

Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, investment securities, investment properties and certain other properties are stated at fair value.

In the current year, the Group adopted the revised Statement of Standard Accounting Practice ("SSAP") No. 12 "Income Taxes" issued by the HKSA which is effective for accounting periods commencing on or after 1st January 2003.

The changes to the Group's accounting policies and the effect of adopting this revised policy are set out below.

(b) Consolidation

The consolidated accounts include the results of the Company and its subsidiaries made up to 31st December. Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast a majority of votes at the meetings of the board of directors.

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 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 or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account and retained earnings.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(b) Consolidation *(Continued)*

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(c) Goodwill/negative goodwill

Goodwill represents the excess of acquisition costs over the fair value of the Group's share of the net assets of the acquired subsidiaries, associated company and joint ventures at the date of acquisition.

Goodwill on acquisitions occurring on or after 1st January 2001 is included in intangible assets and is amortised using the straight-line method over its estimated useful life. Goodwill arising on major strategic acquisitions of the Group to expand its product or geographical market coverage is amortised over a maximum period of 15 years. For all other acquisitions goodwill is generally amortised over 3 to 8 years.

Goodwill on acquisitions that occurred prior to 1st January 2001 was written off against reserves. Any impairment arising on such goodwill is accounted for in the profit and loss account.

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition.

For acquisitions after 1st January 2001, negative goodwill is presented in the same balance sheet classification as goodwill. To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised in the profit and loss account when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the profit and loss account over the remaining weighted average useful life of those assets of 3 to 8 years; negative goodwill in excess of the fair values of those non-monetary assets is recognised in the profit and loss account immediately.

For acquisitions prior to 1st January 2001, negative goodwill was taken directly to reserves on acquisition.

Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(c) **Goodwill/negative goodwill** *(Continued)*

The gain or loss on disposal of an entity includes the unamortised balance of goodwill relating to the entity disposed of or, for pre 1st January 2001 acquisitions, the related goodwill written off against reserves to the extent it has not previously been realised in the profit and loss account.

Where an indication of impairment exists, the carrying amount of any goodwill, including that previously written off against reserves, is assessed and written down immediately to its recoverable amount.

(d) **Associated company**

An associated company is a company, not being a subsidiary or a joint venture, in which an equity interest is held for the long term and significant influence is exercised. The consolidated profit and loss account includes the Group's share of the results of the associated company for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated company.

(e) **Joint ventures**

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to their joint control and none of the participating parties has unilateral control over the economic activity. The consolidated profit and loss account includes the Group's share of the results of the joint ventures for the year less provision for impairment losses, and the consolidated balance sheet includes the Group's share of the net assets of the joint ventures less provision for impairment losses.

Equity accounting is discontinued when the carrying amount of the investment in a joint venture reaches zero, unless the Group has incurred obligation or guaranteed obligation in respect of the joint ventures.

(f) **Investments**

(i) Investment securities

Investment securities are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of investment securities are recognised in the profit and loss account. Profits or losses on disposal of investment, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(f) Investments *(Continued)*

(ii) Other investments

Other investments held for long term purposes are stated at cost, less provision for impairment losses.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such investment would be reduced to its fair value. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to profit and loss when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(g) Fixed assets

Properties other than investment properties ("other properties") are stated at cost or valuation less accumulated depreciation. Other assets are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of those assets transferred from other classes is deemed to be their carrying amounts as stated under their original classification.

Effective from 30th September 1995, no further revaluations of the Group's other properties have been carried out. The Group places reliance on paragraph 80 of SSAP 17, "Property, Plant and Equipment" which provides exemption from the need to make regular revaluations for such assets.

Upon the disposal of other properties the relevant portion of realised revaluation reserve in respect of previous valuations is transferred directly from the revaluation reserve to retained earnings and is shown as a movement in reserves.

Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(g) Fixed assets *(Continued)*

Leasehold land is depreciated over the period of the lease while other fixed assets are depreciated at rates to write off the cost or valuation of the assets in equal annual instalments over their estimated useful lives at the following annual rates:

Land-freehold	Nil
Buildings-freehold	2%
Buildings-leasehold	2% or over the unexpired period of the lease, whichever is shorter
Other assets including:	
Plant and machinery	8%-20%
Furniture, fixtures and equipment	6%-25%
Motor vehicles	18%-20%

Major costs incurred in restoring fixed assets to their usual working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

The gain or loss on disposal of other assets is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

(h) 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 with unexpired periods of greater than 20 years are valued annually by independent valuers. The valuations are on an open market value basis related to individual properties and separate values are not attributed to land and buildings. The valuations are incorporated in the annual accounts. Increases in valuation are credited to the investment properties revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations on a portfolio basis in each individual company and thereafter are debited to operating profit. Such net deficit charged to respective company's operating profit does not set off against increase in valuation of other companies' investment properties which have been credited to the investment properties revaluation reserve.

Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(h) **Investment properties** *(Continued)*

Upon the disposal of an investment property, the relevant portion of the revaluation reserve in respect of previous valuations is released from the investment properties revaluation reserve to the profit and loss account.

(i) **Construction in progress**

Construction in progress is stated at cost which comprises construction costs, purchase costs and other related expenses incurred in connection with the construction of plant and machinery for own use less any provision for impairment.

No depreciation is provided for construction in progress until such assets are completed and put into production.

(j) **Impairment**

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in construction in progress, other properties and other fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

This impairment loss is written back to profit and loss when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(k) **Borrowing costs**

All borrowing costs are charged to the profit and loss account in the period in which they are incurred except those that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale and which are capitalised as part of the cost of that asset.

The capitalisation rate applied to funds borrowed for the development of the assets is based on the attributable cost of funds to the Group.

