1. GROUP REORGANISATION ❯

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 8 August 2000 under the Companies Law (Revised) of the Cayman Islands. Pursuant to a reorganisation scheme (the "Group Reorganisation") to rationalise the structure of the Group in preparation for the public listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 26 July 2001, the Company became the holding company of the companies now comprising the Group on 23 November 2000. This was accomplished by the Company acquiring the entire issued share capital of Jackley China Limited ("Jackley China"), the then holding company of the other subsidiaries, as set out in note 17 to the financial statements in consideration for the allotment and issue of the Company's shares, credit as fully paid, to the former shareholders of Jackley China. Further details of the Group Reorganisation and the subsidiaries acquired pursuant thereto are set out in notes 17 and 24 to the financial statements and in the Company's prospectus dated 16 July 2001.

2. CORPORATE INFORMATION ❯

The principal place of business of the Company is located at 12th Floor, Tai Sang Commercial Building, Nos. 24-34 Hennessy Road, Wanchai, Hong Kong.

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are set out in note 17 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

In the opinion of the directors, the ultimate holding company is Prosperous Statesman Limited, which is incorporated in the British Virgin Islands ("BVI").

3. IMPACT OF REVISED AND NEW HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs") ❯

The following recently revised and new SSAPs are effective for the first time for the current year's financial statements:

- SSAP 2.109 (Revised): Events after the balance sheet date
- SSAP 2.114 (Revised): Leases
- SSAP 2.118 (Revised): Revenue
- SSAP 2.126: Segment reporting
- SSAP 2.128: Provisions, contingent liabilities and contingent assets
- SSAP 2.129: Intangible assets
- SSAP 2.130: Business combinations
- SSAP 2.131: Impairment of assets
- SSAP 2.132: Consolidated financial statements and accounting for investments in subsidiaries

3. IMPACT OF REVISED AND NEW HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs") (continued)

These SSAPs prescribe new accounting measurements and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of adopting these SSAPs are summarised as follows:

SSAP 2.109 (Revised) prescribes which type of events occurring after the balance sheet date require adjustment to the financial statements, and which require disclosure, but no adjustment. Its principal impact on these financial statements is that the proposed final dividend which is not declared and approved until after the balance sheet date, is no longer recognised as a liability at the balance sheet date, but is disclosed as an allocation of retained profits on a separate line within the capital and reserves section of the balance sheet. The prior year adjustment arising from the adoption of this revised SSAP is detailed in note 12 to the financial statements.

SSAP 2.114 (Revised) prescribes the basis for lessor and lessee accounting for finance and operating leases, and the required disclosures in respect thereof. Certain amendments have been made to the previous accounting measurement treatments, which may be accounted for retrospectively or prospectively, in accordance with the requirements of the SSAP. The revised SSAP requirements have not had a material effect on the amounts previously recorded in the financial statements, and therefore no prior year adjustment has been required. The disclosure changes under this revised SSAP have resulted in changes to the detailed information disclosed for operating leases, which are further detailed in note 28 to the financial statements.

SSAP 2.118 (Revised) prescribes the recognition of revenue and was revised as a consequence of the revision to SSAP 2.109 described above. Proposed final dividends from subsidiaries that are declared and approved by the subsidiaries after the balance sheet date are no longer recognised in the Company's own financial statements for the year. SSAP 2.118 (Revised) has had no major impact on these financial statements.

SSAP 2.126 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the Group's predominant risks or returns are based on business segments or geographical segments and determines one of these bases to be the primary segment information reporting format, with the other as the secondary segment information reporting format. The impact of this SSAP is the inclusion of significant additional segment reporting disclosures which are set out in note 6 to the financial statements.

SSAP 2.128 prescribes the recognition criteria and measurement bases to apply to provisions, contingent liabilities and contingent assets, together with the required disclosures in respect thereof. SSAP 2.128 has had no major impact on these financial statements.

3. IMPACT OF REVISED AND NEW HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs") (continued)

SSAP 2.129 prescribes the recognition and measurement criteria for intangible assets, together with the disclosure requirements. SSAP 2.129 has had no major impact on these financial statements.

SSAP 2.130 prescribes the accounting treatment for business combinations, including the determination of the date of acquisition, the method for determining the fair values of the assets and liabilities acquired, and the treatment of goodwill or negative goodwill arising on acquisition. The SSAP requires the disclosure of goodwill in the non-current assets section of the balance sheet. It requires that goodwill is amortised to the profit and loss account over its estimated useful life. SSAP 2.130 has had no major impact on these financial statements.

SSAP 2.131 prescribes the recognition and measurement criteria for impairments of assets. SSAP 2.131 has had no major impact on these financial statements.

