

Financial Section

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Report of the Auditors

To the members of

Tai Ping Carpets International Limited

(Incorporated in Bermuda with limited liability)

We have audited the accounts on pages 33 to 82 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors of the Company are responsible for the preparation of accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31st December 2002 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 17th April 2003

Consolidated Profit and Loss Account

For the year ended 31st December 2002

	Note	2002 HK\$'000	2001 HK\$'000
Turnover	2	481,086	456,188
Cost of sales		(287,314)	(273,438)
Gross profit		193,772	182,750
Other revenues	2	2,048	3,692
Other operating income		7,974	8,870
Distribution costs		(73,373)	(62,591)
Administrative expenses		(93,349)	(86,686)
Other operating expenses		(9,358)	(4,517)
Operating profit	3	27,714	41,518
Finance costs	4	(2,990)	(4,959)
Share of profits of			
– Associated company		3,133	3,167
– Joint ventures		6,472	11,942
Profit before taxation		34,329	51,668
Taxation	7	(14,584)	(11,004)
Profit after taxation		19,745	40,664
Minority interests		(2,376)	(3,015)
Profit attributable to shareholders	8	17,369	37,649
Profit attributable to shareholders retained by:			
Company and subsidiaries		10,254	24,741
Associated company		2,230	2,289
Joint ventures		4,885	10,619
		17,369	37,649
Dividends	9		
– Interim		–	–
– Final, proposed		6,229	6,100
		6,229	6,100
Earnings per share	10	8.4cents	20.5cents

Consolidated Balance Sheet

As at 31st December 2002

	Note	2002 HK\$'000	2001 HK\$'000
Intangible assets	11	2,461	3,428
Fixed assets	12	328,118	284,345
Construction in progress	13	25,770	48,441
Associated company	16	23,570	21,586
Joint ventures	17	89,164	90,011
Other investments	18	28,168	33,267
Net investment in finance leases	19	76	280
Current assets			
Inventories	20	110,526	102,642
Trade and other receivables	21	96,546	87,825
Current portion of net investment in finance leases	19	1,932	941
Investment securities	22	2,565	–
Bank deposits		2,614	47,452
Cash and bank balances	23	111,738	60,104
		325,921	298,964
Current liabilities			
Short term bank loans			
– Secured		37,638	21,600
– Unsecured		30,600	26,520
Bank overdrafts			
– Secured		5,856	2,823
– Unsecured		2,886	1,813
Current portion of long term bank loans	27	7,992	7,992
Trade and other payables	24	77,135	70,551
Taxation		5,392	1,667
		167,499	132,966
Net current assets		158,422	165,998
Total assets less current liabilities		655,749	647,356
Financed by:			
Share capital	25	20,762	20,301
Reserves	26	306,262	301,151
Retained earnings	26	301,961	291,556
Proposed final dividends	26	6,229	6,100
		635,214	619,108
Shareholders' funds		16,899	16,620
Minority interests		3,636	11,628
Long term bank loans	27		
		655,749	647,356

Kent M. C. Yeh
Director

Alison S. Bailey
Director

Company Balance Sheet

As at 31st December 2002

	Note	2002 HK\$'000	2001 HK\$'000
Subsidiaries	14	270,047	298,242
Current assets			
Other receivables		188	270
Amount due from an indirectly held associated company	15	345	345
Amount due from an indirectly held joint venture	15	95	–
Amounts due from related companies	15	59	113
Bank deposits		943	45,547
Cash and bank balances		57,609	166
		59,239	46,441
Current liabilities			
Other payables		715	1,453
Net current assets		58,524	44,988
		328,571	343,230
Financed by:			
Share capital	25	20,762	20,301
Reserves	26	627,424	622,388
Accumulated losses	26	(325,844)	(305,559)
Proposed final dividends	26	6,229	6,100
		328,571	343,230

Kent M. C. Yeh
Director

Alison S. Bailey
Director

Consolidated Statement of Changes in Equity

For the year ended 31st December 2002

	Note	2002 HK\$'000	2001 HK\$'000
Total equity as at 1st January, as previously reported		619,108	479,967
Effect of adopting SSAP 9 (revised)	26	–	2,707
Total equity as at 1st January, as restated		619,108	482,674
Exchange differences arising on translation of subsidiaries, associated company and joint ventures	26	451	(1,103)
Revaluation (deficit)/surplus on investment properties	26	(1,090)	3,313
Share of revaluation surplus on other properties in an associated company	26	–	1,675
Net (losses)/gains not recognised in the profit and loss account		(639)	3,885
Profit for the year	26	17,369	37,649
Less: Capital reserve realised on partial disposal of a subsidiary	26	–	(2)
Dividends	26	(6,121)	(2,707)
Issue of new shares	25, 26	5,497	101,504
Share issuing expenses	26	–	(3,895)
Total equity as at 31st December		635,214	619,108

Consolidated Cash Flow Statement

For the year ended 31st December 2002

	Note	2002 HK\$'000	2001 HK\$'000
OPERATING ACTIVITIES			
Cash generated from operations	a	48,651	73,975
Net profits tax paid			
– Net Hong Kong profits tax refund		137	34
– Overseas tax paid		(8,482)	(11,954)
NET CASH FROM OPERATING ACTIVITIES		40,306	62,055
INVESTING ACTIVITIES			
Purchase of fixed assets		(15,319)	(12,007)
Construction in progress		(43,236)	(48,474)
Proceeds on disposal of fixed assets		6,266	1,360
Purchase of subsidiaries	e	(2,101)	(6,976)
Purchase from a minority shareholder of a shareholder's loan receivable from a subsidiary	a&b	–	(4,367)
Subscription of a new joint venture		(474)	–
Purchase of investment securities and other investments		(1,365)	(1,198)
Proceeds on disposal of interests in investment securities and other investments		73	2,910
Repayment of finance lease receivables		2,258	–
Repayment of loan receivable by a minority shareholder	b	–	5,115
Interest received		1,532	1,704
Dividends received from an associated company		437	432
Dividends received from joint ventures		5,528	5,065
NET CASH USED IN INVESTING ACTIVITIES		(46,401)	(56,436)
FINANCING ACTIVITIES			
Issue of new ordinary shares	b	1,635	101,504
Share issuing expenses		–	(3,895)
New bank loans	b	28,228	20,580
Repayment of bank loans	b	(15,881)	(65,492)
Interest paid		(2,699)	(4,959)
Dividend paid		(2,259)	(2,707)
NET CASH GENERATED FROM FINANCING ACTIVITIES		9,024	45,031
NET INCREASE IN CASH AND CASH EQUIVALENTS		2,929	50,650
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		102,920	52,318
EFFECT OF FOREIGN EXCHANGE RATE CHANGE		(239)	(48)
CASH AND CASH EQUIVALENTS AT THE END OF YEAR		105,610	102,920
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Cash, bank balances and deposits		114,352	107,556
Bank overdrafts		(8,742)	(4,636)
		105,610	102,920

