

# Notes to Financial Statements

For the year ended 31 December 2004

## 1. CORPORATE INFORMATION

The principal place of business of the Company is located at 8th Floor, Luk Kwok Centre, No. 72 Gloucester Road, Wanchai, Hong Kong.

The principal activity of the Company is investment holding. The principal activities of the Company principal subsidiaries are set out in note 16 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 2004, the Group had net current liabilities of approximately HK\$20,209,000 which included current bank obligations of approximately HK\$10,049,000. In addition, one of the Company's wholly-owned subsidiary was brought into litigation by Fordpointer Shipping Company Limited in respect of the investment property of the said wholly owned subsidiary. Further details have been disclosed in the prospectus issued by the Company on 29 March 2005.

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) in January 2005, the Company issued 50,000,000 shares at HK\$0.30 per share to Shenzhen Hao Sheng He Industrial Company Limited to complete the balance of the consideration of the conditional share acquisition agreement ("Agreement") entered into on 15 September 2003. The said share issuance has reduced the net current liabilities of the Group as at 31 December 2004 by HK\$15,000,000.
- c) subsequent to the balance sheet date, the Group entered into an underwriting agreement to raise approximately HK\$13.9 million before expenses, by issuing 69,500,000 offer shares at the price of HK\$0.20 per offer share by way of an open offer, payable in full on application on the basis of one offer share for every two new shares held on 10 March 2005. The offer shares was fully subscribed by the shareholders and underwriter in April 2005 and the funds are used to pay down the outstanding bank borrowings and indebtedness due to independent third parties. Further details of the open offer are set out in the prospectus issued by the Company on 29 March 2005.

# Notes to Financial Statements

For the year ended 31 December 2004

## 2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (Continued)

- d) the Company entered into a subscription agreement for the issue of convertible note ("Subscription Agreement") in an aggregate principal of HK\$33 million to a subscriber. The subscriber will have the right to convert the whole integral multiple of HK\$ 1 million of the principal amount of the convertible note into shares at any time before the maturity date falling on the second anniversary from the date of issue of the convertible note at the initial conversion price of HK0.12 per share. Completion of the said Subscription Agreement is conditional upon fulfillment of the conditions including, (i) the Hong Kong Stock Exchange Limited ("HKSE") granting approval for the listing of, and permission to deal in, the conversion shares (ii) the granting of the whitewash waiver by the Executive Director of the Corporate Finance Division of the SFC; and (iii) the passing of the relevant resolutions at the Extraordinary General Meeting ("EGM") to approve the subscription, issue of the convertible note and whitewash waiver. Further details of the subscription are set out in announcement issued by the Company on 15 April 2005.

The directors are confident that following the pay down of outstanding bank borrowing and loans due to independent third parties, the Group will continue to receive support from its bankers and related parties.

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 related parties, the Group will have sufficient working capital to meet its current and future requirement. Accordingly, the directors are satisfied that the Group will be able to continue as a going concern and that it is appropriate to prepare the financial statement on a going concern basis, notwithstanding the Group's position and tight cash flow position as at 31 December 2004 and at the date of approval of these financial statements.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of preparation

The 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.

The Hong Kong Institute of Certified Public Accountants ("HKICPA") has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005.

The Group has not early adopted those new HKFRSs in the financial statements for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of those new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

# Notes to Financial Statements

For the year ended 31 December 2004

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of interests in a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account and any related exchange fluctuation reserve.

Minority interests represent the interests of outside shareholders in the operating 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 amounts outstanding and the effective interest rate applicable; and
- (c) rental and sub-leasing rental income are recognised on a time proportion basis in accordance with the terms and conditions of the tenancy agreement.

# Notes to Financial Statements

For the year ended 31 December 2004

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Leased assets

Leases that transfer substantially all the risks and rewards 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.

### 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.

Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivables under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms.

### Employee benefits

#### (a) *Employee leave entitlement*

Employee entitlements to annual leave and long service leave are recognised when they are accrued to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

# Notes to Financial Statements

For the year ended 31 December 2004

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Employee benefits (Continued)

#### **(b) 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.

#### **(c) 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.

# Notes to Financial Statements

For the year ended 31 December 2004

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Dividends (Continued)

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.

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.

# Notes to Financial Statements

For the year ended 31 December 2004

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 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, 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.

### 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 2004

## 3. 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.

### 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.

### Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date acquisition.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate.

The carrying amount of goodwill is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.



# Notes to Financial Statements

For the year ended 31 December 2004

## 3. 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 a 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.

### Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowable. Profits tax is provided at the rate prevailing for the year based on the assessable profit for the year less allowable losses, if any, brought forward.

Deferred taxation is provided in full, using the balance sheet 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 to it is probable that future taxable profit will be available against which the temporary difference can be utilised.

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 associate, except where the timing of the renewal 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.

# Notes to Financial Statements

For the year ended 31 December 2004

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 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 an 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.

### 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.

### 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 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.

# Notes to Financial Statements

For the year ended 31 December 2004

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 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.

### Borrowing costs

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

### Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the combination process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets that are expected to be used for more than one year.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interest.

