

Directors' Report

The Directors have pleasure in submitting their report together with the audited accounts for the year ended 31st December 2002.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

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 and leasing of interior furnishings, investment and property holding.

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

RESULTS AND APPROPRIATIONS

The results for the year are set out on page 33.

The Directors of the Company recommend the payment of a final dividend of 3 cents (2001: 3 cents) per share for the year ended 31st December 2002, absorbing a total of HK\$6,229,000 (2001: HK\$6,100,000), to shareholders whose names appear on the register of members as at 22nd May 2003, 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 83.

RESERVES

Movements in reserves of the Company and the Group during the year are set out in note 26 to the accounts.

DONATIONS

During the year, donations made by the Group for charitable purposes amounted to HK\$71,000 (2001: HK\$10,000).

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 86.

SHARE CAPITAL

Details of the movement in share capital of the Company are set out in note 25 to the accounts.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31st December 2002 calculated under Company Act 1981 of Bermuda (as amended) amounted to HK\$122,983,000 (2001: HK\$143,139,000).

SUBSIDIARIES

Particulars of the principal subsidiaries are set out on pages 84 and 85.

BANK LOANS AND OVERDRAFTS

Particulars of bank loans and overdrafts of the Group 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

The existing share options were granted to directors and employees of the Group under an employee share option scheme adopted and approved by shareholders on 24th November 1997 (the "1997 Share Options Scheme").

At the annual general meeting held on 23rd May 2002, ordinary resolutions relating to the adoption of a new share option scheme (the "2002 Share Option Scheme") and the termination of the 1997 Share Option Scheme were duly approved by the shareholders of the Company.

Despite the fact that no further options may be granted under the 1997 Share Option Scheme after the date of its termination, all other provisions of the 1997 Share Option Scheme will remain in force to govern the exercise of all the options previously granted.

The details of the 2002 Share Option Scheme (which fully complies with Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) are as follows:

1. Purpose
 - (a) To provide participants (see the definition below) with the opportunity to acquire proprietary interests in the Company; and
 - (b) To encourage participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole

2.	Participants	Any employee of the Group (whether full time or otherwise, including any Executive Director, Non-executive Director and Independent Non-executive Director of the Group) and any consultant of the Group who have contributed or will contribute to the Group
3.	Maximum number of shares available for issue under the 2002 Share Option Scheme together with the percentage of share capital it represents as at the date of the annual report	20,401,980 shares (representing 9.8% of issued share capital of the Company as at the date of the annual report)
4.	Maximum entitlement of each participant	1% of the shares in issue in any 12-month period up to the date of grant
5.	The period within which the shares must be taken up under an option	As specified by Directors, which shall not be more than 10 years from the date of grant
6.	The minimum holding period before an option can be exercised	Generally none, but subject to Directors' discretion on case by case basis
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	HK\$10, payable upon acceptance of the option within 30 days of the grant of such option
8.	Basis of determining the exercise price	Determined by the Directors being at least the highest of <ul style="list-style-type: none"> (i) the closing price of a share as stated in the daily quotations of The Stock Exchange of Hong Kong Limited ("the Stock Exchange"); (ii) the average closing price of a share as stated in the Stock Exchange's daily quotation sheets for the 5 business days immediately preceding the date of grant; and (iii) the nominal value of a share
9.	The remaining life of the 2002 Share Option Scheme	The Scheme will be valid and effective for a period of 10 years from 23rd May 2002



No share options has been granted under the 2002 Share Option Scheme since its adoption. Details of the share options outstanding as at 31st December 2002 which have been granted under the 1997 Share Option Scheme are as follows:

Name	Options held at 1st January 2002	Options exercised during the year	Options lapsed during the year	Options held at 31st December 2002	Exercise price (HK\$)	Exercisable from	Exercisable until	Note
Directors								
– Kent M. C. Yeh	469,500	(469,500)	–	–	0.79	15.9.1999	14.9.2002	1
	352,500	–	–	352,500	1.17	15.9.2000	14.9.2003	
	352,500	–	–	352,500	1.67	15.9.2001	14.9.2004	
– Alison S. Bailey	337,500	(337,500)	–	–	0.79	15.9.1999	14.9.2002	2
	253,500	–	–	253,500	1.17	15.9.2000	14.9.2003	
	253,500	–	–	253,500	1.67	15.9.2001	14.9.2004	
Employees	1,270,500	(1,263,000)	(7,500)	–	0.79	15.9.1999	14.9.2002	3
	952,500	–	–	952,500	1.17	15.9.2000	14.9.2003	
	952,500	–	–	952,500	1.67	15.9.2001	14.9.2004	

Note:

- 1) The closing price of shares immediately before 24th June 2002, being the exercise date on which the options were exercised by Kent M. C. Yeh, was HK\$1.39.
- 2) The closing price of shares immediately before 22nd February 2002, being the exercise date on which the options were exercised by Alison S. Bailey, was HK\$1.47.
- 3) The weighted average closing price of shares immediately before the dates on which the options were exercised by employees was HK\$1.43.
- 4) No share options under the 1997 Share Option Scheme were granted or cancelled during the year.

