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## 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 Institute of Certified Public Accountants ("HKICPA"). 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 their fair values.

The 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 1st January 2005. The Group has not adopted these new HKFRSs in the financial statements for the year ended 31st December 2004. The Group has already commenced an assessment of the impact of these 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.

### (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 inter-company 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.

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.

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1. Principal Accounting Policies (Continued)

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**(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 three to eight 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.

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.

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1. Principal Accounting Policies (Continued)

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**(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 any provision for impairment losses, and the consolidated balance sheet includes the Group's share of the net assets of the joint ventures less accumulated impairment losses.

Equity accounting is discontinued when the carrying amount of the investment in a joint venture reaches zero, unless the Group has incurred an 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.

**(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 is 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.

## 1. Principal Accounting Policies (Continued)

**(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 the Statement of Standard Accounting Practice ("SSAP") No. 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.

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:

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 fixed 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.

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1. Principal Accounting Policies (Continued)

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**(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 is not set off against increase in valuation of other companies' investment properties which have been credited to the investment properties revaluation reserve.

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.

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**1. Principal Accounting Policies (Continued)**

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**(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 assets is based on the attributable cost of funds to the Group.

**(l) Research and development costs**

Research and development costs are expensed as incurred.

**(m) 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, it 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.

**(n) Inventories**

Inventories comprising 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.

## 1. Principal Accounting Policies (Continued)

**(o) 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.

**(p) 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.

**(q) 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.

**(r) 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.

**(s) 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 lease payment. The difference between gross receivable and the present value of the receivable is recognised as unearned finance income.

## 1. Principal Accounting Policies (Continued)

**(t) Operating leases**

(The Group as both lessor and lessee)

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.

Assets leased out under operating leases are included in fixed assets in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar owned fixed assets. Rental income (net of any incentives given to lessees) is recognised on a straight-line basis over the lease terms.

**(u) 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.

**(v) 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.

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 10 and 11), including additions resulting from acquisition through purchases of subsidiaries including goodwill.



## 1. Principal Accounting Policies (Continued)

**(v) Segment reporting** *(Continued)*

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.

**(w) 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 as the amounts expected to be paid when they are settled.

**(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 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 contributions vesting fully.

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% of 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.

## 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 and property holding. Revenues recognised during the year are as follows:

	2004 HK\$'000	2003 HK\$'000
<b>Turnover</b>		
Sales of carpets	451,032	409,569
Yarn manufacturing and trading	59,992	57,243
Sales and leasing of interior furnishings	45,832	51,532
Gross rental income from investment properties and others	6,309	6,868
	563,165	525,212
<b>Other revenues</b>		
Bank interest income	357	411
Interest from third parties	682	464
Interest from finance leases	79	158
Income on sales of underlay	744	652
Income on installation of carpets	531	476
	2,393	2,161
<b>Total revenues</b>	<b>565,558</b>	<b>527,373</b>

## 2. Turnover, Revenue and Segmental Information (Continued)

**Primary reporting format – business segments**

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

Carpets	– Carpets manufacturing and trading
Yarn	– Yarn manufacturing and trading
Interior furnishings	– Sale and leasing of furniture, art and soft furnishings
Property holding and others	– Rental income from property holding and investment in term deposits in banks

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

## 2. Turnover, Revenue and Segmental Information (Continued)

The Group's turnover and trading results for the year ended 31st December 2004, together with their comparative figures, are analysed as follows:

