

FINANCIAL REVIEW

Liquidity and financial resources

As at 31 December 2003, the Group had cash and bank balances amounting to HK\$1 million (2002: HK\$23 million) and the Group's total interest-bearing bank borrowings amounted to HK\$40 million (2002: HK\$82 million) and all bank borrowings were denominated in Hong Kong dollars. The maturity profile of the Group's outstanding floating interest-bearing bank borrowings was all repayable within one year.

Charge on group assets

At the balance sheet date, the Group's bank borrowings were secured by (i) first legal charges on the Group's leasehold land and buildings and investment property in Hong Kong and the PRC with carrying value of HK\$24 million (2002: HK\$17 million) and (ii) corporate guarantees given by the Company and certain subsidiaries of the Company.

Current and gearing ratio

As at 31 December 2003, the Group had total assets of HK\$221 million (2002: HK\$283 million), total liabilities of HK\$76 million (2002: HK\$97 million), indicating a gearing ratio 0.34 (2002: 0.34) on the basis of total liabilities over total assets. The current ratio of the Group for the year was 0.78 (2002: 2.05).

Foreign currency fluctuation

The Group does not have any significant exposure to foreign currency fluctuation.

Contingent liabilities

As at 31 December 2003, the Group did not have any significant contingent liabilities except as described below:—

1. In November 2003, one of the Company's wholly-owned subsidiaries had entered into a sale and purchase contract for disposal of its leasehold land and buildings situated at Shun Tak Centre with an independent third party. Subsequent to the financial year-end, the subsidiary has received a Writ of Summons for liquidated damages for breach of the sale and purchase contract. The Directors are of the opinion that the outcome of the case has no significant impact on the Group and thus no provision is necessary.

2. In December 2003, the Company and one of its wholly-owned subsidiaries were brought into litigation by a major supplier for the Group's carpet-tile business for a winding-up intention over some disputed trade debts, amounting to approximately HK\$8 million ("judgment debts") of which HK\$7 million was provided in the Group's financial statements. The Company had filed in an application to the High Court for an interim stay of execution in respect of the judgment debts and has successfully obtained a court order in early February 2004. The Company had opposed to litigation on grounds that its abovementioned subsidiary has a counterclaim against the said supplier for breach of a distribution agreement with a claim for damages exceeding the judgment debts.
3. As at 31 December 2003, the Company had provided corporate guarantees to banks for banking facilities extended to certain subsidiaries of approximately HK\$59,710,000 (2002: HK\$97,447,000). These banking facilities had been utilised to the extent of approximately HK\$39,264,000 (2002: HK\$54,456,000) as at the balance sheet date.

Staff and remuneration policy

The total number of employees employed by the Group as of 31 December 2003 remains unchanged as compared with previous years. The Group recognises the importance of maintaining good working relationships with its employees and accordingly, strives to maintain remunerations 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 of the Group. The Company has granted no share options during the year.

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.

Approximately HK\$2 million has been applied for the acquisition of additional production equipment and machinery for the manufacture of the Group's existing products, approximately HK\$8 million for the establishment of marketing offices, approximately HK\$8 million for the promotion and marketing of the Group's products and approximately HK\$14 million as general working capital during prior years. Approximately HK\$14 million which has been placed on short-term deposits with financial institution in Hong Kong, originally intended for the acquisition of production equipment and machinery for the manufacture of carpet tiles been utilised to reduce bank borrowings with financial institutions in Hong Kong as at 31 December 2003.

	Propose	2001	2002	2003
Purchase carpet tile line	14,000,000			
Purchase of plant & machinery	2,000,000	2,000,000		
Marketing offices	8,000,000	3,000,000	5,000,000	
Promotion & marketing	8,000,000	4,000,000	4,000,000	
General working capital	14,000,000	14,000,000		
Reduction of bank borrowing				14,000,000
IPO proceeds	46,000,000	23,000,000	9,000,000	14,000,000