1. 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 principal subsidiaries are set out in note 18 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

2. BASIS OF PRESENTATION

The financial statements have been prepared based on the books and records maintained by the Company and its subsidiaries. However, the underlying books and records in respect of certain subsidiaries, due to reasons as further detailed below, were not available to the management of the Company to assist them in the preparation of these financial statements.

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

The underlying books and records of Hui Yang, a 51% owned subsidiary of the Company located in Guangdong, the PRC, have not been available due to the recent and ongoing Severe Acute Respiratory Syndrome ("SARS") outbreak in Hong Kong and the Mainland China. The Company's Hong Kong accounts/internal audit team has been reluctant to travel to the PRC to prepare and review the accounts of Hui Yang. In addition, the employees of Hui Yang have also expressed reservations about the accounts/internal audit team's visiting Hui Yang from Hong Kong.

2. BASIS OF PRESENTATION (Continued)

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

The Company's consolidated financial statements for the year ended 31 December 2002 have been prepared based on the unaudited management accounts of Hui Yang. The summary details of such balances so consolidated are as follows:

	HK$'000
Non-current assets	80,840
Current assets	38,334
Current liabilities	(1,918)
Balances with group companies, net	(89,798)
	27,458
Minority interests	(13,454)
Net assets	14,004
Turnover	35,641
Net loss attributable to shareholders	(532)

Furthermore, the inventories of another subsidiary of the Company, aggregating approximately HK$28.4 million, were kept at Hui Yang. As the underlying inventory records were maintained at Hui Yang, these documents have not been made available for review and inspection by the accounts/internal audit team due to the same reasons noted above.

2. BASIS OF PRESENTATION (Continued)

(b) Existence Limited ("Existence")

On 1 February 2002, the business operations of Existence were taken over by a subsidiary of the Company and Existence became dormant thereafter. Following the disposal of Existence on 1 June 2002, all of its accounting books and records were retained and kept by the purchaser and the existing management of the Group has been unable to gain access to such financial information. Accordingly, management has only been able to consolidate the results of Existence from 1 January 2002 up to 1 June 2002, the date of disposal, based on the unaudited management accounts which management has been unable to verify the validity, completeness or accuracy thereof. The summary details of such balances so consolidated are as follows:

	HK$'000
Turnover	15,446
Net profit attributable to shareholders	1,870
Current assets	65,580
Current liabilities	(65,580)
Net assets	–

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

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

- SSAP 1 (Revised): "Presentation of financial statements"
- SSAP 11 (Revised): "Foreign currency translation"
- SSAP 15 (Revised): "Cash flow statements"
- SSAP 34: "Employee benefits"

3. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”) (Continued)

These SSAPs prescribe new accounting measurement 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 1 prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision of this SSAP is that a consolidated statement of changes in equity is now presented on page 33 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required and in place of the Group’s reserves note.

SSAP 11 prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of the revision of this SSAP on the consolidated financial statements is that the profit and loss accounts of overseas subsidiaries are now translated into Hong Kong dollars at the weighted average exchange rates for the year, whereas previously they were translated at the exchange rates ruling at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements. Further details of this change are included in the accounting policy for “Foreign currencies” in note 4 to the financial statements.

SSAP 15 prescribes the revised format for the cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. In addition, cash flows from overseas subsidiaries arising during the year are now translated to Hong Kong dollars at the exchange rates at the dates of the transactions, or at an approximation thereto, whereas previously they were translated at the exchange rates at the balance sheet date, and the definition of cash equivalents for the purpose of the consolidated cash flow statement has been revised. Further details of these changes are included in the accounting policies for “Cash and cash equivalents” and “Foreign currencies” in note 4 and in note 32(a) to the financial statements.

3. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs") (Continued)

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in no material change to the previously adopted accounting treatments for employee benefits. Disclosures are now required in respect of the Company's share option scheme, as detailed in note 30 to the financial statements. These share option scheme disclosures are similar to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") disclosures previously included in the Report of the Directors, which are now included in the notes to the financial statements as a consequence of the SSAP.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, 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 and equity investments as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2002. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 leases, 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 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)

Employee benefits

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

Pension schemes and other retirement benefits

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. 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.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in the retirement benefits scheme (the "RB Scheme") operated by the respective local municipal government in Mainland China. These subsidiaries are required to contribute a certain percentage of their payroll costs to the RB Scheme to fund the benefits. The only obligation of the Group with respect to the RB Scheme is to pay the ongoing required contributions under the RB Scheme. Contributions under the RB Scheme are charged to the profit and loss account as they become payable in accordance with the rules of the RB Scheme.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee benefits (Continued)

Share option scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

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.

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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of assets (Continued)

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.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fixed assets and depreciation (Continued)

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.

Long term lease rights

Long term lease rights represent prepayments made for the operating lease rentals of certain leasehold buildings in Mainland China, 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.

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 in the period in which they arise.

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 results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Associates

An associate is a company, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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

On consolidation, the financial statements of overseas subsidiaries and an associate are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries and an associate are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

Prior to the adoption of the revised SSAPs 11 and 15 during the year, as explained in note 3 to the financial statements, the profit and loss accounts and cash flows of overseas subsidiaries were translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements, while the adoption of the revised SSAP 15 has resulted in changes to the layout of the consolidated cash flow statement, further details of which are included in note 32(a) to the financial statements, but had no material effect on the amounts of the cash flows previously reported for prior years.

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 and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

Prior to the adoption of the revised SSAP 15 during the year, as explained in note 3 to the financial statements, cash equivalents in the consolidated cash flow statement also included advances from banks repayable within three months from the date of the advance, in addition to bank overdrafts. This change in definition has resulted in a change to the layout of the consolidated cash flow statement relating to trust receipt loans, further details of which are included in note 32(a) to the financial statements.

For the purpose of the balance sheet, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

5. 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 businesses 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 the 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.

5. 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	
	2002 HK$'000	2001 HK$'000	2002 HK$'000	2001 HK$'000	2002 HK$'000	2001 HK$'000
Segment revenue:						
Sales to external customers	105,174	215,037	76,888	60,131	182,062	275,168
Segment results	22,950	61,621	(911)	3,375	22,039	64,996
Unallocated revenue					2,732	1,401
Unallocated expenses					(13,141)	(5,356)
Profit from operating activities					11,630	61,041
Finance costs					(1,728)	(676)
Profit before tax					9,902	60,365
Tax					(1,053)	(18,070)
Profit before minority interests					8,849	42,295
Minority interests					(3,970)	2,053
Net profit from ordinary activities attributable to shareholders					4,879	44,348

5. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

	Manufacture of carpets		Trading of carpets		Unallocated		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Segment assets	145,595	205,159	37,901	36,707	–	–	183,496	241,866
Unallocated assets	–	–	–	–	99,454	34,876	99,454	34,876
Total assets	145,595	205,159	37,901	36,707	99,454	34,876	282,950	276,742
Segment liabilities	2,139	11,053	8,368	12,216	–	–	10,507	23,269
Unallocated liabilities	–	–	–	–	86,061	75,940	86,061	75,940
Total liabilities	2,139	11,053	8,368	12,216	86,061	75,940	96,568	99,209
Other segment information:								
Depreciation	13,535	12,091	509	258	–	–	14,044	12,349
Unallocated depreciation	–	–	–	–	617	31	617	31
	13,535	12,091	509	258	617	31	14,661	12,380
Amortisation	1,700	1,700	–	–	–	–	1,700	1,700
Capital expenditure	6,505	12,629	720	457	–	–	7,225	13,086
Unallocated capital expenditure	–	–	–	–	17,992	510	17,992	510
	6,505	12,629	720	457	17,992	510	25,217	13,596
Non-cash expenses	61	–	3,170	550	831	–	4,062	550

5. SEGMENT INFORMATION (Continued)

(b) Geographical segments

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

	Hong Kong		Macau		Mainland China		South East Asia		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	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	39,522	32,628	-	-	131,450	242,540	11,090	-	182,062	275,168
Other segment information:										
Segment assets	90,364	44,299	78	58,295	162,456	174,148	30,052	-	282,950	276,742
Capital expenditure	17,135	704	-	-	6,785	12,892	1,297	-	25,217	13,596

6. TURNOVER, REVENUE AND GAINS

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts during the year.

