

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Business review**

The Group was successfully listed on the main board of the Stock Exchange on 19 April 2001. The net proceeds of the new issue and placing of shares of the Company amounted to approximately HK\$37.5 million, which will be used to finance the Group's capital expenditure and strengthen its capital base and financial position.

The Group's unaudited consolidated turnover and net profit from ordinary activities attributable to shareholders for the six months ended 30 September 2001 were approximately HK\$305 million and approximately HK\$17 million respectively, representing a drop of approximately 8% and approximately 10% respectively as compared to the same period last year. The gross profit margin remained at around 9.7%.

The principal market of the Group remained the PRC (excluding Hong Kong) which accounted for approximately 79% of the Group's turnover. Sales to Hong Kong market amounted to approximately HK\$55 million, representing a decrease of approximately 64% as compared to the same period last year.

#### *Distribution business*

During the period under review, revenue from the distribution of PU materials was approximately HK\$249 million, down from approximately HK\$287 million of the same period last year. The distribution business contributed approximately HK\$14 million to the Group's net profit from operating activities for the period, representing approximately a 31% decrease in comparison to the corresponding period in 2000. The downturn of Hong Kong economy accounted for the slowdown in the Group's sales from distribution of PU materials. However, sales to the PRC market continued to show a strong growth as compared to the corresponding period last year.

#### *Manufacturing business*

During the period under review, the Group continued to focus on the development of its downstream products, such as PU foam and related foam products. Revenue and operating profit generated from the Group's manufacturing business during the period were approximately HK\$56 million and approximately HK\$7 million respectively, representing an increase of approximately 23% and 138% as compared to the same period in 2000. The Group had taken advantage of lower raw material prices and adopted an effective cost control policy. As a result, a higher gross profit was recorded and both sales as well as operating profit were boosted.

### **Liquidity and financial resources**

As at 30 September 2001, the Group held cash and bank balances of approximately HK\$52 million, bank borrowings of approximately HK\$62 million and unutilised banking facilities of approximately HK\$36 million. Approximately HK\$25 million of the Group's time deposits was pledged to secure the bank borrowings and general banking facilities. All of the Group's bank borrowings were repayable within one year. As at 30 September 2001, the net book value of the Group's fixed assets held under finance leases amounted to approximately HK\$637,000. Finance lease payables of approximately HK\$224,000 were repayable within one year. The remaining finance lease payables of approximately HK\$ 423,000 were repayable within five years. All of the Group's borrowings are denominated in Hong Kong dollars and US dollars. The Group maintained a very low level of debts and a high liquidity. As at 30 September 2001, the Group had a current ratio of approximately 2 and a gearing ratio of zero (defined as long term bank borrowings over shareholder's equity).

## **Liquidity and financial resources** (Continued)

As the Group's transactions are mostly settled by Hong Kong dollars or Hong Kong dollars pegged currencies, no use of financial instruments for hedging purposes is considered necessary.

With the available resources and the proceeds from the new issue and placing of shares of the Company, the Group has adequate working capital to finance its business operations.

## **Contingent liabilities**

The Company had executed several guarantees, with unlimited amount, in favor of banks in respect of general banking facilities granted to certain subsidiaries. As at 30 September 2001, the subsidiaries had utilised approximately HK\$62 million of the facilities.

## **Interim dividend**

The board of Directors (the "Board") does not recommend the payment of an interim dividend for the six months ended 30 September 2001.

## **Material acquisitions and disposals**

During the period under review, there was no material acquisition or disposal of any subsidiary, associate or joint venture of the Group.

## **Employees**

As at 30 September 2001, the Group's total number of staff in Hong Kong and the PRC was 41. Salaries of employees are maintained at a competitive level. The Group has not encountered any problem with the recruitment of its employees. None of the companies in the Group has experienced any labor disputes during the period and the Directors of the Company consider that the Group has maintained an excellent employment relationship.

## **Use of proceeds**

The shares of the Company were listed on the Stock Exchange on 19 April 2001. After deduction of necessary expenses payable by the Company, the net proceeds amounted to approximately HK\$37.5 million. The Directors at present intend to apply the net proceeds as follows:-

- as to approximately HK\$20 million for the purchase of a piece of land in the PRC and for the construction of a new production facility thereon;
- as to approximately HK\$6 million for the purchase of new machinery and equipment for the new production facility;
- as to approximately HK\$6 million for marketing activities of PU materials as well as PU foam products produced by the Group; and
- as to the balance of approximately HK\$5.5 million as an additional working capital of the Group.

Up to the date of this interim report, approximately HK\$200,000 has been utilised for the purpose of participation in household commodities exhibitions by the Group and approximately HK\$5.5 million was applied as general working capital. The remaining proceeds are placed on short-term deposits with licensed banks in Hong Kong.

## **Outlook**

The current downturn of the global economy is likely to persist in near term and the Group's business is expected to be under pressure. To cope with the current unfavorable market condition, the Group will strengthen its market position and remain competitive by means of cost rationalization as well as diversification of its product range.

In long run, the increasing affluence of the PRC economy and the growth in consumption power of the PRC customers are expected to result in an increase in demand for the Group's products and PU materials traded by the Group. To cater for the promising PRC market, the Group will continue to broaden its customer base and expand its manufacturing operation. With the invaluable experience in its businesses, the Group is confident to face every challenge positively in the future.