

Management Discussion and Analysis

Last Year's Balance Sheet (Consolidated Balance Sheet at 31.12.2001)

	HK\$'000
Assets:	
Intangible assets	3,428
Fixed assets	
and construction in progress	332,786
Investments in affiliates	111,597
Other investments	33,267
Cash & cash equivalents	102,920
Finance lease investments	1,221
Other current assets	190,467
	775,686
Shareholders' equity and liabilities:	
Share capital, premium & reserves	321,452
Retained earnings	297,656
Bank borrowings	67,740
Other current liabilities	72,218
Minority interests	16,620
	775,686

Cash Flow For The Year (Consolidated Cash Flow Statement for the year ended 31.12.2002)

	HK\$'000
Cash generated from operations	48,651
Tax paid	(8,345)
Net interest paid	(1,167)
Net dividend received	3,706
Capital expenditure	(58,555)
Acquisitions	(3,940)
Other investing activities	8,597
Exercise of share options	1,635
Net increase in bank loans	12,347
Net increase in cash	2,929
Foreign exchange rate effect	(239)
Cash & cash equivalents	
at 31.12.2001	102,920
at 31.12.2002	105,610

Earnings For The Year (Consolidated Profit and Loss Account for the year ended 31.12.2002)

	HK\$'000
Turnover	481,086
Cost of sales	(287,314)
Gross profit	193,772
Other revenue and income	10,022
Expenses	(176,080)
Operating profit	27,714
Finance costs	(2,990)
Share of profits of affiliates	9,605
Profit before taxation	34,329
Taxation	(14,584)
Profit after taxation	19,745
Minority interests	(2,376)
Net profit	17,369

Earnings Retained (Consolidated Retained Earnings for the year ended 31.12.2002)

	HK\$'000
Balance at 31.12.2001	297,656
Exchange adjustments	(714)
Net profit	17,369
2001 final dividend paid	(6,121)
Balance at 31.12.2002	308,190

Current Year's Balance Sheet
(Consolidated Balance Sheet at 31.12.2002)

	HK\$'000
Assets:	
■ Intangible assets	2,461
■ Fixed assets	
and construction in progress	353,888
■ Investments in affiliates	112,734
Investment securities and other investments	30,733
Cash & cash equivalents	105,610
Finance lease investments	2,008
Other current assets	207,072
	814,506
Shareholders' equity and liabilities:	
Share capital, premium & reserves	327,024
Retained earnings	308,190
Bank borrowings	79,866
Other current liabilities	82,527
Minority interests	16,899
	814,506

■ The capital expenditure includes additions of fixed assets of HK\$15,319,000 and construction in progress of HK\$43,236,000.

■ Acquisitions represented purchase of remaining 10% in Singapore Carpet Manufacturers Private Limited ("SCM") of HK\$2,101,000, and purchase of investment securities and other investments of HK\$1,365,000, and subscription of a new joint venture in Weihai at HK\$474,000.

■ Cash inflow from other investing activities included disposal of fixed assets of HK\$6,266,000, disposal of investment securities and other investments of HK\$73,000 and repayment of finance lease receivables of HK\$2,258,000.

■ Turnover represented revenue from sale of carpet, yarn, interior furnishings and rental income from property investment and interior furnishings. The turnover increased by 5.5%.

■ Expenses include distribution costs of HK\$73,373,000, administrative expenses of HK\$93,349,000 and other operating expenses of HK\$9,358,000.

■ Share of profit of affiliates include HK\$3,133,000 from an associated company and HK\$6,472,000 from joint ventures.

■ Intangible assets represented net book amount of positive goodwill of HK\$3,907,000 arising from acquisitions of 100% interest in White Oak Carpet Mills, Inc., and of remaining 10% interest in SCM; and of negative goodwill of HK\$1,446,000 from remaining 10% interest in Treasure Looms (China) Limited.

■ Investment in affiliates included HK\$89,164,000 in joint ventures in Weihai, Shandong Province of the P.R.C. and HK\$23,570,000 in an associated company in the Philippines.

