

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2003

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 OF THE FINANCIAL STATEMENTS

At 31 December 2003, the Group had net current liabilities of approximately HK\$16 million which included current bank obligation of HK\$40 million. In addition, the Company and one of its wholly-owned subsidiaries were also brought into litigation by a previous major supplier for the Group's carpet tiles business with a winding-up intention over some disputed trade debts, amounting to approximately HK\$8 million ("judgment debts") of which HK\$7 million was provided in the Group's financial statements. On the other hand, the Group is counter-claiming the same supplier for the premature termination of a distribution agreement with a claim for damages exceeding the judgment debts. The Group is also currently negotiating with certain of its bankers to either extend the credit facilities, or to reschedule the Group's indebtedness. However, as of the date of approved of the financial statements, no formal arrangements have been concluded.

The markets and economic conditions for 2003 particularly in Hong Kong have continued to be adversely affected by uncertain economic conditions which in turn seriously affected the Group's business and consequently the Group's turnover, profitability and liquidity. These conditions primarily included international issues such as the continued effects of terrorism and SARS.

Having regard to this background and in order to improve the Group's financial position, cash flows, profitability and operations, the directors have adopted the following measures:

- a) the directors have taken action to tighten cost controls over the staff costs, overheads and various general and administrative expenses;
- b) the directors have taken steps to establish export markets by selling into the Middle-east, USA, Japan and Korea;

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (continued)

- c) the directors have taken action to restructure the sales organization throughout China and Hong Kong by improving the quality of the sales team, and training them to sell carpet tiles and broadloom products;
- d) subsequent to the balance sheet date, the Group entered into agreements to disposed of two properties for a total cash consideration of HK\$29.5 million. Further details regarding the disposals are set out in note 39 to the financial statements. The net cash proceeds, after the repayment of the corresponding secured bank borrowings and related expenses, of approximately HK\$13.9 million, have been used to further pay down other bank borrowings of the Group; and
- e) as at the date of this report the directors are in the final stage of negotiations with two independent third parties for a proposed loan facility to be made available to the Company of approximately HK\$15 million. The loan proceeds from the proposed loan facility will be utilised to reduce bank debts, trade payables and to provide additional working capital for the Group.

The directors are confident that following the pay down of outstanding bank borrowings, the Group will continue to receive continued support from its bankers, in particular the extension of the credit facilities and/or rescheduling of the loan tenure, for the Group's continued operations.

In the opinion of the directors, in the light of the measures taken to-date and on the basis of the continued support from the bankers and trade suppliers, the Group will have sufficient working capital for its current and future requirements and it is reasonable to expect that the Group will quickly return to a commercially viable concern. Accordingly, the directors are satisfied that it is appropriate to prepare the financial statement on a going concern basis, notwithstanding the Group's position and tight cash flows position as at 31 December 2003 and at the date of approval of these financial statements.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2003

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (continued)

Should the Group be unable to continue its business as going concern, adjustments would have to be made to restate the values of assets to their recoverable amounts, to provide for any further liabilities which might arise, including those contingent liabilities as set out in note 35 to the financial statements, and to reclassify non-current assets and liabilities as current assets and liabilities, respectively. The effect of these potential adjustments has not been reflected in these financial statements.

3. IMPACT OF REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE (“SSAP”)

SSAP 12 (Revised) “Income Taxes” is effective for the first time for the current year’s financial statements.

In the current year, the Group has changed its accounting policy for deferred tax, as set out in note 4, following its adoption of SSAP 12 (Revised) issued by the Hong Kong Society of Accountants which is effective for accounting periods commencing on or after 1 January 2003. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, with limited exceptions. The adoption of SSAP 12 (Revised) has not had any material effect on the results for the current year or prior accounting periods.

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 short term investments as further explained below.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Basis of consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2003. 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.

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;
- (b) interest income, on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable; and
- (c) rental income is recognised on a time proportion basis in accordance with the terms and conditions of the tenancy agreement.

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.

For the year ended 31 December 2003

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on a straight line basis over the lease term.

Borrowing costs

Borrowing costs are expensed in the financial statements in the period in which they are incurred.

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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Employee benefits** (continued)*Pension schemes and other retirement benefits* (continued)

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.

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.

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.

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at cost less impairment losses, if any. Investment properties are not depreciated except where the unexpired term of the lease is 20 years or less in which case depreciation is provided on the carrying amount over the remaining term of the lease.

