

Management Discussion and Analysis

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2004, the Group had interest-bearing bank borrowings of approximately HK\$10 million (2003: HK\$40 million) which are repayable within one year, are interest-bearing at the prevailing interest rates and denominated in Hong Kong dollars. The Group's bank borrowings were secured by (i) corporate guarantees given by the Company and certain subsidiaries of the Group, (ii) pledge of HK\$4.3 million fixed deposits of related parties, and HK\$1 million fixed deposits of a subsidiary, (iii) personal guarantees executed by a related party and two shareholders of the Company, who also are directors of a subsidiary.

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.

CURRENT AND GEARING RATIO

As at 31 December 2004, the Group has total assets of approximately HK\$175 million (2003: HK\$221 million), total liabilities of HK\$95 million (2003: HK\$76 million), indicating a gearing ratio 0.54 (2003: 0.34) on the basis of total liabilities over total assets. The current ratio of the Group for the year was 0.74 (2003: 0.78).

ACQUISITION AND DISPOSAL OF SUBSIDIARIES

The management of the Group has rearranged the Group's internal resources during the year and this has resulted in the disposal of four subsidiaries and an associate to an independent third party.

During the year, a wholly-owned subsidiary of the Company acquired 51% equity interest in International Carpet Co., Limited (formerly known as DNTC Investment Ltd. ("ICC")) at a consideration of HK\$9.5 million by issuing 95,000,000 ordinary shares of HK\$0.10 each in the Company. Further details of the acquisition are set out in the circular issued by the Company on 26 October 2004. In addition, the Company completed the acquisition of the remaining 49% minority equity interest in Hui Zhou Orient Carpet Manufacturing Co., Ltd. (formerly known as Hui Yang Xie Kai Cheng Carpet Company Limited ("HZOCM")). Further details of the acquisition are set out in the circular issued by the Company on 9 October 2003 and the annual report for the year ended 31 December 2003.

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CONTINGENT LIABILITIES

As at 31 December 2004, the Group did not have any significant contingent liabilities except as described below:—

1. A wholly-owned subsidiary of the Company, HZOCCM has been made defendant of proceeding in the PRC. The proceedings brought by 深圳華興建設有限公司 against HZOCCM at the People's Court of the Hui Yang District, Hui Zhou City, Guangdong Province in respect of installation cost due and interest payable. The amount claimed under this set of proceedings were HK\$1,420,560 (RMB1,520,000) and interest payable HK\$2,077,456 (RMB2,222,878). Freezing orders have been obtained by the plaintiff for this set of proceedings and are in place against certain plant and machinery of HZOCCM. The proceedings were adjourned for hearing on a day to be fixed in due course.
2. The Company had provided corporate guarantees to banks for banking facilities provided to certain subsidiaries of approximately HK\$20,133,000 (2003: HK\$59,710,000). These banking facilities had been utilised to the extent of approximately HK\$8,930,000 (2003: HK\$39,264,000) as at the balance sheet date.

NUMBER AND REMUNERATION OF EMPLOYEES

The Group had a total of approximately 136 employees in Hong Kong and the PRC as at 31 December 2004. 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 of directors ("Board") may, at its discretion, grant options to employees of the Group. The Company has granted no share options during the year.