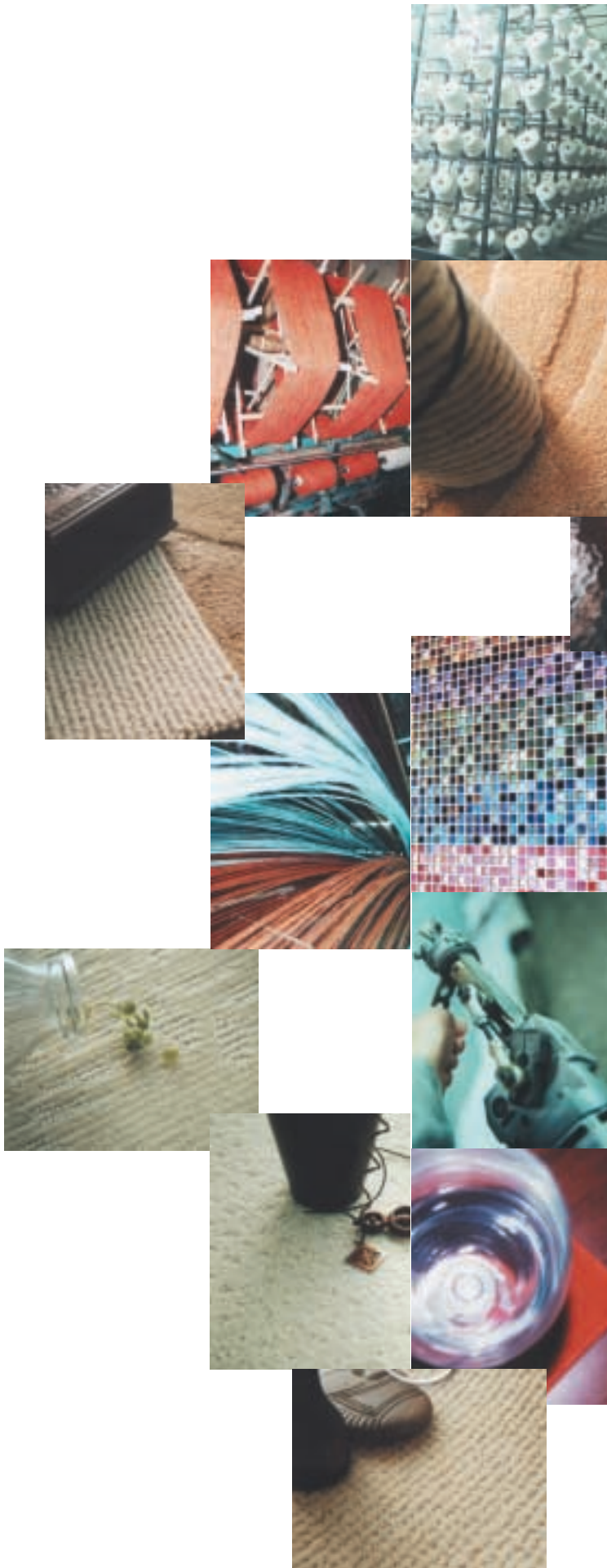




Tai Ping Carpets International Limited
(Incorporated in Bermuda with limited liability)

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MISSION Our mission is to create value for our stakeholders by providing interior furnishing solutions with superior product and service. **VISION** Our vision is to be the customers' preferred choice and a world-class player in our chosen market sectors. **VALUES** Integrity · Commitment · Teamwork · Pursuit of excellence · Responsible corporate citizen



Tai Ping Carpets International Limited

Tai Ping at a Glance

Tai Ping Carpets Group is a leader in the international custom carpet industry and is Asia's premier carpet manufacturer. The Company, founded in 1956 by a group of visionary businessmen, and has been publicly traded since 1973. The Company's stock is traded under stock code 146 on the Stock Exchange of Hong Kong Limited.

The Company has grown from a small cottage industry making traditional Chinese knotted rugs to vertically integrated, a full service manufacturer of hand tufted, machine woven and tufted carpets of myriad variety with sales in over 100 countries.

Tai Ping's offers its customers access to a full range of quality floorcovering products, from luxury to affordable, appropriate for every commercial and residential environment. The Company's global network attends to customer needs with unparalleled attention to detail, enabling us from custom design through post-installation services. With its superior design and manufacturing capabilities, Tai Ping can transform the most complicated custom design into a work of art for the most discerning customer.

Financial Highlights

In thousands of Hong Kong dollars except per share amounts

		2003	2002 (As restated)
Per share	Net assets per share	3.18	3.05
	Earnings per share	7.7 cents	8.4 cents
	Final dividend declared per share	3.0 cents	3.0 cents
For the year	Turnover	525,212	481,086
	Net earnings	16,293	17,656
	Earnings before interest, tax, depreciation & amortisation	65,073	66,390
	Additions to fixed assets and construction in progress	29,514	58,555
At 31st December	Total shareholders' funds	671,410	632,778
	Shares in issue (in thousand)	211,121	207,619
Ratio	Return on average equity	2.5%	2.8%

Five-Year Consolidated Financial Summary

Year ended 31st December

BALANCE SHEET	2003	As restated 2002	As restated 2001	As restated 2000	As restated 1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Intangible assets	1,324	2,461	3,428	–	–
Fixed assets	361,628	328,118	284,345	276,034	307,684
Construction in progress	11,201	25,770	48,441	22,875	10,303
Associated company	21,711	23,570	21,586	19,424	20,199
Joint ventures	96,565	89,164	90,011	84,073	75,250
Other investments	27,465	28,168	33,267	32,122	33,509
Net investment in finance leases					
– non current portion	344	76	280	–	–
Deferred tax assets	834	1,640	885	970	–
Net current assets	173,342	158,422	165,998	84,610	107,069
Employment of capital	694,414	657,389	648,241	520,108	554,014
Share capital	21,112	20,762	20,301	13,534	13,528
Reserves	650,298	612,016	596,075	467,870	438,044
Shareholders' funds	671,410	632,778	616,376	481,404	451,572
Minority interests	17,992	16,972	16,628	16,852	64,290
Long term bank loans	–	3,636	11,628	19,620	32,991
Deferred tax liabilities	5,012	4,003	3,609	2,232	5,161
Capital employed	694,414	657,389	648,241	520,108	554,014
PROFIT & LOSS ACCOUNT					
Turnover	525,212	481,086	456,188	439,575	481,707
Profit after taxation					
Company and subsidiaries	3,628	12,983	27,239	25,108	27,349
Associated company	473	2,230	2,289	3,240	1,769
Joint ventures	13,246	4,885	10,619	10,976	11,061
Minority interests	17,347	20,098	40,147	39,324	40,179
Minority interests	(1,054)	(2,442)	(3,014)	(1,974)	(5,182)
Profit attributable to shareholders	16,293	17,656	37,133	37,350	34,997
Proposed dividends	6,334	6,229	6,100	2,707	–
Dividend per share	3.0¢	3.0¢	3.0¢	1.9¢	–
Earnings per share	7.7¢	8.4¢	19.8¢	25.0¢	23.4¢
Net assets per share	HK\$3.18	HK\$3.05	HK\$3.04	HK\$3.56	HK\$3.34

Note: The figures for 1999-2002 have been restated as a result of the adoption of Hong Kong Statement of Standard Accounting Practice No. 12 "Income Taxes".



Chairman's Statement

TO OUR SHAREHOLDERS

Results

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 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 brandname, 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 recognised 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.

Corporate Governance

The Board and the Management are committed to promote good corporate governance and dissemination of information to the Company's shareholders and investors continuously. This has included the establishment of a remuneration committee for determination of the remuneration of executive directors and senior management, the issuance of a code of conduct to employees in Hong Kong and China, and the use of the Company's website to publish financial announcements. During the year, a business ethics seminar was given to the employees in Hong Kong. The Board will continue to improve the Company's system of corporate governance to ensure business activities are properly regulated.

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 having 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 centres 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.

James S. Dickson Leach

Chairman

Hong Kong, 19th April 2004

Management Discussion & Analysis

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 business with a leading designer rug retailer.

Europe

Sales to Europe jumped 80% to HK\$43.5 million, due to an 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 turnover of HK\$23.8 million, representing 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 within 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 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 by an 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 demand. On the other hand its skein dyeing facilities were under-utilized. This mismatch of production facilities in the USA 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 service. 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.