SSAP 2.132 prescribes the accounting treatment and disclosures for the preparation and presentation of consolidated financial statements. SSAP 2.132 has had no major impact on these financial statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with SSAPs, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of certain fixed assets as further explained below.

Basis of presentation and consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2001. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively.

The prior year comparative consolidated financial statements have been prepared using the merger basis of accounting. Under this basis, the Company has been treated as the holding company of its subsidiaries throughout the year ended 31 December 2000 rather than from the date of acquisition of the subsidiaries. Accordingly, the consolidated results of the Group for the year ended 31 December 2000 include the results of the Company and its subsidiaries with effect from 1 January 2000 or since their respective dates of incorporation, where this is a shorter period, as if the current Group structure had been in existence throughout the year ended 31 December 2000.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of presentation and consolidation (continued)

In the opinion of the directors of the Company, the consolidated financial statements prepared on the above basis present more fairly the results and state of affairs of the Group as a whole.

All significant intercompany transactions and balances within the Group have been eliminated in the preparation of the consolidated financial statements.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyers, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and

(b) interest income, on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable.

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance lease, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees in Hong Kong. The MPF Scheme has operated since 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Each of the subsidiaries operating in the People's Republic of China (the "PRC") has participated in the retirement benefits scheme (the "PRC RB Scheme") operated by the respective local municipal governments in the PRC. These PRC subsidiaries are required to contribute a certain percentage of their payroll to the PRC RB Scheme to fund the benefits. The only obligation of the Group with respect to the PRC RB Scheme is to pay the ongoing required contributions under the PRC RB Scheme. Contributions under the PRC RB Scheme are charged to the profit and loss account as they become payable in accordance with the rules of the PRC RB Scheme.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

In previous years, the Company recognised its proposed final dividend to shareholders, which was declared and approved after the balance sheet date, as a liability in its balance sheet. The revised accounting treatments for dividends resulting from the adoption of SSAP 2.109 (Revised) has given rise to prior year adjustments in both the Group's and the Company's financial statements, further details of which are included in note 12 to the financial statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/ amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Fixed assets and depreciation

Fixed assets are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Changes in the values of fixed assets are dealt with as movements in the fixed asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the fixed asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets and depreciation (continued)

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset, less any estimated residual value, over the following estimated useful lives:

Leasehold land and buildings	The shorter of the lease terms and 50 years
Plant and machinery	10 years
Leasehold improvements, furniture, office equipment and motor vehicles	4 to 10 years

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

All of the Group's fixed assets prior to the listing of the Company's shares on the Stock Exchange were stated at cost less accumulated depreciation. The financial effect arising from the remeasurement of certain of the Group's fixed assets on a valuation basis was the incorporation of a deficit on revaluation in the amount of approximately HK$296,000, which was charged to the profit and loss account. Further details of the change in accounting policy for the remeasurement of the Group's fixed assets are set out in note 14 to the financial statements.

Long term lease rights

Long term lease rights represent prepayments made for the operating lease rentals of certain leasehold buildings in the PRC, and are amortised to the profit and loss account on the straight-line basis over the lease term from 1 January 1995 to 31 May 2008.

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The Company's investments in subsidiaries are stated at cost less any impairment losses.

Inventories

Inventories are stated at the lower of cost and net realisable value after allowances for obsolete or slow-moving items. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads based on a normal level of operating activities. Net realisable value is based on the estimated selling prices less any estimated costs to be incurred to completion and disposal.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences in the recognition of revenue and expenses for tax and financial reporting purposes, to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of the balance sheet classification, cash and bank balances represent assets which are not restricted as to use.

5. TURNOVER

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts during the year. All significant transactions among the companies comprising the Group have been eliminated on consolidation.

6. SEGMENT INFORMATION ❯

SSAP 2.126 was adopted during the year, as detailed in note 3 to the financial statements. 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, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

6. SEGMENT INFORMATION (continued)

(a) Business segments

The following tables present revenue, results and certain asset, liability and expenditure information for the Group's business segments.

	Manufacture of carpets		Trading of carpets		Consolidated	
	2001 HK$'000	2000 HK$'000	2001 HK$'000	2000 HK$'000	2001 HK$'000	2000 HK$'000
Segment revenue:						
Sales to external customers	215,037	276,364	60,131	50,329	275,168	326,693
Segment results	61,621	84,881	3,375	1,743	64,996	86,624
Unallocated revenue					1,401	1,356
Unallocated expenses					(5,356)	(365)
Profit from operating activities					61,041	87,615
Finance costs					(676)	(667)
Profit before tax					60,365	86,948
Tax					(18,070)	(24,064)
Profit before minority interests					42,295	62,884
Minority interests					2,053	244
Net profit from ordinary activities attributable to shareholders					44,348	63,128

6. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

	Manufacture of carpets		Trading of carpets		Unallocated		Consolidated	
	2001	2000	2001	2000	2001	2000	2001	2000
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Segment assets	205,159	214,095	36,707	26,373			241,866	240,468
Unallocated assets					34,876	15,283	34,876	15,283
Total assets	205,159	214,095	36,707	26,373	34,876	15,283	276,742	255,751
Segment liabilities	11,053	34,708	12,216	11,566			23,269	46,274
Unallocated liabilities					75,940	62,557	75,940	62,557
Total liabilities	11,053	34,708	12,216	11,566	75,940	62,557	99,209	108,831
Other segment information:								
Depreciation	12,091	11,679	258	206			12,349	11,885
Unallocated depreciation					31	-	31	-
	12,091	11,679	258	206	31	-	12,380	11,885
Amortisation	1,700	1,700	-	-	-	-	1,700	1,700
Capital expenditure	12,629	32,946	457	99			13,086	33,045
Unallocated capital expenditure					510	-	510	-
	12,629	32,946	457	99	510	-	13,596	33,045
Non-cash expenses	-	-	550	-	-	-	550	-

6. SEGMENT INFORMATION (continued)

(b) Geographical segments

The following table presents revenue, results and certain asset and expenditure information for the Group's geographical segments.

	Hong Kong		Macau		Elsewhere in the PRC		Unallocated		Consolidated	
	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Segment revenue:										
Sales to external customers	32,628	31,297	–	–	242,540	295,396	–	–	275,168	326,693
Segment results	537	604	–	–	64,459	86,020	–	–	64,996	86,624
Other segment information:										
Segment assets	11,208	8,765	58,295	42,009	172,363	189,694			241,866	240,468
Unallocated assets							34,876	15,283	34,876	15,283
	11,208	8,765	58,295	42,009	172,363	189,694	34,876	15,283	276,742	255,751
Capital expenditure	194	94	–	–	12,892	32,951			13,086	33,045
Unallocated capital expenditure							510	–	510	–
	194	94	–	–	12,892	32,951	510	–	13,596	33,045

7. PROFIT FROM OPERATING ACTIVITIES ❯

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

	2001 HK$'000	2000 HK$'000
Cost of inventories sold	183,613	212,255
Depreciation	12,380	11,885
Amortisation of long term lease rights	1,700	1,700
Minimum lease payments under operating leases on leasehold land and buildings	2,681	2,404
Staff costs (excluding directors' remuneration – note 8):		
Wages and salaries	9,736	9,719
Retirement benefits scheme contributions	172	9
Auditors' remuneration	1,250	1,000
Revaluation deficit on leasehold land and buildings	296	–
Loss on disposal of fixed assets	9	–
Provision for bad and doubtful debts	245	–
Interest income	(755)	(657)

8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES ❯

Details of the remuneration of the directors of the Company for the year disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance are as follows:

	Group	
	2001 HK$'000	2000 HK$'000
Fees:		
Executive directors	–	–
Non-executive directors	–	–
Independent non-executive directors	157	–
	157	–
Basic salaries, housing benefits, other allowances and benefits in kind:		
Executive directors	3,475	1,077
Non-executive directors	–	–
Independent non-executive directors	–	–
	3,475	1,077
Retirement benefits scheme contributions:		
Executive directors	38	2
Non-executive directors	–	–
Independent non-executive directors	–	–
	38	2
	3,670	1,079

8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (continued)

The number of directors whose remuneration fell within the following bands is as follows:

	Number of directors	
	2001	2000
Nil – HK$1,000,000	14	10
HK$1,000,001 – HK$1,500,000	2	–
	16	10

There was no arrangement under which a director of the Company waived or agreed to waive any remuneration during the year.

The five highest paid employees during the year included three (2000: one) directors, details of whose remuneration are disclosed above. The details of the remuneration of the remaining two (2000: four) non-director, highest paid employees, which fell within the Nil - HK$1,000,000 band, are as follows:

	Group	
	2001 HK$'000	2000 HK$'000
Basic salaries, housing benefits, other allowances and benefits in kind	976	2,154
Retirement benefits scheme contributions	22	4
	998	2,158

During the year, no emoluments were paid by the Group to the directors as an inducement to join, or upon joining the Group, or as compensation for loss of office (2000: Nil).

9. FINANCE COSTS

	Group 2001 HK$'000	Group 2000 HK$'000
Interest on bank loans and overdrafts wholly repayable within five years	671	667
Interest on finance leases	5	–
	676	667

10. TAX

	Group 2001 HK$'000	Group 2000 HK$'000
Current year provision:		
Hong Kong	396	487
Elsewhere in the PRC	17,674	23,577
Tax charge for the year	18,070	24,064

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profits arising in Hong Kong during the year.

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 legislation, interpretations and practices in respect thereof.

