
1. General Information

Tai Ping Carpets International Limited (the “Company”) and its subsidiaries (collectively known as the “Group”) are 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.

The Company is a limited liability company incorporated in Bermuda. The address of its registered office is Canon’s Court, 22 Victoria Street, P.O. Box HM 1179, Hamilton HM EX, Bermuda. The principal office in Hong Kong is located at 26/F, Tower A, Regent Centre, 63 Wo Yi Hop Road, Kwai Chung, Hong Kong.

The Company’s shares are listed on The Stock Exchange of Hong Kong Limited.

The consolidated accounts are presented in thousands of Hong Kong dollars (HK\$’000), unless otherwise stated and approved for issue by the Board of Directors on 24th April 2006.

2. Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these consolidated accounts are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated accounts have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants. The consolidated accounts have been prepared under the historical cost convention except for (i) certain properties which are stated at revalued amounts less subsequent accumulated depreciation and accumulated impairment losses; and (ii) available-for-sale financial assets and investment properties, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgements in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated accounts, are disclosed in Note 4.

2. Summary of Significant Accounting Policies (Continued)

The adoption of new/revised HKFRS

In 2005, the Group adopted the new/revised standards and interpretations of HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKAS 40	Investment Property
HKAS-Int 15	Operating Leases Incentives
HKAS-Int 21	Income Taxes – Recovery of Revalued Non-Depreciated Assets
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 21, 23, 24, 27, 28, 31, 33, 38 and HKAS-Int 15 do not result in substantial changes to the Group's accounting policies. In summary:

- HKAS 1 has affected the presentation of minority interests, share of net after tax results of associates and joint ventures and other disclosures.
- HKASs 2, 7, 8, 10, 16, 23, 27, 28, 31, 33, 38 and HKAS-Int 15 have no material effect on the Group's policies.

2. Summary of Significant Accounting Policies (Continued)

- HKAS 21 requires the net exchange difference arising from the translation of the results and financial position of foreign operations to be disclosed as a separate component of equity. Previously, such exchange differences were disclosed as movement in retained earnings. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as the presentation currency for the respective entity financial statements.
- HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land and land use rights from property, plant and equipment to operating leases. The up-front prepayments made for the leasehold land and land use rights are expensed in the profit and loss account on a straight-line basis over the period of the lease or when there is impairment, the impairment is expensed in the profit and loss account. In prior years, the leasehold land was accounted for at fair value or cost less accumulated depreciation and accumulated impairment.

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy for recognition, measurement, derecognition and disclosures of financial instruments. Following the adoption of HKAS 32 and HKAS 39, the Group's investments in securities are classified into available-for-sale financial assets, financial assets at fair value through profit or loss, and loans and receivables. The classification depends on the purpose for which the investments were acquired. Available-for-sale financial assets are measured at fair value and changes in fair value are recognised in the available-for-sale revaluation reserves. Financial assets at fair value through profit or loss are measured at fair value and changes in fair value are recognised in the profit and loss account. Loans and receivables are measured at amortised cost and the carrying amount of the asset is computed by discounting the future cash flows to the present value using the effective interest method.

In addition, HKAS 39 requires financial liabilities, except for those carried at fair value through profit or loss, to be carried at amortised cost using the effective interest method.

HKAS 39 does not require the recognition, derecognition and measurement of financial assets and liabilities in accordance with this accounting standard on a retrospective basis.

The adoption of revised HKAS 40 has resulted in a change in the accounting policy whereby the changes in fair value of investment properties are recorded in the profit and loss account. In prior years, the increases in fair value were credited to the investment properties revaluation reserves. Decreases in fair value were first set off against increases on earlier valuations on a portfolio basis and thereafter expensed in the profit and loss account. Such net deficit charged to respective company's operating profit was not set off against increases in valuation of other companies' investment properties, which have been credited to the investment properties revaluation reserves.

2. Summary of Significant Accounting Policies (Continued)

The adoption of revised HKAS-Int 21 has resulted in a change in the accounting policy relating to the measurement of deferred tax liabilities arising from revaluation of investment properties. Such deferred tax liabilities are measured on the basis of tax consequences that would follow from recovery of the carrying amount of that asset through use. In prior years, the carrying amount of that asset was expected to be recovered through sale. In the absence of any specific transitional provision in this Interpretation, this change in accounting policy has been applied retrospectively and comparative figures for 2004 have been restated.

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 31st December 2004, the provision of share options to employees did not result in an expense in the profit and loss account. Effective on 1st January 2005, the Group expenses the cost of share options in the profit and loss account. However, since all share options granted under the old share options scheme (which was approved in 1997) had either been exercised or lapsed in 2004, and the first batch of share options under the existing share options scheme (approved in 2002) were granted in 2005, the adoption of HKFRS 2 does not result in any prior year adjustments in the Group's accounts.

The adoption of HKFRS 3 and HKAS 36 results in a change in the accounting policy for goodwill. Until 31st December 2004, goodwill was:

- amortised on a straight-line basis over a period ranging from 3 to 15 years; and
- assessed for an indication of impairment at each balance sheet date.

In accordance with the provisions of HKFRS 3:

- the Group ceased amortisation of goodwill from 1st January 2005;
- accumulated amortisation as at 31st December 2004 has been eliminated with a corresponding decrease in the cost of goodwill; and
- from the year ended 31st December 2005 onwards, goodwill is tested annually for impairment, as well as when there is an indication of impairment.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards, wherever applicable. All standards adopted by the Group require retrospective application other than:

- HKAS 16 – the initial measurement of an item of property, plant and equipment acquired in an exchange of assets transaction is accounted for at fair value prospectively only to future transactions;

2. Summary of Significant Accounting Policies (Continued)

- HKAS 21 – requires prospective accounting for goodwill and fair value adjustments as part of foreign operations;
 - HKAS 39 – which does not permit the recognition, derecognition and measurement of financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous SSAP 24 “Accounting for investments in securities” to investments in securities for the 2004 comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognised on 1st January 2005;
 - HKAS 40 – since the Group has adopted the fair value model, there is no requirement for the Group to restate the comparative information. Any adjustment should be made to the retained earnings as at 1st January 2005, including the reclassification of any amount held in revaluation surplus for investment properties;
 - HKAS-Int 15 – does not require the recognition of incentives for leases beginning before 1st January 2005;
 - HKFRS 2 – requires only retrospective application for all equity instruments granted after 7th November 2002 and not vested on 1st January 2005; and
 - HKFRS 3 – applies prospectively after 1st January 2005.
- (i) The adoption of HKAS 17 resulted in:

	As at 31st December	
	2005	2004
	HK\$'000	HK\$'000
Increase in leasehold land and land use rights	21,739	9,763
Decrease in property, plant and equipment	(21,739)	(9,763)

- (ii) The adoption of HKAS 32 and 39 resulted in a reclassification of other investments and investment securities to available-for-sale financial assets and financial assets held for trading on 1st January 2005. It also resulted in an increase in available-for-sale revaluation reserves by HK\$ 6,505,000.

2. Summary of Significant Accounting Policies (Continued)

- (iii) The adoption of HKAS 40 resulted in an increase in retained earnings and decrease in investment properties revaluation reserves at 1st January 2005 by HK\$ 13,019,000 (excluding the effect of the adoption of HKAS-Int 21 as set out in item (iv)) and details of the adjustments are as follows:

As at 31st December 2005	
HK\$'000	
Decrease in investment properties revaluation reserves	(11,347)
Increase in retained earnings	11,347

For the year ended 31st December 2005	
HK\$'000	
Increase in other operating income*	4,470
Increase in profit attributable to minority interests	(311)
Increase in basic and diluted earnings per share (HK cents)	1.96

*The amount represents gains arising from fair value changes of investment properties net of those disposed during the year.