An analysis of the Group's turnover, other revenue and gains is as follows:

	2002 HK$'000	2001 HK$'000
Turnover		
Sale of goods	182,062	275,168
Other revenue		
Interest income	1,088	755
Others	1,050	646
	2,138	1,401
Gains		
Gain on disposals of short term listed investments	41	–
Unrealised gain on short term listed investments	553	–
	594	–
	2,732	1,401

7. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging:

	2002 HK$'000	2001 HK$'000
Cost of inventories sold	**109,143**	183,613
Depreciation	**14,661**	12,380
Amortisation of long term lease rights *	**1,700**	1,700
Minimum lease payments under operating leases on leasehold land and buildings	**3,696**	2,681
Staff costs (excluding directors' remuneration – note 8):		
Wages and salaries	**5,808**	9,736
Retirement benefits scheme contributions	**134**	172
Auditors' remuneration	**950**	1,250
Revaluation deficit on leasehold land and buildings **	**752**	296
Loss on disposal of fixed assets **	**80**	9
Provision for slow-moving and obsolete inventories **	**1,812**	–
Provision for bad and doubtful debts **	**1,418**	245

* Included in "Cost of sales" on the face of the consolidated profit and loss account.

** Included in "Other operating expenses" on the face of the consolidated profit and loss account.

8. DIRECTORS' REMUNERATION

Details of the remuneration of the directors of the Company for the year disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance are as follows:

	Group	
	2002 HK$'000	2001 HK$'000
Fees:		
Executive directors	–	–
Non-executive directors	–	–
Independent non-executive directors	378	157
	378	157
Basic salaries, housing benefits, other allowances and benefits in kind:		
Executive directors	4,774	3,475
Non-executive directors	179	–
Independent non-executive directors	–	–
	4,953	3,475
Retirement benefits scheme contributions:		
Executive directors	65	38
Non-executive directors	–	–
Independent non-executive directors	–	–
	65	38
	5,396	3,670

8. DIRECTORS' REMUNERATION (Continued)

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

	Number of directors	
	2002	2001
Nil – HK$1,000,000	9	14
HK$1,000,001 – HK$1,500,000	2	2
	11	16

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

During the year, 17,124,000 and 2,488,000 share options were granted to the executive directors and independent non-executive directors, respectively, in respect of their services to the Group, further details of which are set out in note 30 to the financial statements. No value in respect of the share options granted during the year has been charged to the profit and loss account, or is otherwise included in the above directors' remuneration disclosures.

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 (2001: Nil).

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included five (2001: three) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two non-director, highest paid employees in the prior year, each of which fell within the Nil – HK$1,000,000 disclosure band, are as follows:

	Group	
	2002	2001
	HK$'000	HK$'000
Basic salaries, housing benefits,		
other allowances and benefits in kind	–	976
Retirement benefits scheme contributions	–	22
	–	998

10. FINANCE COSTS

	Group	
	2002	2001
	HK$'000	HK$'000
Interest on bank loans and overdrafts:		
Wholly repayable within five years	1,404	671
Repayable beyond five years	274	–
Interest on finance leases	50	5
	1,728	676

11. TAX

	Group	
	2002 HK$'000	2001 HK$'000
Current year provision:		
Hong Kong	84	396
Elsewhere in the PRC	969	17,674
Tax charge for the year	1,053	18,070

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 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 Mainland China is exempt from the income tax of Mainland China for two years starting from the first profitable year of its operations, and is entitled to a 50% relief from the income tax of Mainland China for the following three years under the Income Tax Law of Mainland China. Upon expiry of the tax relief period, the subsidiary will be subject to the full income tax rate of 33%. This subsidiary has not commenced to generate any assessable profits arising in Mainland China 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 (2001: 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.

12. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31 December 2002 dealt with in the financial statements of the Company, is approximately HK$1,084,000 (2001: HK$35,598,000).

