

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2003

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES***Basis of preparation***

These unaudited condensed consolidated financial statements for the Period of the Group have been prepared in accordance with Statement of Standard Accounting Practice ("SSAP") 2.125 "Interim financial reporting" issued by the Hong Kong Society of Accountants. These condensed financial statements should be read in conjunction with the 2002 annual accounts.

In the current period, the Group has adopted, for the first time, SSAP 12 (revised) in relation to deferred tax. In previous periods, deferred taxation is accounted for using the income statement liability method. SSAP 12 (revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognized in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, with limited expectations. In the absence of any specific transitional requirements in SSAP 12 (revised), the new accounting policy has been applied retrospectively. Nevertheless, the adoption of SSAP 12 (revised) has not resulted in any significant changes to the previous periods' net assets and results and accordingly, no prior period adjustment is required.

2. Turnover

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts during the Period. All significant transactions among the companies comprising the Group have been eliminated on consolidation.

3. SEGMENT INFORMATION

Segment information is presented by way of two segment formats:

- (i) on a primary segment reporting basis, by business segment; and
- (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating business are structured and managed separately, according to the nature of their operations and the products they provide. Each of the Group's business segments represents a strategic business unit that offers products which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

- (a) the manufacture of carpets segment represents the manufacture and sale of carpets under the Group's own brand name; and
- (b) the trading of carpets segment represents the trading of carpets of other renowned brand names.

In determining the Group's geographical segments, revenue and results are attributed to the segments based on the location of the customers.

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3. SEGMENT INFORMATION (continued)

(a) Business segments

The following table presents revenue and results for the Group's business segments.

	Manufacture of carpets Six months ended 30 June		Trading of carpets Six months ended 30 June		Consolidated Six months ended 30 June	
	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
Segment revenue:						
Sales to external customers	52,929	86,064	14,933	37,405	67,862	123,469
Segment results	7,904	1,752	(1,893)	271	6,011	18,023
Unallocated revenue					177	2,773
Unallocated expenses					(3,898)	(6,345)
Profit from operating activities					2,290	14,451
Finance costs					(965)	(464)
Profit before tax					1,325	13,987
Tax					-	(1,056)
Profit before minority interests					1,325	12,931
Minority interests					9	(195)
Net profit from ordinary activities attributable to shareholders					1,334	12,736

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3. SEGMENT INFORMATION (continued)

(b) Geographical segments

The following table presents revenue and results for the Group's geographical segments.

	Hong Kong		Elsewhere in the People's Republic of China (the "PRC")		Consolidated	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
Segment revenue:						
Sales to external customers	11,838	19,894	56,024	103,575	67,862	123,469
Segment results	(1,173)	162	7,184	17,861	6,011	18,023

4. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

	Six months ended 30 June	
	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
Cost of inventories sold	55,336	92,539
Depreciation	7,328	7,228
Loss on disposal of fixed assets	-	79
Amortisation of long term lease rights	850	850
Provision for bad and doubtful debts	-	845
Unrealised holding gain on securities investment	-	(1,516)
Interest income	(171)	(630)

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5. FINANCE COSTS

	Six months ended 30 June	
	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
Interest on bank loans and overdrafts wholly repayable:		
Within five years	756	343
After five years	198	84
Interest on finance leases	11	37
	965	464

6. TAX

	Six months ended 30 June	
	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
Current period provision:		
Hong Kong	–	135
Elsewhere in the PRC	–	921
Tax charge for the period	–	1,056

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profits arising in Hong Kong during the Period. Taxes on profits assessable elsewhere have been calculated at the applicable rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

7. DIVIDEND

The Directors do not recommend the payment of any interim dividend in respect of the Period (2002: Nil).

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8. EARNINGS PER SHARE

The calculation of basic earnings per share for the Period is based on the net profit from ordinary activities attributable to shareholders for the Period of HK\$1,344,000 (2002: HK\$12,736,000) and the weighted average number of 1,245,000,000 (2002: 1,245,000,000) ordinary shares in issue during the Period.

There were no potential dilutive ordinary shares in existence for the six months ended 30 June 2003 and 2002 and, accordingly, no diluted earnings per share amounts have been presented for either of the two periods.

9. TRADE RECEIVABLES

The Group normally allows credit terms ranging from 30 to 120 days to established customers. 100% provision is made for outstanding debts aged over 365 days.

An aging analysis of the trade receivables, net of provisions, as at the balance sheet date, based on the date of recognition of the sales, is as follows:

	30 June 2003 (Unaudited) HK\$'000	31 December 2002 (Audited) HK\$'000
1 – 90 days	26,143	11,127
91 – 120 days	2,913	8,107
121 – 365 days	14,784	14,718
	43,840	33,952

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10. TRADE PAYABLES

The Group normally obtains credit terms ranging from 30 to 120 days from its suppliers.

