TAI PING CARPETS INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)
(Stock Code: 146)

TAI PING

ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 DECEMBER 2006

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 31 December 2006, together with the comparative figures for 2005, as follows:

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 December

	Note	2006 HK$'000	(As restated) 2005 HK$'000
Continuing Operations			
Turnover	*3*	**900,026**	709,432
Cost of sales		**(514,937)**	(432,587)
Gross profit		**385,089**	276,845
Interest income		**1,643**	1,101
Gain/(loss) on disposal of investment properties		**1,294**	(470)
Gain on liquidation of an available-for-sale financial asset		**—**	21,084
Gain on disposal of a jointly controlled entity		**—**	7,692
Surplus on revaluation of investment properties		**6,486**	15,648
Distribution costs		**(74,648)**	(60,409)
Administrative expenses		**(286,389)**	(228,510)
Other operating income		**3,557**	1,729
Other operating expenses		**(5,024)**	(5,920)
Operating profit	*3, 4*	**32,008**	28,790
Finance costs	*5*	**(3,912)**	(3,578)
Share of profits/(losses) of			
an associate		**220**	(69)
jointly controlled entities		**27,959**	24,343
Add: Reversal of impairment of jointly controlled entities		**2,900**	—
Profit before income tax expenses		**59,175**	49,486
Income tax expenses	*6*	**(18,191)**	(11,728)
Profit after income tax expenses from continuing operations		**40,984**	37,758
Discontinued Operation			
Loss after income tax expenses from discontinued operation	*7*	**(3,964)**	(3,304)
Profit after income tax expenses		**37,020**	34,454
Attributable to:			
Equity holders of the Company		**32,694**	27,646
Minority interests		**4,326**	6,808
		37,020	34,454
Dividend			
— Interim		**—**	—
— Final, proposed		**6,366**	—
		6,366	—

	Note		
Earnings/(loss) per share of profit/(loss) attributable to equity holders of the Company (expressed in HK cents)			
From continuing and discontinued operations			
— Basic	*8*	**15.41**	13.04
— Diluted	*8*	**15.41**	13.04
From continuing operations			
— Basic	*8*	**17.28**	14.60
— Diluted	*8*	**17.28**	14.60
From discontinued operation			
— Basic	*8*	**(1.87)**	(1.56)
— Diluted	*8*	**(1.87)**	(1.56)

CONSOLIDATED BALANCE SHEET

As at 31 December

	Note	**2006** ***HK$'000***	2005 *HK$'000*
ASSETS			
Non-current assets			
Leasehold land and land use rights		**21,588**	21,739
Property, plant and equipment		**317,092**	303,440
Investment properties		**36,800**	73,130
Construction in progress		**7,993**	12,282
Interest in an associate		**21,682**	21,166
Interest in jointly controlled entities		**157,705**	133,318
Available-for-sale financial assets		**—**	134
Net investment in finance leases		**—**	210
Deferred tax assets		**6,631**	1,983
		569,491	567,402
Current assets			
Inventories		**211,858**	173,847
Trade and other receivables	*9*	**178,404**	161,658
Current portion of net investment in finance leases		**—**	735
Derivative financial instruments		**681**	—
Properties held for sale		**4,436**	—
Financial assets at fair value through profit or loss		**23,809**	—
Cash and cash equivalents		**58,976**	87,079
		478,164	423,319
Total assets		**1,047,655**	990,721
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital		**21,219**	21,193
Reserves		**746,276**	662,414
Proposed final dividend		**6,366**	—
		773,861	683,607
Minority interests		**33,204**	27,864
Total equity		**807,065**	711,471
LIABILITIES			
Non-current liabilities			
Bank borrowings — unsecured		**—**	9,500
Deferred tax liabilities		**2,602**	5,632
Other long-term liabilities		**1,601**	1,991
		4,203	17,123

CONSOLIDATED BALANCE SHEET (CONTINUED)

	Note	**2006** **HK$'000**	2005 HK$'000
Current liabilities			
Bank borrowings — unsecured		**11,000**	99,836
Trade and other payables	*10*	**201,520**	153,016
Other long-term liabilities — current portion		**390**	390
Taxation		**23,477**	8,885
		236,387	262,127
Total liabilities		**240,590**	279,250
Total equity and liabilities		**1,047,655**	990,721
Net current assets		**241,777**	161,192
Total assets less current liabilities		**811,268**	728,594

Notes:

1. Basis of preparation

The consolidated accounts have been prepared in accordance with Hong Kong Financial Reporting Standards and Interpretations ("collectively known as HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). In addition, the consolidated accounts include the appropriate disclosures required by the Stock Exchange of Hong Kong Limited and the Hong Kong Companies Ordinance. The consolidated accounts have been prepared under the historical cost convention except for (i) certain buildings which are stated at revalued amounts less subsequent accumulated depreciation and accumulated impairment losses; and (ii) available-for-sale financial assets, financial assets held at fair value through profit or loss, and investment properties, which are carried at fair value.

The preparation of the accounts in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgments in the process of applying the Group's accounting policies.

2. The adoption of new/revised HKFRS

In the current year, the Group also applied, for the first time, the following new standards, amendments and interpretations issued by the HKICPA (hereinafter collectively referred to as the "new HKFRSs") that are effective for the accounting periods beginning on or after 1 December 2005 or 1 January 2006.