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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Fixed assets and depreciation** (continued)

Changes in the values of fixed assets are dealt with as movements in the assets 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 assets 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 over the following estimated useful lives:

Leasehold land and buildings	The shorter of the lease terms and/or 50 years
Plant and machinery	15 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. Any revaluation reserves balance remaining attributable to the relevant asset is transferred to retained profits as a movement in reserves.

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.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2003

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Associate

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 interest in an associate is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, 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.

Deferred tax

Deferred tax is provided in full, using the liability method, on all significant temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary difference can be utilised.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Deferred tax** (continued)

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxation profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries and an associate, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to period when the asset is realised or the liability settled, based on the tax rates (and tax laws) that have been enacted or substantially enacted at balance sheet date.

Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group. A contingent asset is not recognised but is disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

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.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2003

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

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 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.

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.

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; 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.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2003

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	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Segment revenue:						
Sales to external customers	87,334	105,174	40,004	76,888	127,338	182,062
Segment results	(7,447)	22,950	(4,884)	(911)	(12,331)	22,039
Unallocated revenue					3,382	2,732
Unallocated expenses					(34,627)	(13,141)
(Loss)/Profit from operating activities					(43,576)	11,630
Finance costs					(2,168)	(1,728)
(Loss)/Profit before tax					(45,744)	9,902
Tax					(3,500)	(1,053)
(Loss)/Profit before minority interests					(49,244)	8,849
Minority interests					17,391	(3,970)
Net (loss)/profit from ordinary activities attributable to shareholders					(31,853)	4,879

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2003

5. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

	Manufacture of carpets		Trading of carpets		Unallocated		Consolidated	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Segment assets	140,367	145,595	7,259	37,901	-	-	147,626	183,496
Unallocated assets	-	-	-	-	73,264	99,454	73,264	99,454
Total assets	140,367	145,595	7,259	37,901	73,264	99,454	220,890	282,950
Segment liabilities	5,801	2,139	29,412	8,368	-	-	35,213	10,507
Unallocated liabilities	-	-	-	-	40,974	86,061	40,974	86,061
Total liabilities	5,801	2,139	29,412	8,368	40,974	86,061	76,187	96,568
Other segment information:								
Depreciation	10,464	13,535	455	509	-	-	10,919	14,044
Unallocated depreciation	-	-	-	-	427	617	427	617
	10,464	13,535	455	509	427	617	11,346	14,661
Amortisation	1,700	1,700	-	-	-	-	1,700	1,700
Capital expenditure	26,532	6,505	30	720	-	-	26,562	7,225
Unallocated capital expenditure	-	-	-	-	7,419	17,992	7,419	17,992
	26,532	6,505	30	720	7,419	17,992	33,981	25,217
Non-cash expenses	26,999	61	3,468	3,170	21,881	831	52,348	4,062

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2003

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		Middle-East		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	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	19,650	39,522	-	-	59,490	131,450	25	11,090	48,173	-	127,338	182,062
Other segment information:												
Segment assets	27,490	90,364	85	78	143,477	162,456	1,884	30,052	47,954	-	220,890	282,950
Capital expenditure	7,433	17,135	-	-	26,548	6,785	-	1,297	-	-	33,981	25,217

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2003

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:

	2003	2002
	HK\$'000	HK\$'000
Turnover		
Sale of goods	127,338	182,062
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Other revenue		
Interest income	277	1,088
Bad debts written back	329	–
Provision for obsolete inventories written back	1,498	–
Rental income	54	–
Others	376	1,050
	<hr/>	<hr/>
	2,534	2,138
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Gains		
Gain on written off of investment in a subsidiary	71	–
Revaluation surplus on fixed assets	777	–
Gain on disposals of short term investments	–	41
Net unrealised gain on short term investments	–	553
	<hr/>	<hr/>
	848	594
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	3,382	2,732
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NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2003