13. DIVIDEND

	2002 HK$'000	2001 HK$'000
Interim dividend	–	10,000

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 of Hong Kong Limited (the "Stock Exchange").

14. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of approximately HK$4,879,000 (2001: HK$44,348,000), and the weighted average (2001: pro forma) of 1,245,000,000 (2001: 1,123,438,359) ordinary shares in issue during the year, as adjusted to reflect the bonus issue during the year.

The weighted average number of shares used to calculate the earnings per share for the prior year, before adjustment for the bonus issue during the year, included 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 Limited and the capitalisation issue of 340,500,000 shares.

The calculation of diluted earnings per share is based on the net profit attributable to shareholders for the year of approximately HK$4,879,000. The weighted average number of ordinary shares used in the calculation is the 1,245,000,000 ordinary shares in issue during the year, as used in the basic earnings per share calculation; and the weighted average of 463,178 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the year.

A diluted earnings per share amount for the year ended 31 December 2001 has not been disclosed as no diluting events existed during that year.

15. 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 2002	980	120,055	11,891	132,926
Additions	16,635	4,866	3,716	25,217
Disposals	–	–	(831)	(831)
Revaluation	(1,115)	–	–	(1,115)
At 31 December 2002	16,500	124,921	14,776	156,197
Analysis of cost or valuation:				
At cost	–	124,921	14,776	139,697
At valuation	16,500	–	–	16,500
	16,500	124,921	14,776	156,197
Accumulated depreciation and impairment:				
At 1 January 2002	–	45,122	3,829	48,951
Provided during the year	363	12,492	1,806	14,661
Disposals	–	–	(581)	(581)
Written back on revaluation	(363)	–	–	(363)
At 31 December 2002	–	57,614	5,054	62,668
Net book value:				
At 31 December 2002	16,500	67,307	9,722	93,529
At 31 December 2001	980	74,933	8,062	83,975

15. FIXED ASSETS (Continued)

Company

	Leasehold improvements, furniture, office equipment and motor vehicles HK$'000
Cost:	
Additions during the year and at 31 December 2002	584
Accumulated depreciation and impairment:	
Provided during the year and at 31 December 2002	117
Net book value:	
At 31 December 2002	467
At 31 December 2001	–

The Group's leasehold land and buildings included above are held under the following lease terms:

	Group	
	2002 HK$'000	2001 HK$'000
At valuation:		
Long term leases in Hong Kong	15,600	–
Medium term leases outside Hong Kong	900	980
	16,500	980

15. FIXED ASSETS (Continued)

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 2002, amounted to approximately HK$342,000 (2001: HK$249,000).

At 31 December 2002, the Group's leasehold land and buildings were revalued on an open market value, existing use basis, by Castores Magi Surveyors Limited, independent professionally qualified valuers, at HK$16,500,000 (2001: HK$980,000). The resulting revaluation deficit of approximately HK$752,000 (2001: HK$296,000) has been charged to the profit and loss account (note 7).

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$17,540,000 (2001: HK$1,276,000).

At 31 December 2002, the Group's leasehold land and buildings were pledged to secure banking facilities granted to the Group (note 26).

16. LONG TERM LEASE RIGHTS

Group

	HK$'000
Cost:	
At 1 January 2002 and 31 December 2002	22,808
Accumulated amortisation and impairment:	
At 1 January 2002	11,900
Amortisation during the year	1,700
At 31 December 2002	13,600
Net book value:	
At 31 December 2002	9,208
At 31 December 2001	10,908

17. DEPOSITS PAID

	Group	
	2002	2001
	HK$'000	HK$'000
Deposits for investment *(note)*	8,771	–
Deposits for purchases of leasehold land and buildings in Hong Kong	7,134	800
Deposits for purchases of certain plant and machinery	–	2,837
	15,905	3,637

Note: A deposit was paid for a proposed acquisition of a 100% equity interest in a company incorporated in the British Virgin Islands ("BVI"), which holds a trademark and technology knowhow for the manufacture of biotechnology-based nutrition products.

