

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the period ended 30 June 2004

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 Institute of Certified Public Accountants. These condensed financial statements should be read in conjunction with the 2003 annual report of the Company.

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.

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	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Segment revenue:						
Sales to external customers	5,122	52,929	1,749	14,933	6,871	67,862
Segment results	(4,570)	7,904	(3,649)	(1,893)	(8,219)	6,011
Unallocated revenue					135	177
Unallocated expenses					(1,214)	(3,898)
(Loss)/profit from operating activities					(9,298)	2,290
Finance costs					(1,583)	(965)
Gain on disposal of properties					5,340	-
Write back of provision for loan receivables					900	-
(Loss)/profit before tax					(4,641)	1,325
Taxation					-	-
(Loss)/profit before minority interests					(4,641)	1,325
Minority interests					2,240	9
(Loss)/profit attributable to Shareholders					(2,401)	1,334

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	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Segment revenue: Sales to external customers	1,843	11,838	5,028	56,024	6,871	67,862
Segment results	(2,932)	(1,173)	(5,287)	7,184	(8,219)	6,011

4. (LOSS)/PROFIT FROM OPERATING ACTIVITIES

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

	Six months ended 30 June	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Cost of inventories sold	5,583	55,336
Depreciation	3,848	7,328
Amortisation of long term lease rights	–	850
Loss on disposal of short term investment	88	–
Interest income	–	(171)
Write back of staff and directors' salaries	2,913	–

5. FINANCE COSTS

	Six months ended 30 June	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Interest on bank loans and overdrafts Wholly repayable:		
Within five years	1,583	756
After five years	–	198
Interest on finance leases	–	11
	1,583	965

6. TAX

No provision for Hong Kong profits tax is required since the Group has no estimated assessable profit for 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 legislating, interpretations and practices in respect thereof.

7. **DIVIDEND**

The Directors do not recommend the payment of any interim dividend in respect of the Period (2003: Nil).

8. **(LOSS)/PROFIT PER SHARE**

The calculation of basic (loss)/profit per share for the Period is based on the net loss from ordinary activities attributable to shareholders for the Period of HK\$2,401,000 (2003: Profit of HK\$1,334,000) and the weighted average number of 1,245,000,000 (2003: 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 2004 and 2003 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.

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 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
1-90 days	671	51,554
91-120 days	213	42
121-365 days	51,193	393
Over 1 year	-	220
	52,077	52,209

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 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
1-90 days	518	3,513
91-120 days	593	496
121-365 days	3,268	7,251
Over 1 year	1,636	1,970
	6,015	13,230

11. SHARE CAPITAL

	30 June 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
Authorised:		
2,000,000,000 ordinary shares of HK\$0.10 each	200,000	200,000
Issued and fully paid:		
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 2004.

12. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at the balance sheet date (2003: Nil).

At 30 June 2004, the Company had provided corporate guarantees to banks for banking facilities provided to certain subsidiaries of approximately HK\$27,000,000. These banking facilities had been utilized to the extent of approximately HK\$8,582,884 (31 December 2003: HK\$39,264,000) as at 30 June 2004.

13. 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 2004, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
Within one year	40	603
In the second to fifth years, inclusive	–	58
	40	661

14. CAPITAL COMMITMENTS

The Group did not have any significant commitments as at 30 June 2004 (31 December 2003: Nil).

15. OTHER LOAN

The loan is secured by way of first fixed and floating charges on all the fixed and floating assets of the Group. The loan is repayable within three months after date of the drawdown and bearing interest at the rate of 20% per annum. Subsequent to the balance sheet date ended 30 June 2004, the Company has procured an extension to the tenure of the loan until 31st December 2005 and a revised interest rate of 10% per-annum.

16. POST BALANCE SHEET EVENTS

1. On July 2004, the Company has principally completed its acquisition under a conditional share acquisition agreement entered into on 15 September 2003 through its indirectly wholly-owned subsidiary, in respect of the remaining 49% minority equity interest in Hui Yang Xie Kia Cheng Carpet Company Limited in which the Group already owns 51% equity interest. Out of the total consideration of HK\$62 million, HK\$47 million was already settled last year in the forms of inventory and trade receivables, and the remaining HK\$15 million will be satisfied pending the allotment and issue by the Company of the consideration shares valued at HK\$0.30 per Share;
2. On July 2004, Prime Orient International Limited make a mandatory conditional cash offer to acquire all the remaining issued shares capital in the Company which its has not already owned. The offer was closed and lapsed on 23 August 2004 and the shareholding structure of the Company remained unchanged throughout and upon the lapse of the said Offer. As a result of the change in control of the Company, three executive Directors namely Mr. Anthony Henry Serra, Mr. Khoo Chuan Teng and Mr. Chew Kean Eng has resigned from their respective positions with effect from 24 August 2004.
3. On September 2004, the Company through an indirectly wholly owned subsidiary entered into a conditional agreement for the acquisition of 51% equity interest in a company incorporated in Hong Kong and engaged in the supply, design, installation, trading and contracting of a wide range of carpet products in Hong Kong and the PRC for a total consideration of HK\$9,500,000 to be satisfied by the allotment and issue by the Company of the consideration shares at HK\$0.10 per share under the general mandate granted to the Directors of the Company. Completion of the agreement is conditional upon the Listing Committee of the Stock Exchange granting the listing of, and the permission to deal in, the Consideration Shares.