7. (LOSS)/PROFIT FROM OPERATING ACTIVITIES

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

	2003	2002
	HK\$'000	HK\$'000
Charging:		
Cost of inventories sold	73,015	109,143
Depreciation		
owned fixed assets	11,261	14,576
leased fixed assets	85	85
	11,346	14,661
Amortisation of long term lease rights*	1,700	1,700
Minimum lease payments under operating leases on		
leasehold land and buildings	2,797	3,696
office equipment	148	–
Staff costs (excluding directors' remuneration – note 8)		
Wages and salaries	6,576	5,808
Retirement benefits scheme contributions	338	134
Auditors' remuneration	800	950
Net exchange losses	470	51
Loss on disposals of fixed assets**	2,274	80
Net unrealised loss on short term investments**	3,335	–
Provision for an amount due from an associate**	1,782	–
Fixed assets written off**	3,710	–
Provision for slow-moving and net realisable value of inventories**	279	1,812
Crediting:		
Gross rental income	54	–
Less: outgoing	(353)	–
	(299)	–

* 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.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2003

8. DIRECTORS' REMUNERATION

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	
	2003	2002
	HK\$'000	HK\$'000
Fees:		
Executive directors	–	–
Non-executive directors	–	–
Independent non-executive directors	360	378
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	360	378
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Basic salaries, housing benefits, other allowances and benefits in kind:		
Executive directors	3,485	4,774
Non-executive directors	–	179
Independent non-executive directors	–	–
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	3,485	4,953
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Retirement benefits scheme contributions:		
Executive directors	58	65
Non-executive directors	–	–
Independent non-executive directors	18	–
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	76	65
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	3,921	5,396
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The number of directors whose remuneration fell within the following bands is as follows:

	Number of directors	
	2003	2002
HK\$Nil – HK\$1,000,000	9	9
HK\$1,000,001 – HK\$1,500,000	1	2
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	10	11
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NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2003

8. DIRECTORS' REMUNERATION (continued)

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

During the year, none of the directors or chief executives of the Company had any share options granted under the share option scheme adopted by the Company.

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 (2002: HK\$Nil).

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2002: five) directors, details of whose remuneration are out in note 8 above. Details of the remuneration of the remaining one (2002: Nil) senior management, highest paid employee during the year which fell within the HK\$Nil – HK\$1,000,000 disclosure band, are as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Basic salaries, housing benefits, other allowances and benefits in kind	650	–
Retirement benefits scheme contributions	12	–
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	662	–
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NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2003

10. FINANCE COSTS

	Group	
	2003	2002
	HK\$'000	HK\$'000
Interest on bank loans and overdrafts:		
Wholly repayable within five years	1,685	1,404
Repayable beyond five years	419	274
Interest on finance leases	21	50
Other interests	43	–
	2,168	1,728

11. TAX

- (a) The amount of taxation charged to the consolidated profit and loss account represents:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Current year provision:		
Hong Kong	–	84
Overseas	3,500	969
	3,500	1,053

No provision for Hong Kong profits tax is required since the Group has no estimated assessable profit for the year. The amount provided for the year ended 31 December 2002 was calculated at 16% based on the estimated assessable profit for that year.

Taxes on profits assessable overseas 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.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2003

11. TAX (continued)

- (b) Reconciliation between tax expenses and the Group's (loss)/profit before tax at applicable tax rates:

	2003	2002
	HK\$	HK\$
(Loss)/Profit before tax	(45,744)	9,902
Tax at the applicable rate of 17.5% (2002: 16%)	(8,005)	1,584
Tax effect of different tax rates in other jurisdictions	(5,500)	(194)
Tax effect of non-taxable income	(131)	(15,711)
Tax effect of non-deductible expenses	14,287	13,613
Unrecognised temporary differences	(185)	(13)
Tax losses not recognised	3,034	1,773
Tax surcharge	–	1
Taxation	3,500	1,053

In 2003 the Hong Kong government enacted a change in the profits tax rate from 16% to 17.5% for the year of assessment 2003/2004.

- (c) At the balance sheet date, unused tax losses are as follows:

	Group		Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Tax losses	(36,584)	(25,127)	(12,987)	(12,987)

Deferred tax asset has not been recognised in respect of the above tax losses carried forward because it is not probable that future taxable profits will be available against which the Group and the Company can utilise the benefits. The Group's tax losses amounting to HK\$12,939,000 (2002: HK\$6,257,000) expire 5 years from the year the tax losses were incurred. The remaining tax losses do not expire under the respective countries' tax legislation.

12. NET (LOSS)/PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 December 2003 dealt with in the financial statements of the Company, is approximately HK\$35,427,000 (2002: profit of HK\$1,084,000).