**Primary reporting format – business segments**

For the year ended 31st December 2004

	Carpets	Yarn	Interior furnishings	Property holding and others	Elimination	Unallocated	Group
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Turnover</b>							
– External revenues	451,032	59,992	45,832	6,309	–	–	563,165
– Inter-segment revenues	1,890	18,487	–	90	(20,467)	–	–
	<b>452,922</b>	<b>78,479</b>	<b>45,832</b>	<b>6,399</b>	<b>(20,467)</b>	<b>–</b>	<b>563,165</b>
<b>Segment results</b>	<b>(21,646)</b>	<b>11,238</b>	<b>9,413</b>	<b>6,631</b>	<b>(1,527)</b>	<b>(15,432)</b>	<b>(11,323)</b>
Finance costs							(1,203)
Share of profits of							
– Associated company	2,677	–	–	–	–	–	2,677
– Joint ventures	26,750	–	–	–	–	–	26,750
Profit before taxation							16,901
Taxation							(17,829)
Loss after taxation							(928)
Minority interests							(2,924)
<b>Loss attributable to shareholders</b>							<b>(3,852)</b>
<b>Segment assets</b>	<b>512,863</b>	<b>82,959</b>	<b>43,375</b>	<b>81,613</b>	<b>–</b>	<b>36,273</b>	<b>757,083</b>
Investment in							
associated company	21,345	–	–	–	–	–	21,345
Investment in joint ventures	113,462	–	–	–	–	–	113,462
<b>Total assets</b>							<b>891,890</b>
<b>Segment liabilities</b>	<b>93,859</b>	<b>2,531</b>	<b>7,683</b>	<b>802</b>	<b>–</b>	<b>98,722</b>	<b>203,597</b>
Capital expenditure	27,628	1,962	6,818	–	–	314	36,722
Depreciation	27,909	4,110	2,192	–	–	300	34,511
Amortisation charge	(296)	–	–	–	–	1,659	1,363
Impairment charge	175	–	–	–	–	–	175

## 2. Turnover, Revenue and Segmental Information (Continued)

## For the year ended 31st December 2003

	Carpets	Yarn	Interior furnishings	Property holding and others	Elimination	Unallocated	Group
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover							
– External revenues	409,569	57,243	51,532	6,868	–	–	525,212
– Inter-segment revenues	1,752	17,046	–	76	(18,874)	–	–
	<b>411,321</b>	<b>74,289</b>	<b>51,532</b>	<b>6,944</b>	<b>(18,874)</b>	<b>–</b>	<b>525,212</b>
<b>Segment results</b>	<b>18,598</b>	<b>10,539</b>	<b>5,106</b>	<b>5,820</b>	<b>(382)</b>	<b>(24,100)</b>	<b>15,581</b>
Finance costs							(2,475)
Share of profits of							
– Associated company	890	–	–	–	–	–	890
– Joint ventures	14,875	–	–	–	–	–	14,875
Profit before taxation							28,871
Taxation							(11,524)
Profit after taxation							17,347
Minority interests							(1,054)
<b>Profit attributable to shareholders</b>							<b>16,293</b>
Segment assets	459,847	78,396	25,199	78,714	–	80,176	722,332
Investment in							
associated company	21,711	–	–	–	–	–	21,711
Investment in joint ventures	96,565	–	–	–	–	–	96,565
<b>Total assets</b>							<b>840,608</b>
<b>Segment liabilities</b>	<b>67,753</b>	<b>2,214</b>	<b>2,894</b>	<b>1,599</b>	<b>–</b>	<b>76,746</b>	<b>151,206</b>
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)

## Secondary reporting format – geographical segments

	Turnover	Segment results	Total assets	Capital expenditure
	2004	2004	2004	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	85,082	10,793	80,536	6,199
Mainland China	11,151	(1,804)	127,910	3,426
South East Asia	209,338	20,705	367,819	18,614
Middle East	18,953	393	–	–
Other Asian countries	20,411	3,896	–	–
Europe	43,522	(12,338)	21,832	635
North America	166,364	(17,972)	122,713	7,848
Others	8,344	436	–	–
	<b>563,165</b>	<b>4,109</b>	<b>720,810</b>	<b>36,722</b>
Unallocated costs		(15,432)		
Operating loss		(11,323)		
Investment in associated company			21,345	
Investment in joint ventures			113,462	
Unallocated assets			36,273	
<b>Total assets</b>			<b>891,890</b>	

## 2. Turnover, Revenue and Segmental Information (Continued)

	Turnover	Segment	Total assets	Capital
	2003	results	2003	expenditure
	HK\$'000	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	–	–
	<b>525,212</b>	<b>39,681</b>	<b>642,156</b>	<b>29,712</b>
Unallocated costs		(24,100)		
Operating profit		<b>15,581</b>		
Investment in associated company			21,711	
Investment in joint ventures			96,565	
Unallocated assets			80,176	
<b>Total assets</b>			<b>840,608</b>	