- (iv) The adoption of HKAS-Int 21 resulted in:

As at 31st December		
	2005	2004
	HK\$'000	HK\$'000
Increase in deferred tax liabilities	1,308	1,729
Decrease in investment properties revaluation reserves	(816)	(1,041)
Decrease in minority interests	(190)	(136)
Decrease in retained earnings	(302)	(552)

2. Summary of Significant Accounting Policies (Continued)

	For the year ended 31st December	
	2005	2004
	HK\$'000	HK\$'000
Decrease in profit/increase in loss attributable to minority interests	54	7
Decrease/(increase) in tax charges	421	(59)
Increase in basic and diluted earnings/(loss) per share (HK cents)	0.22	(0.03)

(v) The adoption of HKFRS 2 resulted in:

	As at 31st December 2005
	HK\$'000
Decrease in retained earnings	(176)
Increase in capital reserves	176

	For the year ended 31st December 2005
	HK\$'000
Increase in administrative expenses	(176)
Decrease in basic and diluted earnings per share (HK cents)	(0.08)

2. Summary of Significant Accounting Policies (Continued)

- (vi) The adoption of HKFRS 3 resulted in an increase in retained earnings and a decrease in negative goodwill as at 1st January 2005 by HK\$2,652,000 and the details of the adjustments are as follows:

	As at 31st December	
	2005	2004
	HK\$'000	HK\$'000
Decrease in negative goodwill	(1,768)	–
Increase in retained earnings	1,768	–
	For the year ended 31st December	
	2005	2004
	HK\$'000	HK\$'000
Decrease in other operating income	(884)	–
Decrease in basic and diluted earnings per share (HK cents)	(0.42)	–

2. Summary of Significant Accounting Policies (Continued)

Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1st January 2006 or later periods but which the Group has not adopted early, as follows:

- HKAS 1 (Amendment), "Capital Disclosures"
- HKAS 19 (Amendment), "Employee Benefits"
- HKAS 39 (Amendment), "Cash Flow Hedge Accounting of Forecast Intragroup Transactions"
- HKAS 39 (Amendment), "The Fair Value Option"
- HKAS 39 and HKFRS 4 (Amendment), "Financial Guarantee Contracts"
- HKFRS 1 (Amendment), "First-time Adoption of Hong Kong Financial Reporting Standards"
- HKFRS 6 (Amendment), "Exploration for and Evaluation of Mineral Resources"
- HKFRS 7, "Financial Instruments: Disclosures"
- HKFRS-Int 4, "Determining whether an Arrangement contains a Lease"

Management is currently assessing the impact of these new standards, amendments and interpretations but is not yet in a position to state whether they would have a significant impact on its results of operations and financial position.

2.2 Consolidation

The consolidated accounts include the accounts of the Company and all its subsidiaries made up to 31st December.

(a) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated profit and loss account (see Note 2.7).

2. Summary of Significant Accounting Policies (Continued)

Inter-company transactions, balances and unrealised gains on transactions between group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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 by the Company on the basis of dividend received and receivable.

(b) Transactions with minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the profit and loss account. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

(c) An associate and joint ventures

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

A joint venture involves the establishment of a corporation, partnership or other entity in which each venturer has an interest. The entity operates in the same way as other entities, except that a contractual arrangement between the venturers establishes joint control over the economic activity of the entity.

Investments in an associate and joint ventures are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in an associate and joint ventures includes goodwill (net of any accumulated impairment loss) identified on acquisition (see Note 2.7).

The Group's share of the post-acquisition profits or losses of an associate and joint ventures are recognised in the profit and loss account, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in the associate or joint ventures equals or exceeds its interest in such associate or joint ventures, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate or the joint ventures.

2. Summary of Significant Accounting Policies (Continued)

Unrealised gains on transactions between the Group and its associate and joint ventures are eliminated to the extent of the Group's interest in the associate and joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the associate and joint ventures are changed where necessary to ensure consistency with the policies adopted by the Group.

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

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

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, property, plant and equipment, leasehold land and land use rights, investment properties, construction in progress, inventories, receivables and operating cash, and mainly exclude investment in an associate and investment in joint ventures. Segment liabilities comprise operating liabilities and exclude items such as taxation, deferred taxation, and bank borrowings. Capital expenditure comprises additions to property, plant and equipment, leasehold land and land use rights, investment properties, construction in progress, and 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.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the accounts of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated accounts are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

2. Summary of Significant Accounting Policies (Continued)

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit and loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets are included in the revaluations reserves.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each profit and loss account are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operation, and of borrowings are taken to shareholders' equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognised in the profit and loss account as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2. Summary of Significant Accounting Policies (Continued)

2.5 Property, plant and equipment

Buildings comprise mainly factories, retail outlets and office. They are stated at cost or valuation less accumulated depreciation and impairment losses. Certain buildings were at valuation which was carried out prior to 30th September 1995. Under transitional provision in paragraph 80A of HKAS 16, the Group is not required to make regular revaluations in accordance with paragraphs 31 and 36 of HKAS 16. All other property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repair and maintenance costs are expensed in the profit and loss account during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost or revalued amounts to their residual values over their estimated useful lives, at the following annual rates:

Buildings	2%
Plant and machinery	8%-20%
Furniture, fixtures and equipment	6%-25%
Motor vehicles	18%-20%

Construction in progress, representing building on which construction work has not been completed, is stated at cost, which includes construction expenditures incurred and other direct costs capitalised during the construction period, less accumulated impairment losses. No depreciation is provided in respect of construction in progress until the construction work is completed. On completion, the construction in progress is transferred to appropriate categories of property, plant and equipment.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

The asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.8).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the profit and loss account. When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

2. Summary of Significant Accounting Policies (Continued)

2.6 Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by Group companies, is classified as investment property.

Investment properties comprise land held under operating leases and buildings held under finance leases.

Land held under operating leases is classified and accounted for as an investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment property is measured initially at its cost, including related transaction costs.

After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are performed in accordance with the guidance issued by the International Valuation Standards Committee. These valuations are reviewed annually by external valuers. Investment property that is being redeveloped for continuing use as investment property, or for which the market has become less active, continues to be measured at fair value.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions.

The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property. Some of those outflows are recognised as a liability, including finance lease liabilities in respect of land classified as investment property; others, including contingent rent payments, are not recognised in the financial statements.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repair and maintenance costs are expensed in the profit and loss account during the financial period in which they are incurred.

Changes in fair value are recognised in the profit and loss account.

2. Summary of Significant Accounting Policies (Continued)

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes. Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is complete, at which time it is reclassified and subsequently accounted for as investment property.

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognised in equity as a revaluation of property, plant and equipment under HKAS 16. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in the profit and loss account.

2.7 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate/joint venture at the date of acquisition. Goodwill on acquisitions of subsidiaries and joint ventures is included in intangible assets. Goodwill on acquisition of associates is included in interest in associates. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The Group allocates goodwill to each business segment in each country in which it operates (Note 2.3).

2.8 Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2. Summary of Significant Accounting Policies (Continued)

2.9 Financial assets

From 1st January 2004 to 31st December 2004:

The Group classified its investments in securities, other than subsidiaries, an associate and joint venture, as investment securities and other investments.

(a) 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 and losses on disposal of investments, representing the differences between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

(b) Other investments

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

The carrying amounts of other investments are reviewed at each balance sheet date and the impairment loss is recognised as an expense in the profit and loss account.

From 1st January 2005 onwards:

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

On 1st January 2005, the financial assets previously categorised as investment securities have been reclassified as financial assets held for trading and the financial assets previously categorised as other investments have been reclassified as available-for-sale financial assets.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

2. Summary of Significant Accounting Policies (Continued)

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are included as non-current assets. Loans and receivables are classified as trade and other receivables in the balance sheet (Note 2.11).

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of investments are recognised on trade – date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Unrealised and realised gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss category including interest and dividend income, are included in the profit and loss account within other operating income/expenses in the period in which they arise.

Unrealised gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in equity. When available-for-sale financial assets are sold or impaired, the accumulated fair value adjustments are included in the profit and loss account.