During the year, no borrowing costs were capitalised.

Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(l) **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 also be a present obligation arising from past events that is not recognised because it is not probable that the 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 accounts. When a change in the probability of an outflow occurs so that the 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.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(m) **Inventories**

Inventories comprise stocks and work in progress are stated at the lower of cost and net realisable value. Cost, which is determined principally on the weighted average basis, comprises direct labour, raw materials and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(n) **Translation of foreign currencies**

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at exchange rates ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheet of the subsidiaries, associated company and joint ventures expressed in foreign currencies are translated at exchange rates ruling at the balance sheet date whilst the profit and loss account is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(o) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(p) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and bank overdrafts.

(q) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

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

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associated company and joint ventures, 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.

In prior year, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of SSAP 12 represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

As detailed in note 26 to the accounts, the opening reserves at 1st January 2002 and 2003 have been reduced by HK\$2,731,000 and HK\$2,436,000, respectively, which represent the unprovided net deferred tax liabilities. This change has resulted in an increase in deferred tax assets and deferred tax liabilities at 31st December 2002 by HK\$1,640,000 and HK\$4,003,000, respectively. The profit attributable to shareholders for the year ended 31st December 2002 has been increased by HK\$287,000.

Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(r) Finance leases

(The Group as lessor)

Assets leased to customers under agreements which substantially transfer to the customers all the rewards and risks of ownership, other than legal title, are accounted for as finance leases. The balance sheet amount of finance lease debtors represents the present value of the total rentals receivable.

(s) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight line basis over the lease periods.

(t) Revenue recognition

- (i) Revenue from sales of carpets, yarn, underlay and interior furnishings is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.
- (ii) Rental income from investment properties and interior furnishings is recognised on a straight line basis over the lease term.
- (iii) Interest income is recognised on a time apportioned basis, taking into account the principal amounts outstanding and the interest rates applicable.
- (iv) Dividend income is recognised when the shareholder's right to receive payment is established.
- (v) Income on installation of carpets is recognised when the installation services are rendered.

(u) Segment reporting

In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(u) Segment reporting *(Continued)*

Unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, fixed assets, inventories, receivables and operating cash, and mainly exclude other investments, investment securities, investment in associated company and investment in joint ventures. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to fixed assets and construction in progress (notes 12 and 13), including additions resulting from acquisition through purchases of subsidiaries including goodwill.

In respect of geographical segment reporting, sales are based on the country in which the customer is located and total assets and capital expenditure are where the assets are located.

(v) Employee benefits

(i) *Employee leave entitlements*

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

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

(ii) *Profit sharing and bonus plans*

The expected cost of profit sharing and bonus payments is recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for profit sharing and bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(v) Employee benefits *(Continued)*

(iii) Retirement benefit obligations

The Group operates a number of defined contribution plans (the "Plans") throughout the world, the assets of which are held in separate trustee-administered funds. The Plans are generally funded by payments from employees and by the relevant Group companies. The Group's contributions to the Plans are expensed as incurred and are reduced by contributions forfeited by those employees who leave the Plans prior to vesting fully in the contributions.

In Hong Kong, the Group operates a Mandatory Provident Fund Scheme (the "Scheme") for all Hong Kong employees. Under the Scheme, employees are required to contribute 5% on their monthly basic salaries whereas the Group's monthly contribution will depend on the employees' years of service, subject to a minimum of 5% of relevant income up to HK\$20,000.

Notes to the Accounts

2. TURNOVER, REVENUE AND SEGMENTAL INFORMATION

The Group is principally engaged in the manufacture, import, export and sale of carpets, manufacture and sale of yarn, trading and leasing of interior furnishings, investment and property holding. Revenues recognised during the year are as follows:

	2003 HK\$'000	2002 HK\$'000
Turnover		
Sales of carpets	409,569	342,528
Yarn manufacturing and trading	57,243	95,421
Sales and leasing of interior furnishings	51,532	35,420
Gross rental income from investment properties	6,762	6,934
Term deposit income from bank	106	783
	525,212	481,086
Other revenues		
Bank interest income	411	465
Interest from third parties	464	101
Interest from finance leases	158	155
Income on sales of underlay	652	726
Income on installation of carpets	476	601
	2,161	2,048
	527,373	483,134

Primary reporting format – business segments

The Group is organised on a worldwide basis into four main business segments:

Carpet	– Carpet manufacturing and trading
Yarn	– Yarn manufacturing and trading
Interior furnishings	– Sale and leasing of furniture, art and soft furnishings
Property holding	– Rental income from property holding

Other operations of the Group mainly comprise investment in term deposit in banks.

Notes to the Accounts

2. TURNOVER, REVENUE AND SEGMENTAL INFORMATION *(Continued)*

Secondary reporting format – geographical segments

Although the Group's four business segments are managed on a worldwide basis, they operate in seven main geographical areas:

Hong Kong	– Carpet, interior furnishings, property holding and investment holding
Mainland China	– Carpet, yarn and property holding
South East Asia	– Carpet and property holding
Middle East	– Carpet
Other Asian countries	– Carpet
Europe	– Carpet
North America	– Carpet, yarn and property holding
Others (principally South Pacific and Latin America)	– Carpet and interior furnishings

Notes to the Accounts

2. TURNOVER, REVENUE AND SEGMENTAL INFORMATION *(Continued)*

The Group's turnover and trading results for the year ended 31st December 2003, together with their comparative figures, are analysed as follows:

Primary reporting format – business segments

	For the year ended 31st December 2003							Group HK\$'000
	Carpets HK\$'000	Yarn HK\$'000	Interior furnishings HK\$'000	Property holding HK\$'000	Others HK\$'000	Elimination HK\$'000	Unallocated HK\$'000	
Turnover								
– External revenues	409,569	57,243	51,532	6,762	106	–	–	525,212
– Inter-segment revenues	1,752	17,046	–	76	–	(18,874)	–	–
	<u>411,321</u>	<u>74,289</u>	<u>51,532</u>	<u>6,838</u>	<u>106</u>	<u>(18,874)</u>	<u>–</u>	<u>525,212</u>
Segment results	<u>18,598</u>	<u>10,539</u>	<u>5,106</u>	<u>5,714</u>	<u>106</u>	<u>(382)</u>	<u>(24,100)</u>	<u>15,581</u>
Finance costs								(2,475)
Share of profits of								
– Associated company	890	–	–	–	–	–	–	890
– Joint ventures	14,875	–	–	–	–	–	–	14,875
Profit before taxation								28,871
Taxation								<u>(11,524)</u>
Profit after taxation								17,347
Minority interests								<u>(1,054)</u>
Profit attributable to shareholders								<u>16,293</u>
Segment assets	459,847	78,396	25,199	77,770	944	–	80,176	722,332
Investment in associated company	21,711	–	–	–	–	–	–	21,711
Investments in joint ventures	96,565	–	–	–	–	–	–	96,565
Total assets								<u>840,608</u>
Segment liabilities	67,753	2,214	2,894	1,599	–	–	76,746	151,206
Capital expenditure	19,595	3,748	2,541	3,578	–	–	250	29,712
Depreciation	26,599	5,004	1,810	24	–	–	357	33,794
Amortisation charge	(1,150)	–	–	–	–	–	2,222	1,072
Impairment charge	–	–	–	940	–	–	–	940

2. TURNOVER, REVENUE AND SEGMENTAL INFORMATION (Continued)

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Notes to the Accounts

2. TURNOVER, REVENUE AND SEGMENTAL INFORMATION *(Continued)*

Secondary reporting format – geographical segments

	Turnover	Segment results	Total assets	Capital expenditure
	2003	2003	2003	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	79,123	5,348	59,212	2,789
Mainland China	16,175	205	115,747	11,834
South East Asia	183,058	21,698	344,068	7,545
Middle East	21,346	1,852	–	–
Other Asian countries	15,763	187	–	–
Europe	43,535	1,645	20,088	679
North America	162,275	8,198	103,041	6,865
Others	3,937	548	–	–
	<u>525,212</u>	<u>39,681</u>	<u>642,156</u>	<u>29,712</u>
Unallocated costs		<u>(24,100)</u>		
Operating profit		<u>15,581</u>		
Investment in associated company			21,711	
Investments in joint ventures			96,565	
Unallocated assets			<u>80,176</u>	
Total assets			<u>840,608</u>	

Notes to the Accounts

2. TURNOVER, REVENUE AND SEGMENTAL INFORMATION *(Continued)*

Secondary reporting format – geographical segments *(Continued)*

	Turnover	Segment results	Total assets	Capital expenditure
	2002	2002	2002	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	67,964	14,886	71,323	2,942
Mainland China	24,745	3,180	111,863	8,276
South East Asia	141,111	13,126	316,054	46,230
Middle East	13,667	1,971	–	–
Other Asian countries	16,520	1,498	–	–
Europe	24,247	(535)	9,788	1,225
North America	189,915	15,954	98,645	1,983
Others	2,917	720	–	–
	<u>481,086</u>	<u>50,800</u>	<u>607,673</u>	<u>60,656</u>
Unallocated costs		<u>(23,086)</u>		
Operating profit		<u>27,714</u>		
Investment in associated company			23,570	
Investments in joint ventures			89,164	
Unallocated assets			<u>104,481</u>	
Total assets			<u>824,888</u>	

Notes to the Accounts

3. OPERATING PROFIT

	2003 HK\$'000	2002 HK\$'000
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Operating profit is stated after crediting
and charging the following:

Crediting:

Gains on disposal of interests in investment securities	41	89
Release of unvested benefit of the previous retirement scheme	302	280
Gains on disposal of fixed assets	60	275
Revaluation surplus on investment properties	303	–
Negative goodwill recognised as income (note 11)	1,155	1,150
Compensation on resumption of land	3,109	–
Net exchange gains	2,157	947

Charging:

Depreciation of fixed assets	33,794	29,498
Staff costs (including Directors' emoluments) (note)	151,747	133,529
Retirement benefit costs – defined contribution schemes (including Directors' emoluments)	3,185	2,887
Operating lease charges		
Land and buildings	9,807	11,333
Plant and machinery	293	146
Auditors' remuneration	1,191	1,151
Outgoings in respect of investment properties	378	582
Revaluation deficit on investment properties	–	594
Amortisation of positive goodwill (note 11)	2,227	2,227
Research and development costs	1,912	1,061
Impairment in land and building (note 12)	940	–
Impairment in other investments	–	3,900

Note: Staff costs include wages and salaries together with unutilised annual leave.

Notes to the Accounts

4. FINANCE COSTS

	2003 HK\$'000	2002 HK\$'000
Interest on bank loans and overdrafts wholly repayable within five years	2,475	2,990

5. DIRECTORS' EMOLUMENTS

(a) Directors' emoluments

The aggregate amounts of emoluments payable to Directors of the Company during the year are as follows:

	2003 HK\$'000	2002 HK\$'000
Fees	313	310
Other emoluments:		
Basic salaries, housing and other allowances	3,504	3,411
Discretionary bonuses	525	1,210
Inducement fees	390	–
Contributions to retirement schemes	239	300
Compensation of loss of office	5,400	–
	10,371	5,231

Directors' fees disclosed above include HK\$80,000 (2002: HK\$80,000) paid to Independent Non-executive Directors.

