

NOTES TO THE ACCOUNTS

1. Principal Accounting Policies

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

(a) Basis of preparation

The accounts have been prepared under the historical cost convention as modified by the revaluation of investment properties and certain other properties in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants.

(b) Consolidation

The consolidated accounts include the results of the Company and its subsidiaries made up to 31st December. The results of subsidiaries acquired during the year are included in the consolidated profit and loss account from the effective date of acquisition. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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

In the Company's balance sheet the investments in subsidiaries are carried at cost less provision, if necessary, for any diminution in value other than temporary in nature. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(c) Goodwill on consolidation

Goodwill represents the excess of the purchase consideration over the fair value ascribed to the Group's share of the net assets at the date of acquisition of a subsidiary, associated company and joint venture and is written off to reserves immediately on acquisition. Negative goodwill, which represents the excess of the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a subsidiary, associated company and joint venture over the purchase consideration is credited to reserves.

On disposal of investments in subsidiary, associated company or joint venture the attributable amount of goodwill previously eliminated against or credited to reserves is included in the determination of the profit or loss on disposal of the subsidiary, associated company or joint venture.

NOTES TO THE ACCOUNTS

1. Principal Accounting Policies (Continued)

(d) Associated company

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

(e) Joint ventures

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

(f) Other investments

Listed and unlisted investments held for long term are stated at cost less provision for diminution in value.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such investment would be reduced to its fair value. The amount of the reduction is recognised as an expense in the profit and loss account.

NOTES TO THE ACCOUNTS

1. Principal Accounting Policies (Continued)

(g) Fixed assets

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

Upon the disposal of other properties the relevant portion of realised revaluation reserve in respect of previous valuations is transferred directly from the revaluation reserve to retained profit.

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

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

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

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

The carrying amounts of fixed assets are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts. When such a decline has occurred, their carrying amounts are reduced to their recoverable amounts. The amount of the reduction to recoverable amounts is charged to the profit and loss account, unless it reverses a previous revaluation increase, in which case it is charged directly against any related revaluation reserve to the extent that the reduction does not exceed the amount held in the reserve in respect of the same item. Expected future cash flows have not been discounted in determining the recoverable amount.

NOTES TO THE ACCOUNTS

1. Principal Accounting Policies (Continued)

(h) Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential, any rental income being negotiated at an arm's length.

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

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

(i) Construction in progress

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

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

(j) Borrowing costs

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

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

During the year, no borrowing costs were capitalised.

NOTES TO THE ACCOUNTS

1. Principal Accounting Policies (Continued)

(k) Inventories

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

(l) Foreign currencies

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

The accounts of the subsidiaries, associated company and joint ventures expressed in foreign currencies are translated at exchange rates ruling at the balance sheet date. Exchange differences are dealt with as a movement in reserves.

(m) Accounts receivable

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

(n) Retirement benefit costs

Prior to 1st December 2000, the Group contributed to a defined contribution retirement scheme for certain employees. Both the Group and employees were required to contribute each month an amount equal to 6% and 5% of the basic monthly salary respectively. The assets of the scheme were held separately from those of the Group in an independently administered fund. The Group's contributions to this scheme were expensed as incurred and were not reduced by contributions forfeited by those employees who left the scheme prior to vesting fully in the contributions but were retained in the fund for the benefit of other employees.

On 1st December 2000, the Group's existing retirement scheme was terminated and the fund in the scheme was transferred to the new Mandatory Provident Fund ("MPF") scheme. Under the new scheme, employees are required to contribute 5% on their monthly basic salaries whereas the Group's monthly contribution will depend on the employees' years of services, subject to a minimum of 5% of relevant income up to HK\$20,000. The Group's contributions to the new scheme are expensed as incurred. The MPF contribution are fully and immediately vested in the employees as accrued benefits once they are paid to the extent of the employers' statutory contributions. The portion of the employers' voluntary contributions made for an employee, who ceases employment with the Group before the full vesting period of employment has been completed, will be utilised to reduce the employers' future contributions to the scheme.

