

Notes to the Accounts

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 yarns, manufacture and sale of mattresses, and property holding. During the year, the Group ceased its operation in interior furnishings in Hong Kong.

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 Main Board of the The Stock Exchange of Hong Kong Limited.

The consolidated accounts are presented in thousands of Hong Kong dollars (HK\$’000), unless otherwise stated, and have been approved and authorised for issue by the Board of Directors on 20 April 2007.

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 and Interpretations (“collectively known as HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). In addition, the consolidated accounts include the appropriate disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Hong Kong Companies Ordinance. The consolidated accounts have been prepared under the historical cost convention except for (i) certain buildings which are stated at re-valued amounts less subsequent accumulated depreciation and accumulated impairment losses; and (ii) available-for-sale financial assets, financial assets held at fair value through profit or loss, and investment properties, which are carried at fair value.

In the current year, the Group also applied, for the first time, the following new standards, amendments and interpretations issued by the HKICPA (hereinafter collectively referred to as the “new HKFRSs”) that are effective for the accounting periods beginning on or after 1 December 2005 or 1 January 2006.

HKAS 19 Amendment

Actuarial gains and losses, Group plans and disclosures

HKAS 21 Amendment

Net investment in a foreign operation

HKAS 39 Amendment

Cash flow hedge accounting of forecast intragroup transactions

HKAS 39 Amendment

The fair value option

HKAS 39 & HKFRS 4 Amendments

Financial guarantee contracts

HKFRS 6

Exploration for and evaluation of mineral resources

HK(IFRIC) — Interpretation 4

Determining whether an arrangement contains a lease

HK(IFRIC) — Interpretation 5

Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds

HK(IFRIC) — Interpretation 6

Liabilities arising from participating in a specific market — waste electrical and electronic equipment

2. Summary of Significant Accounting Policies (Continued)

The adoption of the above new HKFRSs has had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment is required.

The Group has not applied for the early adoption of the following new standards, amendments and interpretations that have been issued but are not yet effective. The Group is in the process of making an assessment of the impact of these new standards, amendments and interpretations to the Group's results of operations and financial position in the period of initial application.

	Effective for accounting periods beginning on or after
HKAS 1 (Amendment)	
Capital disclosures	1 January 2007
HKFRS 7	
Financial instruments: disclosure	1 January 2007
HKFRS 8	
Operating segments	1 January 2009
HK(IFRIC) — Interpretation 7	
Applying the restatement approach under HKAS 29 financial reporting in hyperinflationary economies	1 March 2006
HK(IFRIC) — Interpretation 8	
Scope of HKFRS 2	1 May 2006
HK(IFRIC) — Interpretation 9	
Reassessment of embedded derivatives	1 June 2006
HK(IFRIC) — Interpretation 10	
Interim financial reporting and impairment	1 November 2006
HK(IFRIC) — Interpretation 11	
Group and treasury share transactions	1 March 2007
HK(IFRIC) — Interpretation 12	
Service concession arrangements	1 January 2008

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

2.2 Consolidation

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

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 consolidated 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 jointly controlled entities

An associate is an entity over which the Group has significant influence but does not have control or joint control.

A jointly controlled entity 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 jointly controlled entities are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investments in an associate and jointly controlled entities includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of the post-acquisition profits or losses of an associate and jointly controlled entities is recognised in the consolidated 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 investments. When the Group's share of losses in the associate or jointly controlled entities equals or exceeds its interest in such associate or jointly controlled entities, 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 jointly controlled entities.

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

On the Company's balance sheet, the investments in an associate and jointly controlled entities are stated at cost less provision for impairment losses. The results of the associate and jointly controlled entities 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 is 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 jointly controlled entities. Segment liabilities comprise operating liabilities and exclude items such as tax liabilities, 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 dollar, which is the Company's functional and presentation currency.

(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 consolidated profit and loss account.

(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 consolidated profit and loss account as part of the gain or loss on sale.

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

2.5 Property, plant and equipment

Buildings comprise mainly factories, retail outlets and offices. They are stated at cost or valuation less accumulated depreciation and impairment losses. Certain buildings were at valuation which was carried out prior to 30 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 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 consolidated 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% – 4.5%
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 2.7).

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

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 consolidated profit and loss account during the financial period in which they are incurred.

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

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 consolidated profit and loss account.

Investment property held for sale without redevelopment is classified within non-current assets held for sale, under HKFRS 5.

2.7 Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation, but 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.

2.8 Financial assets and liabilities

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.

(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.

(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 classified as non-current assets. Loans and receivables are included as trade and other receivables in the balance sheet. Please refer to Note 2.10.

(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 consolidated 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 consolidated 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 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 consolidated profit and loss account is removed from equity and recognised in the consolidated profit and loss account. Impairment losses recognised in the consolidated profit and loss account on equity instruments are not reversed through the consolidated profit and loss account.

(d) Trade and other payables

Trade payables and other short-term monetary liabilities are recognised at amortised cost.

2.9 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.

2.10 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 impairment is recognised in the consolidated profit and loss account.

2.11 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.

2.12 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 consolidated profit and loss account over the period of the borrowings using the effective interest method.

Bank borrowings are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

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.

2.13 Income tax

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date.

Income taxes are recognised in the profit and loss account except when they relate to items directly recognised to equity in which case the taxes are also directly recognised in equity.

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 accounts. 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 jointly controlled entities, 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.

2.14 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.

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.

2.15 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 consolidated profit and loss account on a straight-line basis over the period of the lease.

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.

2.16 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:

2. Summary of Significant Accounting Policies (Continued)

- (a) Revenue from sales of carpets, yarns, underlays 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.
- (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 is recognised when the right to receive payment is established.

2.17 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the accounts in the period in which the dividend is approved by the Company's shareholders.

Final dividend proposed by the Directors is classified as a separate allocation of retained earnings within capital and reserves on the balance sheet. Final dividend is recognised as a liability when it is approved by the shareholders.

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.

(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. 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 the Mainland China. 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 consolidated profit and loss, the Group's results are exposed to the risk of fluctuation of such fair values.

The nominal value less estimated credit adjustment of receivables and payables approximates their fair value.

4. Critical Accounting Estimates and Judgments

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.

