

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM REPORT

For the six months ended 30 June 2003

1. **Principal accounting policies**

The unaudited condensed consolidated interim report have been prepared in accordance with the requirements of the Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") (Main Board) (the "Listing Rules"), including compliance with the Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants ("HKSA").

The accounting policies and basis of preparation used in the preparation of the unaudited condensed consolidated interim report are consistent with those used in the annual accounts for the year ended 31 December 2002 except that the Group has changed its accounting policy following its adoption of SSAP 12 (revised) "Income Taxes" issued by HKSA which is effective for accounting periods commencing on or after 1 January 2003.

The significant changes in the Group's accounting policy resulting from the adoption of this revised SSAP 12 is set out below:

Deferred tax is provided in full, using the liability method, on all temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, with limited exceptions. Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred tax.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not be reversed in the foreseeable future.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM REPORT (continued)

1. Principal accounting policies (continued)

In prior years, deferred tax was accounted for at the current tax rate in respect of timing differences between profit as computed for taxation purposes and accounting profit for financial reporting purposes to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future.

The revised SSAP 12 represents a change in accounting policy, which has been applied retrospectively and comparatives presented have been restated to conform to the changed policy. As a result, unprovided net deferred tax liabilities have been recognized on a subsidiary acquired in prior year. This has given rise to different amount of goodwill on consolidation. The opening retained profits at 1 January 2003 and 2002, as detailed in the Condensed Consolidated Statement of Changes in Equity, have been reduced by HK\$3,605,000 and HK\$3,487,000 respectively. They represent the negative goodwill previously recognized as income and the amortization of goodwill. The exchange fluctuation reserve has also been decreased by HK\$196,000 and increased by HK\$510,000 respectively. These changes have resulted in an increase in net deferred tax liabilities and goodwill on consolidation at 31 December 2002 by HK\$4,630,000 and HK\$829,000 respectively. The loss for the six months ended 30 June 2002 has been increased by HK\$59,000.

2. Principal activities

The principal activity of the Company is investment holding. The principal activities of subsidiaries comprise the design, manufacture and sales of a wide range of home and garden decorative products.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM REPORT (continued)

3. Segmental information

An analysis of the Group's turnover and results for the period ended 30 June 2003 by geographical segments is as follows:

Geographical segments by location of customers

	Six months ended 30 June 2003 (Unaudited)				
	United States		Asia		
	of America	Europe	Pacific	Others	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	147,138	219,816	43,098	3,193	413,245
Segment results	10,856	34,834	147	378	46,215
Unallocated costs					(33,955)
Profit from operating activities					12,260
Finance costs					(9,938)
Share of loss of an associate					(1,360)
Profit before tax					962
Tax					998
Profit before minority interests					1,960
Minority interests					(174)
Net profit from ordinary activities attributable to shareholders					1,786

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM REPORT (continued)

3. Segmental information (continued)

Geographical segments by location of customers (continued)

	Six months ended 30 June 2002 (Unaudited) (Restated)				
	United States	Asia			Consolidated
	of America	Europe	Pacific	Others	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	125,331	164,098	20,546	2,072	312,047
Segment results	3,892	20,036	1,521	287	25,736
Unallocated costs					(25,451)
Profit from operating activities					285
Finance costs					(9,777)
Loss before tax					(9,492)
Tax					82
Loss before minority interests					(9,410)
Minority interests					(74)
Net loss from ordinary activities attributable to shareholders					(9,484)

No information has been disclosed in respect of the Group's business segments as the secondary segment because the Group's turnover and operating profit were principally contributed by the decorative products manufacturing business.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM REPORT (continued)

4. Profit from operating activities

The Group's profit from operating activities is arrived at after charging:

	Six months ended 30 June	
	2003 (Unaudited) HK\$'000	2002 (Unaudited) (Restated) <i>HK\$'000</i>
Cost of inventories sold and services provided	260,401	199,343
Depreciation	21,108	16,592
Amortisation of intangible assets	9,614	9,939
Provision for doubtful debts	4,065	145
Provision for other receivables	1,120	–
Amortisation of goodwill	388	305
Loss on disposal of fixed assets	550	251

5. Finance costs

	Six months ended 30 June	
	2003 (Unaudited) HK\$'000	2002 (Unaudited) <i>HK\$'000</i>
Interest on bank loans and overdrafts wholly repayable:		
Within five years	9,367	8,109
Over five years	345	1,420
Interest on finance leases	226	248
Total finance costs	9,938	9,777

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM REPORT (continued)

6. Tax

	Six months ended 30 June	
	2003	2002
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current year provision:		
Hong Kong	-	-
Elsewhere	(998)	64
Overprovision in prior years:		
Hong Kong	-	-
Elsewhere	-	(146)
	(998)	(82)

Reconciliation between tax and accounting profit/(loss) at applicable taxes rate

	Six months ended 30 June	
	2003	2002
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Profit/(loss) before tax	962	(9,492)
Notional tax on profit/(loss) before tax, calculated at the rates applicable to profits in the tax jurisdictions concerned	(794)	(2,818)
Tax effect of non-deductible expenses and non-taxable revenues	2,617	(51)
Tax effect of unused tax losses not recognized	3,931	4,912
Tax effect of prior year's tax losses utilized this period	(6,752)	(1,979)
Overprovision in prior years	-	(146)
	(998)	(82)

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM REPORT (continued)

6. Tax (continued)

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising from Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

In accordance with the relevant approval documents issued by the Mainland China tax authorities, certain subsidiaries of the Group operating in the Mainland China are exempted from Mainland China corporate income tax for the first two profitable calendar years of operation and thereafter are eligible for a 50% relief from Mainland China corporate income tax for the following three years.

