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BUSINESS REVIEW AND OUTLOOK

For the six months period ended 30 June 2005, the Group's turnover and net loss were approximately HK\$16.48 million (2004: HK\$6.87 million) and HK\$13.18 million (2004: HK\$2.4 million). The turnover of the Group was substantially increased by approximately 139.88% as compared to the corresponding period of last year and this increase was mainly due to the economic recovery and the contribution of takeover 51% of International Carpet Company Limited. However, the Group still recorded a significant decrease in profits margin due to the kin market competition and the continuously increase of oil price.

Nevertheless, the Group continued to focus on the existing core business CARPET MANUFACTURING AND DISTRIBUTION and is undergoing restructuring to position itself for future growth and profitability, the Group will continuously take productive approach to review and strengthen its business as well as exploring more investment opportunities that offer sustainable growth advantages.

LIQUIDITY AND FINANCIAL RESOURCES

Based on the unaudited management account for the six months ended 30 June 2005, the Group's total current assets were HK\$61.42 millions and its total current liabilities were HK\$48.83 millions. For the six months to 30 June 2005, the Group had been paying down its bank borrowings, consequently total bank borrowings were reduced from HK\$10.05 millions in 31 December 2004 to HK\$3.28 millions as at 30 June 2005.

As at 30 June 2005, the Group cash and bank balances were amounted to HK\$4.94 millions (31 December 2004: HK\$ 1.34 millions). On 15 April 2005, the Company entered into a conditional Subscription Agreement with the L & L Holdings Limited (the "Subscriber"), an independent third party to issue a Convertible Note in an aggregate principal amount of HK\$33,000,000 to the Subscriber. This conditional Subscription Agreement was completed on 6 June 2005 and the Convertible Note in the aggregate principal amount of HK\$33,000,000 was issued to the Subscriber on 6 June 2005. The Subscriber have the right to convert the whole integral multiple of HK\$1,000,000 of the principal amount of the Convertible Note into shares at any time before the maturity date of the Convertible Note 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 (subject to adjustment).

The Convertible Note was converted on 10 August 2005 (refer to note 19 of Notes to Condensed Financial Statements).

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SEGMENT INFORMATION

During the period, the Group recorded a substantial increase in sales and profit margin both in the manufacturing arm based at PRC and trading arm in Hong Kong as a result of the global economic recovery in which increases the demand of the carpet products. However, due to the kin competition of the carpet industry, the Group still recorded a net loss of its business. The principal market of the Group was changed to Hong Kong and overseas, which accounted for approximately 83% (2004: 27%) of the Group turnover. Sales to Hong Kong and overseas amounted to approximately HK\$13.7 millions, representing an increase approximately 7.4 times compared to the corresponding period of last year. Sales to the PRC amounted to approximately HK\$2.8 millions, representing a decrease of approximately 44% compared to the corresponding period of last year.

NUMBER AND REMUNERATION OF EMPLOYEES

The Group total number of employees was approximately 140 employees (2004: 136) in Hong Kong and PRC for the period ended 30 June 2005. The Group recognized the importance of maintaining good working relationships with its employees and accordingly, strives to maintain remunerations at competitive levels and in line with industry practice. In addition, the Group has adopted a share option scheme of which the Board may, at its discretion, grant options to employees of the Group. The Company has granted no share options during the period under review.

CURRENT AND GEARING RATIO

As at 30 June 2005, the Group had total assets of HK\$177 millions (31 December 2004: HK\$175 millions), total liabilities of HK\$82 millions (31 December 2004: HK\$95 millions), indicating a gearing ratio 0.46 (31 December 2004: 0.54) on the basis of total liabilities over total assets. The current ratio of the Group for the Period was 1.26 (31 December 2004: 0.74).