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 2.7. 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 obtainable at each 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.

(e) **Impairment of investments in an associate and jointly controlled entities**

The Group's management determines the impairment on its interests in an associate and jointly controlled entities based on an assessment of the recoverable amounts of the investments.

5. Revenues and Segmental Information

During the year, revenues are recognised as follows:

	2006 HK\$'000	2005 HK\$'000
Continuing operations		
Sales of carpets	816,867	627,340
Yarn manufacturing and trading	48,548	57,635
Sales of interior furnishings	29,937	18,845
Gross rental income from investment properties	4,674	5,612
	900,026	709,432
Discontinued operation		
Sales of interior furnishings	23,738	46,197
Total revenues	923,764	755,629

Primary reporting format - business segments

The Group was organised on a worldwide basis into four main business segments in 2006:

Continuing operations	
Carpet	- Manufacture, import, export and sale of carpets
Yarn	- Manufacture and sale of yarns
Interior furnishings	- Manufacture and sale of mattresses
Property holding	- Mainly rental income from property holding
Discontinued operation	- Sale and leasing of interior furnishings

Secondary reporting format - geographical segments

Although the Group's four business segments were managed on a worldwide basis during 2006, they operated in seven main geographical areas:

Hong Kong & Macau	- Carpet, interior furnishings and property holding
Mainland China	- Carpet, interior furnishings 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

Notes to the Accounts (Continued)

5. Revenues and Segmental Information (Continued)

The principal activities of the Group consist of manufacture, import, export and sale of carpets, manufacture and sale of yarns, manufacture and sale of mattresses, and property holding.

The discontinued operation comprised sale and leasing of interior furnishings in Hong Kong.

5.1 Business segments

The following tables present turnover, profit and certain assets, liabilities and expenditure information of the Group's business segments for the years ended 31 December 2006 and 2005.

For the year ended 31 December 2006

							Continuing operation	Discontinued operation	
	Carpet	Yarn	Interior	Property	Elimination	Unallocated	operations	(Interior	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	furnishing)	HK\$'000
Revenue									
- External revenue	816,867	48,548	29,937	4,674	—	—	900,026	23,738	923,764
- Inter-segment revenue*	255	—	—	2,069	(2,324)	—	—	—	—
	817,122	48,548	29,937	6,743	(2,324)	—	900,026	23,738	923,764
Segment results	15,166	5,951	2,164	14,617	—	(5,890)	32,008	(3,622)	28,386
Finance costs							(3,912)	—	(3,912)
Share of profits of									
an associate	220	—	—	—	—	—	220	—	220
jointly controlled entities#	30,859	—	—	—	—	—	30,859	—	30,859
Profit before income tax expenses							59,175	(3,622)	55,553
Income tax expenses							(18,191)	(342)	(18,533)
Profit for the year							40,984	(3,964)	37,020
Segment assets	746,359	48,220	15,694	46,335	—	11,660			868,268
Interest in an associate	21,682	—	—	—	—	—			21,682
Interests in jointly									
controlled entities	157,705	—	—	—	—	—			157,705
Total assets									1,047,655
Segment liabilities	194,506	1,727	2,836	417	—	41,104			240,590
Capital expenditure	29,494	158	3,009	—	—	—			32,661
Depreciation	38,977	4,130	468	—	—	—	43,575	2,251	45,826
Amortisation of leasehold									
land and land use rights	532	—	—	—	—	—	532	—	532

Included a reversal of impairment of HK\$2,900,000

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

Notes to the Accounts (Continued)

5. Revenues and Segmental Information (Continued)

For the year ended 31 December 2005

							Continuing operations	Discontinued operation (Interior furnishings)	Total
	Carpet	Yarn	Interior furnishings	Property holding	Elimination	Unallocated	Total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue									
- External revenue	627,340	57,635	18,845	5,612	—	—	709,432	46,197	755,629
- Inter-segment revenue*	2,244	10	—	1,239	(3,493)	—	—	—	—
	629,584	57,645	18,845	6,851	(3,493)	—	709,432	46,197	755,629
Segment results	(29,878)	8,685	1,152	22,298	—	26,533	28,790	(4,187)	24,603
Finance costs							(3,578)	—	(3,578)
Share of (loss)/profits of									
an associate	(69)	—	—	—	—	—	(69)	—	(69)
jointly controlled entities	24,343	—	—	—	—	—	24,343	—	24,343
Profit before income									
tax expenses							49,486	(4,187)	45,299
Income tax expenses							(11,728)	883	(10,845)
Profit for the year							37,758	(3,304)	34,454
Segment assets									
	658,535	54,166	41,554	77,750	—	4,232			836,237
Interest in an associate	21,166	—	—	—	—	—			21,166
Interests in jointly									
controlled entities	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	385	—	—	—	35,909	4,023	39,932
Amortisation of leasehold									
land and land use rights	408	—	—	—	—	—	408	—	408

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

Notes to the Accounts (Continued)

5. Revenues and Segmental Information (Continued)

5.2 Geographical segments

The following tables present turnover, profit, assets and capital expenditure information of the Group's geographical segments for the years ended 31 December 2006 and 2005:

For the year ended 31 December 2006

	Turnover			Segment results				
	Continuing operations	Discontinued operation	Total	Continuing operations	Discontinued operation	Total	Total assets	Capital expenditure
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong and Macau	76,555	23,489	100,044	12,828	(3,719)	9,109	96,577	4,390
Mainland China	35,889	—	35,889	(423)	—	(423)	140,326	7,871
South East Asia	235,449	96	235,545	10,087	57	10,144	377,733	13,436
Middle East	25,612	—	25,612	(2,895)	—	(2,895)	—	—
Other Asian countries	30,281	—	30,281	3,399	—	3,399	—	—
Europe	74,004	—	74,004	(10,513)	—	(10,513)	37,795	1,449
North America	408,654	153	408,807	23,107	40	23,147	204,177	5,515
Others	13,582	—	13,582	2,308	—	2,308	—	—
	900,026	23,738	923,764	37,898	(3,622)	34,276	856,608	32,661
Unallocated items				(5,890)				
Operating profit				32,008				
Interest in an associate							21,682	
Interests in jointly controlled entities [#]							157,705	
Unallocated assets							11,660	
Total assets							1,047,655	

