



# Directors' Report

## DIRECTORS' REPORT

The directors have pleasure in submitting their report together with the audited accounts for the year ended 31st December 2000.

### PRINCIPAL ACTIVITIES

The principal activities of the Company and its subsidiaries (the "Group") consist of the manufacture, import, export and sale of carpets, manufacture and sale of yarn, trading of interior furnishings, investment and property holding.

An analysis of the Group's turnover and trading results for the year by principal activities and geographical area is set out in note 2 to the accounts.

### RESULTS AND APPROPRIATIONS

The results for the year are set out on page 28.

The directors of the Company recommend a final dividend of 2 cents per share (1999: nil) for the year ended 31st December 2000, absorbing a total of HK\$2,707,000 (1999: nil), to shareholders whose names appear on the register of members as at 25th May 2001.

### FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 7.

### RESERVES

Movements in reserves of the Company and the Group during the year are set out in note 23 to the accounts.

### DONATIONS

During the year, donations made by the Group for charitable purposes amounted to HK\$15,000 (1999: HK\$10,000).

### FIXED ASSETS

Movements in fixed assets of the Group during the year are set out in note 11 to the accounts.

### PRINCIPAL INVESTMENT PROPERTIES

Details of the principal properties held for investment purposes are set out on page 66.

### SHARE CAPITAL

Details of the movement in share capital of the Company are set out in note 22 to the accounts.

### DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31st December 2000 calculated under the Company Act 1981 of Bermuda (as amended) amounted to HK\$141,200,000 (1999: HK\$141,858,000).

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### SUBSIDIARIES

Particulars of the principal subsidiaries are set out on page 65.

### BANK LOANS AND OVERDRAFTS

Particulars of bank loans and overdrafts are set out in the consolidated balance sheet and note 25 to the accounts.

### PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

### PRE-EMPTIVE RIGHTS

No shareholder pre-emptive rights exist in the jurisdiction in which the Company is incorporated.

# Directors' Report



### DIRECTORS' INTERESTS

As at 31st December 2000, the interests of directors in the share capital of the Company or its associated corporations as recorded in the register of directors' interests required to be kept under Section 29 of the Securities (Disclosure of Interests) Ordinance were as follows :

Name	No. of shares held in the Company of HK\$0.10 each			
	Personal interests	Family interests	Corporate interests	Other interests
J.S. Dickson Leach	1,321,600	—	—	—
Anthony Y.C. Yeh	8,750,680	7,300,000	—	—
Kent M.C. Yeh	850,000	—	—	—
Ian D. Boyce	28,000	—	—	—
Lincoln C.K. Yung	30,000	—	—	—
Lincoln K.K. Leong	—	—	2,000,000*	—
Alison S. Bailey	76,000	—	—	—
David C. L. Tong	200,000	—	—	—
Nelson K.F. Leong (alternate director of Lincoln K.K. Leong)	—	—	2,000,000*	—

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- \* Mr. Nelson K.F. Leong is interested in the same shares as disclosed by Mr. Lincoln K.K. Leong. The shares are held through a company which is controlled by Mr. Lincoln K.K. Leong and Mr. Nelson K.F. Leong.

Name	No. of shares held in associated corporations of the Company			
	Personal interests	Family interests	Corporate interests	Other interests
China Industrial Investments Limited of US\$1 each				
Anthony Y.C. Yeh	420	400	1,380*	–

- \* The shares are held through a company of which Mr. Anthony Y.C. Yeh and his family are interested in more than one-third of the voting shares.

No contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

### DIRECTORS' RIGHTS TO ACQUIRE SHARES

On 24th November 1997, the Company adopted a share option scheme pursuant to which the Company may grant options to directors and employees of the Group to subscribe for shares in the Company, up to a maximum of 10% of the issued share capital of the Company from time to time. Each share option entitles the holder to subscribe for one share of HK\$0.10 each in the Company at a predetermined price.

On 15th September 1999, 1,346,000 share options were granted to and accepted by certain directors of the Company.

Details of share options outstanding as at 31st December 2000 granted to and accepted by directors under the scheme are as follows:

	Option period	Option price	Number of options
Kent M.C. Yeh	15.9.1999 – 14.9.2002	HK\$1.18	313,000
	15.9.2000 – 14.9.2003	HK\$1.75	235,000
	15.9.2001 – 14.9.2004	HK\$2.50	235,000
Alison S. Bailey	15.9.1999 – 14.9.2002	HK\$1.18	225,000
	15.9.2000 – 14.9.2003	HK\$1.75	169,000
	15.9.2001 – 14.9.2004	HK\$2.50	169,000

No options have been exercised by the directors since they were granted. Details of the share option scheme are set out in note 22 to the accounts.