13. DIVIDENDS

No dividends have been paid or declared by the Company for the year ended 31 December 2003 (2002: HK\$ Nil).

14. (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share is based on the net (loss)/profit attributable to shareholders for the year of approximately HK\$31,853,000 (2002: profit of HK\$4,879,000), and the weighted average of 1,245,000,000 ordinary shares (2002: 1,245,000,000 shares after adjusting for bonus issue) in issue during the year.

Diluted (loss)/earnings per share amount has not been disclosed as no diluting events existed in both 2002 and 2003.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2003

15. FIXED ASSETS

Group

	Investment property HK\$'000	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 2003	–	16,500	124,921	14,776	156,197
Additions	7,406	26,401	34	140	33,981
Disposals/written off	–	–	(2,422)	(5,295)	(7,717)
Revaluation	–	435	(61,366)	(2,333)	(63,264)
Exchange realignment	–	–	–	(3)	(3)
At 31 December 2003	7,406	43,336	61,167	7,285	119,194
Analysis of cost or valuation					
At cost	7,406	–	–	–	7,406
At valuation	–	43,336	61,167	7,285	111,788
	7,406	43,336	61,167	7,285	119,194
Accumulated depreciation and impairment:					
At 1 January 2003	–	–	57,614	5,054	62,668
Charge for the year	–	342	9,351	1,653	11,346
Disposals/written off	–	–	(133)	(1,225)	(1,358)
Written back on revaluation	–	(342)	(64,753)	(2,524)	(67,619)
Exchange realignment	–	–	–	(2)	(2)
At 31 December 2003	–	–	2,079	2,956	5,035
Net book value:					
At 31 December 2003	7,406	43,336	59,088	4,329	114,159
At 31 December 2002	–	16,500	67,307	9,722	93,529

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2003

15. FIXED ASSETS (continued)

Company

	Leasehold improvements, furniture, office equipment and motor vehicles
	HK\$'000
Cost:	
At 1 January 2003	584
Additions	13
Disposals	(29)
<hr/>	
At 31 December 2003	568
<hr/>	
Accumulation depreciation:	
At 1 January 2003	117
Charge for the year	114
Disposals	(6)
<hr/>	
At 31 December 2003	225
<hr/>	
Net book value:	
At 31 December 2003	343
<hr/>	
At 31 December 2002	467
<hr/>	

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2003

15. FIXED ASSETS (continued)

- (a) The Group's investment property and leasehold land and buildings included above at their net book values are as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
In Hong Kong, held on:		
Medium term leases	7,406	–
Long term leases	16,635	15,600
	24,041	15,600
Outside Hong Kong, held on medium term leases	26,701	900

- (b) Leasehold land and buildings of the Group include land and buildings located in Mainland China with net book value of HK\$26,401,000 (2002: HK\$ Nil) in respect of which the Group is in the process of obtaining the relevant land use rights and building ownership certificates as at 31 December 2003.
- (c) 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 2003, amounted to approximately HK\$256,000 (2002: HK\$342,000).
- (d) During the year, except for investment property, the Group's fixed assets have been revalued as follows:
- (i) part of the fixed assets was revalued on the basis of fair market value in continued use, by LCH (Asia-Pacific) Surveyors Limited, independent professionally qualified valuers, at HK\$68,320,000 (2002: HK\$ Nil). The resulting revaluation surplus of approximately HK\$10,027,000 (2002: HK\$ Nil) has been transferred to assets revaluation reserve and the resulting revaluation deficit of approximately HK\$6,332,000 (2002: HK\$ Nil) has been charged to the profit and loss account.
 - (ii) the balance of the fixed assets were revalued by the directors at HK\$16,935,000 (2002: HK\$16,500,000). The resulting revaluation surplus of HK\$777,000 (2002: revaluation deficit of HK\$752,000) has been credited to the profit and loss account.

15. FIXED ASSETS (continued)

- (e) Had the Group's leasehold land and buildings, leasehold improvements, furniture, office equipment and motor vehicles been carried at historical cost less accumulated depreciation and impairment losses, their carrying amount would have been approximately HK\$72,690,000 (2002: HK\$17,540,000).
- (f) At 31 December 2003, the Group's investment property and leasehold land and buildings, with net book value amounted to approximately HK\$24,341,000 (2002: HK\$16,500,000) were pledged to secure banking facilities granted to the Group (note 27).
- (g) The Group's total future minimum lease payments of approximately HK\$135,000 under non-cancellable operating lease are receivable within one year.
- (h) Subsequent to the balance sheet date, the investment property and certain leasehold land and buildings were disposed (see note 39).