7. Dividend

The Directors resolved not to declare any interim dividend for the six months period ended 30 June 2003 (six months period ended 30 June 2002: Nil).

8. Earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the net profit attributable to shareholders for the period of HK\$1,786,000 (six months ended 30 June 2002: net loss of HK\$9,484,000 as restated) and the weighted average of 613,938,000 (six months ended 30 June 2002: 460,707,486) ordinary shares in issue during the period.

The diluted earnings/(loss) per share for the period ended 30 June 2003 and 30 June 2002 have not been calculated as no diluting events existed during both period.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM REPORT (continued)

9. Accounts receivable

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally for a period of 45 to 90 days, extending up to 120 days for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management.

As at 30 June 2003, the aged analysis of the accounts receivable is as follows:

	30 June 2003 (Unaudited) HK\$'000	31 December 2002 (Audited) HK\$'000
Current to 30 days	39,141	55,432
31 – 60 days	29,574	9,401
61 – 90 days	2,847	3,262
Over 90 days	6,602	6,679
	78,164	74,774

At 30 June 2003, accounts receivable of the Group of approximately HK\$12,138,000 (31 December 2002: HK\$2,466,000) were pledged to the Group's bankers to secure banking facilities granted to the Group.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM REPORT (continued)

10. Bank loans and overdrafts

	30 June 2003 (Unaudited) HK\$'000	31 December 2002 (Audited) HK\$'000
Bank overdrafts repayable on demand		
Secured	4,507	2,739
Unsecured	10,959	13,081
	15,466	15,820
Bank loans		
Secured	183,750	169,239
Unsecured	5,944	25,270
	189,694	194,509
The maturity of the bank loans is as follows:		
Bank loans are wholly repayable:		
Within one year	146,478	120,637
In the second year	20,336	48,371
In the third to fifth years, inclusive	17,620	19,020
Over five years	5,260	6,481
	189,694	194,509
Portion classified as current liabilities	(146,478)	(120,637)
Long term portion	43,216	73,872

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM REPORT (continued)

11. Accounts and bills payables

As at 30 June 2003, the aged analysis of the accounts and bills payables is as follows:

	30 June 2003 (Unaudited) HK\$'000	31 December 2002 (Audited) HK\$'000
Current to 30 days	48,642	36,307
31 – 60 days	18,145	18,578
61 – 90 days	20,644	14,030
Over 90 days	23,591	27,439
	111,022	96,354

12. Share capital

	Number of shares 30 June 2003 (Unaudited) '000	Nominal value 30 June 2003 (Unaudited) HK\$'000	Number of shares 31 December 2002 (Audited) '000	Nominal value 31 December 2002 (Audited) HK\$'000
Authorised:				
Ordinary shares of HK\$0.10 each	1,000,000	100,000	1,000,000	100,000
Issued and fully paid:				
Ordinary shares of HK\$0.10 each	613,938	61,394	613,938	61,394

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM REPORT (continued)

13. Contingent liabilities

	Group		Company	
	30 June 2003 (Unaudited) HK\$'000	31 December 2002 (Audited) HK\$'000	30 June 2003 (Unaudited) HK\$'000	31 December 2002 (Audited) HK\$'000
Bills discounted with recourse	5,325	6,514	-	-
Guarantees of banking facilities granted to subsidiaries	-	-	237,716	244,821
Guarantees of finance leases granted to subsidiaries	-	-	28,400	47,400

At 30 June 2003, banking facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK\$122,502,000 (31 December 2002: HK\$149,627,000).

14. Related party transaction

During the period, the Group sold approximately HK\$15,646,000 (six months ended 30 June 2002: Nil) of finished goods to Sunterra, LLC, an associated company of the Group. The directors considered that the sales of goods were made according to prices and conditions similar to those offered to other customers.

15. Post balance sheet event

On 4 July 2003, the Company entered into two capitalization of loan agreements with Mr. Lin Chun Kuei ("Mr. Lin") and Jade Investment Limited ("Jade Investment"), pursuant to which Mr. Lin and Jade Investment have conditionally agreed to subscribe for an aggregate of 39,000,000 ordinary shares of the Company (the "Shares") and 78,000,000 Shares respectively in cash at a subscription price of HK\$0.10 per Share (the "Capitalisation"). The subscription price payable by each of Mr. Lin and Jade Investment will be satisfied by capitalizing the entire amount of loans advanced to the Company by Mr. Lin in the amount of HK\$3,900,000 and Jade Investment in the amount of HK\$7,800,000 on 23 June 2003 and 28 June 2003 respectively (the "Shareholders' Loans").

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM REPORT (continued)

15. Post balance sheet event (continued)

Mr. Lin is an executive director of the Company and Jade Investment is beneficially owned by Mr. Ng Kin Nam, an executive director of the Company and his spouse. The Capitalization therefore constitutes a connected transaction on the part of the Company under Rule 14.26 of the Listing Rules.

On 25 August 2003, the ordinary resolutions for the approval of the Capitalization were passed at the special general meeting of the Company. The approval from the Stock Exchange for the listing of and permission to deal in the new Shares was obtained on 28 August 2003 and the new Shares were subsequently issued and allotted on 29 August 2003.

At 30 June 2003, the Shareholders' Loans in an aggregate amount of HK\$11,700,000 were classified under non-current liabilities.

16. Comparative amounts

As further explained in note 1 to the unaudited condensed consolidated interim report, due to the adoption of revised SSAP 12 during the current period, the accounting treatment and presentation of certain items and balances have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been restated to conform with current period's presentation.