HKAS 19 Amendment	Actuarial gains and losses, Group plans and disclosures
HKAS 21 Amendment	Net investment in a foreign operation
HKAS 39 Amendment	Cash flow hedge accounting of forecast intragroup transactions
HKAS 39 Amendment	The fair value option
HKAS 39 & HKFRS 4 Amendments	Financial guarantee contracts
HKFRS 6	Exploration for and evaluation of mineral resources
HKFRS — Interpretation 4	Determining whether an arrangement contains a lease
HKFRS — Interpretation 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds
HK(IFRIC) — Interpretation 6	Liabilities arising from participating in a specific market — waste electrical and electronic equipment

The adoption of the above new HKFRSs has had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment is required.

The Group has not applied for the early adoption of the following new standards, amendments and interpretations that have been issued but are not yet effective. The Group is in the process of making an assessment of the impact of these new standards, amendments and interpretations to the Group's results of operations and financial position in the period of initial application.

		Effective for accounting periods beginning on or after
HKAS 1(Amendment)	Capital disclosures	1 January 2007
HKFRS 7	Financial instruments: disclosure	1 January 2007
HKFRS 8	Operating segments	1 January 2009
HK(IFRIC) — Interpretation 7	Applying the restatement approach under HKAS29 financial reporting in hyperinflationary economies	1 March 2006
HK(IFRIC) —Interpretation 8	Scope of HKFRS 2	1 May 2006
HK(IFRIC) —Interpretation 9	Reassessment of embedded derivatives	1 June 2006
HK(IFRIC) — Interpretation 10	Interim financial reporting and impairment	1 November 2006
HK(IFRIC) — Interpretation 11	Group and treasury share transactions	1 March 2007
HK(IFRIC) — Interpretation 12	Service concession arrangements	1 January 2008

3. Turnover and segmental information

The principal activities of the Group consist of manufacture, import, export and sale of carpets, manufacture and sales of yarns, manufacturing and sales of mattresses, and property holding.

The discontinued operation comprises sales and leasing of interior furnishings.

(a) *Business segments*

The following tables present turnover, profit and certain assets, liabilities and expenditure information of the Group's business segments for the years ended 31 December 2006 and 2005.

For the year ended 31 December 2006

	Carpet *HK$'000*	Yarn *HK$'000*	Interior furnishings *HK$'000*	Property holding *HK$'000*	Elimination *HK$'000*	Unallocated *HK$'000*	Continuing operations Total *HK$'000*	Discontinued operation (Interior furnishing) *HK$'000*	Total *HK$'000*
Revenue									
— External revenue	816,867	48,548	29,937	4,674	—	—	900,026	23,738	923,764
— Inter-segment revenue*	255	—	—	2,069	(2,324)	—	—	—	—
	817,122	48,548	29,937	6,743	(2,324)	—	900,026	23,738	923,764
Segment results	15,166	5,951	2,164	14,617	—	(5,890)	32,008	(3,622)	28,386
Finance costs							(3,912)	—	(3,912)
Share of profits of									
— an associate	220	—	—	—	—	—	220	—	220
— jointly controlled entities	30,859	—	—	—	—	—	30,859	—	30,859
Profit before income tax expenses							59,175	(3,622)	55,553
Income tax expenses							(18,191)	(342)	(18,533)
Profit for the year							40,984	(3,964)	37,020
Segment assets	746,359	48,220	15,694	46,335	—	11,660			868,268
Interest in an associate	21,682	—	—	—	—	—			21,682
Interests in jointly controlled entities	157,705	—	—	—	—	—			157,705
Total assets									1,047,655
Segment liabilities	194,506	1,727	2,836	417	—	41,104			240,590
Capital expenditure	29,494	158	3,009	—	—	—			32,661
Depreciation	38,977	4,130	468	—	—	—	43,575	2,251	45,826
Amortisation of leasehold land and land use rights	532	—	—	—	—	—	532	—	532

For the year ended 31 December 2005

	Carpet HK$'000	Yarn HK$'000	Interior furnishings HK$'000	Property holding HK$'000	Elimination HK$'000	Unallocated HK$'000	Continuing operations Total HK$'000	Discontinued operation (Interior furnishings) HK$'000	Total HK$'000
Revenue									
— External revenue	627,340	57,635	18,845	5,612	—	—	709,432	46,197	755,629
— Inter-segment revenue*	2,244	10	—	1,239	(3,493)	—	—	—	—
	629,584	57,645	18,845	6,851	(3,493)	—	709,432	46,197	755,629
Segment results	(29,878)	8,685	1,152	22,298	—	26,533	28,790	(4,187)	24,603
Finance costs							(3,578)	—	(3,578)
Share of (loss)/profits of									
— an associate	(69)	—	—	—	—	—	(69)	—	(69)
— jointly controlled entities	24,343	—	—	—	—	—	24,343	—	24,343
Profit before income tax expenses							49,486	(4,187)	45,299
Income tax expenses							(11,728)	883	(10,845)
Profit for the year							37,758	(3,304)	34,454
Segment assets	658,535	54,166	41,554	77,750	—	4,232			836,237
Interest in an associate	21,166	—	—	—	—	—			21,166
Interests in jointly controlled entities	133,318	—	—	—	—	—			133,318
Total assets									990,721
Segment liabilities	139,251	2,392	8,436	1,019	—	128,152			279,250
Capital expenditure	58,650	360	4,808	—	—	—			63,818
Depreciation	33,255	2,269	385	—	—	—	35,909	4,023	39,932
Amortisation of leasehold land and land use rights	408	—	—	—	—	—	408	—	408

* Inter-segment transactions are entered into under normal commercial terms and conditions that would also be available to unrelated third parties.

