



## TAI PING CARPETS INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 00146)

### ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31ST DECEMBER 2003

The Directors of Tai Ping Carpets International Limited (“the Company”) announce the audited consolidated results of the Company and its subsidiaries (“the Group”) for the year ended 31st December 2003, together with the comparative figures for 2002, are as follows:

#### RESULTS FOR THE YEAR

	Note	For the year ended 31st December	
		2003 HK\$'000	As restated 2002 HK\$'000
Turnover	2	525,212	481,086
Cost of sales		(317,095)	(287,314)
Gross profit		208,117	193,772
Other revenues		2,161	2,048
Other operating income		6,982	7,974
Distribution costs		(78,945)	(73,373)
Administrative expenses		(116,516)	(93,349)
Other operating expenses		(6,218)	(9,358)
Operating profit	2, 3	15,581	27,714
Finance costs		(2,475)	(2,990)
Share of profits of			
– Associated company		890	3,133
– Joint ventures		14,875	6,472
Profit before taxation		28,871	34,329
Taxation	4	(11,524)	(14,231)
Profit after taxation		17,347	20,098
Minority interests		(1,054)	(2,442)
Profit attributable to shareholders		16,293	17,656
Profit attributable to shareholders retained by:			
– Company and subsidiaries		2,574	10,541
– Associated company		473	2,230
– Joint ventures		13,246	4,885
		16,293	17,656
Dividends			
– Interim		–	–
– Final, proposed		6,334	6,229
		6,334	6,229
Earnings per share	5	7.7 cents	8.4 cents

Notes:

## 1. 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 investment securities, investment properties and certain other properties are stated at fair value.

In the current year, the Group adopted the following Statement of Standard Accounting Practice (“SSAP”) No. 12 “Income Taxes” issued by the HKSA which is effective for accounting periods commencing on or after 1st January 2003.

*SSAP 12 (revised) “Income Taxes”*

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associated company and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In prior year, deferred taxation was accounted for at the current taxation rate in respect of 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 was expected to be payable or recoverable in the foreseeable future. The adoption of SSAP 12 represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

The opening reserves of the Group at 1st January 2002 and 2003 have been reduced by HK\$2,731,000 and HK\$2,436,000, respectively, which represent the unprovided net deferred tax liabilities. This change has resulted in an increase in deferred tax assets and deferred tax liabilities at 31st December 2002 by HK\$1,640,000 and HK\$4,003,000 respectively. The profit attributable to shareholders for the year ended 31st December 2002 has been increased by HK\$287,000.

## 2. Turnover and segmental information

### (a) Principal activities

The principal activities of the Group consist of manufacture, import, export and sale of carpets, manufacture and sale of yarn, trading and leasing of interior furnishings, investment and property holding.



## (b) Principal markets

An analysis of the Group's turnover and contribution to operating profit for the year by geographical segment is as follows:

	Turnover		Segment results	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Hong Kong	79,123	67,964	5,348	14,886
Mainland China	16,175	24,745	205	3,180
South East Asia	183,058	141,111	21,698	13,126
Middle East	21,346	13,667	1,852	1,971
Other Asian countries	15,763	16,520	187	1,498
Europe	43,535	24,247	1,645	(535)
North America	162,275	189,915	8,198	15,954
Others	3,937	2,917	548	720
	<u>525,212</u>	<u>481,086</u>	<u>39,681</u>	<u>50,800</u>
Unallocated costs			<u>(24,100)</u>	<u>(23,086)</u>
Operating profit			<u>15,581</u>	<u>27,714</u>

## 3. Operating profit

Operating profit is stated after crediting and charging the following:

	2003 HK\$'000	2002 HK\$'000
Crediting:–		
Gains on disposal of interests in investment securities and other investments	41	89
Release of unvested benefit of the previous retirement scheme	302	280
Gains on disposal of fixed assets	60	275
Revaluation surplus on investment properties	303	–
Negative goodwill recognised as income	1,155	1,150
Compensation on resumption of land	<u>3,109</u>	<u>–</u>
Charging:–		
Depreciation of fixed assets	33,794	29,498
Revaluation deficit on investment properties	–	594
Amortisation of goodwill	2,227	2,227
Impairment in land and building	940	–
Provision for impairment in other investments	<u>–</u>	<u>3,900</u>

## 4. Taxation

No provision for Hong Kong profits tax has been made in the accounts as the companies within the Group have no assessable profits for both years. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged/(credited) to the consolidated profit and loss account represents:

