

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 in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants (“HKSA”). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, investment properties and certain other properties are stated at fair value.

In the current year, the Group adopted the following Statements of Standard Accounting Practice (“SSAPs”) issued by the HKSA which are effective for accounting periods commencing on or after 1st January 2001:

SSAP 9 (revised)	:	Events after the balance sheet date
SSAP 14 (revised)	:	Leases (effective for periods commencing on or after 1st July 2000)
SSAP 26	:	Segment reporting
SSAP 30	:	Business combinations

The effect of adopting these new standards is set out in the accounting policies below.

(b) Consolidation

The consolidated accounts include the results of the Company and its subsidiaries made up to 31st December. Subsidiaries are those entities in which the Group controls the composition of the Board of Directors, controls more than half of the voting power or holds more than half of the issued share capital.

The results of subsidiaries acquired or disposed during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group’s share of its net assets together with any unamortised goodwill or negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account.

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

Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

(b) Consolidation (Continued)

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 for by the Company on the basis of dividends received and receivable.

(c) Goodwill/negative goodwill

Goodwill represents the excess of acquisition costs over the fair value of the Group's share of the net assets of the acquired subsidiaries, associated company and joint ventures at the date of acquisition.

In accordance with SSAP 30, goodwill on acquisitions occurring on or after 1st January 2001 is included in intangible assets and is amortised using the straight-line method over its estimated useful life. Goodwill arising on major strategic acquisitions of the Group to expand its product or geographical market coverage is amortised over a maximum period of 15 years. For all other acquisitions goodwill is generally amortised over 3 to 8 years.

Goodwill on acquisitions that occurred prior to 1st January 2001 was written off against reserves. The Group has taken advantage of the transitional provision 1(a) in SSAP 30 and goodwill previously written off against reserves has not been restated. However any impairment arising on such goodwill is accounted for in accordance with SSAP 31, "Impairment of Assets".

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition.

For acquisitions after 1st January 2001, negative goodwill is presented in the same balance sheet classification as goodwill. To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised in the profit and loss account when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the profit and loss account over the remaining weighted average useful life of those assets; negative goodwill in excess of the fair values of those non-monetary assets is recognised in the profit and loss account immediately.

For acquisitions prior to 1st January 2001, negative goodwill was taken directly to reserves on acquisition. The Group has taken advantage of the transitional provisions in SSAP 30 and such negative goodwill has not been restated.

The gain or loss on disposal of an entity includes the unamortised balance of goodwill relating to the entity disposed of or, for pre 1st January 2001 acquisitions, the related goodwill written off against reserves to the extent it has not previously been realised in the profit and loss account.

Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

(c) Goodwill/negative goodwill (Continued)

Where an indication of impairment exists, the carrying amount of any goodwill, including that previously written off against reserves, is assessed and written down immediately to its recoverable amount.

(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 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 less provision for impairment losses, and the consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entities less provision for impairment losses.

Equity accounting is discontinued when the carry amount of the investment in a joint venture reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the joint ventures.

(f) Other investments

Listed and unlisted investments held for long term purpose are stated at cost, less provision for impairment losses.

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 impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to profit and loss when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

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 and accumulated impairment losses. 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 earnings and is shown as a movement in reserves.

Leasehold land is depreciated over the 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.

(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.

Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

(h) Investment properties (Continued)

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 in valuation 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 in respect of previous valuations is released from the investment properties revaluation reserve to the profit and loss account.

(i) Construction work in progress

Construction work 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) Impairment

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in properties under construction, other properties and other fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

This impairment loss is written back to profit and loss when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

(k) Borrowing costs

All other borrowing costs are charged to the profit and loss account in the period in which they are incurred except those 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 and which 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.

(l) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that the outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that the outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(m) Inventories

Inventories comprise stocks and work in progress 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 all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

(n) Translation of 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 balance sheet of the subsidiaries, associated company and joint ventures expressed in foreign currencies are translated at exchange rates ruling at the balance sheet date whilst the profit and loss is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

(o) Accounts receivable

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

(p) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and bank overdrafts.

(q) Retirement benefit costs

The Group contributes to a Mandatory Provident Fund Scheme for all Hong Kong employees. Under the 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 scheme are expensed as incurred and the portion of the employer's 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 employer's future contribution to the scheme.

(r) Deferred taxation

Deferred taxation is accounted for at the current taxation rate 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 recoverable in the foreseeable future.

Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

(s) Finance leases

(The Group as lessor)

Assets leased to customers under agreements which substantially transfer to the customers all the rewards and risks of ownership, other than legal title, are accounted for as finance leases. The balance sheet amount of finance lease debtors represents total rentals receivable less finance charges allocated to future periods.

(t) 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 the leasing company are charged to the profit and loss account on a straight line basis over the lease periods.

(u) Revenue recognition

- (i) Revenue from sales of carpets, yarn 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.
- (ii) Rental income from investment properties and interior furnishings is recognised on a straight line basis over the lease term.
- (iii) Interest income is recognised on a time apportioned basis, taking into account the principal amounts outstanding and the interest rates applicable.
- (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.

(v) Segment reporting

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.

Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

(v) Segment reporting (Continued)

Unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, fixed assets, inventories, receivables and operating cash, and mainly exclude other investments, investment in associated company and investment in joint ventures. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to fixed assets and construction in progress (*notes 12 and 13*), including additions resulting from acquisitions through purchases of subsidiaries including goodwill.

In respect of geographical segment reporting, sales are based on the country in which the customer is located. Total assets and capital expenditure are where the assets are located.

(w) Dividends

In accordance with the revised SSAP 9, the Group no longer recognises dividends proposed or declared after the balance sheet date as a liability at the balance sheet date. This change in accounting policy has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

As detailed in Note 25, this change has resulted in an increase in opening retained earnings at 1st January 2001 by HK\$2,707,000 (1st January 2000: nil) which is the reversal of the provision for 2000 (1999) proposed final dividend previously recorded as a liability as at 31st December 2000 (31st December 1999) although not declared until after the balance sheet date.

Notes to the Accounts

2. TURNOVER, REVENUE AND SEGMENTAL INFORMATION

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:

	<u>2001</u>	<u>2000</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover		
Sales of carpets	343,363	306,062
Yarn manufacturing and trading	80,715	95,488
Sales of interior furnishings	24,825	30,454
Gross rental income from investment properties	6,755	6,817
Term deposit income from a bank	530	754
	<u>456,188</u>	<u>439,575</u>
Other revenues		
Bank interest income	763	1,337
Interest from a related company	126	653
Interest from third parties	106	181
Interest from finance leases	110	–
Income on sales of underlay	1,304	861
Income on installation of carpets	1,016	350
Income on operating lease of furniture	260	–
Dividend income from other investment	7	–
	<u>3,692</u>	<u>3,382</u>
Total revenues	<u><u>459,880</u></u>	<u><u>442,957</u></u>

Primary reporting format – business segments

The Group is organised on a worldwide basis into four main business segments:

Carpet	– Carpet manufacturing and trading
Yarn	– Yarn manufacturing and trading
Interior furnishings	– Sale of furniture, art and soft furnishings
Property holding	– Rental income from property holding

Other operations of the Group mainly comprise investment in term deposit in a bank, the size of which is not sufficient to be reported separately.

Notes to the Accounts

2. TURNOVER, REVENUE AND SEGMENTAL INFORMATION (Continued)

Secondary reporting format – geographical segments

Although the Group's five business segments are managed on a worldwide basis, they operate in seven main geographical areas :

Hong Kong	– Carpet, interior furnishings, property holding and others
Mainland China	– Carpet, yarn and property holding
South East Asia	– Carpet and property holding
Middle East	– Carpet
Other Asian countries	– Carpet
Europe	– Carpet
North America	– Carpet, yarn and property holding

Others (principally South Pacific and Latin America) – Carpet and interior furnishings

The Group's turnover and trading results for the year ended 31st December 2001, together with their comparative figures, are analysed as follows:

Primary reporting format – business segments

For the year ended 31st December 2001								
	Carpet	Yarn	Interior furnishings	Property holding	Others	Elimination	Unallocated	Group
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover								
– External revenues	343,363	80,715	24,825	6,755	530	–	–	456,188
– Inter-segment revenues	–	18,331	–	230	–	(18,561)	–	–
	<u>343,363</u>	<u>99,046</u>	<u>24,825</u>	<u>6,985</u>	<u>530</u>	<u>(18,561)</u>	<u>–</u>	<u>456,188</u>
Segment results	<u>43,369</u>	<u>9,917</u>	<u>(192)</u>	<u>2,267</u>	<u>530</u>	<u>1,465</u>	<u>(15,838)</u>	<u>41,518</u>
Finance costs								(4,959)
Share of profits of								
– Associated company	3,167	–	–	–	–	–	–	3,167
– Joint ventures	11,942	–	–	–	–	–	–	11,942
Profit before taxation								51,668
Taxation								(11,004)
Profit after taxation								40,664
Minority interests								(3,015)
Profit attributable to shareholders								<u>37,649</u>
Segment assets	388,705	90,110	13,523	76,355	45,547	–	54,485	668,725
Investment in								
associated company	21,586	–	–	–	–	–	–	21,586
Investments in								
joint ventures	90,011	–	–	–	–	–	–	90,011
Total assets								<u>780,322</u>
Segment liabilities	51,213	5,823	1,949	1,008	–	–	84,601	144,594
Capital expenditure	53,909	15,445	545	1,509	–	–	145	71,553
Depreciation	21,514	5,227	261	160	–	–	432	27,594
Amortisation charge	(854)	–	–	–	–	–	548	(306)
Impairment charge	–	–	–	–	–	–	–	–

Notes to the Accounts

2. TURNOVER, REVENUE AND SEGMENTAL INFORMATION (Continued)

Primary reporting format – business segments (Continued)

