

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 31 March 2003 was HK\$125 million representing a decrease of 24% as compared to last year. The decrease was mainly due to the decrease in sales of our products for property development projects as a result of the sharp decline in the property market and abundant supply of housing stock for the next 3 years which collectively leads to the restructuring of the housing policy by the Hong Kong Government in response to the adverse local economy.

The decrease in the Group's gross profit margin from 45.4% to 37.4% was caused by the high costs of imports as a result of strong Euros and Japanese Yen and the inability to make parallel price increase on these imports due to deflation pressure here in Hong Kong. In the circumstances, the staff costs have been streamlined by HK\$9 million to HK\$29.8 million (2002: HK\$38.9 million) while maintaining our operational efficiency.

The loss for the year amounted to HK\$22.99 million (2002: profit of HK\$1.29 million) as a result of the lowering turnover and narrowing of our profit margin as mentioned above.

Wholesales/Retails

Facing the difficulty of the overall economy in Hong Kong which has driven the property pricing down and with the abundant supply of residential properties in the next 3 years, the rate of development of real property has now been slowed down which has taken a heavy toll on our project sale.

Despite the adverse environment, the Group has still managed to obtain sales of a number of privilege project developments including, among others, YOHO Town in Yuen Long, Rambler Crest in Tsing Yi; the hotel in Cyberport etc. As regards to our presence in China, we have managed to secure supply contracts of our products on a number of China projects such as Shangri La hotels in Xian and Zhongshan.

The retail sales currently constitute some 28% of our Group's total turnover albeit the sluggish property market.

Financial Resources and Liquidity

The Group remains prudent in its financial management, we obtain our supplies mainly by trading on open accounts or document against acceptance. The current ratio and quick ratio are 8.33 (2002: 11.51) and 5.37 (2002: 7.90), respectively, while the cash and bank balances amounted to HK\$40.62 million (2002: HK\$30.8 million). In addition, the Group had no bank borrowings as at 31 March 2003.

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 foreign exchange risk.

People

As at 31 March 2003, our workforce was streamlined by some 15% to 110 (2002: 130 employees) with no compulsory redundancy. Although we have experienced the most challenging operating environment in years, the Group's remuneration packages are largely in line with the prevailing market trend while the workforce has shown their loyalty with the increase in productivity and excellent working spirit despite our further effort in rationalizing general expenses.

On 17 July 2003, we regrettably accepted the resignation of Mr. Lee Chi Wah, Rhodes, one of our executive directors who had been with the Group for over 20 years. The Board would like to thank Mr. Lee for his contribution to the growth and success of the Group.

Future Prospects

Last year we reported that we would expand our presence in Mainland China. For the year ended 31 March 2003, we have set up an additional office of Shanghai Techpro International Trading Company Limited in Tianjin to support our activities in Northern China. We have also acquired office premises in Guangzhou with a view to supporting and expanding our future operations in Guangdong and its vicinities. The management will continue to explore business opportunities and widening our network in Mainland China.



The economy in Mainland China has not been badly affected despite the outbreak of SARS at the end of 2002 as she is basically a manufacturing and agricultural based economy, the demand for quality products remains strong and the Group has planned to expand our presence in Mainland China to support our operation.

We have secured 28 local dealership in various towns and cities in Guangdong and 10 other cities in Eastern China (approximately 38 major outlets) as at 30 June 2003. We would expand further local dealership of our **BONCO**® products with local dealers in other parts of Mainland China.

We opened a new shop in Macau SAR in April 2003 in order to expand our retail operation in Macau and Zhuhai. A new concept of designer shop "OVO Living" was opened in Wanchai, Hong Kong in January 2003, which serves to cater for our customers for high-end living room furniture and bathroom accessories.



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 proceed as set out in the Company's prospectus dated 28 March 2000 and the subsequent amendment on 5 August 2002, details of utilization up to 31 March 2003 are as follows:

- (a) Approximately HK\$11.16 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 working capital including expansion of product range.
- (e) The remaining balance has been placed with banks in Hong Kong as short-term deposits for working capital purposes.



G r o u p C h a r t



