank trust receipt loans at various interest rates. The period-end gearing ratio, as measured by the total bank borrowings over shareholders' equity, was approximately 17% (*as at 31st March, 2001 – 24%*). As the Group's transactions are mostly settled by Hong Kong dollars, the use of financial instruments for hedging purposes is not considered necessary.

Placement

On 28th September, 2001, the Company announced that on 25th September, 2001 it entered in the subscription agreements pursuant to which it had conditionally agreed to allot and issue a total of 77,000,000 new shares to three independent subscribers at the subscription price of HK\$0.2 per share. On 29th October, 2001, the Company announced that the subscription of 77,000,000 new shares was completed on 26th October, 2001.

The net proceeds from the subscription amounted to approximately HK\$15.3 million and would be used by the Group as to (i) approximately HK\$4 million for enabling a subsidiary of the Company to satisfy working capital requirements imposed by the relevant authorities and/or departments of the Hong Kong Government and (ii) as to the balance for strengthening the Group's working capital position for future tendering of building services projects.

Treasury and Funding Policy

There were no significant changes in the Group's treasury and funding policies during the period under review.

Pledge of Assets

Certain bank deposits of approximately HK\$26.8 million (*as at 31st March, 2001 – HK\$26.8 million*) were pledged to secure banking facilities of the Group.

Employees and Remuneration Policy

The Group employed approximately 340 employees as at 30th September, 2001. There were no significant changes in the remuneration policy and benefits to the employees of the Group.

Business Prospect

The recent announcement by the Hong Kong Government of yet another rise in unemployment rate to 5.8% and the prospect of negative growth for the year 2001 indicated clearly that the local economy was in recession. The bust of the property bubble following the Asian Financial Crisis and the collapse in hi-tech stocks followed by the September terrorist attacks in New York and Washington D.C. had caused damages to the Hong Kong economy as a whole. The once prosperous real estate sector had suffered the most during the last 2-3 years, so were the construction and related building services industries. The situation is not expected to improve in the coming year.

With the continued buoyancy in China's economy following its accession into WTO and its successful bid to host the 2008 Olympic Games, there appear better prospects in China at the moment. The Group intends to continue the development of its core building services business both in Hong Kong and in China based upon the Group's specialist skills. Your directors therefore remain optimistic about satisfactory performance of the Group in the coming year.