The emoluments of the Directors fell within the following bands:

	No. of directors	
	2003	2002
Emolument bands		
HK\$nil – HK\$1,000,000	11	10
HK\$1,500,001 – HK\$2,000,000	1	–
HK\$2,000,001 – HK\$2,500,000	–	1
HK\$2,500,001 – HK\$3,000,000	–	1
HK\$7,000,001 – HK\$7,500,000	1	–

Notes to the Accounts

5. DIRECTORS' EMOLUMENTS *(Continued)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2002: two) Directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2002: three) individuals during the year are as follows:

	2003 HK\$'000	2002 HK\$'000
Basic salaries, housing and other allowances	3,348	4,301
Bonuses	701	737
Profit sharing incentives	–	1,296
Contributions to retirement schemes	97	32
Compensation of loss of office		
– contractual payments	–	592
– others	–	306
	4,146	7,264

The emoluments fell within the following bands:

	No. of individuals	
	2003	2002
Emolument bands		
HK\$1,000,001 – HK\$1,500,000	2	–
HK\$1,500,001 – HK\$2,000,000	1	1
HK\$2,500,001 – HK\$3,000,000	–	2

6. RETIREMENT BENEFIT COSTS

Unvested contributions totalling HK\$302,000 (2002: HK\$280,000) were utilised during the year to reduce current year's contributions to the Mandatory Provident Fund ("MPF"). Contributions totalling HK\$179,000 (2002: HK\$131,000) were payable to the MPF at the year end and are included in trade and other payables.

Notes to the Accounts

7. TAXATION

No provision for Hong Kong profits tax has been made in the accounts as the companies within the Group have no assessable profits for both years. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

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

	2003 HK\$'000	As restated 2002 HK\$'000
Overseas tax of subsidiaries	11,502	12,542
Over-provision in prior years	(3,780)	(448)
Deferred taxation relating to the origination and reversal of temporary differences (note 28)	1,895	(353)
Deferred taxation resulting from an increase in tax rate (note 28)	(139)	–
Share of taxation attributable to associated company and joint ventures	2,046	2,490
	11,524	14,231

Notes to the Accounts

7. TAXATION *(Continued)*

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Company as follows:

	2003 HK\$'000	2002 HK\$'000
Profit before taxation	28,871	34,329
Calculated at a taxation rate of 17.5% (2002: 16%)	5,052	5,493
Effect of different taxation rates in other countries	4,223	6,432
Income not subject to taxation	(1,106)	(1,446)
Expenses not deductible for taxation purposes	3,476	5,843
Tax loss as unrecognised/(utilisation of previously unrecognised tax losses)	3,798	(49)
Increase in opening net deferred taxation resulting from an increase in tax rate	(139)	–
Prior years' tax losses recognised as deferred tax assets	–	(1,594)
Over-provision in previous years	(3,780)	(448)
Taxation charge	11,524	14,231

8. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of loss of HK\$7,226,000 (2002: HK\$14,035,000).

9. DIVIDENDS

	2003 HK\$'000	2002 HK\$'000
Final, proposed, of HK\$0.03 (2002: HK\$0.03) per share	6,334	6,229

Note: At a board meeting held on 19th April 2004 the Directors declared a final dividend of HK\$0.03 per share. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ended 31st December 2004.

Notes to the Accounts

10. EARNINGS PER SHARE

Earnings per share is calculated based on the Group's profit attributable to shareholders of HK\$16,293,000 (2002 as restated: HK\$17,656,000) and on the weighted average number of shares in issue of 211,121,275 shares (2002: 210,673,998 shares which has been adjusted for shares issued under the scrip dividend scheme) during the year.

There is no diluted earnings per share presented for both years as the dilution from the outstanding share options granted by the Company is immaterial.

11. INTANGIBLE ASSETS

	Positive goodwill <i>HK\$'000</i>	Negative goodwill <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st January 2003	3,907	(1,446)	2,461
Exchange adjustments	–	(4)	(4)
Further acquisition of a subsidiary	–	(61)	(61)
Amortisation charge (note 3)	(2,227)	1,155	(1,072)
	<hr/>	<hr/>	<hr/>
At 31st December 2003	1,680	(356)	1,324
	<hr/>	<hr/>	<hr/>
At 31st December 2003			
Cost	6,682	(3,515)	3,167
Accumulated amortisation	(5,002)	3,159	(1,843)
	<hr/>	<hr/>	<hr/>
Net book amount	1,680	(356)	1,324
	<hr/>	<hr/>	<hr/>
At 31st December 2002			
Cost	6,682	(3,450)	3,232
Accumulated amortisation	(2,775)	2,004	(771)
	<hr/>	<hr/>	<hr/>
Net book amount	3,907	(1,446)	2,461
	<hr/>	<hr/>	<hr/>

Notes to the Accounts

12. FIXED ASSETS

Group	Investment properties <i>HK\$'000</i>	Other properties <i>HK\$'000</i>	Other assets <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost or valuation				
At 1st January 2003	69,258	134,780	366,332	570,370
Exchange adjustments	4,031	10,212	25,769	40,012
Additions	–	930	11,746	12,676
Transfer from construction in progress	–	11,692	20,893	32,585
Net revaluation surplus	764	–	–	764
Disposals	–	(159)	(2,655)	(2,814)
At 31st December 2003	74,053	157,455	422,085	653,593
Accumulated depreciation and impairment				
At 1st January 2003	–	34,951	207,301	242,252
Exchange adjustments	–	2,973	14,542	17,515
Charge for the year	–	5,041	28,753	33,794
Write back on disposals	–	–	(2,536)	(2,536)
Impairment	–	940	–	940
At 31st December 2003	–	43,905	248,060	291,965
Net book value at 31st December 2003	74,053	113,550	174,025	361,628
Net book value at 31st December 2002	69,258	99,829	159,031	328,118

Other assets include plant and machinery, furniture, fixtures, equipment and motor vehicles.