# Notes to Financial Statements

*For the year ended 31 December 2004*

## 4. 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 of details of the business segments are as follows:

- (a) the manufacturing of carpets segment represents the manufacturing 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 2004

## 4. 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.

	Manufacturing of carpets		Trading of carpets		Consolidated	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Segment revenue:						
Sales to external customers	<b>8,587</b>	87,334	<b>10,973</b>	40,004	<b>19,560</b>	127,338
Segment results	<b>(13,292)</b>	(7,447)	<b>(11,913)</b>	(4,884)	<b>(25,205)</b>	(12,331)
Unallocated revenue					<b>135</b>	3,382
Provision for impairment losses of goodwill					<b>(35,750)</b>	–
Provision for compensation expenses					<b>(4,656)</b>	–
Other unallocated expenses					<b>(9,027)</b>	(34,627)
Loss from operating activities					<b>(74,503)</b>	(43,576)
Finance costs					<b>(3,290)</b>	(2,168)
Loss before taxation					<b>(77,793)</b>	(45,744)
Taxation credit/(charge)					<b>84</b>	(3,500)
Loss before minority interests					<b>(77,709)</b>	(49,244)
Minority interests					<b>223</b>	17,391
Net loss from ordinary activities attributable to shareholders					<b>(77,486)</b>	(31,853)

# Notes to Financial Statements

For the year ended 31 December 2004

## 4. SEGMENT INFORMATION (Continued)

### (a) Business segments (continued)

	Manufacturing of carpets		Trading of carpets		Unallocated		Consolidated	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Segment assets	130,842	140,367	8,275	7,259	–	–	139,117	147,626
Unallocated assets	–	–	–	–	36,378	73,264	36,378	73,264
<b>Total assets</b>	<b>130,842</b>	<b>140,367</b>	<b>8,275</b>	<b>7,259</b>	<b>36,378</b>	<b>73,264</b>	<b>175,495</b>	<b>220,890</b>
Segment liabilities	12,603	5,801	20,300	29,412	–	–	32,903	35,213
Unallocated liabilities	–	–	–	–	62,090	40,974	62,090	40,974
<b>Total liabilities</b>	<b>12,603</b>	<b>5,801</b>	<b>20,300</b>	<b>29,412</b>	<b>62,090</b>	<b>40,974</b>	<b>94,993</b>	<b>76,187</b>
Other segment information:								
Depreciation	6,634	10,464	215	455	–	–	6,849	10,919
Unallocated depreciation	–	–	–	–	31	427	31	427
	<b>6,634</b>	<b>10,464</b>	<b>215</b>	<b>455</b>	<b>31</b>	<b>427</b>	<b>6,880</b>	<b>11,346</b>
Amortisation	–	1,700	–	–	–	–	–	1,700
Capital expenditure	17	26,532	1,307	30	–	–	1,324	26,562
Unallocated capital expenditure	–	–	–	–	597	7,419	597	7,419
	<b>17</b>	<b>26,532</b>	<b>1,307</b>	<b>30</b>	<b>597</b>	<b>7,419</b>	<b>1,921</b>	<b>33,981</b>
Non cash expenses								
Provision for bad and doubtful debts	1,416	6,903	610	2,581	3,301	2,995	5,327	12,479
Provision for impairment losses of goodwill	–	–	–	–	35,750	–	35,750	–
Provision for compensation expenses	–	–	–	–	4,656	–	4,656	–
Provision for deposits paid written back	–	–	–	–	(1,000)	–	(1,000)	–
Others	1,338	20,096	2,599	887	514	18,886	4,451	39,869
	<b>2,754</b>	<b>26,999</b>	<b>3,209</b>	<b>3,468</b>	<b>43,221</b>	<b>21,881</b>	<b>49,184</b>	<b>52,348</b>

# Notes to Financial Statements

For the year ended 31 December 2004

## 4. 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		Overseas		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	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	<b>7,076</b>	19,650	<b>657</b>	-	<b>10,586</b>	59,490	<b>225</b>	25	<b>1,016</b>	48,173	<b>19,560</b>	127,338
Other segment information:												
Segment assets	<b>44,653</b>	27,490	<b>3</b>	85	<b>82,889</b>	143,477	-	1,884	<b>47,950</b>	47,954	<b>175,495</b>	220,890
Capital expenditure	<b>1,904</b>	7,433	-	-	<b>17</b>	26,548	-	-	-	-	<b>1,921</b>	33,981

# Notes to Financial Statements

For the year ended 31 December 2004

## 5. 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:

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
<b>Turnover</b>		
Sale of goods	<b>19,560</b>	127,338
<b>Other revenue</b>		
Interest income	–	277
Rental and sub-leasing rental income	<b>177</b>	54
	<b>177</b>	331
<b>Gains</b>		
Gain on the write off of investment in a subsidiary	–	71
Revaluation surplus on fixed assets	–	777
	–	848
	<b>177</b>	1,179



# Notes to Financial Statements

For the year ended 31 December 2004

## 6. LOSS FROM OPERATING ACTIVITIES

The Group's loss from operating activities is arrived at after charging and crediting the following:

	2004 HK\$'000	2003 HK\$'000
<b>Charging:</b>		
Cost of inventories sold	15,280	73,015
Depreciation		
– owned fixed assets	6,831	11,261
– leased fixed assets	49	85
	<b>6,880</b>	11,346
Amortisation of long term lease rights*	–	1,700
Minimum lease payments under operating leases on		
– leasehold land and buildings	655	2,797
– office equipment	–	148
Staff costs (excluding directors' remuneration – note 7)		
– wages and salaries	6,631	6,576
– retirement benefits scheme contributions	253	338
	<b>6,884</b>	6,914
Auditors' remuneration	695	800
Net exchange losses	–	470
Loss on disposals of fixed assets, net**	–	2,274
Net unrealised loss on short term investments**	–	3,335
Provision for an amount due from an associate**	–	1,782
Fixed assets written off**	994	3,710
Realised loss on short term investment **	88	–
Provision for slow-moving and net realisable value of inventories**	829	279
Provision for impairment losses of goodwill**	35,750	–
Provision for compensation expenses**	4,656	–
Write off of amount due from ex-minority shareholders**	4,350	–
Provision for loans receivable**	–	1,200
Deposits paid written off**	–	9,161

# Notes to Financial Statements

For the year ended 31 December 2004

## 6. LOSS FROM OPERATING ACTIVITIES (Continued)

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Bad debts written off**	<b>207</b>	4,272
Provision for bad and doubtful debts**	<b>5,327</b>	12,479
Long term lease rights written off**	–	7,524
Revaluation deficit on fixed assets**	–	6,332
<b>Crediting:</b>		
Gross rental and sub-leasing rental income	<b>177</b>	54
Less: outgoings	<b>(32)</b>	(353)
	<b>145</b>	(299)
Gain on disposal of subsidiaries**	<b>1,222</b>	–
Gain on disposals of fixed assets, net**	<b>4,713</b>	–
Provision for salary provision written back**	<b>1,333</b>	–
Provision for loans receivable written back**	<b>900</b>	–
Provision for deposits paid written back**	<b>1,000</b>	–

\* 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 2004

## 7. 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	
	2004 HK\$'000	2003 HK\$'000
Fees:		
Executive directors	–	–
Non-executive directors	–	–
Independent non-executive directors	380	360
	<b>380</b>	360
Basic salaries, housing benefits, other allowances and benefits in kind:		
Executive directors	455	3,485
Non-executive directors	–	–
Independent non-executive directors	–	–
	<b>455</b>	3,485
Retirement benefits scheme contributions:		
Executive directors	8	58
Non-executive directors	–	–
Independent non-executive directors	–	18
	<b>8</b>	76
	<b>843</b>	3,921

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

	Number of directors	
	2004	2003
HK\$Nil – HK\$1,000,000	10	9
HK\$1,000,001 – HK\$1,500,000	–	1
	<b>10</b>	10

# Notes to Financial Statements

For the year ended 31 December 2004

## 7. DIRECTORS' REMUNERATION (Continued)

During the year, four (2003: two) directors waived HK\$2,056,000 (2003: HK\$1,333,000) of their emoluments for the year ended 31 December 2004.

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 (2003: Nil).

## 8. FIVE HIGHEST PAID EMPLOYEES

None of the directors (2003: four) was included in the five highest paid employees during the year, details of whose remuneration are set out in note 7 above. Details of the remuneration of the five highest paid employees (2003: one) during the year which fell within the HK\$Nil – HK\$1,000,000 disclosure band, are as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Basic salaries, housing benefits, other allowances and benefits in kind	2,288	650
Retirement benefits scheme contributions	34	12
	<b>2,322</b>	<b>662</b>

During the year, no emoluments were paid by the Group to the five highest paid employees as an inducement to join, or upon joining the Group, or as compensation for loss of office (2003: Nil).

# Notes to Financial Statements

For the year ended 31 December 2004

## 9. FINANCE COSTS

	Group	
	2004	2003
	HK\$'000	HK\$'000
Interest on bank loans and overdrafts:		
– wholly repayable within five years	1,711	1,685
– repayable beyond five years	–	419
Interest on finance leases	35	21
Other interests	1,544	43
	<b>3,290</b>	<b>2,168</b>

## 10. TAXATION CREDIT/(CHARGE)

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

	Group	
	2004	2003
	HK\$'000	HK\$'000
Hong Kong profits tax		
– over-provision in previous year	84	–
Overseas taxation		
– current	–	(3,500)
Taxation credit/(charge) for the year	<b>84</b>	<b>(3,500)</b>

No provision for Hong Kong profits tax is required since the Group has no estimated assessable profit for the year.

Taxes on profits assessable overseas have been calculated at the applicable rates of taxation prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

One of the Company's subsidiaries operating in the Mainland China is exempted 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 2004

## 10. TAXATION CREDIT/(CHARGE) (continued)

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

	<b>2004</b>	2003
	<b>HK\$</b>	HK\$
Loss before taxation	<b>(77,793)</b>	(45,744)
Tax at the applicable rate of 17.5% (2003: 17.5%)	<b>(13,613)</b>	(8,005)
Tax effect of different tax rates in other jurisdictions	–	(5,500)
Tax effect of non-taxable income	<b>(1,865)</b>	(131)
Tax effect of non-deductible expenses	<b>9,773</b>	14,287
Tax effect of unrecognised temporary differences	<b>(48)</b>	(185)
Tax effect of tax losses not recognised	<b>5,753</b>	3,034
Over-provision of taxation in previous years	<b>(84)</b>	–
Taxation credit/(charge)	<b>(84)</b>	3,500

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

	<b>Group</b>		<b>Company</b>	
	<b>2004</b>	2003	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
Tax losses	<b>54,691</b>	36,584	<b>16,592</b>	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\$23,701,000 (2003: HK\$12,939,000) expire 5 years from the year the tax losses were incurred. The remaining tax losses do not expire under the respective countries' tax legislation.