An aging analysis of the trade payables as at the balance sheet date, based on the receipt of goods purchased, is as follows:

	30 June 2003 (Unaudited) HK\$'000	31 December 2002 (Audited) HK\$'000
1 – 90 days	6,041	5,636
91 – 120 days	2,092	677
121 – 365 days	–	1,389
	8,133	7,702

11. SHARE CAPITAL

	30 June 2003 (Unaudited) HK\$'000	31 December 2002 (Audited) HK\$'000
Authorised:		
2,000,000,000 (31 December 2002:		
2,000,000,000) ordinary shares		
of HK\$0.10 each	200,000	200,000
Issued and fully paid:		
1,245,000,000 (31 December 2002:		
1,245,000,000) ordinary shares		
of HK\$0.10 each	124,500	124,500

There was no movement in the share capital of the Company for the six months ended 30 June 2003.

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12. RELATED PARTY TRANSACTIONS

	Six months ended 30 June	
	2003	2002
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Amortisation of long term lease rights	574	850
Rental expenses paid to related companies	442	655

The above transactions were conducted with Shenzhen China Nuclear Company Group ("China Nuclear"), a minority shareholder of a subsidiary of the Company, and Hui Yang China Nuclear Hwei Xin Chemical Fibre Company Limited, a subsidiary of China Nuclear, respectively.

In the opinion of the Directors, the above transactions were carried out in the ordinary course of business of the Group with reference to the open market rental values of the properties.

Since 10 May 2003, China Nuclear had transferred its 49% interest of the Joint Venture to a independent third party, Shenzhen Hao Sheng He Industrial Company Limited.

13. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at the balance sheet date (2002: Nil).

At 30 June 2003, the Company had provided corporate guarantees to banks for banking facilities provided to certain subsidiaries of the Company. These banking facilities had been utilised to the extent of approximately HK\$53,262,000 (31 December 2002: HK\$54,456,000) as at 30 June 2003.

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14. OPERATING LEASE ARRANGEMENTS

The Group leases certain leasehold land and buildings under operating lease arrangements. The original lease terms for these leasehold land and buildings range from one to thirteen years.

At 30 June 2003, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2003 (Unaudited) HK\$'000	31 December 2002 (Audited) HK\$'000
Within one year	4,901	4,900
In the second to fifth years, inclusive	14,571	15,609
After five years	-	1,000
	19,472	21,509

15. CAPITAL COMMITMENTS

The Group did not have any significant commitments as at 30 June 2003 (31 December 2002: Nil).

16. POST BALANCE SHEET EVENTS

Pursuant to the Announcement, on 18 September 2003, the Company, through Jackley International of America, Limited, its direct wholly-owned subsidiary, had conditionally agreed to acquire from the connected party, the Chinese joint venture party of the Hui Yang Xie Kai Cheng Carpet Company Limited (the "Joint Venture"), its entire 49% equity interest in the registered capital of the Joint Venture for the consideration of HK\$62 million, which will partly be satisfied by the transfer to the Vendor by Jackley Macao Commercial Offshore Limited, a direct wholly-owned subsidiary and the Joint Venture of certain assets and partly by issue of 50 million new shares at HK\$0.30 per share, representing approximately 4.02% of the existing issued share capital of the Company and approximately 3.86% of the issued share capital of the Company as enlarged by the issue of the consideration shares.

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17. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the Period's presentation.

MANAGEMENT DISCUSSION AND ANALYSIS

Business review and outlook

Condensed Consolidated Profit And Loss Account

Six months ended 30 June 2003

	Six months ended 30 June 2003 (Unaudited) HK\$'000	Six months ended 31 December 2002 (Unaudited) HK\$'000	Six months ended 30 June 2002 (Unaudited) HK\$'000
TURNOVER	67,862	58,593	123,469
Cost of sales	(55,336)	(42,003)	(92,539)
Gross profit	12,526	16,590	30,930
Other revenue	177	(41)	2,773
Selling and distribution expenses	(1,101)	(3,956)	(6,119)
Administrative expenses	(9,312)	(12,276)	(12,209)
Other operating expenses	-	(3,138)	(924)
PROFIT FROM OPERATING ACTIVITIES	2,290	(2,821)	14,451
Finance costs	(965)	(1,264)	(464)
PROFIT BEFORE TAX	1,325	(4,085)	13,987
Tax	-	3	(1,056)
PROFIT BEFORE MINORITY INTERESTS	1,325	(4,082)	12,931
Minority interests	9	(3,775)	(195)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	1,334	(7,857)	12,736