### 3. Operating (Loss)/Profit

	2004 HK\$'000	2003 HK\$'000
Operating (loss)/profit is stated after crediting and charging the following:		
<b>Crediting:-</b>		
Gains on disposal of investment securities	37	41
Gains on disposal of an investment property	313	–
Gains on disposal of other fixed assets	–	60
Release of unvested benefit of the previous retirement scheme	–	302
Revaluation surplus on investment properties	595	303
Negative goodwill recognised as income (note 12)	317	1,155
Reversal of impairment in investment in joint ventures	4,803	–
Compensation on resumption of land	–	3,109
Net exchange gains	–	2,157
<b>Charging:-</b>		
Depreciation of fixed assets	34,511	33,794
Staff costs (including Directors' emoluments) (note)	172,446	151,747
Retirement benefit costs – defined contribution schemes (including Directors' emoluments)	3,243	3,185
Operating lease charges		
Land and buildings	13,054	9,807
Plant and machinery	40	293
Auditors' remuneration	1,537	1,191
Outgoings in respect of investment properties	460	378
Amortisation of goodwill (note 12)	1,680	2,227
Research and development costs	1,995	1,912
Impairment in fixed assets (note 10)	175	940
Loss on disposal of fixed assets	369	–
Net exchange losses	913	–

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



#### 4. Finance Costs

	2004 HK\$'000	2003 HK\$'000
Interest on bank loans and overdrafts wholly repayable within five years	1,203	2,475

#### 5. Directors' Emoluments

##### (a) Directors' emoluments

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

	2004 HK\$'000	2003 HK\$'000
Fees	320	313
Other emoluments:		
Basic salaries, housing and other allowances	3,763	3,504
Discretionary bonuses	2,545	525
Inducement fees	–	390
Contributions to retirement schemes	117	239
Compensation for loss of office	–	5,400
	6,745	10,371

Directors' fees disclosed above include HK\$ 90,000 (2003: HK\$ 80,000) paid to Independent Non-executive Directors.

The emoluments of the Directors fell within the following bands:

	No. of directors	
	2004	2003
Emolument band		
HK\$nil – HK\$1,000,000	13	11
HK\$1,500,001 – HK\$2,000,000	–	1
HK\$2,000,001 – HK\$2,500,000	1	–
HK\$4,000,001 – HK\$4,500,000	1	–
HK\$7,000,001 – HK\$7,500,000	–	1

## 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 (2003: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2003: three) individuals during the year are as follows:

	2004 HK\$'000	2003 HK\$'000
Basic salaries, housing and other allowances	2,499	3,348
Bonuses	88	701
Profit sharing incentives	871	–
Contributions to retirement schemes	–	97
Compensation for loss of office	470	–
	3,928	4,146

The emoluments fell within the following bands:

	No. of individuals	
	2004	2003
Emolument bands		
HK\$ 1,000,001 – HK\$ 1,500,000	3	2
HK\$ 1,500,001 – HK\$ 2,000,000	–	1

## 6. Taxation

No provision for Hong Kong profits tax has been made in the accounts for both years as the companies within the Group either have no assessable profits in Hong Kong or have available tax losses brought forward to set off against their assessable profits. Taxation on overseas profits has been calculated on the estimated assessable profits 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:

	2004 HK\$'000	2003 HK\$'000
Overseas tax of subsidiaries	14,056	11,502
Over-provision in prior years	(2,908)	(3,780)
Deferred taxation relating to the origination and reversal of temporary differences (note 27)	1,299	1,895
Deferred taxation resulting from an increase in tax rate (note 27)	–	(139)
Share of taxation attributable to an associated company and joint ventures	5,382	2,046
Taxation charges	17,829	11,524

