



NOTES TO CONDENSED FINANCIAL STATEMENTS

For the period ended 30 June 2006

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 interim financial report contains condensed 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 performance of the Group since the 2005 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 preparation of the 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 is unaudited, but have been reviewed by the Audit Committee of the Company.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared on the historical cost basis except for the revaluation of certain property, plant and equipment and certain financial assets and liabilities, which are measured at fair value.



NOTES TO CONDENSED FINANCIAL STATEMENTS

For the period ended 30 June 2006

2. PRINCIPAL ACCOUNTING POLICIES (continued)

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 2005, except in relation to the following amendments to and interpretation of HKFRSs issued by HKICPA that affect the Group and are adopted for the first time for the current period's financial statements:

| | |
|---------------------|---|
| HKAS 39 (Amendment) | The Fair Value Option ⁽¹⁾ |
| HKAS 39 & HKFRS 4 | Financial Instruments: Recognition and Measurement and Insurance Contracts - Financial Guarantee ⁽¹⁾ |
| HK(IFRIC) — Int 4 | Determining whether an Arrangement contains a Lease ⁽¹⁾ |
| HK(IFRIC) — Int 8 | Scope of HKFRS 2 ⁽²⁾ |

⁽¹⁾ Effective for annual periods beginning on or after 1 January 2006

⁽²⁾ Effective for annual periods beginning on or after 1 May 2006

The adoption of the above HKFRSs did not result in material impact on the accounting policies of the Group's condensed consolidated financial statements.

The Group has not early adopted certain accounting Standards or Interpretations that have been issued but not yet effective. The adoption of such Standards and Interpretations will not result in substantial changes to the Group's accounting policies.



NOTES TO CONDENSED FINANCIAL STATEMENTS

For the period ended 30 June 2006

2. PRINCIPAL ACCOUNTING POLICIES (continued)

Share-based payment (HKFRS 2)

During the Period, share options were granted to employees of the Group and the Group adopted the following accounting policy on such share-based employee compensation. The Group operates an equity settled share based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

3. REVENUE

Revenue, which is also the Group's 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.



NOTES TO CONDENSED FINANCIAL STATEMENTS

For the period ended 30 June 2006

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 manufacturing of carpets segment represents the manufacturing 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.

NOTES TO CONDENSED FINANCIAL STATEMENTS

For the period ended 30 June 2006

4. SEGMENT INFORMATION (continued)

(a) Business segments

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

| | Manufacturing of carpets six months ended 30 June | | Trading of carpets six months ended 30 June | | Consolidated six months ended 30 June | |
|---------------------------------------|--|---------------------------------|--|---------------------------------|---|---------------------------------|
| | 2006 (Unaudited) HK\$'000 | 2005 (Unaudited) HK\$'000 | 2006 (Unaudited) HK\$'000 | 2005 (Unaudited) HK\$'000 | 2006 (Unaudited) HK\$'000 | 2005 (Unaudited) HK\$'000 |
| | Segment revenue: | | | | | |
| Sales to external customers | 4,501 | 2,816 | 6,501 | 13,661 | 11,002 | 16,477 |
| Segment results | (11,675) | (5,304) | (5,737) | (3,635) | (17,412) | (8,939) |
| Unallocated other operation income | | | | | 18 | 254 |
| Share-base payment | | | | | (8,016) | — |
| Unallocated expenses | | | | | (6,792) | (4,682) |
| Finance costs | | | | | (89) | (1,323) |
| Loss before income tax | | | | | (32,291) | (14,690) |
| Taxation | | | | | — | — |
| Loss for the Period | | | | | (32,291) | (14,690) |