18. INTERESTS IN SUBSIDIARIES

	Company	
	2002	2001
	HK$'000	HK$'000
Unlisted shares, at cost	77,479	76,433
Due from subsidiaries	160,721	141,605
Due to subsidiaries	(84,316)	(90,852)
	153,884	127,186

The balances with the subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

18. INTERESTS IN SUBSIDIARIES (Continued)

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
Pharmasys Biotech Limited	Hong Kong	Ordinary HK$10,000	100%	Investment holding
Indirectly held				
Best Capital International Limited	Hong Kong	Ordinary HK$100	100%	Securities investment
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/ Mainland China	US$200,000	100%	Trading of carpets
Hui Yang Xie Kai Cheng Carpet Co., Ltd. */***	PRC/ Mainland China	US$4,940,000	51%	Manufacture and sale of carpets
Jackley Finance Limited	Hong Kong	Ordinary HK$10,000	100%	Provision of finance

18. INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the principal subsidiaries are as follows: (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)				
Jackley International of America, Limited	Hong Kong	Ordinary HK$10,000	100%	Investment holding
Jackley Macao Commercial Offshore Limited	Macau	Ordinary MOP1,000,000	100%	Trading of carpets
Kaicheng (Hong Kong) Company Limited	Hong Kong	Ordinary HK$10,000	51%	Trading of carpets
Sino Development Holdings Limited	Hong Kong	Ordinary HK$10,000	100%	Property holding

* Statutory financial statements not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

** Registered as a wholly-owned foreign enterprise under the PRC law.

*** Registered as a sino-foreign equity joint venture under the PRC law.

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.

19. INTERESTS IN AN ASSOCIATE

	Group 2002 HK$'000	Group 2001 HK$'000
Share of net assets	–	–
Due from an associate	1,828	–
	1,828	–

The amount due from an associate is unsecured, interest-free and has no fixed terms of repayment.

Particulars of the associate are as follows:

Name	Business structure	Place of incorporation and operations	Paid-up share capital	Percentage of ownership interest attributable to the Group	Principal activity
Pharmasys Holdings Sdn. Bhd. *	Corporate	Malaysia	Ringgit Malaysia 2	50%	Trading of nutrition products

* Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

The shareholding in an associate comprises equity shares held through a wholly-owned subsidiary.

20. LOAN TO A DIRECTOR

The loan to a director, disclosed pursuant to Section 161B of the Companies Ordinance, is as follows:

Group

Name	31 December 2002 HK$'000	Maximum amount outstanding during the year HK$'000	1 January 2002 HK$'000
Mr. Khoo Chuan Teng (executive director)	520	594	–
Less: Amount classified as current asset	(105)		
Long term portion	415		

The loan granted to Mr. Khoo Chuan Teng is secured by freehold land and a building in Malaysia, bears interest at 3% to 4% per annum and is repayable in instalments in accordance with terms stipulated in the loan agreement.

The loan to a director constituted a connected transaction for the purpose of the Listing Rules of the Stock Exchange.

21. INVENTORIES

	Group	
	2002 HK$'000	2001 HK$'000
Raw materials	7,168	13,855
Work in progress	661	12,126
Finished goods	37,785	36,032
	45,614	62,013

None of the inventories were stated at net realisable value as at 31 December 2002 (2001: Nil).

22. 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	
	2002 HK$'000	2001 HK$'000
1 – 90 days	11,127	50,677
91 – 120 days	8,107	8,497
121 – 365 days	14,718	8,051
	33,952	67,225

23. LOANS RECEIVABLE

	Group		Company	
	2002	2001	2002	2001
	HK$'000	HK$'000	HK$'000	HK$'000
Loans receivable	6,653	–	6,047	–

Included in loans receivable was an interest-bearing loan advanced to a third party of HK$6 million, which was further advanced to the ultimate borrower. Pursuant to the agreement dated 21 May 2002 between the Group and the third party, the third party has assigned the right to the proceeds of the loan from the ultimate borrower to the Group. As the ultimate borrower has defaulted in repayment, legal proceedings have been brought by the third party against the ultimate borrower subsequent to the balance sheet date to recover the amount. Based on the legal opinion obtained by the third party, the directors consider that the Group will be able to recover the amount in full. Accordingly, no provision has been made in the financial statements.