Notes to the Accounts

12. FIXED ASSETS *(Continued)*

Certain of the Group's other properties were revalued on the open market basis at 31st December 1989 by independent professional valuers, Jones Lang Wootton (now Jones Lang LaSalle) and W. Lamar Pinson, Inc.. The revaluation was carried out prior to 30th September 1995, the date of the SSAP 17 "Property, Plant and Equipment" issued by HKSA became effective. Under paragraph 80 of SSAP 17, the Group is not required to make regular revaluations in accordance with paragraphs 31 and 36 of SSAP 17. The carrying amount of other revalued properties would have been HK\$7,594,000 (2002: HK\$7,431,000) had they been stated at cost less accumulated depreciation.

All of the Group's investment properties with unexpired periods of greater than 20 years were revalued on the open market value basis at 31st December 2003 by independent professional valuers, CB Richard Ellis, Jimmy M. Leonard, and UK Valuations and Agency Company Limited. Details of principal investment properties are set out on page 94.

At 31st December 2003, the net book value of fixed assets which have been mortgaged to banks to secure certain bank facilities granted to subsidiaries amounted to HK\$43,788,000 (2002: HK\$39,234,000).

(a) Cost or valuation of fixed assets is analysed as follows:

	Investment properties <i>HK\$'000</i>	Other properties <i>HK\$'000</i>	Other assets <i>HK\$'000</i>
2003			
At professional valuation			
in 1989	–	11,131	–
in 2003	74,053	–	–
At cost	–	146,324	422,085
At 31st December 2003	74,053	157,455	422,085
2002			
At professional valuation			
in 1989	–	10,271	–
in 2002	69,258	–	–
At cost	–	124,509	366,332
At 31st December 2002	69,258	134,780	366,332

Notes to the Accounts

12. FIXED ASSETS *(Continued)*

- (b) The Group's interests in investment properties and other properties at their net book values are analysed as follows:

	Hong Kong <i>HK\$'000</i>	Overseas <i>HK\$'000</i>
2003		
Freehold	–	129,205
Long leases (over 50 years)	8,930	–
Medium leases (10 – 50 years)	6,770	42,698
	<hr/>	<hr/>
At 31st December 2003	15,700	171,903
	<hr/>	<hr/>
2002		
Freehold	–	113,176
Long leases (over 50 years)	8,550	–
Medium leases (10 – 50 years)	6,700	40,661
	<hr/>	<hr/>
At 31st December 2002	15,250	153,837
	<hr/>	<hr/>

- (c) Included in the net book value of other properties and other assets were amounts of HK\$4,138,000 (2002: HK\$3,574,000) and HK\$6,022,000 (2002: HK\$7,495,000) respectively which were stated at their recoverable amounts.

13. CONSTRUCTION IN PROGRESS

	Group	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
At 1st January	25,770	48,441
Exchange adjustments	1,235	81
Additions	16,838	43,236
Transfer to fixed assets	(32,585)	(65,877)
Write off	(57)	(111)
	<hr/>	<hr/>
At 31st December	11,201	25,770
	<hr/>	<hr/>

Notes to the Accounts

14. SUBSIDIARIES

	Company	
	2003	2002
	HK\$'000	HK\$'000
Unlisted shares at directors' valuation in 1990	242,800	242,800
Loans to subsidiaries	55,931	55,931
Amounts due by subsidiaries	424,707	426,353
	723,438	725,084
Loan from a subsidiary	(3,213)	(3,213)
Amounts due to subsidiaries	(91,388)	(95,893)
	628,837	625,978
Provision for impairment	(355,931)	(355,931)
	272,906	270,047

Details of principal subsidiaries are set out on pages 92 and 93. Except for an amount of HK\$57,211,250 (2002: HK\$55,931,000) which carries interests at prevailing market rates. All balances due from/to subsidiaries are unsecured, interest free and have no fixed repayment terms.

15. AMOUNTS DUE FROM AN INDIRECTLY HELD ASSOCIATED COMPANY, JOINT VENTURE AND RELATED COMPANIES

The amounts due from an indirectly held associated company, joint venture and related companies are unsecured, interest free and have no fixed repayment terms.

16. ASSOCIATED COMPANY

	Group	
	2003	2002
	HK\$'000	HK\$'000
Share of net assets	21,353	22,861
Amounts due by associated company	358	709
	21,711	23,570
Share at cost – unlisted	519	519

Notes to the Accounts

16. ASSOCIATED COMPANY *(Continued)*

Dividend income from associated company during the year amounted to HK\$458,000 (2002: HK\$437,000).

Details of the principal associated company are set out on page 93.

Extract of the operating results and financial position of the Group's significant associated company, Philippine Carpet Manufacturing Corporation which is based on its audited consolidated financial statements as at 31st December 2003 is as follows:

	2003 HK\$'000	2002 <i>HK\$'000</i>
Operating results		
Turnover	65,678	74,416
Profit before taxation	2,713	8,417
Group's share of profit before taxation	890	3,133
Financial position		
Property, plant and equipment	23,568	26,233
Other investments	3,874	4,379
Other assets	1,460	2,150
Current assets	49,559	56,539
Current liabilities	(14,069)	(19,827)
Shareholders' funds	64,392	69,474
Group's share of net assets	21,353	22,861

Notes to the Accounts

17. JOINT VENTURES

	Group	
	2003 HK\$'000	2002 HK\$'000
Share of net assets	117,400	112,861
Amounts due by joint ventures		
Loan account	458	458
Current account	17,746	14,884
	18,204	15,342
Provision for impairment	135,604 (39,039)	128,203 (39,039)
	96,565	89,164
Paid in capital at cost	112,704	112,704

Dividend income from joint ventures during the year amounted to HK\$8,707,000 (2002: HK\$7,455,000).