Management Discussion and Analysis

Last Year's Balance Sheet (Consolidated Balance Sheet at 31.12.2002)	
	As restated HK\$'000
Assets	
Intangible assets	2,461
Fixed assets	
and construction in progress	353,888
Investments in affiliates	112,734
Investment securities and other investments	30,733
Cash & cash equivalents	105,610
Finance lease investments	2,008
Deferred tax assets	1,640
Other current assets	207,072

	816,146
Shareholders' equity and liabilities:	
Share capital, premium & reserves	324,964
Retained earnings	307,814
Bank borrowings	79,866
Other current liabilities	82,527
Minority interests	16,972
Deferred tax liabilities	4,003

	816,146

Cash Flow For The Year (Consolidated Cash Flow Statement for the year ended 31.12.2003)	
	HK\$'000
Cash generated from operations	45,225
Tax paid	(12,320)
Net interest paid	(1,128)
Net dividend received	4,731
Capital expenditure	(27,927)
Acquisitions	(198)
Other investing activities	3,108
Net decrease in bank loans	(32,195)

Net decrease in cash	(20,704)
Foreign exchange rate effect	(219)
Cash & cash equivalent	
at 31.12.2002	105,610
at 31.12.2003	84,687

Earnings For The Year (Consolidated Profit and Loss Account for the year ended 31.12.2003)	
	HK\$'000
Turnover	525,212
Cost of sales	(317,095)

Gross profit	208,117
Other revenue and income	9,143
Expenses	(201,679)

Operating profit	15,581
Finance costs	(2,475)
Share of profits of affiliates	15,765

Profit before taxation	28,871
Taxation	(11,524)

Profit after taxation	17,347
Minority interests	(1,054)

Net profit	16,293

Earnings Retained (Consolidated Retained Earnings for the year ended 31.12.2003)	
	HK\$'000
Balance at 31.12.2002 (as previously reported)	308,190
Change of accounting policy	(376)

Balance at 31.12.2002 (as restated)	307,814
Exchange adjustments	23,950
Net profit	16,293
2002 final dividend paid	(6,229)

Balance at 31.12.2003	341,828

**Current Year's Balance Sheet
(Consolidated Balance Sheet at 31.12.2003)**

	HK\$'000
Assets	
Intangible assets	1,324
Fixed assets and construction in progress	372,829
Investments in affiliates	118,276
Investment securities and other investments	30,089
Cash & cash equivalents	84,687
Finance lease investments	1,715
Deferred tax assets	834
Other current assets	230,854
	840,608
Shareholders' equity and liabilities:	
Share capital, premium & reserves	329,582
Retained earnings	341,828
Bank borrowings	54,306
Other current liabilities	91,888
Minority interests	17,992
Deferred tax liabilities	5,012
	840,608

The capital expenditure includes additions of fixed assets of HK\$12,676,000 and construction in progress of HK\$15,251,000.

Acquisitions represented purchase of 0.106% of Carpets International Thailand (CIT).

Cash inflow from other investing activities included disposal of fixed assets of HK\$338,000, disposal of investment securities of HK\$252,000 and repayment of finance lease receivables of HK\$2,518,000.

Turnover represented revenue from sale of carpet, yarn, interior furnishing and rental income from property investment and interior furnishings. The turnover increased by 9.2%.

Expenses include distribution costs of HK\$78,945,000, administrative expenses of HK\$116,516,000 and other operating expenses of HK\$6,218,000.

Share of profits of affiliates include HK\$890,000 from an associated company and HK\$14,875,000 from joint ventures.

Intangible assets represented net book amount of positive goodwill of HK\$1,680,000 arising from acquisitions of 100% interest in White Oak Carpet Mills, Inc., and of remaining 10% interest in SCM; and of negative goodwill of HK\$356,000 mainly from remaining 10% interest in Treasure Looms (China) Limited.

Investment in affiliates included HK\$96,565,000 in joint ventures in Weihai, Shandong Province of the PRC and HK\$21,711,000 in an associated company in the Philippines.



Group Capital Expenditure

For the year, the total capital expenditure amounted to HK\$29.5 million in the form of fixed assets and construction in progress. It was primarily financed from internal resources. The net book value of the Group's fixed assets and construction in progress stood at HK\$372.8 million as at 31st December 2003.

Investment in Joint Ventures, Associated Company and Other Investments

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

	2003		2002	
	HK\$'000	%	HK\$'000	%
Carpet Business				
– Mainland China	96,565	66.3	89,164	63.3
– South East Asia	21,904	15.0	23,763	16.9
Property and Others				
– Hong Kong	27,272	18.7	27,975	19.8
	145,741	100.0	140,902	100.0

Additional financial information on the Group's significant associated company in the Philippines, and two significant joint ventures in Weihai, Shandong Province, the People's Republic of China (the "PRC") are disclosed in notes 16 and 17 to the accounts.

Net Current Assets

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

	2003	2002
	HK\$'000	HK\$'000
– Hong Kong	61,232	91,816
– China	36,369	39,658
– South East Asia	27,834	(9,851)
– Europe	6,739	(1,935)
– United States	41,168	38,734
	173,342	158,422

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



Shareholders' Funds

Shareholders' funds at 31st December 2003 increased to HK\$671.4 million from HK\$632.8 million at 31st December 2002 (as restated after the adoption of HKSSAP12 "Income Taxes"), reflecting the profit made in the year and the inflation of the Group's net investment in Europe and Thailand as a result of the appreciation of Euro and Thai Baht.

Financial Position and Liquidity

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). The maturity profile of the bank loans, overdrafts and other loans is as follows:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Repayable within one year (including bank overdrafts)	54,306	84,972
Repayable after 1 year, but within 2 years	–	3,636
Total	54,306	88,608

The currency denomination of the borrowings at 31st December 2003 was as follows:

	2003		2002	
	Borrowing (including overdraft) <i>HK\$'000</i>	Carrying value of assets pledged <i>HK\$'000</i>	Borrowing (including overdraft) <i>HK\$'000</i>	Carrying value of assets pledged <i>HK\$'000</i>
Thai Baht				
– Secured	19,787	43,788	55,122	39,234
– Unsecured	24,050	–	19,361	–
United States Dollars				
– Unsecured	10,469	–	11,538	–
Euro				
– Unsecured	–	–	2,587	–
	54,306	43,788	88,608	39,234

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.

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.



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. Full disclosure of contingent liabilities as at 31st December 2003 is made in note 32 to the accounts.

Foreign Exchange Exposure

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.

Cash Flows

	2003 HK\$'000	2002 HK\$'000	Change HK\$'000
Cash provided by/(used in):			
– Operating activities	32,905	40,306	(7,401)
– Investing activities	(16,946)	(46,401)	29,455
– Financing activities	(36,663)	9,024	(45,687)
	(20,704)	2,929	(23,633)
	(20,704)	2,929	(23,633)

Net cash provided by operating activities decreased by HK\$7.4 million reflecting the fall of the operating profits in 2003.

Cash used in investing activities was primarily for capital expenditure on fixed assets, construction in progress and from net proceeds on disposal of fixed assets and investment securities.

Net cash from financing activities in 2003 mainly derived from net increase in bank borrowings, less interest and dividend paid.

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.

Environmental Management

During the year, our carpet manufacturing and woollen yarn spinning operations in both Nanhai, the PRC and Thailand were awarded ISO 14000, the certification for meeting the Environmental Management Standard. Securing this accreditation reinforces the Group's commitment to environmental management and enhances its reputation in carpet manufacturing. The Group will continue its efforts on its environmental management, notably on development of environmentally friendly products and carpet solutions.

Alison S. Bailey

Chief Operating Officer

Hong Kong, 19th April 2004

Board of Directors

James S. Dickson Leach: aged 58; has been a Non-executive Director of the Group for 11 years and Chairman since 1996, as well as holding various directorships with other publicly listed companies in the energy, hospitality and engineering sectors. He is a Chartered Accountant by training with an MBA. He has over 28 years of international experience in managing industrial companies including energy and manufacturing.

James H. Kaplan: aged 48; was appointed to the Board as Chief Executive Officer in November 2003. Prior to joining Tai Ping, James was a divisional vice president of a high-end worldwide furniture manufacturer. He is first and foremost a sales person and has been highly effective in building strong sales organizations. His experience, enthusiasm, and energy will be the facilitator of Tai Ping becoming a truly "customer focused" organization.

Anthony Y. C. Yeh: aged 80; was one of the founder members of the Tai Ping Carpets Group in 1956. He is a mechanical engineer who built the Company from a "cottage industry" to help Chinese refugees in Hong Kong in the 1950's. Anthony developed the techniques in hand tufting carpets, leading to successful commercialization of the product. Forming alliances with other Asian partners and establishing international sales subsidiaries in the early history of the Company subsequently forming the basis of the world recognised custom carpet Group of today.

Alison S. Bailey: aged 47; has been employed with the Group for 7 years. She initially joined the Group to manage the planned corporate changes, and was appointed to the position of Finance Director in 1998. She was promoted to Chief Operating Officer in February 2004 to lead manufacturing, finance, human resources, administration and technology functions group wide. She is a Chartered Accountant and is married to James S. Dickson Leach.