24. SHORT TERM INVESTMENTS

	Group	
	2002	2001
	HK$'000	HK$'000
Listed equity investments, at market value		
– Hong Kong	3,632	–

25. CASH AND BANK BALANCES

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to approximately HK$22,449,000 (2001: HK$1,785,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

26. INTEREST-BEARING BANK BORROWINGS

	Group		Company	
	2002 HK$'000	2001 HK$'000	2002 HK$'000	2001 HK$'000
Bank overdrafts, secured	34,009	1,868	28,012	–
Trust receipt loans, secured	25,081	8,171	–	–
Bank loans, secured and repayable:				
Within one year	5,911	110	–	–
In the second year	2,118	118	–	–
In the third to fifth years, inclusive	5,045	77	–	–
Beyond five years	10,130	–	–	–
	23,204	305	–	–
	82,294	10,344	28,012	–
Portion classified as current liabilities	(65,001)	(10,149)	(28,012)	–
Long term portion	17,293	195	–	–

At 31 December 2002, the Group's banking facilities were secured by the following:

(i) first legal charges on the Group's leasehold land and buildings;

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

(iii) the pledge of time deposits of the Group amounting to HK$30,000,000 (2001: HK$24,000,000).

27. 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 four years.

At 31 December 2002, 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
	2002	2002	2001	2001
	HK$'000	HK$'000	HK$'000	HK$'000
Amounts payable:				
Within one year	88	84	115	107
In the second year	88	77	115	94
In the third to fifth years, inclusive	153	122	56	42
Total minimum finance lease payments	329	283	286	243
Future finance charges	(46)		(43)	
Total net finance lease payables	283		243	
Portion classified as current liabilities	(84)		(107)	
Long term portion	199		136	

28. 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	
	2002	2001
	HK$'000	HK$'000
1 – 90 days	5,636	17,264
91 – 120 days	677	482
121 – 365 days	1,389	–
	7,702	17,746

29. SHARE CAPITAL

	2002	2001
	HK$'000	HK$'000
Authorised:		
2,000,000,000 (2001: 2,000,000,000) ordinary shares of HK$0.10 each	200,000	200,000
Issued and fully paid:		
1,245,000,000 (2001: 415,000,000) ordinary shares of HK$0.10 each	124,500	41,500

29. SHARE CAPITAL (Continued)

During the year, the movements in share capital were as follows:

Pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 6 June 2002, an aggregate of 830,000,000 new ordinary shares of HK$0.10 each were issued as fully paid bonus shares by capitalising the sum of HK$83,000,000 to the credit of the Company's share premium account, on the basis of two bonus shares for every ordinary share held by the shareholders whose name appears on the register of members of the Company on that date. The new ordinary shares rank pari passu with the existing ordinary shares of the Company.

At Group level, the above bonus issue of shares was credited by way of capitalising the Group's share premium account and retained profits amounting to HK$4,824,000 and HK$78,176,000, respectively.

29. SHARE CAPITAL (Continued)

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

	Number of shares in issue '000	Issued share capital HK$'000	Share premium account HK$'000	Total HK$'000
At 1 January 2001	2,000	200	81,233	81,433
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	340,500	34,050	(34,050)	–
New issue on public listing	72,500	7,250	50,750	58,000
Share issue expenses	–	–	(11,876)	(11,876)
Issued share capital as at 31 December 2001 and 1 January 2002	415,000	41,500	86,057	127,557
Bonus issue of shares	830,000	83,000	(83,000)	–
At 31 December 2002	1,245,000	124,500	3,057	127,557

29. SHARE CAPITAL (Continued)

Subsequent to the balance sheet date, a subscription agreement was entered between the Company and Chricton Holdings Sdn. Bhd. ("Chricton"), an independent investor, on 15 April 2003 pursuant to which a total of 249,000,000 shares of HK$0.10 each were issued to Chricton at an issue price of HK$0.30 per share, payable in cash, on or before 25 April 2003. The completion of this subscription will raise net cash proceeds of approximately HK$74,700,000 for the Company for general working capital purposes. Pursuant to a supplemental agreement entered between the Company and Chricton dated 31 May 2003, the date for payment of the subscription consideration will be extended to 30 June 2003 or such later date as the Company may agree in writing. Chricton has also pledged a bank guarantee to the Company as security for the subscription consideration. Accordingly, the subscription has not been completed as at the date of the financial statements.