One of the Company's subsidiaries operating in the PRC was exempt from the income tax of the PRC for the first profitable year of its operations ie, 1 January 2000 to 31 December 2000, and is entitled to a 50% relief from the income tax of the PRC for the following two years under the Income Tax Law of the PRC, ie, 1 January 2001 to 31 December 2002. Upon expiry of the tax relief period, the subsidiary will be subject to the income tax rate of 15%, being the preferential tax rate applicable to this subsidiary operating in one of the bonded zones of the PRC.

10. TAX (continued)

The other subsidiary of the Company operating in the PRC is exempt from the income tax of the PRC for two years starting from the first profitable year of its operations, and is entitled to a 50% relief from the income tax of the PRC for the following three years under the Income Tax Law of the PRC. Upon expiry of the tax relief period, the subsidiary will be subject to the income tax rate of 33%. This subsidiary has not commenced to generate any assessable profits arising in the PRC since the date of its establishment.

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

The revaluation of the Group's leasehold land and buildings does not constitute a timing difference and, consequently, there is no deferred tax arising thereon.

11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders dealt with in the financial statements of the Company for the year ended 31 December 2001 was approximately HK$35,598,000 (Period from 8 August 2000 (date of incorporation) to 31 December 2000: Nil).

12. DIVIDENDS

	2001 HK$'000	2000 HK$'000
Interim dividend	10,000	–
Proposed final dividend	–	30,000
	10,000	30,000

The interim dividend declared and paid for the year ended 31 December 2001 was paid by the Company to its then shareholders prior to the listing of the Company's shares on the Stock Exchange.

During the year, the Group adopted the revised SSAP 2.109 "Events after the balance sheet date" as detailed in note 3 to the financial statements. To comply with this revised SSAP, a prior year adjustment has been made to reclassify the proposed final dividend for the year ended 31 December 2000 of HK$30,000,000, which was recognised as a current liability at the prior year end, to the proposed final dividend reserve account within the capital and reserves section of the balance sheet. The result of this has been to reduce both the Company's and the Group's current liabilities and increase the reserves previously reported as at 31 December 2000, by HK$30,000,000.

13. EARNINGS PER SHARE ❯

The calculation of basic earnings per share is based on the consolidated net profit from ordinary activities attributable to shareholders for the year of approximately HK$44,348,000 (2000: HK$63,128,000) and the pro forma weighted average number of 374,479,453 (2000: 342,500,000) ordinary shares in issue during the year.

The weighted average number of shares used to calculate the earnings per share for the year ended 31 December 2000 includes the pro forma issued share capital of the Company, comprising 1,000,000 shares issued nil paid on incorporation of the Company and 1,000,000 shares issued for the acquisition of the entire issued share capital of Jackley China and the capitalisation issue of 340,500,000 shares, as further detailed in note 25 to the financial statements. The weighted average number of shares used to calculate the earnings per share for the year ended 31 December 2001 includes the additional 72,500,000 shares issued upon the listing of the Company's shares on the Stock Exchange on 26 July 2001.

There were no potential dilutive ordinary shares in existence for the years ended 31 December 2001 and 2000 and, accordingly, no diluted earnings per share amounts have been presented for either of the two years.

14. FIXED ASSETS

Group

	Leasehold land and buildings HK$'000	Plant and machinery HK$'000	Leasehold improvements, furniture, office equipment and motor vehicles HK$'000	Total HK$'000
Cost or valuation:				
At 1 January 2001	1,506	110,976	7,699	120,181
Additions	–	9,079	4,517	13,596
Disposals	–	–	(71)	(71)
Disposal of subsidiaries	–	–	(254)	(254)
Revaluation	(526)	–	–	(526)
At 31 December 2001	980	120,055	11,891	132,926
Analysis of cost or valuation:				
At cost	–	120,055	11,891	131,946
At valuation	980	–	–	980
	980	120,055	11,891	132,926
Accumulated depreciation:				
At 1 January 2001	193	33,810	2,921	36,924
Provided during the year	37	11,312	1,031	12,380
Disposals	–	–	(47)	(47)
Disposal of subsidiaries	–	–	(76)	(76)
Written back on revaluation	(230)	–	–	(230)
At 31 December 2001	–	45,122	3,829	48,951
Net book value:				
At 31 December 2001	980	74,933	8,062	83,975
At 31 December 2000	1,313	77,166	4,778	83,257

14. FIXED ASSETS (continued)

The Group's leasehold land and buildings are situated in the PRC and are held under a medium term lease.

At 31 December 2001, the Group's leasehold land and buildings were revalued on an open market value, existing use basis, by LCH (Asia-Pacific) Surveyors Limited, an independent firm of professional valuers, at HK$980,000. The resulting revaluation deficit of approximately HK$296,000 had been charged to the profit and loss account.

