Notes to Condensed Financial Statements>

1. BASIS OF PREPARATION

These unaudited condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2004 annual financial statement. The condensed consolidated financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Report Standards (HKFRSs, which term collectively includes HKASs and Interpretations).

The interim financial report is unaudited, but has been reviewed by the Audit Committee of the Company.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention except for certain financial instruments, which are measured at fair value.

The accounting and basis of preparation adopted in these condensed consolidated financial statements are consistent with those followed in the preparation of the Group's financial statements for the year ended 31 December 2004, except as described below.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

In the current period, the Group has applied, for the first time, a number of new HKFRSs, HKASs and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA that are effective for the accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. The changes in presentation have been applied retrospectively. The adoption of new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented.

Goodwill

In previous periods, goodwill arising on acquisitions was capitalised and amortised on the straight-line basis over its estimated useful life. The Group has applied the relevant transitional provision in HKFRS 3 "Business Combinations". With respect to goodwill previously capitalised on the balance sheet, the Group has discontinued amortising such goodwill from 1 January 2005 onwards and goodwill will be tested for impairment at least annually and in the financial year in which the acquisition takes place. Goodwill arising on acquisitions after 1 January 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the Period. The carrying amount of accumulated amortisation of approximately HK$35,750,000 was eliminated with a corresponding decrease in goodwill as at 1 January 2005.

Leases

The adoption of HKAS17 "Leases" has resulted in a change in accounting policy relating to leasehold land. Leasehold land and buildings were previously carried at cost less accumulated depreciation and impairment losses which were classified as property, plant and equipment in the balance sheet. In accordance with the provision of HKAS17, a leasehold interest in land and building should be split into a leasehold interest in land and building in proportion to the relative fair values of the leasehold interest in land element and the building element at the inception of the lease. The up-front payment for leasehold interest in land is stated at cost and amortised over the period of the lease whereas the building is stated at cost less accumulated depreciation and impairment losses. The change in accounting policy has been applied retrospectively.

Notes to Condensed Financial Statements

3. 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.

4. 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.

4. 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	
	2005 (Unaudited) HK$'000	2004 (Unaudited) HK$'000	**2005 (Unaudited) HK$'000**	2004 (Unaudited) HK$'000	**2005 (Unaudited) HK$'000**	2004 (Unaudited) HK$'000
Segment revenue:						
Sales to external customers	**2,816**	5,122	**13,661**	1,749	**16,477**	6,871
Segment results	**(5,304)**	(4,570)	**(3,635)**	(3,649)	**(8,939)**	(8,219)
Unallocated revenue					**254**	135
Unallocated expenses					**(4,682)**	(1,214)
Loss from operating activities					**(13,367)**	(9,298)
Finance costs					**(1,323)**	(1,583)
Gain on disposal of properties					**–**	5,340
Write back of provision for loan receivables					**–**	900
Loss before taxation					**(14,690)**	(4,641)
Taxation					**–**	–
Loss before minority interests					**(14,690)**	(4,641)
Minority interests					**1,512**	2,240
Loss attributable to Shareholders					**(13,178)**	(2,401)

Notes to Condensed Financial Statements

4. SEGMENT INFORMATION (continued)

(b) Geographical segments

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

	Hong Kong Six months ended 30 June		Elsewhere in The people's Republic of China (the "PRC") Six months ended 30 June		Consolidated Six months ended 30 June	
	2005 (Unaudited) HK$'000	2004 (Unaudited) HK$'000	**2005 (Unaudited) HK$'000**	2004 (Unaudited) HK$'000	**2005 (Unaudited) HK$'000**	2004 (Unaudited) HK$'000
Segment revenue:						
Sales to external customers	**13,661**	1,843	**2,816**	5,028	**16,477**	6,871
Segment results	**(7,411)**	(2,932)	**(1,528)**	(5,287)	**(8,939)**	(8,219)

5. LOSS BEFORE TAXATION

The Group's loss before taxation is arrived at after charging:

	Six months ended 30 June	
	2005 (Unaudited) HK$'000	2004 (Unaudited) HK$'000
Cost of inventories sold	**13,999**	5,583
Depreciation	**3,155**	3,848
Loss on disposal of short term investment	**–**	88
Write back of staff and directors' salaries	**–**	2,913
Staff costs	**3,029**	3,637

6. FINANCE COSTS

	Six months ended 30 June	
	2005	2004
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Interest on bank loans and overdrafts wholly repayable within five years	**1,323**	1,583

7. TAXATION

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. No deferred tax assets have been provided in the accounts as the Directors consider that it is uncertain that they will crystallize in the foreseeable future.