NOTES TO THE ACCOUNTS

1. Principal Accounting Policies (Continued)

(o) Deferred taxation

Deferred taxation is accounted for using the liability method in respect of material timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or receivable in the foreseeable future.

(p) Operating leases

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

(q) Revenue recognition

- (i) Revenue from sales of carpets, yarn and interior furnishings is recognised upon delivery of goods and title passed to customers.
- (ii) Rental income from investment properties is recognised on a straight line basis over the lease term.
- (iii) Interest income is recognised on a time apportioned basis.
- (iv) Dividend income is recognised when the shareholder's right to receive payment is established.
- (v) Income on sales of underlay is recognised upon delivery of goods to customers.
- (vi) Income on installation of carpets are recognised when the installation services are rendered.

NOTES TO THE ACCOUNTS

2. Turnover and Revenue

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

	2000 HK\$'000	1999 HK\$'000
Turnover		
Sales of self manufactured carpets	277,782	296,445
Sales of imported carpets	116,744	135,571
Yarn manufacturing and trading	7,024	5,328
Sales of interior furnishings	30,454	34,595
Gross rental income from investment properties	6,817	8,391
Term deposit income from a bank	754	1,377
	439,575	481,707
Other revenues		
Bank interest income	1,337	535
Interest from a related company	653	607
Interest from third parties	181	352
Income on sales of underlay	861	1,158
Income on installation of carpets	350	745
	3,382	3,397
Total revenues	442,957	485,104

NOTES TO THE ACCOUNTS

2. Turnover and Revenue (Continued)

The Group's turnover and trading results for the year ended 31st December, 2000, together with their comparative figures, are analysed as follows:

	Year ended 31st December, 2000		Year ended 31st December, 1999	
	Turnover HK\$'000	Trading results HK\$'000	Turnover HK\$'000	Trading results HK\$'000
By activity				
Company and subsidiaries				
Carpet manufacturing	277,782	51,322	296,445	37,701
Carpet trading	116,744	(6,775)	135,571	(3,636)
Yarn manufacturing & trading	7,024	4,774	5,328	(1,328)
Interior furnishings	30,454	2,756	34,595	97
Property holding	6,817	2,426	8,391	25,707
Others	754	(14,803)	1,377	(7,691)
	<u>439,575</u>	<u>39,700</u>	<u>481,707</u>	<u>50,850</u>
Associated company				
Carpet manufacturing		4,115		2,819
Joint ventures				
Carpet manufacturing		<u>12,165</u>		<u>13,009</u>
Profit before tax, interest income and finance costs		<u>55,980</u>		<u>66,678</u>
By geographical analysis				
Company and subsidiaries				
Hong Kong	107,597	9,811	134,683	19,508
U.S.A.	145,508	6,765	151,261	13,579
Europe	27,321	(610)	26,582	(2,316)
Singapore	954	947	10,949	(1,686)
China	12,759	26	6,626	(1,539)
Thailand	145,436	22,761	151,606	23,304
	<u>439,575</u>	<u>39,700</u>	<u>481,707</u>	<u>50,850</u>
Associated company				
The Philippines		4,115		2,819
Joint ventures				
China		<u>12,165</u>		<u>13,009</u>
Profit before tax, interest income and finance costs		<u>55,980</u>		<u>66,678</u>

