

MANAGEMENT DISCUSSION AND ANALYSIS**Review of Operations and Financial Performance**

During the Period, the Group continued to engage in the design, manufacture and sale of carpets under its own brand name "Jackley" as well as trading of carpets under other renowned brand names such as "Interface", "Bentley" and "Toli".

For the Period, the turnover of the Group amounted to approximately HK\$123.5 million (2001: HK\$156.6 million), representing a decrease of approximately 21.1% over the corresponding period of last year, and the net profit from ordinary activities attributable to shareholders for the Period amounted to approximately HK\$12.7 million (2001: HK\$30.1 million), representing a decrease of approximately 57.8% over the corresponding period in the previous year.

During the Period, the Group recorded a decrease in sales and profit margin in the manufacturing arm as a result of continuous price reduction by the PRC competitors. The Group's trading arm in Hong Kong, managed to stimulate the sales volume by reducing the selling price of international brands which led to a decrease in the profit margin in trading of carpets.

The principal market of the Group continues to be the PRC, which accounted for approximately 83.9% (2001: 92.3%) of the Group's turnover. Sales to the PRC amounted to approximately HK\$103.6 million, representing a decrease of approximately 28.4% compared to the same period of last year. Sales to Hong Kong amounted to approximately HK\$19.9 million, representing an increase of approximately 65.8% compared to the same period of last year.

The Group continues to face intense competition in the PRC as well as in Hong Kong. Although the Group was operating in an increasingly competitive economic climate, the management focused on the Group's core competencies and operations through the development of new product ranges as well as spending more on advertising and promotions. During the Period, the Group has set up a number of new marketing offices in the PRC to strengthen the sales network of the Group and has also established a subsidiary in Macau for trading of carpets. Furthermore, in response to the intense competition, the Group continued to postpone the expansion of product range to carpet tiles and corresponding investment in plant and machinery. With its well-established marketing network, the Group managed to maintain profitability and its market position during the Period.

MANAGEMENT DISCUSSION AND ANALYSIS**Liquidity and Financial Resources**

The net current assets of the Group amounted to approximately HK\$89.9 million as at 30 June 2002 (31 December 2001: HK\$79.3 million) comprising prepayments, deposits and other receivables of approximately HK\$11.9 million (31 December 2001: HK\$17.6 million), inventories of HK\$51.4 million (31 December 2001: HK\$62.0 million), trade receivables of approximately HK\$62.1 million (31 December 2001: HK\$67.2 million), short term investments of approximately HK\$4.4 million (31 December 2001: Nil), pledged time deposits of approximately HK\$27.0 million (31 December 2001: HK\$24.0 million), cash and bank balances of approximately HK\$11.3 million (31 December 2001: HK\$7.4 million). The current ratio of the Group increased from approximately 1.8 as at 31 December 2001 to approximately 2.2 as at 30 June 2002.

The Group had interest-bearing bank borrowings of approximately HK\$52.1 million as at 30 June 2002 (31 December 2001: HK\$10.3 million). The increase in bank borrowings was mainly due to the increase in bank overdrafts and trust receipt loans drawn down during the Period. All of the borrowings were denominated in Hong Kong dollars. The maturity profile of the Group's outstanding borrowings is spread over a period of 12 years, with approximately 80.2% of the borrowings repayable within one year. Certain assets of the Group have been pledged to secure its borrowings, including bank deposits of approximately HK\$27.0 million (31 December 2001: HK\$24.0 million) and leasehold land and buildings with carrying values of HK\$17.4 million (31 December 2001: HK\$1.0 million).

At 30 June 2002, the Group had total assets of approximately HK\$279.2 million (31 December 2001: HK\$276.7 million) and the total liabilities of approximately HK\$88.8 million (31 December 2001: HK\$99.2 million). The Group's gearing ratio, measuring as total liabilities to total assets, as at 30 June 2002 was approximately 0.32 (31 December 2001: 0.36).

Although significant portions of sales and purchases are primarily denominated in Renminbi, the Directors consider that the Group has no significant exposure to foreign exchange fluctuations in view of the stability of the Renminbi. The Directors also consider that there will be sufficient cash resources denominated in Hong Kong dollars for the repayment of its borrowings and for future dividends payable to shareholders. During the Period, 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 2002.

MANAGEMENT DISCUSSION AND ANALYSIS**Contingent liabilities**

At 30 June 2002, the Company had provided corporate guarantees to banks for banking facilities provided to certain subsidiaries. These banking facilities had been utilised to the extent of approximately HK\$27,641,000 (31 December 2001: HK\$10,039,000) as at 30 June 2002.

Prospects

While the outlook of the PRC market remains positive, the Group will explore the possibility of strengthening the internal operations to remain cost competitive in view of the growing competitive market situation. The Group is committed to build on our core strengths of expanding marketing network in second-tier cities in the PRC. To diversify the Group's market portfolio, the Group will continue to seek for opportunities to further expand the overseas sales by exploiting business relationships with multi-national corporations. With solid foundation in the carpet industry, the Group will prudently seek opportunities of revenue diversification in order to maximise the shareholders' value. In the years ahead, the Group will continue to adhere a prudent financial management policy.

During the Period, Mr. Wong Kwai Wah was appointed as the director of the Group. Mr. Wong has extensive experience in management and financial matters. His appointment would certainly bring in new expertise and strengthen the Group's strategic positioning in the carpet market.

Use of Proceeds from the Company's Initial Public Offering

In connection with the listing of the Company's shares on The Stock Exchange of Hong Kong Limited on 26 July 2001, the Group raised approximately HK\$46 million, net of related expenses, of which approximately HK\$23 million were applied as at 31 December 2001. During the Period, the remaining net proceeds of approximately HK\$23 million were partially applied as follows:

- as to approximately HK\$5 million for the establishment of marketing offices in the PRC; and
- as to approximately HK\$4 million for the promotion and marketing of the Group's products.

MANAGEMENT DISCUSSION AND ANALYSIS

Use of Proceeds from the Company's Initial Public Offering (continued)

The balance of the proceeds of approximately HK\$14 million was placed on short term deposits with financial institutions in Hong Kong as at 30 June 2002.

The actual and intended applications of the net proceeds from the issue of new shares are consistent with the plans set out in the prospectus of the Company dated 16 July 2001.

Number and remuneration of employees

The Group employed a total of approximately 210 employees in Hong Kong and the PRC as at 30 June 2002. The Group recognises the importance of good relationship with employees. 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 included mandatory provident fund and medical schemes. At the date of this interim report, no share options have been granted by the Group.

DISCLOSURE OF ADDITIONAL INFORMATION

Director's interest in shares

As at 30 June 2002, the interest of a Director in the issued share capital of the Company or its associated corporation, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), was as follows:

(a) *Interest in the Company*

Name of Director	Nature of interest	Number of ordinary shares held
Mr. Lam Yat Sing	Corporate	737,925,000

Note: These shares are owned by Prosperous Statesman Limited ("Prosperous Statesman"), a company incorporated in the British Virgin Islands. The entire issued share capital of Prosperous Statesman is beneficially owned by Mr. Lam Yat Sing.