# Notes to Financial Statements

For the year ended 31 December 2004

## 11. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 December 2004 dealt with in the financial statements of the Company, is approximately HK\$86,168,000 (2003: HK\$35,427,000).

## 12. DIVIDENDS

No dividends have been paid or declared by the Company for the year ended 31 December 2004 (2003: HK\$ Nil).

## 13. LOSS PER SHARE

- (a) The calculation of basic loss per share is based on the net loss attributable to shareholders for the year of approximately HK\$77,486,000 (2003: HK\$31,853,000), and the weighted average of 1,259,054,795 ordinary shares in issue during the year (2003: 1,245,000,000).
- (b) The calculation of diluted loss per share is based on the net loss attributable to shareholders for the year of approximately HK\$77,486,000 (2003: HK\$31,853,000). The weighted average number of ordinary shares used in the calculation is the 50,000,000 ordinary shares deemed issue for acquisition of further equity interest in a subsidiary and the deemed ordinary shares issued under the open offer after the capital reorganisation on the basis of one offer share for every two new shares held on 10 March 2005 was effective from 1 January 2003 and the weighted average of 1,976,383,562 (2003: 1,940,000,000) as used in the basic loss per share calculation.
- (c) Reconciliation

	<b>2004</b>	2003
	<b>Number of</b>	Number of
	<b>shares</b>	shares
Weighted average number of ordinary shares used in calculating basic loss per share	<b>1,259,054,795</b>	1,245,000,000
Deemed issue of ordinary shares for no consideration	<b>22,328,767</b>	–
Deemed issue of ordinary shares under open offer	<b>695,000,000</b>	695,000,000
Weighted average number of ordinary shares used in calculating diluted loss per share	<b>1,976,383,562</b>	1,940,000,000

# Notes to Financial Statements

For the year ended 31 December 2004

## 14. 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 vehicle HK\$'000	Total HK\$'000
<b>Cost or valuation</b>					
At 1 January 2004	7,406	43,336	61,167	7,285	119,194
Acquired on acquisition of a subsidiary	–	–	–	911	911
Additions	–	–	–	1,921	1,921
Disposals	(7,406)	(16,936)	–	(1,763)	(26,105)
Write off	–	–	–	(3,458)	(3,458)
Disposal of subsidiaries	–	–	–	(769)	(769)
At 31 December 2004	–	26,400	61,167	4,127	91,694
<b>Analysis of cost or valuation</b>					
At cost	–	–	–	–	–
At valuation	–	26,400	61,167	4,127	91,694
	–	26,400	61,167	4,127	91,694
<b>Accumulated depreciation and impairment</b>					
At 1 January 2004	–	–	2,079	2,956	5,035
Acquired on acquisition of a subsidiary	–	–	–	707	707
Charge for the year	–	562	4,988	1,330	6,880
Disposals	–	–	–	(800)	(800)
Write off	–	–	–	(2,464)	(2,464)
Disposal of subsidiaries	–	–	–	(320)	(320)
At 31 December 2004	–	562	7,067	1,409	9,038
<b>Net book value</b>					
At 31 December 2004	–	25,838	54,100	2,718	82,656
At 31 December 2003	7,406	43,336	59,088	4,329	114,159



# Notes to Financial Statements

For the year ended 31 December 2004

## 14. FIXED ASSETS (Continued)

### Company

**Leasehold improvements,  
furniture, office equipment  
and motor vehicle**  
HK\$'000

#### Cost:

At 1 January 2004	568
Additions	447
Disposals	(568)
At 31 December 2004	447

#### Accumulated depreciation:

At 1 January 2004	225
Charge for the year	18
Disposals	(225)
At 31 December 2004	18

#### Net book value:

At 31 December 2004	429
At 31 December 2003	343

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

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
In Hong Kong, held on:		
Medium term leases	–	7,406
Long term leases	–	16,635
	–	24,041
Outside Hong Kong, held on medium term leases	<b>25,838</b>	26,701

# Notes to Financial Statements

For the year ended 31 December 2004

## 14. FIXED ASSETS (Continued)

- (b) The net book value of the Group's motor vehicle held under a finance lease included in the total amount of fixed assets at 31 December 2004, amounted to approximately HK\$137,500 (2003: HK\$256,000).
- (c) The Group's fixed assets other than leasehold land and buildings are stated at their estimated open market value as determined by the directors at the balance sheet date.
- (d) The Group's leasehold land and buildings under medium term leases outside Hong Kong were revalued at 30 June 2004 on the basis of depreciated replacement cost in existing state by LCH (Asia-Pacific) Surveyors Limited, an independent firm of professional valuers. No surplus or deficit arising on revaluation has been adjusted to the revaluation reserve account.
- (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 amounts would have been approximately HK\$54,970,000 (2003: HK\$72,690,000).