	2003 HK\$'000	As restated 2002 HK\$'000
Overseas tax of subsidiaries	11,502	12,542
Over-provision in prior years	(3,780)	(448)
Deferred taxation relating to the origination and reversal of temporary differences	1,895	(353)
Deferred taxation resulting from an increase in tax rate	(139)	–
Share of taxation attributable to associated company and joint ventures	<u>2,046</u>	<u>2,490</u>
	<u>11,524</u>	<u>14,231</u>

## **5. Earnings per share**

Earnings per share is calculated based on the Group's profit attributable to shareholders of HK\$16,293,000 (2002: as restated HK\$17,656,000) and on the weighted average number of shares in issue of 211,121,275 shares (2002: 210,673,998 shares which has been adjusted for shares issued under the scrip dividend scheme) during the year.

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

## **DIVIDEND**

The Directors recommend a final dividend of 3 cents per share (2002: 3 cents) for the year ended 31st December 2003. The Directors propose that a scrip dividend election will be offered to shareholders with Hong Kong addresses. Subject to the approval of the shareholders at the forthcoming Annual General Meeting, the final dividend will be distributed on or about 15th July 2004 to shareholders whose names appear on the Register of Members of the Company as at the close of business on 25th May 2004.

## **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.

## **CODE OF BEST PRACTICE**

Throughout the year, the Company has complied with the Code of Best Practice as set out in the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (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).

## **CLOSING OF REGISTER**

The Register of Members of the Company will be closed from Wednesday, 19th May 2004 to Tuesday, 25th May 2004, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the final dividend, all transfers of shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's Branch Registrars and Registration Office in Hong Kong, Computershare Hong Kong Investor Services Limited, Rooms 1901-05, 19th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:00p.m. on Tuesday, 18th May 2004.

## **BUSINESS REVIEW AND PROSPECTS**

I am pleased to report that the Company's consolidated turnover for the year was HK\$525.2 million (2002: HK\$481.1 million). The profits attributable to shareholders declined modestly to HK\$16.3 million (2002: as restated HK\$17.7 million) against the background of a slow global economy, overshadowed by the war in Iraq and the outbreak of SARS in Asia. Earnings per share were 7.7 cents, compared to 8.4 cents in 2002. In order to preserve cash for operation and expansion, the Board recommends the payment of an unchanged dividend for the year (2002: 3 cents per share), together with a scrip alternative.

## **Strategic Changes**

2003 was a year of change for Tai Ping. After the termination of a possible privatization offer in July 2003 and based on a study by an external firm of management consultants, we concluded that there was considerable potential for Tai Ping to expand in the US. As part of the plan to expand our business in the US and revitalize our brand name, Mr. James Kaplan joined the Group as CEO in November 2003, bringing his extensive experience in sales, distribution and business strategy in the US for an internationally recognized premium furniture company. With his leadership, several initiatives including organizational changes and operational improvements were implemented soon after his arrival and these have begun to yield benefits early in 2004.

## **Carpet Operations**

In 2003, the Group's turnover in carpet manufacturing and trading rose by 20% to HK\$409.6 million.

### *USA*

Sales to the USA, mostly generated by Tai Ping Carpets Americas, Inc. ("TPCA"), dropped marginally by 2% to HK\$107.7 million. This accounted for 26% of the Group's turnover in carpet manufacturing and trading. During the year, the US hospitality market remained slow in recovery. This fueled competition, especially pricing. In response to this competitive environment, our US office reacted by widening their sales efforts into other markets. In the first half of the year, it secured a contract for the Washington D.C. Rapid Transit Authority and developed an OEM basis business with a leading designer rug retailer.

### *Europe*

Sales to Europe jumped 80% to HK\$43.5 million, due to excellent sales growth achieved by our Paris office, Tai Ping Carpets Europe S.A. ("TPCE") and the appreciation of the Euro. In the year, our German office, Tai Ping Carpets Interieur GmbH ("TPCI") recorded an increase in sales of 16% to HK\$13.8 million, reflecting the stronger Euro. While the orders from one of its major customers, which previously accounted for more than 65% sales of TPCI, had shown a downward trend, TPCI made up a large part of the lost sales by shifting some of its efforts to drive project sales. Our Paris office, TPCE, by contrast, showed very strong sales momentum registering a turnover of HK\$23.8 million, representing a growth of 194% year on year. This growth was attributable to its sales efforts to generate more contract businesses, and make further inroads into private yacht and aircraft markets.

