

## **OPERATIONS AND FINANCIAL REVIEW**

For the year as a whole, the group turnover decreased by approximately HK\$18,872,000. It was due to the decrease in sales of household products that amounted to HK\$49,004,000, yet the unfavorable decrease in sales was partly offset by the good sales performance of PVC pipes and fittings products that increased by HK\$31,295,000 during the year. The U.S.A. household products market remained the single most important contributor to the Group's total revenue, accounting for 51% (1999: 57%) of the total Group revenue during the year ended 31 December 2000.

The decrease in sales of household products was mainly a result of the decrease in export sales to U.S.A., Europe and Australia that amounted to approximately HK\$53 million, HK\$11 million and HK\$4 million respectively. However, the sales to Asian countries increased by HK\$24 million during the year. In 2000, due to continuous strong demand in pipes and fittings for construction and cable usage, sales of PVC pipes and fittings rose by 26% to HK\$152,103,000 (1999: HK\$120,808,000).

The gross profit of the Group was HK\$118,436,000 and the gross profit margin was 16.9% in year 2000 (1999: HK\$149,746,000 and 20.8% respectively). The Group operated under the adverse conditions of sharp rise in fuel and PVC raw material prices. The average PVC resin import price in year 2000 was USD770 per ton, which was increased by approximately 48% (1999: USD520 per ton). This resulted in increase in the costs of production and the reduction in profit margins.

## **LIQUIDITY, FINANCIAL RESOURCES AND FUNDING**

Basically the Group's working capital requirement has been financed by its bank borrowings and convertible redeemable note. Total banking facility available to the Group as at 31 December 2000 amounted to HK\$459,000,000; of which HK\$121,825,000 of the banking facility was utilized (utilization rate was at 27%). The Group's borrowings were mainly in Hong Kong Dollars. Overdraft and term loan facilities were granted to the Group at the normal market interest rates.

In March 2000, the Company issued a convertible redeemable note to Metro Luck Limited in the principal sum of HK\$46,200,000. The note bears interest at a fixed rate of 5.25% per annum. The note is convertible into shares of the Company at an initial conversion price of HK\$0.35 per share. Unless converted, the principal amount of the note will be repaid by the Company in March 2002.

The Group usually conducts its business transactions in Hong Kong Dollars and US Dollars, it is normally unnecessary to make use of financial instruments for hedging purposes.

About 40% of the Group's cash is in Renminbi and 60% percent is in either Hong Kong Dollars or US Dollars.

## **Management Discussion and Analysis**

Total shareholders' funds of the Group as at 31 December 2000 increased by 1.9% to HK\$672,746,000 (1999: HK\$660,214,000). The total finance costs incurred in 2000 was HK\$12,154,000 (1999: HK\$7,921,000). The gearing ratio (total liabilities/total shareholders' funds) of the Group in 2000 was 0.39 (1999: 0.36).

### **CHARGES ON GROUP ASSETS**

All the investment properties and directors' quarters located in Hong Kong were charged to various banks in exchange for general banking facilities for the Group.

### **INVESTMENT PROPERTIES AND TRADING SECURITIES**

During the year 2000, the Group acquired an investment property at a cost of HK\$8 million. The Group made a provision for diminution in value of investment properties amounted to HK\$805,000 during the year 2000 (1999 or before: 0).

The market value of the trading securities held by the group as at 31 December 2000 amounted to HK\$8,071,000. During the year 2000, the Group recorded realized gain on sale of trading securities and dividend income totaling HK\$706,000 but an unrealized loss on the portfolio held by the year end was HK\$4,883,000.

### **STAFF AND EMPLOYMENT**

By the year ended 31 December 2000, the Group employed a total workforce of about 4,550 (1999:4,400) including 250 permanent staff and 4,300 contracted staff in our factories located in The People's Republic of China. The total staff remuneration incurred in 2000 was HK\$75,568,000 (1999: HK\$72,842,000), which was increased by 4 %. It is our Group policy to review its employee's pay levels and performance bonus system regularly to ensure that the remuneration policy is competitive within the relevant industries. Shares options were granted to staff and directors during the year to subscribe for 4,460,000 shares in the Company at HK\$0.32 per share.

It is the Group's policy to encourage its subsidiaries to send the management and staff to attend training classes or seminars that related to the Group's business. Tailor made internal training program was also provided to staff in our PRC factories.