Consolidated Cash Flow Statement

For the year ended 31st December 2002

a. RECONCILIATION OF PROFIT BEFORE TAXATION TO CASH GENERATED FROM OPERATIONS

	2002 HK\$'000	2001 HK\$'000
Profit before taxation	34,329	51,668
Depreciation of fixed assets	29,498	27,594
Net profit on disposal of fixed assets	(275)	(124)
Share of profit less losses of		
– associated company	(3,133)	(3,167)
– joint ventures	(6,472)	(11,942)
Revaluation deficit on investment properties	594	4,042
Provision for impairment in other investment	3,900	–
Negative goodwill recognised as income	(1,150)	(854)
Amortisation of goodwill	2,227	548
Write off construction in progress	111	15
Net interest expenses	1,486	3,325
Profit on disposal of interests in investment securities and other investments	(89)	(2,910)
Loss on partial disposal of a subsidiary	–	8
Gain on purchase from a minority shareholder of a shareholder's loan receivable from a subsidiary	–	(806)
Operating profit before working capital changes	61,026	67,397
(Increase)/decrease in inventories	(7,990)	1,016
(Increase)/decrease in trade and other receivables	(7,438)	13,095
Increase/(decrease) in trade and other payables	5,611	(6,109)
(Increase)/decrease in amount due by an associated company	(191)	201
Decrease/(increase) in amounts due by joint ventures	678	(404)
Increase in net investment in finance lease	(3,045)	(1,221)
Cash generated from operations	48,651	73,975

Consolidated Cash Flow Statement

For the year ended 31st December 2002

b. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital (including premium) HK\$'000	Bank loans HK\$'000	Minority interests HK\$'000
Balance at 1st January 2001	102,482	112,652	16,844
Effect of foreign exchange rate changes	—	—	(48)
Purchase of subsidiaries (note d)	—	—	(3,526)
Purchase from a minority shareholder of a shareholder's loan receivable from a subsidiary	—	—	(5,173)
Repayment of loan receivable from a minority shareholder	—	—	5,115
Cash inflow/(outflow) from financing	97,609	(44,912)	—
Minority interests' share of profit	—	—	3,015
Partial disposal of a subsidiary	—	—	10
Share of investment property revaluation surplus by minority interest	—	—	383
Balance at 31st December 2001 and 1st January 2002	200,091	67,740	16,620
Effect of foreign exchange rate changes	—	(221)	(1)
Purchase of subsidiaries (note d)	—	—	(1,991)
Cash inflow from financing	1,635	12,347	—
Shares issued for non-cash consideration	3,862	—	—
Minority interests' share of profit	—	—	2,376
Share of investment property revaluation deficit by minority interest	—	—	(105)
Balance at 31st December 2002	205,588	79,866	16,899

Consolidated Cash Flow Statement

For the year ended 31st December 2002

c. MAJOR NON-CASH TRANSACTIONS

During the year the Group entered into finance lease arrangements in respect of sales with a total value at the inception of the leases of HK\$3,045,000 (2001: HK\$1,964,000).

d. PURCHASE OF SUBSIDIARIES

	2002 HK\$'000	2001 HK\$'000
Net assets acquired on purchase of a new subsidiary		
– Fixed assets	–	2,150
– Construction in progress	–	411
– Inventories	–	164
– Trade and other receivables	–	1,611
– Bank and cash	–	1,052
– Trade and other payables	–	(964)
Further acquisition of interests in subsidiary from minority shareholders	1,991	3,526
	1,991	7,950
Positive goodwill	110	6,572
Negative goodwill	–	(3,450)
	2,101	11,072
Satisfied by:		
Cash	2,101	8,028
Other payables	–	3,044
	2,101	11,072

e. ANALYSIS OF THE NET CASH OUTFLOW IN RESPECT OF THE PURCHASE OF SUBSIDIARIES

	2002 HK\$'000	2001 HK\$'000
Cash consideration	2,101	8,028
Bank and cash acquired	–	(1,052)
Net cash outflow in respect of the purchase of subsidiaries	2,101	6,976

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 securities, 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 1 January 2002:

SSAP1 (revised):	Presentation of financial statements
SSAP11 (revised):	Foreign currency translation
SSAP15 (revised):	Cash flow statements
SSAP34 (revised):	Employee benefits

The above SSAPs have no material effect on the Group's accounts.

(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 company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast a majority of votes at the meetings of the board of directors.

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.

Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

(b) Consolidation (Continued)

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.

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. Any impairment arising on such goodwill is accounted for in the profit and loss account 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.

Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

(c) Goodwill/negative goodwill (Continued)

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 of 3 to 8 years; 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 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.

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 or a joint venture, in which an equity interest is held for the long term and significant influence is exercised. The consolidated profit and loss account includes the Group's share of the results of the associated company for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated company.

(e) Joint ventures

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

Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

(e) Joint ventures (Continued)

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

(f) Investments

(i) *Investment securities*

Investment securities are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of investment securities are recognised in the profit and loss account. Profits and losses on disposal of investment, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

(ii) *Other investments*

Other investments held for long term purposes 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.

(g) Fixed assets

Properties other than investment properties ("other properties") are stated at cost or valuation less accumulated depreciation. Other assets are stated at cost less accumulated 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.

Effective from 30th September 1995, no further revaluations of the Group's other properties have been carried out. The Group places reliance on paragraph 80 of SSAP 17 which provides exemption from the need to make regular revaluations for such assets.

Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

(g) Fixed assets (Continued)

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 estimated 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, fixtures 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 arm's length.

Investment properties with unexpired periods of greater than 20 years are valued annually by independent valuers. The valuations are on an open market value basis related to individual properties and separate values are not attributed to land and buildings. The valuations are incorporated in the annual accounts. Increases in valuation are credited to the investment properties revaluation reserve. Decreases 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.

Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

(h) Investment properties (Continued)

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 in progress

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

No depreciation is provided for construction 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 construction in progress, 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.

(k) Borrowing costs

All 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.

Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

(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.

(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.

Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

(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) 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.

(r) 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.

(s) 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.

(t) 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.

Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

(t) Revenue recognition (Continued)

- (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 is recognised when the installation services are rendered.

(u) 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.

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 acquisition 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.

(v) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

(v) Employee benefits (Continued)

(ii) Profit sharing and bonus plans

The expected cost of profit sharing and bonus payments is recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for profit sharing and bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

(iii) Retirement benefit obligations

The Group operates a number of defined contribution plans (“the plans”) throughout the world, the assets of which are generally held in separate trustee – administered funds. The plans are generally funded by payments from employees and by the relevant Group companies. The Group’s contributions to the plans are expensed as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

In Hong Kong, the Group operates 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 service, subject to a minimum of 5% of relevant income up to HK\$20,000.

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 and leasing of interior furnishings, investment and property holding. Revenues recognised during the year are as follows:

	2002 HK\$'000	2001 HK\$'000
Turnover		
Sales of carpets	342,528	343,363
Yarn manufacturing and trading	95,421	80,715
Sales and leasing of interior furnishings	35,420	24,825
Gross rental income from investment properties	6,934	6,755
Term deposit income from bank	783	530
	481,086	456,188
Other revenues		
Bank interest income	465	763
Interest from a related company	–	126
Interest from third parties	101	106
Interest from finance leases	155	110
Income on sales of underlay	726	1,304
Income on installation of carpets	601	1,016
Income on operating lease of furniture	–	260
Dividend income from other investment	–	7
	2,048	3,692
	483,134	459,880

Notes to the Accounts

2. TURNOVER, REVENUE AND SEGMENTAL INFORMATION (Continued)

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
Interior furnishings	– Sale and leasing 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.

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 investment holding
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

Notes to the Accounts

2. TURNOVER, REVENUE AND SEGMENTAL INFORMATION (Continued)

The Group's turnover and trading results for the year ended 31st December 2002, together with their comparative figures, are analysed as follows:

Primary reporting format – business segments

	For the year ended 31st December 2002							Group HK\$'000
	Carpets HK\$'000	Yarn HK\$'000	Interior furnishings HK\$'000	Property holding HK\$'000	Others HK\$'000	Elimination HK\$'000	Unallocated HK\$'000	
Turnover								
– External revenues	342,528	95,421	35,420	6,934	783	–	–	481,086
– Inter-segment revenues	–	15,491	–	34	–	(15,525)	–	–
	<u>342,528</u>	<u>110,912</u>	<u>35,420</u>	<u>6,968</u>	<u>783</u>	<u>(15,525)</u>	<u>–</u>	<u>481,086</u>
Segment results	<u>24,231</u>	<u>19,664</u>	<u>(508)</u>	<u>8,874</u>	<u>783</u>	<u>(2,244)</u>	<u>(23,086)</u>	<u>27,714</u>
Finance costs								(2,990)
Share of profits of								
– Associated company	3,133	–	–	–	–	–	–	3,133
– Joint ventures	6,472	–	–	–	–	–	–	<u>6,472</u>
Profit before taxation								34,329
Taxation								<u>(14,584)</u>
Profit after taxation								19,745
Minority interests								<u>(2,376)</u>
Profit attributable to shareholders								<u>17,369</u>
Segment assets	436,883	73,856	22,438	73,553	943	–	102,841	710,514
Investment in								
associated company	23,570	–	–	–	–	–	–	23,570
Investments in joint ventures	89,164	–	–	–	–	–	–	<u>89,164</u>
Total assets								<u>823,248</u>
Segment liabilities	56,010	2,502	8,216	921	–	–	103,486	<u>171,135</u>
Capital expenditure	56,670	307	1,702	1,835	–	–	142	60,656
Depreciation	24,109	4,163	731	135	–	–	360	29,498
Amortisation charge	(1,150)	–	–	–	–	–	2,227	1,077
Impairment charge	–	–	–	–	–	–	3,900	3,900

Notes to the Accounts

2. TURNOVER, REVENUE AND SEGMENTAL INFORMATION (Continued)

For the year ended 31st December 2001								
	Carpets	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	–	–	–	–	–	–	<u>11,942</u>
Profit before taxation								51,668
Taxation								<u>(11,004)</u>
Profit after taxation								40,664
Minority interests								<u>(3,015)</u>
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	–	–	–	–	–	–	<u>90,011</u>
Total assets								<u>780,322</u>
Segment liabilities	51,213	5,823	1,949	1,008	–	–	84,601	<u>144,594</u>
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)

Notes to the Accounts

2. TURNOVER, REVENUE AND SEGMENTAL INFORMATION (Continued)

Secondary reporting format – geographical segments

	Turnover	Segment results	Total assets	Capital expenditure
	2002	2002	2002	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	67,964	14,886	71,323	2,942
Mainland China	24,745	3,180	111,863	8,276
South East Asia	141,111	13,126	316,054	46,230
Middle East	13,667	1,971	—	—
Other Asian countries	16,520	1,498	—	—
Europe	24,247	(535)	9,788	1,225
North America	189,915	15,954	98,645	1,983
Others	2,917	720	—	—
	<u>481,086</u>	<u>50,800</u>	<u>607,673</u>	<u>60,656</u>
Unallocated costs		(23,086)		
Operating profit		<u>27,714</u>		
Investment in associated company			23,570	
Investments in joint ventures			89,164	
Unallocated assets			<u>102,841</u>	
Total assets			<u>823,248</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
	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		(15,838)		
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

3. OPERATING PROFIT

	2002 HK\$'000	2001 HK\$'000
Operating profit is stated after crediting and charging the following:		
Crediting:–		
Gains on disposal of interests in investment securities and other investments	89	2,910
Release of unvested benefit of the previous retirement scheme	280	1,812
Gains on disposal of fixed assets	275	124
Negative goodwill recognised as income (note 11)	1,150	854
Net exchange gains	947	–
Gain on purchase from a minority shareholder of a shareholder's loan receivable from a subsidiary	–	806
Charging:–		
Depreciation of fixed assets	29,498	27,594
Staff costs (including directors' emoluments) (note)	133,529	116,811
Retirement benefit costs – defined contribution schemes (including directors' emoluments)	2,887	2,790
Operating lease charges		
Land and buildings	11,333	9,922
Plant and machinery	146	159
Auditors' remuneration	1,151	1,339
Outgoings in respect of investment properties	582	988
Revaluation deficit on investment properties (notes 12 and 26)	594	4,042
Amortisation of positive goodwill (note 11)	2,227	548
Research and development costs	1,061	731
Provision for impairment in other investment	3,900	–
Net exchange losses	–	1,832

Note: Staff costs include wages and salaries together with unutilised annual leave.