The fair value of quoted investments is based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the securities below their cost is considered an indicator that the securities are impaired. If any such evidence exists

2. Summary of Significant Accounting Policies (Continued)

for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the profit and loss account – is removed from equity and recognised in the profit and loss account. Impairment losses recognised in the profit and loss account on equity instruments are not reversed through the profit and loss account.

2.10 Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of finished goods and work in progress, which is determined principally on the weighted average basis, comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.11 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the profit and loss account.

2.12 Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

2.13 Bank borrowings

Bank borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

Bank borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2. Summary of Significant Accounting Policies (Continued)

2.14 Deferred income tax

Deferred income tax 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 consolidated account. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income 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 income tax is provided on temporary differences arising on investments in subsidiaries, an associate and joint ventures, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary differences will not reverse in the foreseeable future.

2.15 Employee benefits

(a) Employee leave entitlements

Salaries, bonus, paid annual leave and the cost of other benefits to the Group are accrued in the year in which the associated services are rendered by employees of the Group.

(b) 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.

(c) Pensions 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 contributions vesting fully.

2. Summary of Significant Accounting Policies (Continued)

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.

(d) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

2.16 Leases

(a) Finance lease
(The Group as lessor)

Leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases. When assets are leased out under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

(b) Operating lease
(The Group as both lessor and lessee)

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged in the profit and loss account on a straight-line basis over the period of the lease.

2. Summary of Significant Accounting Policies (Continued)

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

2.17 Revenue recognition

Revenue comprises the fair value for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown, net of value-added tax and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

- (a) 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.
- (b) Revenue from installation of carpets is recognised in the accounting period in which the installation services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.
- (c) Rental income from investment properties and interior furnishings is recognised on a straight line basis over the lease term.
- (d) Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.
- (e) Dividend Income
Dividend income is recognised when the right to receive payment is established.

2.18 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

2. Summary of Significant Accounting Policies (Continued)

2.19 Comparatives

The Group previously disclosed net income from installation and from sales of underlay within other revenues. Management believes that their inclusion in terms of gross amounts in turnover and cost of sales is a better representation of the Group's activities.

The Group previously disclosed the results of the supporting functions of carpet operations in Hong Kong within unallocated items in the analysis of the Group's results by business segments. Management believes that their inclusion in the Carpet segment is a better representation of the Group's activities.

The Group previously disclosed the turnover and results of the wool spinning operation of Foshan Nanhai Tai Ping Carpets Company Limited ("NHTP") within the 'yarn' operation in the analysis of the Group's results by business segments. As most of the products of this wool spinning operation are used internally as raw materials for carpet production, management believes that their inclusion in the carpet segment is a better representation of the Group's activities.

The Group previously treated the whole amount of consideration payable to the vendor in relation to the acquisition of White Oak Carpet Mills, Inc. as other payables under current liabilities. The Group has now reclassified the portion which is not due in the next 12 months under non-current liabilities.

Management believes that sales commissions should be included in emoluments for the purpose of determining who were the five highest paid individuals (Note 8). The sales commissions had been excluded from such emoluments as reported in previous years.

3. Financial Risk Management

The Group is subject to the following market risks:

(a) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Hong Kong dollar. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

Management monitors exchange rate movements closely to ascertain if any material exposure may arise.

3. Financial Risk Management (Continued)

(b) Credit risk

The Group has no significant concentrations of credit risk as the Group has a large number of customers, internationally dispersed. Sales to retail customers are made in cash or via major credit cards. For project sales, the Group will request the customers for initial deposits and will accept orders only from those customers with an appropriate credit history. The Group also performs periodic assessment of the trade receivables and believes that adequate provision for uncollectible receivables has been made.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, Management aims to maintain flexibility in funding by keeping committed credit lines available.

(d) Interest rate risk

The Group is exposed to changes in interest rates due to its bank borrowings which are disclosed in Note 29. The Group enters into debt obligations to support general corporate purposes including capital expenditure and working capital needs. The Group does not use any derivative instruments to reduce its economic exposure to changes in interest rates.

(e) Raw material price risk

The major operation of the Group includes manufacture of carpets and the raw materials used in the production include wool, silk and dyestuff. The production process includes the use of petro products, including fuel and dyestuff. Therefore the Group's gross margin is exposed to the fluctuation in the prices of raw materials and petro products. The Group does not use any derivative instruments to reduce its exposures to such risks.

(f) Fair values estimation

The Group has investment properties in Hong Kong and Thailand. In accordance with HKAS 40 "Investment properties", all investment properties are carried at fair value. The fair value is based on active market prices which in turn depend on the property market conditions and the economic environment in the area at which such properties are located. As the movements in the fair value of investment properties are recognised in the profit and loss, the Group's results are exposed to the risk of fluctuation of such fair values.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values.

4. Critical Accounting Estimates and Judgements

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4. Critical Accounting Estimates and Judgements (Continued)

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Useful lives and impairment of property, plant and equipment

The Group's management determines the estimated useful lives of its property, plant and equipment.

This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are less than previously estimated lives, and will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

The impairment loss for property, plant and equipment is recognised as the amount by which the carrying amount exceeds its recoverable amount in accordance with the accounting policy stated in Note 2.8. The recoverable amounts have been determined based on fair value less costs to sell, which are based on the best information available to reflect the amount that obtainable at each of the balance sheet date, from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the costs to disposal.

(b) Income tax

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are certain transactions and calculations for which the ultimate tax determination may be uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(c) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on current market conditions and the historical experience of manufacturing and selling products of similar nature. Management reassesses the estimation on each of the balance sheet date.

(d) Impairment of receivables

The Group's management determines the provision for impairment of receivables. This estimate is based on the credit history of its customers and current market conditions. Management reassesses the estimation on each of balance sheet date.

5. Turnover, Revenues and Segmental Information

During the year, revenues are recognised as follows:

	2005 HK\$'000	As restated 2004 HK\$'000
Turnover		
Sales of carpets	627,340	459,726
Yarn manufacturing and trading	57,635	55,904
Sales and leasing of interior furnishings	65,042	45,832
Gross rental income from investment properties	5,612	6,309
	755,629	567,771
Other revenues		
Bank interest income	1,104	357
Interest from third parties	–	682
Interest from finance leases	61	79
Dividend income from an available-for-sale financial asset	17	–
	1,182	1,118
Total revenues	756,811	568,889

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, mattress and soft furnishings
Property holding	– Mainly rental income from property holding

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 & Macau	– Carpet, interior furnishings and property 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 and yarn
Others	– Carpet and interior furnishings

5. Turnover, Revenues and Segmental Information (Continued)

The Group's turnover and trading results for the year ended 31st December 2005, together with their comparative figures, are analysed as follows:

Primary reporting format – business segments

For the year ended 31st December 2005

	Carpet HK\$'000	Yarn HK\$'000	Interior furnishings HK\$'000	Property holding HK\$'000	Elimination HK\$'000	Unallocated HK\$'000	Group HK\$'000
Turnover							
external revenues	627,340	57,635	65,042	5,612	–	–	755,629
inter-segment revenues*	2,244	10	–	1,239	(3,493)	–	–
	629,584	57,645	65,042	6,851	(3,493)	–	755,629
Segment results	(29,878)	8,685	(1,961)	22,298	–	25,459	24,603
Finance costs							(3,578)
Share of (losses)/profits of							
an associate	(69)	–	–	–	–	–	(69)
joint ventures	24,343	–	–	–	–	–	24,343
Profit before taxation							45,299
Taxation							(10,845)
Profit for the year							34,454
Segment assets	658,535	54,166	41,554	77,750	–	4,232	836,237
Interest in an associate	21,166	–	–	–	–	–	21,166
Interest in joint ventures	133,318	–	–	–	–	–	133,318
Total assets							990,721
Segment liabilities	139,251	2,392	8,436	1,019	–	128,152	279,250
Capital expenditure	58,650	360	4,808	–	–	–	63,818
Depreciation	33,255	2,269	4,408	–	–	–	39,932
Amortisation of leasehold land and land use rights	408	–	–	–	–	–	408
Impairment of construction in progress	4,470	–	–	–	–	–	4,470
Impairment of inventories	1,153	–	5,270	–	–	–	6,423
Impairment of trade receivables	143	–	116	–	–	–	259
Write-off of an available-for-sale financial asset	–	–	114	–	–	–	114

