



To the members

JACKLEY HOLDINGS LIMITED

*(Incorporated in the Cayman Islands with limited liability)*

We have audited the financial statements on pages 30 to 84 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

## RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

## BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants, except that the scope of our work was limited as explained below.

An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. However, the evidence available to us was limited as follows:

### 1. Scope limitation – Availability of Books and Records

- (a) Hui Yang Xie Kai Cheng Carpet Co., Ltd. ("Hui Yang")

As further explained in note 2(a) to the financial statements, the underlying books and records of Hui Yang, a 51% owned subsidiary of the Company located in Guangdong, the People's Republic of China (the "PRC"), have not been made available to either the management of the Company or, hence, ourselves.

## BASIS OF OPINION (Continued)

### 1. Scope limitation – Availability of Books and Records (Continued)

(a) Hui Yang Xie Kai Cheng Carpet Co., Ltd. (“Hui Yang”) (Continued)

Consequently, management has consolidated Hui Yang based on its unaudited management accounts for the year ended 31 December 2002. We have been unable to obtain adequate audit evidence to satisfy ourselves as to the reliability of the amounts so consolidated in respect of Hui Yang during the year ended 31 December 2002 and the related balances as at 31 December 2002, as included in the consolidated financial statements. In particular, we have been unable to perform any satisfactory audit procedures to substantiate the transactions entered into by Hui Yang during the year and the assets and liabilities of Hui Yang as at 31 December 2002; and to determine as to whether all appropriate disclosures have been included in the financial statements in accordance with the disclosure requirements of the Hong Kong Companies Ordinance and Hong Kong Statements of Standard Accounting Practice.

The operating results of Hui Yang consolidated in the Group’s financial statements and assets and liabilities as at 31 December 2002 are summarised in note 2(a) to the financial statements.

Furthermore, as explained in note 2(a) to the financial statements, the inventory records of another subsidiary of the Company are maintained in Hui Yang. The relevant audit evidence to support the inventory balances has not been available to either the directors or ourselves for the same reason stated above. Consequently, we have not been able to satisfy ourselves as to the validity, completeness and accuracy in respect of the net carrying value of certain Group’s inventories of approximately HK\$28.4 million included in the consolidated balance sheet at 31 December 2002.

In addition, for the same reason stated above, we have not been able to obtain all necessary information for us to complete our review of subsequent events from the balance sheet date up to the date of this report. Such procedures might have resulted in the identification of adjustments to the amounts reported in and/or disclosed as notes to the financial statements and the disclosure of commitments and contingent liabilities of the Group as at 31 December 2002.

**BASIS OF OPINION (Continued)****1. Scope limitation – Availability of Books and Records (Continued)****(b) Existence Limited (“Existence”)**

As further explained in note 2(b) to the financial statements, copies of the underlying books and records of Existence, which was disposed of during the year at no gain or loss, have not been retained by the Company. Nor has the Company had access to Existence’s books and records in the preparation of these financial statements. Consequently, management has consolidated Existence based on available unaudited management accounts, but we have not been provided with adequate audit evidence to satisfy ourselves as to the nature, completeness, appropriateness, classification and disclosure in respect of the transactions undertaken by Existence for the period from 1 January 2002 up to the date when the Group disposed of Existence (the “Period”), as included in the consolidated financial statements. We have been unable to perform any satisfactory audit procedures to substantiate the transactions entered into by Existence during the Period and the assets and liabilities at the date of disposal. To the extent that the consolidated results might have required adjustments, there would be a corresponding opposite resulting in a gain or loss arising from the disposal of Existence for the year.

The operating results of Existence consolidated in the Group’s financial statements and assets and liabilities as at the date of disposal are summarised in note 2(b) to the financial statements.

**2. Scope limitation – Trade receivables**

Included in the consolidated balance sheet of the Group as at 31 December 2002 are trade receivables of approximately HK\$11 million, which are due from customers located in Malaysia. The directors are negotiating settlements with these debtors and believe that these balances will be settled in fiscal year 2003. However, no reliable information to assess the financial position of these debtors is available. Accordingly, we have been unable to obtain sufficient audit evidence either to ascertain if these debts can be recovered in full, or to determine the amount of provision, if any, required to be reflected in the financial statements.

### **BASIS OF OPINION (Continued)**

#### **3. Scope limitation – Deposit for investment**

As further explained in note 17 to the financial statements, the Group paid a deposit of approximately HK\$8.8 million (the “Deposit”) for the acquisition of a company which holds a trademark and certain technology knowhow. An independent professional valuer (the “Valuer”) issued a valuation report in December 2002 to support the consideration to be paid by the Group in acquiring this company. However, we have been unable to carry out the necessary audit procedures we considered necessary to satisfy ourselves as to the adequacy of the scope of the Valuer’s work, and we have also been unable to obtain sufficient reliable information, or carry out alternate auditing procedures to satisfy ourselves as to the directors’ assessment in connection with the carrying value of the Deposit. Accordingly, we have been unable to ascertain the appropriateness of the carrying value of the Deposit as at 31 December 2002.

#### **4. Scope limitation – Amount due from an associate**

Included in the consolidated balance sheet of the Group as at 31 December 2002 is an amount due from an associate of approximately HK\$1.8 million. There is no reliable information available to us to assess the financial position of this associate. Accordingly, we have been unable to obtain sufficient audit evidence either to ascertain if the amount can be recovered in full, or to determine the amount of provision, if any, required to be reflected in the financial statements.

Any adjustments that might have been found to be necessary in respect of matters set out in paragraphs 1 to 4 above would have a consequential effect on the net assets of the Group as at 31 December 2002 and the net profit attributable to the shareholders and cash flows for the year then ended, the classification of such items and their related disclosures in the financial statements, and the disclosure of commitments and contingent liabilities of the Group as at 31 December 2002.

## BASIS OF OPINION (Continued)

### 5. Scope limitation – Interests in subsidiaries

Included in the balance sheet of the Company as at 31 December 2002 are interests in subsidiaries of HK\$153,884,000 which include an indirect investment in Hui Yang of HK\$20,541,000 and amount due from Hui Yang of HK\$79,387,000, respectively. As set out in paragraph 1(a) above, we have been unable to obtain sufficient reliable information, or to carry out alternative audit procedures to satisfy ourselves regarding the financial position and results of Hui Yang. Accordingly, we were unable to determine whether any provision for impairment loss is necessary as at 31 December 2002.

Any adjustments that might have been found to be necessary in respect of the above would have a consequential effect on the net assets of the Company as at 31 December 2002 and the Company's net profit for the year then ended.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

## DISCLAIMER OF OPINION

Because of the significance of the possible effects of the limitation in evidence available to us as set out in paragraphs 1 and 5 of the basis of opinion section of this report, we are unable to form an opinion as to whether the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2002 and of the profit and cash flows of the Group for the year then ended and as to whether the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Had there been no limitation in the evidence available to us as set out in paragraphs 1 and 5 of the basis of opinion section of this report, we would have reported that except for any adjustments that might have been found to be necessary had we been able to obtain sufficient evidence relating to the matters discussed in paragraphs 2 to 4 of the basis of opinion section of this report, in our opinion the financial statements give a true and fair view of the state of the affairs of the Company and of the Group as at 31 December 2002 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

### DISCLAIMER OF OPINION (Continued)

In respect alone of the limitations on our work as set out in the basis of opinion section of this report:

- (i) we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and
- (ii) we were unable to determine whether proper books of accounts have been kept.

**Ernst & Young**

*Certified Public Accountants*

Hong Kong

6 June 2003