### *Hong Kong & China*

The Hong Kong market has been difficult for several years. The outbreak of SARS aggravated an already competitive market. During the SARS period the hospitality industry in Hong Kong and China put almost every carpeting project on hold. With the subsidence of SARS, activities slowly recovered and our sales bounced back. However, for the year our sales in Hong Kong and China still suffered a drop of 16% to HK\$38.2 million.

### *Thailand and South East Asia*

The sales to Thailand and South East Asia, generated primarily from our factory in Thailand, Carpets International Thailand Public Company Ltd ("CIT"), surged 38% to HK\$179.1 million, representing 44% of the Group's turnover in carpet manufacturing and trading. CIT maintained its leadership in the carpet industry in Thailand and its domestic sales in Thailand benefited from the buoyant Thai property market despite keen competition from Indonesia, Malaysia and China. Its exports sales also performed well in South East Asia, though gross margin was depressed due to appreciation of the Thai Baht.

Overall, the carpet manufacturing and trading operation managed to grow the sales to HK\$409.6 million, compared to HK\$342.5 million in 2002, but its segmental profits fell 23% to HK\$18.6 million before tax, finance and unallocated costs. The decline in segment profit was partly explained by the pressure on gross margin due to price competition across most of the major markets the Group operates, partly by more investments in marketing activities and sales tools, and increase in headcount in order to better service our customers and increase our market share.

### *Joint Ventures and Associated Company*

Weihai Shanhua Huabao Carpet Co. Ltd, Weihai Shanhua Premier Carpet Co, Ltd and Weihai Shanhua Floorcovering Products Co. Ltd ("Weihai") reported very good results for the year and continued to lead the carpet industry in China in terms of sales and profits. Their combined sales increased by 19% to HK\$325.0 million as a result of increasing demands both domestically and overseas, facilitated by adding more Axminster looms and a BCF extrusion line during the year. The Group's share of Weihai's profit before taxation was HK\$14.9 million, compared to HK\$ 6.5 million in 2002 after provisions for inventories and debtors.

Philippine Carpet Manufacturing Corporation (“PCMC”) had a challenging year in 2003. Its domestic and export markets all experienced a decline in sales as the sluggish US economy and the domestic political concerns continued to dampen consumer and institutional expenditures. The Group’s share of PCMC’s pre-tax profit amounted to HK\$0.9 million ( 2002 HK\$3.1 million).

## **Other Operations**

### *Yarn Dyeing*

The combined sales of yarn manufacturing and dyeing operation of our factory in Nanhai, China, and in the USA of Premier Yarn Dyers, Inc. (“PYD”) dropped by 40% to HK\$57.2 million. Given PYD’s major customers continued to shift their dyeing service demands from skein dyeing to space dyeing, PYD increased its capacity of space dyeing facilities by 15% towards the year end, to meet the growing demands. On the other hand its skein dyeing facilities were under-utilized. This mismatch of production facilities in the U.S.A., coupled with lower yarn sales by Nanhai affected adversely the results. Profit from this segment declined to HK\$10.5 million from HK\$19.7 million in 2002.

### *Interior Furnishings*

The interior furnishings operation consists of Banyan Tree Ltd. (“BYT”) in furniture retail business and Options Home Furnishings Ltd. (“OHF”) in the furniture rental business. In 2003, their combined sales amounted to HK\$51.5 million, representing an increase of 45% over 2002. This was attributable to OHF’s notable success in its first full year of operation in establishing its name and capturing market share in the business through offering a wide range of quality products coupled with a high level of customer services. BYT’s sales, however, were affected by the weak retail market and the outbreak of SARS. The combined results of the operation was a profit of HK\$5.1 million, compared to a loss of HK\$0.5 million in 2002.

## **Liquidity and Financial Resources**

The Group is in a healthy financial position. The Group’s cash deposits and bank balances amounted to HK\$84.7 million at the end of 2003 (2002: HK\$114.4 million).

Bank loans, overdrafts, and other loans at 31st December 2003 amounted to HK\$54.3 million (2002: HK\$88.6 million), all of which are repayable within 1 year (2002: 96% were repayable within 1 year). Total borrowing decreased as a result of repayment of bank loans. As at 31st December 2003, 18% of the borrowings was charged at floating interest rates, and 82% at fixed interest rates with the repayable period within one year. Borrowings are denominated in Thai Baht and United States Dollars.