(b) ***Geographical segments***

The following tables present turnover, profit, assets and capital expenditure information of the Group's geographical segments for the years ended 31 December 2006 and 2005:

For the year ended 31 December 2006

	Turnover			Segment results				
	Continuing operations *HK$'000*	Discontinued operation *HK$'000*	Total *HK$'000*	Continuing operations *HK$'000*	Discontinued operation *HK$'000*	Total *HK$'000*	Total assets *HK$'000*	Capital expenditure *HK$'000*
Hong Kong and Macau	76,555	23,489	100,044	12,828	(3,719)	9,109	96,577	4,390
Mainland China	35,889	—	35,889	(423)	—	(423)	140,326	7,871
South East Asia	235,449	96	235,545	10,087	57	10,144	377,733	13,436
Middle East	25,612	—	25,612	(2,895)	—	(2,895)	—	—
Other Asian countries	30,281	—	30,281	3,399	—	3,399	—	—
Europe	74,004	—	74,004	(10,513)	—	(10,513)	37,795	1,449
North America	408,654	153	408,807	23,107	40	23,147	204,177	5,515
Others	13,582	—	13,582	2,308	—	2,308	—	—
	900,026	23,738	923,764	37,898	(3,622)	34,276	856,608	32,661
Unallocated items				(5,890)				
Operating profit				32,008				
Interest in an associate							21,682	
Interests in jointly controlled entities[#]							157,705	
Unallocated assets							11,660	
Total assets							1,047,655	

For the year ended 31 December 2005

	Turnover			Segment results				
	Continuing operations *HK$'000*	Discontinued operation *HK$'000*	Total *HK$'000*	Continuing operations *HK$'000*	Discontinued operation *HK$'000*	Total *HK$'000*	Total assets *HK$'000*	Capital expenditure *HK$'000*
Hong Kong and Macau	51,155	42,305	93,460	15,367	(4,128)	11,239	112,357	5,192
Mainland China	32,949	2,515	35,464	499	153	652	136,320	2,325
South East Asia	221,675	—	221,675	11,462	—	11,462	361,545	30,497
Middle East	26,920	—	26,920	(811)	—	(811)	—	—
Other Asian countries	21,434	—	21,434	1,045	—	1,045	—	—
Europe	66,569	—	66,569	(8,236)	—	(8,236)	33,088	1,671
North America	277,912	342	278,254	(18,414)	63	(18,351)	188,695	24,133
Others	10,818	1,035	11,853	1,345	(275)	1,070	—	—
	709,432	46,197	755,629	2,257	(4,187)	(1,930)	832,005	63,818
Unallocated items				26,533				
Operating profit				28,790				
Interest in an associate							21,166	
Interests in jointly controlled entities#							133,318	
Unallocated assets							4,232	
Total assets							990,721	

* Located in South East Asia
* Located in Mainland China

4. Operating profit

	2006 *HK$'000*	2005 *HK$'000*
Operating profit is stated after crediting and charging the following:		
Crediting:—		
Gain on disposal of property, plant and equipment	**137**	—
Net exchange gains	**—**	1,073
Charging:—		
Depreciation of property, plant and equipment	**45,826**	39,932
Amortisation of leasehold land and land use rights	**532**	408
Loss on disposal of property, plant and equipment	**—**	92
Impairment of inventories	**1,277**	1,269
Impairment of construction in progress	**—**	4,470
Employee benefit expenses	**276,486**	226,188
Operating lease charges		
Land and buildings	**19,193**	17,287
Plant and machinery	**789**	661
Auditors' remuneration	**2,451**	2,326
Direct operating expenses arising from investment properties that generated rental income	**507**	604
Direct operating expenses arising from investment properties that did not generate rental income	**—**	17
Research and development costs	**2,297**	2,270
Net exchange losses	**2,896**	—

5. Finance costs

	2006	2005
	HK$'000	*HK$'000*
Interest on bank loans and overdrafts wholly repayable within five years	**3,912**	3,578

6. Income tax expenses

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits for the year. Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the respective countries.

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

	2006	2005
	HK$'000	*HK$'000*
Current income tax expenses		
Hong Kong	**3,538**	—
Overseas	**26,269**	13,984
(Over)/under provision in prior years	**(2,194)**	335
Deferred income tax expenses	**(9,422)**	(2,591)
Income tax expenses	**18,191**	11,728

Share of income tax expenses of an associate and jointly controlled entities of HK$324,000 (2005: HK$568,000) and HK$10,228,000 (2005: HK$8,352,000) respectively are included in the share of profits/(losses) of an associate and jointly controlled entities.

7. Discontinued operation

On 7 July 2006, the Company's entire interests in both Indigo Living Limited ("Indigo") and Banyan Tree Limited ("Banyan Tree") were sold at a consideration of HK$19,200,000. Both Indigo and Banyan Tree were wholly-owned subsidiaries before the disposal and collectively represented a separate line of business under the category "Interior Furnishings" for the purpose of HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations".

