

BUSINESS REVIEW AND PROSPECTS

The Group's consolidated turnover and profit attributable to shareholders for the six months ended 31 October 2000 were HK\$391.4 million (1999 restated: HK\$383.8 million) and HK\$7 million (1999 restated: HK\$17.2 million). Excluding non-recurring profit of HK\$13.4 million from disposal of property in 1999, there is an increase of HK\$3.2 million in recurring operating profit in the six months ended 31 October 2000, representing a growth of 84.2%.

The Group's major activities continue to be the manufacturing and trading of office furniture and building materials. Geographically, more than 97% of the Group's turnover was attributable to the Hong Kong and PRC markets.

For the Hong Kong division, a double-digit growth in turnover was recorded in the first quarter of the financial year. Substantial demand for office premises and furniture has been derived from the boom of information technology and telecommunications sectors since the fourth quarter of 1999. However the abrupt downturn of the Internet business in the middle of year 2000 has adversely hit that sector. Furthermore, the downward adjustments of the profitability of the telecommunications industry were beyond the expectation of many investors and bankers. These negative market sentiments have induced the investors to defer their investment projects in these sectors. Inevitably, intense competition in office furniture industry re-emerged in the second quarter of the financial year. Some competitors have even resorted to selling at cost.

On the contrary, demand in PRC and overseas markets appeared to be more stable when compared to the Hong Kong market. In particular, the Board feels positively about the PRC market in 2001. With the anticipation of China entering the World Trade Organization (WTO) and further opening of the Mainland markets, foreign investors, not only large multi-national corporations, have started to establish business footholds in PRC to pave their way for future expansion into the Asian Pacific region.

In view of the stagnant market conditions of residential property market in last year, many developers had postponed the completion of residential buildings. This action has in turn caused our kitchen cabinet division to defer their delivery. These delay deliveries have resulted in recorded sales below sales budget and an increase of stock level.

The liquidity position remains satisfactory. The Group's total cash on hand and total bank borrowings stood at HK\$67 million and HK\$77 million (1999: HK\$93 million and HK\$127 million) respectively as at 31 October 2000. The gearing ratio as measured by total bank borrowings to capitalization is 15% for the period under review.

Marketwise, the prospect of PRC markets looks promising. Indeed, there has been a rise in demand for premium commercial buildings and we foresee this trend will sustain to the year 2001. The World Bank has forecasted a 7-8% growth in the PRC economy in 2001, anticipating the PRC economy to benefit from the WTO membership in terms of foreign investment and export trade. Overseas investors are likely to bring in new demand for premium office furniture. Apart from foreign investors, Hong Kong companies that want to do business with multi-national enterprises are setting up their representative offices in PRC. Our PRC division is well prepared to tap into these market potentials by way of product diversification.

The Board also takes a long term view that market diversification should be our main theme in the next few years. We will allocate more resources to explore overseas markets. At the same time, with the influx of foreign investors in the near future, we will be looking for strategic partners who may facilitate our access into overseas markets.

On the other hand, we foresee the competition in the office furniture industry will remain keen and profit margin may further be squeezed down. Therefore, with our sound financial structure, the Board considers it is the right timing for the Group to broaden its revenue base by developing another lines of business. “Total Office Solution (“TOS”)” is the first business project to be launched by the Group in the immediate future. At present, the directors are considering a few other investment projects in non-office-furniture industry.

As revealed by the expected increase in franchise income, we have further expanded our franchise-dealers network during the period. This is in line with the Group’s strategy to launch this new TOS project by building upon our strong distribution network in PRC. A committee comprised of experts in different areas has been set up to seek potential strategic partnerships. Furthermore, the committee has been liaising with domestic and overseas suppliers in order to enrich our product portfolio and strengthen consumers conception about the idea of one-stop shopping.