Had the Group's leasehold land and buildings been carried at historical cost less accumulated depreciation and impairment losses, their carrying amounts would have been approximately HK$1,276,000 (2000: HK$1,313,000).

At 31 December 2001, the Group's leasehold land and buildings were pledged to secure banking facilities granted to the Group (note 22).

The net book value of the Group's motor vehicle held under a finance lease included in the total amount of leasehold improvements, furniture, office equipment and motor vehicles at 31 December 2001 amounted to approximately HK$249,000 (2000: Nil).

15. LONG TERM LEASE RIGHTS

Group

	HK$'000
Cost:	
At 1 January 2001 and 31 December 2001	22,808
Accumulated amortisation:	
At 1 January 2001	10,200
Amortisation during the year	1,700
At 31 December 2001	11,900
Net book value:	
At 31 December 2001	10,908
At 31 December 2000	12,608

16. DEPOSITS PAID ❯

These deposits represent payments made in respect of purchases of certain plant and machinery and office premises in Hong Kong of approximately HK$2,837,000 (2000: Nil) and HK$800,000 (2000: Nil), respectively.

17. INVESTMENTS IN SUBSIDIARIES ❯

	Company	
	2001 HK$'000	2000 HK$'000
Unlisted shares, at cost	76,433	76,433

The balances with subsidiaries included in the Company's current assets and current liabilities are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ establishment/ and operations	Paid-up share/ registered capital	Percentage of equity attributable to the Company	Principal activities
Directly held				
Jackley China Limited	BVI	Ordinary US$100	100%	Investment holding
Indirectly held				
Charvix Jackley Company Limited	Hong Kong	Ordinary HK$8,000,000	100%	Trading and installation of carpets
Charvix Jackley International Trading (Shanghai) Co., Ltd.	PRC	US$200,000	100%	Trading of carpets
Existence Limited	BVI/PRC	Ordinary US$1	100%	Trading of carpets

17. INVESTMENTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ establishment/ and operations	Paid-up share/ registered capital	Percentage of equity attributable to the Company	Principal activities
Indirectly held (continued)				
Hui Yang Xie Kai Cheng Carpet Co., Ltd.	PRC	US$4,940,000	51%	Manufacture and sale of carpets
Jackley International of America, Limited	Hong Kong	Ordinary HK$10,000	100%	Investment holding
Kaicheng (Hong Kong) Company Limited	Hong Kong	Ordinary HK$10,000	51%	Trading of carpets

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

18. INVENTORIES

	Group 2001 HK$'000	Group 2000 HK$'000
Raw materials	13,855	17,220
Work in progress	12,126	15,123
Finished goods	36,032	36,370
	62,013	68,713

19. TRADE RECEIVABLES

The Group normally allows credit terms ranging from 30 to 120 days to established customers. 100% provision is made for outstanding debts aged over 365 days.

An aging analysis of the trade receivables, net of provisions, as at the balance sheet date, based on the date of recognition of the sale is as follows:

	Group	
	2001 HK$'000	2000 HK$'000
1 – 90 days	50,677	57,815
91 – 120 days	8,497	4,461
121 – 365 days	8,051	4,250
	67,225	66,526

20. INTEREST-BEARING BANK BORROWINGS

	Group	
	2001 HK$'000	2000 HK$'000
Bank overdrafts, secured	1,868	–
Trust receipt loans, secured	8,171	4,178
Bank loans, secured and repayable:		
Within one year	110	212
In the second year	118	222
In the third to fifth years, inclusive	77	434
	305	868
	10,344	5,046
Portion classified as current liabilities	(10,149)	(4,390)
Long term portion	195	656

21. FINANCE LEASE PAYABLES ❯

The Group leases a motor vehicle for its general business purposes. The lease is classified as a finance lease and has a remaining lease term of three years.

At 31 December 2001, the total future minimum lease payments under the finance lease and their present values, were as follows:

	Group			
	Minimum lease payments	**Present value of minimum lease payments**	Minimum lease payments	Present value of minimum lease payments
	2001	2001	2000	2000
	HK$'000	HK$'000	HK$'000	HK$'000
Amounts payable:				
Within one year	115	107	–	–
In the second year	115	94	–	–
In the third to fifth years, inclusive	56	42	–	–
Total minimum finance lease payments	286	243	–	–
Future finance charges	(43)		–	
Total net finance lease payables	243		–	
Portion classified as current liabilities	(107)		–	
Long term portion	136		–	

22. BANKING FACILITIES

At 31 December 2001, the Group's banking facilities were secured by the following:

(i) first legal charges on the Group's leasehold land and buildings situated in the PRC (note 14);

(ii) corporate guarantees given by the Company and a subsidiary of the Company; and

(iii) the pledge of a time deposit of the Company amounting to HK$24,000,000 (2000: Nil).