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

	2004 HK\$'000	2003 HK\$'000
Profit before taxation	16,901	28,871
Calculated at a taxation rate of 17.5% (2003: 17.5%)	2,958	5,052
Effect of different taxation rates in other countries	6,267	4,223
Income not subject to taxation	(1,483)	(1,106)
Expenses not deductible for taxation purposes	3,687	3,476
Tax losses not recognised	9,308	3,798
Increase in opening net deferred taxation resulting from an increase in tax rate	–	(139)
Over-provision in previous years	(2,908)	(3,780)
Taxation charges	17,829	11,524

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## 7. (Loss)/Profit Attributable to Shareholders

The (loss)/profit attributable to shareholders is dealt with in the accounts of the Company to the extent of loss of HK\$4,509,000 (2003: HK\$ 7,227,000).

## 8. Dividend

	2004 HK\$'000	2003 HK\$'000
Final, proposed, of nil (2003: HK\$0.03) per share	–	6,334

Note: The Directors do not recommend the payment of a final dividend for the year 2004.

## 9. (Loss)/Earnings Per Share

(Loss)/earnings per share is calculated based on the Group's loss attributable to shareholders of HK\$3,852,000 (2003: profit attributable to shareholders of HK\$16,293,000) and on the weighted average number of shares in issue of 211,703,488 shares (2003: 211,703,488 shares which has been adjusted for shares issued under the scrip dividend scheme) during the year.

There are no diluted (loss)/earnings per share presented for both years as the Company had no outstanding share options as at 31st December 2004 and for 2003, the dilution from outstanding share options granted by the Company was immaterial.

## 10. Fixed Assets

Group	Investment properties HK\$'000	Other properties HK\$'000	Other assets HK\$'000	Total HK\$'000
Cost or valuation				
At 1st January 2004	74,053	157,455	422,085	653,593
Exchange adjustments	5	424	579	1,008
Additions	–	165	14,540	14,705
Acquisition of a subsidiary	–	–	6,506	6,506
Transfer from construction in progress	–	618	10,734	11,352
Net revaluation surplus	5,185	–	–	5,185
Disposals	(2,031)	–	(9,217)	(11,248)
At 31st December 2004	77,212	158,662	445,227	681,101
Accumulated depreciation and impairment				
At 1st January 2004	–	43,905	248,060	291,965
Exchange adjustments	–	184	605	789
Charge for the year	–	5,491	29,020	34,511
Acquisition of a subsidiary	–	–	3,921	3,921
Write back on disposals	–	–	(8,240)	(8,240)
Impairment	–	–	175	175
At 31st December 2004	–	49,580	273,541	323,121
Net book value				
at 31st December 2004	77,212	109,082	171,686	357,980
Net book value				
at 31st December 2003	74,053	113,550	174,025	361,628

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

## 10. 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 the HKICPA 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\$ 6,808,000 (2003: HK\$ 7,594,000) had it 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 an open market value basis at 31st December 2004 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 84.

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

		Investment properties HK\$'000	Other properties HK\$'000	Other assets HK\$'000
2004	At professional valuation			
	in 1989	–	11,563	–
	in 2004	77,212	–	–
	At cost	–	147,099	445,227
	<b>At 31st December 2004</b>	<b>77,212</b>	<b>158,662</b>	<b>445,227</b>
2003	At professional valuation			
	in 1989	–	11,131	–
	in 2003	74,053	–	–
	At cost	–	146,324	422,085
	<b>At 31st December 2003</b>	<b>74,053</b>	<b>157,455</b>	<b>422,085</b>

## 10. 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 HK\$'000	Overseas HK\$'000
2004	Freehold	–	126,409
	Long leases (over 50 years)	11,900	–
	Medium leases (10 – 50 years)	7,030	40,955
	<b>At 31st December 2004</b>	<b>18,930</b>	<b>167,364</b>
2003	Freehold	–	129,205
	Long leases (over 50 years)	8,930	–
	Medium leases (10 – 50 years)	6,770	42,698
	<b>At 31st December 2003</b>	<b>15,700</b>	<b>171,903</b>

- (c) Included in the net book value of other properties and other assets were amounts of HK\$ 4,332,070 (2003: HK\$ 4,138,000) and HK\$ 4,549,000 (2003: HK\$ 6,022,000) respectively which were stated at their recoverable amounts.