8. DIVIDEND

The Directors do not recommend the payment of any interim dividend in respect of the Period (2004: Nil).

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9. LOSS PER SHARE

The calculation of basic loss per share is based on the loss attributable to equity holders of the Company of HK$13,178,000 (2004: 2,401,000) and on the weighted average number of 168,480,663 (six months ended 30 June 2004: 124,500,000, restated) shares in issue during the Period assuming the effect of the share capitalisation had been in place throughout the Period.

The diluted earnings per share for the Period is based on the loss attributable to equity holders of the Company of HK$13,178,000 is based on 206,464,088 shares which is the weighted average number of shares in issue during the Period plus the weighted average number of 168,480,663 shares deemed to be issued if all the convertible notes in the aggregate principal amount of HK$33,000,000 had been converted into 275,000,000 shares at a conversion price of HK$0.12 per share (note 18). As there was no dilutive potential ordinary shares during the six months ended 30 June 2004, no diluted loss per share was presented.

10. 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 2005 (Unaudited) HK$'000	31 December 2004 (Audited) HK$'000
1-90 days	**3,497**	3,163
91-120 days	**411**	565
121-365 days	**575**	33
Over 1 year	**47,950**	47,950
	52,433	51,711

11. 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 2005 (Unaudited) HK$'000	31 December 2004 (Audited) HK$'000
1-90 days	**1,574**	3,118
91-120 days	**642**	1,011
121-365 days	**880**	572
Over 1 year	**5,457**	6,712
	8,553	11,413

Notes to Condensed Financial Statements

12. SHARE CAPITAL

	Note	30 June 2005 Number of shares	30 June 2005 HK$'000	31 December 2004 Number of shares	31 December 2004 HK$'000
Authorised:					
At 1 January, ordinary share of HK$0.1 each (2004: HK$0.1 each)		2,000,000,000	200,000	2,000,000,000	200,000
Capital reorganisation	(b)	18,000,000,000	–	–	–
At 30 June/31 December ordinary shares of HK$0.01 each (2004: HK$0.1 each)		20,000,000,000	200,000	2,000,000,000	200,000
Issued and fully paid:					
At 1 January, ordinary share of HK$0.1 each (2004: HK$0.1 each)		1,340,000,000	134,000	1,245,000,000	124,500
Share issue on 8 November 2004		–	–	95,000,000	9,500
Share issue on 18 January 2005	(a)	50,000,000	5,000	–	–
Capital reorganisation	(b)	(1,251,000,000)	(137,610)	–	–
		139,000,000	1,390	1,340,000,000	134,000
Share issue on 14 April 2005	(c)	69,500,000	695	–	–
At 30 June/31 December ordinary shares of HK$0.01 each (2004: HK$0.1 each)		208,500,000	2,085	1,340,000,000	134,000

(a) On 18 January 2005, the Company issued 50,000,000 new ordinary shares at HK$0.30 per share to Shenzhen Hao Sheng He Industrial Company Limited to complete the balance of the consideration of the conditional share acquisition agreement (to acquire 49% additional equity interest in a subsidiary of the Company, Hui Zhou Orient Carpet Manufacturing Co., Ltd.) entered into on 15 September 2003.

12. SHARE CAPITAL (continued)

(b) Pursuant to a special resolution passed on 31 December 2004, the capital reorganisation were in the following manner (i) the nominal value of the issued shares was reduced from HK$0.10 each to HK$0.001 each by the cancellation of HK$0.099 paid up on each issued share; (ii) every authorised but unissued share was subdivided into 100 reduced shares; and (iii) every 10 reduced shares was consolidated into one new share. As a result, an amount of approximately 132,660,000 standing to the credit of the issued share capital of the Company was cancelled and credited to a distribution reserve account of the company, from which distribution shall be at the discretion of the Directors. The capital reorganisation were completed on 10 March 2005.