For the year ended 31 December 2005

	Turnover			Segment results			Total assets HK\$'000	Capital expenditure HK\$'000
	Continuing operations HK\$'000	Discontinued operation HK\$'000	Total HK\$'000	Continuing operations HK\$'000	Discontinued operation HK\$'000	Total HK\$'000		
Hong Kong and Macau	51,155	42,305	93,460	15,367	(4,128)	11,239	112,357	5,192
Mainland China	32,949	2,515	35,464	499	153	652	136,320	2,325
South East Asia	221,675	—	221,675	11,462	—	11,462	361,545	30,497
Middle East	26,920	—	26,920	(811)	—	(811)	—	—
Other Asian countries	21,434	—	21,434	1,045	—	1,045	—	—
Europe	66,569	—	66,569	(8,236)	—	(8,236)	33,088	1,671
North America	277,912	342	278,254	(18,414)	63	(18,351)	188,695	24,133
Others	10,818	1,035	11,853	1,345	(275)	1,070	—	—
	709,432	46,197	755,629	2,257	(4,187)	(1,930)	832,005	63,818
Unallocated items				26,533				
Operating profit				28,790				
Interest in an associate							21,166	
Interests in jointly controlled entities*							133,318	
Unallocated assets							4,232	
Total assets							990,721	

* Located in South East Asia

Located in the Mainland China

6. Interest Income

	2006 HK\$'000	2005 HK\$'000
Bank interest income	1,643	1,101

7. Operating Profit

	2006 HK\$'000	2005 HK\$'000
Operating profit is stated after crediting and charging the following:		
Crediting:		
Gain on disposal of property, plant and equipment	137	—
Reversal of impairment of trade and other receivables	—	139
Net exchange gains	—	1,073
Charging:		
Depreciation of property, plant and equipment (Note 16)	45,826	39,932
Amortisation of leasehold land and land use rights (Note 15)	532	408
Loss on disposal of property, plant and equipment	—	92
Impairment of inventories	1,277	1,269
Impairment of trade and other receivables	2,874	—
Impairment of construction in progress	—	4,470
Employee benefit expenses (Note 9)	276,486	226,188
Operating lease charges		
- Land and buildings	19,193	17,287
- Plant and machinery	789	661
Auditors' remuneration	2,451	2,326
Direct operating expenses arising from investment properties that generated rental income	507	604
Direct operating expenses arising from investment properties that did not generate rental income	—	17
Research and development costs	2,297	2,270
Net exchange losses	2,896	—

8. Finance Costs

	2006 HK\$'000	2005 HK\$'000
Interest on bank loans and overdrafts wholly repayable within five years	3,912	3,578

9. Employee Benefit Expenses

	2006 HK\$'000	2005 HK\$'000
Wages and salaries (including Directors' emoluments)	270,571	221,496
Share options granted to a Director	51	176
Retirement benefit costs – defined contribution schemes (including Directors' emoluments)	5,864	4,516
Total	276,486	226,188

(a) Retirement benefit costs — defined contribution schemes

Unvested benefits totalling HK\$159,000 (2005: HK\$178,000) were used during the year to reduce future contributions. As at 31 December 2006, unvested benefits totalling HK\$105,000 (2005: HK\$116,000) were available for use by the Group to reduce future contributions.

(b) Directors' emoluments

The emoluments of each Director for the year ended 31 December 2006 are set out below:

Name of Directors	Fees HK\$'000	Salaries HK\$'000	Bonuses HK\$'000	Other benefits HK\$'000	Retirement benefit costs HK\$'000	Total HK\$'000
Mr. Nicholas T. J. Colfer	30	—	—	—	—	30
Mr. Ian D. Boyce	30	—	—	—	—	30
Mr. Lincoln K. K. Leong @	—	—	—	—	—	—
Mr. Nelson K. F. Leong #	30	—	—	—	—	30
Mr. David C. L. Tong	50	—	—	—	—	50
Mr. John J. Ying	50	—	—	—	—	50
Mrs. Yvette Y. H. Fung*	50	—	—	—	—	50
Mr. Michael T. H. Lee*	50	—	—	—	—	50
Mr. Roderic N. A. Sage*	80	—	—	—	—	80
Mr. Lincoln C. K. Yung*	30	—	—	—	—	30
Mr. James H. Kaplan	—	3,900	2,477	118	140	6,635
	400	3,900	2,477	118	140	7,035

Notes to the Accounts (Continued)

9. Employee Benefit Expenses (Continued)

The emoluments of each Director for the year ended 31 December 2005 are set out below:

Name of Directors	Fees HK\$'000	Salaries HK\$'000	Bonuses HK\$'000	Inducement Fees HK\$'000	Other benefits HK\$'000	Retirement benefit costs HK\$'000	Total 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 (i)	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 (ii)	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 (iii)	17	1,453	468	—	—	108	2,046
Mr. James S. Dickson Leach (iv)	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

* 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 13 May 2005

(ii) Appointed on 15 November 2005

(iii) Resigned on 1 November 2005

(iv) Resigned on 13 May 2005

(v) Resigned on 8 September 2005

Apart from the above, the Directors' emoluments included share options expenses in respect of the options granted to Mr. James H. Kaplan, which amounted to HK\$51,000 (2005: HK\$176,000).

Notes to the Accounts (Continued)

9. Employee Benefit Expenses (Continued)

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include one (2005: two) Director(s) whose emoluments are reflected in the analysis presented above. The emoluments paid to the remaining four (2005: three) individuals during the year are as follows:

	2006 HK\$'000	2005 HK\$'000
Basic salaries, housing and other allowances	6,189	5,238
Bonuses	1,173	1,315
Contributions to retirement schemes	166	111
	7,528	6,664

The emoluments fell within the following bands:

	No. of Individuals	
	2006	2005
Emolument bands		
HK\$1,500,001 – HK\$2,000,000	3	1
HK\$2,000,001 – HK\$2,500,000	—	1
HK\$2,500,001 – HK\$3,000,000	1	1

10. Income Tax Expenses

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits for the year. Income tax expenses on the People's Republic of China (the "PRC") and overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the respective countries.