5. Turnover, Revenues and Segmental Information (Continued)

Primary reporting format – business segments

For the year ended 31st December 2004 (as restated)

	Carpet HK\$'000	Yarn HK\$'000	Interior furnishings HK\$'000	Property holding HK\$'000	Elimination HK\$'000	Unallocated HK\$'000	Group HK\$'000
Turnover							
external revenues	459,726	55,904	45,832	6,309	–	–	567,771
inter-segment revenues*	1,890	–	13	90	(1,993)	–	–
	461,616	55,904	45,845	6,399	(1,993)	–	567,771
Segment results	(31,481)	7,908	9,414	6,631	–	(3,795)	(11,323)
Finance costs							(1,203)
Share of profits of							
an associate	1,596	–	–	–	–	–	1,596
joint ventures	22,449	–	–	–	–	–	22,449
Profit before taxation							11,519
Taxation							(12,506)
Loss for the year							(987)
Segment assets	560,632	63,328	43,375	81,613	–	7,808	756,756
Interest in an associate	21,345	–	–	–	–	–	21,345
Interest in joint ventures	113,462	–	–	–	–	–	113,462
Total assets							891,563
Segment liabilities	104,322	2,253	7,683	802	–	89,939	204,999
Capital expenditure	27,956	1,948	6,818	–	–	–	36,722
Depreciation	29,691	2,392	2,192	–	–	–	34,275
Amortisation of leasehold							
land and land use rights	236	–	–	–	–	–	236
(Negative goodwill recognised as income)/amortisation of goodwill	(296)	–	–	–	–	1,659	1,363
Impairment of construction in progress	786	–	–	–	–	–	786
Impairment of inventories	4,391	–	–	–	–	–	4,391
Impairment of property, plant and equipment	175	–	–	–	–	–	175

* Inter-segment transactions are entered into under normal commercial terms and conditions that would also be available to unrelated third parties.

5. Turnover, Revenues and Segmental Information (Continued)

Secondary reporting – geographical segments

	Turnover	Segment results	Total assets	Capital expenditure
	2005	2005	2005	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong and Macau	93,460	12,313	112,357	5,192
Mainland China	35,464	652	136,320	2,325
South East Asia	221,675	11,462	361,545	30,497
Middle East	26,920	(811)	–	–
Other Asian countries	21,434	1,045	–	–
Europe	66,569	(8,236)	33,088	1,671
North America	278,254	(18,351)	188,695	24,133
Others	11,853	1,070	–	–
	755,629	(856)	832,005	63,818
Unallocated		25,459		
Operating profit		24,603		
Interest in an associate			21,166	
Interest in joint ventures			133,318	
Unallocated assets			4,232	
Total assets			990,721	

5. Turnover, Revenues and Segmental Information (Continued)

Secondary reporting – geographical segments (Continued)

(As restated)	Turnover	Segment results	Total assets	Capital expenditure
	2004	2004	2004	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong and Macau	89,688	(1,640)	108,672	6,199
Mainland China	11,151	(1,786)	127,910	3,426
South East Asia	209,338	20,736	367,819	18,614
Middle East	18,953	436	–	–
Other Asian countries	20,411	4,186	–	–
Europe	43,522	(12,276)	21,832	635
North America	166,364	(17,704)	122,715	7,848
Others	8,344	520	–	–
	567,771	(7,528)	748,948	36,722
Unallocated		(3,795)		
Operating loss		(11,323)		
Interest in an associate			21,345	
Interest in joint ventures			113,462	
Unallocated assets			7,808	
Total assets			891,563	

6. Operating Profit/(Loss)

	(As restated)	
	2005	2004
	HK\$'000	HK\$'000
Operating profit/(loss) is stated after crediting and charging the following:		
Crediting:-		
Gains on disposal of investment securities	–	37
Negative goodwill recognised as income (Note 12)	–	317
Reversal of impairment of investment in a joint venture	–	4,803
Gain on disposal of investment properties	–	313
Net exchange gains	1,073	–
Charging:-		
Depreciation of property, plant and equipment (Note 14)	39,932	34,275
Amortisation of leasehold land and land use rights (Note 13)	408	236
Loss on disposal of property, plant and equipment	92	369
Loss on disposal of investment properties	470	–
Employee benefit expenses (Note 8)	226,188	175,689
Operating lease charges		
Land and buildings	17,287	13,054
Plant and machinery	661	40
Auditors' remuneration	2,326	1,537
Direct operating expenses arising from investment properties		
that generated rental income	604	445
Direct operating expenses arising from investment properties		
that did not generate rental income	17	15
Amortisation of goodwill (Note 12)	–	1,680
Research and development costs	2,270	1,995
Net exchange losses	–	913

7. Finance Costs

	2005	2004
	HK\$'000	HK\$'000
Interest on bank loans and overdrafts wholly repayable within five years	3,578	1,203

8. Employee Benefit Expenses

	2005 HK\$'000	2004 HK\$'000
Wages and salaries (including Directors' emoluments)	221,496	172,446
Share options granted to Directors	176	–
Retirement benefit costs – defined contribution schemes (including Directors' emoluments) (note a)	4,516	3,243
Total	226,188	175,689

(a) Retirement benefit costs - defined contribution schemes

Unvested benefits totalling HK\$ 178,000 (2004: HK\$ 73,000) were used during the year to reduce future contributions. As at 31st December 2005, unvested benefits totalling HK\$ 105,000 (2004: HK\$ 109,000) were available for use by the Group to reduce future contributions.

(b) Directors' emoluments

The remuneration of each Director for the year ended 31st December 2005 is set out below:

Name of Director	Fees HK\$'000	Salaries HK\$'000	Bonuses HK\$'000	Inducement fees HK\$'000	Other benefits HK\$'000	Retirement	Total HK\$'000
						benefit costs HK\$'000	
Mr. Nicholas T. J. Colfer	26	–	–	–	–	–	26
Mr. Ian D. Boyce	20	–	–	–	–	–	20
Mr. Lincoln K. K. Leong @	–	–	–	–	–	–	–
Mr. Nelson K. F. Leong #	40	–	–	–	–	–	40
Mr. David C. L. Tong (ii)	13	–	–	–	–	–	13
Mr. John J. Ying	40	–	–	–	–	–	40
Mrs. Yvette Y. H. Fung*	37	–	–	–	–	–	37
Mr. Michael T. H. Lee*	40	–	–	–	–	–	40
Mr. Roderic N. A. Sage* (i)	5	–	–	–	–	–	5
Mr. Lincoln C. K. Yung*	20	–	–	–	–	–	20
Mr. James H. Kaplan	20	3,120	1,385	390	47	69	5,031
Ms. Alison S. Bailey (iv)	17	1,453	468	–	–	108	2,046
Mr. James S. Dickson Leach (iii)	11	–	–	–	–	–	11
Mr. Anthony Y. C. Yeh (v)	14	–	–	–	–	–	14
Mr. Kent M.C. Yeh (v)	14	–	–	–	–	–	14
	317	4,573	1,853	390	47	177	7,357

8. Employee Benefit Expenses (Continued)

(b) Directors' emoluments (Continued)

The remuneration of each Director for the years ended 31st December 2004 is set out below:

Name of Director	Fees HK\$'000	Salaries HK\$'000	Bonuses HK\$'000	Inducement fees HK\$'000	Other benefits HK\$'000	Retirement	Total HK\$'000
						benefit costs HK\$'000	
Mr. James S. Dickson Leach	30	–	–	–	–	–	30
Mr. Anthony Y. C. Yeh	20	–	–	–	–	–	20
Mr. Ian D. Boyce	20	–	–	–	–	–	20
Mr. Nicholas T. J. Colfer	20	–	–	–	–	–	20
Mr. Lincoln K. K. Leong @	–	–	–	–	–	–	–
Mr. Nelson K. F. Leong	40	–	–	–	–	–	40
Mr. Kent M. C. Yeh	20	–	–	–	–	–	20
Mr. John J. Ying	40	–	–	–	–	–	40
Mr. Lincoln C. K. Yung*	20	–	–	–	–	–	20
Mr. Michael T. H. Lee*	40	–	–	–	–	–	40
Mrs. Yvette Y. H. Fung* (vi)	30	–	–	–	–	–	30
Mr. James H. Kaplan	20	2,192	1,755	390	–	–	4,357
Ms. Alison S. Bailey	20	1,571	400	–	–	117	2,108
Mr. Francis B. Y. Sim (vii)	–	–	–	–	–	–	–
	320	3,763	2,155	390	–	117	6,745

* Independent Non-executive Directors

Alternate Director to Mr. Lincoln K.K. Leong

@ Mr. Lincoln K.K. Leong's Director fee was paid to his alternate Mr. Nelson K.F. Leong

(i) Appointed on 15th November 2005

(ii) Appointed on 13th May 2005

(iii) Resigned on 13th May 2005

(iv) Resigned on 1st November 2005

(v) Resigned on 8th September 2005

(vi) Appointed on 31st March 2004

(vii) Resigned on 15th January 2004

8. Employee Benefit Expenses (Continued)

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2004: two) Directors whose emoluments are reflected in the analysis presented above. The emoluments paid to the remaining three (2004: three) individuals during the year are as follows:

	2005	As restated 2004
	HK\$'000	HK\$'000
Basic salaries, housing and other allowances	5,238	4,326
Bonuses	829	88
Profit sharing incentives	486	871
Contributions to retirement schemes	111	–
Compensation for loss of office	–	470
	6,664	5,755

The emoluments fell within the following bands:

	2005	No. of Individuals 2004
Emolument bands		
HK\$ 1,000,001 – HK\$ 1,500,000	–	1
HK\$ 1,500,001 – HK\$ 2,000,000	1	–
HK\$ 2,000,001 – HK\$ 2,500,000	1	2
HK\$ 2,500,001 – HK\$ 3,000,000	1	–

9. 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 respective countries.

9. Taxation (Continued)

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

	2005	As restated 2004
	HK\$'000	HK\$'000
Current income tax		
Overseas taxation charges for the current year	13,984	14,056
Under/(over) provision in prior years	335	(2,908)
Deferred income tax (Note 30)	(3,474)	1,358
Taxation charges	10,845	12,506

Share of taxation of an associate and joint ventures of HK\$ 568,000 (2004: HK\$ 1,081,000) and HK\$ 8,352,000 (2004: HK\$ 4,301,000) respectively are included in the share of (losses)/profits of an associate and joint ventures.

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:

	2005	As restated 2004
	HK\$'000	HK\$'000
Profit before taxation	45,299	11,519
Less: Profits less losses of an associate and joint ventures	(24,274)	(24,045)
Profit/(loss) before taxation of Company and subsidiaries	21,025	(12,526)
Calculated at a taxation rate of 17.5% (2004: 17.5%)	3,679	(2,192)
Effect of different taxation rates in other countries	5,109	6,684
Income not subject to taxation	(10,882)	(1,424)
Expenses not deductible for taxation purposes	2,019	3,038
Tax losses not recognised	12,722	9,308
Recognition of previously unrecognised deductible temporary differences	(2,137)	–
Under/(over) provision in previous years	335	(2,908)
Taxation charges	10,845	12,506

10. Profit/(Loss) Attributable to Equity Holders of the Company

The profit/(loss) attributable to equity holders of the Company is dealt with in the accounts of the Company to the extent of loss of HK\$ 621,000 (2004: loss of HK\$ 4,509,000).

11. Earnings/(Loss) Per Share

Basic

Basic earnings/(loss) per share is calculated by dividing the profit/(loss) attributable to equity holders of the Company by the weighted average number of shares in issue during the year.

	2005 HK\$'000	As restated 2004 HK\$'000
Profit/(loss) attributable to equity holders of the Company	27,646	(3,905)
Weighted average number of ordinary shares in issue (thousands)	211,933	211,703
Basic earnings/(loss) per share (HK cents)	13.04	(1.84)

Diluted

Diluted earnings/(loss) per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares, namely share options. For these share options a calculation is performed to determine the number of shares that could have been acquired at fair value (determined as average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to the outstanding share options. The number of shares calculated below is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2005 HK\$'000	As restated 2004 HK\$'000
Profit/(loss) attributable to equity holders of the Company	27,646	(3,903)
Weighted average number of ordinary shares in issue (thousands)	211,933	211,703
Adjustments for share options (thousands)	7	–
Weighted average number of ordinary shares in issue for diluted earnings/(loss) per share (thousands)	211,940	211,703
Diluted earnings/(loss) per share (HK cents)	13.04	(1.84)

12. Intangible Assets

Group	Positive goodwill HK\$'000	Negative goodwill HK\$'000	Total HK\$'000
At 1st January 2004			
Cost	6,682	(3,515)	3,167
Accumulated amortisation	(5,002)	3,159	(1,843)
Net book amount	1,680	(356)	1,324
Year ended 31st December 2004			
Opening net book amount	1,680	(356)	1,324
Acquisition of a subsidiary	–	(2,613)	(2,613)
Amortisation expense	(1,680)	317	(1,363)
Closing net book amount	–	(2,652)	(2,652)
As at 31st December 2004			
Cost	6,682	(6,128)	554
Accumulated amortisation	(6,682)	3,476	(3,206)
Net book amount	–	(2,652)	(2,652)
Year ended 31st December 2005			
Opening net book amount	–	(2,652)	(2,652)
Opening adjustment-derecognition of negative goodwill	–	2,652	2,652
Opening net book amount as restated and closing net book amount	–	–	–
As at 31st December 2005			
Cost	6,682	–	6,682
Accumulated amortisation	(6,682)	–	(6,682)
Net book amount	–	–	–

13. Leasehold Land and Land Use Rights

Group

The Group's interests in leasehold land and land use rights represent prepaid operating lease payments and their net book values are analysed as follows:

	2005 HK\$000	2004 HK\$000
In Hong Kong, held on		
Leases of between 10 to 50 years	12,031	–
In overseas, held on		
Leases of between 10 to 50 years	9,708	9,763
	21,739	9,763

	2005 HK\$000	2004 HK\$000
At 1st January	9,763	9,999
Leasehold land received in the form of dividend in specie upon liquidation of an available-for-sale financial asset	12,200	–
Exchange differences	184	–
Amortisation of prepaid operating lease payment	(408)	(236)
At 31st December	21,739	9,763

14. Property, Plant and Equipment

Group	Buildings HK\$000	Other assets HK\$000	Total HK\$000
As at 1st January 2004			
Cost or valuation	145,239	422,085	567,324
Accumulated depreciation	(41,688)	(248,060)	(289,748)
Net book amount	103,551	174,025	277,576
Year ended 31st December 2004			
Opening net book amount	103,551	174,025	277,576
Exchange differences	240	(26)	214
Additions	165	14,540	14,705
Transfer from construction in progress	618	10,734	11,352
Disposals	–	(977)	(977)
Acquisition of a subsidiary	–	2,585	2,585
Depreciation	(5,255)	(29,020)	(34,275)
Impairment	–	(175)	(175)
Closing net book amount	99,319	171,686	271,005
As at 31st December 2004			
Cost or valuation	146,446	445,227	591,673
Accumulated depreciation	(47,127)	(273,541)	(320,668)
Net book amount	99,319	171,686	271,005
Year ended 31st December 2005			
Opening net book amount	99,319	171,686	271,005
Exchange differences	(3,344)	(5,329)	(8,673)
Additions	–	22,404	22,404
Property received in the form of dividend in specie upon liquidation of an available-for-sale financial asset	16,900	–	16,900
Transfer from construction in progress	820	41,638	42,458
Disposals	(175)	(547)	(722)
Depreciation	(5,536)	(34,396)	(39,932)
Closing net book amount	107,984	195,456	303,440
As at 31st December 2005			
Cost or valuation	158,608	488,505	647,113
Accumulated depreciation	(50,624)	(293,049)	(343,673)
Net book amount	107,984	195,456	303,440

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

14. Property, Plant and Equipment (Continued)

Certain of the Group's buildings were revalued on an 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. Under transitional provision in paragraph 80A of HKAS 16, the Group is not required to make regular revaluations in accordance with paragraphs 31 and 36 of HKAS 16. The carrying amount of such revalued buildings would have been HK\$ 5,529,000 (2004: HK\$ 6,808,000) had it been stated at cost less accumulated depreciation.