NOTES TO THE ACCOUNTS

3. Operating Profit

	2000 HK\$'000	1999 HK\$'000
Operating profit is stated after crediting and charging the following :		
Crediting:		
Net exchange gains	3,554	—
Profit on disposal of properties (1999: including surplus arising from previous revaluation of investment properties of HK\$8,283,000 released from revaluation reserve)		
– Other properties	—	21,671
– Investment properties	—	8,283
Profit on disposal of interests in an associated company	—	6,507
Profit on disposal of interests in a joint venture	2,994	—
Profit on disposal of interests in other investments	2,222	—
Write back of provision of trade receivables	3,323	—
Charging:		
Net exchange losses	—	1,021
Depreciation of fixed assets	26,935	29,589
Staff costs (including directors' emoluments)	93,294	93,833
Retirement benefit costs	2,220	5,328
Operating lease charges		
Land and buildings	10,578	12,598
Plant and machinery	520	189
Auditors' remuneration	1,232	1,194
Loss on disposal of fixed assets	233	988
Outgoings in respect of investment properties	524	603
Impairment in value of fixed assets	2,159	10,175
Revaluation deficit of investment properties (note 11 and 23)	9,917	—
Write off fixed assets and other current assets	915	4,383
Provision for diminution in value of other investments	1,500	12,166

NOTES TO THE ACCOUNTS

4. Finance Costs

	2000 HK\$'000	1999 HK\$'000
Interest on bank loans and overdrafts wholly repayable within five years	9,346	12,996

5. Directors' Emoluments

	2000 HK\$'000	1999 HK\$'000
Fees	230	221
Salaries, housing and other allowances	3,412	5,064
Contributions to retirement benefit scheme	193	175
	3,835	5,460

The emoluments were paid to the directors as follows:

	No. of directors	
	2000	1999
Emoluments band		
HK\$nil – HK\$1,000,000	10	11
HK\$1,000,001 – HK\$1,500,000	1	1
HK\$2,000,001 – HK\$2,500,000	1	–
HK\$3,000,001 – HK\$3,500,000	–	1

Included above are two (1999: two) directors whose emoluments were among the five highest paid individuals in the Group. Emoluments paid to independent non-executive directors amounted to HK\$40,000 during the year (1999: HK\$40,000).

Details of the emoluments paid to those individuals who are not directors, but whose emoluments were among the five highest in the Group are:

	2000 HK\$'000	1999 HK\$'000
Salaries, housing and other allowances	3,724	3,603
Contributions to retirement benefit scheme	44	84
	3,768	3,687

NOTES TO THE ACCOUNTS

5. Directors' Emoluments (Continued)

The emoluments were paid to these individuals as follows:

	No. of individual	
	2000	1999
Emoluments band		
HK\$1,000,001 – HK\$1,500,000	3	2
HK\$1,500,001 – HK\$2,000,000	–	1

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

Details of the share option scheme and share options granted during the year were disclosed in the Directors' Report under the heading "Directors' rights to acquire shares".

6. Retirement Benefit Costs

Contributions totalling HK\$95,000 (1999: HK\$157,000) were payable to the Mandatory Provident Fund at the year end and are included in trade and other payables.

7. Taxation

Hong Kong profits tax has been provided at the rate 16% (1999: 16%) on the estimated assessable profit for the year. Overseas tax has been calculated at the applicable rates of the respective jurisdictions.

	2000 HK\$'000	1999 HK\$'000
Hong Kong profits tax		
Company and subsidiaries	118	215
Overseas tax		
Subsidiaries	10,997	5,964
Associated company and joint ventures	2,064	2,998
	13,179	9,177

NOTES TO THE ACCOUNTS

7. Taxation (Continued)

(Credit)/charge of deferred taxation for the year has not been provided in respect of the following:

	2000 HK\$'000	1999 HK\$'000
Accelerated depreciation allowance	382	(1,711)
Unutilised tax losses	(704)	14,467
Other timing differences	3,407	(1,753)
	3,085	11,003

8. Profit Attributable to Shareholders

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of profit of HK\$2,049,000 (1999: loss of HK\$84,819,000).

9. Dividends

	2000 HK\$'000	1999 HK\$'000
Final, proposed, of HK\$0.02 (1999: nil) per share	2,707	—

10. Earnings Per Share

Earnings per share is calculated based on profit attributable to shareholders of HK\$33,672,000 (1999: HK\$39,607,000) and on the weighted average number of shares in issue of 135,308,708 (1999: 135,279,200 shares) during the year.