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

	2006 HK\$'000	2005 HK\$'000
Current income tax expenses		
- Hong Kong	3,538	—
- PRC and Overseas	26,269	13,984
(Over)/under provision in prior years	(2,194)	335
Deferred income tax credit	(9,422)	(2,591)
Income tax expenses	18,191	11,728

Share of income tax expenses of an associate and jointly controlled entities of HK\$324,000 (2005: HK\$568,000) and HK\$10,228,000 (2005: HK\$8,352,000) respectively are included in the share of profits/(losses) of an associate and jointly controlled entities.

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

	2006 HK\$'000	2005 HK\$'000
Profit before income tax expenses	59,175	49,486
Less: Share of profits of an associate and jointly controlled entities	(28,179)	(24,274)
Reversal of impairment of jointly controlled entities		
- not subject to taxation	(2,900)	—
Profit before income tax expenses of the Company and subsidiaries	28,096	25,212
Calculated at a taxation rate of 17.5% (2005: 17.5%)	4,917	4,412
Effect of different taxation rates in other tax jurisdictions	6,184	5,109
Income not subject to taxation	(295)	(10,714)
Expenses not deductible for taxation purposes	1,243	1,979
Tax losses not recognised	8,336	12,744
Recognition of previously unrecognised deductible		
temporary differences	—	(2,137)
(Over)/under provision in previous years	(2,194)	335
Income tax expenses	18,191	11,728

11. Discontinued Operation

On 7 July 2006, the Company's entire interests in both Indigo Living Limited ("Indigo") and Banyan Tree Limited ("Banyan Tree") were sold at a consideration of HK\$19,200,000. Both Indigo and Banyan Tree were wholly-owned subsidiaries before the disposal and collectively represented a separate line of business under the category "Interior Furnishings" for the purpose of HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations".

The aggregate results of Indigo and Banyan Tree for the period are as follows:

	2006 [*] HK\$'000	2005 HK\$'000
Turnover	23,738	46,197
Cost of sales	(9,056)	(18,507)
Gross profit	14,682	27,690
Interest income from banks and finance leases	43	64
Distribution costs	(2,945)	(2,720)
Administrative expenses	(9,815)	(23,815)
Other operating expenses, net	(89)	(5,406)
Profit before income tax expenses	1,876	(4,187)
Income tax(expenses)/credit	(342)	883
	1,534	(3,304)
Loss on disposal of discontinued operation	(5,498)	—
Loss after income tax expenses from discontinued operation	(3,964)	(3,304)

* Up to 7 July 2006, the date of disposal.

During the period up to 7 July 2006, Indigo and Banyan Tree used an aggregate of HK\$3,910,000 of cash in respect of the Group's net operating cash flows (2005: generated HK\$4,617,000 cash from operating activities) and paid HK\$2,091,000 (2005: HK\$3,052,000) in respect of investing activities.

The assets and liabilities of Indigo and Banyan Tree at the date of disposal were disclosed in Note b of the Consolidated Cash Flow Statement.

12. Profit Attributable to Equity Holders of the Company

The profit attributable to equity holders of the Company is dealt with in the accounts of the Company to the extent of loss of HK\$3,771,000 (2005: loss of HK\$621,000).

13. Dividend

	2006 HK\$'000	2005 HK\$'000
Final dividend, proposed, of HK 3 cents per share (2005: Nil)	6,366	—

At the Board meeting held on 20 April 2007, the Directors declared a final dividend of HK 3 cents per share. This proposed dividend is not reflected as a dividend payable in the accounts, but will be reflected as an appropriation of retained earnings for the year ended 31 December 2007.

14. Earnings Per Share

(a) Continuing and discontinued operations

Basic

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

	2006 HK\$'000	2005 HK\$'000
Profit attributable to equity holders of the Company	32,694	27,646
	No. of ordinary shares	
Weighted average number of ordinary shares in issue (thousands)	212,187	211,933
Basic earnings per share (HK cents)	15.41	13.04

Diluted

Diluted earnings 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.

	2006 HK\$'000	2005 HK\$'000
Profit attributable to equity holders of the Company	32,694	27,646
	No. of ordinary shares	
Weighted average number of ordinary shares in issue (thousands)	212,187	211,933
Adjustments for share options (thousands) (note)	—	7
Weighted average number of ordinary shares in issue for diluted earnings per share (thousands)	212,187	211,940
Diluted earnings per share (HK cents)	15.41	13.04

Note: The share options did not have any dilutive effect for the year ended 31 December 2006 as the average market price of the Company's ordinary shares during the year was lower than the exercise price of the share options.

Notes to the Accounts (Continued)

14. Earnings Per Share (Continued)

(b) Continuing operations**Basic**

The calculation of the basic earnings per share from continuing operations attributable to the equity holders of the Company is based on the following information:

	2006 HK\$'000	2005 HK\$'000
Profit attributable to equity holders of the Company	32,694	27,646
Add: Loss attributable to equity holders from discontinued operation	3,964	3,304
Profit attributable to equity holders of the Company from continuing operations	36,658	30,950
	No. of ordinary shares	
Weighted average number of ordinary shares in issue (thousands)	212,187	211,933
Basic earnings per share (HK cents)	17.28	14.60

Diluted

The calculation of the diluted earnings per share from continuing operations attributable to the equity holders of the Company is based on the profit attributable to equity holders from continuing operations of HK\$36,658,000 (2005: HK\$30,950,000). The denominators used are the same as those detailed above for diluted earnings per share from continuing and discontinued operations.

(c) Discontinued operation**Basic**

The calculation of the basic loss per share from discontinued operation attributable to the equity holders of the Company is based on the following information:

	2006 HK\$'000	2005 HK\$'000
Loss attributable to equity holders from discontinued operations	(3,964)	(3,304)
	No. of ordinary shares	
Weighted average number of ordinary shares in issue (thousands)	212,187	211,933
Basic loss per share (HK cents)	(1.87)	(1.56)

Diluted

The calculation of the diluted loss per share from discontinued operation attributable to the equity holders of the Company is based on the loss attributable to equity holders from discontinued operation of HK\$3,964,000 (2005: HK\$3,304,000). The denominators used are the same as those detailed above for diluted earnings per share from continuing and discontinued operations.

