

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

30 June 2002

**1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES*****Basis of preparation***

These unaudited condensed consolidated financial statements for the Period of the Group have been prepared in accordance with Statement of Standard Accounting Practice ("SSAP") 2.125 "Interim financial reporting" issued by the Hong Kong Society of Accountants.

The accounting policies and basis of presentation adopted in these unaudited condensed consolidated financial statements are consistent with those used in the Group's consolidated financial statements for the year ended 31 December 2001, except for the adoption of the following revised and new SSAPs which are effective for the first time for the Period:

SSAP 2.101 (Revised)	:	Presentation of financial statements
SSAP 2.111 (Revised)	:	Foreign currency translation
SSAP 2.115 (Revised)	:	Cash flow statements
SSAP 2.125 (Revised)	:	Interim financial reporting
SSAP 2.133	:	Discontinuing operations
SSAP 2.134	:	Employee benefits

SSAP 2.101 (Revised) prescribes the basis of presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The main revision to this SSAP is to change the requirements from presenting a statement of recognised gains and losses to a statement of changes in equity. The condensed consolidated statement of changes in equity for the Period and the comparative figures have been presented in accordance with this revised SSAP.

SSAP 2.111 (Revised) prescribes the basis for translation of foreign currency transactions and financial statements. This revised SSAP has had no major impact on the condensed consolidated financial statements.

SSAP 2.115 (Revised) prescribes the provision of information about the historical changes in cash and cash equivalents by means of a cash flow statement which classifies cash flows during the Period into operating, investing and financing activities. The condensed consolidated cash flow statement for the Period and the comparative figures have been presented in accordance with this revised SSAP.

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**1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES** (continued)***Basis of preparation*** (continued)

SSAP 2.125 (Revised) prescribes the presentation and disclosures following changes in SSAP 2.101 (Revised) and SSAP 2.115 (Revised). The condensed consolidated financial statements for the Period and the comparative figures have been presented in accordance with these revised SSAPs.

SSAP 2.133 prescribes the basis for reporting information about discontinuing/discontinued operations. This SSAP has had no major impact on the condensed consolidated financial statements.

SSAP 2.134 prescribes the accounting treatment and disclosure for employee benefits. This SSAP has had no major impact on the condensed consolidated financial statements.

***Short term investments***

Short term investments are investments in equity securities held for trading purposes and are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the profit and loss account for the period in which they arise.

**2. TURNOVER**

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

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS***30 June 2002***3. SEGMENT INFORMATION**

Segment information is presented by way of two segment formats:

- (i) on a primary segment reporting basis, by business segment; and
- (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating business are structured and managed separately, according to the nature of their operations and the products they provide. Each of the Group's business segments represents a strategic business unit that offers products which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

- (a) the manufacture of carpets segment represents the manufacture and sale of carpets under the Group's own brand name; and
- (b) the trading of carpets segment represents the trading of carpets of other renowned brand names.

In determining the Group's geographical segments, revenue and results are attributed to the segments based on the location of the customers.

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**3. SEGMENT INFORMATION** (continued)**(a) Business segments**

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

	Manufacture of carpets		Trading of carpets		Consolidated	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
Segment revenue:						
Sales to external customers	86,064	130,176	37,405	26,418	123,469	156,594
Segment results	17,752	39,891	271	1,053	18,023	40,944
Unallocated revenue					2,773	622
Unallocated expenses					(6,345)	(1,109)
Profit from operating activities					14,451	40,457
Finance costs					(464)	(362)
Profit before tax					13,987	40,095
Tax					(1,056)	(10,889)
Profit before minority interests					12,931	29,206
Minority interests					(195)	887
Net profit from ordinary activities attributable to shareholders					12,736	30,093

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**3. SEGMENT INFORMATION** (continued)

**(b) Geographical segments**

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

	Hong Kong		Elsewhere in the People's Republic of China (the "PRC")		Consolidated	
	Six months		Six months		Six months	
	ended 30 June		ended 30 June		ended 30 June	
	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
Segment revenue:						
Sales to external customers	19,894	12,006	103,575	144,588	123,469	156,594
Segment results	162	14	17,861	40,930	18,023	40,944

**4. PROFIT FROM OPERATING ACTIVITIES**

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

	Six months ended 30 June	
	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
Cost of inventories sold	92,539	101,665
Depreciation	7,228	5,962
Deficit on revaluation of leasehold land and buildings	–	320
Loss on disposal of fixed assets	79	–
Amortisation of long term lease rights	850	850
Provision for bad and doubtful debts	845	–
Unrealised holding gain on securities investment	(1,516)	–
Interest income	(630)	(108)

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**5. FINANCE COSTS**

	<b>Six months ended 30 June</b>	
	<b>2002</b>	2001
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Interest on bank loans and overdrafts wholly repayable:		
Within five years	<b>343</b>	362
After five years	<b>84</b>	–
Interest on finance leases	<b>37</b>	–
	<b>464</b>	362

**6. TAX**

	<b>Six months ended 30 June</b>	
	<b>2002</b>	2001
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Current period provision:		
Hong Kong	<b>135</b>	–
Elsewhere in the PRC	<b>921</b>	10,889
Tax charge for the period	<b>1,056</b>	10,889

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profits arising in Hong Kong during 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 legislation, interpretations and practices in respect thereof.