Notes to the Accounts

4. FINANCE COSTS

	2002 HK\$'000	2001 HK\$'000
Interest on bank loans and overdrafts wholly repayable within five years	2,990	4,959

5. DIRECTORS' EMOLUMENTS

(a) Directors' emoluments

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

	2002 HK\$'000	2001 HK\$'000
Fees	310	230
Other emoluments:		
Basic salaries, housing and other allowances	3,411	3,410
Discretionary bonuses	1,210	1,188
Contributions to retirement schemes	300	293
	5,231	5,121

Directors' fees disclosed above include HK\$80,000 (2001: HK\$40,000) paid to Independent Non-executive Directors.

The emoluments of the Directors fell within the following bands:

	No. of directors	
	2002	2001
Emolument bands		
HK\$nil – HK\$1,000,000	10	10
HK\$2,000,001 – HK\$2,500,000	1	1
HK\$2,500,001 – HK\$3,000,000	1	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 (2001: two) Directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2001: three) individuals during the year are as follows:

	2002 HK\$'000	2001 HK\$'000
Basic salaries, housing and other allowances	4,301	3,605
Bonuses	737	650
Profit sharing incentives	1,296	–
Contributions to retirement schemes	32	101
Compensation of loss of office		
– contractual payments	592	–
– others	306	–
	7,264	4,356

The emoluments fell within the following bands:

	No. of individuals	
	2002	2001
Emolument bands		
HK\$1,000,001 – HK\$1,500,000	–	1
HK\$1,500,001 – HK\$2,000,000	1	2
HK\$2,500,001 – HK\$3,000,000	2	–

Notes to the Accounts

6. RETIREMENT BENEFIT COSTS

Unvested contributions totalling HK\$280,000 (2001: HK\$1,812,000) were utilised during the year to reduce current year's contributions to the Mandatory Provident Fund ("MPF"). Contributions totalling HK\$131,000 (2001: Nil) were payable to the MPF at the year end and are included in trade and other payables.

7. TAXATION

Hong Kong profits tax has been provided at the rate 16% (2001: 16%) on the estimated assessable profit for the year. Overseas tax has been calculated at the applicable rates of the respective jurisdictions.

	2002 HK\$'000	2001 HK\$'000
Hong Kong profits tax charge/(credit)		
Company and subsidiaries	88	(287)
Overseas tax		
Subsidiaries	12,006	9,090
Associated company and joint ventures	2,490	2,201
	14,584	11,004

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

	2002 HK\$'000	2001 HK\$'000
Accelerated depreciation allowance	1,067	(13)
Unutilised tax losses	2,601	4,912
Other timing differences	(398)	1,227
	3,270	6,126

8. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of loss of HK\$14,035,000 (2001: profit of HK\$1,939,000).

Notes to the Accounts

9. DIVIDENDS

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Final, proposed, of HK\$0.03 (2001: HK\$0.03) per share	6,229	6,100

Note:

At a board meeting held on 17th April 2003 the Directors declared a final dividend of HK\$0.03 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 2003.

10. EARNINGS PER SHARE

Earnings per share is calculated based on the Group's profit attributable to shareholders of HK\$17,369,000 (2001: HK\$37,649,000) and on the weighted average number of shares in issue of 207,172,206 (2001: 183,971,178 which has been adjusted for the exercise of 2,070,000 share options and 2,540,683 shares issued under the scrip dividend scheme) during the year.

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

Notes to the Accounts

11. INTANGIBLE ASSETS

		Positive goodwill HK\$'000	Negative goodwill HK\$'000	Total HK\$'000
At 1st January 2002		6,024	(2,596)	3,428
Acquisition of subsidiaries		110	–	110
Amortisation charge (Note 3)		(2,227)	1,150	(1,077)
At 31st December 2002		3,907	(1,446)	2,461
At 31st December 2002				
Cost		6,682	(3,450)	3,232
Accumulated amortisation and impairment losses		(2,775)	2,004	(771)
Net book amount		3,907	(1,446)	2,461
At 31st December 2001				
Cost		6,572	(3,450)	3,122
Accumulated amortisation and impairment losses		(548)	854	306
Net book amount		6,024	(2,596)	3,428

Notes to the Accounts

12. FIXED ASSETS

Group

	Investment properties HK\$'000	Other properties HK\$'000	Other assets HK\$'000	Total HK\$'000
Cost or valuation				
At 1st January 2002	72,233	132,362	296,771	501,366
Exchange adjustments	7	558	(191)	374
Additions	–	5,911	9,408	15,319
Transfer from construction in progress	124	2,144	63,609	65,877
Transfer from stock	–	–	247	247
Reclassification	6,195	(6,195)	–	–
Disposals	(6,480)	–	(3,512)	(9,992)
Net revaluation deficit	(2,821)	–	–	(2,821)
At 31st December 2002	69,258	134,780	366,332	570,370
Accumulated depreciation				
At 1st January 2002	–	31,276	185,745	217,021
Exchange adjustments	–	65	119	184
Charge for the year	–	4,642	24,856	29,498
Reclassification	1,032	(1,032)	–	–
Write back on revaluation	(1,032)	–	–	(1,032)
Write back on disposals	–	–	(3,419)	(3,419)
At 31st December 2002	–	34,951	207,301	242,252
Net book value at				
31st December 2002	69,258	99,829	159,031	328,118
Net book value at				
31st December 2001	72,233	101,086	111,026	284,345

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 80 of SSAP 17, the Group is not required to make regular revaluations in accordance with paragraphs 31 and 36 of SSAP 17. The carrying amount of other revalued properties would have been HK\$7,431,000 (2001: HK\$11,871,000) had they been stated at cost less accumulated 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 2002 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 86.

