

Directors' Report

The Directors have pleasure in submitting their report together with the audited accounts for the year ended 31st December 2001.

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 of the Group for the year are set out in the consolidated profit and loss account on page 32.

The Directors of the Company recommend the payment of a final dividend of 3.0 cents (2000: 1.9 cents which has been adjusted for the one-for-two rights issue on 18th June 2001) per share for the year ended 31st December 2001, absorbing a total of HK\$6,100,000 (2000: HK\$2,707,000), to shareholders whose names appear on the register of members as at 23rd May 2002, with a scrip dividend alternative.

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 30.

RESERVES

Movements in reserves of the Company and the Group during the year are set out in note 25 to the accounts.

DONATIONS

During the year, donations made by the Group for charitable purposes amounted to HK\$10,000 (2000: HK\$15,000).

FIXED ASSETS

Movements in fixed assets of the Group during the year are set out in note 12 to the accounts.

PRINCIPAL PROPERTIES

Details of the principal properties held for investment purposes are set out on page 82.



SHARE CAPITAL

Details of the movement in share capital of the Company are set out in note 24 to the accounts.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31st December 2001 calculated under the Company Act 1981 of Bermuda (as amended) amounted to HK\$143,139,000 (2000: HK\$143,907,000).

SUBSIDIARIES

Particulars of the principal subsidiaries are set out on page 80.

BANK LOANS AND OVERDRAFTS

Particulars of bank loans and overdrafts are set out in the consolidated balance sheet and note 27 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.

SHARE OPTIONS

Share options are granted to directors and employees under the Share Options Scheme (the "Scheme") approved by shareholders at a Special General Meeting on 24th November 1997. Details of the Scheme are as follows:

- | | | |
|----|--|---|
| 1. | Purpose of the Scheme | As incentive to employees |
| 2. | Participants of the Scheme | Any director or employee of the Group |
| 3. | Total number of shares available for issue under the Scheme together with the percentage of share capital it represents as at 31st December 2001 | 5,194,500 shares (2.56%) |
| 4. | Maximum entitlement of each participant | 25% of the total number of shares for which options may be granted under the Scheme that should not exceed 10% of the issued share capital of the Company at the time of granting of the option (excluding any shares issued in relation to the exercise of the options granted under the Scheme) |
| 5. | The period within which the shares must be taken up under an option | As specified by the Directors, which shall not be more than ten years from its date of grant. The exercise period of the options granted and outstanding as at 31st December 2001 are set out below |
| 6. | The minimum holding period before an option can be exercised | None |

7. Amount payable on application or acceptance of the option and the periods within which payments must or may be made or loans made for such purposes must be repaid Not applicable
8. Basis of determining the exercise price The price per share payable on the exercise of an option as determined by the Directors which shall not be less than 20% below the average of the closing price on the Stock Exchange on the five trading days immediately preceding the date of grant (where applicable such price as from time to time adjusted pursuant to the Scheme)
9. The remaining life of the Scheme The Scheme will end on 23rd November 2007 (Note: The Scheme will be terminated on 23rd May 2002 subject to approval at the Annual General Meeting to be held on the same date)

All share options were granted under the aforesaid share options scheme on 15th September 1999. No share options were granted or exercised during the year. No directors' share options were forfeited during the year. Details of the share options outstanding as at 31st December 2001 which have been granted under the Scheme are as follows:

Name	Options held at 1st January 2001	Options forfeited during the year	Adjustment to the number of options during the year (note)	Options held at 31st December 2001	Exercise price before adjustments (note) (HK\$)	Exercise price after adjustments (note) (HK\$)	Exercisable from	Exercisable until
Directors								
– Kent M. C. Yeh	313,000	–	156,500	469,500	1.18	0.79	15.9.1999	14.9.2002
	235,000	–	117,500	352,500	1.75	1.17	15.9.2000	14.9.2003
	235,000	–	117,500	352,500	2.50	1.67	15.9.2001	14.9.2004
– Alison S. Bailey	225,000	–	112,500	337,500	1.18	0.79	15.9.1999	14.9.2002
	169,000	–	84,500	253,500	1.75	1.17	15.9.2000	14.9.2003
	169,000	–	84,500	253,500	2.50	1.67	15.9.2001	14.9.2004
Employees	891,000	(44,000)	423,500	1,270,500	1.18	0.79	15.9.1999	14.9.2002
	668,000	(33,000)	317,500	952,500	1.75	1.17	15.9.2000	14.9.2003
	668,000	(33,000)	317,500	952,500	2.50	1.67	15.9.2001	14.9.2004

Note:

At special general meeting on 25th May 2001, the Company approved a Rights Issue scheme which caused an adjustment to the number and exercise price of the outstanding share options as above. The terms of the Rights Issue are set out in note 24 to the accounts.

DIRECTORS

The names of the Directors at the balance sheet date are set out on pages 28 and 29. During the year there were no changes in the Board of Directors.

In accordance with bye-law 109(A) of the Company, Ms. Alison S. Bailey, Mr. David C. L. Tong and Mr. Michael T. H. Lee shall retire and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting.

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

DIRECTORS' INTERESTS IN CONTRACTS

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.

BIOGRAPHICAL DATA OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of Directors and senior management are set out on pages 28 to 29 and 83 respectively.