NOTES TO CONDENSED FINANCIAL STATEMENTS

For the period ended 30 June 2006

4. SEGMENT INFORMATION (continued)

(b) Geographical segments

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

| | Hong Kong | | The People's Republic of China (the "PRC") | | Overseas | | Consolidated | |
|-----------------------------|---------------------------------|---------------------------------|---|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| | six months ended 30 June | | six months ended 30 June | | six months ended 30 June | | six months ended 30 June | |
| | 2006 (Unaudited) HK\$'000 | 2005 (Unaudited) HK\$'000 | 2006 (Unaudited) HK\$'000 | 2005 (Unaudited) HK\$'000 | 2006 (Unaudited) HK\$'000 | 2005 (Unaudited) HK\$'000 | 2006 (Unaudited) HK\$'000 | 2005 (Unaudited) HK\$'000 |
| Segment revenue: | | | | | | | | |
| Sales to external customers | 4,541 | 13,661 | 4,649 | 2,816 | 1,812 | — | 11,002 | 16,477 |
| Segment results | (20,616) | (7,411) | (11,675) | (1,528) | — | — | (32,291) | (8,939) |

5. LOSS BEFORE INCOME TAX

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

| | Six months ended 30 June | |
|--|---------------------------------|---------------------------------|
| | 2006 (Unaudited) HK\$'000 | 2005 (Unaudited) HK\$'000 |
| Cost of inventories sold | 10,190 | 13,999 |
| Equity settled share-based arrangement | 8,016 | — |
| Depreciation | 3,596 | 3,101 |
| Amortisation of prepaid lease payments | 55 | 54 |
| Staff costs (including directors' emolument) | 5,407 | 3,029 |



NOTES TO CONDENSED FINANCIAL STATEMENTS

For the period ended 30 June 2006

6. FINANCE COSTS

| | Six months ended 30 June | |
|---|---------------------------------|---------------------------------|
| | 2006 (Unaudited) HK\$'000 | 2005 (Unaudited) HK\$'000 |
| Interest charged on: | | |
| Bank loans and overdrafts wholly repayable within five years | 63 | 245 |
| Finance leases | 11 | 6 |
| Other loans | 15 | 1,072 |
| | 89 | 1,323 |

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.

Deferred tax asset has not been recognized in respect of the tax losses carried forward because it is not probable that future taxable profits will be available against which the Group and the Company can utilize the benefits.

8. DIVIDEND

The Directors do not recommend the payment of any interim dividend in respect of the Period (2005: Nil).

NOTES TO CONDENSED FINANCIAL STATEMENTS

For the period ended 30 June 2006

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\$32,301,000 (2005: HK\$13,178,000) and on the weighted average number of 525,200,000 (six months ended 30 June 2005: 168,480,663) shares in issue during the Period assuming the effect of the share capitalisation had been in place throughout the Period.

Dilutive loss per share for the Period was not presented because the exercise of the Company's share options will reduce loss per share which is anti-dilutive.

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 2006 (Unaudited) HK\$'000 | 31 December 2005 (Audited) HK\$'000 |
|---------------------------------------|---|---|
| 1-90 days | 2,639 | 3,340 |
| 91-120 days | 560 | 80 |
| 121-365 days | 1,742 | 2,292 |
| Over 1 year | 1,737 | 1,423 |
| | 6,678 | 7,135 |
| Less: impairment of trade receivables | (1,737) | (1,423) |
| Trade receivables — net | 4,941 | 5,712 |

NOTES TO CONDENSED FINANCIAL STATEMENTS

For the period ended 30 June 2006

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 2006 (Unaudited) HK\$'000 | 31 December 2005 (Audited) HK\$'000 |
|--------------|---|---|
| 1-90 days | 2,786 | 5,977 |
| 91-120 days | 1,899 | 986 |
| 121-365 days | 4,399 | 500 |
| Over 1 year | 2,334 | 1,569 |
| | 11,418 | 9,032 |