At 31st December 2002, the net book value of fixed assets which have been mortgaged to banks to secure certain bank facilities granted to subsidiaries amounted to HK\$39,234,000 (2001: HK\$39,887,000).

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

	Investment properties HK\$'000	Other properties HK\$'000	Other assets HK\$'000
2002			
At professional valuation			
in 1989	—	10,271	—
in 2002	69,258	—	—
At cost	—	124,509	366,332
At 31st December 2002	69,258	134,780	366,332
2001			
At professional valuation			
in 1989	—	15,082	—
in 2001	72,233	—	—
At cost	—	117,280	296,771
At 31st December 2001	72,233	132,362	296,771

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 HK\$'000	Overseas HK\$'000
2002		
Freehold	–	113,176
Long leases (over 50 years)	8,550	–
Medium leases (10 – 50 years)	6,700	40,661
At 31st December 2002	15,250	153,837
2001		
Freehold	–	113,298
Long leases (over 50 years)	9,025	–
Medium leases (10 – 50 years)	13,880	37,116
At 31st December 2001	22,905	150,414

- (c) Included in the net book value of other properties and other assets were amounts of HK\$3,574,000 (2001: HK\$7,673,000) and HK\$7,495,000 (2001: HK\$8,717,000) respectively which were stated at their recoverable amounts.

13. CONSTRUCTION IN PROGRESS

	2002 HK\$'000	Group 2001 HK\$'000
At 1st January	48,441	22,875
Exchange adjustments	81	–
Additions	43,236	48,474
Purchase of a subsidiary	–	411
Transfer to fixed assets	(65,877)	(23,304)
Write off	(111)	(15)
At 31st December	25,770	48,441

Notes to the Accounts

14. SUBSIDIARIES

	Company	
	2002 HK\$'000	2001 HK\$'000
Unlisted shares at directors' valuation in 1990	242,800	242,800
Loans to subsidiaries	55,931	119,320
Amounts due by subsidiaries	426,353	377,531
	725,084	739,651
Loan from a subsidiary	(3,213)	(1,662)
Amounts due to subsidiaries	(95,893)	(83,816)
	625,978	654,173
Provision for impairment	(355,931)	(355,931)
	270,047	298,242

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

15. AMOUNTS DUE FROM AN INDIRECTLY HELD ASSOCIATED COMPANY, JOINT VENTURE AND RELATED COMPANIES

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

16. ASSOCIATED COMPANY

	Group	
	2002 HK\$'000	2001 HK\$'000
Share of net assets	22,861	21,069
Amounts due by associated company	709	517
	23,570	21,586
Shares at cost – unlisted	519	519

Dividend income from associated company during the year amounted to HK\$437,000 (2001: HK\$432,000).

Notes to the Accounts

16. ASSOCIATED COMPANY (Continued)

Details of the principal associated company are set out on page 85.

Extract of the operating results and financial position of the Group's significant associated company, Philippine Carpet Manufacturing Corporation which is based on its audited consolidated financial statements as at 31st December 2002 is as follows:

	2002 HK\$'000	2001 <i>HK\$'000</i>
Operating results		
Turnover	74,416	74,017
Profit before taxation	8,417	9,645
Group's share of profit before taxation	3,133	3,167
Financial position		
Property, plant and equipment	26,233	26,432
Other investments	4,379	4,483
Other assets	2,150	1,739
Current assets	56,539	56,942
Current liabilities	(19,827)	(24,276)
Shareholders' funds	69,474	65,320
Group's share of net assets	22,861	21,069

Notes to the Accounts

17. JOINT VENTURES

	Group	
	2002	2001
	HK\$'000	HK\$'000
Share of net assets	112,861	109,075
Amounts due by joint ventures		
Loan account	458	458
Current account	14,884	13,636
	15,342	14,094
Provision for impairment	128,203	123,169
	(39,039)	(33,158)
	89,164	90,011
Paid in capital at cost	112,704	112,230

Dividend income from joint ventures during the year amounted to HK\$7,455,000 (2001: HK\$5,065,000).

Details of the principal joint ventures are set out on page 85.

Notes to the Accounts

17. JOINT VENTURES (Continued)

Extract of the operating results and financial position of the Group's significant joint ventures, Weihai Huabao Carpet Company Limited ("WHCL") and Weihai Premier Carpet Company Limited ("WPCL") which are based on their audited financial statements as at 31st December 2002 is as follows:

WHCL			2002	2001
			HK\$'000	HK\$'000
Operating results				
Turnover			189,467	176,466
Profit before taxation			6,903	17,236
Depreciation			11,261	11,621
Group's share of (loss)/profit before taxation			(2,191)	4,660
Financial position				
Fixed assets			86,614	79,243
Construction in progress and other non-current assets			1,978	13,602
Current assets			154,445	169,308
Current liabilities			(120,779)	(133,056)
Shareholders' funds			122,258	129,097
Group's share of net assets			43,333	51,995

Notes to the Accounts

17. JOINT VENTURES (Continued)

WPCL

	2002 HK\$'000	2001 HK\$'000
Operating results		
Turnover	66,107	42,033
Profit before taxation	17,337	14,861
Depreciation	1,864	1,588
Group's share of profit before taxation	8,664	7,282
Financial position		
Fixed assets	15,008	15,551
Construction in progress and other non-current assets	4,110	906
Current assets	58,848	46,340
Current liabilities	(12,988)	(11,417)
Shareholders' funds	64,978	51,380
Group's share of net assets	31,270	25,176

18. OTHER INVESTMENTS

	Group 2002 HK\$'000	2001 HK\$'000
Equity securities, at cost		
– listed overseas	–	1,199
– unlisted	10,036	11,036
Amount due by an investee company	39,079	39,079
Provision for impairment	(20,947)	(18,047)
	28,168	33,267
Market value of listed shares	–	1,199

Notes to the Accounts

19. NET INVESTMENT IN FINANCE LEASES

The total minimum lease payments receivable under finance lease, and its present values are as follows:

	Present value of minimum lease payments receivable 2002 HK\$'000	Interest income relating to future periods 2002 HK\$'000	Total minimum lease payments receivable 2002 HK\$'000	Present value of minimum lease payments receivable 2001 HK\$'000	Interest income relating to future periods 2001 HK\$'000	Total minimum lease payments receivable 2001 HK\$'000
Amounts receivable:						
Not later than one year	1,932	120	2,052	941	74	1,015
Later than one year and not later than five years	76	6	82	280	9	289
		126	2,134		83	1,304
Net investment in finance leases	2,008			1,221		

20. INVENTORIES

	2002 HK\$'000	Group 2001 HK\$'000
Raw materials	46,986	47,482
Work in progress	11,013	11,424
Finished goods	49,446	39,900
Consumable stores	3,081	3,836
	110,526	102,642

At 31st December 2002, the carrying amount of inventories is stated at cost less a general provision amounting to HK\$4,564,000 (2001: HK\$4,702,000).

