

# Business Review

## Financial Review

On 20 August 2000, the HK\$40 million convertible note was fully repaid when due. Mainly because of this, the Group's gearing ratio improved from 49.1% at the beginning of the period to 38.6% as at 30 September 2000. In the meantime, the working capital of the Group declined by HK\$11.6 million which comprises primarily a decrease in net current assets of HK\$8.1 million as a result of the deconsolidation of the like items of the Cosmedia group from those of the Anex group. The Group also spent approximately HK\$6.5 million on moulds and machinery to upgrade its manufacturing capabilities during the period, an increase of HK\$3.4 million over the same period of last year.

## Business Review

The Group's core business recorded a 23% increase in turnover to HK\$111.3 million for the six months ended 30 September 2000. The net loss attributable to shareholders was HK\$796,000 mainly because of a realized gain on disposal of subsidiary and associated companies. However, the core business of design and manufacture of electrical appliances still suffered a net operating loss as the contribution from the additional volume is not sufficient enough to offset the lower contribution margin due to significant increase in cost of production.

The new "Home Stylish" product line, which is distinguished by its colourful translucent exteriors, has proven to be a success as sales to major markets in Europe and USA registered strong growth. The Aromatherapy Vaporizer within this line scored a coveted third prize in The Second Hong Kong Electrical Appliances Design and Innovation Competition. It is a timely recognition of the Group's devotion to development of innovative products which help boost sales.

During the period under review, steep increases in oil prices led to rising costs of energy and plastic resins, which we had to endure. Due to severe price competition, however, we cannot pass on the cost increase to customers. As a result, the core business has not yet recovered despite higher turnover achieved.

Cosmedia Limited, the Group's joint venture in media distribution in the PRC, incurred a small operating loss because a number of its TV drama series under various stages of development were not ready for distribution through program syndication at 30 September 2000. However, there are over 250 hours of drama programs which will be available for distribution in the second half year, which will greatly improve its operating results.

### **Prospects**

On the strength of the "Home Stylish" line, we will hasten the development of more products using the latest plastic materials and attractive colours which can sell. Lately, raw material costs are stabilizing and it will help us control the cost of production. With further increases in volume and tighter control on operating costs, we hope to be able to achieve economy of scale and return the manufacturing division to profitability.

In November 2000, the Group has launched its first business-to-customer (B2C) website [《www.direct88.com.hk》](http://www.direct88.com.hk). It aims to provide a wide selection of consumer products directly sourced from manufacturers, which are sold online at very attractive prices. The website is maintained by the Group's in-house staff under stringent cost control and is targeted at local retail customers without any impact on the Group's export business. The Directors of the Company are confident that e-business over the Internet will prevail and prosper in the long run.