15. 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:

	2006 HK\$'000	2005 HK\$'000
In Hong Kong held on		
Leases of between 10 – 50 years	11,740	12,031
Outside Hong Kong held on		
Leases of between 10 – 50 years	9,848	9,708
	21,588	21,739
	2006 HK\$'000	2005 HK\$'000
At 1 January	21,739	9,763
Leasehold land received in the form of dividend in specie upon liquidation of an available-for-sale financial asset	—	12,200
Exchange differences	381	184
Amortisation of prepaid operating lease payment	(532)	(408)
At 31 December	21,588	21,739

16. Property, Plant and Equipment Group

	Buildings HK\$'000	Other assets HK\$'000	Total HK\$'000
As at 1 January 2005			
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 31 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 31 December 2005 and 1 January 2006			
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
Year ended 31 December 2006			
Opening net book amount	107,984	195,456	303,440
Exchange differences	10,118	18,494	28,612
Additions	58	15,110	15,168
Transfer from construction in progress	216	22,970	23,186
Disposals	—	(2,028)	(2,028)
Disposal of a discontinued operation	—	(5,148)	(5,148)
Impairment	—	(312)	(312)
Depreciation	(6,029)	(39,797)	(45,826)
Closing net book amount	112,347	204,745	317,092
As at 31 December 2006			
Cost or valuation	175,261	533,214	708,475
Accumulated depreciation and impairment	(62,914)	(328,469)	(391,383)
Net book amount	112,347	204,745	317,092

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

Notes to the Accounts (Continued)

16. Property, Plant and Equipment (Continued)

Certain of the Group's buildings were revalued on an open market basis at 31 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 30 September 1995. Under transitional provisions 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\$5,752,000 (2005: HK\$5,529,000) 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	163,841	533,214
At valuation – 1989	11,420	—
As at 31 December 2006	175,261	533,214
At cost	147,781	488,505
At valuation – 1989	10,827	—
As at 31 December 2005	158,608	488,505

In 2005, the other assets category included furniture leased by Indigo to third party under operating leases with net book amount of HK\$1,752,000. Indigo was disposed by the Group in July 2006.

17. Investment Properties Group

	2006 HK\$'000	2005 HK\$'000
Net book value as at 1 January	73,130	77,212
Property received in the form of dividend in specie upon liquidation of an available-for-sale financial asset	—	10,950
Surplus on revaluation of investment properties	6,486	15,648
Disposals	(42,420)	(28,655)
Reclassification to properties held for sale (Note 28)	(4,436)	—
Exchange differences	4,040	(2,025)
Net book value as at 31 December	36,800	73,130

The investment properties were revalued by an independent, professionally qualified valuer, namely CB Richard Ellis. Valuations were based on current prices in an active market for all properties. Details of principal investment properties are set out on page 98.

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

	2006 HK\$'000	2005 HK\$'000
In Hong Kong, held on		
- Medium leases (10 – 50 years)	21,300	20,050
Outside Hong Kong, held on		
- Freehold	—	38,380
- Medium leases (10 – 50 years)	15,500	14,700
	36,800	73,130

18. Construction in Progress Group

	2006 HK\$'000	2005 HK\$'000
As at 1 January	12,282	18,424
Exchange differences	1,404	(628)
Additions	17,493	41,414
Transfer to property, plant and equipment	(23,186)	(42,458)
Impairment	—	(4,470)
As at 31 December	7,993	12,282

19. Interests in Subsidiaries Company

	2006 HK\$'000	2005 HK\$'000
Unlisted shares at directors' valuation in 1990	242,800	242,800
Loans to a subsidiary	66,270	61,226
Amounts due from subsidiaries	463,799	466,758
	772,869	770,784
Loan from a subsidiary	(13,213)	(13,213)
Amounts due to subsidiaries	(91,380)	(89,673)
	668,276	667,898
Impairment	(362,183)	(359,020)
	306,093	308,878

Details of principal subsidiaries are set out on pages 95 and 96. All balances due from/(to) subsidiaries are unsecured, interest-free and repayable on demand, except for an amount of HK\$66,270,000 due from a subsidiary (2005: HK\$61,226,000) which carries interest at prevailing market rates.

20. Amount Due from an Indirectly Held Associate

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

21. Interest in an Associate Group

	2006 HK\$'000	2005 HK\$'000
Share of net assets	20,157	18,429
Amounts due from an associate	1,525	2,737
	21,682	21,166
Shares at cost – unlisted	519	519

No dividend income was received from the associate during the year (2005: HK\$1,870,000).

Share of the associate's taxation amounted to HK\$324,000 (2005: HK\$568,000). Details of the associate, which is unlisted, is set out on page 96.

Notes to the Accounts (Continued)

21. Interest in an Associate (Continued)

An extract of the operating results and financial position of the 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 years ended and as at 31 December 2006 and 2005, is as follows:

	2006 HK\$'000	2005 HK\$'000
Operating results		
Turnover	71,271	73,716
Profit/(loss) after income tax expenses	670	(210)
Group's share of profit/(loss) after income tax expenses	220	(69)
Financial position		
Non-current assets	46,883	38,945
Current assets	41,390	46,286
Non-current liabilities	(8,322)	(7,806)
Current and other liabilities	(18,515)	(21,257)
Shareholders' funds	61,436	56,168
Group's share of net assets	20,157	18,429

22. Interests in Jointly Controlled Entities Group

	2006 HK\$'000	2005 HK\$'000
Share of net assets	130,725	117,490
Amounts due from jointly controlled entities		
- Loan account	458	458
- Current account	42,257	34,005
	42,715	34,463
	173,440	151,953
Impairment	(15,735)	(18,635)
	157,705	133,318
Paid in capital at cost	80,517	80,517

Dividend income from jointly controlled entities during the year amounted to HK\$18,913,000 (2005: HK\$17,925,000).

Share of jointly controlled entities taxation amounted to HK\$10,228,000 (2005: HK\$8,352,000).

Notes to the Accounts (Continued)

22. Interest in Jointly Controlled Entities (Continued)

Details of the principal jointly controlled entities, which are unlisted, are set out on page 96.