Kent M. C. Yeh: aged 49; has been with the Group 23 years. Kent was trained as an industrial engineer with an MBA. He gained in-depth knowledge of the operations through various positions within the Company, including production experience in the factories, management of the export sales and marketing functions. He was the Managing Director of the Group from 1989 to August 2003. He currently is a Non-executive Director and provides consultancy services to Tai Ping. Kent is the son of Mr. Anthony Yeh.

Michael T. H. Lee: aged 42; is the managing director of Hysan Development Company Limited. He was previously the managing director and founding member of an established fund management group specialising in Asian markets. As an Independent Non-executive Director to the Group for the last 6 years, Michael has brought technical and critical financial strengths together with valuable experience gained from managing investments in the region.

Yvette Y. H. Fung: aged 42; has been an Independent Non-executive Director of the Group since 31st March 2004. Mrs Fung earned her MBA and Juris Doctor degree in the United States, and has over ten years experience in practising law in both international law firms and corporations. Mrs Fung is currently the deputy-chairman of Synergis Holdings Limited and she also serves as a director of other listed companies in Hong Kong.

Ian D. Boyce: aged 59; has been a Non-executive Director of the Group for 5 years. He is a Chartered Accountant with 31 years of mainly investment banking experience of which 19 years have been based in Asia. Ian provides an advisory role in the capacity as a director of several Hong Kong listed companies and in stock market related matters.

Lincoln K. K. Leong: aged 43; has been a Non-executive Director for 7 years. He is the finance director of MTR Corporation Limited. He was previously a partner in a private equity firm investing in the Asia Pacific region, and has had extensive prior experience in investment banking. Lincoln is a Chartered Accountant. His financial acumen and investment experience has been valuable for the Group. He is the elder brother of Mr. Nelson K. F. Leong.

John J. Ying: aged 41; has been a Non-executive Director of the Group for 5 years. John is an electrical engineer with an MBA. He is the managing director and founding member of an established direct investment group focusing on investment opportunities in Greater China. He contributes technology, general business and financial advice to the Group gained from his merchant and investment banking experiences in the United States, Thailand and Hong Kong.

Lincoln C. K. Yung, JP: aged 58; has been a Non-executive Director of the Group for 23 years. Lincoln is an economics graduate with an MBA. He has extensive experience in the textile industry, banking and investment, and has served on various community and government committees. He also sits on the board of several textile and banking companies in Hong Kong, China and Taiwan.

Nicholas T.J. Colfer, aged 44; a Non-executive Director of the Group since December 2003. He has over 20 years' experience of corporate management in the Asia-Pacific region, principally in real estate, manufacturing and distribution. He is an MA graduate and serves on several other corporate boards in Hong Kong.

David C. L. Tong: aged 33; had been a Non-executive Director of the Group in the last 8 years until December 2003 and has become the Alternate Director to Messrs James S. Dickson Leach, Nicholas T. J. Colfer and Ian D. Boyce since then. He is a Chartered Engineer with working and management experience in several industrial operations in Hong Kong, Scotland and Texas. David also serves on several other corporate boards in Hong Kong.

Nelson K. F. Leong: aged 40; has been the Alternate Director to his brother Lincoln for 6 years. Nelson is a director of a number of companies involved in real estate in Hong Kong and North America. Nelson is an economics graduate with an MBA. As a Non-executive Alternate Director, Nelson provides practical and relevant experience to the Group.

Ernest P. L. Law – Company Secretary: aged 47. He is a qualified accountant with experience within Hong Kong and Asia relating to manufacturing and service operations. Ernest's background of systems development, business and tax planning in Hong Kong and China adds greatly to the daily management of the operations. He has been employed with the Group for 6 years.



Directors' Report

The Directors have pleasure in submitting their report together with the audited accounts for the year ended 31st December 2003.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activities of the Company and its subsidiaries (the "Group") consist of the manufacture, import, export and sale of carpets, manufacture and sale of yarn, trading and leasing of interior furnishings, investment and property holding.

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

RESULTS AND APPROPRIATIONS

The results for the year are set out on page 39.

The Directors of the Company recommend the payment of a final dividend of 3 cents (2002: 3 cents) per share for the year ended 31st December 2003, absorbing a total of HK\$6,334,000 (2002: HK\$6,229,000), to shareholders whose names appear on the register of members as at 25th May 2004, with a scrip dividend alternative.

FIVE-YEAR CONSOLIDATED FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 5.

RESERVES

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

DONATIONS

During the year, donations made by the Group for charitable purposes amounted to HK\$59,000 (2002: HK\$71,000).

FIXED ASSETS

Movements in fixed assets of the Group during the year are set out in note 12 to the accounts.

PRINCIPAL PROPERTIES

Details of the principal properties held for investment purposes are set out on page 94.



SHARE CAPITAL

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

DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31st December 2003 calculated under Company Act 1981 of Bermuda (as amended) amounted to HK\$109,528,000 (2002: HK\$122,983,000).

SUBSIDIARIES

Particulars of the principal subsidiaries are set out on pages 92 and 93.

BANK LOANS AND OVERDRAFTS

Particulars of bank loans and overdrafts of the Group are set out in the management discussion and analysis, consolidated balance sheet and note 27 to the accounts.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

PRE-EMPTIVE RIGHTS

No shareholder pre-emptive rights exist in the jurisdiction in which the Company is incorporated.

SHARE OPTIONS

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

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

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

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

- | | |
|--|--|
| 1. Purpose | <p>(a) To provide participants (see the definition below) with the opportunity to acquire proprietary interests in the Company; and</p> <p>(b) To encourage participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole.</p> |
| 2. Participants | Any employee of the Group (whether full time or otherwise, including any Executive Director, Non-executive Director and Independent Non-executive Director of the Group) and any consultant of the Group who has contributed or will contribute to the Group. |
| 3. Maximum number of shares available for issue under the 2002 Share Option Scheme together with the percentage of share capital it represents as at the date of the annual report | 20,401,980 shares (representing 9.7% of issued share capital of the Company as at the date of the annual report). |
| 4. Maximum entitlement of each participant | 1% of the shares in issue in any 12-month period up to the date of grant. |
| 5. The period within which the shares must be taken up under an option | As specified by Directors, which shall not be more than 10 years from the date of grant. |
| 6. The minimum holding period before an option can be exercised | Generally none, but subject to Directors' discretion on case-by-case basis. |
| 7. Amount payable on application or acceptance of the option and the periods within which payments must or may be made or loans made for such purposes must be repaid | HK\$10, payable upon acceptance of the option within 30 days of the grant of such option. |

8. Basis of determining the exercise price
- Determined by the Directors being at least the highest of
- (i) the closing price of a share as stated in the daily quotations of The Stock Exchange of Hong Kong Limited (the "Stock Exchange");
 - (ii) the average closing price of a share as stated in the Stock Exchange's daily quotation sheets for the 5 business days immediately preceding the date of grant; and
 - (iii) the nominal value of a share.
9. The remaining life of the 2002 Share Option Scheme
- The Scheme will be valid and effective for a period of 10 years from 23rd May 2002.

No share option has been granted under the 2002 Share Option Scheme since its adoption. Details of the share options outstanding as at 31st December 2003 which have been granted under the 1997 Share Option Scheme are as follows:

Name	Options held at 1st January 2003	Options lapsed during the year	Options held at 31st December 2003	Exercise price (HK\$)	Exercisable from	Exercisable until	Note
Directors							
– Kent M. C. Yeh	352,500	(352,500)	–	1.17	15.9.2000	14.9.2003	
	352,500	(352,500)	–	1.67	15.9.2001	14.9.2004	1
– Alison S. Bailey	253,500	(253,500)	–	1.17	15.9.2000	14.9.2003	
	253,500	–	253,500	1.67	15.9.2001	14.9.2004	
– Employees	952,500	(952,500)	–	1.17	15.9.2000	14.9.2003	
	952,500	(327,000)	625,500	1.67	15.9.2001	14.9.2004	

Note:

1. The employment of Mr. Kent M. C. Yeh as Managing Director of the Company was terminated on 31st August 2003 and it was agreed that all share options granted to him lapsed notwithstanding the fact that he remained a Non-executive Director of the Company.



DIRECTORS

The names of the Directors during the year are set out on pages 20 and 21.

On 31st August 2003, Mr. Kent M. C. Yeh stepped down from the role of Managing Director but still remained as a Non-executive Director of the Company.

On 1st November 2003, Mr. James H. Kaplan was employed as the Chief Executive Officer and was appointed to the Board as an Executive Director on 5th November 2003.

On 18th December 2003, Mr. Nicholas T. J. Colfer was appointed as a Non-executive Director of the Company while Mr. David Tong resigned as a Non-Executive Director but was appointed as Alternate Director to each of Messrs James S. Dickson Leach, Nicholas T. J. Colfer and Ian D. Boyce.

On 15th January 2004, Mr. Francis B. Y. Sim resigned as an Independent Non-executive Director of the Company due to personal reasons.