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2003

16. LONG TERM LEASE RIGHTS

Group

	HK\$'000
Cost:	
At 1 January 2003	22,808
Written off	(22,808)
<hr/>	
At 31 December 2003	–
<hr/>	
Accumulation amortisation and impairment:	
At 1 January 2003	13,600
Amortisation during the year	1,700
Written off	(15,284)
Exchange realignment	(16)
<hr/>	
At 31 December 2003	–
<hr/>	
Net book value:	
At 31 December 2003	–
<hr/>	
At 31 December 2002	9,208
<hr/>	

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2003

17. DEPOSITS PAID

	Group	
	2003	2002
	HK\$'000	HK\$'000
Deposits for investment (Note)	47,000	8,771
Deposits for purchases of investment property in Hong Kong	–	7,134
	47,000	15,905

Note:

The Company through its wholly owned subsidiary, Jackley International of America, Limited (“JIA”) entered into a conditional share acquisition agreement (“Agreement”) with a minority equity holder of Hui Yang Xie Kai Cheng Carpet Co., Ltd., a subsidiary of the Group (“Hui Yang Xie Kai Cheng”) on 15 September 2003 for the acquisition by JIA of the remaining 49% equity interest of Hui Yang Xie Kai Cheng for a consideration of HK\$62 million (notes 34 and 38).

As at 31 December 2003, certain conditions specified in the Agreement have not been fulfilled and, accordingly, the partial consideration paid by the Group amounted to HK\$47,000,000 is classified as deposits for investment.

In prior year, deposits for investment represented amounts paid for a proposed acquisition of a 100% equity interest in a company incorporated in the British Virgin Islands, which holds a trademark and technology knowhow for the manufacturing of biotechnology-based nutrition products. During the year, the directors conducted a detail review of the earning potential and financial position of this investment and decided to cease the acquisition of this investment. As a result, the deposit was fully written off and charged to the profit and loss account in the current year.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2003

18. INTERESTS IN SUBSIDIARIES

	Company	
	2003	2002
	HK\$'000	HK\$'000
Unlisted shares, at cost	77,479	77,479
Amounts due from subsidiaries	161,202	160,721
Amounts due to subsidiaries	(94,080)	(84,316)
	144,601	153,884
Impairment losses	(20,129)	–
	124,472	153,884

The balances with the subsidiaries 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	British Virgin Islands	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

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2003

18. INTERESTS 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)				
Charvix Jackley International Trading (Shanghai) Co., Ltd. */**	The People's Republic of China ("PRC")/ Mainland China	US\$200,000	100%	Trading of carpets
Hui Yang Xie Kai Cheng */***	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
JIA	Hong Kong	Ordinary HK\$10,000	100%	Investment holding
Jackley Macao Commercial Offshore Limited	Macau	Ordinary MOP1,000,000	100%	Trading of carpets
Sino Development Holdings Limited	Hong Kong	Ordinary HK\$10,000	100%	Property holding

* Statutory financial statements not audited by RSM Nelson Wheeler

** 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.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2003

19. INTEREST IN AN ASSOCIATE

	Group	
	2003	2002
	HK\$'000	HK\$'000
Share of net assets	–	–
Amount due from an associate	1,849	1,828
Provision for an amount due from an associate	(1,782)	–
	67	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.*	Corporation	Malaysia	Ringgit Malaysia 2	50%	Trading of nutrition products

* Not audited by RSM Nelson Wheeler

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

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2003

20. LOAN TO A DIRECTOR

Particulars of the loan to a director, disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance, are as follows:

Group

Name	31 December 2003 HK\$'000	Maximum amount outstanding during the year HK\$'000	1 January 2003 HK\$'000
Mr. Khoo Chuan Teng (executive director)	83	<u>520</u>	520
Portion classified as current assets	<u>(83)</u>		<u>(105)</u>
Long term portion	<u>–</u>		<u>415</u>

The loan granted to Mr. Khoo Chuan Teng is secured by freehold land and 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.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2003

21. AMOUNTS DUE FROM AN EX-DIRECTOR AND RELATED PARTIES

Details of amounts due from an ex-director and related parties are as follows:

Group

Name	31 December 2003 HK\$'000	Maximum amount outstanding during the year HK\$'000	1 January 2003 HK\$'000
Mr. LAM Yat Sing (Note 1)	121	121	121
Mr. LAM Chi Hung (Note 2)	71	71	71
Mr. LAM Chi On (Note 2)	19	19	19
	<u>211</u>	<u>211</u>	<u>211</u>

Note 1:

Mr. LAM Yat Sing ("Ex-director") resigned as a director of the Company on 8 July 2003.