Details of the principal joint ventures are set out on page 93.

Notes to the Accounts

17. JOINT VENTURES *(Continued)*

Extract of the operating results and financial position of the Group's significant joint ventures, Weihai Shanhua Huabao Carpet Company Limited ("WHCL") and Weihai Shanhua Premier Carpet Company Limited ("WPCL") which are based on their audited consolidated financial statements as at 31st December 2003 is as follows:

WHCL

	2003 HK\$'000	2002 HK\$'000
Operating results		
Turnover	218,172	189,467
Profit before taxation	5,882	6,903
Depreciation	10,349	11,261
Group's share of profit/(loss) before taxation	2,440	(2,191)
Financial position		
Fixed assets	93,460	86,614
Construction in progress and other non-current assets	32,738	1,978
Current assets	150,491	154,445
Current liabilities	(154,672)	(120,779)
Shareholders' funds	122,017	122,258
Group's share of net assets	43,216	43,333

Notes to the Accounts

17. JOINT VENTURES *(Continued)*

WPCL

	2003 HK\$'000	2002 HK\$'000
Operating results		
Turnover	98,607	66,107
Profit before taxation	27,610	17,337
Depreciation	1,730	1,864
Group's share of profit before taxation	12,084	8,664
Financial position		
Fixed assets	16,201	15,008
Construction in progress and other non-current assets	691	4,110
Current assets	86,829	58,848
Current liabilities	(29,956)	(12,988)
Shareholders' funds	73,765	64,978
Group's share of net assets	35,575	31,270

18. OTHER INVESTMENTS

	Group	
	2003 HK\$'000	2002 HK\$'000
Equity securities at cost, unlisted	10,036	10,036
Amount due by an investee company	38,376	39,079
Provision for impairment	(20,947)	(20,947)
	27,465	28,168

Notes to the Accounts

19. NET INVESTMENT IN FINANCE LEASES

The total minimum lease payments receivable under finance lease, and its present values are as follows:

	Present value of minimum lease payments receivable 2003 HK\$'000	Interest income relating to future periods 2003 HK\$'000	Total minimum lease payments receivable 2003 HK\$'000	Present value of minimum lease payments receivable 2002 HK\$'000	Interest income relating to future periods 2002 HK\$'000	Total minimum lease payments receivable 2002 HK\$'000
Amounts receivable:						
Not later than one year	1,371	62	1,433	1,932	120	2,052
Later than one year and not later than five years	344	16	360	76	6	82
		<u>78</u>	<u>1,793</u>		<u>126</u>	<u>2,134</u>
Net investment in finance leases	<u>1,715</u>			<u>2,008</u>		

20. INVENTORIES

	Group	
	2003 HK\$'000	2002 HK\$'000
Raw materials	53,000	46,986
Work in progress	13,484	11,013
Finished goods	58,264	49,446
Consumable stores	2,979	3,081
	<u>127,727</u>	<u>110,526</u>

At 31st December 2003, the carrying amount of inventories is stated at cost less a general provision amounting to HK\$5,862,000 (2002: HK\$4,564,000).

Notes to the Accounts

21. TRADE AND OTHER RECEIVABLES

	Group	
	2003	2002
	HK\$'000	HK\$'000
Trade receivables (note)	85,626	67,735
Other receivables	17,501	28,811
	<u>103,127</u>	<u>96,546</u>

Note: The credit terms of the Group depend on the credit status and repayment history of customers and range from 0 to 90 days. At 31st December, 2003, the ageing analysis of the trade receivables was as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Current – 30 days	58,242	48,850
31 days – 60 days	10,285	6,090
61 days – 90 days	7,650	3,965
Over 90 days	9,449	8,830
	<u>85,626</u>	<u>67,735</u>

22. INVESTMENT SECURITIES

	Group	
	2003	2002
	HK\$'000	HK\$'000
Equity securities listed outside Hong Kong at market value	2,624	2,565

23. CASH AND BANK BALANCES

Included in cash and bank balances was an amount of US\$198,000 (2002: US\$690,000) deposited in certain banks in the People's Republic of China (the "PRC") by certain PRC subsidiaries of the Group.

Notes to the Accounts

24. TRADE AND OTHER PAYABLES

	Group	
	2003	2002
	HK\$'000	HK\$'000
Trade payables (note)	27,136	18,465
Other payables	61,216	58,670
	<hr/>	<hr/>
	88,352	77,135
	<hr/>	<hr/>

Note: At 31st December 2003, the ageing analysis of the trade payables was as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Current – 30 days	24,661	16,907
31 days – 60 days	911	712
61 days – 90 days	160	161
Over 90 days	1,404	685
	<hr/>	<hr/>
	27,136	18,465
	<hr/>	<hr/>

Notes to the Accounts

25. SHARE CAPITAL

	Company	
	<i>No. of shares</i>	<i>HK\$'000</i>
<i>Authorised:</i>		
At 1st January 2002, 1st January 2003 and 31st December 2003	400,000,000	40,000
<i>Issued and fully paid:</i>		
At 1st January 2002	203,008,800	20,301
Issue of new shares		
– under scrip dividend scheme (note a)	2,540,683	254
– exercise of share options (note b)	2,070,000	207
At 31st December 2002 and 1st January 2003	207,619,483	20,762
Issue of new shares under scrip dividend scheme (note a)	3,501,792	350
At 31st December 2003	211,121,275	21,112

Notes:

- (a) Pursuant to a scrip dividend scheme in relation to the 2002 final dividend, shareholders representing a total of 134,235,613 shares (2002: 128,727,984 shares) elected to receive scrip shares in lieu of cash dividend payment. A total of 3,501,792 shares (2002: 2,540,683 shares) were issued to these shareholders at HK\$1.15 per share (2002: HK\$1.52 per share).
- (b) Share options exercised from 22nd February 2002 to 26th June 2002 resulted in the issue of 2,070,000 shares at the price of HK\$0.79 per share, yielding proceeds of HK\$1,635,000. No share options were exercised in 2003.