Management Discussion and Analysis (Continued)

FINANCIAL POSITION

Fixed Assets and Construction in Progress

As at 31st December 2002, the net book value of the Group's fixed assets and construction in progress ("CIP") amounted to HK\$353,888,000, an increase of HK\$21,102,000 or 6.3% from last year. During the year, the Group invested HK\$58,555,000 (2001: HK\$60,481,000) in capital expenditure in the form of fixed assets and CIP, of which HK\$54,569,000 (2001: HK\$42,912,000) was invested in carpet business. During the year the Group sold an investment property in Tai Po, Hong Kong, for a consideration of approximately HK\$6,455,000 realising a small loss.

Investment in Joint Ventures, Associated Company and Other Investments

The breakdown of the Group's investments in joint ventures, associated company and other investments in each geographical region is shown below:

	2002 HK\$'000	%	2001 HK\$'000	%
Carpet Business				
– Mainland China	89,164	63.3	90,011	62.1
– South East Asia	23,763	16.9	22,978	15.9
Property and Other Investments				
– Hong Kong	27,975	19.8	31,875	22.0
	140,902	100.0	144,864	100.0

A provision of HK\$3,900,000 was made in 2002 in respect of impairment in other investments.

Additional financial information on the Group's significant associated company in the Philippines, and two significant joint ventures in Weihai, Shandong Province, the P.R.C. are disclosed in Notes 16 and 17 to the Accounts.

Net Current Assets

The breakdown of the Group's net current assets by geographical region is shown below:

	2002 HK\$'000	2001 HK\$'000
Hong Kong	91,816	81,065
China	39,658	55,636
South East Asia	(9,851)	13,662
Europe	(1,935)	(734)
United States	38,734	16,369
	158,422	165,998

The net current assets included cash and bank deposits of HK\$114,352,000 (2001: HK\$107,556,000) and current portion of bank loans and bank overdrafts of HK\$84,972,000 (2001: HK\$60,748,000).

Note: Certain Group companies have receivables and payables with other subsidiaries, which are eliminated on consolidation and not reflected in the above analysis.

Shareholders' Funds

Shareholders' funds at 31st December 2002 increased 2.6% to HK\$635,214,000 from HK\$619,108,000 at 31st December 2001. In June 2002 the Company paid its 2001 final dividend of HK\$6,121,000, of which HK\$2,259,000 was paid in cash and the remaining HK\$3,862,000 was settled in the form of scrip shares issued. On the other hand, the Company received cash of HK\$1,635,000 from the issue of 2,070,000 shares under the Company's share option scheme.

Borrowings and Financial Resources

The Group generally finances its businesses with internally generated cash flows and banking facilities at its different geographical locations. Financing and cash management activities of the Group are coordinated at the corporate level.

The debt maturity profile of the Group was as follows:

	As at 31st December	
	2002	2001
	HK\$'000	HK\$'000
Repayable within one year (including bank overdrafts)	84,972	60,748
Repayable after 1 year, but within 2 years	3,636	7,992
Repayable after 2 years, but within 5 years	–	3,636
Total	88,608	72,376

Total borrowings increased by 22.4% in order to finance the expansion of the Group's operation in South East Asia.

The currency denomination of the borrowings at 31st December 2002 was as follows:

	2002		2001	
	Borrowing	Carrying value	Borrowing	Carrying value
	(including	of assets	(including	of assets
	overdraft)	pledged	overdraft)	pledged
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Thai Baht				
– Secured	55,122	39,234	44,043	39,887
– Unsecured	19,361	–	16,346	–
Hong Kong Dollars				
– Unsecured	–	–	20	–
United States Dollars				
– Unsecured	11,538	–	10,174	–
Euro				
– Unsecured	2,587	–	1,793	–
	88,608	39,234	72,376	39,887

As at 31st December 2002, 39.2% of the borrowings are charged at floating interest rates, and 60.8% at fixed interest rates and the latter is repayable within one year.