The cost or valuation of property, plant and equipment is analysed as follows:

Group	Buildings HK\$'000	Other assets HK\$'000
At cost	147,781	488,505
At valuation – 1989	10,827	–
As at 31st December 2005	158,608	488,505
At cost	134,883	445,227
At valuation – 1989	11,563	–
As at 31st December 2004	146,446	445,227

The other assets category includes furniture leased by the Group to third party under operating leases with the following carrying amounts:

Group	2005 HK\$'000	2004 HK\$'000
Cost	7,081	3,793
Accumulated depreciation as at 1st January	(2,619)	(1,219)
Depreciation expense for the year	(2,710)	(1,400)
Net book amount	1,752	1,174

15. Investment Properties

Group	2005 HK\$000	2004 HK\$000
Net book value as at 1st January	77,212	74,053
Property received in the form of dividend in specie upon liquidation of an available-for-sale financial asset	10,950	–
Fair value gains	15,648	5,185
Disposals	(28,655)	(2,031)
Exchange differences	(2,025)	5
Net book value as at 31st December	73,130	77,212

The investment properties were revalued at 31st December 2005 by independent, professionally qualified valuers, namely CB Richard Ellis and UK Valuations and Agency Company Limited. Valuations were based on current prices in an active market for all properties. Details of major investment properties are set out on page 112.

The Group's interests in investment properties at their net book values are analysed as follows:

Group	2005 HK\$000	2004 HK\$000
In Hong Kong, held on		
Long leases (over 50 years)	–	11,900
Medium leases (10 – 50 years)	20,050	7,030
In overseas, held on		
Freehold	38,380	45,982
Medium leases (10 – 50 years)	14,700	12,300
	73,130	77,212

16. Construction in Progress

Group	2005 HK\$'000	2004 HK\$'000
As at 1st January	18,424	11,201
Exchange differences	(628)	174
Additions	41,414	19,187
Transfer to property, plant and equipment	(42,458)	(11,352)
Impairment	(4,470)	(786)
As at 31st December	12,282	18,424

17. Subsidiaries

Company	2005 HK\$'000	2004 HK\$'000
Unlisted shares at Directors' valuation in 1990	242,800	242,800
Loans to subsidiaries	61,226	57,625
Amounts due by subsidiaries	466,758	456,552
	770,784	756,977
Loan from a subsidiary	(13,213)	(3,213)
Amounts due to subsidiaries	(89,673)	(87,959)
	667,898	665,805
Provision for impairment	(359,020)	(359,020)
	308,878	306,785

Details of principal subsidiaries are set out on pages 110 and 111. All balances due from/(to) subsidiaries are unsecured, interest free and repayable on demand, except for an amount of HK\$ 61,226,000 due from a subsidiary (2004: HK\$ 57,625,000) which carries interest at prevailing market rates.

18. Amount Due from an Indirectly Held Associate

The amount due from an indirectly held associate is unsecured, interest-free and repayable on demand.

19. Interest in an Associate

Group	2005 HK\$'000	2004 HK\$'000
Share of net assets	18,429	20,594
Amounts due by an associate	2,737	751
	21,166	21,345
Shares at cost – unlisted	519	519

Dividend income from the associate during the year amounted to HK\$ 1,870,000 (2004: HK\$ 462,000). Share of the associate's taxation amounted to HK\$ 568,000 (2004: HK\$ 1,081,000). Details of the associate, which is unlisted, is set out on page 111.

An extract of the operating results and financial position of the Group's associate, Philippine Carpet Manufacturing Corporation, which is based on its consolidated accounts as adjusted to conform with accounting principles generally accepted in Hong Kong ("HKGAAP") for the year ended and as at 31st December 2005 is as follows:

	2005 HK\$'000	2004 HK\$'000
Operating results		
Turnover	73,716	72,280
(Loss)/profit after taxation	(210)	4,864
Group's share of (loss)/profit after taxation	(69)	1,596
Financial position		
Non-current assets	38,945	35,146
Current assets	46,286	53,109
Non-current liabilities	(7,806)	(7,043)
Current and other liabilities	(21,257)	(18,426)
Shareholders' funds	56,168	62,786
Group's share of net assets	18,429	20,594

20. Interest in Joint Ventures

Group	2005 HK\$'000	2004 HK\$'000
Share of net assets	117,490	123,375
Amounts due by joint ventures		
Loan account	458	458
Current account	34,005	23,780
	34,463	24,238
	151,953	147,613
Provision for impairment	(18,635)	(34,151)
	133,318	113,462
Paid in capital at cost	80,517	112,704

Dividend income from joint ventures during the year amounted to HK\$ 17,925,000 (2004: HK\$ 11,584,000).

Share of joint ventures' taxation amounted to HK\$ 8,352,000 (2004: HK\$ 4,301,000).

Details of the principal joint ventures, which are unlisted, are set out on page 111.

An 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 to conform with HKGAAPs for the year ended and as at 31st December 2005, is as follows:

WHCL	2005 HK\$'000	2004 HK\$'000
Operating results		
Turnover	330,513	264,876
Profit after taxation	18,043	6,828
Group's share of profit after taxation	8,841	3,346
Financial position		
Non-current assets	214,856	182,964
Current assets	71,358	210,244
Non-current liabilities	(5,383)	–
Current liabilities	(139,651)	(267,390)
Net assets	141,180	125,818
Group's share of net assets less provision for impairment	52,605	45,078

20. Interest in Joint Ventures (Continued)

WPCL	2005 HK\$'000	2004 HK\$'000
Operating results		
Turnover	192,419	153,687
Profit after taxation	31,018	39,294
Group's share of profit after taxation	15,199	19,254
Financial position		
Non-current assets	16,525	17,810
Current assets	147,173	127,851
Current liabilities	(69,615)	(52,672)
Shareholders' funds	94,083	92,989
Group's share of net assets less provision for impairment	45,531	44,995

21. Available-for-sale Financial Assets/Other Investments

Group	2005 HK\$'000	2004 HK\$'000
As at 31st December 2004/1st January 2004	27,530	27,465
Opening fair value adjustments transferred to equity	6,505	–
At 1st January	34,035	27,465
Changes in fair value transferred to equity	6,420	–
Liquidation of an available-for-sale financial asset	(39,521)	–
Received as settlement of trade receivables	–	686
Acquisition of a subsidiary	–	114
Disposal	(686)	–
Write-off	(114)	–
Change in amount due from investee	–	(49)
As at 31st December	134	28,216
Less: current portion	–	(686)
Non-current portion	134	27,530

21. Available-for-sale Financial Assets/Other Investments (Continued)

Available-for-sale financial assets/other investments include the following:

	2005 HK\$'000	2004 HK\$'000
Unlisted equity securities – Hong Kong	–	8,355
Unlisted equity securities – Overseas	134	2,481
Amount due from investee	–	38,327
Provision for impairment written-off	–	(20,947)
	134	28,216

The other investments were reclassified as available-for-sale financial assets on 1st January 2005 following the adoption of HKASs 32 and 39.

