



BUSINESS REVIEW

For the year under review, the Group recorded a consolidated turnover of HK\$524.3 million, representing a drop of 37.5% from the previous year, and a net loss of HK\$731.3 million.

The Group's ceramic tile business was affected by the local economic slowdown and sluggish property market. Despite housing affordability has improved as a result of the fall in prices and cuts in interest rate, demand for residential units remained stagnant, causing a drop in new development projects undertaken by property developers. Coupled with reduced spending on the refurbishment of existing buildings, sales price of ceramic tiles has been continuously under pressure. Turnover from trading of ceramic tiles reduced by 18.1% to HK\$254.2 million while profit from that sector reduced by 51.4% to HK\$28.9 million. On the other hand, the Group has expanded its revenue base by securing to provide ceramic tiles for Home Depot, a reputable home improvement retailer in the United States selling a wide assortment of building materials. Sales to Home Depot for the year amounted to HK\$5.3 million. The Group is optimistic that exports to the United States will grow significantly and will bring profit contributions to the ceramic tile business.

Share of loss of associates for the year amounted to HK\$295.8 million, of which a substantial portion was attributable to the loss of Skynet (International Group) Holdings Limited ("Skynet"), an 47.89% associate of the Company. Skynet and its subsidiaries are principally engaged in the wholesale and installation of marble and granite products and investments in Internet websites namely www.hkcyber.com, www.hkstock.com.hk, www.gameplayers.com.hk and www.astprince.com. The consolidated results of Skynet for the year were less than satisfactory owing to the sluggish property market and the downturn of the Internet-related industry. The Internet business has experienced a hard time in view of high operating cost and keen market competition.

The local stock market has been dragged down by the reversal of the global market sentiment. The Group recorded a loss of HK\$174.6 million from trading of marketable securities and derivatives during the year.

Taking a prudent approach, the Group made a provision for bad and doubtful debts of HK\$167.5 million and a provision for stock of HK\$4.1 million. The Group also recognised an impairment loss of HK\$47.4 million arising from revaluation of properties under development held for sale, which are situated in Hong Kong.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2001, the Group had net current liabilities of HK\$31.1 million (2000: net current assets of HK\$362.9 million) and a current ratio of 0.9 (2000: 2.1). Cash, bank balances and time deposits as at 31 March 2001 were HK\$23.9 million (2000: HK\$56.2 million). Gearing ratio which is expressed as a ratio of total liabilities and minority interests to shareholders' funds was 1.6 (2000: 0.5).



Borrowings as at 31 March 2001 amounted to HK\$283.8 million (2000: HK\$232.7 million), of which HK\$269.9 million was due within one year from the balance sheet date and HK\$13.9 million was due after one year. All these borrowings were interest bearing, of which HK\$191.9 million bore fixed interest rates ranging from 6.39% to 9.8% and HK\$91.9 million bore floating interest rates. As at 31 March 2001, the Group had bank overdraft of HK\$3.1 million (2000: HK\$Nil). Borrowings were mainly denominated in Renminbi, United States dollars and Hong Kong dollars while cash and cash equivalents were mainly held in Hong Kong dollars and Renminbi. Exchange rate fluctuations had no material impact on the Group during the year. The Group has utilised foreign exchange contracts and options to hedge against the exchange rate risk for its purchases.

A repayment notice has been received by the Group from a convertible noteholder demanding the repayment of certain part of a convertible loan. The Group failed to make such repayment, resulting in the whole convertible loan of HK\$92.3 million technically repayable on demand. As at 31 March 2001, the Group's tangible net worth was HK\$317.7 million, which was in breach of a covenant in respect of certain banking facilities. The amount of such banking facilities utilised was HK\$34.9 million as at 31 March 2001. The Group is currently negotiating with the convertible noteholder and the relevant banks to restructure these borrowings. Provided that such negotiations can be successfully completed, the Group expects that it will be able to meet in full its financial obligations as they fall due in the foreseeable future.

PLEDGE OF ASSETS

As at 31 March 2001, the Group pledged certain land and buildings, motor vehicles, plant and machinery with an aggregate carrying value of approximately HK\$163.5 million (2000: HK\$147.9 million) to secure the banking facilities granted to the Group. No fixed deposit was pledged to secure short-term bank loan, compared with the pledging of fixed deposit in the amount of US\$0.8 million in the previous year.

CONTINGENT LIABILITIES

As at 31 March 2001, the Group's contingent liabilities were HK\$50.7 million (2000: HK\$40.9 million), representing corporate guarantee given to bankers in respect of banking facilities utilised by an associate of HK\$26.8 million, a put option granted to a third party to require the Company to purchase certain shares in Skynet Limited (a subsidiary of Skynet) at the price of HK\$23.4 million, and outstanding performance bonds in respect of retail shop rental of HK\$0.5 million.

EMPLOYEES AND REMUNERATION POLICIES

The Group had approximately 880 employees as at 31 March 2001. The Group's remuneration policies are in line with prevailing market practices and formulated on the basis of performance and experience of the employees. Training is also provided to improve the calibre of the staff.

The Company maintains a share option scheme, pursuant to which share options are granted to directors and senior executives to provide them with incentive interests in the growth of the Group.



PROSPECTS

With the global economy continuing to show signs of slowdown, it is expected that the local property market will not revive in the short run. In view of the unfavourable local market conditions, the Group has administered a series of stringent cost control measures to enhance its operational efficiency. Looking ahead, the Group will capitalise on its strength in its existing business and explore new markets for its ceramic tile business such as Australia. The Group will also expand its share in the sanitary market which has high growth potential. More efforts will be spent on strengthening the sales team and expanding the customer base of our sanitary business. The Group will make every endeavour to enhance its competitiveness and achieve better returns for shareholders.

APPRECIATION

On behalf of the Board, I would like to extend my sincere thanks and appreciation to all our staff for their hard work and commitment and to our bankers, customers, suppliers and shareholders for their continued support.

Siu York Chee

Chairman

Hong Kong, 6 August 2001