## 15. DEPOSITS PAID

	Group	
	2004	2003
	HK\$'000	HK\$'000
Deposits for investment	–	47,000

## 16. INVESTMENTS IN SUBSIDIARIES

	Company	
	2004	2003
	HK\$'000	HK\$'000
Unlisted shares, at cost	76,432	77,479
Due from subsidiaries	93,831	161,202
Due to subsidiaries	–	(94,080)
	170,263	144,601
Provision for impairment losses	(93,831)	(20,129)
	76,432	124,472

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

# Notes to Financial Statements

For the year ended 31 December 2004

## 16. INVESTMENTS 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
<b>Directly held</b>				
Jackley China Limited	British Virgin Islands	Ordinary US\$100	100%	Investing holding
<b>Indirectly held</b>				
Best Capital International Limited	Hong Kong	Ordinary HK\$100	100%	Securities investment
Orient Carpet Trading Limited (Formerly known as Charvix Jackley Company Limited)	Hong Kong	Ordinary HK\$8,000,000	100%	Trading and installation of carpets
Orient Carpet Trading (Shanghai) Limited (Formerly known as Charvix Jackley International Trading (Shanghai) Co., Ltd. */**)	The People's Republic of China/ Mainland China	US\$200,000	100%	Trading of carpets
Hui Zhou Orient Carpet Manufacturing Co., Ltd. (Formerly known as Hui Yang Xie Kai Cheng Carpet Co., Ltd. */**)	The People's Republic of China/ Mainland China	US\$4,940,000	100%	Manufacture and sale of carpets

# Notes to Financial Statements

For the year ended 31 December 2004

## 16. INVESTMENTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ establishment and operations	Paid-up share/ registered capital	Percentage of equity attributable to the Company	Principal Activities
<b>Indirectly held (Continued)</b>				
Orient Finance (Hong Kong) Limited (Formerly known as Jackley Finance Limited)	Hong Kong	Ordinary HK\$10,000	100%	Provision of finance
Orient Carpet Manufacturing (Hong Kong) Limited (Formerly known as 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\$20,000 (2003: HK\$10,000)	76% (2003: 51%)	Trading of carpets
International Carpet Co. Limited (Formerly known as DNTC Investment Limited)	Hong Kong	Ordinary HK\$2,000,000	51%	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 People's Republic of China ("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 2004

## 17. INTEREST IN AN ASSOCIATE

	Group	
	2004	2003
	HK\$'000	HK\$'000
Share of net assets	–	–
Amount due from an associate	–	1,849
Provision for an amount due from an associate	–	(1,782)
	–	67

The shareholding in an associate comprises equity shares held through a wholly-owned subsidiary. The wholly-owned subsidiary was disposed of during the year.

## 18. GOODWILL

	Group	
	2004	2003
	HK\$'000	HK\$'000
<b>Cost</b>		
Additions	71,500	–
Provision for impairment losses	(35,750)	–
At 31 December 2004	35,750	–

The amounts capitalised in the consolidated balance sheet represent the goodwill arising from the acquisition of a subsidiary and further acquisition of interest in another subsidiary.

# Notes to Financial Statements

For the year ended 31 December 2004

## 19. 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	Maximum amount outstanding		
	31 December 2004	during the year	1 January 2004
Name	HK\$'000	HK\$'000	HK\$'000
Mr. Khoo Chuan Teng (ex-executive director)	–	83	83
Portion classified as current assets	–		(83)
Long term portion	–		–

## 20. AMOUNTS DUE FROM AN EX-DIRECTOR AND RELATED PARTIES

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

Group	Maximum amount outstanding		
	31 December 2004	during the year	1 January 2004
Name	HK\$'000	HK\$'000	HK\$'000
Mr. LAM Yat Sing	–	121	121
Mr. LAM Chi Hung	–	71	71
Mr. LAM Chi On	–	19	19
	–		211

The amounts due from an ex-director and related parties were written off during the year.

# Notes to Financial Statements

For the year ended 31 December 2004

## 21. INVENTORIES

	Group	
	2004	2003
	HK\$'000	HK\$'000
Raw materials	639	760
Work in progress	–	657
Finished goods	885	1,975
	<b>1,524</b>	<b>3,392</b>

At 31 December 2004 the carrying amount of inventories that are carried at net realisable value is approximately HK\$229,000 (2003: HK\$779,000).

## 22. TRADE AND BILLS RECEIVABLES

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

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

	2004	2003
	HK\$'000	HK\$'000
1-90 days	3,163	51,554
91-120 days	565	42
121-365 days	33	393
Over 1 year	47,950	220
	<b>51,711</b>	<b>52,209</b>

# Notes to Financial Statements

For the year ended 31 December 2004

## 23. LOANS RECEIVABLE

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Loans receivable	–	2,401	–	1,995
Provision for bad and doubtful debts	–	(1,200)	–	(900)
	–	1,201	–	1,095

## 24. SHORT TERM INVESTMENT

	2004 HK\$'000	2003 HK\$'000
Listed equity investment, at market value		
– Hong Kong	–	297

## 25. CASH AND BANK BALANCES AND PLEDGED TIME DEPOSITS

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi (“RMB”) amounted to approximately HK\$1,085,000 (2003: HK\$708,000). 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.