	For the year ended 31st December 2000							
	Carpet	Yarn	Interior furnishings	Property holding	Others	Elimination	Unallocated	Group
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover								
– External revenues	306,062	95,488	30,454	6,817	754	–	–	439,575
– Inter segment revenues	–	22,548	–	562	–	(23,110)	–	–
	<u>306,062</u>	<u>118,036</u>	<u>30,454</u>	<u>7,379</u>	<u>754</u>	<u>(23,110)</u>	<u>–</u>	<u>439,575</u>
Segment results	<u>45,984</u>	<u>15,576</u>	<u>2,764</u>	<u>(5,464)</u>	<u>754</u>	<u>(1,618)</u>	<u>(16,125)</u>	<u>41,871</u>
Finance costs								(9,346)
Share of profits of								
– Associated company	4,115	–	–	–	–	–	–	4,115
– Joint ventures	12,165	–	–	–	–	–	–	<u>12,165</u>
Profit before taxation								48,805
Taxation								<u>(13,179)</u>
Profit after taxation								35,626
Minority interests								<u>(1,954)</u>
Profit attributable to shareholders								<u>33,672</u>
Segment assets	366,676	85,259	13,635	73,317	14,203	–	46,671	599,761
Investment in								
associated company	19,424	–	–	–	–	–	–	19,424
Investments in joint ventures	84,073	–	–	–	–	–	–	<u>84,073</u>
Total assets								<u>703,258</u>
Segment liabilities	58,282	5,992	1,233	808	–	–	<u>137,425</u>	<u>203,740</u>
Capital expenditure	64,323	7,240	2,827	–	–	–	248	74,638
Depreciation	20,984	4,446	550	384	–	–	571	26,935
Amortisation charge	–	–	–	–	–	–	–	–
Impairment charge	2,159	–	–	–	–	–	–	2,159

Notes to the Accounts

2. TURNOVER, REVENUE AND SEGMENTAL INFORMATION

Secondary reporting format – geographical segments

	Turnover	Segment results	Total assets	Capital expenditure
	2001	2001	2001	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	65,709	14,830	118,611	1,502
Mainland China	34,993	6,468	125,592	4,557
South East Asia	131,893	14,998	276,967	37,356
Middle East	5,050	728	–	–
Other Asian countries	11,930	405	–	–
Europe	27,350	2,063	8,715	282
North America	176,418	17,278	84,355	27,856
Others	2,845	586	–	–
	<u>456,188</u>	<u>57,356</u>	<u>614,240</u>	<u>71,553</u>
Unallocated costs		<u>(15,838)</u>		
Operating profit		<u>41,518</u>		
Investment in associated company			21,586	
Investments in joint ventures			90,011	
Unallocated assets			<u>54,485</u>	
Total assets			<u>780,322</u>	

Notes to the Accounts

2. TURNOVER, REVENUE AND SEGMENTAL INFORMATION (Continued)

Secondary reporting format – geographical segments (Continued)

	Turnover	Segment results	Total assets	Capital expenditure
	2000	2000	2000	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	78,212	17,587	90,718	4,111
Mainland China	20,788	(2,389)	118,838	4,010
South East Asia	110,437	3,911	253,154	58,277
Middle East	6,533	(901)	–	–
Other Asian countries	8,685	1,464	–	–
Europe	27,984	7,141	9,387	218
North America	183,914	30,198	80,993	8,022
Others	3,022	985	–	–
	<u>439,575</u>	<u>57,996</u>	<u>553,090</u>	<u>74,638</u>
Unallocated costs		<u>(16,125)</u>		
Operating profit		<u>41,871</u>		
Investment in associated company			19,424	
Investments in joint ventures			84,073	
Unallocated assets			<u>46,671</u>	
Total assets			<u>703,258</u>	

Notes to the Accounts

3. OPERATING PROFIT

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Operating profit is stated after crediting and charging the following:		
Crediting:		
Gains on disposal of interests in other investments	2,910	2,222
Release of unvested benefit of the previous retirement scheme	1,812	–
Gain on purchase from a minority shareholder of a shareholder's loan receivable from a subsidiary	806	–
Gains on disposal of fixed assets	124	–
Negative goodwill recognised as income (<i>note 11</i>) (included in other operating income)	854	–
Net exchange gains	–	3,554
Profit on disposal of interest in a joint venture	–	2,994
Write back of provision of trade receivables	–	3,323
	<u> </u>	<u> </u>
Charging:		
Depreciation of fixed assets	27,594	26,935
Staff costs (including directors' emoluments)	116,811	93,294
Retirement benefit costs (including directors' emoluments)	2,790	2,220
Operating lease charges		
Land and buildings	9,922	10,578
Plant and machinery	159	520
Auditors' remuneration	1,339	1,232
Outgoings in respect of investment properties	988	524
Revaluation deficit on investment properties (<i>notes 12 and 25</i>)	4,042	9,917
Net exchange losses	1,832	–
Amortisation of positive goodwill (<i>note 11</i>) (offset against in other operating income)	548	–
Research and development costs (included in administrative expenses)	731	–
Losses on disposal of fixed assets	–	233
Impairment in value of fixed assets	–	2,159
Write off of fixed assets and other current assets of a subsidiary	–	915
Provision for diminution in value of other investments	–	1,500
	<u> </u>	<u> </u>

Notes to the Accounts

4. FINANCE COSTS

	<u>2001</u>	<u>2000</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank loans and overdrafts wholly repayable within five years	<u>4,959</u>	<u>9,346</u>

5. DIRECTORS' EMOLUMENTS

(a) Directors' emoluments

The aggregate amounts of emoluments payable to Directors of the Company during the year are as follows:

	<u>2001</u>	<u>2000</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Fees	230	230
Other emoluments:		
Basic salaries, housing and other allowances	3,410	3,412
Discretionary bonuses	1,188	–
Contributions to pensions schemes for directors for other offices	<u>293</u>	<u>193</u>
	<u>5,121</u>	<u>3,835</u>

Directors' fees disclosed above include HK\$40,000 (2000: HK\$40,000) paid to Independent Non-executive Directors.