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With the exception of the share option scheme detailed above, at no time during the year was the Company or its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

### SUBSTANTIAL SHAREHOLDERS

As at 31st December 2000, the register of substantial shareholders required to be kept under Section 16(1) of the Securities (Disclosure of Interests) Ordinance shows that the Company had been notified of the following interests, being 10% or more of the Company's issued ordinary share capital. These interests are in addition to those disclosed above in respect of the directors.

Name	No. of shares held in the Company of HK\$0.10 each
Bermuda Trust Company Limited	62,557,291*
Hesko Limited	62,557,291*
Esko Limited	62,557,291*
Holmium Holding Corporation	60,299,091*

\* Bermuda Trust Company Limited has an interest in Esko Limited and Hesko Limited. Of the 62,557,291 shares, 60,299,091 shares were owned by Holmium Holding Corporation with the balance of the shares being held through other companies held by Esko Limited and Hesko Limited. Esko Limited and Hesko Limited together own 100% Holmium Holding Corporation.

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### MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

### DIRECTORS

The names of the directors at the balance sheet date are set out on pages 8 and 9.

In accordance with bye-law 109(A) of the Company, Mr. Francis B. Y. Sim, Mr. Anthony Y.C. Yeh, Mr. Lincoln C. K. Yung, and Mr. Lincoln K. K. Leong shall retire and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting.

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None of the directors offering themselves for re-election has a service contract with the Company.

### BIOGRAPHICAL DATA OF DIRECTORS

Particulars of the directors are set out on pages 8 and 9.

### MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group sold less than 30% of its goods and services to its 5 largest customers and purchased less than 30% of its goods and services from its 5 largest suppliers.

### CONNECTED TRANSACTIONS

During the year, the Group has entered into the following transactions with "connected persons" as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"):

1. Acquire 150,632 ordinary shares of Carpets International Thailand Public Company Limited ("CIT"), a subsidiary of the Company, or approximately 1.506% of the entire issued share capital of CIT, from Mr. Wan Tabtiang ("Mr. Tabtiang"), the managing director of CIT, for a consideration of Baht 6,778,440 (HK\$1,406,526), through the First Tender Offer made by the Group. This is a connected transaction by virtue of Mr. Tabtiang's directorship in CIT.
2. Acquire the remaining 20% interest of the entire issued share capital in Banyan Tree Limited from Rowland Budge Limited, at a consideration of HK\$2,577,000. This is a connected transaction by virtue of Rowland Budge's substantial shareholding in Banyan Tree Limited.

The independent non-executive directors of the Company have reviewed and confirmed that the transactions are entered into on normal commercial terms in the best interest of the Group and the consideration was considered fair as far as shareholders are concerned.

### CODE OF BEST PRACTICE

Throughout the year, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules save that the independent non-executive directors who have not been appointed for a specific term are subject to retirement by rotation and re-election pursuant to the Company's bye-laws 109(A) and 100 respectively.





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### AUDIT COMMITTEE

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to "A Guide for The Formation of An Audit Committee" published by the Hong Kong Society of Accountants.

The Audit Committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the Group audit. It also reviews the effectiveness both of the external and internal audit and of internal controls and risk evaluation. The Committee comprises two independent non-executive directors, namely Mr. Francis B.Y. Sim and Mr. Michael T.H. Lee. Two meetings were held during the current financial year to review the interim and annual reports of the Group before recommending them to the Board of Directors for approval.

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### SUBSEQUENT EVENTS

- (a) On 13th March 2001, Treasure Looms Limited ("Treasure Looms"), an indirect wholly-owned subsidiary of the Company, entered into a Sale and Purchase Agreement with Unison Pacific Investment (US) Limited ("Unison"), whereby
  - Treasure Looms acquired the remaining 10% of the share capital in Treasure Looms (China) Limited ("Treasure Looms China"), an indirect non-wholly owned subsidiary of the Company; and
  - Unsecured, interest-free shareholder's loans in Treasure Looms China due to Unison of HK\$5,173,420 as of 13th March 2001 were assigned to Treasure Looms.

The total consideration amounted to US\$560,000 (HK\$4,368,000). After the acquisition, Treasure Looms China became an indirect wholly-owned subsidiary of the Company.

- (b) As announced on 17th April 2001, the Board proposed to raise about HK\$102 million before expenses by way of a 1 for 2 rights issue of not less than 67,669,600 shares at a price of HK\$1.50 each. Holmium Holding Corporation, the largest shareholder of the Company, has undertaken to fully underwrite the Rights Issue. A circular containing details of the Rights Issue, recommendations from the independent board committee of the Company and the independent financial adviser, and a notice convening the special general meeting to consider the Rights Issue, among other things, will be sent to shareholders on or before 4th May 2001.

### AUDITORS

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment. PricewaterhouseCoopers replaced Price Waterhouse in the financial year 1999 following their merger with Coopers and Lybrand.

By Order of the Board  
**Kent M.C. Yeh**  
Managing Director

Hong Kong, 19th April 2001