Notes to the Accounts

21. TRADE AND OTHER RECEIVABLES

	Group	
	2002	2001
	HK\$'000	HK\$'000
Trade receivables (note)	67,735	57,515
Other receivables	28,811	30,310
	<u>96,546</u>	<u>87,825</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, 2002, the ageing analysis of the trade receivables was as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Current – 30 days	48,850	39,776
31 days – 60 days	6,090	7,177
61 days – 90 days	3,965	4,336
Over 90 days	8,830	6,226
	<u>67,735</u>	<u>57,515</u>

22. INVESTMENT SECURITIES

	Group	
	2002	2001
	HK\$'000	HK\$'000
Equity securities listed outside Hong Kong at market value	<u>2,565</u>	<u>–</u>

23. CASH AND BANK BALANCES

Included in cash and bank balances was an amount of US\$690,000 (2001: US\$684,000) deposited in certain banks in the People's Republic of China ("P.R.C.") by certain P.R.C. subsidiaries of the Group.

Notes to the Accounts

24. TRADE AND OTHER PAYABLES

	Group	
	2002	2001
	HK\$'000	HK\$'000
Trade payables (note)	18,465	15,374
Other payables	58,670	55,177
	77,135	70,551

Note:

At 31st December 2002, the ageing analysis of the trade payables was as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Current – 30 days	16,907	13,976
31 days – 60 days	712	389
61 days – 90 days	161	135
Over 90 days	685	874
	18,465	15,374

Notes to the Accounts

25. SHARE CAPITAL

	Company	
	<i>No. of shares</i>	<i>HK\$'000</i>
Authorised:		
At 1st January 2001	200,000,000	20,000
Increase in authorised share capital (note a)	200,000,000	20,000
	<hr/>	<hr/>
At 31st December 2001, 1st January 2002 and 31st December 2002	400,000,000	40,000
	<hr/>	<hr/>
Issued and fully paid:		
At 1st January 2001	135,339,200	13,534
Issue of new shares under rights issue (note b)	67,669,600	6,767
	<hr/>	<hr/>
At 31st December 2001 and 1st January 2002	203,008,800	20,301
Issue of new shares		
– under scrip dividend scheme (note c)	2,540,683	254
– exercise of share options (note d)	2,070,000	207
	<hr/>	<hr/>
At 31st December 2002	207,619,483	20,762
	<hr/>	<hr/>

Notes:

- (a) By a special resolution passed on 25th May 2001 the authorised 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.
- (b) On 18th June 2001, a total of 67,669,600 new 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.
- (c) Pursuant to a scrip dividend scheme in relation to the 2001 final dividend, shareholders representing a total of 128,727,984 shares elected to receive scrip shares in lieu of cash dividend payment. A total of 2,540,683 shares were issued to these shareholders on 27th June 2002 at HK\$1.52 per share.
- (d) Share options exercised from 22nd February 2002 to 26th June 2002 resulted in the issue of 2,070,000 shares (2001: nil) at the price of HK\$0.79 per share, yielding proceeds of HK\$1,635,000 (2001: nil).

Notes to the Accounts

26. RESERVES

Group

	Share premium HK\$'000	Capital reserve HK\$'000	Investment properties revaluation reserve HK\$'000	Other properties revaluation reserve HK\$'000	General reserve HK\$'000	Retained earnings HK\$'000	Total 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)	–	–	–	–	–	2,707	2,707
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)
At 31st December 2001	179,790	89,138	9,871	6,352	16,000	297,656	598,807
Representing:–							
Retained earnings at 31st December 2001						291,556	
2001 final dividend proposed						6,100	
At 31st December 2001						297,656	
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	179,790	89,138	9,871	6,352	16,000	297,656	598,807

Notes to the Accounts

26. RESERVES (Continued)

Group (Continued)

	Share premium HK\$'000	Capital reserve HK\$'000	Investment properties revaluation reserve HK\$'000	Other properties revaluation reserve HK\$'000	General reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1st January 2002	179,790	89,138	9,871	6,352	16,000	297,656	598,807
Exchange adjustments	–	776	–	389	–	(714)	451
Premium on issue of new shares	5,036	–	–	–	–	–	5,036
Reclassification	–	–	495	(495)	–	–	–
Net revaluation deficit	–	–	(1,090)	–	–	–	(1,090)
Profit for the year	–	–	–	–	–	17,369	17,369
2001 final dividend paid	–	–	–	–	–	(6,121)	(6,121)
At 31st December 2002	184,826	89,914	9,276	6,246	16,000	308,190	614,452
Representing:-							
Retained earnings at 31st December 2002						301,961	
2002 final dividend proposed						6,229	
At 31st December 2002						308,190	
Company and subsidiaries	184,826	70,086	9,276	–	16,000	303,853	584,041
Associated company	–	3,991	–	6,246	–	9,976	20,213
Joint ventures	–	15,837	–	–	–	(5,639)	10,198
At 31st December 2002	184,826	89,914	9,276	6,246	16,000	308,190	614,452

Notes to the Accounts

26. RESERVES (Continued)

Company	Share premium HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1st January 2001, as previously reported	88,948	442,598	(301,398)	230,148
Effect of adopting SSAP 9 (revised)	–	–	2,707	2,707
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 paid	–	–	(2,707)	(2,707)
At 31st December 2001	179,790	442,598	(299,459)	322,929
Representing:–				
Accumulated losses			(305,559)	
2001 final dividend proposed			6,100	
			(299,459)	
At 1st January 2002	179,790	442,598	(299,459)	322,929
Premium on issue of new shares	5,036	–	–	5,036
Loss for the year	–	–	(14,035)	(14,035)
2001 final dividend paid	–	–	(6,121)	(6,121)
At 31st December 2002	184,826	442,598	(319,615)	307,809
Representing:–				
Accumulated losses			(325,844)	
2002 final dividend proposed			6,229	
			(319,615)	