## 11. Construction in Progress

Group	2004 HK\$'000	2003 HK\$'000
At 1st January	11,201	25,770
Exchange adjustments	174	1,235
Additions	19,187	16,838
Transfer to fixed assets	(11,352)	(32,585)
Write off	(786)	(57)
<b>At 31st December</b>	<b>18,424</b>	<b>11,201</b>

## 12. Intangible Assets

	Positive goodwill HK\$'000	Negative goodwill HK\$'000	Total HK\$'000
At 1st January 2004	1,680	(356)	1,324
Amortisation charge (note 3)	(1,680)	317	(1,363)
Acquisition of a subsidiary	–	(2,613)	(2,613)
<b>At 31st December 2004</b>	<b>–</b>	<b>(2,652)</b>	<b>(2,652)</b>
At 31st December 2004			
Cost	6,682	(6,128)	554
Accumulated amortisation	(6,682)	3,476	(3,206)
<b>Net book amount</b>	<b>–</b>	<b>(2,652)</b>	<b>(2,652)</b>
At 31st December 2003			
Cost	6,682	(3,515)	3,167
Accumulated amortisation	(5,002)	3,159	(1,843)
<b>Net book amount</b>	<b>1,680</b>	<b>(356)</b>	<b>1,324</b>

## 13. Subsidiaries

Company	2004 HK\$'000	2003 HK\$'000
Unlisted shares at directors' valuation in 1990	242,800	242,800
Loans to subsidiaries	57,625	55,931
Amounts due by subsidiaries	456,552	424,707
	756,977	723,438
Loan from a subsidiary	(3,213)	(3,213)
Amounts due to subsidiaries	(87,959)	(91,388)
	665,805	628,837
Provision for impairment	(359,020)	(355,931)
	306,785	272,906

Details of principal subsidiaries are set out on pages 82 and 83. All balances due from/(to) subsidiaries are unsecured, interest free and have no fixed repayment terms, except for an amount of HK\$57,625,000 (2003: HK\$57,211,250) which carries interests at prevailing market rates.

## 14. Amounts due from an Indirectly Held Associated Company and Related Companies

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



## 15. Associated Company

Group	2004 HK\$'000	2003 HK\$'000
Share of net assets	20,594	21,353
Amounts due by associated company	751	358
	21,345	21,711
Shares at cost – unlisted	519	519

Dividend income from associated company during the year amounted to HK\$462,000 (2003: HK\$458,000).

Details of the principal associated company are set out on page 83.

Extract of the operating results and financial position of the Group's significant associated company, Philippine Carpet Manufacturing Corporation which is based on its consolidated financial statements as adjusted with differences in certain accounting principles generally accepted in Hong Kong ("HKGAAP") for the year ended and as at 31st December 2004 is as follows:

	2004 HK\$'000	2003 HK\$'000
Operating results		
Turnover	72,280	65,678
Profit before taxation	8,158	2,713
Group's share of profit before taxation	2,676	890
Financial position		
Property, plant and equipment	29,371	23,568
Other investments	3,761	3,874
Other assets	2,014	1,460
Current assets	53,109	49,559
Current and other liabilities	(25,469)	(14,069)
		–
Shareholders' funds	62,786	64,392
Group's share of net assets	20,594	21,353

## 16. Joint Ventures

Group	2004 HK\$'000	2003 HK\$'000
Share of net assets	123,375	117,400
Amounts due by joint ventures		
Loan account	458	458
Current account	23,780	17,746
	24,238	18,204
	147,613	135,604
Provision for impairment	(34,151)	(39,039)
	113,462	96,565
Paid in capital at cost	112,704	112,704

Dividend income from joint ventures during the year amounted to HK\$ 11,584,000 (2003: HK\$ 8,707,000).

Details of the principal joint ventures are set out on page 83.