30. SHARE OPTION SCHEME

SSAP 34 was adopted during the year, as explained in note 3 and under the heading "Employee benefits" in note 4 to the financial statements. As a result, the following detailed disclosures relating to the Company's share option scheme are now included in the notes to the financial statements. In the prior year, these disclosures were included in the Report of the Directors, as their disclosure is also a requirement of the Listing Rules.

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, including 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 became effective on 14 June 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

30. SHARE OPTION SCHEME (Continued)

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. At 31 December 2002, the number of shares issuable under share options granted under the Scheme was 86,140,000, which represented approximately 6.9% of the Company's shares in issue as at that date. 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.

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.

30. SHARE OPTION SCHEME (Continued)

The following share options were outstanding under the Scheme during the year:

	Number of share options						Price of Company's shares***		
Category or name of participant	At 1 January 2002	Granted during the year	Exercised during the year	At 31 December 2002	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK$	At grant date of options HK$	At exercise date of options HK$
Executive directors									
Mr. Lam Yat Sing	-	1,244,000	-	1,244,000	2 December 2002	2 December 2002 to 1 December 2003	0.30	0.30	-
Mr. Chew Kean Eng	-	4,962,000	-	4,962,000	2 December 2002	2 December 2002 to 1 December 2003	0.30	0.30	-
Mr. Khoo Chuan Teng	-	4,962,000	-	4,962,000	2 December 2002	2 December 2002 to 1 December 2003	0.30	0.30	-
Mr. Wong Kwai Wah	-	5,956,000	-	5,956,000	2 December 2002	2 December 2002 to 1 December 2003	0.30	0.30	-
Independent non-executive directors									
Mr. Ong Hong Hoon	-	1,244,000	-	1,244,000	2 December 2002	2 December 2002 to 1 December 2003	0.30	0.30	-
Mr. Liu Ngai Wing	-	1,244,000	-	1,244,000	2 December 2002	2 December 2002 to 1 December 2003	0.30	0.30	-
Other employees									
In aggregate	-	45,152,000	-	45,152,000	2 December 2002	2 December 2002 to 1 December 2003	0.30	0.30	-
Suppliers of goods or services									
In aggregate	-	6,000,000	-	6,000,000	2 December 2002	2 December 2002 to 1 December 2003	0.30	0.30	-
Person or entity that provides research, development or other technological support									
In aggregate	-	15,376,000	-	15,376,000	2 December 2002	2 December 2002 to 1 December 2003	0.30	0.30	-
	-	86,140,000	-	86,140,000					

30. SHARE OPTION SCHEME (Continued)

* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

*** The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options. The price of the Company's shares disclosed as at the date of the exercise of the share options is the weighted average of the Stock Exchange closing prices over all of the exercises of options within the disclosure category.

At the balance sheet date, the Company had 86,140,000 share options outstanding under the Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 86,140,000 additional ordinary shares of the Company and additional share capital of HK$8,614,000 and share premium of HK$17,228,000 (before issue expenses).

31. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 33 of the financial statements.

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 in 2001 over the nominal value of the share capital of the Company issued in exchange therefor; (ii) the premium arising from the capitalisation issue in the previous year; and (iii) the premium arising from the new issue in the previous 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.

31. RESERVES (Continued)

(a) Group (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 Mainland China 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.