The aggregate results of Indigo and Banyan Tree for the period are as follows:

	2006*	2005
	HK$'000	*HK$'000*
Turnover	**23,738**	46,197
Cost of sales	**(9,056)**	(18,507)
Gross profit	**14,682**	27,690
Interest income from banks and finance leases	**43**	64
Distribution costs	**(2,945)**	(2,720)
Administrative expenses	**(9,815)**	(23,815)
Other operating expenses, net	**(89)**	(5,406)
Profit before income tax expenses	**1,876**	(4,187)
Income tax(expenses)/credit	**(342)**	883
	1,534	(3,304)
Loss on disposal of discontinued operation	**(5,498)**	—
Loss after income tax expenses from discontinued operation	**(3,964)**	(3,304)

* Up to 7 July 2006, the date of disposal.

During the period up to 7 July 2006, Indigo and Banyan Tree used an aggregate of HK$3,910,000 of cash in respect of the Group's net operating cash flows (2005: generated HK$4,617,000 cash from operating activities) and paid HK$2,091,000 (2005: HK$3,052,000) in respect of investing activities.

The assets and liabilities of Indigo and Banyan Tree at the date of disposal will be disclosed in the Annual Report.

8. Earnings per share

(a) Continuing and discontinued operations

Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of shares in issue during the year.

	2006	2005
	HK$'000	*HK$'000*
Profit attributable to equity holders of the Company	**32,694**	27,646
	No. of ordinary shares	
Weighted average number of ordinary shares in issue (thousands)	**212,187**	211,933
Basic earnings per share (HK cents)	**15.41**	13.04

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares, namely share options. For these share options a calculation is performed to determine the number of shares that could have been acquired at fair value (determined as average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to the outstanding share options. The number of shares calculated below is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2006	2005
	HK$'000	*HK$'000*
Profit attributable to equity holders of the Company	**32,694**	27,646
	No. of ordinary shares	
Weighted average number of ordinary shares in issue (thousands)	**212,187**	211,933
Adjustments for share options (thousands) *(note)*	**—**	7
Weighted average number of ordinary shares in issue for diluted earnings per share (thousands)	**212,187**	211,940
Diluted earnings per share (HK cents)	**15.41**	13.04

Note: The share options did not have any dilutive effect for the year ended 31 December 2006 as the average market price of the Company's ordinary shares during the year exceeded the exercise price of the share options.

(b) ***Continuing operations***

Basic

The calculation of the basic earnings per share from continuing operations attributable to the equity holders of the Company is based on the following information:

	2006	2005
	HK$'000	*HK$'000*
Profit attributable to equity holders of the Company	**32,694**	27,646
Add: Loss attributable to equity holders from discontinued operation	**3,964**	3,304
Profit attributable to equity holders of the Company from continuing operations	**36,658**	30,950
	No. of ordinary shares	
Weighted average number of ordinary shares in issue (thousands)	**212,187**	211,933
Basic earnings per share (HK cents)	**17.28**	14.60

Diluted

The calculation of the diluted earnings per share from continuing operations attributable to the equity holders of the Company is based on the profit attributable to equity holders from continuing operations of HK$36,658,000 (2005: HK$30,950,000). The denominators used are the same as those detailed above for diluted earnings per share from continuing and discontinued operations.

(c) ***Discontinued operation***

Basic

The calculation of the basic loss per share from discontinued operation attributable to the equity holders of the Company is based on the following information:

	2006	2005
	HK$'000	*HK$'000*
Loss attributable to equity holders from discontinued operations	**(3,964)**	(3,304)
	No. of ordinary shares	
Weighted average number of ordinary shares in issue (thousands)	**212,187**	211,933
Basic loss per share (HK cents)	**(1.87)**	(1.56)

Diluted

The calculation of the diluted loss per share from discontinued operation attributable to the equity holders of the Company is based on the loss attributable to equity holders from discontinued operation of HK$3,964,000 (2005: HK$3,304,000). The denominators used are the same as those detailed above for diluted earnings per share from continuing and discontinued operations.

9. Trade and other receivables

	2006	2005
	HK$'000	*HK$'000*
Trade receivables	**176,182**	151,745
Less: Impairment loss of receivables	**(20,337)**	(15,493)
Trade receivables — net	**155,845**	136,252
Other receivables	**22,559**	25,406
	178,404	161,658

The amount approximated to the fair value as at 31 December 2006. The credit terms of the Group range from 0 to 90 days, depending on the credit status and repayment history of customers. As at the balance sheet date, the ageing analysis of the trade receivables was as follows:

	2006	2005
	HK$'000	*HK$'000*
10 — 30 days	**85,432**	86,020
31 days — 60 days	**23,634**	27,705
61 days — 90 days	**14,078**	8,037
Over 90 days	**53,038**	29,983
	176,182	151,745

There is no concentration of credit risk with respect to trade receivables as the Group has a large number of customers, internationally dispersed.