The emoluments of the directors fell within the following bands:

	<u>No. of directors</u>	<u>2001</u>	<u>2000</u>
Emolument band			
HK\$nil – HK\$1,000,000		10	10
HK\$1,000,001 – HK\$1,500,000		–	1
HK\$2,000,001 – HK\$2,500,000		1	1
HK\$2,500,001 – HK\$3,000,000		1	–

Notes to the Accounts

5. DIRECTORS' EMOLUMENTS (Continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2000: two) Directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2000: three) individuals during the year are as follows:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Basic salaries, housing and other allowances	3,605	3,273
Bonuses	650	451
Contributions to retirement benefit scheme	101	44
	<u>4,356</u>	<u>3,768</u>

The emoluments fell within the following bands:

	No. of individual 2001	2000
Emolument bands		
HK\$1,000,001 – HK\$1,500,000	1	3
HK\$1,500,001 – HK\$2,000,000	2	–

During the year no options were granted to the Directors under the share options scheme approved by the shareholders at a Special General Meeting on 24th November 1997. Refer to the Directors' Report, under Share Options, for details on movement of the outstanding share options during the year.

6. RETIREMENT BENEFIT COSTS

Unvested contributions totalling HK\$1,812,000 (2000: nil) were utilised during the year to reduce current year's contributions to the Mandatory Provident Fund.

Contributions totalling HK\$95,000 were payable to the Mandatory Provident Fund at the year end of 2000 and were included in trade and other payables.

Notes to the Accounts

7. TAXATION

Hong Kong profits tax has been provided at the rate of 16.0% (2000 : 16.0%) on the estimated assessable profit for the year. Overseas tax has been calculated at the applicable rates of the respective jurisdictions.

	<u>2001</u>	<u>2000</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong profits tax (credit)/charge		
Company and subsidiaries	(287)	118
Overseas tax		
Subsidiaries	9,090	10,997
Associated company and joint ventures	2,201	2,064
	<u>11,004</u>	<u>13,179</u>

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

	<u>2001</u>	<u>2000</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Accelerated depreciation allowances	(13)	382
Unutilised tax losses	4,912	(704)
Other timing differences	1,227	3,407
	<u>6,126</u>	<u>3,085</u>

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\$1,939,000 (2000: HK\$2,049,000).

Notes to the Accounts

9. DIVIDENDS

	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Final, proposed, of HK\$0.030 (2000: HK\$0.019) per share (notes a and b)	<u>6,100</u>	<u>2,707</u>

Notes:

- (a) Dividends per share for 2000 have been adjusted for the rights issue on 18th June 2001 as referred to in note 24.
- (b) The previously recorded final dividends proposed and declared after the balance sheet date but accrued in the accounts for the year ended 31st December 2000 was HK\$2,707,000. Under the Group's new accounting policy as described in note 1(w), this has been written back against the opening reserves as at 1st January 2001 in note 25 and is now charged in the period in which they were paid.
- (c) At a Board Meeting held on 17th April 2002 the Directors declared a final dividend of HK\$0.030 per share. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31st December 2002.

10. EARNINGS PER SHARE

Earnings per share is calculated based on the Group's profit attributable to shareholders of HK\$37,649,000 (2000: HK\$33,672,000) and on the weighted average number of shares in issue of 180,496,406 (2000: 142,593,381 which has been adjusted for the one-for-two rights issue on 18th June 2001) 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. INTANGIBLE ASSETS

	Positive goodwill	Negative goodwill	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1st January 2001	–	–	–
Acquisition of subsidiaries	6,572	(3,450)	3,122
Amortisation charge (<i>note 3</i>)	(548)	854	306
	<u>6,024</u>	<u>(2,596)</u>	<u>3,428</u>
At 31st December 2001	<u>6,024</u>	<u>(2,596)</u>	<u>3,428</u>
At 31st December 2001			
Cost	6,572	(3,450)	3,122
Accumulated amortisation and impairment losses	(548)	854	306
	<u>6,024</u>	<u>(2,596)</u>	<u>3,428</u>
Net book amount	<u>6,024</u>	<u>(2,596)</u>	<u>3,428</u>