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.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN THE SECURITIES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 June 2005, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of 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 ("Model Code") were as follows:

Long Positions in Ordinary Shares of the Company

Name of Director	Nature of interests	Number of shares held	Approximate percentage of shareholding
Mr. Lam Shu Chung (<i>Note 1</i>)	Corporate	76,758,750	36.81%
Dr. Ma Chung Wo, Cameron	Personal	11,752,000	5.64%

Note:

1. Prime Orient International Limited ("Prime Orient") owned ordinary shares of the Company. This company is incorporated in the British Virgin Islands. The entire issued share capital of Prime Orient is beneficially owned by Mr. Lam Shu Chung.

Save as disclosed above, as at 30 June 2005, none of the directors and chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code; and none of the directors or the spouses, or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the period.

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SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

The register maintained by the Company pursuant to section 336 of the SFO recorded that, as at 30 June 2005, the following corporations had interests (as defined in the SFO) in the Company set opposite its respective name:

Name	Number of shares held	Approximate percentage of shareholding
Prime Orient (<i>Note 1</i>)	76,758,750	36.81%
Mr. Lam Shu Chung (<i>Note 1</i>)	76,758,750	36.81%
Ms. Choi Hing Lin, Lori (<i>Note 2</i>)	76,758,750	36.81%
Dr. Ma Chung Wo, Cameron (<i>Note 1</i>)	11,752,000	5.64%

Notes:

1. The shareholding are duplicated in the disclosure in the "Directors' Interests and short positions in the securities of the company and its associated corporations" section above.
2. Ms. Choi Hing Lin, Lori is the wife of Mr. Lam Shu Chung is deemed to be interested in shares which Mr. Lam Shu Chung is interested under the provisions of Divisions 2 and 3 of Part XV of the SFO.

All the interests stated above represent long positions in the ordinary shares of the Company. As at 30 June 2005, no short positions were recorded in the register maintained by the Company under section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the period. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the period.

AUDIT COMMITTEE

The Audit Committee of the Company has reviewed with management the accounting principles and practices adopted by the Group, and discussed internal controls and financial reporting matters including a review of the unaudited interim accounts for the six months ended 30 June 2005. The Audit Committee comprises the three independent non-executive Directors of the Company.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining high standards of corporate governance. Throughout the six months ended 30 June 2005, the Company has complied with the code provisions in the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules except for the deviations in respect of the service term and rotation of Directors under code provisions A.4.1 and A.4.2 of the Listing Rules.

Under code provisions A.4.1 and A.4.2 of the Listing Rules, (a) non-executive Directors should be appointed for specific terms and subject to re-election, and (b) all Directors appointed to fill casual vacancy should be subject to election by shareholders at the first general meeting after their appointment, and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

According to article 108 of the Articles of Association of the Company, at each annual general meeting one-third of the Directors for the time being shall retire from office by rotation. The Directors to retire by rotation shall include any Director who wishes to retire and not to offer himself for re-election. Any further Directors so to retire shall be those who have been longest in office since their last re-election or appointment and so that as between persons who became or were last re-elected Directors on the same day those to retire shall (unless they otherwise agree among themselves) be determined by lot. As there are nine directors, and one-third of them shall retire subject to rotation, and barring unforeseen resignation/retirement during a year, each Director is effectively appointed under an average term of 3 years. Any Director appointed to fill a casual vacancy or as an addition to the Board shall hold office only until the next annual general meeting of the Company and shall retire and be subject to re-election.

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COMPLIANCE WITH MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors by Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules. Upon enquiry by the Company, all directors have confirmed that they have complied with the required standards set out in the Model Code throughout the six months ended 30 June 2005.

By Order of the Board

Lam Shu Chung

Chairman

Hong Kong, 26 September 2005

As at the date of this report, the executive directors are Mr. Lam Shu Chung, Mr. Law Fei Shing, Mr. So Chi Keung, Mr. Tsao Ke Wen Calvin and Mr. Pang Man Kin Nixon; the non-executive director is Dr. Ma Chung Wo, Cameron and the independent non-executive directors are Mr. Poon Chiu, Mr. Lum Pak Sum and Mr. Li Chak Hung.