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

NOTES TO THE ACCOUNTS

11. Fixed Assets

Group	Investment properties HK\$'000	Other properties HK\$'000	Other assets HK\$'000	Total HK\$'000
Cost or valuation				
At 1st January 2000	76,294	147,661	280,759	504,714
Exchange adjustments	(7,911)	(11,922)	(21,736)	(41,569)
Additions	–	4,418	20,498	24,916
Transfer from construction in progress	–	838	7,993	8,831
Reclassification	11,734	(5,668)	(6,066)	–
Disposals	–	–	(6,535)	(6,535)
Impairment in value	–	–	(2,159)	(2,159)
Write off of fixed assets	(169)	–	(1,716)	(1,885)
Net revaluation deficit	(11,791)	–	–	(11,791)
At 31st December 2000	68,157	135,327	271,038	474,522
Aggregate depreciation				
At 1st January 2000	–	27,915	169,115	197,030
Exchange adjustments	–	(2,492)	(15,099)	(17,591)
Charge for the year	–	4,558	22,377	26,935
Reclassification	1,427	(1,427)	–	–
Write back on revaluation	(1,336)	–	–	(1,336)
Write off of fixed assets	(91)	–	(879)	(970)
Write back on disposals	–	–	(5,580)	(5,580)
At 31st December 2000	–	28,554	169,934	198,488
Net book value at 31st December 2000	68,157	106,773	101,104	276,034
Net book value at 31st December 1999	76,294	119,746	111,644	307,684

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

Certain of the Group's other properties were revalued on the open market basis at 31st December 1989 by independent professional valuers, Jones Lang Wootton (now Jones Lang LaSalle) and W. Lamar Pinson, Inc.. The revaluation was carried out prior to 30th September 1995, the date of the Statement of Standard Accounting Practice No. 17 "Property, Plant and Equipment" ("SSAP 17") issued by Hong Kong Society of Accountants became effective. Under paragraph 72 of SSAP 17, the Group is not required to make regular revaluations in accordance with paragraphs 30 and 36 of SSAP 17. The carrying amount of other properties would have been HK\$18,446,000 (1999: HK\$22,420,000) had they been stated at cost less aggregate depreciation.

NOTES TO THE ACCOUNTS

11. Fixed Assets (Continued)

All of the Group's investment properties held with unexpired periods of greater than 20 years were revalued on the open market value basis at 31st December 2000 by independent professional valuers, Jones Lang LaSalle, Leonard H. Burroughs, and UK Valuations and Agency Company Limited. Details of principal investment properties are set out on page 66.

At 31st December 2000, the net book value of fixed assets which have been mortgaged to banks to secure certain bank facilities granted to subsidiaries amounted to HK\$65,323,000 (1999: HK\$75,708,000).

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

	Investment properties HK\$'000	Other properties HK\$'000	Other assets HK\$'000
2000			
At professional valuation			
in 1989	—	18,583	—
in 2000	68,157	—	—
At cost	—	116,744	271,038
At 31st December 2000	68,157	135,327	271,038
1999			
At professional valuation			
in 1989	—	20,887	—
in 1999	76,294	—	—
At cost	—	126,774	280,759
At 31st December 1999	76,294	147,661	280,759

NOTES TO THE ACCOUNTS

11. Fixed Assets (Continued)

- (b) Net book value of investment properties and other properties at 31st December 2000 comprise:

	Hong Kong HK\$'000	Overseas HK\$'000
2000		
Freehold	—	112,892
Long leases (Over 50 years)	9,436	—
Medium leases (10 – 50 years)	13,198	39,404
At 31st December 2000	22,634	152,296
1999		
Freehold	—	141,714
Long Leases (Over 50 years)	10,058	—
Medium leases (10-50 years)	13,156	31,112
At 31st December 1999	23,214	172,826

- (c) Included in the net book value of other properties and other assets were amounts of HK\$9,805,000 (1999: HK\$20,771,000) and HK\$10,780,000 (1999: HK\$12,562,000) respectively which were stated at their recoverable amounts.