## 16. 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 financial statements as adjusted with differences in certain HKGAAPs for the year ended and as at 31st December 2004 is as follows:

WHCL	2004 HK\$'000	2003 HK\$'000
<b>Operating results</b>		
Turnover	264,876	218,172
Profit before taxation	9,810	5,882
Depreciation	11,472	10,349
Group's share of profit before taxation	4,807	2,440
<b>Financial position</b>		
Fixed assets	118,598	93,460
Construction in progress and other non-current assets	64,366	32,738
Current assets	210,244	150,491
Current liabilities	(267,390)	(154,672)
Shareholders' funds	125,818	122,017
Group's share of net assets less provision for impairment	45,078	43,216

## 16. Joint Ventures (Continued)

WPCL	2004 HK\$'000	2003 HK\$'000
Operating results		
Turnover	153,687	98,607
Profit before taxation	45,088	27,610
Depreciation	2,245	1,730
Group's share of profit before taxation	22,093	12,084
Financial position		
Fixed assets	17,778	16,201
Construction in progress and other non-current assets	32	691
Current assets	127,851	86,829
Current liabilities	(52,672)	(29,956)
Shareholders' funds	92,989	73,765
Group's share of net assets less provision for impairment	44,995	35,575

## 17. Other Investments

Group	2004 HK\$'000	2003 HK\$'000
Long term		
Equity securities at cost, unlisted	10,150	10,036
Amount due by an investee company	38,327	38,376
Provision for impairment	(20,947)	(20,947)
	27,530	27,465
Short term investment – unlisted	686	–

## 18. 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 2004 HK\$'000	Interest income relating to future periods 2004 HK\$'000	Total minimum lease payments receivable 2004 HK\$'000	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
Amounts receivable:						
Not later than one year	1,200	51	1,251	1,371	62	1,433
Later than one year and not later than five years	236	14	250	344	16	360
		65	1,501		78	1,793
Net investment in finance leases	1,436			1,715		

## 19. Inventories

Group	2004 HK\$'000	2003 HK\$'000
Raw materials	68,907	53,000
Work in progress	18,489	13,484
Finished goods	63,100	58,264
Consumable stores	3,244	2,979
	<b>153,740</b>	<b>127,727</b>

## 20. Trade and Other Receivables

Group	2004 HK\$'000	2003 HK\$'000
Trade receivables (note)	98,593	85,626
Other receivables	21,304	17,501
	<b>119,897</b>	<b>103,127</b>

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 2004, the ageing analysis of the trade receivables was as follows:

Group	2004 HK\$'000	2003 HK\$'000
Current – 30 days	63,023	58,242
31 days – 60 days	12,814	10,285
61 days – 90 days	7,825	7,650
Over 90 days	14,931	9,449
	<b>98,593</b>	<b>85,626</b>

## 21. Investment Securities

Group	2004 HK\$'000	2003 HK\$'000
Equity securities listed outside Hong Kong at market value	<b>2,507</b>	<b>2,624</b>

## 22. Cash and Bank Balances

As at 31st December 2004, included in the Group's cash and bank balances of approximately RMB 9,104,000 (2003: RMB 6,041,000) and US\$ 944,000 (2003: US\$ 198,000) were placed with certain banks in the People's Republic of China (the "PRC") by certain PRC subsidiaries of the Group.

## 23. Trade and Other Payables

Group	2004 HK\$'000	2003 HK\$'000
Trade payables (note)	29,741	27,136
Other payables	90,170	61,216
	<b>119,911</b>	<b>88,352</b>

Note: At 31st December 2004, the ageing analysis of the trade payables was as follows:

Group	2004 HK\$'000	2003 HK\$'000
Current – 30 days	19,911	24,661
31 days – 60 days	6,211	911
61 days – 90 days	1,420	160
Over 90 days	2,199	1,404
	<b>29,741</b>	<b>27,136</b>

## 24. Share Capital

Company	No. of shares	HK\$'000
Authorised:		
At 1st January 2003, 1st January 2004 and 31st December 2004	400,000,000	40,000
Issued and fully paid:		
At 1st January 2003	207,619,483	20,762
Issue of new shares under scrip dividend scheme (note)	3,501,792	350
At 31st December 2003 and 1st January 2004	211,121,275	21,112
Issue of new shares under scrip dividend scheme (note)	582,213	58
At 31st December 2004	<b>211,703,488</b>	<b>21,170</b>

Note:

Pursuant to a scrip dividend scheme in relation to the 2003 final dividend, shareholders representing a total of 23,871,096 shares (2003: 134,235,613 shares) elected to receive scrip shares in lieu of cash dividend payment. A total of 582,213 shares (2003: 3,501,792 shares) were issued to these shareholders at HK\$1.23 per share (2003: HK\$1.15 per share).

