

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2003

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 |

MANAGEMENT DISCUSSION AND ANALYSIS

Business review and outlook (continued)

For the Period, the turnover of the Group was a decrease by 45.0% over the corresponding period of last year, but an increase of 15.8% as compared with the second half of last year. The net profit from ordinary activities attributable to shareholders for the Period represents a decrease of 89.5% over the same period of last year but a 117.0% improvement as compared to the second half of last year. The Group have reduced its cost of operation by 46.2% over the previous half year.

During the Period, the Group while continuing to engage in the design, manufacture and sale of carpets under its own brand name "Jackley", is seeking to expand its product offering in terms of addressing the needs of various market segments in the carpet industry.

Carpet subsidiaries:

While planned ordering in both Hong Kong and PRC showed strong indicators for growth, the March outbreak of SARS introduced a cancellation and/or rescheduling of contracts unprecedented in the records of the Company.

The Group also, in a small way continued to suffer from competitive raid on the customer base by competitors.

Technology:

The associate in the biotech business, Pharmasys Holdings Sdn Bhd, with operational base in Malaysia continued to report export sales to Singapore and Sri Lanka.

Properties:

Like all other companies the asset value of commercial and residential properties owned by the Group in Hong Kong and Shenzhen continued to be lower than expected, but in June there were indicators in Hong Kong that values were beginning to improve.

Bank debt:

In May and June 2003, the Group began a program to pay down old bank debt with an aim to have this completed by the end of the current fiscal year.

MANAGEMENT DISCUSSION AND ANALYSIS**Business review and outlook** (continued)

In May 2003, a new Group Chief Executive Officer was appointed. Mr. Anthony Henry Serra joined the Group on a permanent basis, with his appointment as an executive director in April 2003.

In May and June 2003, the Group undertook a complete review of its operation so as to highlight opportunities for growth within the current operations and through possible acquisition.

The results in summary were:

- (i) A need to focus product type and quality from the Company's Hui Yang factory with a immediate plan to implement a reduced raw material suppliers base and a stronger relationship with this smaller base of suppliers and secondly a need to introduce a carpet tile production line at the factory that would allow the Group the ability to address the segment that accounts for up to 60% of the HK\$1.7 billion mid to low end price range in Hong Kong and PRC. The Group was previously excluded from this market.

- (ii) The need to embark upon a "flooring conglomerate" strategy that involved,
 - (1) a push into OEM and export selling of the broadloom manufacturing;
 - (2) a broadening of distributor products into the Charvix subsidiary with more carpet, carpet tile and support products suppliers being introduced into the Company's distribution channels in Hong Kong and PRC;
 - (3) to acquire other manufacturing operations that will introduce to the Group, timber flooring, other carpet types and floor tiles;
 - (4) to open a retail "footprint" in PRC to take advantage of the growing and central government sponsored home renovation market.

MANAGEMENT DISCUSSION AND ANALYSIS

Business review and outlook (continued)

(iii) To look at growth mainly within PRC in revenue and the asset base particularly in the sector of:

- (1) Property: Hospitality and retail
- (2) Technology: Nano technology and health supplements
- (3) Financial services: Consumer financial planning insurance and possibly securities business

The expectation is that the second half result will continue to improve. The 3-year plan that while aggressive, is controlled, profit generate and consistent with the Company's goal of becoming a true investment and trading group.

The Directors have undertaken remedial steps to ensure the qualifications raised by our auditors, are being addressed and will not recur at the fiscal year end.

Liquidity and Financial Resources

As at 30 June 2003, the Group had cash and bank balances amounted to HK\$25 million (31 December 2002: HK\$23 million) and the Group's total interest-bearing bank borrowings amounted to HK\$81 million (31 December 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 spread over 19 years, with approximately 78% of the borrowings repayable within one year.

Segment information

During the Period, the Group recorded a decrease in sales and profit margin in the manufacturing arm as a result of continuous price reduction by the PRC competitors. The Group's trading arm in Hong Kong, managed to stimulate the sales volume by reducing the selling price of international brands which led to a decrease in the profit margin in trading of carpets. The principal market of the Group continues to be the PRC, which accounted for approximately 82.6% (2002: 83.9%) of the Group's turnover. Sales to the PRC amounted to approximately HK\$56 million, representing a decrease approximately 45.9% compared to the same period of last year. Sales to Hong Kong amounted to approximately HK\$12 million, representing an increase of approximately 40.5% compared to the same period of last year.

Business of all lines had been slow in Hong Kong and the PRC due to dramatic decline in renovation and construction projects during the SARS outbreak.

MANAGEMENT DISCUSSION AND ANALYSIS**Number and remuneration of employees**

The Group had a total of approximately 180 employees in Hong Kong and the PRC as at 30 June 2003. The Group paid remuneration to its staff at competitive levels and in line with industry practice. In addition, the Company had adopted a share option scheme of which the Board may, at its discretion, grant options to employees and suppliers of the Group. On 2 December 2002, the Company had granted 86,140,000 share options to the employees and suppliers of the Group.

Charge on group assets

During the Period, the Group's bank borrowings were secured by (i) first legal charges on the Group's leasehold land and buildings in Hong Kong and the PRC with carrying value of HK\$17 million (31 December 2002: HK\$17 million); (ii) corporate guarantees given by the Company and certain subsidiaries of the Company; and (iii) the pledge of time deposits of the Group amounted to HK\$30 million (31 December 2002: HK\$30 million).

Current and gearing ratio

As at 30 June 2003, the Group had total assets of HK\$288 million (31 December 2002: HK\$283 million), total liabilities of HK\$100 million (31 December 2002: HK\$97 million), indicating a gearing ratio 0.36 (31 December 2002: 0.34) on the basis of total liabilities over total assets. The current ratio of the Group for the Period was 2.02 (31 December 2002: 2.05).

Foreign currency exposure

The Group did not have any significant exposure to and did not hedge against risks associated with foreign currency fluctuation.

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. 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.

MANAGEMENT DISCUSSION AND ANALYSIS**Use of Proceeds from the Company's Initial Public Offering**

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, of which approximately HK\$32 million were applied as at 31 December 2002.

The balance of the proceeds of approximately HK\$14 million was placed on short term deposits with financial institutions in Hong Kong as at 30 June 2003.

The actual and intended applications of the net proceeds from the issue of new shares are consistent with the plans set out in the prospectus of the Company dated 16 July 2001.

DISCLOSURE OF ADDITIONAL INFORMATION**Director's interest in shares**

As at 30 June 2003, the interests of the directors of the Company in the shares and underlying shares of the Company recorded in the register required to be kept under Section 352 of the Securities and Futures Ordinance (the "SFO") or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") are as follows:

(a) Ordinary shares of HK\$0.10 each in the Company

| Name of Director | Capacity | Number of ordinary shares held | % of the issued share capital |
|-------------------------|---|---------------------------------------|--------------------------------------|
| Mr. Lam Yat Sing | Attributable interest of controlled corporate | 736,925,000 | 59.18 |

Note 1: Brilliant Path Limited ("Brilliant Path"), Prosperous Statesman Limited ("Prosperous Statesman") and Sinotime Limited ("Sinotime") owned 296,364,000, 68,200,000 and 372,361,000 ordinary shares of the Company, respectively. These companies are incorporated in the British Virgin Islands. The entire issued share capitals of Brilliant Path, Prosperous Statesman and Sinotime are beneficially owned by Mr. Lam Yat Sing.

Note 2: Mr. Lam was formerly an executive director and the Chairman of the Group. He resigned from the above positions on 8 July 2003.