Notes to the Accounts

12. FIXED ASSETS

Group

	Investment properties	Other properties	Other assets	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost or valuation				
At 1st January 2001	68,157	135,327	271,038	474,522
Exchange adjustments	–	(109)	89	(20)
Additions	–	2,515	9,492	12,007
Transfer from construction in progress	1,509	–	21,795	23,304
Purchase of a subsidiary	–	–	2,718	2,718
Reclassification	4,631	(5,371)	740	–
Disposals	–	–	(9,101)	(9,101)
Net revaluation deficit	(2,064)	–	–	(2,064)
At 31st December 2001	<u>72,233</u>	<u>132,362</u>	<u>296,771</u>	<u>501,366</u>
Aggregate depreciation				
At 1st January 2001	–	28,554	169,934	198,488
Exchange adjustments	–	(18)	(27)	(45)
Purchase of a subsidiary	–	–	568	568
Charge for the year	–	4,459	23,135	27,594
Reclassification	1,719	(1,719)	–	–
Write back on revaluation	(1,719)	–	–	(1,719)
Write back on disposals	–	–	(7,865)	(7,865)
At 31st December 2001	<u>–</u>	<u>31,276</u>	<u>185,745</u>	<u>217,021</u>
Net book value				
at 31st December 2001	<u>72,233</u>	<u>101,086</u>	<u>111,026</u>	<u>284,345</u>
Net book value				
at 31st December 2000	<u>68,157</u>	<u>106,773</u>	<u>101,104</u>	<u>276,034</u>

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

Notes to the Accounts

12. FIXED ASSETS (Continued)

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 revalued other properties would have been HK\$11,871,000 (2000: HK\$18,446,000) had they been stated at cost less aggregate depreciation.

All of the Group's investment properties with unexpired periods of greater than 20 years were revalued on the open market value basis at 31st December 2001 by independent professional valuers, CB Richard Ellis, Jimmy M. Leonard, and UK Valuations and Agency Company Limited. Details of principal investment properties are set out on page 82.

At 31st December 2001, the net book value of fixed assets which have been mortgaged to banks to secure certain bank facilities granted to subsidiaries amounted to HK\$39,887,000 (2000: HK\$65,323,000).

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

	Investment properties	Other properties	Other assets
	HK\$'000	HK\$'000	HK\$'000
2001			
At professional valuation			
in 1989	–	15,082	–
in 2001	72,233	–	–
At cost	–	117,280	296,711
At 31st December 2001	72,233	132,362	296,711
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

Notes to the Accounts

12. FIXED ASSETS (Continued)

- (b) The Group's interests in investment properties and other properties at their net book values are analysed as follows:

	Hong Kong	Overseas
	<i>HK\$'000</i>	<i>HK\$'000</i>
2001		
Freehold	–	113,298
Long leases (over 50 years)	9,025	–
Medium leases (10 – 50 years)	13,880	37,116
	<u>22,905</u>	<u>150,414</u>
At 31st December 2001	<u>22,905</u>	<u>150,414</u>
2000		
Freehold	–	112,892
Long leases (over 50 years)	9,436	–
Medium leases (10 – 50 years)	13,198	39,404
	<u>22,634</u>	<u>152,296</u>
At 31st December 2000	<u>22,634</u>	<u>152,296</u>

- (c) Included in the net book value of other properties and other assets were amounts of HK\$7,673,000 (2000: HK\$9,805,000) and HK\$8,717,000 (2000: HK\$10,780,000) respectively which were stated at their recoverable amounts.

13. CONSTRUCTION IN PROGRESS

	Group	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1st January	22,875	10,303
Exchange adjustments	–	(1,472)
Additions	48,474	22,875
Purchase of a subsidiary	411	–
Transfer to fixed assets	(23,304)	(8,831)
Write off	(15)	–
	<u>48,441</u>	<u>22,875</u>
At 31st December	<u>48,441</u>	<u>22,875</u>

Notes to the Accounts

14. SUBSIDIARIES

	Company	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares at directors' valuation in 1990	242,800	242,800
Loans to subsidiaries	119,320	115,982
Amounts due by subsidiaries	377,531	372,569
	739,651	731,351
Loan from a subsidiary	(1,662)	(12,616)
Amounts due to subsidiaries	(83,816)	(80,097)
	654,173	638,638
Provision for diminution in value	(355,931)	(355,931)
	298,242	282,707

Details of principal subsidiaries are set out on page 80.

15. 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.

16. ASSOCIATED COMPANY

	Group	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Share of net assets	21,069	18,707
Amounts due by associated company	517	717
	21,586	19,424
Share at cost – unlisted	519	519

Dividend income from associated company during the year amounted to HK\$433,000 (2000: HK\$480,000).

Details of the principal associated company are set out on page 81.

Notes to the Accounts

16. ASSOCIATED COMPANY (Continued)

Extract of the operating results and financial position of the Group's significant associated company, Philippine Carpet Manufacturing Corporation ("P.C.M.C.") which is based on its audited consolidated financial statements as at 31st December 2001 is as follows:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Operating results		
Turnover	74,017	76,445
Profit before taxation	9,645	12,716
Group's share of profit before taxation	3,167	4,115
Financial position		
Property, plant and equipment	26,432	53,701
Other investments	4,482	6,850
Other assets	1,739	1,531
Current assets	56,942	60,673
Current liabilities	(25,786)	(30,583)
Shareholders' funds	63,809	92,172
Group's share of net assets	21,069	18,707

17. JOINT VENTURES

	Group 2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Share of net assets	109,075	92,233
Amounts due by joint ventures		
Loan account	458	458
Current account	13,636	20,593
	14,094	21,051
Provision for diminution in value	123,169 (33,158)	113,284 (29,211)
	90,011	84,073
Paid in capital at cost	112,230	96,642

Notes to the Accounts

17. JOINT VENTURES (Continued)

Dividend income from joint ventures during the year amounted to HK\$5,065,000 (2000: HK\$8,270,000).