23. 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:

	Group	
	2001	2000
	HK$'000	HK$'000
1 – 90 days	17,264	35,738
91 – 120 days	482	280
	17,746	36,018

24. SHARE CAPITAL

Shares

	2001	2000
	HK$'000	HK$'000
Authorised:		
2,000,000,000 ordinary shares of HK$0.10 each (2000: 2,000,000 ordinary shares of HK$0.10 each)	200,000	200
Issued and fully paid:		
415,000,000 ordinary shares of HK$0.10 each (2000: 2,000,000 ordinary shares of HK$0.10 each)	41,500	200

24. SHARE CAPITAL (continued)

Shares (continued)

The following changes in the Company's authorised and issued share capital took place during the period from 8 August 2000 (date of incorporation) to 31 December 2001:

(i) On incorporation, the authorised share capital of the Company was HK$100,000 divided into 1,000,000 ordinary shares of HK$0.10 each, all of which were issued and allotted nil paid on that date.

(ii) On 23 November 2000, the authorised share capital of the Company was increased to HK$200,000 by the creation of a further 1,000,000 ordinary shares of HK$0.10 each, ranking pari passu with the existing share capital of the Company.

(iii) On 23 November 2000, as part of the Group Reorganisation, the Company issued an aggregate of 1,000,000 ordinary shares of HK$0.10 each credited as fully paid in consideration for the acquisition of the entire issued share capital of Jackley China. The excess of the fair value of the ordinary shares of Jackley China, determined on the basis of its consolidated net assets at that date, over the nominal value of the Company's ordinary shares issued and credited as fully paid in exchange therefor, amounting to HK$111,233,000, was credited to the Company's share premium account as set out in note 25.

(iv) On 23 November 2000, an amount of HK$100,000, being a portion of the amount credited to the share premium account of the Company on the issue of ordinary shares in exchange for the ordinary shares of Jackley China as set out in (iii) above, was applied to pay up, in full at par value, the 1,000,000 ordinary shares issued and allotted nil paid on the date of incorporation.

(v) 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 a further 1,998,000,000 ordinary shares of HK$0.10 each, ranking pari passu with the existing share capital of the Company.

(vi) On 9 July 2001, a total of 340,500,000 ordinary shares of HK$0.10 each were allotted and issued as fully paid at par to the holders of the ordinary shares whose names appeared on the register of members of the Company at that date, in proportion to their respective shareholdings, 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 ordinary shares to the public on 26 July 2001 as detailed in (vii) below.

(vii) On 26 July 2001, a total of 72,500,000 ordinary shares of HK$0.10 each were issued at HK$0.80 each (the "New Issue") to the public for a total cash consideration, before the related issuance expenses, of HK$58,000,000.

24. SHARE CAPITAL (continued)

Shares (continued)

A summary of the above movements in the issued share capital of the Company is as follows:

	Notes	Number of shares issued '000	Share capital HK$'000
Shares allotted and issued nil paid on incorporation	(i)	1,000	–
Shares issued as consideration for the acquisition of the entire issued share capital of Jackley China pursuant to the Group Reorganisation	(iii)	1,000	100
Application of share premium to pay up nil paid shares issued on incorporation	(iv)	–	100
Share capital as at 31 December 2000 and 1 January 2001		2,000	200
Capitalisation issue credited as fully paid conditional on the share premium account of the Company being credited as a result of the issue of new shares to the public	(vi)	340,500	34,050
New Issue on public listing	(vii)	72,500	7,250
Share capital as at 31 December 2001		415,000	41,500

On 26 April 2002, the Company proposed the grant of two bonus shares for every one ordinary share of HK$0.10 each in the issued share capital of the Company held by the shareholders whose names appear on the register of members of the Company on 6 June 2002. Based on the issued share capital of the Company as at the date of this report, 830,000,000 additional ordinary shares of HK$0.10 each of the Company will be issued as bonus shares. The bonus shares will rank pari passu in all respects with the ordinary shares of the Company in issue on the date of allotment.

24. SHARE CAPITAL (continued)

Shares (continued)

The issue of the bonus shares is conditional upon: (i) the approval by the shareholders of the Company for the allotment and issue of bonus shares; and (ii) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the bonus shares. Application will be made to the Listing Committee of the Stock Exchange in respect of such listing.

Share options

The Company operates a share option scheme (the "SO Scheme"), further details of which are set out in the "Share option scheme" section in the Report of the Directors on pages 24 to 25.

Up to 31 December 2001, no share options had been granted under the SO Scheme.

