

MANAGEMENT DISCUSSION AND ANALYSIS

Review of operations and financial performance

During the six months ended 30 June 2001 (the "Period"), the Group continued to engage in the design, manufacture and sale of carpets under its own brand name "Jackley" as well as the trading of carpets under other renowned brand names such as "Interface", "Bentley" and "Toli". The Group's core carpet manufacturing business continued to record satisfactory performance. The Group's unaudited turnover was approximately HK\$156.6 million for the Period (2000: HK\$163.5 million), representing a decrease of approximately 4.2% compared with the same period of last year and unaudited net profit from ordinary activities attributable to shareholders was approximately HK\$30.1 million for the Period (2000: HK\$31.6 million), representing a decrease of approximately 4.8% compared with the same period of last year.

The principal market of the Group remained in the PRC, which accounted for approximately 92.3% of the Group's turnover. Sales to the PRC amounted to approximately HK\$144.6 million, representing a decrease of approximately 3.9% compared to the same period of last year. Sales to Hong Kong amounted to approximately HK\$12.0 million, representing a decrease of approximately 7.8% compared to the same period of last year.

With its well-established market reputation for high quality products and continual introduction of a wide range of carpets, the Group was able to maintain respectable performance in both turnover and net profit from ordinary activities attributable to shareholders, despite of the intensive competition in the PRC market. During the Period under review, the Group managed to secure customer orders with a competitive pricing strategy.

Liquidity and financial resources

At 30 June 2001, the Group had net current assets of approximately HK\$47.1 million (31 December 2000: HK\$21.7 million), mainly comprising prepayments, deposits and other receivables of approximately HK\$18.0 million (31 December 2000: HK\$14.4 million), inventories of approximately HK\$73.6 million (31 December 2000: HK\$68.7 million), and trade receivables of approximately HK\$68.8 million (31 December 2000: HK\$66.5 million) and current liabilities

of approximately HK\$116.6 million (31 December 2000: HK\$138.2 million). The current ratio increased from approximately 1.2 as at 31 December 2000 to approximately 1.4 as at 30 June 2001.

At 30 June 2001, the Group had total assets of approximately HK\$253.0 million (31 December 2000: HK\$255.8 million) and the total liabilities of approximately HK\$135.5 million (31 December 2000: HK\$157.4 million), representing a gearing ratio of approximately 0.54 as at 30 June 2001 (31 December 2000: 0.62).

At 30 June 2001, the Group had floating interest-bearing bank borrowings of approximately HK\$11.0 million (31 December 2000: HK\$5.0 million), which were denominated in Hong Kong dollars. The increase in bank borrowings was mainly attributable to the increased utilisation of trust receipt loans during the Period. The maturity profile of the Group's bank borrowings is spread over a period of 4 years, with approximately 98% of the bank borrowings repayable within one year. At 30 June 2001, the Group's bank borrowings were secured by (i) fixed charges on the Group's leasehold land and buildings situated in the PRC; (ii) corporate guarantees given by the Company and a subsidiary of the Company, respectively; (iii) a corporate guarantee given by a related company; (iv) fixed charges on the leasehold land and buildings owned by a Director and a director of a subsidiary of the Company, respectively; (v) a personal guarantee given by a Director; and (vi) joint and several personal guarantees given by a Director and certain directors of a subsidiary of the Company.

At 30 June 2001, all of the Group's bank borrowings were denominated in Hong Kong dollars. As a significant portion of the Group's sales and purchases are denominated in Hong Kong dollars and Renminbi, respectively, the Directors consider that the Group has no significant exposure to foreign exchange fluctuations in view of the stability of the exchange rates of Hong Kong dollars and Renminbi. The Directors also consider that there will be sufficient cash resources denominated in Hong Kong dollars for the repayment of its bank borrowings and for future dividends payable to shareholders. During the Period under review, the Group did not use any financial instrument for hedging purposes and the Group did not have any hedging instrument outstanding as at 30 June 2001.

Prospects

The Directors believe that the accession of the PRC to the World Trade Organisation creates significant demand for quality carpets. In positioning itself, the Group is committed to increase its market share through expansion of production capacity, promotional and marketing activities. With its capability of producing a wide range of quality carpets and its established relationships with customers, the Directors believe that the Group is well-positioned to benefit from the business opportunities in the growing carpet market in the PRC.

Use of net proceeds from the new issue

In connection with the listing of the Company's shares on the Stock Exchange on 26 July 2001, the Group raised approximately HK\$46.0 million, net of related expenses, from the issue of 72.5 million new ordinary shares of the Company. At the date of this interim report, the Group has utilised a total of approximately HK\$6.0 million. Approximately HK\$1.2 million has been applied for the acquisition of additional production equipment and machinery for the manufacturing of the Group's existing products, approximately HK\$1.0 million for the establishment of the marketing office in Beijing, and approximately HK\$3.8 million for the promotion and marketing of the Group's products. The remaining proceeds are placed on short-term deposits with a licensed bank in Hong Kong.

Number and remuneration of employees

At 30 June 2001, the Group employed approximately 240 employees in Hong Kong and the PRC. The Group recognises the importance of maintaining good working relationships with its employees. Accordingly, remuneration is maintained at competitive levels with discretionary bonuses payable on a merit basis and in line with industry practice. Other staff benefits provided by the Group include staff housing and medical schemes. At the date of this interim report, no share options has been granted by the Group.