Details of the principal joint ventures are set out on page 81.

Extracts 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 2001 are as follows:

WHCL

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Operating results		
Turnover	<u>176,466</u>	<u>178,543</u>
Profit before taxation	<u>17,236</u>	<u>15,519</u>
Depreciation	<u>11,621</u>	<u>9,862</u>
Group's share of profit before taxation	<u>4,660</u>	<u>6,696</u>
Financial position		
Fixed assets	79,243	75,793
Construction in progress and other non-current assets	15,089	9,889
Current assets	169,308	170,410
Current liabilities	<u>(144,532)</u>	<u>(140,044)</u>
Shareholders' funds	<u>119,108</u>	<u>116,048</u>
Group's share of net assets	<u>51,995</u>	<u>53,723</u>

Notes to the Accounts

17. JOINT VENTURES (Continued)

WPCL

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Operating results		
Turnover	42,033	23,480
Profit before taxation	14,861	11,218
Depreciation	1,588	438
Group's share of profit before taxation	7,282	5,469
Financial position		
Fixed assets	15,551	16,942
Construction in progress and other non-current assets	906	90
Current assets	46,340	19,325
Current liabilities	(15,155)	(14,862)
Shareholders' funds	47,642	21,495
Group's share of net assets	25,176	10,553

18. OTHER INVESTMENTS

	Group 2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Equity securities, at cost		
– listed overseas	1,199	24,464
– unlisted	11,036	11,036
Amount due by an investee company	39,079	39,133
Provision for diminution in value	(18,047)	(42,511)
	33,267	32,122
Market value of listed shares	1,199	1,150

Notes to the Accounts

19. NET INVESTMENT IN FINANCE LEASES

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

	Present value of minimum lease payments receivable 2001 HK\$'000	Interest income relate to future periods 2001 HK\$'000	Total minimum lease payments receivable 2001 HK\$'000	Present value of minimum lease payments receivable 2000 HK\$'000	Interest income relate to future periods 2000 HK\$'000	Total minimum lease payments receivable 2000 HK\$'000
Amounts receivable:						
Not later than one year	941	74	1,015	–	–	–
Later than one year and not later than five years	280	9	289	–	–	–
		83	1,304		–	–
Net investments in finance leases	1,221			–		

20. INVENTORIES

	Group 2001 HK\$'000	2000 HK\$'000
Raw materials	47,482	41,695
Work in progress	11,424	13,096
Finished goods	39,900	45,864
Consumable stores	3,836	2,808
	102,642	103,463

At 31st December 2001, the carrying amount of inventories is stated at cost less a general provision amounting to HK\$4,702,000 (2000: HK\$4,736,000).

Notes to the Accounts

21. TRADE AND OTHER RECEIVABLES

	Group	
	2001	2000
	HK\$'000	HK\$'000
Trade receivables (<i>note</i>)	57,515	67,866
Other receivables	30,310	31,618
	<u>87,825</u>	<u>99,484</u>

Note:

The credit terms of the Group depend on the credit status and repayment history of customers and range from 0 to 90 days. At 31st December 2001, the ageing analysis of the trade receivables were as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Current – 30 days	39,776	45,473
31 days – 60 days	7,177	11,297
61 days – 90 days	4,336	3,955
Over 90 days	6,226	7,141
	<u>57,515</u>	<u>67,866</u>

22. CASH AND BANK BALANCES

Included in cash and bank balances was an amount of US\$684,000 (2000: US\$796,000) deposited in certain banks in the People's Republic of China ("PRC") by certain PRC subsidiaries of the Group.

Notes to the Accounts

23. TRADE AND OTHER PAYABLES

	Group	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables (<i>note</i>)	15,374	20,355
Other payables	55,177	52,484
	<u>70,551</u>	<u>72,839</u>

Note:

At 31st December 2001, the ageing analysis of the trade payables were as follows:

	Group	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current – 30 days	13,976	18,529
31 days – 60 days	389	910
61 days – 90 days	135	36
Over 90 days	874	880
	<u>15,374</u>	<u>20,355</u>

Notes to the Accounts

24. SHARE CAPITAL

	Company	
	<u>No. of shares</u>	<u>HK\$'000</u>
Authorised:		
At 1st January 2000, 31st December 2000 and 1st January 2001	200,000,000	20,000
Increase in authorised share capital	200,000,000	20,000
At 31st December 2001	<u>400,000,000</u>	<u>40,000</u>
Issued and fully paid:		
At 1st January 2000	135,279,200	13,528
Issue of new shares	<u>60,000</u>	<u>6</u>
At 31st December 2000 and 1st January 2001	135,339,200	13,534
Issue of new shares under rights issue	<u>67,669,600</u>	<u>6,767</u>
At 31st December 2001	<u>203,008,800</u>	<u>20,301</u>

By a special resolution passed on 25th May 2001 the authorised ordinary share capital of the Company was increased from HK\$20,000,000 to HK\$40,000,000 by the creation of 200,000,000 shares of HK\$0.10 each.