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 financial statements as adjusted to conform with HKGAAP for the years ended and as at 31 December 2006 and 2005, is as follows:

WHCL

	2006 HK\$'000	2005 HK\$'000
Operating results		
Turnover	461,870	330,513
Profit after income tax expenses	26,571	18,043
Group's share of profit after income tax expenses	13,020	8,841
Financial position		
Non-current assets	295,988	214,856
Current assets	111,628	71,358
Non-current liabilities	(11,407)	(5,383)
Current liabilities	(258,224)	(139,651)
Shareholder's funds	137,985	141,180
Group's share of net assets less impairment	51,990	52,605

WPCL

	2006 HK\$'000	2005 HK\$'000
Operating results		
Turnover	266,039	192,419
Profit after income tax expenses	27,898	31,018
Group's share of profit income tax expenses	13,670	15,199
Financial position		
Non-current assets	32,526	16,525
Current assets	161,517	147,173
Non-current liabilities	—	—
Current liabilities	(90,393)	(69,615)
Shareholders' funds	103,650	94,083
Group's share of net assets less impairment	48,768	45,531

23. Financial Assets at Fair Value Through Profit or Loss Group

	2006 HK\$'000	2005 HK\$'000
At 1 January	—	—
Addition	22,727	—
Exchange differences	1,082	—
As at 31 December	23,809	—

Financial assets at fair value through profit or loss include the following:

	2006 HK\$'000	2005 HK\$'000
Unlisted treasury bonds — overseas	23,809	—

The financial assets are traded on active liquid markets and their fair values are determined with reference to quoted market prices and denominated in Thai Baht in 2006.

24. Net Investment in Finance Leases

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

Group

	Present value of minimum lease payments receivable 2006 HK\$'000	Interest income relating to future periods 2006 HK\$'000	Total minimum lease payments receivable 2006 HK\$'000	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
Amounts receivable:						
Not later than one year	—	—	—	735	45	780
Later than one year and not later than five years	—	—	—	210	15	225
		—	—		60	1,005
Net investment in finance leases	—			945		

25. Inventories

Group

	2006 HK\$'000	2005 HK\$'000
Raw material	88,202	74,687
Work-in-progress	23,140	22,333
Finished goods	97,729	73,788
Consumable stores	2,787	3,039
	211,858	173,847

The cost of inventories recognised as expenses and included in cost of goods sold amounted to HK\$514,937,000 (2005: HK\$432,587,000).

26. Trade and Other Receivables

Group

	2006 HK\$'000	2005 HK\$'000
Trade receivables	176,182	151,745
Less: Impairment loss of receivables	(20,337)	(15,493)
Trade receivables – net	155,845	136,252
Other receivables	22,559	25,406
	178,404	161,658

The amounts approximated to the respective fair values as at 31 December 2006 and 2005. The credit terms of the Group range from 0 to 90 days, depending on the credit status and repayment history of customers. As at the balance sheet date, the ageing analysis of the trade receivables was as follows:

	2006 HK\$'000	2005 HK\$'000
10 – 30 days	85,432	86,020
31 days – 60 days	23,634	27,705
61 days – 90 days	14,078	8,037
Over 90 days	53,038	29,983
	176,182	151,745

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

Notes to the Accounts (Continued)

26. Trade and Other Receivables (Continued)

The carrying amounts of the Group's trade receivables and other receivables were denominated in the following currencies:

	Trade receivables		Other receivables	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
United States Dollar	93,717	77,071	5,356	3,723
Euro	12,285	12,099	3,037	2,493
Sterling Pound	1,773	68	307	1,139
Singapore Dollar	—	158	58	—
Renminbi	4,721	3,938	6,729	8,170
Thai Baht	28,434	31,577	5,639	4,496
Macau Patacas	645	—	—	—
Hong Kong Dollar	14,270	11,341	1,433	5,385
	155,845	136,252	22,559	25,406

27. Derivative Financial Instruments Group

	2006 HK\$'000	2005 HK\$'000
Foreign currency forward contracts	681	—

The carrying amounts of the Group's derivative financial instruments were denominated in Thai Baht in 2006.

28. Properties Held for Sale Group

	2006 HK\$'000	2005 HK\$'000
Properties located in Hong Kong under medium lease	4,436	—

29. Cash and Cash Equivalents

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Cash at bank and on hand	55,013	83,738	255	232
Short-term bank deposits	3,963	3,341	—	—
	58,976	87,079	255	232

The amounts approximated to their respective fair values as at 31 December 2006 and 2005.

The effective interest rate on short-term bank deposits was 3.5% per annum (2005: 3.5% per annum); these deposits have maturity dates ranging between 17 to 43 days.

Notes to the Accounts (Continued)

29. Cash and Cash Equivalents (Continued)

As at 31 December 2006, the Group's cash and bank balances included RMB13,203,000 (2005: RMB9,279,000) and US\$78,000 (2005: US\$1,365,000) placed with certain banks in PRC by certain PRC subsidiaries of the Group. These balances are subject to exchange controls.

The carrying amounts of the Group's cash and cash equivalents were denominated in the following currencies:

	Group		Company	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
United States Dollar	20,672	47,408	42	47
Euro	3,470	7,562	—	—
Sterling Pound	677	2,111	—	—
Singapore Dollar	1,832	870	—	—
Renminbi	13,203	8,958	—	—
Thai Baht	4,135	1,430	—	—
Macau Patacas	657	154	—	—
Hong Kong Dollar	14,330	18,586	213	185
	58,976	87,079	255	232

30. Share Capital

Company	No. of shares	HK\$'000
Authorised – HK\$0.10 per share:		
At 1 January 2005 and 2006; 31 December 2005 and 2006	400,000,000	40,000
Issued and fully paid:		
At 1 January 2005	211,703,488	21,170
Exercise of share options	230,000	23
As at 31 December 2005 and 1 January 2006	211,933,488	21,193
Exercise of share options	254,000	26
At 31 December 2006	212,187,488	21,219

Notes to the Accounts (Continued)

30. Share Capital (Continued)

The movements of the share options for both years ended 31 December 2006 and 2005 were as follows:

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

Name	Balance as at 1 January	Date of grant	Changes during the year			Balance as at 31 December	Exercise price (HK\$) (Note)	Exercisable period
			Granted	Lapsed	Exercised			
James H. Kaplan	500,000	10 January 2005	—	246,000	254,000	—	1.21	31 December 2005– 31 January 2006
	500,000	10 January 2005	—	—	—	500,000	1.21	31 December 2006– 31 January 2007
	500,000	10 January 2005	—	—	—	500,000	1.21	31 December 2007– 31 January 2008

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. In 2006, the closing price of the shares immediately before the date on which the options were exercised was HK\$1.20.

