

## **COST CONTROL AND IMPROVED EFFICIENCY**

The Group has instituted additional cost control measures in facing the intense market competition. Budgets were set at the beginning of the year and are strictly adhered to. Various production-optimising programs implemented have also begun to reduce cost and improve efficiency.

## **SEEKING INVESTMENT OPPORTUNITIES**

Due to the intense competition in the carpet industry, the management of the Group actively seeks potential investment opportunities and thus diversifies the industry risk of the Group. Currently the Group is also seriously looking into other related building materials.

## **LIQUIDITY AND FINANCIAL RESOURCES**

As at 31 December 2002, the Group had interest-bearing bank borrowings of approximately HK\$82 million (2001: HK\$10 million) and all bank borrowings were denominated in Hong Kong dollars. As at 31 December 2002, the Group's bank borrowings were secured by (i) first legal charges on the Group's leasehold land and buildings; (ii) corporate guarantees given by the Company and certain subsidiaries of the Company; and (iii) the pledge of time deposits of the Group amounted to HK\$30 million.

As at 31 December 2002, all of the Group's bank borrowings were denominated in Hong Kong dollars. As a significant portion of the Group's sales and purchases were denominated in Hong Kong dollars and Renminbi, the Directors considered 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 hedging instrument.

As at 31 December 2002, the Group has total assets of approximately HK\$283 million, total liabilities of HK\$97 million, indicating a gearing ratio 0.34 (2001: 0.36) on the basis of total liabilities over total assets.

## **DISPOSAL OF A SUBSIDIARY**

The management of the Group has rearranged the Group's internal resources during the year and this has resulted in the disposal of one subsidiary to an independent third party. Another company within the Group has taken up the business and operations of that subsidiary.

### CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at the balance sheet date (2001: Nil).

At 31 December 2002, the Company had provided corporate guarantees to banks for banking facilities provided to certain subsidiaries of approximately HK\$97,447,000 (2001: HK\$28,800,000). These banking facilities had been utilised to the extent of approximately HK\$54,456,000 (2001: HK\$10,039,000) as at the balance sheet date.

### USE OF PROCEEDS FROM THE NEW ISSUE

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 year, 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.

The balance of the proceeds of approximately HK\$14 million, which was originally intended for the acquisition of production equipment and machinery for the manufacturing of carpet tiles, has been put on abeyance as the expansion of product range to carpet tiles and the corresponding investment in plant and machinery as a result of the intense competition in the market. These funds have been placed on short-term deposits with financial institutions in Hong Kong as at 31 December 2002.

The 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 had a total of approximately 180 employees in Hong Kong and the PRC as at 31 December 2002. The Group paid remuneration to its staff at competitive levels and in line with industry practice. In addition, the Company has adopted a share option scheme of which the Board may, at its discretion, grant options to employees and suppliers of the Group. On 2 December 2002, the Company has granted 86,140,000 share options to the employees and suppliers of the Group.