On 31st March 2004, Mrs. Yvette Y. H. Fung was appointed as an Independent Non-executive Director of the Company.

In accordance with bye-laws 100 and 109(A) of the Company, Mrs. Yvette Y. H. Fung, Mr. James H. Kaplan, Mr. Nicholas T. J. Colfer, Mr. Kent M. C. Yeh, Mr. Anthony Y. C. Yeh, and Mr. Lincoln K. K. Leong shall retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Mr. James H. Kaplan has a service contract with the Company, which is not determinable within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN CONTRACTS

Apart from the severance agreement entered into between the Group and Mr. Kent M. C. Yeh as disclosed in "Connected Transactions" section below, no other contracts of significance in relation to the Group's business to which the Company, its subsidiaries or its holding company was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of Directors and senior management are set out on pages 20 to 21 and 95 respectively.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

DIRECTORS' INTERESTS IN EQUITY SECURITIES

As at 31st December 2003, the interests of the Directors in the shares and options of the Company and its associated corporations (within the meaning of the Part XV of Securities and Futures Ordinance ("SFO")) as recorded in the register maintained by the Company under Section 352 of the SFO or as notified to the Company were as follows:

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

Name	No. of ordinary shares held (long position)			Aggregate % to the share capital
	Personal interests	Family interests	Corporate interests	
James S. Dickson Leach	3,315,554	–	–	1.570%
Anthony Y. C. Yeh	5,036,230	–	–	2.385%
Kent M. C. Yeh	1,237,500	–	–	0.586%
Ian D. Boyce	209,267	–	–	0.099%
Lincoln C. K. Yung	30,000	–	–	0.014%
Lincoln K.K. Leong	–	–	2,000,000*	0.947%
Alison S. Bailey	1,179,814	–	–	0.559%
John J. Ying	–	–	11,557,420#	5.474%
David C. L. Tong	304,484	–	–	0.144%
<i>(Alternate Director to Messrs James S. Dickson Leach, Nicholas T. J. Colfer and Ian D. Boyce)</i>				
Nelson K.F. Leong	–	–	2,000,000*	0.947%
<i>(alternate director to Lincoln K.K. Leong)</i>				

* Mr. Nelson K.F. Leong is interested in the same shares as disclosed by Mr. Lincoln K.K. Leong. The shares are held through a company which is controlled by Mr. Lincoln K.K. Leong and Mr. Nelson K.F. Leong.

The shares are held through a company of which Mr. John J. Ying is interested in more than one-third of the voting shares.

(b) Share options are granted to Directors under the 1997 Share Option Scheme approved by the shareholders at a Special General Meeting on 24th November 1997. Refer details under Share Options above.

(c) Interest in associated corporations of the Company

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

- * The shares are held through a company of which Mr. Anthony Y. C. Yeh and his family are interested in more than one-third of the voting shares. The aggregate interests held by Mr. Anthony Y. C. Yeh represented 22% of the issued share capital of CIIL.

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

SUBSTANTIAL SHAREHOLDERS

As at 31st December 2003, the register of substantial shareholders required to be kept under Section 336 of the SFO showed that the Company had been notified of the following interests, being 5% or more in the issued ordinary share capital of the Company. These interests are in addition to those disclosed above in respect of the Directors.

Name	No. of ordinary shares held in the Company of HK\$0.10 each (long position)	Aggregate % to the share capital
Bermuda Trust Company Limited	117,688,759*	55.745%
Hesko Limited	117,688,759*	55.745%
Esko Limited	117,688,759*	55.745%
New Holmium Holding Corporation	114,144,497*	54.066%
iVentures I, L. P.	11,557,420**	5.474%

- * Bermuda Trust Company Limited has an interest in Esko Limited and Hesko Limited. Of the 117,688,759 shares, 114,144,497 shares are owned by New Holmium Holding Corporation with the balance of the shares being held through other companies held by Esko Limited and Hesko Limited. Esko Limited and Hesko Limited together own 100% of New Holmium Holding Corporation.

- ** Mr. John J. Ying (a Director of the Company) is the sole shareholder of the general partner of iVentures I, L.P. and is deemed to have interest in the shares held by iVentures I, L. P. (the Company is advised that the term "general partner" commonly refers to the entity liable for all the debts and obligations of a limited partnership and has power to bind a limited partnership).



MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group sold less than 30% of its goods and services to its 5 largest customers and purchased less than 30% of its goods and services from its 5 largest suppliers.

CONNECTED TRANSACTIONS

- (a) Significant related party transactions entered into by the Group during the year ended 31st December 2003, which do not constitute connected transactions subject to disclosure requirements under the Listing Rules, are disclosed in note 33 to the accounts.
- (b) Other related party transactions, which also constitute connected transactions and are required to be disclosed under the Listing Rules, are as follows:
 - (i) Since 1992, Premier Yarn Dyers, Inc. ("PYD"), an indirect wholly owned subsidiary of the Company has been purchasing white yarns from Ed Jones & Co., a company in the USA which is owned by two directors of PYD, in the ordinary course of PYD's business and on normal commercial terms. The total purchases in 2003 amounted to US\$36,400 (HK\$284,000).
 - (ii) The Company's subsidiaries have been from time to time supplying furnishing products and providing related ancillary services to The Hong Kong and Shanghai Hotels, Limited and its subsidiaries ("HKS Hotels"). The total value of transactions amounted to HK\$2,468,000 in 2003. Such transactions are connected transactions by virtue of the fact that the substantial shareholder of the Company is also interested in more than 30% of the entire issued share capital in HKS Hotels.

Two conditional waivers have been granted by the Stock Exchange for the above transactions described in the paragraphs (i) and (ii). The Directors, including all the Independent Non-executive Directors, have reviewed the above transactions and confirmed that these transactions:

1. were entered into by the Company and its subsidiaries in the ordinary and usual course of business;
2. were conducted on normal commercial terms or terms that are fair and reasonable so far as the shareholders are concerned;

3. were entered into in accordance with the terms of the agreements governing the above transactions or (where there are no such agreements) on terms no less favourable than those available to or from independent third parties; and
4. aggregated for 2003 as set out in paragraphs (i) and (ii) respectively did not exceed the relevant cap amount of 6% and 3% of the audited consolidated net tangible assets of the Group as set out in the conditional waivers granted by the Stock Exchange.

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

1. had received the approval of the Company's Board of Directors;
 2. were in accordance with the pricing policies as stated in the Company's financial statements;
 3. were entered into in accordance with the terms of the agreement governing the transactions or, if there are no such agreements, on terms no less favourable than those available to or from independent third parties; and
 4. aggregated for 2003 as set out in paragraphs (i) and (ii) respectively did not exceed the relevant cap amount of 6% and 3% of the audited consolidated net tangible assets of the Group as set out in the conditional waivers granted by the Stock Exchange.
- (iii) On 30th July 2003, the Company and Hong Kong Carpet (Holdings) Limited, an indirect wholly-owned subsidiary of the Company, entered into a severance agreement with Mr. Kent M. C. Yeh ("Mr. Yeh") pursuant to which Mr. Yeh's employment by Hong Kong Carpet (Holdings) Limited as the Managing Director of the Company would be terminated with effect from 31st August 2003. Mr Yeh however remained on the Board of Directors of the Company as a Non-executive Director.

The major terms of the severance agreement include:

1. a "non-compete" clause whereby Mr. Yeh undertook not to compete with the Company or any members of the Group in any business connected with the sale, marketing, manufacturing, trading, retailing, export or distribution of carpets anywhere in the world for a period of two years from the employment termination date; and

2. a "consultancy" undertaking whereby Mr. Yeh undertook to provide such consultancy services as are required by the Group (including but not limited to assisting the Group in developing and maintaining relationships with existing and potential customers and suppliers and providing information regarding the Group's business) for a two year period following 31st August 2003.

The consideration of the severance agreement is HK\$5,400,000, payable in three yearly instalments. The first installment of HK\$2,700,000 had been paid in 31st August 2003 and the payment of second and third instalments (of HK\$1,350,000 each) will be made in August 2004 and 2005 respectively subject to Mr. Yeh's compliance with the non-compete clause as mentioned above.

CODE OF BEST PRACTICE

Throughout the year, the Company has complied with the Code of Best Practice as set out in the Listing Rules save that the Independent Non-executive Directors who have not been appointed for a specific term are subject to retirement by rotation and re-election pursuant to the Company's by-laws 100 and 109(A).

AUDIT COMMITTEE

The authority and duties of the Audit Committee operate within the suggested guidelines as published by the Hong Kong Society of Accountants, namely "A Guide for the Formation of An Audit Committee" issued in 1997 and superseded by "A Guide for Effective Audit Committees" in 2002.