25. RESERVES

	Share premium HK$'000	Statutory reserve fund HK$'000	Retained profits HK$'000	Total HK$'000
Group				
At 1 January 2000	–	–	53,480	53,480
Net profit for the year	–	–	63,128	63,128
Proposed final dividend – note 12	–	–	(30,000)	(30,000)
At 31 December 2000 and 1 January 2001	–	–	86,608	86,608
Issue of shares	50,750	–	–	50,750
Capitalisation issue of shares – note 24	(34,050)	–	–	(34,050)
Share issue expenses	(11,876)	–	–	(11,876)
Interim dividend – note 12	–	–	(10,000)	(10,000)
Net profit for the year	–	–	44,348	44,348
Transfer to statutory reserve fund	–	11	(11)	–
At 31 December 2001	4,824	11	120,945	125,780

25. RESERVES (continued)

	Share premium HK$'000	Retained profits HK$'000	Total HK$'000
Company			
Arising on acquisition of Jackley China and applied in payment of 1,000,000 shares allotted nil paid on incorporation	111,233	–	111,233
Proposed final dividend – note 12	(30,000)	–	(30,000)
At 31 December 2000 and 1 January 2001	81,233	–	81,233
Issue of shares	50,750	–	50,750
Capitalisation issue of shares – note 24	(34,050)	–	(34,050)
Share issue expenses	(11,876)	–	(11,876)
Interim dividend – note 12	–	(10,000)	(10,000)
Net profit for the year – note 11	–	35,598	35,598
At 31 December 2001	86,057	25,598	111,655

The share premium account of the Group includes: (i) the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to the Group Reorganisation, as set out in notes 1 and 24 to the financial statements, over the nominal value of the share capital of the Company issued in exchange therefor; (ii) the premium arising from the Capitalisation Issue during the year; and (iii) the premium arising from the New Issue during the year.

The share premium account of the Company includes: (i) the difference between the then combined net asset value of the subsidiaries acquired pursuant to the Group Reorganisation, as set out in notes 1 and 24 to the financial statements, over the nominal value of the share capital of the Company issued in exchange therefor; (ii) the premium arising from the Capitalisation Issue during the year; and (iii) the premium arising from the New Issue during the year.

In accordance with the Companies Law (Revised) of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business. The share premium may also be distributed in the form of fully paid bonus shares.

25. RESERVES (continued)

One of the Company's subsidiaries established in the PRC is required to transfer 10% of its profit after tax, calculated in accordance with the PRC accounting regulations, to the statutory reserve fund until the reserve reaches 50% of its registered capital, upon which any further appropriation will be at the directors' recommendation. Such reserve may be used to reduce any losses incurred by the subsidiary or be capitalised as paid-up capital of the subsidiary.

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit from operating activities to net cash inflow from operating activities

	2001 HK$'000	2000 HK$'000
Profit from operating activities	61,041	87,615
Interest income	(755)	(657)
Loss on disposal of fixed assets	9	–
Depreciation	12,380	11,885
Revaluation deficit on leasehold land and buildings	296	–
Provision for bad and doubtful debts	245	–
Amortisation of long term lease rights	1,700	1,700
Increase in prepayments, deposits and other receivables	(3,233)	(7,138)
Increase in inventories	(8,465)	(27,688)
Increase in trade receivables	(944)	(30,043)
Increase in trust receipt loans	7,199	–
(Decrease)/increase in trade payables	(18,272)	3,761
Increase/(decrease) in other payables and accruals	998	(1,644)
Net cash inflow from operating activities	52,199	37,791

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Disposal of subsidiaries

	2001 HK$'000	2000 HK$'000
Net assets disposed of:		
Fixed assets	178	–
Inventories	15,165	–
Cash and bank balances	198	–
Other payables and accruals	(5,378)	–
Tax payables	(10,162)	–
	1	–
Satisfied by:		
Cash	1	–

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2001 HK$'000	2000 HK$'000
Cash consideration	1	–
Cash and bank balances disposed of	(198)	–
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	(197)	–

The subsidiaries disposed of during the year had no significant impact in respect of cash flows from operating activities, investing activities, financing activities, net returns on investments and servicing of finance and tax.

The results of the subsidiary disposed of in the year had no significant impact on the Group's consolidated turnover or profit after tax.

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(c) Analysis of changes in financing activities during the years

	Bank loans, secured HK$'000	Finance lease payables HK$'000	Minority interests HK$'000	Share capital and share premium HK$'000
At 1 January 2000	8,754	–	30,356	1
Cash (outflow)/inflow from financing activities, net	(7,886)	–	–	199
Share of loss for the year	–	–	(244)	–
At 31 December 2000 and 1 January 2001	868	–	30,112	200
Inception of a finance lease contract	–	295	–	–
Cash (outflow)/inflow from financing activities, net	(563)	(52)	(17,806)	46,124
Share of loss for the year	–	–	(2,053)	–
At 31 December 2001	305	243	10,253	46,324

(d) Major non-cash transaction

During the year, the Group entered into a finance lease arrangement in respect of a fixed asset with a capital value at the inception of the lease of approximately HK$295,000 (2000: Nil).

27. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at the balance sheet date (2000: Nil).

At 31 December 2001, the Company had provided corporate guarantees to banks for banking facilities provided to a subsidiary. These banking facilities had been utilised to the extent of approximately HK$10,039,000 (2000: HK$4,178,000) as at the balance sheet date.

28. 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 fourteen years.

At 31 December 2001, the Group had total future lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2001	2000
	HK$'000	HK$'000
		(Restated)
Within one year	3,699	3,402
In the second to fifth years, inclusive	12,095	12,040
After five years	4,010	7,020
	19,804	22,462

The Company did not have any operating lease arrangement as at 31 December 2001 (2000: Nil).

SSAP 2.114 (Revised), which was adopted during the year, requires lessees under operating leases to disclose the total future operating lease payments, rather than only the payments to be made during the next year as was previously required. Accordingly, the prior year comparative amounts for operating leases as lessee in the note above, have been restated to conform with the current year's presentation.

29. COMMITMENTS

In addition to the operating lease commitments detailed in note 28 above, the Group had capital commitments as at the balance sheet date as follows:

	Group	
	2001	2000
	HK$'000	HK$'000
Contracted, but not provided for in respect of purchases of:		
Office premises	15,200	–
Plant and machinery	181	–
	15,381	–

The Company did not have any significant commitments as at 31 December 2001 (2000: Nil).

30. RELATED PARTY TRANSACTIONS

During the year, the Group had the following transactions with related parties:

(i) a corporate guarantee given by a related company for banking facilities granted to the Group at nil consideration;

(ii) fixed charges on the leasehold land and buildings owned by Mr. Cheng Yuk Sui ("Mr. Cheng"), a director of the Company, and a director of a subsidiary of the Company, respectively, for banking facilities granted to the Group at nil consideration;

(iii) Mr. Cheng, Ms. Lam Sau Fan, May ("Ms. Lam"), a former director of the Company, and a director of a subsidiary of the Company, provided joint and several personal guarantees for banking facilities granted to the Group at nil consideration; and

(iv) Mr. Lam Yat Sing ("Mr. Lam"), a director of the Company, provided a personal guarantee for banking facilities granted to the Group at nil consideration.

Upon the listing of the Company's shares on 26 July 2001, the corporate guarantee given by a related company, securities provided by Mr. Cheng, joint and several personal guarantees provided by Mr. Cheng, Ms. Lam and a director of a subsidiary of the Company, and the personal guarantee provided by Mr. Lam, as set out in notes (i), (ii), (iii) and (iv) above, were released and replaced by corporate guarantees of the Company and a subsidiary of the Company.

30. RELATED PARTY TRANSACTIONS (continued)

The following related party transactions also constitute connected transactions as defined under the Listing Rules:

(v) Pursuant to a tenancy agreement entered into on 1 January 1995 between the Group and Shenzhen China Nuclear Company Group ("China Nuclear"), a minority equity holder of Hui Yang Xie Kai Cheng Carpet Co., Ltd.. China Nuclear leased a parcel of land together with the twelve buildings, and structures erected thereon owned by China Nuclear to the Group for a fixed term of thirteen years and five months commencing from 1 January 1995 to 31 May 2008. The annual rental of the land, and the buildings and structures thereon are HK$700,000 (2000: HK$700,000) and HK$1,700,000 (2000: HK$1,700,000), respectively. All the rentals for the buildings and structures erected thereon for the full term of the tenancy agreement of HK$22,808,000 were prepaid since 1997.

(vi) Pursuant to another tenancy agreement entered into on 28 December 1999 between the Group and Hui Yang China Nuclear Huei Xin Chemical Fibre Company Limited ("Huei Xin"), a subsidiary of China Nuclear. Huei Xin leased another parcel of land together with a portion of three buildings and structures erected thereon owned by Huei Xin to the Group for a fixed terms of eight years commencing from 1 January 2000 to 31 December 2007. The annual rental of the land, and the buildings and structures erected thereon are HK$360,000 (2000: HK$360,000) and HK$250,000 (2000: HK$250,000), respectively.

31. POST BALANCE SHEET EVENT

Subsequent to the balance sheet date, on 26 April 2002, the directors of the Company proposed the grant of two bonus shares for every one ordinary share of HK$0.10 each in the issued share capital of the Company held by the shareholders whose names appear on the register of members on 6 June 2002.

32. COMPARATIVE AMOUNTS

As further explained in note 3 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, a prior year adjustment has been made and certain comparative amounts have been reclassified or revised to conform with the current year's presentation.

33. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 26 April 2002.