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

27. LONG TERM BANK LOANS

		Group	
		2002	2001
		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		3,636	7,992
– in the third to fifth years inclusive		–	3,636
		11,628	19,620
Less: Amounts due within one year included under current liabilities		(7,992)	(7,992)
		3,636	11,628

28. FUTURE OPERATING LEASE INCOME

At 31st December 2002, the Group had future aggregate minimum lease payments receivable under non-cancellable operating leases as follows:

	2002	2002	2001	2001
	Land and buildings HK\$'000	Others HK\$'000	Land and buildings HK\$'000	Others HK\$'000
Not later than one year	5,569	712	5,651	582
Later than one year and not later than five years	8,607	25	4,809	8
	14,176	737	10,460	590

Notes to the Accounts

29. DEFERRED TAXATION

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

	Group	
	2002	2001
	HK\$'000	HK\$'000
Accelerated depreciation allowances	1,745	678
Unutilised tax losses	(15,138)	(17,739)
Other timing differences	(4,908)	(4,510)
	(18,301)	(21,571)

30. OPERATING LEASE COMMITMENTS

At 31st December 2002, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	2002	2002	2001	2001
	Land and	Others	Land and	Others
	buildings		buildings	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Not later than one year	7,695	264	7,750	234
Later than one year and not later than five years	13,987	342	13,395	432
Later than five years	3,204	–	4,982	–
	24,886	606	26,127	666

Notes to the Accounts

31. CAPITAL COMMITMENTS

	Group	
	2002 HK\$'000	2001 HK\$'000
Contracted but not provided for in respect of		
– fixed assets	9,740	14,312
Authorised but not contracted for in respect of		
– fixed assets	234	10,136
– further acquisition of a subsidiary	–	2,170
	9,974	26,618
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	9,633	1,086
Authorised but not contracted for in respect of fixed assets	7,563	18,759
	17,196	19,845

32. CONTINGENT LIABILITIES

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Guarantees for banking facilities granted to subsidiaries	–	–	53,143	78,597
Corporate guarantee in respect of performance bonds issued by subsidiaries to customers	3,686	1,091	–	–
Counter-indemnity in respect of performance bonds issued by banks	90	381	–	–
Guarantee in lieu of rental deposit	250	300	–	–
Guarantee in lieu of utility deposit	1,294	1,005	–	–
Guarantee in respect of import duty	1,693	1,625	–	–
	7,013	4,402	53,143	78,597

Notes to the Accounts

32. CONTINGENT LIABILITIES (Continued)

As disclosed in the Group's 2001 Annual Report, the former Director and Administrator of Tai Ping Carpets Europe S.A. ("TPCE") has issued proceedings and a claim for Euro180,790 (HK\$1,477,000) 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 2001 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\$831,000. 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 the 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.

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:–

	2002 HK\$'000	Group 2001 HK\$'000
Sales to an associated company (note a)	2,972	2,179
Purchases from a joint venture (note a)	222	–
Rental paid to a subsidiary of The Hong Kong and Shanghai Hotels, Ltd. (note b)	477	375
Sales to The Hong Kong and Shanghai Hotels, Ltd. and its subsidiaries (note b)	3,398	6,705
Interest from a related company (note c)	–	126
Acquisition of a piece of land from a related company (note d)	4,764	–
Purchase of machinery from a joint venture (note e)	703	–

- (a) Sales to an associated company and purchases from a joint venture were conducted at mutually agreed prices between the involved parties.

Notes to the Accounts

33. RELATED PARTY TRANSACTIONS (Continued)

- (b) Rental paid and sales made to The Hong Kong and Shanghai Hotels, Limited and its subsidiaries ("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 The Hong Kong and Shanghai Hotels, Limited. Rental payments were based on fixed monthly amounts mutually agreed by parties involved. Sales were conducted on normal commercial terms 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) Interest from a related company in 2001 was related to a loan at market interest rate due from a minority shareholder, which amounted to HK\$5,115,000. This loan was repaid in full in 2001.
- (d) During the year, a piece of land in Nanhai, Guangdong Province, the P.R.C., was acquired from a minority shareholder at a price agreed by both parties.
- (e) In December 2002, a subsidiary acquired two pieces of Wilton machinery from Weihai Huabao Carpet Company Limited, a joint venture of the Company, at a price agreed by both parties.

34. SUBSEQUENT EVENT AND CONTINGENT ASSETS

In 1999, The Government of the HKSAR ("the Government") resumed from the Group 28,831 square feet of a piece of land in Yuen Long, Hong Kong, which was used as warehouse, and a further 7,920 square feet in 2001. In August 2002 and March 2003 the Company agreed to settle with the Government for HK\$5,800,000 and HK\$1,288,000 for the land resumed in 1999 and 2001 respectively. Legal formalities for the compensation settlement are still in progress. Upon completion of the formalities and receipt of the settlement from the Government, an estimated profit of HK\$3,188,000 will be recognised in the consolidated profit and loss account for that financial year.

35. APPROVAL OF ACCOUNTS

The accounts were approved by the Directors on 17th April 2003.

Five-Year Consolidated Financial Summary

	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000
BALANCE SHEET					
<i>As at 31st December</i>					
Intangible assets	2,461	3,428	–	–	–
Fixed assets	328,118	284,345	276,034	307,684	352,105
Construction in progress	25,770	48,441	22,875	10,303	6,304
Associated company	23,570	21,586	19,424	20,199	19,036
Joint ventures	89,164	90,011	84,073	75,250	59,984
Other investments	28,168	33,267	32,122	33,509	45,675
Net investment in finance lease					
– non current portion	76	280	–	–	–
Net current assets	158,422	165,998	84,610	107,069	5,932
Employment of capital	655,749	647,356	519,138	554,014	489,036
Share capital	20,762	20,301	13,534	13,528	13,528
Reserves	614,452	598,807	469,140	442,810	417,237
Shareholders' funds	635,214	619,108	482,674	456,338	430,765
Minority interests	16,899	16,620	16,844	64,685	58,271
Long term bank loans	3,636	11,628	19,620	32,991	–
Capital employed	655,749	647,356	519,138	554,014	489,036
PROFIT & LOSS ACCOUNT					
<i>Year ended 31st December</i>					
Turnover	481,086	456,188	439,575	481,707	424,150
Profit/(loss) after taxation					
Company and subsidiaries	12,630	27,756	21,410	33,169	(102,248)
Associated company	2,230	2,289	3,240	1,769	12,989
Joint ventures	4,885	10,619	10,976	11,061	6,892
	19,745	40,664	35,626	45,999	(82,367)
Minority interests	(2,376)	(3,015)	(1,954)	(6,392)	5,442
Profit/(loss) attributable to shareholders	17,369	37,649	33,672	39,607	(76,925)
Proposed dividends	6,229	6,100	2,707	–	–
Dividend per share	3.0¢	3.0¢	1.9¢	–	–
Earnings/(loss) per share	8.4¢	20.5¢	23.0¢	27.1¢	(52.7¢)
Net assets per share	HK\$3.06	HK\$3.05	HK\$3.57	HK\$3.37	HK\$3.18