The Audit Committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the Group audit. It also reviews the effectiveness of the external audit and of internal controls and risk evaluation. The Committee comprises two Independent Non-executive Directors, namely Mr. Michael T. H. Lee and Mrs. Yvette Y. H. Fung, one Non-Executive Director (Mr. John J. Ying), and one Alternate Director (Mr. Nelson K. F. Leong).

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the audited accounts for the year ended 31st December 2003 with the Directors.

AUDITORS

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

By Order of the Board

Alison S. Bailey
Chief Operating Officer

Hong Kong, 19th April 2004

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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 39 to 91 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 solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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.

Report of the Auditors

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 2003 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, 19th April 2004

Consolidated Profit and Loss Account

For the year ended 31st December 2003

		2003	As restated 2002
	Note	HK\$'000	HK\$'000
Turnover	2	525,212	481,086
Cost of sales		<u>(317,095)</u>	<u>(287,314)</u>
Gross profit		208,117	193,772
Other revenues	2	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		<u>(6,218)</u>	<u>(9,358)</u>
Operating profit	3	15,581	27,714
Finance costs	4	(2,475)	(2,990)
Share of profits of			
– Associated company		890	3,133
– Joint ventures		<u>14,875</u>	<u>6,472</u>
Profit before taxation		28,871	34,329
Taxation	7	<u>(11,524)</u>	<u>(14,231)</u>
Profit after taxation		17,347	20,098
Minority interests		<u>(1,054)</u>	<u>(2,442)</u>
Profit attributable to shareholders	8	<u>16,293</u>	<u>17,656</u>
Profit attributable to shareholders retained by:			
– Company and subsidiaries		2,574	10,541
– Associated company		473	2,230
– Joint ventures		<u>13,246</u>	<u>4,885</u>
		<u>16,293</u>	<u>17,656</u>
Dividends	9		
– Interim		–	–
– Final, proposed		<u>6,334</u>	<u>6,229</u>
		<u>6,334</u>	<u>6,229</u>
Earnings per share	10	<u>7.7 cents</u>	<u>8.4 cents</u>

Consolidated Balance Sheet

As at 31st December 2003

		2003	As restated 2002
	<i>Note</i>	HK\$'000	<i>HK\$'000</i>
Intangible assets	11	1,324	2,461
Fixed assets	12	361,628	328,118
Construction in progress	13	11,201	25,770
Associated company	16	21,711	23,570
Joint ventures	17	96,565	89,164
Other investments	18	27,465	28,168
Net investment in finance leases	19	344	76
Deferred tax assets	28	834	1,640
Current assets			
Inventories	20	127,727	110,526
Trade and other receivables	21	103,127	96,546
Current portion of net investment in finance leases	19	1,371	1,932
Investment securities	22	2,624	2,565
Bank deposits		3,530	2,614
Cash and bank balances	23	81,157	111,738
		319,536	325,921
Current liabilities			
Short term bank loans			
– Secured		15,747	37,638
– Unsecured		34,519	30,600
Bank overdrafts			
– Secured		–	5,856
– Unsecured		–	2,886
Current portion of long term bank loans	27	4,040	7,992
Trade and other payables	24	88,352	77,135
Taxation		3,536	5,392
		146,194	167,499
Net current assets		173,342	158,422
Total assets less current liabilities		694,414	657,389

Consolidated Balance Sheet *(Cont'd)*

As at 31st December 2003

		2003	As restated 2002
	<i>Note</i>	HK\$'000	<i>HK\$'000</i>
Financed by:			
Share capital	25	21,112	20,762
Reserves	26	308,470	304,202
Retained earnings	26	335,494	301,585
Proposed final dividends	26	6,334	6,229
		<hr/>	
Shareholders' funds		671,410	632,778
Minority interests		17,992	16,972
Long term bank loans	27	-	3,636
Deferred tax liabilities	28	5,012	4,003
		<hr/>	
		694,414	657,389
		<hr/> <hr/>	

James S. Dickson Leach
Director

Alison S. Bailey
Director

Company Balance Sheet

As at 31st December 2003

	<i>Note</i>	2003 HK\$'000	2002 <i>HK\$'000</i>
Subsidiaries	14	272,906	270,047
Current assets			
Other receivables		359	188
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	59
Bank deposits		944	943
Cash and bank balances		45,359	57,609
		47,066	59,239
Current liabilities			
Other payables		829	715
Net current assets		46,237	58,524
		319,143	328,571
Financed by:			
Share capital	25	21,112	20,762
Reserves	26	631,101	627,424
Accumulated losses	26	(339,404)	(325,844)
Proposed final dividends	26	6,334	6,229
		319,143	328,571

James S. Dickson Leach
Director

Alison S. Bailey
Director

Consolidated Statement of Changes in Equity

For the year ended 31st December 2003

		2003	As restated 2002
	<i>Note</i>	HK\$'000	<i>HK\$'000</i>
Total equity as at 1st January, as previously reported		635,214	619,108
Effect of changes in accounting policies			
– provision for deferred taxation	26	(2,436)	(2,731)
Total equity as at 1st January, as restated		632,778	616,377
Exchange differences arising on translation of subsidiaries, associated company and joint ventures	26	24,090	459
Revaluation surplus/(deficit) on investment properties	26	450	(1,090)
Net gains/(losses) not recognised in the profit and loss account		24,540	(631)
Profit for the year	26	16,293	17,656
Dividends	26	(6,229)	(6,121)
Issue of new shares	25,26	4,028	5,497
Total equity as at 31st December		671,410	632,778

Consolidated Cash Flow Statement

For the year ended 31st December 2003

	Note	2003 HK\$'000	2002 HK\$'000
OPERATING ACTIVITIES			
Cash generated from operations	a	45,225	48,651
Net profits tax paid			
– Net Hong Kong profits tax refund		–	137
– Overseas tax paid		(12,320)	(8,482)
NET CASH FROM OPERATING ACTIVITIES		32,905	40,306
INVESTING ACTIVITIES			
Purchase of fixed assets		(12,676)	(15,319)
Construction in progress		(15,251)	(43,236)
Proceeds on disposal of fixed assets		338	6,266
Purchase of subsidiaries	c	(198)	(2,101)
Subscription of a new joint venture		–	(474)
Purchase of investment securities and other investments		–	(1,365)
Proceeds on disposal of interests in investment securities		252	73
Repayment of finance lease receivables		2,518	2,258
Interest received		1,139	1,532
Dividends received from an associated company		458	437
Dividends received from joint ventures		6,474	5,528
NET CASH USED IN INVESTING ACTIVITIES		(16,946)	(46,401)
FINANCING ACTIVITIES			
Issue of new ordinary shares	b	–	1,635
New bank loans	b	–	28,228
Repayment of bank loans	b	(32,195)	(15,881)
Interest paid		(2,267)	(2,699)
Dividend paid		(2,201)	(2,259)
NET CASH (USED IN)/FROM FINANCING ACTIVITIES		(36,663)	9,024
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(20,704)	2,929
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		105,610	102,920
EFFECT OF FOREIGN EXCHANGE RATE CHANGE		(219)	(239)
CASH AND CASH EQUIVALENTS AT THE END OF YEAR		84,687	105,610
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Cash, bank balances and deposits		84,687	114,352
Bank overdrafts		–	(8,742)
		84,687	105,610

Consolidated Cash Flow Statement *(Cont'd)*

For the year ended 31st December 2003

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

	2003 HK\$'000	2002 HK\$'000
Profit before taxation	28,871	34,329
Depreciation of fixed assets	33,794	29,498
Net profit on disposal of fixed assets	(60)	(275)
Share of profit less losses of		
– associated company	(890)	(3,133)
– joint ventures	(14,875)	(6,472)
Revaluation (surplus)/deficit on investment properties	(303)	594
Impairment in land and building	940	–
Impairment in other investment	–	3,900
Negative goodwill recognised as income	(1,155)	(1,150)
Amortisation of goodwill	2,227	2,227
Write off construction in progress	57	111
Net interest expenses	1,336	1,486
Profit on disposal of interests in investment securities	(41)	(89)
	<hr/>	<hr/>
Operating profit before working capital changes	49,901	61,026
Increase in inventories	(8,653)	(7,990)
Increase in trade and other receivables	(1,286)	(7,438)
Increase in trade and other payables	6,360	5,611
Decrease/(increase) in amounts due by an associated company	351	(191)
Decrease in amounts due by joint ventures	74	678
Decrease in amounts due from other investment	703	–
Increase in net investment in finance lease	(2,225)	(3,045)
	<hr/>	<hr/>
Cash generated from operations	<u>45,225</u>	<u>48,651</u>