22. Net Investment in Finance Leases

The total minimum lease payments receivable under finance leases and their present value are as follows:

Group	Present value of minimum lease payments receivable 2005 HK\$'000	Interest income relating to future periods 2005 HK\$'000	Total minimum lease payments receivable 2005 HK\$'000	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
Amounts receivable:						
Not later than one year	735	45	780	1,200	51	1,251
Later than one year and not later than five years	210	15	225	236	14	250
		60	1,005		65	1,501
Net investment in finance leases	945			1,436		

23. Inventories

Group	2005 HK\$'000	2004 HK\$'000
Raw material	74,687	68,907
Work in progress	22,333	18,489
Finished goods	73,788	63,100
Consumable stores	3,039	3,244
	173,847	153,740

The cost of inventories recognised as expenses and included in cost of goods sold amounted to HK\$ 451,094,000 (2004: HK\$ 351,009,000).

24. Trade and Other Receivables

Group	2005 HK\$'000	2004 HK\$'000
Trade receivables	151,745	117,261
Less: provision for impairment of receivables	(15,493)	(18,668)
Trade receivables – net	136,252	98,593
Other receivables	25,406	21,304
	161,658	119,897

Note:

The amounts approximated to the fair value as at 31st December 2005. The credit terms of the Group range from 0 to 90 days, depending on the credit status and repayment history of customers. At 31st December 2005 the ageing analysis of the trade receivables was as follows:

Group	2005 HK\$'000	2004 HK\$'000
Current – 30 days	86,020	63,023
31 days – 60 days	27,705	12,814
61 days – 90 days	8,037	7,825
Over 90 days	29,983	33,599
	151,745	117,261

There is no concentration of credit risk with respect to trade receivables as the Group has a large number of customers, internationally dispersed.

25. Investment Securities

Group	2004 HK\$'000
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Equity securities listed outside Hong Kong at market value	2,507
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All investment securities were reclassified as financial assets held for trading on 1st January 2005 following the adoption of HKASs 32 and 39. All such financial assets held for trading had been sold during the year.

26. Cash and Cash Equivalents

	Group		Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Cash at bank and on hand	83,738	74,375	232	2,574
Short-term bank deposits	3,341	2,590	–	–
	87,079	76,965	232	2,574

The effective interest rate on short-term bank deposits was 3.5% (2004: 0.25%); these deposits have maturity dates ranging between 9 to 23 days.

At 31st December 2005, included in the Group's cash and bank balances approximately RMB 9,279,000 (2004: RMB 9,014,000) and US\$ 1,365,000 (2004: US\$ 944,000) were placed with certain banks in the People's Republic of China (the "PRC") by certain PRC subsidiaries of the Group. These balances are subject to exchange controls.

27. Share Capital

Company	No. of shares	HK\$'000
Authorised – HK\$ 0.10 per share:		
At 1st January 2004, 1st January 2005 and 31st December 2005	400,000,000	40,000
Issued and fully paid:		
At 1st January 2004	211,121,275	21,112
Issue of new shares under scrip dividend scheme	582,213	58
As at 31st December 2004 and 1st January 2005	211,703,488	21,170
Exercise of share options (note)	230,000	23
At 31st December 2005	211,933,488	21,193

27. Share Capital (Continued)

Note: During the year, a total of 2,000,000 share options were granted to Mr. James H. Kaplan, Chief Executive Officer of the Company. Details of the share options outstanding as at 31st December 2005 are as follows:

Name	Balance as at 1st January 2005	Date of grant	Changes during the year			Balance as at 31st December 2005	Exercise price (HK\$) (Note 1)	Exercisable period
			Granted	Lapsed	Exercised			
James H. Kaplan	–	10th January 2005	500,000	270,000	230,000	–	1.21	10th January 2005- 31st January 2005-
	–	10th January 2005	500,000	–	–	500,000	1.21	31st December 2005- 31st January 2006
	–	10th January 2005	500,000	–	–	500,000	1.21	31st December 2006- 31st January 2007
	–	10th January 2005	500,000	–	–	500,000	1.21	31st December 2007- 31st January 2008

Note 1: The exercise price of the share options granted to Mr. James H. Kaplan was fixed at the average of the closing prices of the shares of the Company as stated on The Stock Exchange's daily quotation sheets for the five business days before the date of grant. The closing price of the shares immediately at the date on which the options were granted was HK\$ 1.18.

The Company uses the Black Scholes option pricing model (the "Model") to value share options granted during the year. The Model is one of the commonly used models to estimate the fair value of an option. The value of an option varies with different variables of certain subjective assumptions. Any change in such variables so adopted may materially affect the estimation of the fair value of an option.

The aggregate fair value of the options determined at the date of grant using the Model was HK\$ 341,000. Such value is expensed through the Group's profit and loss account over the respective vesting periods of each batch of options. Share options expense of HK\$ 176,000 was recognised in 2005, with a corresponding adjustment recognised in the Group's capital reserves.

27. Share Capital (Continued)

The fair value of the share options are determined based on the following significant variables and assumptions:

Date of grant	10th January 2005
Closing price at the date of grant	HK\$ 1.18
Risk free rate (Note 1)	0.58% – 1.63%
Expected life of options	1 – 3 years
Expected volatility (Note 2)	38.65%
Expected dividend per annum (Note 3)	HK\$ 0.0218

Notes:

1. Risk free rate: being the approximate yields of Exchange Fund Notes and Bills traded on the date of grant, matching the expected life of each batch of options.
2. Expected volatility: being the approximate volatility of closing prices of the share of the Company in the past one year immediately before the date of grant.
3. Expected dividend per annum: being the approximate average annual cash dividend for the past five financial years.

In January 2006, Mr. James H. Kaplan further exercised 254,000 share options and 246,000 share options lapsed.

28. Reserves

The movements of reserves of the Group for both years ended 31st December 2005 and 2004 are set out in the Consolidated Statement of Changes in Equity on pages 47 and 48.

The movements of reserves of the Company are as follows:

Company	Share premium HK\$'000	Capital reserve HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
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)
At 31st December 2004	189,162	–	442,598	(343,914)	287,846
At 1st January 2005	189,162	–	442,598	(343,914)	287,846
Premium on issue of new shares	255	–	–	–	255
Employee share options scheme – value of employee services	–	176	–	–	176
Loss for the year	–	–	–	(621)	(621)
At 31st December 2005	189,417	176	442,598	(344,535)	287,656

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.

29. Bank Borrowings – Unsecured

Group	2005 HK\$'000	2004 HK\$'000
Non-current		
– Repayable between 1 and 2 years		
Thai Baht	9,500	–
	9,500	–
Current		
– Repayable within 1 year		
Thai Baht	55,859	51,509
Hong Kong Dollars	27,000	–
United States Dollars	16,977	21,119
	99,836	72,628
Total bank borrowings	109,336	72,628

The effective interest rates of the borrowings at the balance sheet dates were as follows:

	2005	2004
Thai Baht	4.7%-5.2%	2.1%-3.2%
United States Dollar	5.7%	3.0%-3.2%
Hong Kong Dollar	5.2%-5.6%	–

The amounts approximated to the fair value as at 31st December 2005.

30. Deferred Taxation

Group

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2004: 17.5%).