## 25. Reserves

Group	Share premium HK\$'000	Capital reserve HK\$'000	Investment properties revaluation reserve HK\$'000	Other properties revaluation reserve HK\$'000	General reserves HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1st January 2003	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)
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
At 1st January 2004	188,504	88,335	8,781	6,850	16,000	341,828	650,298
Exchange adjustments	–	526	–	170	–	2,381	3,077
Premium on issue of new shares	658	–	–	–	–	–	658
Net revaluation surplus/(deficit)	–	–	4,551	(1,892)	–	–	2,659
Reserves transferred to profit and loss account upon disposal of investment properties	–	–	(313)	–	–	–	(313)
Loss for the year	–	–	–	–	–	(3,852)	(3,852)
2003 final dividend paid	–	–	–	–	–	(6,334)	(6,334)
At 31st December 2004	189,162	88,861	13,019	5,128	16,000	334,023	646,193
Company and subsidiaries	189,162	69,299	13,019	1,190	16,000	313,882	602,552
Associated company	–	3,725	–	3,938	–	10,377	18,040
Joint ventures	–	15,837	–	–	–	9,764	25,601
At 31st December 2004	189,162	88,861	13,019	5,128	16,000	334,023	646,193



## 25. Reserves (Continued)

Company	Share premium HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1st January 2003	184,826	442,598	(319,615)	307,809
Premium on issue of new shares	3,678	–	–	3,678
Loss for the year	–	–	(7,227)	(7,227)
2002 final dividend paid	–	–	(6,229)	(6,229)
<b>At 31st December 2003</b>	<b>188,504</b>	<b>442,598</b>	<b>(333,071)</b>	<b>298,031</b>
Representing:–				
Accumulated losses			(339,405)	
2003 final dividend proposed			6,334	
			<b>(333,071)</b>	
At 1st January 2004	188,504	442,598	(333,071)	298,031
Premium on issue of new shares	658	–	–	658
Loss for the year	–	–	(4,509)	(4,509)
2003 final dividend paid	–	–	(6,334)	(6,334)
<b>At 31st December 2004</b>	<b>189,162</b>	<b>442,598</b>	<b>(343,914)</b>	<b>287,846</b>

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 Companies Act 1981 of Bermuda (as amended), the contributed surplus of the Company is available for distribution to members of the Company.

## 26. Long Term Bank Loans

Group	2004 HK\$'000	2003 HK\$'000
The maturity profile of the secured long term bank loans is as follows:		
– within one year	–	4,040

## 27. Deferred Taxation

Deferred taxation are calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2003: 17.5%).

Group	2004 HK\$'000	2003 HK\$'000
At 1st January	4,178	2,363
Exchange differences	17	59
Deferred taxation charged/(credited) to profit and loss account (note 6)		
– relating to the origination and reversal of temporary differences	1,299	1,895
– resulting from an increase in tax rate	–	(139)
At 31st December	5,494	4,178

Deferred income tax assets are recognised for tax losses carried 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\$164,169,000 (2003: HK\$129,157,000) 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 allowance		Revaluation of properties		Total	
	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January	4,040	4,013	8,952	7,826	12,992	11,839
Charged to profit and loss account	396	27	288	269	684	296
Exchange differences	–	–	8	857	8	857
At 31st December	4,436	4,040	9,248	8,952	13,684	12,992

