

Management discussion and analysis

BUSINESS REVIEW >

The Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 26 July 2001. The Group is principally engaged in the design, manufacture and sale of quality carpets.

LIQUIDITY AND FINANCIAL RESOURCES >

The Company was successfully listed on the Stock Exchange on 26 July 2001 and raised approximately HK\$46.0 million, net of related expenses, from the issue of 72.5 million new ordinary shares of the Company. The proceeds received from the listing provide the Company additional funds for further expansion. During the year, the Group generally financed its operations with internally generated resources and banking facilities provided by its principal bankers in Hong Kong. As at 31 December 2001, the Group had total interest-bearing bank borrowings of approximately HK\$10.3 million (2000: HK\$5.0 million), in which approximately HK\$0.2 million was fixed interest bank borrowings and all bank borrowings were denominated in Hong Kong dollars. The increase in bank borrowings was mainly attributable to the increased utilization of trust receipt loans. The maturity profile of the Group’s bank borrowings is spread over a period of four years with approximately 97% of the bank borrowings repayable within one year. As at 31 December 2001, the Group’s bank borrowings were secured by (i) first legal 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; and (iii) the pledge of a time deposit of the Company amounting to HK\$24 million.

As at 31 December 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. During the year 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 31 December 2001.

As at 31 December 2001, total assets of the Group increased by approximately HK\$21.0 million to approximately HK\$276.7 million, total liabilities decreased by approximately HK\$9.6 million to approximately HK\$99.2 million, indicating a 0.36 (2000: 0.43) gearing ratio on the basis of total liabilities over total assets.

DISPOSAL OF SUBSIDIARIES >

The management of the Group recognized the importance of cost control and has rearranged the Group's internal resources during the year and as a result three subsidiaries have been disposed of to independent third parties. The business and operations of these subsidiaries have been taken up by another company within the Group.

USE OF PROCEEDS FROM THE NEW ISSUE >

The proceeds from the share offer, net of related expenses amounted to HK\$46 million. Approximately HK\$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\$3 million for the establishment of marketing offices, approximately HK\$4 million for the promotion and marketing of the Group's products, and approximately HK\$14 million as general working capital for the Group. The remaining proceeds are placed on short-term deposit with a financial institution in Hong Kong.

NUMBER AND REMUNERATION OF EMPLOYEES >

The Group had employed similar number of staff in 2001 as compared with last year. 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. In addition, the Company has adopted a share option scheme of which the Board may, at its discretion, grant options to employees of the Group. No share options have been granted by the Company since the share option scheme became effective on 23 July 2001.