

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*30 June 2001***1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES**

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 8 August 2000 under the Companies Law (Revised) of the Cayman Islands. Pursuant to a reorganisation scheme to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the companies now comprising the Group on 23 November 2000. The shares of the Company were listed on the Stock Exchange on 26 July 2001.

The consolidated results of the Group for the six months ended 30 June 2000 included the results of the companies now comprising the Group as if the current Group structure had been in existence throughout the period. All material intra-Group transactions and balances have been eliminated on consolidation.

The condensed consolidated interim financial statements of the Group have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 2.125 "Interim Financial Reporting", except that the comparative figures of the condensed consolidated cash flow statement have not been presented as the Company has taken advantage of the transitional provisions set out in Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

The basis of presentation and accounting policies adopted in these condensed consolidated interim financial statements are consistent with those as set out in the prospectus of the Company dated 16 July 2001, except in relation to the revised SSAP 2.114 "Leases".

The Group has complied with the revised SSAP 2.114 for the first time in these interim financial statements. As a result, the total future aggregate lease commitments are disclosed instead of annual operating lease commitments under non-cancellable operating leases.

2. SEGMENTAL INFORMATION

An analysis of the Group's consolidated turnover and net profit/(loss) from ordinary activities attributable to shareholders by principal activity and geographical area for the six months ended 30 June 2001 is as follows:

	Turnover		Net profit/(loss) from ordinary activities attributable to shareholders	
	Six months ended 30 June		Six months ended 30 June	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
By principal activity:				
Manufacturing of carpets	130,176	136,753	29,972	31,109
Trading of carpets	26,418	26,732	121	511
	<u>156,594</u>	<u>163,485</u>	<u>30,093</u>	<u>31,620</u>
By geographical area:				
The People's Republic of China (the "PRC")	144,588	150,461	30,111	31,565
Hong Kong	12,006	13,024	(18)	55
	<u>156,594</u>	<u>163,485</u>	<u>30,093</u>	<u>31,620</u>

3. PROFIT FROM OPERATING ACTIVITIES

Profit from operating activities for the period is arrived at after charging:

	Six months ended 30 June	
	2001 HK\$'000	2000 HK\$'000
Depreciation	5,962	5,298
Amortisation of long term lease rights	850	850
Deficit on revaluation of leasehold land and buildings	320	-
	<u>7,132</u>	<u>6,998</u>

## 4. FINANCE COSTS

	Six months ended 30 June	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank loans, wholly repayable within five years	<u>362</u>	<u>588</u>

## 5. TAX

	Six months ended 30 June	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current period provision:		
Hong Kong	-	16
Elsewhere	<u>10,889</u>	<u>12,158</u>
Tax charge for the period	<u>10,889</u>	<u>12,174</u>

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the period (2000: 16%). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

No provision for deferred tax has been made as the Group did not have any significant unprovided deferred tax liabilities in respect of the period (2000: Nil).

6. DIVIDEND

	Six months ended 30 June	
	2001	2000
	HK\$'000	HK\$'000
Special dividend	<u>10,000</u>	<u>—</u>

The 2001 special dividend was paid by the Company to its then shareholders prior to the listing of the Company's shares on the Stock Exchange.

The Directors do not recommend the payment of any interim dividend in respect of the six months ended 30 June 2001.

7. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 June 2001 is based on the net profit from ordinary activities attributable to shareholders for the period of approximately HK\$30,093,000 (2000: HK\$31,620,000) and on 342,500,000 (2000: 342,500,000) ordinary shares deemed to have been issued throughout the period.

There were no potential dilutive ordinary shares in existence for the six months ended 30 June 2001 and 2000, accordingly, no diluted earnings per share have been presented.

**8. TRADE RECEIVABLES**

	<b>30 June</b>	31 December
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Ageing analysis:		
1 – 90 days	63,103	57,815
91 – 120 days	2,532	4,461
121 – 365 days	3,184	4,250
	<u>68,819</u>	<u>66,526</u>

The above ageing analysis of trade receivables is based on the date of recognition of the sales. The Group normally allows credit terms to established customers ranging from 30 days to 90 days.

**9. TRADE PAYABLES**

	<b>30 June</b>	31 December
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Ageing analysis:		
1 – 90 days	25,513	35,738
91 – 120 days	11	280
	<u>25,524</u>	<u>36,018</u>

The above ageing analysis of trade payables is based on the date of receipt of the goods purchased.

**10. SHARE CAPITAL**

	Number of shares issued '000	Par value HK\$'000
Shares allotted and issued nil paid on incorporation	1,000	–
Shares issued as consideration for the acquisition of the entire issued share capital of a subsidiary	1,000	100
Application of capital reserve to pay up nil paid shares	<u>–</u>	<u>100</u>
Pro forma share capital as at 30 June 2001 and 31 December 2000	<u>2,000</u>	<u>200</u>

Subsequent to 30 June 2001, the following changes in the share capital of the Company took place:

- (a) On 9 July 2001, the authorised share capital of the Company was increased from HK\$200,000 to HK\$200,000,000 by the creation of additional 1,998,000,000 shares of HK\$0.10 each.
- (b) On 9 July 2001, a total of 340,500,000 shares of HK\$0.10 each were allotted as fully paid at par to the holders of the shares on the register of members of the Company, in proportion to their respective shareholdings as at the close of business on 9 July 2001, by way of the capitalisation of the sum of HK\$34,050,000 standing to the credit of the share premium account of the Company, conditional on the share premium account being credited as a result of the issue of new shares to the public as detailed in (c) below.
- (c) On 24 July 2001, a total of 72,500,000 shares of HK\$0.10 each were issued to the public at HK\$0.80 each for a total consideration, before expenses, of HK\$58,000,000.

## 11. RELATED PARTY TRANSACTIONS

	Six months ended 30 June	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Amortisation of long term lease rights	850	850
Rental expenses paid to related companies	<u>655</u>	<u>655</u>

The above transactions were conducted with Shenzhen China Nuclear Company Group ("China Nuclear"), a minority shareholder of certain subsidiaries of the Company, and Hui Yang China Nuclear Huei Xin Chemical Fibre Company Limited, a subsidiary of China Nuclear, respectively.

In the opinion of the Directors, the above transactions were carried out in the ordinary course of business of the Group with reference to the open market rental values of the properties.

## 12. COMMITMENTS

At 30 June 2001, the Group had future aggregate lease payments under non-cancellable operating leases in respect of leasehold land and buildings as follows:

	30 June	31 December
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	1,388	1,702
In the second to fifth years, inclusive	5,240	5,240
Beyond five years	<u>2,257</u>	<u>2,912</u>
	<u>8,885</u>	<u>9,854</u>