On 18th June 2001, a total of 67,669,600 new ordinary shares of HK\$0.10 each were allotted and issued, for cash of HK\$1.50 per share pursuant to a rights issue made to existing shareholders on the basis of one rights share for every two existing shares held. Net proceeds of approximately HK\$97,609,000 were raised.

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.

Details of share option scheme and movement of share options during the year were disclosed in the Directors' Report under the heading "Share Options".

Notes to the Accounts

25. RESERVES

Group

	Share premium	Capital reserve	Investment properties revaluation reserve	Other properties revaluation reserve	General reserve	Retained earnings	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
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	–	–	–	–	–	33,672	33,672
As at 31st December 2000, as restated	<u>88,948</u>	<u>81,954</u>	<u>6,558</u>	<u>5,040</u>	<u>16,000</u>	<u>270,640</u>	<u>469,140</u>
Representing:							
Retained earnings at 31st December 2000						267,933	
2000 final dividend proposed						<u>2,707</u>	
At 31st December 2000						<u>270,640</u>	
Company and subsidiaries	88,948	70,088	6,558	163	16,000	264,207	445,964
Associated company	–	4,256	–	4,877	–	6,829	15,962
Joint ventures	–	7,610	–	–	–	(396)	7,214
At 31st December 2000	<u>88,948</u>	<u>81,954</u>	<u>6,558</u>	<u>5,040</u>	<u>16,000</u>	<u>270,640</u>	<u>469,140</u>

Notes to the Accounts

25. RESERVES (Continued)

Group (Continued)

	Share premium	Capital reserve	Investment properties revaluation reserve	Other properties revaluation reserve	General reserve	Retained earnings	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January 2001, as previously reported	88,948	81,954	6,558	5,040	16,000	267,933	466,433
Effect of adopting SSAP 9 (revised) (note 1(w))	–	–	–	–	–	2,707	2,707
At 1st January, 2001, as restated	88,948	81,954	6,558	5,040	16,000	270,640	469,140
Exchange adjustments	–	(1,041)	–	(363)	–	301	(1,103)
Premium on issue of new shares	94,737	–	–	–	–	–	94,737
Share issuing expenses	(3,895)	–	–	–	–	–	(3,895)
Partial disposal of a subsidiary	–	(2)	–	–	–	–	(2)
Net revaluation surplus	–	–	3,313	1,675	–	–	4,988
Capitalisation of profit retained by joint ventures	–	8,227	–	–	–	(8,227)	–
Profit for the year	–	–	–	–	–	37,649	37,649
2000 final dividend paid	–	–	–	–	–	(2,707)	(2,707)
As at 31st December 2001, as restated	<u>179,790</u>	<u>89,138</u>	<u>9,871</u>	<u>6,352</u>	<u>16,000</u>	<u>297,656</u>	<u>598,807</u>
Representing:							
Retained earnings at 31st December 2001						291,556	
2001 final dividend proposed						<u>6,100</u>	
At 31st December 2001						<u>297,656</u>	
Company and subsidiaries	179,790	69,310	9,871	105	16,000	292,542	567,618
Associated company	–	3,991	–	6,247	–	8,183	18,421
Joint ventures	–	15,837	–	–	–	(3,069)	12,768
At 31st December 2001	<u>179,790</u>	<u>89,138</u>	<u>9,871</u>	<u>6,352</u>	<u>16,000</u>	<u>297,656</u>	<u>598,807</u>

Notes to the Accounts

25. RESERVES (Continued)

Company

	Share Premium	Contributed surplus	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January 2000	88,883	442,598	(300,740)	230,741
Premium on issue of shares	65	–	–	65
Profit for the year	–	–	2,049	2,049
	<u>88,948</u>	<u>442,598</u>	<u>(298,691)</u>	<u>232,855</u>
At 31st December 2000, as restated				
	<u>88,948</u>	<u>442,598</u>	<u>(298,691)</u>	<u>232,855</u>
Representing:				
Accumulated losses			(301,398)	
2000 final dividend proposed			<u>2,707</u>	
			<u>(298,691)</u>	
At 1st January 2001, as previously reported	88,948	442,598	(301,398)	230,148
Effect of adopting SSAP 9 (Revised) (note 1(w))	–	–	2,707	2,707
	<u>88,948</u>	<u>442,598</u>	<u>(298,691)</u>	<u>232,855</u>
At 1st January 2001, as restated	88,948	442,598	(298,691)	232,855
Premium on issue of new shares	94,737	–	–	94,737
Share issuing expenses	(3,895)	–	–	(3,895)
Profit for the year	–	–	1,939	1,939
2000 final dividend	–	–	(2,707)	(2,707)
	<u>179,790</u>	<u>442,598</u>	<u>(299,459)</u>	<u>322,929</u>
At 31st December 2001				
	<u>179,790</u>	<u>442,598</u>	<u>(299,459)</u>	<u>322,929</u>
Representing:				
Accumulated losses			(305,559)	
2001 final dividend proposed			<u>6,100</u>	
			<u>(299,459)</u>	

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.

Notes to the Accounts

26. MINORITY INTERESTS

	Group	
	2001	2000
	HK\$'000	HK\$'000
Interests in capital and reserves	16,620	16,786
Loan due to a minority shareholder	–	5,173
Loan due from a minority shareholder	–	(5,115)
	<u>16,620</u>	<u>16,844</u>

The loan due to a minority shareholder are unsecured, interest free and have no fixed repayment terms.