At 31 December 2004, certain bank deposits of a subsidiary of HK\$1,000,000 (2003: HK\$Nil) were pledged to secure banking facilities granted to the subsidiary.



# Notes to Financial Statements

For the year ended 31 December 2004

## 26. INTEREST-BEARING BANK BORROWINGS

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Bank overdrafts, secured	3,993	3,721	–	746
Trust receipt loans, secured	2,156	18,990	–	–
Bank loans secured and repayable:				
Within one year	3,900	17,310	–	–
	<b>10,049</b>	40,021	–	746
Portion classified as current liabilities	<b>(10,049)</b>	(40,021)	–	(746)
Long term portion	–	–	–	–

At 31 December 2004, the Group's banking facilities were secured by the following:

- (i) Corporate guarantees given by the Company and certain subsidiaries of the Company;
- (ii) Pledge of HK\$4.3 million fixed deposits of related parties to secure banking facilities of HK\$4.3 million granted to the Company;
- (iii) Pledge of HK\$1 million fixed deposits of a subsidiary to secure banking facilities of HK\$4.2 million granted to the subsidiary; and
- (iv) Personal guarantees executed by a related party and by two shareholders of the Company, who also are directors of a subsidiary.

# Notes to Financial Statements

For the year ended 31 December 2004

## 27. FINANCE LEASE PAYABLE

The Group leases a motor vehicle for its general business purpose. The lease is classified as a finance lease and has a remaining lease term of three years. The motor vehicle has subsequently been disposed of in February 2005. As such, the finance lease was classified as current portion.

At 31 December 2004, the total future minimum lease payments under the finance lease and their present values, were as follows:

	<b>Group</b>			
	<b>Minimum lease payments 2004 HK\$'000</b>	<b>Present value of minimum lease payments 2004 HK\$'000</b>	<b>Minimum lease payments 2003 HK\$'000</b>	<b>Present value of minimum lease payments 2003 HK\$'000</b>
Amounts payable:				
Within one year	156	139	88	78
In the second year	–	–	88	75
In the third to fifth years, inclusive	–	–	66	64
<b>Total minimum finance lease payments</b>	<b>156</b>	<b>139</b>	242	217
Future finance charges	(17)		(25)	
<b>Total net finance lease payable</b>	<b>139</b>		217	
Portion classified as current liabilities	(139)		(78)	
Long term portion	–		139	

# Notes to Financial Statements

For the year ended 31 December 2004

## 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	
	2004 HK\$'000	2003 HK\$'000
1-90 days	3,118	3,513
91-120 days	1,011	496
121-365 days	572	7,251
Over 1 year	6,712	1,970
	<b>11,413</b>	<b>13,230</b>

## 29. OTHER PAYABLES AND ACCRUALS

Included in other payables and accruals of the Group and the Company were amounts of approximately HK\$288,000 (2003: HK\$1,685,000) and HK\$288,000 (2003: HK\$1,447,000) due to an ex-director and a director of the Company respectively. The amounts were unsecured, interest-free and have no fixed terms of repayment.

## 30. OTHER LOANS

At 31 December 2004, HK\$14,250,000 of the loan was secured by way of first charge over the Group's assets, including leasehold properties, trade receivables and goodwill as a continuing security until the said amount has been repaid. The loan is interest bearing at 10% to 20% per annum and will not be repayable within the next twelve months.

At 31 December 2004, HK\$1,333,000 of the loan was unsecured, interest bearing at 10% per annum and will not be repayable within the next twelve months.

Saved as disclosed above, the rest of the loans are unsecured, interest-bearing at 6% to 10% and are repayable on demand.

# Notes to Financial Statements

For the year ended 31 December 2004

## 31. SHARE CAPITAL

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Authorised:		
2,000,000,000 (2003: 2,000,000,000)		
ordinary shares of HK\$0.1 each	<b>200,000</b>	200,000
Issued and fully paid:		
1,340,000,000 (2003: 1,245,000,000)		
ordinary shares of HK\$0.1 each	<b>134,000</b>	124,500

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

	<b>Number of</b>	<b>Nominal</b>
	<b>shares issued</b>	<b>value of</b>
	'000	shares issued
		HK\$'000
At 1 January 2003 and at 31 December 2003	1,245,000	124,500
Shares issued during the year	95,000	9,500
At 31 December 2004	<b>1,340,000</b>	<b>134,000</b>

During the year, 95,000,000 new ordinary shares of HK\$0.10 each per share was issued at par for acquisition of 51% equity shareholding of International Carpet Co. Limited. These new issued shares rank pari passu with other shares in issue in all aspects. Further details have been disclosed in the circular issued by the Company on 26 October 2004.

By a special resolution passed on 31 December 2004 the capital reorganization was approved in the following manner:

- (i) the nominal value of the issued shares shall be reduced from HK\$0.10 each to HK\$0.001 each by the cancellation of HK\$0.099 paid up on each issued share;
- (ii) every authorised but unissued share shall be subdivided into 100 reduced shares; and
- (iii) every 10 reduced shares shall be consolidated into one new share.

Further details have been disclosed in the circular issued by the Company on 6 December 2004.