The Company uses the Black Scholes option pricing model (the "Model") to value share options at the date of grant. 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 significant variables and assumptions for calculating the fair value of the share options are set out below.

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\$51,000 was recognised in 2006, with a corresponding adjustment recognised in the Group's capital reserves.

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

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

Notes:

- i. 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.
- ii. 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.
- iii. Expected dividend per annum: being the approximate average annual cash dividend for the past five financial years.

31. Reserves

The movements of reserves of the Group for both years ended 31 December 2006 and 2005 are set out in the Consolidated Statements of Changes in Equity on Pages 41 and 42.

The movements of reserves of the Company were as follows:

Company

	Share premium HK\$'000	Capital reserve HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000	Proposed final dividend HK\$'000
At 1 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 31 December 2005	189,417	176	442,598	(344,535)	287,656	—
At 1 January 2006	189,417	176	442,598	(344,535)	287,656	—
Premium on issue of new shares	282	—	—	—	282	—
Employee share options scheme						
- value of employee services	—	51	—	—	51	—
Loss for the year	—	—	—	(3,771)	(3,771)	—
	189,699	227	442,598	(348,306)	284,218	—
Proposed final dividend					(6,366)	6,366
At 31 December 2006					277,852	6,366

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.

32. Bank Borrowings – Unsecured Group

	2006 HK\$'000	2005 HK\$'000
Non-current		
Repayable between 1 and 2 years		
Thai Baht	—	9,500
	—	9,500
Current		
Repayable within 1 year		
Thai Baht	11,000	55,859
Hong Kong Dollar	—	27,000
United States Dollar	—	16,977
	11,000	99,836
Total bank borrowings	11,000	109,336

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

	2006	2005
Thai Baht	4.5%	4.7%-5.2%
Hong Kong Dollar	—	5.2%-5.6%
United States Dollar	—	5.7%

The amounts approximated to their respective fair values as at 31 December 2006 and 2005.

33. Deferred Taxation

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2005: 17.5%).

Group

	2006 HK\$'000	2005 HK\$'000
Deferred tax liabilities as at 1 January	(3,649)	(7,223)
Exchange differences	41	100
Deferred taxation charged/(credited) to consolidated profit and loss account		
- Continuing operations	9,422	2,591
- Discontinued operation	(306)	883
Deferred taxation charged to other properties revaluation reserve:		
- Continuing operations	(660)	—
Disposal of discontinued operation	(819)	—
Deferred tax assets/(liabilities) as at 31 December	4,029	(3,649)

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\$225,865,000 (2005: HK\$188,686,000) to carry forward against future taxable income.

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

Deferred tax liabilities

Group

	Accelerated tax depreciation allowance		Revaluation of properties		Others		Total	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
At 1 January	3,964	5,035	8,955	10,378	—	—	12,919	15,413
(Credited)/charged to consolidated profit and loss account	(3,200)	(1,071)	(8,185)	(971)	195	—	(11,190)	(2,042)
Charged to other properties revaluation reserve	—	—	660	—	—	—	660	—
Disposal of discontinued operation	(53)	—	—	—	—	—	(53)	—
Exchange differences	—	—	911	(452)	9	—	920	(452)
At 31 December	711	3,964	2,341	8,955	204	—	3,256	12,919

Notes to the Accounts (Continued)

33. Deferred Taxation (Continued)

Deferred tax assets
Group

	Impairment of assets		Tax losses		Others		Total	
	2006	2005	2006	2005	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January	8,203	7,180	953	841	114	169	9,270	8,190
(Credited)/charged to consolidated profit and loss account	(2,187)	1,372	112	112	1	(52)	(2,074)	(1,432)
Disposal of discontinued operation	—	—	(872)	—	—	—	(872)	—
Exchange differences	956	(349)	—	—	5	(3)	961	(325)
At 31 December	6972	8,203	193	953	120	114	7,285	9,270

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 on the consolidated balance sheet:

Group

	2006 HK\$'000	2005 HK\$'000
Deferred tax assets	6,631	1,983
Deferred tax liabilities	(2,602)	(5,632)
	4,029	(3,649)

34 . Other Long-term Liabilities
Group

	2006 HK\$'000	2005 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	1,601	1,991

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 amounts approximated to the respective fair values as at 31 December 2006 and 2005.

All carrying amounts of the Group's other long-term liabilities were denominated in United States Dollar in 2006 and 2005.

35. Trade and Other Payables Group

	2006 HK\$'000	2005 HK\$'000
Trade payables	42,391	46,482
Other payables	159,129	106,534
	201,520	153,016

At the balance sheet date, the ageing analysis of the trade payables was as follows:

	2006 HK\$'000	2005 HK\$'000
Current — 30 days	33,380	29,374
31 days — 60 days	4,806	11,094
61 days — 90 days	2,183	3,214
Over 90 days	2,022	2,800
	42,391	46,482

The carrying amounts of the Group's trade payables and other payables were denominated in the following currencies:

	Trade payables		Other payables	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
United States Dollar	19,136	21,151	82,552	45,856
Euro	6,890	7,134	10,313	7,186
Sterling Pound	726	1,111	8,825	1,640
Singapore Dollar	6	1	434	147
Renminbi	1,102	1,127	12,209	8,745
Thai Baht	11,875	13,148	26,441	21,374
Macau Patacas	—	—	4,219	169
Australian Dollar	—	66	—	—
Japanese Yen	44	47	—	—
Hong Kong Dollar	2,612	2,730	14,136	21,404
	42,391	46,482	151,129	106,534

36. Future Operating Lease Income

As at 31 December 2006, the Group had future aggregate minimum lease payments receivable under non-cancellable operating leases as follows:

Group

	2006 Property HK\$'000	2006 Other assets HK\$'000	2005 Property HK\$'000	2005 Other assets HK\$'000
Not later than one year	1,439	—	1,638	4307
Later than one year and not later than five years	166	—	2,419	368
	1,605	—	4,057	4,675

37. Operating Lease Commitments

At 31 December 2006, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

Group

	2006 Property HK\$'000	2006 Other assets HK\$'000	2005 Property HK\$'000	2005 Other assets HK\$'000
Not later than one year	15,876	988	20,189	633
Later than one year and not later than five years	52,149	1,446	47,943	799
Later than five years	21,637	—	28,857	—
	89,662	2,434	96,989	1,432

38. Capital Commitments**Group**

	2006 HK\$'000	2005 HK\$'000
Contracted but not provided for in respect of property, plant and equipment	4,191	1,208
Authorised but not contracted for in respect of property, plant and equipment	418	3,076
	4,609	4,284

The Group's share of capital commitments of the jointly controlled entities not included in the above was as follows:

Contracted but not provided for in respect of property, plant and equipment	23,946	24,996
Authorised but not contracted for in respect of property, plant and equipment	13,477	31,157
	37,423	56,153

39. Contingent Liabilities

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Guarantees for banking facilities granted to subsidiaries	—	—	104,060	108,914
Corporate guarantee in respect of performance bonds issued by the subsidiaries to customers	3,793	4,892	—	—
Counter-indemnity in respect of performance bonds issued by banks	4,347	1,856	—	—
Guarantees in lieu of utility deposit	1,897	1,088	—	—
Guarantees in lieu of accessory security for a sales order	524	653	—	—
Counter-indemnity in respect of advance performance bonds issued by banks	2,348	—	—	—
	12,909	8,489	104,060	108,914

The Company has not recognised any deferred income in respect of the guarantees for banking facilities granted to subsidiaries as their fair value cannot be reliably measured and their transaction price was HK\$Nil.

40. Related Party Transactions

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

(1) Sales of goods and services

	2006 HK\$'000	2005 HK\$'000
Sales of carpets:		
An associate (Note a)	6,584	3,263
The Hongkong and Shanghai Hotels, Limited ("HSH") (Note b)	5,898	7,007
Furniture sales and leasing		
HSH (Note c)	285	579
	12,767	10,849

- (a) Sales to an associate were conducted in the normal course of business and at mutually agreed prices between the parties.
- (b) By virtue of the fact that HSH is under common control with the Company, the Company's transactions with HSH 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.
- (c) Furniture sales and leasing to HSH and its subsidiaries were also continuing connected transactions under the Listing Rules, but as the gross amount of furniture sales and leasing in 2006 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

	2006 HK\$'000	2005 HK\$'000
Purchase of goods from:		
An associate (Note d)	2,889	4,810
Jointly controlled entities (Note d)	23,735	4,382
Feltech Manufacturing Company Limited ("FMCL") (Note e)	1,408	813
Purchase of services from:		
Rental paid to HSH (Note f)	235	448
	28,267	10,453

- (d) Purchases from an associate and jointly controlled entities were conducted in the normal course of business and at mutually agreed prices between the parties.

Notes to the Accounts (Continued)

40. Related Party Transactions (Continued)

(e) FMCL is 61.75% owned 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 and are disclosed under the “Connected Transactions” section in the Directors’ Report.

(f) Rental paid to HSH was based on fixed monthly amounts mutually agreed by parties involved.

(3) Key management compensation

	2006 HK\$’000	2005 HK\$’000
Salaries and other short-term employee benefits	32,141	23,307
Share-based payments	51	176
	32,192	23,483

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

	2006 HK\$’000	2005 HK\$’000
Trade receivables from related parties:		
An associate	1,525	1,403
HSH	53	286
	1,578	1,689
Trade payables to related parties:		
Jointly controlled entities	5,378	901
FMCL	217	133
	5,595	1,034

41. Events After Balance Sheet Date

(a) Formation of a new jointly controlled entities

On 26 January 2007, Treasure Looms (China) Limited ("Treasure Looms"), a wholly-owned subsidiary of the Company, entered into a joint venture agreement with Weihai Shanhua Carpets Group Company Limited ("Shanhua", a company incorporated in the PRC) to establish a jointly controlled entity (the "JV Company") in the PRC. The JV Company will principally be engaged in carpet manufacturing.

Treasure Looms has already established three other jointly controlled entities in the PRC with Shanhua.

The registered capital and total investment of the JV Company are US\$6,000,000 (approximately HK\$46,800,000) and US\$15,000,000 (approximately HK\$117,000,000) respectively. 49% of the registered capital, or US\$2,940,000 (approximately HK\$22,932,000), would be contributed in cash by Treasure Looms within 6 months after the issuance of business license of the JV Company, and the contribution was expected to be financed through dividend payments to be made to the Treasure Looms from two other jointly controlled entities with Shanhua.

(b) New Corporate Income Tax Law in the PRC

On 16 March 2007, the 5th Plenary Session of the 10th National People's Congress passed the Corporate Income Tax Law of the People's Republic of China ("the New Corporate Income Tax Law") which will take effect on 1 January 2008. The Group is not able to make an estimate of the expected financial effect of the New Corporate Tax Law on its deferred tax assets and liabilities. The enactment of the New Corporate Tax Law is not expected to have any financial effect on the amounts accrued on the balance sheet in respect of current tax payable.

42. Comparatives

The Group previously classified the expenses of certain sales offices as distribution costs. In 2006, the Group reclassified the expenses of such sales offices in accordance with their nature, in order to align with all other group companies for similar items. Management believes that such reclassification will provide a clearer presentation of the Group's results.

The Group also included impairment of inventories and construction in progress in other operating expenses. In 2005, such items were disclosed separately on the face of the consolidated profit and loss account.

The Group has realigned the presentation of the 2005 comparative figures in the cash flow statement to conform with the current year's presentation. These included separate disclosure of the change in the impairment of trade and other receivables previously aggregated within working capital changes, and reclassifying changes in amounts due from an associate and jointly controlled entities previously presented under working capital changes to investing activities.