Consolidated Cash Flow Statement *(Cont'd)*

For the year ended 31st December 2003

b. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital (including premium) <i>HK\$'000</i>	Bank loans <i>HK\$'000</i>	Minority interests <i>HK\$'000</i>
Balance at 1st January 2002, as previously reported	200,091	67,740	16,620
Effect of changes in accounting policies – provision for net deferred tax liabilities	–	–	7
Balance at 1st January 2002, as restated	200,091	67,740	16,627
Effect of foreign exchange rate changes	–	(221)	(1)
Purchase of subsidiaries (note c)	–	–	(1,991)
Cash inflow from financing	1,635	12,347	–
Shares issued for non-cash consideration	3,862	–	–
Minority interests' share of profit	–	–	2,442
Share of investment property revaluation deficit by minority interests	–	–	(105)
Balance at 31st December 2002	205,588	79,866	16,972
Balance at 1st January 2003, as previously stated	205,588	79,866	16,899
Effect of changes in accounting policies – provision for net deferred tax liabilities	–	–	73
Balance at 1st January 2003, as restated	205,588	79,866	16,972
Effect of foreign exchange rate changes	–	6,635	214
Purchase of subsidiaries (note c)	–	–	(259)
Cash outflow from financing	–	(32,195)	–
Shares issued for non-cash consideration	4,028	–	–
Share of investment property revaluation surplus by minority interests	–	–	11
Minority interests' share of profit	–	–	1,054
Balance at 31st December 2003	209,616	54,306	17,992

Consolidated Cash Flow Statement *(Cont'd)*

For the year ended 31st December 2003

c. PURCHASE OF SUBSIDIARIES

	2003 HK\$'000	2002 HK\$'000
Further acquisition of interests in subsidiaries from minority shareholders	259	1,991
Positive goodwill	-	110
Negative goodwill	(61)	-
	<u>198</u>	<u>2,101</u>
Satisfied by:		
Cash	<u>198</u>	<u>2,101</u>

Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these 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 revised 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.

The changes to the Group's accounting policies and the effect of adopting this revised policy are set out below.

(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 of 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.

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 and retained earnings.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(b) Consolidation *(Continued)*

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.

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.

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition.

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.

Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(c) **Goodwill/negative goodwill** *(Continued)*

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.

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 or 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.

Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(f) Investments *(Continued)*

(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, "Property, Plant and Equipment" which provides exemption from the need to make regular revaluations for such assets.

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.

Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(g) Fixed assets *(Continued)*

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 such assets 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 account 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 account 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 sheet 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 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.

As detailed in note 26 to the accounts, the opening reserves 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.

Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(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 the present value of the total rentals receivable.

(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, underlay 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.
- (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 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.

Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(u) Segment reporting *(Continued)*

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 securities, 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 and 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 leave are not recognised until the time of leave.

(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.

Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(v) **Employee benefits** *(Continued)*

(iii) Retirement benefit obligations

The Group operates a number of defined contribution plans (the "Plans") throughout the world, the assets of which are 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 Plans prior to vesting fully in the contributions.

In Hong Kong, the Group operates a Mandatory Provident Fund Scheme (the "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:

	2003 HK\$'000	2002 HK\$'000
Turnover		
Sales of carpets	409,569	342,528
Yarn manufacturing and trading	57,243	95,421
Sales and leasing of interior furnishings	51,532	35,420
Gross rental income from investment properties	6,762	6,934
Term deposit income from bank	106	783
	<hr/> 525,212	481,086
Other revenues		
Bank interest income	411	465
Interest from third parties	464	101
Interest from finance leases	158	155
Income on sales of underlay	652	726
Income on installation of carpets	476	601
	<hr/> 2,161	2,048
	<hr/> <hr/> 527,373	483,134

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 and trading
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 banks.

Notes to the Accounts

2. TURNOVER, REVENUE AND SEGMENTAL INFORMATION *(Continued)*

Secondary reporting format – geographical segments

Although the Group's four 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 2003, together with their comparative figures, are analysed as follows:

Primary reporting format – business segments

	For the year ended 31st December 2003							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	409,569	57,243	51,532	6,762	106	-	-	525,212
– Inter-segment revenues	1,752	17,046	-	76	-	(18,874)	-	-
	<u>411,321</u>	<u>74,289</u>	<u>51,532</u>	<u>6,838</u>	<u>106</u>	<u>(18,874)</u>	<u>-</u>	<u>525,212</u>
Segment results	<u>18,598</u>	<u>10,539</u>	<u>5,106</u>	<u>5,714</u>	<u>106</u>	<u>(382)</u>	<u>(24,100)</u>	<u>15,581</u>
Finance costs								(2,475)
Share of profits of								
– Associated company	890	-	-	-	-	-	-	890
– Joint ventures	14,875	-	-	-	-	-	-	14,875
Profit before taxation								28,871
Taxation								(11,524)
Profit after taxation								17,347
Minority interests								(1,054)
Profit attributable to shareholders								<u>16,293</u>
Segment assets	459,847	78,396	25,199	77,770	944	-	80,176	722,332
Investment in associated company	21,711	-	-	-	-	-	-	21,711
Investments in joint ventures	96,565	-	-	-	-	-	-	96,565
Total assets								<u>840,608</u>
Segment liabilities	67,753	2,214	2,894	1,599	-	-	76,746	151,206
Capital expenditure	19,595	3,748	2,541	3,578	-	-	250	29,712
Depreciation	26,599	5,004	1,810	24	-	-	357	33,794
Amortisation charge	(1,150)	-	-	-	-	-	2,222	1,072
Impairment charge	-	-	-	940	-	-	-	940

Notes to the Accounts

2. TURNOVER, REVENUE AND SEGMENTAL INFORMATION *(Continued)*

	For the year ended 31st December 2002 (as restated)							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	-	-	-	-	-	-	6,472
Profit before taxation								34,329
Taxation								<u>(14,231)</u>
Profit after taxation								20,098
Minority interests								<u>(2,442)</u>
Profit attributable to shareholders								<u><u>17,656</u></u>
Segment assets	436,883	73,856	22,438	73,553	943	-	104,481	712,154
Investment in associated company	23,570	-	-	-	-	-	-	23,570
Investments in joint ventures	89,164	-	-	-	-	-	-	<u>89,164</u>
Total assets								<u><u>824,888</u></u>
Segment liabilities	56,010	2,502	8,216	921	-	-	107,489	<u>175,138</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)*

Secondary reporting format – geographical segments

	Turnover	Segment	Total	Capital
	2003	results	assets	expenditure
	2003	2003	2003	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	79,123	5,348	59,212	2,789
Mainland China	16,175	205	115,747	11,834
South East Asia	183,058	21,698	344,068	7,545
Middle East	21,346	1,852	-	-
Other Asian countries	15,763	187	-	-
Europe	43,535	1,645	20,088	679
North America	162,275	8,198	103,041	6,865
Others	3,937	548	-	-
	<u>525,212</u>	<u>39,681</u>	<u>642,156</u>	<u>29,712</u>
Unallocated costs		<u>(24,100)</u>		
Operating profit		<u>15,581</u>		
Investment in associated company			21,711	
Investments in joint ventures			96,565	
Unallocated assets			<u>80,176</u>	
Total assets			<u>840,608</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
	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		<u>(23,086)</u>		
Operating profit		<u>27,714</u>		
Investment in associated company			23,570	
Investments in joint ventures			89,164	
Unallocated assets			<u>104,481</u>	
Total assets			<u>824,888</u>	

Notes to the Accounts

3. OPERATING PROFIT

	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Operating profit is stated after crediting and charging the following:		
Crediting:		
Gains on disposal of interests in investment securities	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 (note 11)	1,155	1,150
Compensation on resumption of land	3,109	–
Net exchange gains	2,157	947
	<hr/> <hr/>	
Charging:		
Depreciation of fixed assets	33,794	29,498
Staff costs (including Directors' emoluments) (note)	151,747	133,529
Retirement benefit costs – defined contribution schemes (including Directors' emoluments)	3,185	2,887
Operating lease charges		
Land and buildings	9,807	11,333
Plant and machinery	293	146
Auditors' remuneration	1,191	1,151
Outgoings in respect of investment properties	378	582
Revaluation deficit on investment properties	–	594
Amortisation of positive goodwill (note 11)	2,227	2,227
Research and development costs	1,912	1,061
Impairment in land and building (note 12)	940	–
Impairment in other investments	–	3,900
	<hr/> <hr/>	

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

Notes to the Accounts

4. FINANCE COSTS

	2003 HK\$'000	2002 HK\$'000
Interest on bank loans and overdrafts wholly repayable within five years	2,475	2,990

5. DIRECTORS' EMOLUMENTS

(a) Directors' emoluments

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

	2003 HK\$'000	2002 HK\$'000
Fees	313	310
Other emoluments:		
Basic salaries, housing and other allowances	3,504	3,411
Discretionary bonuses	525	1,210
Inducement fees	390	–
Contributions to retirement schemes	239	300
Compensation of loss of office	5,400	–
	10,371	5,231

Directors' fees disclosed above include HK\$80,000 (2002: HK\$80,000) paid to Independent Non-executive Directors.