The loan due from a minority shareholder was unsecured, bearing interest at 9.5% (2000: 9%) per annum and was fully repaid during the year (see also note 33(c)).

27. LONG TERM BANK LOANS

	Group	
	2001	2000
	HK\$'000	HK\$'000
The maturity profile of the secured long term bank loans is as follows:		
– within one year	7,992	7,992
– in the second year	7,992	7,992
– in the third to fifth years inclusive	3,636	11,628
	<u>19,620</u>	<u>27,612</u>
Less: Amounts due within one year included under current liabilities	(7,992)	(7,992)
	<u>11,628</u>	<u>19,620</u>

Notes to the Accounts

28. FUTURE OPERATING LEASE INCOME

At 31st December 2001, the Group had future aggregate minimum lease payments receivable under non-cancellable operating leases as follows:

	2001	2001	2000	2000
	Land and	Others	Land and	Others
	buildings		buildings	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Not later than one year	5,651	582	6,462	–
Later than one year and not later than five years	4,809	8	10,190	–
	10,460	590	16,652	–

29. DEFERRED TAXATION

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

	Group
	2001
	2000
	HK\$'000
	HK\$'000
Accelerated depreciation allowances	678
Unutilised tax losses	(17,739)
Other timing differences	(4,510)
	(21,571)
	(27,697)

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

30. OPERATING LEASE COMMITMENTS

At 31st December 2001, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	2001	2001	2000	2000
	Land and	Others	Land and	Others
	buildings		buildings	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Not later than one year	7,750	234	7,464	194
Later than one year and not later than five years	13,395	432	11,842	159
Later than five years	4,982	–	6,854	–
	26,127	666	26,160	353

31. CAPITAL COMMITMENTS

	Group	
	2001	2000
	HK\$'000	HK\$'000
Contracted but not provided for in respect of		
– fixed assets	14,312	11,878
Authorised but not contracted for in respect of		
– fixed assets	10,136	2,184
– further acquisition of a subsidiary	2,170	4,368
	26,618	18,430

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

Contracted but not provided for in respect of fixed assets	1,086	–
Authorised but not contracted for in respect of fixed assets	18,759	9,594
	19,845	9,594

Notes to the Accounts

32. CONTINGENT LIABILITIES

	Group		Company	
	2001	2000	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Guarantees for banking facilities granted to subsidiaries	–	–	78,597	67,743
Corporate guarantee in respect of performance bonds issued by subsidiaries to customers	1,091	1,075	–	–
Counter-indemnity in respect of performance bonds issued by banks	381	276	–	–
Guarantee in lieu of rental deposit	300	–	–	–
Guarantee in lieu of utility deposit	1,005	1,892	–	–
Guarantee in respect of import duty	1,625	662	–	–
	4,402	3,905	78,597	67,743

As disclosed in the Group's 2000 Annual Report, the former Director and Administrator of Tai Ping Carpets Europe S.A. ("TPCE") has issued proceedings and a claim for French Francs 1,200,000 (HK\$1,284,000) against TPCE for wrongful dismissal. TPCE's lawyers are confident that the outcome of the proceedings against the 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.

As disclosed in the Group's 2000 Annual Report, Weihai 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 claim if it is enforced amounted to HK\$748,000. In 2001, WHCL has accrued Rmb3,000,000 (HK\$2,830,000) being the amount of compensation and the related interest charges. As full provision of the compensation has been made at WHCL level, 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 further provision has been made in the accounts.

Notes to the Accounts

33. 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	
	2001	2000
	HK\$'000	HK\$'000
Sales to a joint venture (<i>note a</i>)	–	91
Sales to an associated company (<i>note a</i>)	2,179	974
Sales to Hong Kong and Shanghai Hotels, Limited (<i>note b</i>)	6,705	4,181
Interest from a related company (<i>note c</i>)	126	653
Profit on sales of a machinery to a joint venture (<i>note d</i>)	–	702

- (a) Sales to a joint venture and an associated company were conducted in the normal course of business and at mutually agreed prices between the two parties.
- (b) Sales to Hong Kong and Shanghai Hotels, Limited ("HKS Hotels") are related party 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. The transactions are also disclosed under "Connected Transactions" in Directors' Report. Sales were conducted either in accordance with the terms of the agreements governing the transactions or on terms no less favourable than those available to independent third parties.
- (c) Included under minority interests in note 26 in 2000 was a loan due from a minority shareholder, Shangen Industrial Development Company which amounted to HK\$5,115,000. This loan is unsecured, bearing interest at 9.5% (2000: 9%) per annum and was repaid in full during the year.
- (d) In 2000 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 two parties. The cost of machinery amounted to HK\$2,668,000.

34. SUBSEQUENT EVENTS

On 3rd January 2002, Costigan Limited, a wholly owned subsidiary of the Company, entered into a sale & 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 (HK\$2,170,000). This is a connected transaction by virtue of substantial shareholding in SCM by P.C.M.C. Group.

35. APPROVAL OF ACCOUNTS

The accounts were approved by the directors on 17th April 2002.