12. Construction in Progress

	Group 2000 HK\$'000	1999 HK\$'000
At 1st January	10,303	6,304
Exchange adjustments	(1,472)	—
Additions	22,875	10,303
Transfer to fixed assets	(8,831)	(6,304)
At 31st December	22,875	10,303

NOTES TO THE ACCOUNTS

13. Subsidiaries

	Company	
	2000	1999
	HK\$'000	HK\$'000
Unlisted shares at directors' valuation in 1990	242,800	242,800
Loan to a subsidiary	115,982	40,559
Amounts due by subsidiaries	372,569	420,618
	731,351	703,977
Loans from subsidiaries	(12,616)	(12,697)
Amounts due to subsidiaries	(80,097)	(65,912)
	638,638	625,368
Provision for diminution in value	(355,931)	(355,985)
	282,707	269,383

Details of principal subsidiaries are set out on page 65.

14. Amounts Due from an Indirectly Held Associated Company/Related Companies

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

15. Associated Company

	Group	
	2000	1999
	HK\$'000	HK\$'000
Share of net assets	18,707	19,033
Amounts due by associated company	717	1,166
	19,424	20,199
Shares at cost – unlisted	519	519

NOTES TO THE ACCOUNTS

15. Associated Company (Continued)

Dividend income from the associated company during the year amounted to HK\$480,000 (1999: HK\$563,000).

Details of the associated company are set out on page 65.

Extract of the operating results and financial position of the Group's associated company, Philippine Carpet Manufacturing Corporation ("PCMC") which is based on its audited consolidated financial statements as at 31st December 2000 is as follows:

	2000 HK\$'000	1999 HK\$'000
Operating results		
Turnover	76,445	77,657
Profit before taxation	12,716	8,593
Group's share of profit before taxation	4,115	2,819
Financial position		
Property, plant and equipment	53,701	22,694
Other investments	6,850	5,622
Other assets	1,531	1,629
Current assets	60,673	56,066
Current liabilities	(30,583)	(27,409)
Long term liabilities	—	(1,359)
Shareholders' funds	92,172	57,243
Group's share of net assets	18,707	19,033

NOTES TO THE ACCOUNTS

16. Joint Ventures

	Group	
	2000	1999
	HK\$'000	HK\$'000
Share of net assets	92,233	91,482
Amounts due by joint ventures		
Loan account	458	667
Current account	20,593	15,042
	21,051	15,709
Provision for diminution in value	113,284	107,191
	(29,211)	(31,941)
	84,073	75,250
Paid in capital at cost	96,642	99,420

Dividend income from joint ventures during the year amounted to HK\$8,270,000 (1999: Nil).

Details of the principal joint ventures are set out on page 65.

NOTES TO THE ACCOUNTS

16. Joint Ventures (Continued)

Extract of the operating results and financial position of the Group's significant joint ventures, Weihai Huabao Carpet Company Limited ("WHCL") and Weihai Premier Carpet Company Limited ("WPCL") which are based on their audited consolidated financial statements as at 31st December 2000 are as follows:

WHCL

	2000 HK\$'000	1999 HK\$'000
Operating results		
Turnover	178,543	175,996
Profit before taxation	15,519	26,478
Depreciation	9,862	9,800
Group's share of profit before taxation	6,696	13,019
Financial position		
Fixed assets	75,793	76,705
Construction in progress and other non-current assets	9,889	5,657
Current assets	170,410	142,227
Current liabilities	(140,044)	(112,355)
Shareholders' funds	116,048	112,234
Group's share of net assets	53,723	55,967

NOTES TO THE ACCOUNTS

16. Joint Ventures (Continued)

WPCL

	2000 HK\$'000	1999 HK\$'000
Operating results		
Turnover	23,480	–
Profit/(loss) before taxation	11,218	(77)
Depreciation	438	66
Group's share of profit/(loss) before taxation	5,469	(10)
Financial position		
Fixed assets	16,942	2,919
Construction in progress and other non-current assets	90	–
Current assets	19,325	8,988
Current liabilities	(14,862)	(1,727)
Shareholders' funds	21,495	10,180
Group's share of net assets	10,553	5,036