As the cash deposits and bank balances exceeded all the outstanding bank loans and overdrafts as at 31st December 2003, no gearing ratio has been calculated. The management believes that the Group has sufficient financial resources to finance its operations and capital expenditure. However, should the management identify some acquisition targets to grow our core carpet business, financing by bank loans may be considered.

## **Exposure to Foreign Exchange Risks and Related Hedges**

The Group has overseas operations in the PRC, Thailand, Singapore, USA and Europe. Given our Singaporean and European operations are relatively small, and the Chinese Renminbi currency is relatively stable, most of the exchange differences arising from translation of overseas operations arose from CIT, our operation in Thailand. However, the effect of these exchange differences is reduced by CIT’s borrowings denominated in local Thai Baht currency. As these exchange differences arise from translating the Group’s net investments in these foreign operations, they are dealt with in the reserves and do not affect cash flows or the profit and loss account.

## **Contingent Liabilities**

As at 31st December 2003, the total contingent liabilities of the Group amounted to HK\$6.1 million (2002: HK\$7.0 million) excluding litigation. All litigation cases against the Group have no material effect on the financial position of the Group as the Company believes the claims are without merit and that the outcome against the Group will not be successful.

## **Employee and Remuneration Policy**

The Group had approximately 2,900 employees as at 31st December 2003. 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 2003 amounted to HK\$151.7 million (2002: HK\$133.5 million) and HK\$3.2 million (2002: HK\$2.9 million) respectively.

## **Outlook**

The carpet industry has been in transition for a number of years. The traditional manufacturers of woven Axminster and Wilton carpets have seen inroads made into their markets by tufted carpets which can be made in great volume and at lower cost. Customers do not require woven carpets for every application and as a result there has been excess capacity leading to amalgamation and closure of high cost and less efficient woven carpet mills. The opening of international markets has introduced further competition from Asia and particularly from China, and carpets have become a commodity leading to lower prices.

Tai Ping recognizes that design and customer experience and brand recognition are key to success. It is with this in mind that the Board and management felt that the Company must become customer focused and not factory oriented.

The quality of Tai Ping's products has never been in question. Several leading carpet and rug retailers in North America recognize this and have been using Tai Ping to supply them for several years.

The appointment of a US based CEO, with proven success in sales, marketing and customer service, is intended to bring Tai Ping closer to its ultimate customer. This should enable us to retain a greater share of the customer dollar.

For the last few years we have invested substantial amounts in our factories. Although this will continue, the emphasis will now be on building sales and service centers in Europe and North America. The investments made so far have significantly increased sales. Unlike investments in machinery which are depreciated over a number of years, the cost of sales and service centers is fully written off as it occurs adversely affecting profit in the early years. I am confident that this is the right direction for Tai Ping and its group companies, and will result in increased value of the business.

The introduction of new regulations has considerably increased the workload of Independent and Non-executive Directors and I would like to thank them and the other Board members for their support and advice, and the management and the staff for their hard work, patience and persistence while the Group undergoes change.

By order of the Board  
**James S. Dickson Leach**  
*Chairman*

Hong Kong, 19th April 2004



*The names of Directors as at the date hereof are – Chairman: Mr. James S. Dickson Leach, Honorary Life President: Mr. Anthony Yuan Chang Yeh, Chief Executive Officer: Mr. James H. Kaplan, Executive Director: Ms. Alison S. Bailey, Independent Non-Executive Directors: Mr. Michael T. H. Lee, Mrs. Yvette Y. H. Fung, Non-Executive Directors: Mr. Ian D. Boyce, Mr. John J. Ying, Mr. Kent M. C. Yeh, Mr. Nicholas T. J. Colfer, Mr. Lincoln K. K. Leong, Mr. Lincoln C. K. Yung, Alternate Directors: Mr. Nelson K. F. Leong (Alternate to Mr. Lincoln K. K. Leong), Mr. David C. L. Tong (Alternate to Mr. James. S. Dickson Leach, Mr. Nicholas T. J. Colfer and Mr. Ian D. Boyce)*

*A detailed result announcement containing the information required by paragraphs 45(1) to 45(3) of Appendix 16 to the Listing Rules will be published in due course in the website of the Stock Exchange of Hong Kong Limited (<http://www.hkex.com.hk>) and the Company (<http://www.taipingcarpets.com>).*