(c) On 22 February 2005, the Company proposed to raise approximately HK$13.9 million before expenses, by issuing 69,500,000 Offer Shares at the price of HK$0.2 per Offer Share by way of an Open Offer, payable in full on application, on the basis of one Offer Share for every two New Shares. The Open Offer was fully allotted by the Shareholders and the underwriter in April 2005 and funds are used to pay down the outstanding bank borrowings and loans due to independent third parties.

13. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, any person or entity that provides research, development or other technological support to the Group and any minority shareholder in the Company's subsidiaries. The Scheme was adopted on 6th June 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. On 2 December 2003, option carrying the rights to subscribe for 84,896,000 shares, representing approximately 6.82% of the issue share capital of the Company as at the date of adoption of the Scheme, have been lapsed following the expiry of the exercise period of share options. Subsequently, no share options were granted under the Scheme. Therefore, at 31 December 2004 and 2003, the number of share issuable under share options granted under the Scheme was zero.

The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Notes to Condensed Financial Statements

14. CONTINGENT LIABILITIES

As at 30 June 2005, the Group did not have any significant contingent liabilities except as described below:

(a) A wholly-owned subsidiary of the Company, namely 惠陽協凱晟地毯有限公司 (now known as 惠州市東方地毯生產有限公司) transliterated as Hui Zhou Orient Carpet Manufacturing Co., Ltd. ("HZOCM") has been made defendant of proceeding in the PRC. The proceedings were brought by 深圳華興建設有限公司 against HZOCM at the People's Court of the Hui Yang District, Hui Zhou City, Guangdong Province in respect of installation cost due and interest payable. The amount claimed under this set of proceedings was HK$1,420,000 (RMB1,520,000) and interest payable of HK$2,077,000 (RMB2,223,000). HK$1,420,000 was provided in the Group's financial statements. The proceedings were adjourned for hearing on a day to be fixed in due course.

(b) The Company had provided corporate guarantees to certain banks for banking facilities provided to certain subsidiaries of approximately HK$3,280,000 (2004: HK$20,133,000). These banking facilities had been utilised to the extent of approximately HK$3,280,000 (2004: HK$8,930,000) as at the balance sheet date.

15. OPERATING LEASE ARRANGEMENTS

The Group leases certain leasehold land and buildings under operating lease arrangements.

At 30 June 2005, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2005 (Unaudited) HK$'000	31 December 2004 (Audited) HK$'000
Within one year	**1,373**	1,922
In the second to fifth years, inclusive	**736**	2,157
	2,109	4,079

16. CAPITAL COMMITMENTS

The Group did not have any significant commitments as at 30 June 2005 (31 December 2004: Nil).

17. OTHER LOAN

At 30 June 2005, HK$8,523,000 of the loan was secured by way of first charge over the Group's assets, including leasehold interest in land and buildings, trade receivables and goodwill as a continuing security until the said amount has been repaid. The loan is interest bearing at 10% per annum.

18. CONVERTIBLE NOTE

In June 2005, the Company completed a subscription agreement for the issue of convertible note in an aggregate principal of HK$33 million to the subscriber. The subscriber has the right to convert the whole integral multiple of HK$1 million of the principal amount of the convertible note into shares at any times before the maturity date falling on the second anniversary of the date of issue of the convertible note at the initial conversion price of HK$0.12 per share.

Notes to Condensed Financial Statements

19. POST BALANCE SHEET EVENT

On 9 August 2005, the Company received a conversion notice from L & L Holdings Limited in respect of the Convertible Note in an aggregate principal amount of HK$33,000,000, pursuant to which L & L Holdings Limited exercised the conversion rights in full attaching to the Convertible Note at the conversion price of HK$0.12 per share, resulting in the issue of 275,000,000 new shares by the Company to L & L Holdings Limited.

Upon such conversion, L & L Holdings Limited currently interests in 56.88% of the existing issue share capital of 483,500,000 shares of the Company. The Whitewash Waiver, which waives the obligation of L & L Holdings Limited and its shareholder and parties acting in concert with any one of them to extend a general offer to acquire the issued share (excluding the issued shares which are owned by the subscriber and its shareholder and parties acting in concert with any one of them) under Rule 26 of the Takeovers Code arising from the exercise of the conversion rights attached to the Convertible Note, has been granted by the Executive.