Principal Subsidiaries, Associated Company and Joint Ventures

At 31st December 2002

Name	Country of incorporation	Principal activities	Ordinary shares (unless otherwise stated) issued and paid up	Percentage of equity attributable to the Group
Subsidiaries				
Banyan Tree Limited	Hong Kong	Furniture trading and leasing	1,000 shares of HK\$1 each	100%
Carpets International Thailand Public Company Limited	Thailand	Carpet manufacturing	10,000,000 shares of Baht10 each	99%
Delvincourt Limited	Hong Kong	Property holding	2 shares of HK\$10 each	100%
Nanhai Tai Ping Carpets Company Limited	The People's Republic of China	Carpet manufacturing	Paid in capital of US\$5,000,000	80%
Options Home Furnishings Limited (Formerly known as Lim Mei Manufacturing Company Limited)	Hong Kong	Furniture trading and leasing	1,900,000 shares of HK\$1 each	100%
Premier Yarn Dyers, Inc.	U.S.A.	Yarn dyeing	1,100 shares of US\$100 each	100%
Tai Ping Carpets Americas, Inc. (Formerly known as Options Tai Ping Carpets, Inc.)	U.S.A.	Carpet trading	220,900 shares of US\$1 each	100%
Tai Ping Carpets Europe S.A.	France	Carpet trading	26,000 shares of Euro2 each	100%
Tai Ping Carpets Interieur GmbH	Germany	Carpet trading	Paid in capital of Euro 511,292	100%
Tai Ping Carpets International Trading (Shanghai) Company Limited	The People's Republic of China	Carpet trading	Paid in capital of US\$200,000	100%
Tai Ping Carpets Limited	Hong Kong	Carpet manufacturing	2,000,000 shares of HK\$10 each	100%

Principal Subsidiaries, Associated Company and Joint Ventures (Continued)

At 31st December 2002

Name	Country of incorporation	Principal activities	Ordinary shares (unless otherwise stated) issued and paid up	Percentage of equity attributable to the Group
Subsidiaries (Continued)				
White Oak Carpet Mills, Inc.	U.S.A.	Carpet manufacturing	918 shares of US\$1 each	100%
Associated Company				
Philippine Carpet Manufacturing Corporation	The Philippines	Carpet Manufacturing	1,017,581 shares of PHP100 each	33%
Joint Ventures				
Weihai Huabao Carpet Company Limited	The People's Republic of China	Carpet Manufacturing	Paid in capital of US\$15,090,000	49%
Weihai Premier Carpet Company Limited	The People's Republic of China	Carpet Manufacturing	Paid in capital of US\$5,400,000	49%
Weihai Shanhua Floorcovering Products Company Limited	The People's Republic of China	Manufacture of carpet underlay	Paid in capital of US\$145,000	42%

Major Investment Properties

Location	Lot number	Type	Lease term
Shop G8-13, Ground Floor, Wing On Plaza, 62 Mody Road, Tsimshatsui East, Kowloon.	Kowloon Inland Lot No. 10586	Commercial	2053
Unit 4 on 12th Floor, Block A & Carpark No.2 (Twin) on First Floor, Block B of Seaview Estate, Nos. 4/6 Watson Road, North Point, Hong Kong	Section A of Marine Lot No. 293	Industrial	2056
Units A-E , 10th floor, Mai Gar Industrial Building, 146 Wai Yip Street Kwun Tong, Kowloon	56/1000th shares of and in Kwun Tong Inland Lot Nos. 297 and 298	Industrial	2047
Units Nos. 1 and 2 on Level 1 and the whole of Level 3 and Car Park Spaces Nos. 30, 31 and 32 on basement, May Fair Tower, Nos. 85 and 87 Fumin Road, Jingan District, Shanghai, China	N/A	Commercial	2042
128 George Street, Adairsville Georgia 30103, U.S.A.	N/A	Industrial	Freehold
No. 55, Nonthaburi-Pathumthani Road, (Highway No. 307) Bangkhayaeng Sub-district, Muang District, Pathumthani Province, Thailand	N/A	Industrial	Freehold

Senior Management

Name	Company	Position held	Age	Length of service with the Group (in years)	Business experience
Mr. Niven T.W. Ho	Tai Ping Carpets Limited	Director and General Manager	59	36	Carpet and textiles manufacturing
	Nanhai Tai Ping Carpets Limited	Director			
Mr. Ed Jones	Premier Yarn Dyers, Inc.	Director	74	16	Textiles manufacturing and trading
Mr. Jack Gates	Premier Yarn Dyers, Inc.	Director	63	19	Carpet and textiles manufacturing
Mr. Wan Tabtiang	Carpets International Thailand Public Company Limited	Director	73	5	Interior furnishings
Mr. Chalermchai Puapipat	Carpets International Thailand Public Company Limited	Director	37	5	Manufacturing
Ms. Kathryn I. Hallam	Banyan Tree Limited	Director	38	10	Retailing
Mr. John W. McLennan	Options Home Furnishings Limited	Director	40	1	Retailing
Mr. Steve Brandon	Tai Ping Carpets Americas, Inc.	Director	44	5	Carpet manufacturing, sales and marketing
Mr. Tom Pack	White Oak Carpet Mills, Inc.	Director	38	2	Carpet manufacturing, sales and marketing
Mr. Wolfgang Schleypen	Tai Ping Carpets Interieur GmbH	Director	59	20	Carpet manufacturing, sales and marketing
Ms. Catherine Vergez	Tai Ping Carpets Europe S.A.	Director	40	11	Carpet manufacturing, sales and marketing