Notes to the Accounts

26. RESERVES

Group

	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Investment properties revaluation reserve <i>HK\$'000</i>	Other properties revaluation reserve <i>HK\$'000</i>	General reserves <i>HK\$'000</i>	Retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st January 2002, as previously reported	179,790	89,138	9,871	6,352	16,000	297,656	598,807
Changes in accounting policy – provision for net deferred tax liabilities (note 1(q))	–	(1,775)	(945)	660	–	(671)	(2,731)
At 1st January 2002, as restated	179,790	87,363	8,926	7,012	16,000	296,985	596,076
Exchange adjustments	–	776	–	389	–	(706)	459
Premium on issue of new shares	5,036	–	–	–	–	–	5,036
Reclassification	–	–	495	(495)	–	–	–
Net revaluation deficit	–	–	(1,090)	–	–	–	(1,090)
Profit for the year	–	–	–	–	–	17,656	17,656
2001 final dividend paid	–	–	–	–	–	(6,121)	(6,121)
As at 31st December 2002	184,826	88,139	8,331	6,906	16,000	307,814	612,016
Representing:							
Retained earnings at 31st December 2002						301,585	
2002 final dividend proposed						6,229	
At 31st December 2002						307,814	
Company and subsidiaries	184,826	68,311	8,331	–	16,000	303,477	580,945
Associated company	–	3,991	–	6,906	–	9,976	20,873
Joint ventures	–	15,837	–	–	–	(5,639)	10,198
At 31st December 2002	184,826	88,139	8,331	6,906	16,000	307,814	612,016

Notes to the Accounts

26. RESERVES (Continued)

Group (Continued)

	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Investment properties revaluation reserve <i>HK\$'000</i>	Other properties revaluation reserve <i>HK\$'000</i>	General reserves <i>HK\$'000</i>	Retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st January 2003, as previously reported	184,826	89,914	9,276	6,246	16,000	308,190	614,452
Changes in accounting policy – provision for net deferred tax liabilities (note 1(q))	–	(1,775)	(945)	660	–	(376)	(2,436)
At 1st January 2003, as restated	184,826	88,139	8,331	6,906	16,000	307,814	612,016
Exchange adjustments	–	196	–	(56)	–	23,950	24,090
Premium on issue of new shares	3,678	–	–	–	–	–	3,678
Net revaluation surplus	–	–	450	–	–	–	450
Profit for the year	–	–	–	–	–	16,293	16,293
2002 final dividend paid	–	–	–	–	–	(6,229)	(6,229)
As at 31st December 2003	188,504	88,335	8,781	6,850	16,000	341,828	650,298
Representing:							
Retained earnings at 31st December 2003						335,494	
2003 final dividend proposed						6,334	
At 31st December 2003						341,828	
Company and subsidiaries	188,504	68,773	8,781	604	16,000	332,935	615,597
Associated company	–	3,725	–	6,246	–	9,993	19,964
Joint ventures	–	15,837	–	–	–	(1,100)	14,737
At 31st December 2003	188,504	88,335	8,781	6,850	16,000	341,828	650,298

Notes to the Accounts

26. RESERVES (Continued)

Company

	Share Premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st January 2002	179,790	442,598	(299,459)	322,929
Premium on issue of new shares	5,036	–	–	5,036
Loss for the year	–	–	(14,035)	(14,035)
2001 final dividend paid	–	–	(6,121)	(6,121)
At 31st December 2002	184,826	442,598	(319,615)	307,809
Representing:				
Accumulated losses			(325,844)	
2002 final dividend proposed			6,229	
			(319,615)	
At 1st January 2003	184,826	442,598	(319,615)	307,809
Premium on issue of new shares	3,677	–	–	3,677
Loss for the year	–	–	(7,226)	(7,226)
2002 final dividend paid	–	–	(6,229)	(6,229)
At 31st December 2003	188,503	442,598	(333,070)	298,031
Representing:				
Accumulated losses			(339,404)	
2003 final dividend proposed			6,334	
			(333,070)	

The contributed surplus of the Company represents the excess of the consolidated net assets of a subsidiary acquired over the nominal amount of the Company's shares issued for the acquisition, as a result of the Group reorganisation in 1990. Under the Company Act 1981 of Bermuda (as amended), the contributed surplus of the Company is available for distribution to members of the Company.

Notes to the Accounts

27. LONG TERM BANK LOANS

	Group	
	2003	2002
	HK\$'000	HK\$'000
The maturity profile of the secured long term bank loans is as follows:		
– within one year	4,040	7,992
– in the second year	–	3,636
	4,040	11,628
Less: Amounts due within one year included under current liabilities	(4,040)	(7,992)
	–	3,636

28. DEFERRED TAXATION

Deferred taxation are calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2002: 16%).