NOTES TO CONDENSED FINANCIAL STATEMENTS

For the period ended 30 June 2006

12. SHARE CAPITAL

| | 30 June 2006 | | 31 December 2005 | |
|--|-----------------------------|----------|-----------------------------|-----------|
| | Number of shares '000 | HK\$'000 | Number of shares '000 | HK\$'000 |
| Authorised: | | | | |
| At 1 January, ordinary share of HK\$0.01 each (2005: HK\$0.1 each) | 20,000,000 | 200,000 | 2,000,000 | 200,000 |
| Capital reorganisation | — | — | 18,000,000 | — |
| At 30 June/31 December ordinary shares of HK\$0.01 each | 20,000,000 | 200,000 | 20,000,000 | 200,000 |
| Issued and fully paid: | | | | |
| At 1 January, ordinary share of HK\$0.01 each (2005: HK\$0.1 each) | 525,200 | 5,252 | 1,340,000 | 134,000 |
| Share issue on 18 January 2005 | — | — | 50,000 | 5,000 |
| Capital reorganisation | — | — | (1,251,000) | (137,610) |
| Ordinary shares of HK\$0.01 each after the capital reorganisation | — | — | 139,000 | 1,390 |
| Share issue on 14 April 2005 | — | — | 69,500 | 695 |
| Share issue on 10 August 2005 | — | — | 275,000 | 2,750 |
| Share issue on 3 November 2005 | — | — | 41,700 | 417 |
| At 30 June/31 December ordinary shares of HK\$0.01 each | 525,200 | 5,252 | 525,200 | 5,252 |



NOTES TO CONDENSED FINANCIAL STATEMENTS

For the period ended 30 June 2006

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 6 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, options carrying the rights to subscribe for 84,896,000 shares, representing approximately 6.82% of the issued share capital of the Company as at the date of adoption of the Scheme, have lapsed following the expiry of the exercise period of the share options. Subsequently, no share options were granted under the Scheme. Therefore, at 31 December 2005, the number of share issuable under share options granted under the Scheme was zero (2004: Nil).

Pursuant to the extraordinary general meeting passed on 10 March 2006, the general scheme limit of the Company's share option scheme has been reset to 52,520,000 shares, representing 10% of the Company's issued share capital on the date of meeting, with the passing of ordinary resolution, which allowing the Company to grant further options carrying the rights to subscribe for a maximum of 52,520,000 shares.

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

For the period ended 30 June 2006

13. SHARE OPTION SCHEME (continued)

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors, in addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of the offer of the share options or the expiry date of the Scheme, if earlier.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of:

- (i) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options;
- (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer; and
- (iii) the nominal value of the shares.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

NOTES TO CONDENSED FINANCIAL STATEMENTS

For the period ended 30 June 2006

13. SHARE OPTION SCHEME (continued)

Details of the outstanding share options under the Share Option Scheme during the period for the six months ended 30 June 2006 were as follow:

| Participants | Date of grant | Number of option granted ('000) | Exercise price per share HK\$ | Exercise period | Options exercised/lapsed/cancelled during the period | Balance as at 30 June 2006 ('000) | Closing price immediately before the date on which the options were granted |
|----------------------------------|---------------|---------------------------------|-------------------------------|-------------------------------|--|-----------------------------------|---|
| Directors | | | | | | | |
| Mr. Pang Man Kin, Nixon | 7 Mar 2006 | 5,000 | 0.350 | 10 March 2006 to 9 March 2011 | — | 5,000 | 0.350 |
| Mr. Tsao Ke Wen, Calvin | 7 Mar 2006 | 500 | 0.350 | 10 March 2006 to 9 March 2011 | — | 500 | 0.350 |
| Mr. Lam Shu Chung | 7 Mar 2006 | 5,000 | 0.350 | 10 March 2006 to 9 March 2011 | — | 5,000 | 0.350 |
| Mr. Law Fei Shing | 7 Mar 2006 | 5,000 | 0.350 | 10 March 2006 to 9 March 2011 | — | 5,000 | 0.350 |
| Mr. So Chi Keung | 7 Mar 2006 | 5,000 | 0.350 | 10 March 2006 to 9 March 2011 | — | 5,000 | 0.350 |
| Dr. Ma Chung Wo, Cameron | 7 Mar 2006 | 500 | 0.350 | 10 March 2006 to 9 March 2011 | — | 500 | 0.350 |
| Mr. Poon Chiu | 7 Mar 2006 | 500 | 0.350 | 10 March 2006 to 9 March 2011 | — | 500 | 0.350 |
| Mr. Lum Pak Sum | 7 Mar 2006 | 500 | 0.350 | 10 March 2006 to 9 March 2011 | — | 500 | 0.350 |
| Mr. Li Chak Hung | 7 Mar 2006 | 500 | 0.350 | 10 March 2006 to 9 March 2011 | — | 500 | 0.350 |
| Directors of subsidiaries | | | | | | | |
| In aggregate | 7 Mar 2006 | 6,500 | 0.350 | 10 March 2006 to 9 March 2011 | — | 6,500 | 0.350 |
| | 2 May 2006 | 4,000 | 0.365 | 2 May 2006 to 9 March 2011 | — | 4,000 | 0.365 |
| Other employees | | | | | | | |
| In aggregate | 7 Mar 2006 | 900 | 0.350 | 10 March 2006 to 9 March 2011 | 300 | 600 | 0.350 |
| | 2 May 2006 | 5,200 | 0.365 | 2 May 2006 to 9 March 2011 | — | 5,200 | 0.365 |
| Third parties | | | | | | | |
| In aggregate | 7 Mar 2006 | 2,100 | 0.350 | 10 March 2006 to 9 March 2011 | 2,100 | — | 0.350 |
| | 2 May 2006 | 5,000 | 0.365 | 2 May 2006 to 9 March 2011 | — | 5,000 | 0.365 |
| Total | | 46,200 | | | 2,400 | 43,800 | |

