

Management Discussion and Analysis

FINANCIAL SUMMARY

The Group's turnover for the year ended 31 December 2006 was approximately HK\$26.5million, which represented a decrease of 35% compared to the previous year. The administrative expenses for the year ended 31 December 2006 were approximately HK\$38.3 million, which represented an increase of 56% compared to the expenses incurred last year.

The consolidated loss attributable to equity holders of the Company for the year ended 31 December 2006 was decreased to approximately HK\$46.2 million, as compared to HK\$91.1 million in the previous year.

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. During the year under review, the Group did not use any hedging instrument.

CURRENT AND GEARING RATIO

As at 31 December 2006, the Group has total assets of approximately HK\$101 million (2005: HK\$110 million), total liabilities of HK\$38 million (2005: HK\$25 million), indicating a gearing ratio 0.37 (2005: 0.23) on the basis of total liabilities over total assets. The current ratio of the Group for the year was 0.49 (2005: 1.23).

CHARGES ON ASSETS

As at 31 December 2006, the Group had not interest-bearing bank borrowings and no assets were pledged. (2005: HK\$2 million). At 31 December 2005, the Group's bank borrowings were secured by time deposit of HK\$2,031,000.

CONTINGENT LIABILITIES

As at 31 December 2006, the Group did not have any contingent liabilities.

EMPLOYEE INFORMATION

As at 31 December 2006, the Group employed approximately 139 full-time employees (2005: 141), mostly at the Group's subsidiary factories for manufacturing carpets. The Group's emolument policies are formulated on the performance of individual employees and are reviewed annually in line with industry practice. The Group also provides provident fund schemes (as the case may be) to its employees depending on the location of such employees.

DIVIDEND

The Directors do not recommend the payment of any dividend for the year ended 31 December 2006 (2005: Nil).