The movement on the net deferred tax liabilities is as follows:

	Group	
	2003	As restated 2002
	HK\$'000	HK\$'000
At 1st January	2,363	2,724
Exchange differences	59	(8)
Deferred taxation charged/(credited) to profit and loss account (note 7)		
– relating to the origination and reversal of temporary differences	1,895	(353)
– resulting from an increase in tax rate	(139)	–
At 31st December	4,178	2,363

Notes to the Accounts

28. DEFERRED TAXATION *(Continued)*

Deferred income tax assets are recognised for tax losses carry forward to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group has unrecognised tax losses of HK\$129,157,000 (2002: HK\$103,363,000) to carry forward against future taxable income.

The movement in deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year is as follows:

Deferred tax liabilities

	Accelerated tax depreciation		Revaluation of properties		Total	
	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January	4,013	3,323	7,826	7,852	11,839	11,175
Charged/(credited) to profit and loss account	27	690	269	(26)	296	664
Exchange differences	–	–	857	–	857	–
At 31st December	4,040	4,013	8,952	7,826	12,992	11,839

Deferred tax assets

	Impairment of assets		Tax losses		Others		Total	
	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January	7,693	8,451	1,703	–	80	–	9,476	8,451
(Charged)/credited to profit and loss account	(821)	(766)	(675)	1,703	36	80	(1,460)	1,017
Exchange differences	798	8	–	–	–	–	798	8
At 31st December	7,670	7,693	1,028	1,703	116	80	8,814	9,476

Notes to the Accounts

28. DEFERRED TAXATION *(Continued)*

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

	2003 HK\$'000	As restated 2002 HK\$'000
Deferred tax assets	834	1,640
Deferred tax liabilities	(5,012)	(4,003)
	(4,178)	(2,363)

29. FUTURE OPERATING LEASE INCOME

At 31st December 2003, the Group had future aggregate minimum lease payments receivable under non-cancellable operating leases as follows:

	2003 Land and buildings HK\$'000	2003 Others HK\$'000	2002 Land and buildings HK\$'000	2002 Others HK\$'000
Not later than one year	4,786	1,831	5,569	712
Later than one year and not later than five years	4,826	216	8,607	25
	9,612	2,047	14,176	737

Notes to the Accounts

30. OPERATING LEASE COMMITMENTS

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

	2003	2003	2002	2002
	Land and	Others	Land and	Others
	buildings		buildings	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Not later than one year	8,759	152	7,695	264
Later than one year and not later than five years	3,357	95	13,987	342
Later than five years	–	–	3,204	–
	12,116	247	24,886	606

31. CAPITAL COMMITMENTS

	2003	Group
	HK\$'000	2002
		HK\$'000
Contracted but not provided for in respect of fixed assets	793	9,740
Authorised but not contracted for in respect of fixed assets	–	234
	793	9,974

The Group's share of capital commitments of the joint ventures themselves not included in the above are as follows:

Contracted but not provided for in respect of fixed assets	28,767	9,633
Authorised but not contracted for in respect of fixed assets	15,301	7,563
	44,068	17,196

Notes to the Accounts

32. CONTINGENT LIABILITIES

	Group		Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Guarantees for banking facilities granted to subsidiaries	–	–	42,401	53,143
Corporate guarantee in respect of performance bonds issued by subsidiaries to customers	2,982	3,686	–	–
Counter-indemnity in respect of performance bonds issued by banks	–	90	–	–
Guarantee in lieu of rental deposit	–	250	–	–
Guarantee in lieu of utility deposit	1,533	1,294	–	–
Guarantee in respect of import duty	1,601	1,693	–	–
	6,116	7,013	42,401	53,143

As disclosed in the Group's 2002 Annual Report, the former Director and Administrator of Tai Ping Carpets Europe S.A. ("TPCE") has issued proceedings and a claim for Euros 195,790 (HK\$1,919,000) against TPCE for wrongful dismissal. The Company believes that such claim is without merit and that the outcome of the proceedings against the TPCE in the French Labour Court will not be successful and consequently TPCE has only provided the gross cost of holiday pay due to him in the accounts.

Notes to the Accounts

33. RELATED PARTY TRANSACTIONS

The following is a summary of significant related party transactions, which were carried out in the normal course of the Group's business:—

	Group	
	2003	2002
	HK\$'000	HK\$'000
Sales to an associated company (note a)	2,660	2,972
Purchases from a joint venture (note a)	118	222
Rental paid to a subsidiary of The Hong Kong and Shanghai Hotels, Ltd. (note b)	525	477
Sales to The Hong Kong and Shanghai Hotels, Ltd. and its subsidiaries (note b)	2,468	3,398
Acquisition of a land use right from a related company (note c)	—	4,764
Purchase of machinery from a joint venture (note d)	—	703

- (a) Sales to an associated company and purchases from a joint venture were conducted in the normal course of business and at mutually agreed prices between the two parties.
- (b) Rental paid and sales made to The Hong Kong and Shanghai Hotels, Limited and its subsidiaries ("HKS Hotels") are related party transactions by virtue of the fact that the substantial shareholder of the Company is also interested in more than 30% of the entire issued share capital in The Hong Kong and Shanghai Hotels, Limited. Rental payments were based on fixed monthly amounts mutually agreed by parties involved. The sales to HKS Hotels falls under the definition of "Connected Transactions" under the Listing Rules and are disclosed under "Connected Transactions" section in Directors' report.
- (c) In 2002 a piece of land in Nanhai, Guangdong Province, the PRC was acquired from a minority shareholder at a price agreed by both parties.
- (d) In December 2002, a subsidiary acquired two pieces of Wilton machinery from Weihai Shanhua Huabao Carpet Company Limited, a joint venture of the Company, at a price agreed by both parties.

34. APPROVAL OF ACCOUNTS

The accounts were approved by the Directors on 19th April 2004.