Note: All of above share options can be exercised immediately upon acceptance of the offer by the grantee and there were no vesting conditions/period.

NOTES TO CONDENSED FINANCIAL STATEMENTS

For the period ended 30 June 2006

14. OPERATING LEASE COMMITMENTS

At 30 June 2006, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | 30 June 2006 (Unaudited) HK\$'000 | 31 December 2005 (Audited) HK\$'000 |
|---|---|---|
| Within one year | 3,378 | 4,044 |
| In the second to fifth years, inclusive | 930 | 2,468 |
| | 4,308 | 6,512 |

15. OPERATING LEASE ARRANGEMENTS

At 30 June 2006, the Group had total future minimum lease receipts under non-cancellable operating leases falling due as follows:

| | 30 June 2006 (Unaudited) HK\$'000 | 31 December 2005 (Audited) HK\$'000 |
|---|---|---|
| Within one year | 333 | 364 |
| In the second to fifth years, inclusive | — | 152 |
| | 333 | 516 |

NOTES TO CONDENSED FINANCIAL STATEMENTS

For the period ended 30 June 2006

16. COMMITMENTS

On 3 December 2005, the Group entered into an acquisition agreement to purchase the Logistic and Financial Management System at a total consideration RMB6,000,000 (equivalent to approximately HK\$5,769,000). The consideration shall be satisfied (i) as to RMB3,500,000 (approximately HK\$3,365,000) by issuing of 10,516,827 shares of the Company, and (ii) as to RMB2,500,000 (approximately HK\$2,404,000) by paying cash. A refundable deposit of HK\$1,000,000 was paid by the Group on 23 December 2005. As at 30 June 2006 and 31 December 2005, capital commitment arising from this acquisition was approximately HK\$1,404,000 in cash and issue of 10,516,827 shares of the Company.

17. CONTINGENT LIABILITIES

As at 30 June 2006, the Group did not have any significant contingent liabilities except as described below:

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\$1,461,000 (RMB1,520,000) and interest payable of HK\$2,137,000 (RMB2,223,000). HK\$1,461,000 was provided in the Group's financial statements. The proceedings were adjourned for hearing on a day to be fixed in due course.

NOTES TO CONDENSED FINANCIAL STATEMENTS

For the period ended 30 June 2006

18. POST BALANCE SHEET EVENT

On 30 May 2006, the Company entered into a Subscription Agreement with GP Capital Limited (the "Subscriber"), an independent third party, to issue 16 Convertible Notes in an aggregate principal amount of HK\$40,000,000 to the Subscriber. However, as the Subscriber had not yet paid the subscription monies in accordance with the terms of the Subscription Agreement, the termination of the Subscription Agreement has been approved by the Board on 27 September, 2006. The Company is currently seeking legal advices to the recourse and action it should take against the Subscriber. An amount of HK\$5,000,000 paid by the Subscriber as deposit is held by the Company (Please also refer the Company's announcement dated 27 September 2006).