(b) Company

	Share premium account HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2001	81,233	–	81,233
Issue of shares	50,750	–	50,750
Capitalisation issue of shares	(34,050)	–	(34,050)
Share issue expenses	(11,876)	–	(11,876)
Interim dividend	–	(10,000)	(10,000)
Net profit for the year	–	35,598	35,598
At 31 December 2001 and 1 January 2002	86,057	25,598	111,655
Bonus issue of shares	(83,000)	–	(83,000)
Net profit for the year	–	1,084	1,084
At 31 December 2002	3,057	26,682	29,739

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 in 2001, over the nominal value of the share capital of the Company issued in exchange therefor; (ii) the premium arising from the capitalisation issue in the previous year; and (iii) the premium arising from the new issue in the previous year.

32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Changes to the layout of the consolidated cash flow statement

SSAP 15 (Revised) was adopted during the current year, as detailed in note 3 to the financial statements, which has resulted in a change to the layout of the consolidated cash flow statement. The consolidated cash flow statement is now presented under three headings: cash flows from operating activities, investing activities and financing activities. Previously five headings were used, comprising the three headings listed above, together with cash flows from returns on investments and servicing of finance and from taxes paid. The significant reclassifications resulting from the change in presentation are that interest received and taxes paid are now included in cash flows from operating activities and interest paid and dividends paid are now included in cash flows from financing activities. The presentation of the 2001 comparative consolidated cash flow statement has been changed to accord with the new layout.

The definition of "cash equivalents" under the revised SSAP 15 has been revised from that under the previous SSAP 15, as explained under the heading "Cash and cash equivalents" in note 4 to the financial statements. This has resulted in trust receipt loans no longer qualifying as cash equivalents. The amount of cash equivalents in the consolidated cash flow statement at 1 January 2001 and 31 December 2001 have been adjusted to remove trust receipt loans amounting to HK$4,178,000 and HK$972,000, respectively, previously included at that date. The year's movement in trust receipt loans is now included in cash flows from financing activities and the comparative cash flow statement has been changed accordingly.

32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Disposal of subsidiaries

	2002 HK$'000	2001 HK$'000
Net assets disposed of:		
Fixed assets	–	178
Inventories	17,736	15,165
Trade receivables	47,787	–
Cash and bank balances	57	198
Other payables and accruals	–	(5,378)
Tax payable	(65,580)	(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:

	2002 HK$'000	2001 HK$'000
Cash consideration	–	1
Cash and bank balances disposed of	(57)	(198)
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	(57)	(197)

The subsidiaries disposed of during the year and in the prior year had no significant impact in respect of the Group's cash flows.

The subsidiary disposed of during the year contributed approximately HK$15,446,000 to the Group's turnover and approximately HK$1,870,000 to the consolidated profit after tax and before minority interests for the year.

32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(c) 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$319,000 (2001: HK$295,000).

33. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at the balance sheet date (2001: Nil).

At 31 December 2002, the Company had provided corporate guarantees to banks for banking facilities provided to certain subsidiaries of approximately HK$97,447,000 (2001: HK$28,800,000). These banking facilities had been utilised to the extent of approximately HK$54,456,000 (2001: HK$10,039,000) as at the balance sheet date.

34. 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 year to fourteen years.

At 31 December 2002, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2002 HK$'000	2001 HK$'000	2002 HK$'000	2001 HK$'000
Within one year	4,900	3,699	996	–
In the second to fifth years, inclusive	15,609	12,095	3,284	–
After five years	1,000	4,010	–	–
	21,509	19,804	4,280	–

35. COMMITMENTS

In addition to the operating lease commitments detailed in note 34 above, the Group had the following capital commitments at the balance sheet date:

	Group	
	2002 HK$'000	2001 HK$'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 2002 (2001: Nil).

36. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

(i) 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 rentals of the land, and the buildings and structures thereon are HK$700,000 (2001: HK$700,000) and HK$1,700,000 (2001: 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 in 1997.

36. RELATED PARTY TRANSACTIONS (Continued)

(ii) Pursuant to a further 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 rentals of the land, and the buildings and structures erected thereon are HK$360,000 (2001: HK$360,000) and HK$250,000 (2001: HK250,000), respectively.

37. POST BALANCE SHEET EVENT

Details of the significant event which took place subsequent to the balance sheet date are set out in note 29 to the financial statements.

38. 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, certain comparative amounts have been restated to conform with the current year's presentation.

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 6 June 2003.