17. Other Investments

	2000 HK\$'000	Group 1999 HK\$'000
Equity securities at cost		
– listed overseas	24,464	30,064
– unlisted	11,036	11,202
Amount due by an investee company	39,133	39,020
Provision for diminution in value	(42,511)	(46,777)
	32,122	33,509
Market value of listed shares	1,150	3,011

NOTES TO THE ACCOUNTS

18. Inventories

	Group	
	2000	1999
	HK\$'000	HK\$'000
Raw materials	41,695	50,269
Work in progress	13,096	10,979
Finished goods	45,864	42,318
Consumable stores	2,808	2,481
	103,463	106,047

The carrying amount of inventories is stated at cost less a general provision amounting to HK\$4,736,000 (1999: HK\$5,817,000).

19. Trade and Other Receivables

	Group	
	2000	1999
	HK\$'000	HK\$'000
Trade receivables (note)	67,866	72,914
Other receivables	31,618	36,998
	99,484	109,912

Note: The credit terms of the Group depend on the creditability and repayment history of customers and range from 0 to 90 days. At 31st December, 2000, the ageing analysis of the trade receivables was as follows:

	Group	
	2000	1999
	HK\$'000	HK\$'000
Current – 30 days	45,473	44,332
31 days – 60 days	11,297	6,362
61 days – 90 days	3,955	5,827
Over 90 days	7,141	16,393
	67,866	72,914

NOTES TO THE ACCOUNTS

20. Cash and Bank Balances

Included in cash and bank balances was an amount of US\$796,000 (1999: US\$1,509,000) deposited in certain banks in the People's Republic of China ("PRC") by certain PRC subsidiaries of the Group.

21. Trade and Other Payables

	Group	
	2000	1999
	HK\$'000	HK\$'000
Trade payables (note)	20,355	24,202
Other payables	52,484	49,930
	72,839	74,132

Note: At 31st December, 2000, the ageing analysis of the trade payables was as follows:

	Group	
	2000	1999
	HK\$'000	HK\$'000
Current – 30 days	18,529	22,439
31 days – 60 days	910	976
61 days – 90 days	36	137
Over 90 days	880	650
	20,355	24,202

NOTES TO THE ACCOUNTS

22. Share Capital

	Company	
	No. of shares	HK\$'000
Authorised:		
At 1st January 1999, 31st December 1999 and 31st December 2000	200,000,000	20,000
Issued and fully paid:		
At 1st January 1999 and 31st December 1999	135,279,200	13,528
Issue of new shares	60,000	6
At 31st December 2000	135,339,200	13,534

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. A total of 3,910,000 share options have been granted under this share option scheme on 15th September 1999.

During the year, 60,000 share options were exercised at subscription price HK\$1.18 per share with total consideration of HK\$71,000.

Details of outstanding share options as at 31st December 2000 were as follows:

Subscription period	Subscription price per share	Number of outstanding share options granted as at 31st December 1999	Number of share options exercised during the year	Number of share options forfeited during the year	Number of outstanding share options granted as at 31st December 2000
15th September 1999 to 14th September 2002	HK\$1.18	1,564,000	(60,000)	(75,000)	1,429,000
15th September 2000 to 14th September 2003	HK\$1.75	1,173,000	–	(101,000)	1,072,000
15th September 2001 to 14th September 2004	HK\$2.50	1,173,000	–	(101,000)	1,072,000
		3,910,000	(60,000)	(277,000)	3,573,000

