

## 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

We are pleased to announce an operating profit of HK\$11.4 million (2005: HK\$11.3 million), while the profit after tax amounts to HK\$11.98 million (2005: HK\$10.17 million) a 18% increase in profit, with the Group turnover amounted to HK\$223.5 million (2005: HK\$199.1 million) represents an increase of 12.3% from last year. We have been able to capture the opportunities in the upsurge of sales of luxurious apartments from major property developers in Hong Kong. As a result, the increase in proportion of project sales, results in a slight adjustment to our overall gross profit to 38% (2005: 40%). The improvement in sales volume has also caused the increase in selling and distribution costs by 5% to HK\$52.5 million (2005: HK\$49.9 million) while the continue weakening of US dollars against Euro and the interest rates increased this year presents a challenge to our attempt to keep the operating expenses at optimal level, the administrative expenses increased slightly by 5% from HK\$20.2 million to HK\$21.2 million.

### Wholesales/Retails

As the pace of economic recovery in Hong Kong gathers momentum, we note an increase in both our wholesale and retail operations, during the year, we opened our very first showroom in Central, while improved and enlarged our sales floors in Wan Chai by designated an area for upmarket spas for health conscious customers. However, the rental expenses for our outlets & showrooms increased significantly when compared with the previous years, in particular for the leases signed in 2003 during the SARS epidemics which were due for renewal during the year. As a result, there is an overall increase of 10% in expenses for our retail operations.

Meanwhile, the Group has firmly established itself as a major supplier of quality bathroom, kitchen collections and other hardware for luxurious apartments, and have been contracted to supply these products for prestige apartments and commercial buildings such as Grand Waterfront, The Great Hill, Union Square Package 6, Enterprise Square Phase 5, Nina Towers I & II. As at 31 March 2006, the contracts in hand amounted to HK\$105 million. During the year, we have also made progress in expanding in Macau and Mainland China operations, featuring projects such as Nova Taipa Gardens (Macau), and Pazhou Shangri La Hotel (Mainland China), while we remain cautious in expanding in these areas.

是合於義理，使一切事物各得其宜，彼此和諧。

### **Financial Resources and Liquidity**

The Group continues to be prudent in its financial management, owing to the expansion in business, the current ratio and quick ratio are 3.17 (2005: 5.85) and 1.98 (2005: 3.82) respectively, while the cash and bank balances amounted to HK\$36 million as at 31 March 2006 (2005: HK\$29 million). The Group's gearing ratio (the ratio of total liabilities to the sum of total liabilities and owners' equity) increase to 27.3% as of 31 March 2006 (2005: 15.3%) The bank borrowing of the Group amount to merely HK\$1 million (2005: HK\$nil).

### **People**

As at 31 March 2006, our workforce counted to 135 (2005: 125) due to our further expansion in retail trade and additional showrooms. Among them, there are 51 employees who grow together with us and served the Group for more than 10 years.

### **Future prospects**

During the year, we noted the increase in the number of businesses in China going public and get listed in Hong Kong, couple with the introduction of Qualified Domestic Institutional Investors programme and the further expansion of business connections from the Pearl River delta to other provinces in the neighborhood are likely to give further boost to our sales of quality products.

In our opinion, this will result in an increase in the pace of economic development in Hong Kong, and we believe that concept of luxurious living will continue in the territory. We intend to place ourselves in strategic position to capture the growth in this market, and continue to expand our sales in kitchen collection in both wholesale and retail market while we plan to expand further into luxurious living room furniture.

Meanwhile, the growth in our sales in Macau and China continue, we have established 71 local dealership in China and obtaining significant increase in project sales in Macau while looking forward to our further participation in the supply of building materials in hotels projects in the region.