10. Trade and other payables

	2006	2005
	HK$'000	*HK$'000*
Trade payables —	**42,391**	46,482
Other payables	**159,129**	106,534
	201,520	153,016

At the balance sheet date, the ageing analysis of the trade payables was as follows:

	2006	2005
	HK$'000	*HK$'000*
Current — 30 days	**33,380**	29,374
31 days — 60 days	**4,806**	11,094
61 days — 90 days	**2,183**	3,214
Over 90 days	**2,022**	2,800
	42,391	46,482

11. Comparatives

The Group previously classified the expenses of certain sales offices as distribution costs. In 2006, the Group reclassified the expenses of such sales offices in accordance with their nature, in order to align with all other group companies for similar items. Management believes that such reclassification will provide a clearer presentation of the Group's results.

The Group also included impairment of inventories and construction in progress in other operating expenses. In 2005 Annual Report, they were disclosed separately on the face of the consolidated profit and loss account.

DIVIDEND

No interim dividend had been declared and the Directors recommend a final dividend of HK 3 cents per share (2005: Nil) for the year ended 31 December 2006. Subject to the approval of the shareholders at the forthcoming Annual General Meeting, the final dividend will be distributed on or about 3 July 2007 to shareholders who appear on the Register of Members of the Company at the close of business on 15 June 2007.

CHAIRMAN'S STATEMENT

In 2006 we maintained the transformation process that I outlined last year, focusing strongly on relaunching the brand and building sales capabilities.

At the same time, we made considerable efforts to enhance production efficiencies in support of the recent vigorous sales growth while maintaining strict controls on capital expenditure.

Turnover increased by 27% to HK$900 million as a result, with particularly good growth in the USA and Asia. It is a tribute to both sales and production staff that core carpet sales have increased during this transformation period to last year's HK$817 million from HK$410 million in 2003, while the strength of the brand and quality of the product range raised average margins from 38% to 44%.

Tai Ping was recognised with several awards in 2006, including two for Domotex in Germany and one for Most Innovative Products at Hospitality Design.

On the commercial front, large scale prestigious projects were won in 2006 such as the MGM and Wynn Casinos in Macau. Hospitality projects such as the Crowne Plaza in Prague as well as the luxurious carpet at the Mandarin Oriental Bangkok supplied by Carpets Inter were also completed. In 2006, Tai Ping installed Axminster carpet at the world's largest convention centre at McCormick Place in Chicago.

In 2006 we also began to see the positive impact of this strategy on profitability. Our investment to strengthen our global sales capability over the last three years inevitably affected profit adversely in the short term. Now, however, the resultant increased sales at improved margins are at a level to enhance profitability. Thus, operating profit excluding extraordinary items was HK$24 million in 2006, compared with a loss of HK$15 million and HK$21 million in 2005 and 2004 respectively.

Our Weihai joint ventures in China also performed well in 2006, with combined sales up 34% year-on-year. Weihai retains a dominant position in its domestic market, while increasing international sales through our expanding distribution channels. Its large new factory will be operational in 2007, which will increase capacity to support further sales growth.

We continued our programme of disposal of non-core assets, and during the year sold Indigo, the furniture operation. Although Indigo had been a stable contributor, it would have required further investment to develop the business significantly, and it was considered more appropriate to focus resources on the core carpet operations.

During 2007 the Company expects to maintain sales growth in both its existing markets and, after opening distribution channels, in new markets in Asia, Europe and the Americas.

On behalf of the Board, I should like to thank all staff for their considerable efforts during 2006. I am also grateful to the Directors for their valuable support and advice during past year.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group's consolidated turnover of continuing operations for the year ended 31 December 2006 totalled HK$900.0 million, a 27% increase from HK$709.4 million in 2005. The gross margin also improved, to 43% in 2006 from 39% in 2005. These significant gains resulted directly from the Group's three-year focus on investing in and growing the carpet operations. In 2006, carpet operations accounted for 91% of the consolidated turnover of the Group's continuing operations (2005: 88%).

The Group recorded a profit attributable to equity holders of HK$32.7 million in 2006, a gain of HK$5.1 million, or 18%, as compared with HK$27.6 million in 2005. The increased profitability in 2006 was mainly attributable to the sustained business growth and margin improvement of carpet operations.

The real improvement in 2006 was in fact greater than the net profit figures reflect. Net profit in 2005 showed a substantial rise of HK$43.9 million before tax, yet the increase was principally due to the disposal of substantial non-core assets and investments, as well as revaluation surpluses of investment properties. Excluding such items, the Group's continuing operations incurred a loss of HK$15.1 million in 2005, compared with an operating profit of HK$24.2 million in 2006 on a similar basis.

CARPET OPERATIONS

Total turnover of carpet operations in 2006 increased by 30%, or HK$189.5 million, to HK$816.9 million. The improvement was mainly attributable to strong growth in the commercial and residential sectors of the USA market.

Turnover in the USA accounted for 44% of total carpet turnover in 2006, while Asia and Europe/Others accounted for 42% and 14% respectively. In 2005, the corresponding shares of total carpet turnover by the USA, Asia and Europe/Others were 35%, 48% and 17%.

Gross margin in 2006 also rose, from 40% to 43%, despite increases in fuel costs and labour rates. The gain derived mainly from rising sales of higher-margin residential carpets and improved factory utilisation and efficiencies.

As a result, carpet operations made a segmental profit of HK$15.2 million in 2006, compared with a segmental loss of HK$29.9 million in 2005. The 2005 figures were adversely affected by one-time initial losses incurred that year from the costs of acquiring the business assets and incorporating the operations of Edward Fields, Inc. ("Edward Fields").