NOTES TO THE ACCOUNTS

23. Reserves

Group	Revaluation reserves						Total
	Share premium HK\$'000	Capital reserve HK\$'000	Investment properties HK\$'000	Other properties HK\$'000	General reserve HK\$'000	Retained profit HK\$'000	
At 1st January 1999	88,883	62,518	18,081	16,926	16,000	214,829	417,237
Exchange adjustments	–	(237)	(19)	(745)	–	1,209	208
Reclassification	–	–	309	(309)	–	–	–
Capital reserve realised on disposal of interest in an associated company	–	(844)	–	–	–	–	(844)
Revaluation surplus realised on disposals	–	–	–	–	–	–	–
– other properties	–	–	–	(7,401)	–	7,401	–
– investment properties (note 3)	–	–	(8,283)	–	–	–	(8,283)
Revaluation deficit/impairment in value	–	–	(2,741)	(2,374)	–	–	(5,115)
Profit for the year retained	–	–	–	–	–	39,607	39,607
At 31st December 1999	88,883	61,437	7,347	6,097	16,000	263,046	442,810
Company and subsidiaries	88,883	48,764	7,347	306	16,000	260,709	422,009
Joint ventures	–	7,619	–	–	–	(3,107)	4,512
Associated company	–	5,054	–	5,791	–	5,444	16,289
At 31st December 1999	88,883	61,437	7,347	6,097	16,000	263,046	442,810
At 1st January 2000	88,883	61,437	7,347	6,097	16,000	263,046	442,810
Exchange adjustments	–	(1,941)	23	(1,057)	–	(26,078)	(29,053)
Premium on issue of new shares	65	–	–	–	–	–	65
Capital reserve arising on acquisition of subsidiaries	–	22,543	–	–	–	–	22,543
Capital reserve realised on disposal of a joint venture	–	(85)	–	–	–	–	(85)
Revaluation deficit	–	–	(812)	–	–	–	(812)
Profit for the year retained	–	–	–	–	–	30,965	30,965
At 31st December 2000	88,948	81,954	6,558	5,040	16,000	267,933	466,433
Company and subsidiaries	88,948	70,088	6,558	163	16,000	261,500	443,257
Joint ventures	–	7,610	–	–	–	(396)	7,214
Associated company	–	4,256	–	4,877	–	6,829	15,962
At 31st December 2000	88,948	81,954	6,558	5,040	16,000	267,933	466,433

NOTES TO THE ACCOUNTS

23. Reserves (Continued)

Company	Share premium HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1st January 1999	88,883	442,598	(215,921)	315,560
Loss for the year	—	—	(84,819)	(84,819)
At 31st December 1999 and 1st January 2000	88,883	442,598	(300,740)	230,741
Premium on issue of new shares	65	—	—	65
Profit attributable to shareholders	—	—	2,049	2,049
Dividends	—	—	(2,707)	(2,707)
At 31st December 2000	88,948	442,598	(301,398)	230,148

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

24. Minority Interests

	Group 2000 HK\$'000	1999 HK\$'000
Interests in capital and reserves	16,786	64,307
Loans due to minority shareholders	5,173	5,493
Loan due from a minority shareholder	(5,115)	(5,115)
	16,844	64,685

The loans due to minority shareholders are unsecured, interest free and have no fixed repayment terms.

The loan due from a minority shareholder is unsecured, bearing interest at 9% (1999: 8.375%) per annum and has no fixed repayment terms (see also note 30(b)).

NOTES TO THE ACCOUNTS

25. Long Term Bank Loans

	Group	
	2000	1999
	HK\$'000	HK\$'000
The maturity profile of the secured long term bank loans is as follows:		
– within one year	7,992	9,324
– in the second year	7,992	9,324
– in the third to fifth year inclusive	11,628	23,667
	27,612	42,315
Less: Amounts due within one year included under current liabilities	(7,992)	(9,324)
	19,620	32,991

26. Deferred Taxation

Potential deferred tax liabilities/(assets) not accounted for are as follows:

	Group	
	2000	1999
	HK\$'000	HK\$'000
Accelerated depreciation allowances	691	309
Unutilised tax losses	(22,651)	(21,947)
Other timing differences	(5,737)	(9,144)
	(27,697)	(30,782)

The revaluation surplus and deficit arising from the valuation of commercial land and buildings including investment properties do not constitute a material timing difference for taxation purposes. Accordingly, deferred taxation on revaluation surplus and deficit have not been quantified.