No provision for deferred tax had been made as the Group did not have any significant unprovided deferred tax liabilities in respect of the Period (2001: Nil).

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**7. DIVIDEND**

	<b>Six months ended 30 June</b>	
	<b>2002 (Unaudited) HK\$'000</b>	2001 (Unaudited) HK\$'000
Special dividend	-	10,000

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

The Directors do not recommend the payment of any interim dividend in respect of the Period.

**8. EARNINGS PER SHARE**

The calculation of basic earnings per share for the Period is based on the net profit from ordinary activities attributable to shareholders for the Period of HK\$12,736,000 (2001: HK\$30,093,000) and the weighted average number of 1,245,000,000 (2001: 1,027,500,000 (restated)) ordinary shares in issue during the Period, as adjusted to reflect the bonus issue during the Period, with two bonus ordinary shares issued for every one ordinary share of HK\$0.10 each in the issued share capital of the Company held by the shareholders whose names appeared on the register of members of the Company on 6 June 2002.

There were no potential dilutive ordinary shares in existence for the six months ended 30 June 2002 and 2001 and, accordingly, no diluted earnings per share amounts have been presented for either of the two periods.

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**9. 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 sales, is as follows:

	<b>30 June 2002 (Unaudited) HK\$'000</b>	31 December 2001 (Audited) HK\$'000
1-90 days	<b>57,728</b>	50,677
91-120 days	<b>1,867</b>	8,497
121-365 days	<b>2,506</b>	8,051
	<b>62,101</b>	67,225

**10. 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:

	<b>30 June 2002 (Unaudited) HK\$'000</b>	31 December 2001 (Audited) HK\$'000
1-90 days	<b>19,095</b>	17,264
91-120 days	<b>480</b>	482
	<b>19,575</b>	17,746



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**11. SHARE CAPITAL**

	<b>30 June 2002 (Unaudited) HK\$'000</b>	31 December 2001 (Audited) HK\$'000
Authorised:		
2,000,000,000 (31 December 2001: 2,000,000,000) ordinary shares of HK\$0.10 each	<b>200,000</b>	200,000
Issued and fully paid:		
1,245,000,000 (31 December 2001: 415,000,000) ordinary shares of HK\$0.10 each	<b>124,500</b>	41,500

The following is a summary of the movements in the issued share capital of the Company during the Period:

	<b>Number of ordinary shares '000</b>	<b>Share capital HK\$'000</b>
Share capital as at 1 January 2002 (Audited)	415,000	41,500
Bonus issue of shares	830,000	83,000
Share capital as at 30 June 2002 (Unaudited)	1,245,000	124,500

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**12. RELATED PARTY TRANSACTIONS**

	<b>Six months ended 30 June</b>	
	<b>2002</b> <b>(Unaudited)</b> <b>HK\$'000</b>	2001 (Unaudited) HK\$'000
Amortisation of long term lease rights	<b>850</b>	850
Rental expenses paid to related companies	<b>655</b>	655

The above transactions were conducted with Shenzhen China Nuclear Company Group ("China Nuclear"), a minority shareholder of a subsidiary of the Company, and Hui Yang China Nuclear Hwei 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.

**13. CONTINGENT LIABILITIES**

At 30 June 2002, the Company had provided corporate guarantees to banks for banking facilities provided to certain subsidiaries of the Company. These banking facilities had been utilised to the extent of approximately HK\$27,641,000 (31 December 2001: HK\$10,039,000) as at 30 June 2002.

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**14. 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 30 June 2002, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	<b>30 June 2002 (Unaudited) HK\$'000</b>	31 December 2001 (Audited) HK\$'000
Within one year	<b>3,726</b>	3,699
In the second to fifth years, inclusive	<b>12,247</b>	12,095
After five years	<b>2,505</b>	4,010
	<b>18,478</b>	19,804

**15. COMMITMENTS**

In addition to the operating lease commitments detailed in note 14 above, the Group had capital commitments as at 30 June 2002 as follows:

	<b>30 June 2002 (Unaudited) HK\$'000</b>	31 December 2001 (Audited) HK\$'000
Contracted, but not provided for in respect of purchases of:		
Leasehold land and buildings	<b>6,736</b>	15,200
Plant and machinery	-	181
	<b>6,736</b>	15,381

**16. COMPARATIVE FIGURES**

Certain comparative figures have been reclassified to conform with the Period's presentation.