In the last quarter of 2006, the Group reorganised sales and support functions into two global business units: Commercial and Residential, Boutique Contract ("RBC"). The restructuring addresses the fact that the commercial and residential businesses have distinct customer bases, markets and distribution channels. Designed to drive the two business units to evaluate and explore new opportunities on a global basis, the initiative is meant to increase management accountability and to improve the transparency of investment and returns so as to prioritise and optimise investment and resource deployment.

Marketing & Branding

Following the previously established strategy of promoting the brand to a wider audience, Tai Ping opened new and renovated fully branded showrooms in Los Angeles, Hong Kong and New Delhi during 2006. It continued to use its fully branded Trade Show booths in Las Vegas, Miami, Monte Carlo and Paris. In addition, it produced and distributed fully branded individual overview brochures for both Commercial and RBC business unit; each brochure emphasises high-quality product and installation photography designed to complement the all-white sales tools introduced into the marketplace in 2005.

Global Marketing provided support and guidance for the commercial unit in the development of new sales tools using the revamped Carpets Inter brand identity in Thailand. Global Marketing also assisted in the creation of additional sales tools under the Tai Ping Contract brand.

To communicate a Tai Ping point of view to the highly sophisticated RBC audience, Global Marketing and Design teams collaborated closely on the development and introduction of distinctive hand-made collections. The teams also worked collegially to produce ancillary support materials for new product launches, including luxurious photography, collection brochures, portfolios and press kits. These efforts aided Tai Ping in obtaining a constant stream of press in a wide variety of media, from significant editorial coverage in international publications to product placement in industry and business publications. As a result, Tai Ping has gained greater brand recognition worldwide through means more cost-effective than advertising. The launch of a company-wide newsletter and intranet helped sales and design teams access marketing tools, improve internal communications and knit together teams around the world.

For Edward Fields, 2006 brought the development of a brand strategy to ensure future growth. Implementation of the Edward Fields branding effort is slated for 2007, beginning with the creation of an updated corporate identity and a newly branded showroom in New York.

USA

The USA continues to be the primary growth market. Both the commercial and residential businesses recorded strong sales growth during the year, and significantly improved operating results.

Investments made in prior years for long-term expansion in the commercial market, including the addition of experienced sales representatives and field designers and the provision of effective sales and marketing tools, have already yielded measurable results. Despite fierce competition in certain sectors of the commercial market, turnover in the commercial business increased by more than 40% to HK$208.3 million in 2006, with particular focus maintained on the booming hospitality and gaming sectors. The operating results of the commercial carpet business showed significant improvement in 2006 as the Group began to benefit from an effective leveraging of the growth, with lower incremental costs and expenses and stable gross profit margin percentages.

The residential sector's first full operational year in the USA was 2006. For this area of operations, 2005 was occupied with opening the flagship Tai Ping showroom in New York and the acquisition of the business assets of Edward Fields, Inc., including its nation-wide distribution network.

Turnover of the residential business was HK$144.3 million in 2006, an increase of more than 140% over sales in 2005. The average gross profit margin was significantly higher than the commercial business. Also, the related operating costs and expenses in 2006 were relatively lower than the 2005 level, which included one-time initial expenses for business launch and additional post-acquisition costs associated with the incorporation of the Edward Fields operations.

During the year, Tai Ping opened a second showroom in Los Angeles, relocating and converting an old Edward Fields showroom. This was branded as a Tai Ping showroom with dedicated display space and sales staff reserved for Edward Fields products. A programme was developed to renovate or re-locate, as appropriate, the other Edward Fields showrooms over the next few years.

The Group expects that the residential business will be a principal target for both revenue and profit growth over the next few years because of its higher margin and the Group's competitive edge in product quality, customer service, design support, and branding.

Hong Kong, Macau and China

In the Hong Kong, Macau and China region, turnover rose to HK$80.4 million, a 26% improvement over 2005. Hong Kong and Macau's booming casino and resort markets, Tai Ping's primary segments in this region, buoyed the commercial businesses. Despite intense competition from Chinese manufacturers, the Group's sales increases did not compromise profitability. The average gross margin percentage decreased only slightly in 2006 because the Group's strategy was to compete with premium product quality and strong service commitment and design support, rather than price.

The Group also exercised tight control of incremental selling expenses, while cost management at the Foshan Nanhai factory in mainland China benefited from improved utilisation and factory efficiencies. Operating results continued to improve in 2006.

Thailand and South East Asia

Thailand's strong economy as well as the rebranding with new, improved sales tools benefited Carpets International Thailand Public Company Limited, the dominant player in the Thai domestic market selling under the "Carpet Inter" brand. Sales in 2006 increased in this region by 7% to HK$232.9 million, due to the overall growth of the commercial sector both in Thailand and throughout South East Asia.

The gross margin percentages remained relatively flat in 2006, as increases in raw material prices and energy costs offset the savings from improved factory utilisation and efficiencies.

The environmentally friendly felt-backed modular carpet tile, which was developed in-house and branded "Eco-Soft", was launched during the year. It is expected to increase sales in new markets.

Europe

Total turnover generated by the European subsidiaries amounted to HK$74.3 million, an 14% increase over 2005.

The relatively moderate increase in sales was mainly attributable to a management change in the Germany subsidiary, Tai Ping Carpets Interieur GmbH, and the postponement of certain orders to 2007 at the request of customers.

