

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The principal business of the Group is the importing and selling of a comprehensive range of pipes, fittings and other related accessories of different materials, applications and branchnames in Hong Kong. Sales of the Group's products are conducted by both wholesale and retail.

WHOLESALE

The wholesale operation contributed to 93.9% of the Group's turnover (1999: 94.7%). Projects for which the Group has supplied pipes, fittings and other related accessories include residential property development, commercial property development, hotel development, civil engineering, infrastructure and maintenance projects undertaken by the Housing Authority, the Drainage Services Department, the Water Services Department, the Architectural Services Department, the Mass Transit Railway Corporation, the Kowloon-Canton Railway Corporation, property developers and property owners respectively. The Group has supplied pipes, fittings and/or other related accessories to several large residential projects by private property developers namely The Waterfront, Royal Peninsula, Ocean Shores and Island Harbourview which were completed in 2000. This resulted in an increase in the Group's turnover.

RETAIL

The contribution from retail division has increased to 5.6% (1999: 4.6%) during the year under review, as two retail shops at Yuen Long and Wanchai were in full year operation.

WAREHOUSE BUSINESS

The Group provides storage services for other companies' products such as lifts, generators, air conditioners, cables, building materials and other equipment. The income generated from warehouse business accounted for approximately 0.5% of the Group's turnover for the year under review (1999: 0.7%). The Group plans to expand its warehouse business by leasing a new warehouse in Yuen Long. In addition, the Group will purchase more delivery trucks and employ more transportation staff in order to enhance its delivery capacity and efficiency.

LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained a robust financial position, with cash and bank balances of HK\$62,593,000 as at 31st December 2000 (1999: HK\$11,274,000). Basically the Group's working capital requirement has been financed by its internal resources. The Group believes that funds generated from internal operations, its existing reserve and the available banking facilities will enable the Group to meet its future cash requirements.

The Group had aggregate banking facilities of approximately HK\$178,855,000 as at 31st December 2000 (1999: HK\$150,555,000) for term loans and other trade finance facilities. Banking facilities utilised as at 31st December 2000 amounted to approximately HK\$104,838,000 (1999: HK\$95,286,000).

The Group's borrowings are mainly denominated in Hong Kong Dollars. Banking facilities were granted to the Group which bear interest at prevailing market rates.

The Group conducts its business transactions mainly in Hong Kong Dollars, US Dollars and Australian Dollars. Currency forward contracts were arranged for the transactions denominated in other currencies for hedging purposes. Forward exchange contracts amounting to HK\$1,878,000 were outstanding as at 31st December 2000 (1999: 2,564,000).

During the year under review there was no significant deviation from the policies above.

Over 90 percent of the Group's cash is either denominated in Hong Kong Dollars or US Dollars. The exposure to exchange fluctuation is minimal.

As at 31st December 2000, the gearing ratio (total debts/total assets of the Group) was 0.32 (1999: 0.28).

CONTINGENT LIABILITIES

As at 31st December 2000, the Group had contingent liabilities in respect of outstanding letters of credit and indemnities in respect of shipping guarantees given by banks totalling approximately HK\$12,681,000 (1999: HK\$28,987,000).

STAFF AND EMPLOYMENT

Including the directors of the Group, as at 31st December 2000, the Group employed a total of 143 (1999: 159) full-time employees. Total staff remuneration was approximately HK\$41,872,000 (1999: HK\$40,083,000). No share option was granted to staff during the year.

Remuneration is reviewed annually and certain staff members are entitled to commission. In addition to the basic salaries and contributions to the mandatory provident fund, the Group also provides staff benefits including discretionary bonus and medical insurance scheme.