CONNECTED TRANSACTIONS

- (a) Significant related party transactions entered into by the Group during the year ended 31st December 2001, which do not constitute connected transactions under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules"), are disclosed in note 33 to the accounts.
- (b) Other related party transactions, which also constitute connected transactions under the Listing Rules, required to be disclosed in accordance with Chapter 14 of the Listing Rules, are as follows:
 - (i) Since 1992, Premier Yarn Dyers, Inc. ("PYD"), an indirect wholly owned subsidiary of the Company, has been purchasing white yarns from Ed Jones & Co. ("EJC"), a company incorporated in the United States of America and is owned by two directors of PYD, in the ordinary course of PYD's business and on normal commercial terms. The total purchases in 2001 amounted to US\$2,673,400 (HK\$20,853,000).
 - (ii) For many years, the Company's subsidiaries have been selling carpets and providing installation services to hotels owned by The Hong Kong and Shanghai Hotels, Limited ("HKS Hotels"). The total sales to hotels of HKS Hotels amounted to HK\$6,705,000 in 2001. Such sales are connected transactions by virtue of the fact that the substantial shareholder of the Company is also interested in more than 30% of the entire issued share capital in HKS Hotels.

A conditional waiver has been granted by The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for the above transactions described in paragraphs (i) and (ii). The Directors, including all the Independent Non-executive Directors, have reviewed the above transactions and confirmed that these transactions:

1. were entered into by the Company and its subsidiaries in the ordinary and usual course of its business;
 2. were conducted either on normal commercial terms or on terms that are fair and reasonable so far as the shareholders are concerned;
 3. were entered into in accordance with the terms of the agreements governing the above transactions or on terms no less favourable than those available to or from independent third parties; and
 4. the aggregate amount of each of the above transactions for 2001 has not exceeded the relevant cap amount of 6% and 3% of the audited consolidated net tangible assets of the Group for transactions described in paragraphs (i) and (ii) respectively as set out in the conditional waiver granted by the Stock Exchange.
- (iii) On 13th March 2001, Treasure Looms Limited ("Treasure Looms"), a wholly owned subsidiary of the Company, entered into a sale and purchase agreement for the acquisition of 100 shares representing 10% of entire issued share capital of Treasure Looms (China) Limited ("Treasure Looms (China)"), a 90% owned subsidiary of Treasure Looms from Unison Pacific Investment (US) Limited ("Unison"), together with its shareholder's loan at a total consideration of US\$560,000 (HK\$4,368,000). This is a connected transaction by virtue of Unison's substantial shareholding in Treasure Looms (China).



Business Aviation Centre, Hong Kong International Airport

- (iv) Since 1992, EJC has provided sales and management services to PYD in accordance with a sale and management agreement entered into between PYD and EJC. The total amount of services fee paid to EJC during 2001 amounted to US\$533,500 (HK\$4,161,000). The Directors, including the Independent Non-executive Directors, are of the view that the terms of the transactions were entered into by PYD in the ordinary and usual course of business and were conducted on terms that were considered to be fair and reasonable so far as the shareholders of the Company were concerned.

DIRECTORS' INTERESTS IN EQUITY SECURITIES

As at 31st December 2001, the interests of Directors in the shares and options of the Company or its associated corporations as recorded in the Register of Directors' Interests required to be kept by the Company under Section 29 of the Securities (Disclosure of Interests) Ordinance were as follows:

- (a) Ordinary shares of HK\$0.10 each in the Company

Name	No. of ordinary shares held			
	Personal interests	Family interests	Corporate interests	Other interests
James S. Dickson Leach	2,982,400	—	—	—
Anthony Y.C. Yeh	8,750,680	7,300,000	—	—
Kent M.C. Yeh	1,068,000	—	—	—
Ian D. Boyce	200,000	—	—	—
Lincoln C.K. Yung	30,000	—	—	—
Lincoln K.K. Leong	—	—	2,000,000*	—
Alison S. Bailey	114,000	—	—	—
David C. L. Tong	291,000	—	—	—
John J. Ying	—	—	11,015,000#	—
Nelson K.F. Leong	—	—	2,000,000*	—
<i>(alternate director of Lincoln K.K. Leong)</i>				

* 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.

The shares are held through a company of which Mr. John J. Ying is interested in more than one-third of the voting shares.

- (b) Share options are granted to Directors under Share Option Scheme approved by shareholders at a Special General Meeting on 24th November 1997. Refer details under Share Options above.



(c) Interest in associated corporation of the Company

Name	No. of ordinary shares held in associated corporation 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.

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 arrangement 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 2001, the Register of Substantial Shareholders required to be kept by the Company 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 ordinary shares held in the Company of HK\$0.10 each
Bermuda Trust Company Limited	104,976,743 *
Hesko Limited	104,976,743 *
Esko Limited	104,976,743 *
Holmium Holding Corporation	101,589,443 *

* Bermuda Trust Company Limited has an interest in Esko Limited and Hesko Limited. Of the 104,976,743 shares, 101,589,443 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.

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.

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.

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 100 and 109(A).

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 of the external audit and of internal controls and risk evaluation. The Committee comprises four Non-executive Directors, including 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.

SUBSEQUENT EVENTS

On 3rd January, 2002, Costigan Limited, a wholly owned subsidiary of the Company, entered into a sale and purchase agreement with Philippine Carpet Manufacturing Corporation and its subsidiary, P.C.M.C. (Hong Kong) Limited (collectively known as "P.C.M.C. Group") to acquire 10% of interest in Singapore Carpet Manufacturers Private Limited ("SCM"), a 90% owned subsidiary of Costigan Limited at a consideration of S\$495,517 (approximately HK\$2,170,000). This is a connected transaction by virtue of the substantial shareholding in SCM by P.C.M.C. Group.

AUDITORS

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

By Order of the Board

Kent M.C. Yeh

Managing Director

Hong Kong, 17th April 2002

