

# Management Discussion and Analysis

The following discussion provides information on contribution to revenue, operating profit, profit after tax, financial condition, liquidity and capital expenditure of the Group.

## Results of Operations

The Group's turnover for the year ended 31st March, 2002 was HK\$163 million representing a decrease of 41.9% as compared to last year. The decrease was mainly due to the decrease in sales of our products for property development projects as there has been a decrease in expenditure on buildings and construction was, in real term, down to -2.5% in the year of 2001.

The gross profit margin is 45.5% (2001: 38.2%) caused by the change in product mix, with some 13.7% of the turnover derived from wholesales and retail sales of bathroom collections which have a higher profit margin.

We were able to streamline our operation to achieve higher efficiency and as a result, selling expense decreased by 20.8%, general and administrative expenses were reduced by 16.8%. This saving was largely due to an increase in productivity while maintaining the morale of our workforce despite the rationalization of remuneration packages.

It is noted that the profit after tax attributable to shareholders amounted to HK\$1,295,000 as a result of the worsening operating environment both globally and specifically related to our industry, which is discussed in detail in our Chairman's Statement.

During the year, Techpro Trading Limited, Tech Pro (China) Limited, H<sub>2</sub>O Pro Limited were formed to carry out the group's wholesales trading, China trade and the sale of bathroom accessories respectively, while **BONCO**<sup>®</sup> Ironmongery Limited is a new subsidiary responsible for

the trading of **BONCO**<sup>®</sup> brand hardware. Shanghai Tech Pro International Trading Company and Tech Pro (China) Limited were formed for the Group's China operations.

Massford (Hong Kong) Limited, a new wholly-owned subsidiary of the Group, has been focusing on Project Sales operations.

In addition, a new subsidiary, Kitchen Pro Limited, was formed during the year with a view to expanding our product range to cover higher valued kitchen fittings, the Group is able to control this new line of business without incurring excessive administrative expenses.

As a means to monitor and control staff costs, D.I.Y. Limited, a wholly-owned subsidiary of the Group, is responsible for the human resources planning and deployment of the Group.

## Wholesales

As mentioned in our previous report, the suspension of sales of Home Ownership Scheme apartments since September 2001 has a significant impact on our sales to the public sector of property development projects. Details on the construction industry are discussed in the Chairman's Statement to the shareholders.

Private sector property development projects remain slack during the year as a result of the dip in sales of apartments and the oversupply and high vacancy rate experienced in 2001. However, the Group is able to secure private project sales with development in IFC North-East Tower, 129 Repulse Bay Road, Park Island of Ma Wan Development etc.

## Retails

During the year, there was a significant increase in turnover in our retail operations, which contributed approximately 27.9% of the Group's turnover this year. The retail operations helped in increasing the liquidity of the Group and reducing the risk of sales dispute and collection of receivables as most of the sales are either on cash on delivery or short term credit.

## Financial Resources and Liquidity

The Group has been very prudent in its financial management, most of our suppliers are traded on open accounts or document against acceptance and hence

WOOD

reduce the trading financing requirements. The current ratio and quick ratio are at 11.51 and 7.90, respectively while the cash in hand and at bank amounted to HK\$30.8 million as at 31st March, 2002.

The Group had no bank borrowings as at 31st March, 2002. The Group's 2001 gearing ratio of 27.68% was calculated on the basis of total bank borrowings over shareholders' funds as at 31st March, 2001.

The Group's exposure to foreign currency fluctuations is insignificant as both the borrowing and cash balances are primarily denominated in Hong Kong Dollars while the Group continues to adopt prudently a hedging policy against any unfavourable foreign exchange risk.

### People

In April 2001 Messrs. WONG Tin Cheung, Ricky and MAK So were appointed as executive directors of the Company, both of them were re-elected at our last Annual General Meeting.

Mr. Wong Wah, Dominic was re-appointed as a non-executive director and member of the Audit Committee. Mr. Lau Shiu Sun was appointed as an executive director of the Group and Mr. Ip Fu Wa, Benthony was appointed as Company Secretary in December 2001 following the resignation of Mr. Leung Ka Cheung. Mr. Lau who graduated from Hong Kong Baptist University and has been in the senior management position with the Group since 1994. Mr. Ip graduated from University of London and he is a member of both the Institute of Chartered Accountants in England and Wales and the Hong Kong Society of Accountants.

As at 31st March, 2002, the number of employees remained at 130. The Group rationalized the remuneration packages, largely in line with the prevailing market trend, to the employees and enhance the productivity of our workforce. Despite the difficult operating environment, the management is proud of our employees for their devotions and loyalty throughout the year.

### Future Prospects

We continue to pursue our China operations, although contribution in China sales constitute a small part of our operation, during the year, we acquired an office premise in Beijing with a view to positioning ourselves better in the Capital and further efforts will be spent in expanding our China operations.

As mentioned in our Chairman's Statement to the shareholders, new lines of business are being actively considered and pursued with an aim to divest the product lines and other business opportunities and in particular, the high value-added technology areas for higher return.

### Use of Proceeds from the public offering

The Company raised approximately HK\$62 million ("Net Proceeds") from the new issue and placing of shares in early April 2000. During the year, the application of the net proceeds by the Group was in compliance with the intended use of proceeds as set out in the Company's prospectus dated 28th March, 2000, details of utilization up to 31st March, 2002 are as follows:

- (a) Approximately HK\$9.6 million was used for the expansion of distribution network, it mainly represents cost of establishment of new retail outlets and offices in China.
- (b) Approximately HK\$2.33 million was used to enhance existing computer system and software application.
- (c) Approximately HK\$2.87 million was used for securing new distributorships.
- (d) Approximately HK\$13 million was used for expansion of product range.
- (e) The remaining balance has been placed with banks in Hong Kong as short-term deposit for working capital purposes.

# Group Chart



water

水



Bonco Ironmongery Limited  
100%

Massford (Hong Kong) Limited  
100%

Twinwood Venture Limited  
100%

Right Century Limited  
100%

Massford Holdings Limited  
100%

Techpro Trading Limited  
100%

Sunny Building and  
Decoration Materials  
Company Limited  
100%

H2O (Pro) Limited  
100%