Deferred tax assets	Impairment of assets		Tax losses		Others		Total	
	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January	7,670	7,693	1,028	1,703	116	80	8,814	9,476
(Charged)/credited to								
profit and loss account	(478)	(821)	(187)	(675)	50	36	(615)	(1,460)
Exchange differences	(12)	798	–	–	3	–	(9)	798
At 31st December	7,180	7,670	841	1,028	169	116	8,190	8,814

## 27. 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:

	2004 HK\$'000	2003 HK\$'000
Deferred tax assets	570	834
Deferred tax liabilities	(6,064)	(5,012)
	<b>(5,494)</b>	<b>(4,178)</b>

## 28. Future Operating Lease Income

At 31st December 2004, the Group had future aggregate minimum lease payments receivable under non-cancellable operating leases as follows:

	2004 Land and buildings HK\$'000	2004 Others HK\$'000	2003 Land and buildings HK\$'000	2003 Others HK\$'000
Not later than one year	5,012	2,166	4,786	1,831
Later than one year and not later than five years	666	283	4,826	216
	<b>5,678</b>	<b>2,449</b>	<b>9,612</b>	<b>2,047</b>

## 29. Operating Lease Commitments

At 31st December 2004, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	2004 Land and buildings HK\$'000	2004 Others HK\$'000	2003 Land and buildings HK\$'000	2003 Others HK\$'000
Not later than one year	8,405	431	8,759	152
Later than one year and not later than five years	15,383	710	3,357	95
Later than five years	6,332	–	–	–
	<b>30,120</b>	<b>1,141</b>	<b>12,116</b>	<b>247</b>

### 30. Capital Commitments

Group	2004 HK\$'000	2003 HK\$'000
Contracted but not provided for in respect of fixed assets	2,011	793
Authorised but not contracted for in respect of fixed assets	15,298	–
	<b>17,309</b>	<b>793</b>

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	14,987	28,767
Authorised but not contracted for in respect of fixed assets	49,221	15,301
	<b>64,208</b>	<b>44,068</b>

### 31. Contingent Liabilities

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Guarantees for banking facilities granted to subsidiaries	–	–	34,532	42,401
Corporate guarantee in respect of performance bonds				
issued by subsidiaries to customers	4,002	2,982	–	–
Counter-indemnity in respect of				
performance bonds issued by banks	491	–	–	–
Shipping guarantee on goods received	1,022	–	–	–
Guarantee in respect of import duty	1,896	1,601	–	–
	<b>7,411</b>	<b>4,583</b>	<b>34,532</b>	<b>42,401</b>

### 32. 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	2004 HK\$'000	2003 HK\$'000
Sales to an associated company (note a)	2,653	2,660
Purchases from joint ventures (note a)	517	118
Rental paid to a subsidiary of The Hong Kong and Shanghai Hotels, Ltd. (note b)	366	525
Sales to The Hong Kong and Shanghai Hotels, Ltd. and its subsidiaries (note b)	1,943	2,468

- (a) Sales to an associated company and purchases from joint ventures 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 fall under the definition of "Connected Transactions" under the Listing Rules and are disclosed under "Connected Transactions" section in the Directors' Report.

### 33. Post Balance Sheet Event

On 29 March 2005 (New York time), EF Acquisition Corp., Inc., a wholly-owned subsidiary of the Company, entered into an asset purchase agreement (the "Asset Purchase Agreement") with Edward Fields, Inc. ("Edward Fields") and its shareholders Mr. Jack Fields and Mr. Joel Lazar (collectively known as the "Seller Parties"). Pursuant to the Asset Purchase Agreement, among other things, EF Acquisition Corp., Inc. has agreed to purchase from Edward Fields, all rights, title and interest in, to and under the assets as prescribed in the Asset Purchase Agreement (the "Acquired Assets") for an aggregate consideration of US\$2,000,000 (approximately HK\$15,600,000). Except for certain obligations to be assumed by EF Acquisition Corp, Inc. as agreed in the Asset Purchase Agreement, EF Acquisition Corp., Inc. will not assume any debts, obligations, claims or liabilities of the business of Edward Fields, the Seller Parties, the Acquired Assets or otherwise.

### 34. Approval of Accounts

The accounts were approved by the Directors on 18th April 2005.