# Notes to Financial Statements

For the year ended 31 December 2004

## 31. SHARE CAPITAL (Continued)

Subsequent to the balance sheet date, the Company issued 50,000,000 new ordinary shares of HK\$0.10 each per share at a premium of HK\$0.20 as part of the consideration to acquire 49% additional equity interest in a subsidiary of the Company (Hui Zhou Orient Carpet Manufacturing Co., Ltd.). Further details have been disclosed in the circular issued by the Company on 9 October 2003.

Subsequent to the balance sheet date, and the capital reorganisation as referred to the above, the Company issued 69,500,000 new ordinary shares of HK\$0.01 each per share at a premium of HK\$0.19 on the basis of one offer share for every two new shares held on 10 March 2005 for repaying certain outstanding indebtedness due to certain bankers and independent third parties. Further details have been disclosed in the announcements issued by the Company on 21 February 2005, 3 March 2005, 9 March 2005 and 22 March 2005, the Company's prospectus issued on 29 March 2005.

## 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 was 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 issue at any time. On 2 December 2003, option carrying the rights to subscribe for 84,896,000 shares, representing approximately 6.82% of the issue 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 2004 and 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 limit is subject to shareholders' approval in a general meeting.

# Notes to Financial Statements

*For the year ended 31 December 2004*

## 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.

## 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 26 of the financial statements.

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 2004

## 33. RESERVES (Continued)

### (b) Company

	<b>Share premium account</b>	<b>Retained profits/ (Accumulated losses)</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000
At 1 January 2003	3,057	26,682	29,739
Net loss for the year	–	(35,427)	(35,427)
At 31 December 2003 and 1 January 2004	3,057	(8,745)	(5,688)
Net loss for the year	–	(86,168)	(86,168)
At 31 December 2004	3,057	(94,913)	(91,856)

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.

# Notes to Financial Statements

For the year ended 31 December 2004

## 34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

### (a) Disposal of subsidiaries

On 31 July 2004, the Company disposed of its entire interests in certain of the Groups investments in subsidiaries, Pharmasys Biotech Limited and Jackley Carpet Ind Sdn Bhd at a nominal consideration of HK\$1,000,000. This transaction gave rise to a gain of HK\$1,222,000 which is included in "other operating expenses" in the consolidated profit and loss account.

	2004 HK\$'000	2003 HK\$'000
<b>Net liabilities disposed of</b>		
Fixed assets	449	–
Other assets	67	–
Loan to a director	83	–
Cash and bank balances	34	–
Trade debtors	24	–
Prepayments, deposits and other receivables	57	–
Other payables and accruals	(936)	–
Net identifiable liabilities	(222)	–
Gain on disposal	1,222	–
	<b>1,000</b>	–

### Satisfied by:

Cash consideration	1,000	–
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An analysis of the net cash inflow in respect of the disposal of subsidiaries is as follows:

Cash consideration	1,000	–
Cash and bank balances disposed of	(34)	–
	<b>966</b>	–



# Notes to Financial Statements

For the year ended 31 December 2004

## 34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

### (b) Acquisition of a subsidiary

On 4 November 2004, the Group acquired a 51% equity interest in International Carpet Co. Limited ("ICC"), details are set out in note 14(a)

	HK\$'000
<b>Assets/(liabilities) acquired:</b>	
Fixed assets	204
Pledged fixed deposits	1,075
Cash and bank balances	285
Trade and bills receivables	4,248
Inventories	154
Prepayments, deposits and other receivables	107
Due from a director	369
Trade and bills payables	(4,286)
Other payables and accruals	(2,082)
Taxation	(74)
Goodwill on acquisition	9,500,000
	<u>9,500,000</u>
Satisfied by:	
Shares allotment (note 31)	9,500,000
An analysis of the net cash inflow in respect of the acquisition of a subsidiary is as follows:	
Cash and bank balances acquired	<u>1,360</u>

### (c) Major non-cash transactions

During the year ended 31 December 2004, the Group acquired ICC by the issue and allotment of ordinary shares of the Company (note 31a).

# Notes to Financial Statements

For the year ended 31 December 2004

## 35. CONTINGENT LIABILITIES

As at 31 December 2004, the Group did not have any significant contingent liabilities except as described below:

- (a) A wholly-owned subsidiary of the Company, namely 惠陽協凱晟地毯有限公司 (now known as 惠州市東方地毯生產有限公司) translated as Hui Zhou Orient Carpet Manufacturing Co., Ltd. ("HZOCM") has been made defendant of proceeding in the PRC. The proceedings were brought by 深圳華興建設有限公司 against HZOCM at the People's Court of the Hui Yang District, Hui Zhou City, Guangdong Province in respect of installation cost due and interest payable. The amount claimed under this set of proceedings was HK\$1,420,000 (RMB1,520,000) and interest payable of HK\$2,077,000 (RMB2,223,000). HK\$1,420,000 was provided in the Group's financial statements. The proceedings were adjourned for hearing on a day to be fixed in due course.
- (b) At 31 December 2004, the Company had provided corporate guarantees to certain banks for banking facilities provided to certain subsidiaries of approximately HK\$20,133,000 (2003: HK\$59,710,000). These banking facilities had been utilised to the extent of approximately HK\$8,930,000 (2003: HK\$39,264,000) as at the balance sheet date.

## 36. OPERATING LEASE ARRANGEMENTS

The Group leases certain leasehold land and buildings under operating lease arrangements.