Note 2:

Mr. LAM Chi Hung and Mr. LAM Chi On are the brothers of Mr. LAM Yat Sing.

Note 3:

The amounts due from an ex-director and related parties are unsecured, non-interest bearing and are repayable on demand.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2003

22. INVENTORIES

	Group	
	2003	2002
	HK\$'000	HK\$'000
Raw materials	760	7,168
Work in progress	657	661
Finished goods	1,975	37,785
	3,392	45,614

At 31 December 2003 the carrying amount of inventories that are carried at net realisable value amounted to HK\$779,000 (2002: HK\$Nil).

23. TRADE RECEIVABLES

The Group normally allows credit terms ranging from 30 to 120 days to established customers.

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	
	2003	2002
	HK\$'000	HK\$'000
1-90 days	51,554	10,916
91-120 days	42	8,107
121-365 days	393	14,718
Over 1 year	220	–
	52,209	33,741

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2003

24. LOANS RECEIVABLE

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Loans receivable	2,401	6,653	1,995	6,047
Provision for bad and doubtful debts	(1,200)	–	(900)	–
	1,201	6,653	1,095	6,047

The prior year balance included an interest-bearing loan advanced to a third party (“Immediate borrower”) of HK\$6 million. The Immediate borrower subsequent advanced the said sum to the ultimate borrower. On 19 December 2003, a deed of settlement and compromise was entered into between the Immediate borrower and the ultimate borrower in which a compromised balance of HK\$1,995,000 is agreed to be repaid in four installments. Provisions have been made in the current year’s financial statements to the extent considered necessary by the directors of the Company.

25. SHORT TERM INVESTMENTS

	Group	
	2003 HK\$'000	2002 HK\$'000
Listed equity investments, at market value		
– Hong Kong	297	3,632

26. 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\$708,000 (2002: HK\$22,449,000). 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.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2003

27. INTEREST-BEARING BANK BORROWINGS

	Group		Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank overdrafts, secured	3,721	34,009	746	28,012
Trust receipt loans, secured	18,990	25,081	-	-
Bank loans secured and repayable:				
Within one year	17,310	5,911	-	-
In the second year	-	2,118	-	-
In the third to fifth years, inclusive	-	5,045	-	-
Over five years	-	10,130	-	-
	17,310	23,204	-	-
Portion classified as current liabilities	40,021	82,294	746	28,012
	(40,021)	(65,001)	(746)	(28,012)
Long term portion	-	17,293	-	-

At 31 December 2003, the Group's banking facilities were secured by the following:

- (i) first legal charges on the Group's investment property, leasehold land and buildings;
and
- (ii) corporate guarantees given by the Company and subsidiaries of the Company.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2003

28. FINANCE LEASE PAYABLE

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 2003, the total future minimum lease payments under the finance lease and its present value, were as follows:

	Group			
	Minimum	Present	Minimum	Present
	lease	value of	lease	value of
	payments	minimum	payments	minimum
	2003	lease	2002	lease
	HK\$'000	payments	HK\$'000	payments
		2003		2002
		HK\$'000		HK\$'000
Amounts payable:				
Within one year	88	78	88	84
In the second year	88	75	88	77
In the third to fifth years, inclusive	66	64	153	122
Total minimum finance lease payments	242	217	329	283
Future finance charges	(25)		(46)	
Total net finance lease payable	217		283	
Portion classified as current liabilities	(78)		(84)	
Long term portion	139		199	

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2003

29. 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	
	2003	2002
	HK\$'000	HK\$'000
1-90 days	3,513	5,636
91-120 days	496	677
121-365 days	7,251	1,389
Over 1 year	1,970	–
	13,230	7,702

Included in trade payable was an amount of approximately HK\$7 million due to a creditor, Interface Heuga Singapore Pte Ltd. (“Interface”). During the year, Interface applied for a winding up petition against the Company for the outstanding debts and interest accrued on the debts (note 35(b)).

