

# Management Discussion and Analysis

## FINANCIAL REVIEW

The Group's turnover for the financial year ended 31st March 2001 amounted to approximately HK\$193 million, representing an increase of 14% over the previous financial year. Corresponding with the increase in turnover, the net profit attributable to shareholders increased by 25% to reach approximately HK\$42 million.

## JAPAN MARKET

The increase was primarily due to the increasing demand from Japan ODM customers. The customers from Japan include trading companies, department stores and furniture chain stores. The demand from Japan market remains strong for the year ended 31st March 2001. The Directors attribute such success to the positioning of the Group's high quality products offered at competitive price when compared with the Japan production houses.

In the coming year, the Group will maintain its competitive edge by improving its quality standards through recruitment of staff and quality improvement plan. However, the Directors believe that the Japanese wooden furniture market is very competitive and the consumers are very sensitive to price and quality.

## PRC MARKET

As a result of the increase in living standards of the PRC residents, new residential flats were built. During the year ended 31st March 2001, the Group had placed more emphasis on promotion and advertising activities. The Group through its marketing campaigns addresses its products as "Natural European Lifestyle High Quality Environmental Friendly Furniture". And the feedback from the customers is positive and leads to an increase in sales. The Directors believe that the PRC market is full of business opportunities but is also competitive and plans to place more efforts on marketing and distribution in the coming year to differentiate its products from its competitors.

## LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations with internally generated resources and banking facilities provided by its principal bankers in the PRC. As at 31st March, 2001, the total banking and loan facilities had been reduced to approximately HK\$6.5 million. The bank loans bore at a fixed interest rate. All the bank loans facilities were fully utilized and denominated in RMB and were secured by corporate guarantees provided by certain independent third parties.

## GEARING RATIO

As at 31st March, 2001, the Group had a gearing ratio of approximately 6.5 per cent.. The calculation of the gearing ratio was based on the short-term bank loans and the shareholders' equity as at 31st March, 2001.

## EMPLOYEES

As at 31st March, 2001, the Group had employed approximately 1,200 full time employees, of which approximately 1,196 were based in PRC.