- (a) At 31 December 2004, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	1,922	603	—	—
In the second to fifth years, inclusive	2,157	58	—	—
	4,079	661	—	—

# Notes to Financial Statements

For the year ended 31 December 2004

## 36. OPERATING LEASE ARRANGEMENTS (Continued)

- (b) At 31 December 2004, the Group had total future minimum lease receivable under non-cancellable operating leases are as follows:

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Within one year	574	–	–	–
In the second to fifth years, inclusive	516	–	–	–
	<b>1,090</b>	–	–	–

## 37. COMMITMENTS

In addition to the operating lease commitments detailed in note 36 above, the Group and the Company did not have any other significant commitments as at 31 December 2004 (2003: Nil).

## 38. EMPLOYEE BENEFITS

The contributions to the retirement benefit scheme for the staff of the Company and a subsidiary operating in the PRC are charged to the consolidated profit and loss account as they become payable. The only obligation of the Group with respect to the schemes is to make the specified contributions.

## 39. RELATED PARTY TRANSACTIONS

Apart from the transactions with related parties disclosed elsewhere in the financial statements, the Group had the following transactions with its related parties during the year:

- (a) Pledge of HK\$4.3 million fixed deposits of related parties to secure banking facilities of HK\$4.3 million granted to the Company.
- (b) Pursuant to a conditional share acquisition agreement (“Agreement”) entered into on 10 September 2004, the Company, through its indirectly held wholly-owned subsidiary, has conditionally agreed to acquire from Mr. Ng Yau Wah and Mr. Choi Hok Ya (“Vendor”), the Vendor’s 51% majority equity interest in DNTC Investment Limited (now known as ICC) for a total consideration of HK\$9.5 million. The amount of the consideration was settled in the form of issuance of 95,000,000 shares at HK0.10 per share to the Vendors. The consideration shares were issued under the general mandate granted to the Directors at the annual general meeting of the Company held on 7 June 2004.

# Notes to Financial Statements

For the year ended 31 December 2004

## 39. RELATED PARTY TRANSACTIONS (Continued)

- (c) During the year, the Group borrowed a loan of approximately HK\$3,555,000 (2003: HK\$Nil) from Mr. Choi Hok Ya, (note (i)). The loan is unsecured, interest-bearing at 10% (2003: Nil) per annum and is repayable on demand. Loan interest paid to Mr. Choi Hok Ya amounted to HK\$48,000 (2003: HK\$Nil)
- (i) Mr. Ng Yau Wah and Mr. Choi Hok Ya, shareholders of the Company, are major shareholders of International Carpet Co. Limited, a subsidiary of the Group.

## 40. POST BALANCE SHEET EVENT

- (a) In January 2005, the Company issued 50,000,000 shares at HK\$0.30 per share to Shenzhen Hao Sheng He Industrial Company Limited to complete the balance of the consideration of the conditional share acquisition agreement ("Agreement") entered into on 15 September 2003.
- (b) Subsequent to the balance sheet date, the shareholders approved at the EGM held on 31 December 2004, capital reorganisation were completed on 10 March 2005 in the following manner (i) the nominal value of the issued shares was reduced from HK\$0.10 each to HK\$0.001 each by the cancellation of HK\$0.099 paid up on each issued share; (ii) every authorised but unissued share was subdivided into 100 reduced shares; and (iii) every 10 reduced shares was consolidated into one new share. As a result, an amount of approximately 132,660,000 standing to the credit of the issued share capital of the Company will be cancelled and credited to a distribution reserve account of the company, from which distribution shall be at the discretion of the Directors.
- (c) In February 2005, the Company proposed to raise approximately HK\$13.9 million before expenses, by issuing 69,500,000 Offer Shares at the price of HK\$0.2 per Offer Share by way of an Open Offer, payable in full application, on the basis of one Offer Share for every two New Shares. The Open Offer was fully allotted by the Shareholders and the underwriter in April 2005 and funds are used to pay down the outstanding bank borrowings and loans due to independent third parties.

# Notes to Financial Statements

For the year ended 31 December 2004

## 40. POST BALANCE SHEET EVENT (Continued)

- (d) In April 2005, the Company entered into a subscription agreement for the issue of convertible note in an aggregate principal of HK\$33 million to the subscriber. The subscriber will have the right to convert the whole integral multiple of HK\$1 million of the principal amount of the convertible note into shares at any times before the maturity date falling on the second anniversary of the date of issue of the convertible note at the initial conversion price of HK0.12 per share. Completion of the subscription agreement is conditional upon fulfillment of the conditions including, (i) the HKSE granting approval for the listing of, and permission to deal in, the conversion shares (ii) the granting of the whitewash waiver by the SFC; and (iii) the passing of the relevant resolutions at the EGM to approve the subscription, issue of the convertible note and whitewash waiver. Further details have been disclosed in the circular dated 15 April 2005.

## 41. COMPARATIVE FIGURES

For the consolidated profit and loss account for the year ended 31 December 2004, certain non-cash income and non-cash expenses in total of approximately HK\$2,203,000 and HK\$40,969,000 respectively have been reclassified to other operating expenses to conform to the current year's presentation.

## 42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorized for issue by the board of directors on 28 April 2005.