



“ The first year of millennium brought with it challenge in our business. The sluggish economy in Hong Kong has resulted in and remained as a single challenge for all businesses in Hong Kong. ”





Dear Shareholders,

We would like to present the annual report for the year ended 31st March, 2001.

We all have witnessed the slow downturn of the global economy in the second quarter of 2000 after what appeared to be a phenomenal growth in the 90's with economy built and led by the technology industry in the world.

The first quarter of the year 2001 appeared to be heading for a bright prospects for the future with 2.3% growth in GDP for Hong Kong as published by the Hong Kong SAR Government. However, the increased pessimism for the US economy creates the uncertainty which resulted in the dimming the global economic environment in the months that follow. The forecast of GDP growth for 2001 as a whole was lowered further, as announced by the Hong Kong SAR Government to just 1% in real terms in August this year.

The external economic environment is dimmed further by the further downturn in the US economy after September 11 event which will, no doubt, retard any further growth in Hong Kong and in most of the other East Asian economies. The consumer confidence and the consumer spending was dampened by concern over deterioration in the external economic environment for the months to come and the slump in global demand for consumer goods resulted in an almost across-the-

board fall-off in Hong Kong exports and re-exports. Hong Kong tourism would also be greatly affected.

It is well documented that approximately 200,000 units have been considered as negative assets, which are owned by the hard hit middle class of Hong Kong, whose hard work has contributed a lot to the growth of the Hong Kong economy in the past decade. They were the driving force for the building sectors as they tended to move to a larger and better apartment, after achieving a good financial gain, leaving their previous smaller units for those who we coined the "first time home buyers".

This would not happen until the predicament of the negative asset home owners have been eased and they have regained confidence on the property market and also have financial power to do so. This may take years to come.

The confusing housing policy in Hong Kong in the past few years added further uncertainty and confusing signal to the property market and the sales market for residential property continued to be slack during most of the year 2001 albeit there is an ample supply of new flats coming on the local market offering a greater variety of price discounts, cash rebates, top-up loans, mortgage subsidies and preferential mortgage rates coupled with the local interest rate cuts.





Our business has always been concentrated in the supply of the sanitary wares, ironmongery and the associated products for building projects and our turnover will inevitably follow the business trend of the local building industry.

According to the statistics provided by the Government, expenditure on building and construction registered only a marginal growth, at 0.1% in real terms in the second quarter of 2001 over a year earlier, following a 1.2% decline in the first quarter. In the public sector, activity remained relatively unchanged in overall terms for this year, but it is expected that there would be a sharp decline in output from the Public Housing Programme following the Government's recent announcement on the cutback on the sale of the public housing after the sluggish sale of the private building sector.

During the past financial year, our Group has managed to maintain the turnover despite the economic uncertainty.

While our business base and strength has always been strong in Hong Kong, we must look into other markets and opportunities as we have noted that the business environment in Hong Kong has changed dramatically since 1997 and the business has been conducted differently. The mutual trust among the business partners and other companies have been doubted and questioned

largely due to the difficult financial environment in local market. We recognise that it is necessary to review the strategic direction of all our operating units on a regular and frequent basis.

We have introduced a set of strategies by restructuring the Hong Kong operation as announced in June this year in order to streamline our operation and to identify other business opportunities which will create share value for our shareholders. The economy in Mainland China has been relatively better out performed in this region together with the entry of Mainland China into WTO, Mainland China has always been our focal point for the expansion of our business.

In addition to the business which we are currently carrying on, we will build distribution networks in Mainland China, Hong Kong and other countries in Asian region, which would form the basis of our new strategic direction by acting as an exclusive distribution agent for the world quality building hardwares manufacturers and suppliers. A separate wholly owned subsidiary will be formed for the purpose of carrying out business as an exclusive distribution agent for each brand of products. As before, we will only distribute products which we believe originated from the brand owners and/or their licensed manufacturers and will continue to provide warranty and quality after sale services to the products distributed by us.

Our largest source of revenue and profits is the building project business, with new strategic directions, we would capitalise opportunity to develop our retail operation and our distribution business in Hong Kong and to reach a bigger market beyond Hong Kong. Our goal is to be the market leader for the distribution of the quality buildings hardwares supplier in Hong Kong and gradually expand into Mainland China and other market in the region. We will invest in resources that will maintain the supply of the quality of our products and services to the building industry and to succeed in a rapidly changing business environment.

We, in the business community, have been well aware of the difficult economic environment in the years ahead, no company would be immune from the financial impact due to the downturn of the global economy. Some conservative financial analysts considered that we are now at the brink of the economic recession despite 8 successive interest rates cut accumulated to a total of 3.5% up to now since the beginning of 2001 by the Federal Reserve Board of U.S.A. We must accept the new challenge ahead of us. We will formulate and restructure our business in order to cope with the situations as they arise and will be better prepared ourselves in order to capitalise any



business opportunity when we have the recovery of the economy.

As reflected on our achievements in the difficult business operating environment during the past year, I want to thank our management and staff for their exceptional efforts and our principals, customers and shareholders for their confidence and for their continuing support.



TSE Sun Fat, Henry

Chairman

3rd October 2001