The emoluments of the Directors fell within the following bands:

	No. of directors	
	2003	2002
Emolument bands		
HK\$nil – HK\$1,000,000	11	10
HK\$1,500,001 – HK\$2,000,000	1	–
HK\$2,000,001 – HK\$2,500,000	–	1
HK\$2,500,001 – HK\$3,000,000	–	1
HK\$7,000,001 – HK\$7,500,000	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 (2002: two) Directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2002: three) individuals during the year are as follows:

	2003	2002
	HK\$'000	<i>HK\$'000</i>
Basic salaries, housing and other allowances	3,348	4,301
Bonuses	701	737
Profit sharing incentives	-	1,296
Contributions to retirement schemes	97	32
Compensation of loss of office		
- contractual payments	-	592
- others	-	306
	4,146	7,264

The emoluments fell within the following bands:

	No. of individuals	
	2003	2002
Emolument bands		
HK\$1,000,001 – HK\$1,500,000	2	-
HK\$1,500,001 – HK\$2,000,000	1	1
HK\$2,500,001 – HK\$3,000,000	-	2

6. RETIREMENT BENEFIT COSTS

Unvested contributions totalling HK\$302,000 (2002: HK\$280,000) were utilised during the year to reduce current year's contributions to the Mandatory Provident Fund ("MPF"). Contributions totalling HK\$179,000 (2002: HK\$131,000) were payable to the MPF at the year end and are included in trade and other payables.

Notes to the Accounts

7. 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	As restated 2002
	HK\$'000	<i>HK\$'000</i>
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 (note 28)	1,895	(353)
Deferred taxation resulting from an increase in tax rate (note 28)	(139)	–
Share of taxation attributable to associated company and joint ventures	2,046	2,490
	11,524	14,231

Notes to the Accounts

7. TAXATION (Continued)

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Company as follows:

	2003	2002
	HK\$'000	HK\$'000
Profit before taxation	28,871	34,329
Calculated at a taxation rate of 17.5% (2002: 16%)	5,052	5,493
Effect of different taxation rates in other countries	4,223	6,432
Income not subject to taxation	(1,106)	(1,446)
Expenses not deductible for taxation purposes	3,476	5,843
Tax loss as unrecognised/(utilisation of previously unrecognised tax losses)	3,798	(49)
Increase in opening net deferred taxation resulting from an increase in tax rate	(139)	-
Prior years' tax losses recognised as deferred tax assets	-	(1,594)
Over-provision in previous years	(3,780)	(448)
Taxation charge	11,524	14,231

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\$7,226,000 (2002: HK\$14,035,000).

9. DIVIDENDS

	2003	2002
	HK\$'000	HK\$'000
Final, proposed, of HK\$0.03 (2002: HK\$0.03) per share	6,334	6,229

Note: At a board meeting held on 19th April 2004 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 ended 31st December 2004.

Notes to the Accounts

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

11. INTANGIBLE ASSETS

	Positive goodwill <i>HK\$'000</i>	Negative goodwill <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st January 2003	3,907	(1,446)	2,461
Exchange adjustments	–	(4)	(4)
Further acquisition of a subsidiary	–	(61)	(61)
Amortisation charge (note 3)	(2,227)	1,155	(1,072)
	<hr/>	<hr/>	<hr/>
At 31st December 2003	1,680	(356)	1,324
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31st December 2003			
Cost	6,682	(3,515)	3,167
Accumulated amortisation	(5,002)	3,159	(1,843)
	<hr/>	<hr/>	<hr/>
Net book amount	1,680	(356)	1,324
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31st December 2002			
Cost	6,682	(3,450)	3,232
Accumulated amortisation	(2,775)	2,004	(771)
	<hr/>	<hr/>	<hr/>
Net book amount	3,907	(1,446)	2,461
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Notes to the Accounts

12. FIXED ASSETS

Group	Investment properties <i>HK\$'000</i>	Other properties <i>HK\$'000</i>	Other assets <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost or valuation				
At 1st January 2003	69,258	134,780	366,332	570,370
Exchange adjustments	4,031	10,212	25,769	40,012
Additions	–	930	11,746	12,676
Transfer from construction in progress	–	11,692	20,893	32,585
Net revaluation surplus	764	–	–	764
Disposals	–	(159)	(2,655)	(2,814)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31st December 2003	74,053	157,455	422,085	653,593
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Accumulated depreciation and impairment				
At 1st January 2003	–	34,951	207,301	242,252
Exchange adjustments	–	2,973	14,542	17,515
Charge for the year	–	5,041	28,753	33,794
Write back on disposals	–	–	(2,536)	(2,536)
Impairment	–	940	–	940
	<hr/>	<hr/>	<hr/>	<hr/>
At 31st December 2003	–	43,905	248,060	291,965
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Net book value				
at 31st December 2003	74,053	113,550	174,025	361,628
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Net book value				
at 31st December 2002	69,258	99,829	159,031	328,118
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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 SSAP 17 "Property, Plant and Equipment" issued by HKSA 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\$7,594,000 (2002: HK\$7,431,000) 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 2003 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 94.

At 31st December 2003, the net book value of fixed assets which have been mortgaged to banks to secure certain bank facilities granted to subsidiaries amounted to HK\$43,788,000 (2002: HK\$39,234,000).

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

	Investment properties <i>HK\$'000</i>	Other properties <i>HK\$'000</i>	Other assets <i>HK\$'000</i>
2003			
At professional valuation			
in 1989	–	11,131	–
in 2003	74,053	–	–
At cost	–	146,324	422,085
At 31st December 2003	74,053	157,455	422,085
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

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 <i>HK\$'000</i>	Overseas <i>HK\$'000</i>
2003		
Freehold	–	129,205
Long leases (over 50 years)	8,930	–
Medium leases (10 – 50 years)	6,770	42,698
	<hr/>	<hr/>
At 31st December 2003	15,700	171,903
	<hr/> <hr/>	<hr/> <hr/>
2002		
Freehold	–	113,176
Long leases (over 50 years)	8,550	–
Medium leases (10 – 50 years)	6,700	40,661
	<hr/>	<hr/>
At 31st December 2002	15,250	153,837
	<hr/> <hr/>	<hr/> <hr/>

- (c) Included in the net book value of other properties and other assets were amounts of HK\$4,138,000 (2002: HK\$3,574,000) and HK\$6,022,000 (2002: HK\$7,495,000) respectively which were stated at their recoverable amounts.

13. CONSTRUCTION IN PROGRESS

	Group	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
At 1st January	25,770	48,441
Exchange adjustments	1,235	81
Additions	16,838	43,236
Transfer to fixed assets	(32,585)	(65,877)
Write off	(57)	(111)
	<hr/>	<hr/>
At 31st December	11,201	25,770
	<hr/> <hr/>	<hr/> <hr/>

Notes to the Accounts

14. SUBSIDIARIES

	Company	
	2003 HK\$'000	2002 HK\$'000
Unlisted shares at directors' valuation in 1990	242,800	242,800
Loans to subsidiaries	55,931	55,931
Amounts due by subsidiaries	424,707	426,353
	723,438	725,084
Loan from a subsidiary	(3,213)	(3,213)
Amounts due to subsidiaries	(91,388)	(95,893)
	628,837	625,978
Provision for impairment	(355,931)	(355,931)
	272,906	270,047

Details of principal subsidiaries are set out on pages 92 and 93. Except for an amount of HK\$57,211,250 (2002: HK\$55,931,000) which carries interests at prevailing market rates. All balances due from/to subsidiaries are unsecured, interest free and have no fixed repayment terms.

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	
	2003 HK\$'000	2002 HK\$'000
Share of net assets	21,353	22,861
Amounts due by associated company	358	709
	21,711	23,570
Share at cost – unlisted	519	519

Notes to the Accounts

16. ASSOCIATED COMPANY *(Continued)*

Dividend income from associated company during the year amounted to HK\$458,000 (2002: HK\$437,000).

Details of the principal associated company are set out on page 93.

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 2003 is as follows:

	2003	2002
	HK\$'000	HK\$'000
Operating results		
Turnover	65,678	74,416
Profit before taxation	2,713	8,417
Group's share of profit before taxation	890	3,133
Financial position		
Property, plant and equipment	23,568	26,233
Other investments	3,874	4,379
Other assets	1,460	2,150
Current assets	49,559	56,539
Current liabilities	(14,069)	(19,827)
Shareholders' funds	64,392	69,474
Group's share of net assets	21,353	22,861

Notes to the Accounts

17. JOINT VENTURES

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Share of net assets	117,400	112,861
Amounts due by joint ventures		
Loan account	458	458
Current account	17,746	14,884
	18,204	15,342
Provision for impairment	135,604	128,203
	(39,039)	(39,039)
	96,565	89,164
Paid in capital at cost	112,704	112,704

Dividend income from joint ventures during the year amounted to HK\$8,707,000 (2002: HK\$7,455,000).