The Group implemented a number of strategic initiatives in 2006 to expand its future market share of the commercial and residential businesses throughout Europe. In the past, it focused on niche markets. For the residential business, it targeted the high-end interior design community. For the commercial business, it concentrated on certain medium-scale, lower-margin projects, mainly in France and Germany. In 2007, the Group plans to explore further expanding distribution channels and establishing residential operations in key new markets.

In targeting commercial business in the UK, Middle East and other parts of Europe, the Group established a UK-based sales and design team in 2005, with a resulting sales increase to HK$18.0 million in 2006 from HK$4.4 million in 2005. The UK team remains the driving force for aggressive growth in the commercial business in Europe and Middle East.

Despite stable gross profit margin percentages, the European subsidiaries increased operating losses from 2005 to 2006. This was due both to planned personnel changes and to investments made to prepare for future business growth.

Jointly Controlled Entities and Associate

The Weihai joint venture group encompasses Weihai Shanhua Huabao Carpet Co. Ltd. and Weihai Shanhua Premier Carpet Co. Ltd. (both 49% owned), plus Weihai Shanhua Floorcovering Products Co. Ltd. (42% owned). Due to strong market demand and the dominant market position of Weihei products within China, the Weihai group's combined turnover totalled HK$716.8 million, a 34% increase over the 2005 total of HK$534.1 million. Assisted by the Group in global marketing and distribution, these companies also sell Weihai 'Shanhua' products outside the PRC. The complementary arrangement expands the Group's range of existing products and price points. The Group's share of the joint ventures profit after tax of 2006 amounted to HK$28.0 million, a 15% increase over the 2005 results (HK$24.3 million).

Philippine Carpet Manufacturing Corporation ("PCMC"), the 33% owned associate, recorded a small profit for the Group of HK$0.2 million in 2006 despite slightly lower sales, compared with a small net loss in 2005.

OTHER OPERATIONS

Yarn Dyeing

Premier Yarn Dyers, Inc. ("PYD"), which operates the Group's US-based yarn-dyeing facilities, posted lower turnover and segmental results for 2006, at HK$48.5 million (2005: HK$57.6 million) and HK$6.0 million (2005: HK$8.7 million), respectively.

Interior Furnishings

Indigo Living Limited ("Indigo") and Banyan Tree Limited ("Banyan Tree"), the Group's interior furnishings operations in Hong Kong, have been subject to intense market competition during the last few years. Overall profitability and returns on assets deployed have been relatively low. In addition, the interior furnishings business requires significant working capital to carry substantial inventories with a relatively high risk of obsolescence.

In view of this, the Group sold its interests in Indigo and Banyan Tree in July 2006 at a consideration of HK$19.2 million. Their operating results for 2005 and 2006 were reclassified and presented as discontinued operations.

As a result, the segmental turnover and operating results for interior furnishings under continuing operations in both 2006 and 2005 represented that of Suzhou Shuilian Mattress Co. Ltd. only. Turnover and profit before tax in 2006 grew by HK$11.1 million and HK$1.0 million, respectively, as compared with 2005. This was mainly attributable to the booming hospitability industry in China and Hong Kong.

Property Holding

The Group disposed of an investment property in Thailand during the year for an aggregate sum of HK$43.7 million, which produced a net gain on disposal of HK$1.3 million. Rental income decreased in 2006 as a result, to HK$4.7 million (2005: HK$5.6 million).

Revaluation of investment properties held on 31 December 2006 generated for the Group a net surplus of HK$6.5 million (2005: HK$15.6 million), included in the profit and loss account.

GROUP CAPITAL EXPENDITURE

Capital expenditure in the form of property, plant and equipment and construction in progress incurred by the Group totalled HK$32.7 million in 2006 (2005: HK$63.8 million). As at 31 December 2006, the aggregate net book value of the Group's property, plant and equipment, investment properties, leasehold and land use rights, and construction in progress amounted to HK$383.5 million (2005: HK$410.6 million).

It is expected that the capital expenditure will increase in 2007 for expanding factory capacities and renovating residential showrooms to support the sales growth.

LIQUIDITY AND FINANCIAL RESOURCES

The Group coordinates its financing and cash management activities at the corporate level, and usually funds its business with internally generated cash flows and through banking facilities at various subsidiaries.

As at 31 December 2006, the Group had total bank borrowings of HK$11.0 million (2005: HK$109.3 million). Total cash and bank balances amounted to HK$59.0 million (2005: HK$87.1 million). The net cash balance was HK$48.0 million as at 31 December 2006. The gearing ratio, calculated as net bank borrowings (total bank borrowings net of cash and bank balances) divided by total equity, was 0% (2005: 3%).

As at 31 December 2006, the Group also held financial assets at fair value through profit or loss of HK$23.8 million.

The bank loans outstanding on 31 December 2006 were unsecured and carried interest at fixed interest rates throughout their terms. The currency denomination of the loans and their maturity dates as at 31 December 2006 were as follows:

	2006	2005
	HK$'000	*HK$'000*
Within 1 year		
Thai Baht	**11,000**	55,859
United States Dollars	**—**	16,977
Hong Kong Dollars	**—**	27,000
	11,000	99,836
Between 1 and 2 years		
Thai Baht	**—**	9,500
	—	9,500
Total borrowings	**11,000**	109,336

EXPOSURE TO FOREIGN EXCHANGE RISKS AND RELATED HEDGES

The Group has overseas operations in the PRC, Thailand, Singapore, the USA and Europe. The Group treats its investments in these foreign operations as permanent equity, so exchange differences from translating the net investments in these foreign operations do not affect cash flows and are dealt with in the reserves.