NOTES TO THE ACCOUNTS

27. Lease Commitments

Operating lease commitments at 31st December payable in the next twelve months, analysed according to the period in which the lease expires are as follows:

	Group	
	2000	1999
	HK\$'000	HK\$'000
Land and buildings:		
Expiring in the first year	2,574	4,171
Expiring in the second to fifth year inclusive	4,258	5,004
Expiring after the fifth year	1,838	—
	<u>8,670</u>	<u>9,175</u>

	Group	
	2000	1999
	HK\$'000	HK\$'000
Plant and machinery:		
Expiring in the first year	231	142
Expiring in the second to fifth year inclusive	287	475
Expiring after the fifth year	—	22
	<u>518</u>	<u>639</u>

28. Capital Commitments

	Group	
	2000	1999
	HK\$'000	HK\$'000
Contracted but not provided for in respect of		
– fixed assets	11,878	23,822
Authorised but not contracted for in respect of		
– fixed assets	2,184	14,265
– further acquisition of a subsidiary	4,368	–
	<u>18,430</u>	<u>38,087</u>

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

Authorised but not contracted for in respect of		
– fixed assets	9,594	5,810

NOTES TO THE ACCOUNTS

29. Contingent Liabilities

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Guarantees for banking facilities granted to:				
Subsidiaries	—	—	67,743	42,453
A joint venture	—	18,130	—	18,130
	—	18,130	67,743	60,583
Corporate guarantee in respect of performance bonds issued by subsidiaries to customers	1,075	494	—	—
Counter-indemnity in respect of performance bonds issued by banks	276	1,448	—	—
Guarantee in lieu of utility deposit	1,892	4,343	—	—
Guarantee in respect of import duty	662	—	—	—
	3,905	24,415	67,743	60,583

Following the dismissal in November 2000 of the Director and Administrator of Tai Ping Carpets Europe S.A. ("TPCE"), he has issued proceedings and a claim for French Francs 1,200,000 (HK\$1,332,000) against the company for wrongful dismissal. TPCE's lawyers are confident that the outcome of the proceedings against TPCE in the French Labour Court will not be successful and consequently TPCE has only provided the gross cost of holiday pay due to him in the accounts.

Weihei Huabao Carpet Company Limited ("WHCL"), a joint venture of the Group, is being sued for breach of contract after terminating a long-term supply contract from a glue supplier. WHCL has been ordered to pay compensation of RMB1,797,000 (HK\$1,695,000) and is now appealing the judgement. The Group's share of the claim if it is enforced is HK\$748,000. The directors of the Company are of opinion that even if compensation does materialise, there will be no material adverse effect on the financial position of the Group and consequently no provision has been made in accounts.

30. Related Party Transactions

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

	Group	
	2000 HK\$'000	1999 HK\$'000
Sales to a joint venture (note a)	91	190
Sales to an associated company (note a)	974	—
Interest from a related company (note b)	653	607
Profit on sales of machinery to a joint venture (note c)	702	—

NOTES TO THE ACCOUNTS

30. Related Party Transactions (Continued)

- (a) Sales to a joint venture and an associated company were conducted in the normal course of business and at terms mutually agreed between the parties.
- (b) Included under minority interests in note 24 is a loan due from a minority shareholder, Shangen Industrial Development Company which amounted to HK\$5,115,000 (1999: HK\$5,115,000). This loan is unsecured, bearing interest at 9% (1999: 8.375%) per annum and has no fixed repayment terms.
- (c) A subsidiary undertook to assemble machinery for a joint venture of the Group at a consideration of HK\$3,370,000 being the price agreed between the parties. The cost of machinery amounted to HK\$2,668,000.

31. 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 indirectly 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.

32. Approval of Accounts

The accounts were approved by the directors on 19th April 2001.