

## MANAGEMENT DISCUSSION AND ANALYSIS

### **Geographical Market**

The Group's 2000 turnover, relating to the manufacture and sales of consumer home products only, amounted to HK\$1,131.5 million compared with HK\$1,139.9 million for the corresponding period in 1999. The dominant market in Europe constituted 52.58% amounting to HK\$610 million (1999 : 58.36% amounting to HK\$680 million). North American sales, as a percentage of turnover increased by 8.06% to 34.17% amounting to HK\$396 million (1999 : HK\$304 million). South American sales decreased to 0.52% amounting to HK\$6 million (1999 : HK\$23.7 million). Sales in other markets dropped slightly down from 7% to 6.87% of the turnover amounting to HK\$79.8 million (1999 : HK\$81.7 million). Product sales in the Hong Kong market also decreased to 5.86% amounting to HK\$68 million (1999 : HK\$75 million). The business in department store operation registered a reduced turnover of HK\$15.5 million (1999 : HK\$26.6 million).

### **Products Categories**

Sales of the major products out of the Group's turnover in 2000 were 34.49% for paper products (1999 : 33.63%), 31.61% for wooden products (1999 : 32.15%) and 28.42% for household items, home textiles products and tablemats (1999 : 28.38%).

### **Net margin**

Net margins fell to 3.24% in 2000 compared with 5.16% in 1999. Excluding items related to activities other than the manufacture and sale of consumer home products, actual net margin was 5.47% in 2000 compared with 6.31% in 1999.

### **Operating Expenses**

Operating expenses in 2000 slightly decreased by 2.44% over that of 1999. The reduction in 2000 was largely attributable to selling and administrative expenses.

### **Interest Expenses**

Interest expenses rose by 31.05% to HK\$10.39 million in 2000 (1999 : HK\$7.93 million) as a result of increasing finance leases to meet additional machinery for new products.

### **Minority Interests**

Minority interests fell by 45.63% to HK\$8.7 million in 2000 (1999 : HK\$16 million) as a result of a decline in contributions from a majority-owned subsidiary.

### **Liquidity and financial resources**

Net current assets and current ratio were HK\$53.33 million and 1.24 : 1 as at 31st December, 1999 and HK\$ 43.66 million and 1.22 : 1 as at 31st December, 2000. The reduction in net current assets is largely due to a decrease in bank deposits, bills receivable and inventory. Raw material, work-in-progress and finished goods decreased by 7.66% to HK\$110 million (1999 : HK\$120 million).

Fixed assets additions rose by 24.74% from HK\$35.6 million in 1999 to HK\$44.49 million in 2000 mostly attributable to the expansion of the Group's production facilities in the PRC.

As a result of a decrease in unsecured short term bank loans, total bank borrowing decreased by HK\$15 million. Total debts and the corresponding ratio to shareholders' funds were HK\$50.51 million and 21.93% at 31st December, 2000, compared with HK\$65.54 million and 28.48% at 31st December, 1999.

Internally generated funds continued to be the Group's main source of working capital and this is complemented by revolving credit facilities provided by the Group's principal bankers. The Management believes that, as at 31st December, 2000, the Group's financial condition is such that it has sufficient liquidity and resources to support its working capital requirements.

### ***Employees***

The approximate number of employees of the Group as at 31st December, 2000 and 31st December, 1999 were 9,800 and 9,600 respectively with a seasonal high figure of more than 10,000 during the third quarter of 2000. Less than 200 staff are stationed in Hong Kong and the rest are PRC workers.