	2005 HK\$'000	2004 HK\$'000
At 1st January, as previously reported	5,494	4,178
Change in accounting policy		
– Adoption of HKAS-Int 21	1,729	1,159
At 1st January, as restated	7,223	5,337
Exchange differences	(100)	17
Deferred taxation relating to the origination and reversal of temporary differences (credited)/charged to profit and loss account	(3,474)	1,358
Charged to investment properties revaluation reserves	–	511
At 31st December	3,649	7,223

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\$ 188,686,000 (2004: HK\$ 164,169,000) 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

Group

	Accelerated tax depreciation allowance		Revaluation of properties		Total	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
At 1st January	4,436	4,040	9,248	8,952	13,684	12,992
Change in accounting policy						
– Adoption of HKAS-Int 21	599	546	1,130	614	1,729	1,160
At the beginning of the year, as restated	5,035	4,586	10,378	9,566	15,413	14,152
(Credit)/charged to profit and loss account	(1,071)	449	(971)	294	(2,042)	743
Charged to investment properties revaluation reserves	–	–	–	511	–	511
Exchange differences	–	–	(452)	7	(452)	7
At 31st December	3,964	5,035	8,955	10,378	12,919	15,413

30. Deferred Taxation (Continued)

Deferred tax assets

Group	Impairment of assets		Tax losses		Others		Total	
	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January	7,180	7,670	841	1,028	169	116	8,190	8,814
Credited/(charged) to								
profit and loss account	1,372	(478)	112	(187)	(52)	50	1,432	(615)
Exchange differences	(349)	(12)	–	–	(3)	3	(352)	(9)
At 31st December	8,203	7,180	953	841	114	169	9,270	8,190

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:

Group	2005	2004
	HK\$'000	HK\$'000
Deferred tax assets	1,983	243
Deferred tax liabilities	(5,632)	(7,466)
	(3,649)	(7,223)

31. Other Long-term Liabilities

Group	2005	2004
	HK\$'000	HK\$'000
Non-current portion		
– Repayable between 1 and 2 years	390	390
– Repayable between 2 to 5 years	1,601	1,991
	1,991	2,381
Current portion	390	390
Total long-term liabilities	2,381	2,771

Other long term liabilities represent the consideration payable to the vendor in respect of the acquisition of White Oak Carpet Mills, Inc. in 2001. The amount approximated to the fair value as at 31st December 2005.

32. Trade and Others Payables

Group	(As restated)	
	2005	2004
	HK\$'000	HK\$'000
Trade payables	46,482	29,741
Other payables	106,534	87,399
	153,016	117,140

At 31st December 2005, the ageing analysis of the trade payables was as follows:

Group	2005	2004
	HK\$'000	HK\$'000
Current – 30 days	29,374	19,911
31 days – 60 days	11,094	6,211
61 days – 90 days	3,214	1,420
Over 90 days	2,800	2,199
	46,482	29,741

33. Future Operating Lease Income

At 31st December 2005, the Group had future aggregate minimum lease payments receivable under non-cancellable operating leases as follows:

Group	2005	2005	2004	2004
	Property	Other assets	Property	Other assets
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Not later than one year	1,638	4,307	5,012	2,166
Later than one year and not later than five years	2,419	368	666	283
	4,057	4,675	5,678	2,449

34. Operating Lease Commitments

At 31st December 2005, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

Group	2005		2004	
	Property	Other assets	Property	Other assets
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Not later than one year	20,189	633	8,405	431
Later than one year and not later than five years	47,943	799	15,383	710
Later than five years	28,857	–	6,332	–
	96,989	1,432	30,120	1,141

35. Capital Commitments

Group	2005	2004
	HK\$'000	HK\$'000
Contracted but not provided for in respect of property, plant and equipment	1,208	2,011
Authorised but not contracted for in respect of property, plant and equipment	3,076	15,298
	4,284	17,309

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 property, plant and equipment	24,996	14,987
Authorised but not contracted for in respect of property, plant and equipment	31,157	49,221
	56,153	64,208

36. Contingent Liabilities

	Group		Company	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Guarantees for banking facilities granted to subsidiaries	–	–	108,914	34,532
Corporate guarantee in respect of performance				
bonds issued by the subsidiaries to customers	4,892	4,002	–	–
Counter-indemnity in respect of performance bonds				
issued by banks	1,856	491	–	–
Guarantees in lieu of utility deposit	1,088	–	–	–
Shipping guarantee on goods received	–	1,022	–	–
Guarantee in respect of import duty	–	1,896	–	–
Guarantees in lieu of accessory security for a sales order	653	–	–	–
	8,489	7,411	108,914	34,532

37. Related Party Transactions

The following transactions were carried out in the normal course of the Group's business:

- 1) Sales of goods and services

	2005	2004
	HK\$'000	HK\$'000
Sales of carpets:		
An associate (Note a)	3,263	2,653
The Hongkong and Shanghai Hotels, Limited (Note b)	7,007	905
Furniture sales and leasing		
The Hongkong and Shanghai Hotels, Limited (Note c)	579	1,037
	10,849	4,595

- (a) Sales to an associate were conducted in the normal course of business and at mutually agreed prices between the two parties.
- (b) By virtue of the fact that The Hongkong and Shanghai Hotels, Limited ("HKS Hotels") is under common control with the Company, the Company's transactions with HKS Hotels and its subsidiaries are related party transactions. These transactions also fall under the definition of continuing connected transactions under the Listing Rules and are disclosed under the "Connected Transactions" section in the Directors' Report.

37. Related Party Transactions (Continued)

- (c) Furniture sales and leasing to HKS Hotels and its subsidiaries are also continuing connected transactions under the Listing Rules, but as the gross amount of furniture sales and leasing for 2005 was less than the “de minimis” level in Rule 14A.33(3) of the Listing Rules, these transactions were exempt from disclosure by way of press announcement. These transactions were entered on normal commercial terms.

2) Purchase of goods and services

	2005 HK\$'000	2004 HK\$'000
Purchase of goods from:		
An associate (Note d)	4,810	517
Joint ventures (Note d)	4,382	–
Feltech Manufacturing Co. Ltd. (Note e)	813	102
Purchase of services from:		
Rental paid to The Hongkong and Shanghai Hotels, Limited (Note f)	448	366
	10,453	985

- (d) Purchases from an associate and joint ventures were conducted in the normal course of business and at mutually agreed prices between the parties.
- (e) Feltech Manufacturing Company Limited (“FMCL”) is owned by 61.75% by Mr Wan Tabtiang, a director of Carpets International Thailand Public Company Limited (“CIT,” a 99% owned subsidiary of the Company) and has been selling carpet underlay to CIT on normal commercial terms. These transactions are also continuing connected transactions under the Listing Rules, but as the gross amount of these transactions for 2005 was less than the “de minimis” level in Rule 14A.33(3) of the Listing Rules, these transactions were exempt from disclosure by way of press announcement. On 25th January 2006, CIT entered into an agreement with FMCL for a three-year term governing the transactions between these two parties. As required by the Listing Rules, an announcement was made on 25th January 2006.
- (f) Rental paid to HKS Hotels was based on fixed monthly amounts mutually agreed by parties involved.

37. Related Party Transactions (Continued)

- 3) On 22nd August 2005, CII Cement Limited (“CIIC”), a non-wholly owned subsidiary of the Company, entered into an agreement to transfer its entire 54.54% stake in Changzhou Nantai Construction Materials Company Limited (“Nantai Construction”, a Sino-foreign joint venture company incorporated in The People’s Republic of China) to Changzhou Nanyang Construction Materials Company (“CNCMC”) which was holding 40.31% interests in Nantai Construction. As CNCMC was a substantial shareholder of Nantai Construction at that moment, the transfer was therefore a connected transaction under the Listing Rules and an announcement of the transaction was made on 22nd August 2005. The aggregate consideration for the transaction of RMB 8,000,000 (approximately HK\$ 7,700,000) was arrived at after arm’s length negotiation and on normal commercial terms.

- 4) Key management compensation

	2005 HK\$’000	2004 HK\$’000
Salaries and other short-term employee benefits	23,307	19,753
Termination benefits	–	470
Share – based payments	176	–
	23,483	20,223

- 5) Year-end balances arising from sales/purchases of goods/services

	2005 HK\$’000	2004 HK\$’000
Receivables from/(to) related parties		
An associates	1,403	394
The Hongkong and Shanghai Hotels, Limited	286	436
	1,689	830
Payables to related parties		
Joint ventures	901	–
Feltech Manufacturing Co. Ltd.	133	61
	1,034	61

38. APPROVAL OF ACCOUNTS

The accounts were approved by the Directors on 24th April 2006.