The European and Singaporean operations are not significant in terms of the Group's results. The Chinese Renminbi gradually appreciated against Hong Kong dollar during 2006. The major exchange differences arising from overseas operations relate mostly to Thailand. The effect of these exchange differences, however, has been partly reduced because borrowings are in local currency and by hedging against some of its foreign currency exposure (including accounts receivable from export sales).

The Group's export sales are denominated primarily in US dollar, and to a much lesser extent in Euro.

The Group, therefore, considers its exposure to exchange rate movements in 2006 managed and not significant, and will continue to monitor exchange rate movements closely to ascertain if any material exposure may arise.

EMPLOYEE AND REMUNERATION POLICIES

As at 31 December 2006, the Group employed 3,200 employees (2005: 3,100 employees). Employees are remunerated according to the nature of the job and market trends, with built-in merit components incorporated as an annual incentive to reward and motivate individual performance. Staff costs and retirement benefit costs for 2006 totalled HK$270.6 million (2005: HK$221.5 million) and HK$5.9 million (2005: HK$4.6 million) respectively.

CONTINGENT LIABILITIES

As at 31 December 2006, the Group's total contingent liabilities amounted to HK$12.9 million (2005: HK$8.5 million).

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.

CORPORATE GOVERNANCE

The Board and the Management are committed to promoting good corporate governance to safeguard the interests of shareholders. The Company codified its corporate governance practices by reference to the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"). The Company has applied the principles in the Code and complied with the code provisions set out in the Code throughout the year ended 31 December 2006.

FINANCIAL REPORTING AND INTERNAL CONTROLS

The consolidated accounts of the Company for the year ended 31 December 2006 have been reviewed by the Audit Committee and audited by the external auditor, BDO McCabe Lo Limited. The Directors acknowledge their responsibilities for preparing the consolidated accounts of the Company and they are not aware of any events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. The figures in respect of the preliminary announcement of the results for the year have been agreed by BDO McCabe Lo Limited, to the amounts set out in the consolidated accounts of the Company for the year. The work performed by BDO McCabe Lo Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements of Hong Kong Standards on Assurance Engagement issued by the HKICPA and consequently no assurance has been expressed by BDO McCabe Lo Limited on the preliminary announcement.

The Board is responsible for maintaining an adequate system of internal control and for reviewing its effectiveness. The internal control system of the Group is designed to facilitate the effectiveness and efficiency of operations, safeguard assets against unauthorised use and disposition, ensure the maintenance of proper accounting records and the truth and fairness of the financial statements, and ensure compliance with relevant legislation and regulations. It provides reasonable, but not absolute, assurance against material misstatement or loss and manages rather than eliminates risks associated with its business activities.

During the year, an independent internal audit function was established, which has written terms of reference and reports directly to the Audit Committee. Internal Audit conducts reviews of the effectiveness of the Group's internal control system based on the internal audit plan and ad hoc requests from the Audit Committee and senior management. The annual internal audit plan is developed based on an assessment of the various business and operational risks of the Group and is approved by the Audit Committee. The Audit Committee reviews the findings and opinion of Internal Audit in respect of the effectiveness of the Group's internal control system periodically, and reports to the Board the key findings of such reviews.

Audit Committee

Written terms of reference of the Audit Committee in line with code provision C.3.3 of the Code were adopted at the Board meeting on 23 September 2005.

Under these terms of reference, the responsibilities of the Audit Committee include overseeing the relationship with the Company's external auditors (including making recommendation to the Board on the appointment, re-appointment and removal of the external auditors, and approving the audit fee and reviewing the audit scope), review of financial information of the Group, oversight of the Group's financial reporting system and internal controls.

During the year under review, the Audit Committee held 3 meetings with the management and the external auditors for reviewing the interim and annual reports before submission to the Board for consideration and approval, reviewing the external annual audit plan and scope of both external auditors and internal auditors, and discussing issues arising from the audits including internal controls and financial reporting.

CLOSING OF REGISTER

The Register of Members of the Company will be closed from Wednesday, 13 June 2007 to Friday, 15 June 2007, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the final dividend, all transfer 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, 46/F Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Tuesday, 12 June 2007.

By order of the Board

Nicholas T. J. Colfer	**James H. Kaplan**
Chairman	*Chief Executive Officer*

Hong Kong, 20 April 2007

The names of Directors as at the date hereof are — Chairman and Non-executive Director: Mr. Nicholas T. J. Colfer; Chief Executive Officer and Executive Director: Mr. James H. Kaplan; Independent Non-Executive Directors: Mrs. Yvette Y. H. Fung, Mr. Michael T. H. Lee, Mr. Roderic N. A. Sage, Mr. Lincoln C. K. Yung; Non-Executive Directors: Mr. Ian D. Boyce, Mr. Lincoln K. K. Leong, Mr. David C. L. Tong, Mr. John J. Ying; Alternate Director: Mr. Nelson K. F. Leong (Alternate to Mr. Lincoln K. K. Leong).

The 2006 Annual Report containing the information required by 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).