As at 31st December 2002, the net remaining proceeds from 2001 Rights Issue Scheme amounted to approximately HK\$40,000,000 was placed as bank deposits. These proceeds will be used to fund expansion for the Group by organic growth or through acquisitions if such opportunities arise.

The Company had a net cash position at 31st December 2002, with cash deposits and bank balances of the Group amounting to HK\$114,352,000 which exceed all the outstanding bank loans and overdraft as at the same date. Therefore no gearing ratio has been calculated. The management also believes that the Group has sufficient financial resources to finance its operations and capital expenditure.

Contingent Liabilities

As at 31st December 2002, the total contingent liabilities of the Group amounted to HK\$7,013,000 (2001: HK\$4,402,000) excluding litigation. Full disclosure of contingent liabilities as at 31st December 2002 have been made in note 32 to the Accounts.

Exposure to Foreign Exchange Risks and Related Hedges

The Group has overseas operations in the P.R.C., Thailand, the U.S.A. and Europe. The Group's European operations are not significant in terms of the Group's results and the Chinese Renminbi has been quite stable. The exchange differences arising from translation of the overseas operations relate mostly to our CIT Thailand operation. However, the effect of these exchange differences is further reduced by CIT borrowings in local Thai Baht currency. The Group's investments in these foreign operations are treated as permanent equity, and the exchange differences from translating the net investments in these foreign operations do not affect cash flows and are dealt with in the reserves.

The Group's export sales are mostly denominated in U.S. Dollars, and to a lesser extent in Euros. The Group's export credit terms are based on the credit status and repayment history of the customers, and in normal circumstances the Group is not subject to significant exchange exposures and therefore has no need to hedge against exchange risks.

Cash Flows

	2002 HK\$'000	2001 HK\$'000	Change HK\$'000
Cash provided by (used in):			
Operating activities	40,306	62,055	(21,749)
Investing activities	(46,401)	(56,436)	10,035
Financing activities	9,024	45,031	(36,007)
	2,929	50,650	(47,721)

Net cash provided by operating activities decreased by HK\$21,749,000 reflecting the fall of the operating profit in 2002.

Cash used in investing activities is primarily for capital expenditure on fixed assets, construction in progress, acquisition of subsidiaries and from net proceeds on disposal of fixed assets.

Net cash from financing activities in 2002 mainly derived from net increase in bank borrowings, less interest and dividend paid.

Employee and Remuneration Policy

The Group had approximately 2,800 employees as at 31st December 2002. Employees are remunerated according to the nature of their job and market trends, with built-in merit components incorporated in the annual increment to reward and motivate individual performance. Total staff costs and retirement benefit costs for the year ended 31st December 2002 amounted to HK\$133,529,000 (2001: HK\$116,811,000) and HK\$2,887,000 (2001: HK\$2,790,000) respectively.

In May 2002, the Company adopted a new share option scheme which complies with the revised Chapter 17 of the Listing Rules, and terminated the existing share option scheme adopted in 1997. The participants of this new scheme include employees and consultants of the Group who have contributed or will contribute to the Group. The Company considers that adoption of a new share option scheme is in the best interests of the Company and its shareholders as a whole as it will encourage the employees to work towards enhancing the value of the Company.

New Accounting Pronouncements

During the year, the Hong Kong Society of Accountants ("HKSA") amended four Statements of Accounting Standards ("SSAPs"), which are applicable to the Group's consolidated financial statements for the year ended 31st December 2002. These SSAPs are SSAP 1 (revised) "Presentation of Financial Statement", SSAP 11 (revised) "Foreign Currency Translation", SSAP 15 (revised) "Cash Flow Statements" and SSAP 34 (revised) "Employee Benefits". Certain presentation changes have been made upon the adoption of the revised SSAP 1 and SSAP 15, while the revised SSAP 11 and SSAP 34 have no material effect on the accounts.