30. OTHER PAYABLES AND ACCRUALS

Included in other payables and accruals of the Group and the Company were amounts of approximately HK\$1,685,000 (2002: HK\$655,000) and HK\$1,447,000 (2002: HK\$580,000) due to six directors and an ex-director of the Company respectively. The amounts were unsecured, interest-free and have no fixed terms of repayments.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2003

31. SHARE CAPITAL

	2003	2002
	HK\$'000	HK\$'000
<i>Authorised:</i>		
2,000,000,000 (2002: 2,000,000,000)		
ordinary shares of HK\$0.1 each	200,000	200,000
<i>Issued and fully paid:</i>		
1,245,000,000 (2002: 1,245,000,000)		
ordinary shares of HK\$0.1 each	124,500	124,500

32. SHARE OPTION SCHEME

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, 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 adopted on 6 June 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

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 issued at any time. On 2 December 2003, options carrying the rights to subscribe for 84,896,000 shares, representing approximately 6.82% of the issued share capital of the Company as at the date of adoption of the Scheme, have been lapsed following the expiry of the exercise period of share options. Subsequently, no share options were granted under the Scheme. Therefore, at 31 December 2003, the number of share issuable under share options granted under the Scheme was zero.

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 limited is subject to shareholders' approval in a general meeting.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2003

32. SHARE OPTION SCHEME (continued)

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.

The following table represents the share options under the Scheme during the year:

Category or name of participant	Number of share options					Date of grant of share options*	Exercise period of share options	Price of Company's shares***		
	At 1 January 2003	Granted during the year	Exercised during the year	Expired/lapsed during the year	At 31 December 2003			Exercise price of share options**	At grant date of options	At exercise date of options
								HK\$	HK\$	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	-

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2003

32. SHARE OPTION SCHEME (continued)

Category or name of participant	Number of share options					Date of grant of share options*	Exercise period of share options	Price of Company's shares***		
	At 1 January 2003	Granted during the year	Exercised during the year	Expired/lapsed during the year	At 31 December 2003			Exercise price of share options** HK\$	At grant date of options HK\$	At exercise date of options HK\$
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	-

* 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.

**** The share options granted to Mr. Lam Yat Sing have been lapsed following the resignation of Mr. Lam on 8 July 2003.

At the balance sheet date, all share options outstanding under the Scheme were expired.

33. 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 28 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.

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.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2003

33. RESERVES (continued)

(b) Company

	Share premium account HK\$'000	Retained profits /(Accumulated losses) HK\$'000	Total HK\$'000
At 1 January 2002	86,057	25,598	111,655
Bonus issue of share	(83,000)	–	(83,000)
Net profit for the year	–	1,084	1,084
<hr/>			
At 31 December 2002 and 1 January 2003	3,057	26,682	29,739
Net loss for the year	–	(35,427)	(35,427)
<hr/>			
At 31 December 2003	3,057	(8,745)	(5,688)

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 therefore; (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.

34. MAJOR NON-CASH TRANSACTION

As detailed in note 17 to the financial statements, deposits of HK\$47 million have paid as part of the consideration for acquisition a 49% interest in a subsidiary which was satisfied by the transfer of Group's inventories of HK\$25 million and the assignment of the Group's trade receivables of HK\$22 million.

35. CONTINGENT LIABILITIES

As at 31 December 2003, the Group did not have any significant contingent liabilities except as described below:—

- (a) In November 2003, one of the Company's wholly-owned subsidiaries had entered into a sale and purchase contract for disposal of its leasehold land and buildings situated at Shun Tak Centre with an independent third party.

Subsequent to the financial year-end, the subsidiary has received a Writ of Summons for liquidated damages for breach of the sale and purchase contract. The Directors are of the opinion that the outcome of the case has no significant impact on the Group and thus no provision is necessary.

- (b) In December 2003, the Company and one of its wholly-owned subsidiaries were brought into litigation by a major supplier for the Group's carpet-tile business for a winding-up intention over some disputed trade debts, amounting to approximately HK\$8 million ("judgment debts") of which HK\$7 million was provided in the Group's financial statements. The Company had filed in an application to the High Court for an interim stay of execution in respect of the judgment debts and has successfully obtained a court order in early February 2004. The Company had opposed to litigation on grounds that its abovementioned subsidiary has a counterclaim against the said supplier for breach of a distribution agreement with a claim for damages exceeding the judgment debts.
- (c) As at 31 December 2003, the Company had provided corporate guarantees to banks for banking facilities extended to certain subsidiaries of approximately HK\$59,710,000 (2002: HK\$97,447,000). These banking facilities had been utilised to the extent of approximately HK\$39,264,000 (2002: HK\$54,456,000) as at the balance sheet date.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2003

36. 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 two years.