DIRECTORS

The names of the Directors during the year are set out on pages 18 and 19.

In accordance with bye-law 109(A) of the Company, Messrs Lincoln C. K. Yung, Ian D. Boyce and John J. Ying 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, its subsidiaries or its holding company 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 DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of Directors and senior management are set out on pages 18 to 19 and 87 respectively.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors of the Company have any interest in any business which may compete with the business of the Group.

DIRECTORS' INTERESTS IN EQUITY SECURITIES

As at 31st December 2002, 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 under Section 29 of the Securities (Disclosure of Interests) Ordinance were as follows:

(a) Shares of HK\$0.10 each in the Company

Name	No. of shares held			
	Personal interests	Family interests	Corporate interests	Other interests
James S. Dickson Leach	3,231,263	—	—	—
Anthony Y.C. Yeh	5,036,230	—	—	—
Kent M.C. Yeh	1,237,500	—	—	—
Ian D. Boyce	203,947	—	—	—
Lincoln C.K. Yung	30,000	—	—	—
Lincoln K.K. Leong	—	—	2,000,000*	—
Alison S. Bailey	458,000	—	—	—
David C. L. Tong	296,743	—	—	—
John J. Ying	—	—	11,232,401#	—
Nelson K.F. Leong (Alternate Director to Lincoln K.K. Leong)	—	—	2,000,000*	—

* 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 the 1997 Share Option Scheme approved by the shareholders at a Special General Meeting on 24th November 1997. Refer details under Share Options above.

(c) **Interest in associated corporations of the Company**

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

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

With the exception of the Directors' interests as disclosed above, at no time during the year was the Company or its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31st December 2002, the register of substantial shareholders required to be kept under Section 16(1) of the Securities (Disclosure of Interests) Ordinance shows that the Company had been notified of the following interests, being 10% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors.

Name	No. of shares held in the Company of HK\$0.10 each
Bermuda Trust Company Limited	107,048,649*
Hesko Limited	107,048,649*
Esko Limited	107,048,649*
Holmium Holding Corporation	103,594,495*

- * Bermuda Trust Company Limited has an interest in Esko Limited and Hesko Limited. Of the 107,048,649 shares, 103,594,495 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.

CONNECTED TRANSACTIONS

- (a) Significant related party transactions entered into by the Group during the year ended 31st December 2002, which do not constitute connected transactions subject to disclosure requirements 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., a company in the U.S.A. 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 2002 amounted to US\$2,576,200 (HK\$20,095,000).
 - (ii) The Company's subsidiaries have been from time to time supplying furnishing products and providing related ancillary services to The Hong Kong and Shanghai Hotels, Limited and its subsidiaries ("HKS Hotels"). The total value of transactions amounted to HK\$3,398,000 in 2002. Such transactions 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.

Two conditional waivers have been granted by the Stock Exchange for the above transactions described in the 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 business;
2. were conducted on normal commercial terms or 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; and

4. aggregated for 2002 as set out in paragraphs (i) and (ii) respectively did not exceed the relevant cap amount of 6% and 3% of the audited consolidated net tangible assets of the Group as set out in the conditional waivers granted by the Stock Exchange.

The Company's auditors have also reviewed the above transactions described in paragraphs (i) and (ii) and confirmed in its letter to the Directors that the transactions:–

1. had received the approval of the Company's board of Directors;
 2. were in accordance with the pricing policies as stated in the Company's financial statements;
 3. were entered into in accordance with the terms of the agreement governing the transactions or, if there are no such agreements, on terms no less favourable than those available to or from independent third parties; and
 4. aggregated for 2002 as set out in paragraphs (i) and (ii) respectively did not exceed the relevant cap amount of 6% and 3% of the audited consolidated net tangible assets of the Group as set out in the conditional waivers granted by the Stock Exchange.
- (iii) 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 the "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\$2,101,000). This is a connected transaction by virtue of the substantial shareholding in SCM held by the P.C.M.C. Group.

CODE OF BEST PRACTICE

Throughout the year, the Company has complied with the Code of Best Practice as set out in 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 authority and duties of the Audit Committee operate within the suggested guidelines as published by the Hong Kong Society of Accountants, namely "A Guide for the Formation of An Audit Committee" issued in 1997 and superseded by "A Guide for Effective Audit Committee" in 2002.

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 three Non-executive Directors, including two Independent Non-executive Directors, namely Messrs Francis B. Y. Sim and Michael T.H. Lee, and one Alternate Director.

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the interim and annual reports with the Directors.

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 2003