

BUSINESS REVIEW

The Group's principal business activities were the manufacture of PVC sheets and PVC floor coverings in the PRC.

Despite the ongoing effort to curtail operational costs, the Group continued to incur an operating loss during the period mainly as a result of (i) high interest costs being incurred due to the banks charging interest at penalty rates on debt that is currently in default and also resulting from a longer than expected period of negotiation with its bank creditors in Hong Kong ("Bank Creditors") on the terms of a debt restructuring; and (ii) reduced turnover as a result of the continuing uncertain market conditions in the U.S.A. where our customers predominately export their products and accordingly is the end destination of our production.

During the period, the Group's businesses continued to be adversely affected by its financial liquidity problems resulting from its heavy debt burden and operating losses in the current period as well as in the past two years. The Group's two factories in Dongguan continue to operate at three-fourths of their capacity with limited working capital.

The Group has since April 2001 been in active negotiation with its Bank Creditors with a view to finalizing the terms of a debt-restructuring agreement. This negotiation process has recently needed to be extended due to the necessity to revise the Group's original financial projections in light of the fallout from the September 11 terrorist attacks in the U.S.A. and the subsequent continuing economic uncertainties arising therefrom. It is expected that an agreement can be reached with the Bank Creditors in the first quarter of 2002 and an announcement will be made to shareholders as and when appropriate.

PROSPECT

While management will continue to maximise existing financial resources to improve sales and the utilisation of our two existing factories in Dongguan, the prospect of the Group continuing or expanding its existing businesses will be wholly dependent on the successful completion of the debt restructuring with the Group's Bank Creditors. The Group's operations should be able to return to normal and start expanding following completion of the debt restructuring.

LIQUIDITY AND OTHER FINANCIAL RESOURCES

The Group relied mainly upon internally generated funds and the informal standstill with its Bank Creditors with respect to its banking facilities to finance its operation.

As at 30 September 2001, the Group's shareholders' equity and net current liabilities were HK\$2,160,000 (31 March 2001: HK\$21,191,000) and HK\$210,876,000 (31 March 2001: HK\$203,231,000) respectively.

The gearing ratio, calculated as a ratio of total bank and other borrowings to equity was 115.95 (31 March 2001: 10.85).

BANK AND OTHER BORROWINGS AND CHARGES ON GROUP'S ASSETS

As at 30 September 2001 the Group's bank and other borrowings amounted to HK\$241,150,000 and are secured by:

- (i) certain leasehold land and buildings, with a net book value of HK\$11,350,000;
- (ii) certain plant and machinery with a net book value of HK\$43,993,174;
- (iii) first legal charges over all of the investment properties of the Group;
- (iv) the Group's entire interest in a jointly-controlled entity; and
- (v) guarantees from a minority shareholder and an independent third party to the extent of approximately HK\$10,000,000 and HK\$20,093,000, respectively.

EMPLOYEES

As at 30 September 2001, the Group had approximately 450 employees. The Group provides competitive remuneration packages to employees commensurate with their experience and market trend of business in which the Group operates.

INTERIM DIVIDEND

The Directors have resolved not to pay an interim dividend for the six months ended 30 September 2001.

DIRECTORS' INTERESTS IN SHARES

At 30 September 2001, the interests of the directors in the shares of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") were as follows:

The Company

Director	Notes	Number of ordinary shares held and nature of interest	
		Personal	Corporate
Tang Kuan Chien	(a)	3,598,000	235,065,000
Wong Chak Ming, William	(b)	–	48,300,000
Hui Lap Chun	(b)	–	48,300,000
Yiu Wing Ngok, Steve		30,000,000	–

(a) The corporate interest shares are held by Bestway Development Limited, a company incorporated in the British Virgin Islands which is wholly-owned by Mr. Tang Kuan Chien.

(b) These shares are held by Zurich Inc., a company incorporated in the British Virgin Islands which is beneficially owned as to 65% by Mr. Wong Chak Ming, William and 35% by Mr. Hui Lap Chun.

Save as disclosed above, none of the directors, or their respective spouse, or children under 18 years of age had any personal, family, corporate or other interest in the shares of the Company or any of its associated corporations as defined in the SDI Ordinance.