At 31 December 2003, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	603	4,900	–	996
In the second to fifth years, inclusive	58	15,609	–	3,284
After five years	–	1,000	–	–
	661	21,509	–	4,280

37. COMMITMENTS

In addition to the capital commitments as disclosed in note 38 below and the operating lease commitments detailed in note 36 above, the Group and the Company did not have any significant commitments as at 31 December 2003 (2002: HK\$ Nil).

38. RELATED PARTY TRANSACTIONS

Pursuant to a conditional share acquisition agreement (“Agreement”) entered into on 15 September 2003, the Company, through its indirectly wholly-owned subsidiary, has conditionally agreed to acquire from Shenzhen Hao Sheng He Industrial Company Limited (“Vendor”), its 49% minority equity interest in Hui Yang Xie Kai Cheng for a total consideration of HK\$62 million. A substantial amount of the consideration in the forms of inventory and trade receivables, valued at HK\$47 million has been satisfied by the Group to the Vendor before the balance sheet date. The balance of the consideration, being HK\$15 million, shall be satisfied by the allotment and issue by the Company of the consideration shares to the Vendor at HK\$0.30 per Share. The consideration shares being approved by the Hong Kong Stock Exchange represent approximately 4.02% of the existing issued share capital of the Company and approximately 3.86% of the issue share capital of the Company as enlarged by the issue of the consideration shares upon completion of the transactions contemplated by the Agreement.

38. RELATED PARTY TRANSACTIONS (continued)

The completion of the acquisition is conditional upon the condition under the Agreement being satisfied on or before 31 October 2003. As at the balance sheet date, the acquisition is yet to be completed due to the delay caused by the Vendor in fulfilling some of the conditions as stated under the Agreement. The Vendor has agreed to extend the completion date for the Agreement to a later date.

Apart from the above and the transactions and balances detailed in note 17, 19, 20, 21 and 30 in these financial statements, the Group had no other material transaction with related parties during the year.

39. POST BALANCE SHEET EVENTS

- (a) Subsequent to the balance sheet date, the appointed receiver of a property owned by a wholly-owned subsidiary entered into a sale and purchase agreement to dispose of the property for a total consideration of HK\$22 million. The consideration thereof upon completion of the sale will be utilised to settle the corresponding secured bank borrowing and related expenses of approximately HK\$9.2 million of the said subsidiary. The remaining balances of the proceeds will be utilised to repay an outstanding bank borrowing indebtedness by another wholly-owned subsidiary that had given a corporate guarantee to the bank.
- (b) On April 2004, the abovementioned wholly-owned subsidiary has entered into another provisional sale and purchase agreement to dispose of the investment property for a total cash consideration of HK\$7.5 million. The proceed from the sale will be utilised partly to settle the corresponding secured bank borrowing and related expenses of approximately HK\$4.7 million of the said subsidiary and remaining thereof will be applied to pay down the bank borrowing for another subsidiary of the Company that has given a corporate guarantee to the bank.

Upon completion of the abovementioned sale of properties, the Group's bank borrowing exposure will be reduced from HK\$40 million to approximately HK\$11 million.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2003

39. POST BALANCE SHEET EVENTS (continued)

- (c) Pursuant to a subscription agreement entered subsequent to the balance sheet date, an independent party has agreed to subscribe at HK\$0.10 per share in cash for 200,000,000 new shares of the Company. The Subscription upon completion represent 16.06% of the existing issued share capital and approximately 13.84% of the issued share capital of the Company enlarged by the subscription. The net proceeds from the subscription upon completion amounting to approximately HK\$18 million will be used as general working capital for the Group. The subscription is conditional and as at the date of this report the transaction has yet to be completed.

40. COMPARATIVE AMOUNTS

The comparative figures were audited by another firm of Certified Public Accountants in Hong Kong. Certain figures have been reclassified to conform with the current year's presentation.

41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 29 April 2004.