Details of the principal joint ventures are set out on page 93.

Notes to the Accounts

17. JOINT VENTURES *(Continued)*

Extract of the operating results and financial position of the Group's significant joint ventures, Weihai Shanhua Huabao Carpet Company Limited ("WHCL") and Weihai Shanhua Premier Carpet Company Limited ("WPCL") which are based on their audited consolidated financial statements as at 31st December 2003 is as follows:

WHCL

	2003	2002
	HK\$'000	<i>HK\$'000</i>
Operating results		
Turnover	218,172	189,467
Profit before taxation	5,882	6,903
Depreciation	10,349	11,261
Group's share of profit/(loss) before taxation	2,440	(2,191)
Financial position		
Fixed assets	93,460	86,614
Construction in progress and other non-current assets	32,738	1,978
Current assets	150,491	154,445
Current liabilities	(154,672)	(120,779)
Shareholders' funds	122,017	122,258
Group's share of net assets	43,216	43,333

Notes to the Accounts

17. JOINT VENTURES *(Continued)*

WPCL

	2003 HK\$'000	2002 HK\$'000
Operating results		
Turnover	98,607	66,107
Profit before taxation	27,610	17,337
Depreciation	1,730	1,864
Group's share of profit before taxation	12,084	8,664
Financial position		
Fixed assets	16,201	15,008
Construction in progress and other non-current assets	691	4,110
Current assets	86,829	58,848
Current liabilities	(29,956)	(12,988)
Shareholders' funds	73,765	64,978
Group's share of net assets	35,575	31,270

18. OTHER INVESTMENTS

	Group	
	2003 HK\$'000	2002 HK\$'000
Equity securities at cost, unlisted	10,036	10,036
Amount due by an investee company	38,376	39,079
Provision for impairment	(20,947)	(20,947)
	27,465	28,168

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 2003 HK\$'000	Interest income relating to future periods 2003 HK\$'000	Total minimum lease payments receivable 2003 HK\$'000	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
Amounts receivable:						
Not later than one year	1,371	62	1,433	1,932	120	2,052
Later than one year and not later than five years	344	16	360	76	6	82
		<u>78</u>	<u>1,793</u>		<u>126</u>	<u>2,134</u>
Net investment in finance leases	<u>1,715</u>			<u>2,008</u>		

20. INVENTORIES

	Group	
	2003 HK\$'000	2002 HK\$'000
Raw materials	53,000	46,986
Work in progress	13,484	11,013
Finished goods	58,264	49,446
Consumable stores	2,979	3,081
	<u>127,727</u>	<u>110,526</u>

At 31st December 2003, the carrying amount of inventories is stated at cost less a general provision amounting to HK\$5,862,000 (2002: HK\$4,564,000).

Notes to the Accounts

21. TRADE AND OTHER RECEIVABLES

	Group	
	2003 HK\$'000	2002 HK\$'000
Trade receivables (note)	85,626	67,735
Other receivables	17,501	28,811
	103,127	96,546
	103,127	96,546

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, 2003, the ageing analysis of the trade receivables was as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Current – 30 days	58,242	48,850
31 days – 60 days	10,285	6,090
61 days – 90 days	7,650	3,965
Over 90 days	9,449	8,830
	85,626	67,735
	85,626	67,735

22. INVESTMENT SECURITIES

	Group	
	2003 HK\$'000	2002 HK\$'000
Equity securities listed outside Hong Kong at market value	2,624	2,565
	2,624	2,565

23. CASH AND BANK BALANCES

Included in cash and bank balances was an amount of US\$198,000 (2002: US\$690,000) deposited in certain banks in the People's Republic of China (the "PRC") by certain PRC subsidiaries of the Group.

Notes to the Accounts

24. TRADE AND OTHER PAYABLES

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables (note)	27,136	18,465
Other payables	61,216	58,670
	<hr/> 88,352 <hr/>	<hr/> 77,135 <hr/>

Note: At 31st December 2003, the ageing analysis of the trade payables was as follows:

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current – 30 days	24,661	16,907
31 days – 60 days	911	712
61 days – 90 days	160	161
Over 90 days	1,404	685
	<hr/> 27,136 <hr/>	<hr/> 18,465 <hr/>

Notes to the Accounts

25. SHARE CAPITAL

	Company	
	<i>No. of shares</i>	<i>HK\$'000</i>
<i>Authorised:</i>		
At 1st January 2002, 1st January 2003 and 31st December 2003	400,000,000	40,000
<i>Issued and fully paid:</i>		
At 1st January 2002	203,008,800	20,301
Issue of new shares		
– under scrip dividend scheme (note a)	2,540,683	254
– exercise of share options (note b)	2,070,000	207
At 31st December 2002 and 1st January 2003	207,619,483	20,762
Issue of new shares under scrip dividend scheme (note a)	3,501,792	350
At 31st December 2003	211,121,275	21,112

Notes:

- (a) Pursuant to a scrip dividend scheme in relation to the 2002 final dividend, shareholders representing a total of 134,235,613 shares (2002: 128,727,984 shares) elected to receive scrip shares in lieu of cash dividend payment. A total of 3,501,792 shares (2002: 2,540,683 shares) were issued to these shareholders at HK\$1.15 per share (2002: HK\$1.52 per share).
- (b) Share options exercised from 22nd February 2002 to 26th June 2002 resulted in the issue of 2,070,000 shares at the price of HK\$0.79 per share, yielding proceeds of HK\$1,635,000. No share options were exercised in 2003.

Notes to the Accounts

26. RESERVES

Group

	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Investment properties revaluation reserve <i>HK\$'000</i>	Other properties revaluation reserve <i>HK\$'000</i>	General reserves <i>HK\$'000</i>	Retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st January 2002, as previously reported	179,790	89,138	9,871	6,352	16,000	297,656	598,807
Changes in accounting policy – provision for net deferred tax liabilities (note 1(q))	-	(1,775)	(945)	660	-	(671)	(2,731)
At 1st January 2002, as restated	179,790	87,363	8,926	7,012	16,000	296,985	596,076
Exchange adjustments	-	776	-	389	-	(706)	459
Premium on issue of new shares	5,036	-	-	-	-	-	5,036
Reclassification	-	-	495	(495)	-	-	-
Net revaluation deficit	-	-	(1,090)	-	-	-	(1,090)
Profit for the year	-	-	-	-	-	17,656	17,656
2001 final dividend paid	-	-	-	-	-	(6,121)	(6,121)
As at 31st December 2002	184,826	88,139	8,331	6,906	16,000	307,814	612,016
Representing:							
Retained earnings at 31st December 2002						301,585	
2002 final dividend proposed						6,229	
At 31st December 2002						307,814	
Company and subsidiaries	184,826	68,311	8,331	-	16,000	303,477	580,945
Associated company	-	3,991	-	6,906	-	9,976	20,873
Joint ventures	-	15,837	-	-	-	(5,639)	10,198
At 31st December 2002	184,826	88,139	8,331	6,906	16,000	307,814	612,016

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 reserves HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1st January 2003, as previously reported	184,826	89,914	9,276	6,246	16,000	308,190	614,452
Changes in accounting policy – provision for net deferred tax liabilities (note 1(q))	-	(1,775)	(945)	660	-	(376)	(2,436)
At 1st January 2003, as restated	184,826	88,139	8,331	6,906	16,000	307,814	612,016
Exchange adjustments	-	196	-	(56)	-	23,950	24,090
Premium on issue of new shares	3,678	-	-	-	-	-	3,678
Net revaluation surplus	-	-	450	-	-	-	450
Profit for the year	-	-	-	-	-	16,293	16,293
2002 final dividend paid	-	-	-	-	-	(6,229)	(6,229)
As at 31st December 2003	188,504	88,335	8,781	6,850	16,000	341,828	650,298
Representing:							
Retained earnings at 31st December 2003						335,494	
2003 final dividend proposed						6,334	
At 31st December 2003						341,828	
Company and subsidiaries	188,504	68,773	8,781	604	16,000	332,935	615,597
Associated company	-	3,725	-	6,246	-	9,993	19,964
Joint ventures	-	15,837	-	-	-	(1,100)	14,737
At 31st December 2003	188,504	88,335	8,781	6,850	16,000	341,828	650,298

Notes to the Accounts

26. RESERVES (Continued)

Company

	Share Premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
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)
	<hr/>			
At 31st December 2002	184,826	442,598	(319,615)	307,809
	<hr/> <hr/>			
Representing:				
Accumulated losses			(325,844)	
2002 final dividend proposed			6,229	
			<hr/>	
			(319,615)	
			<hr/> <hr/>	
At 1st January 2003	184,826	442,598	(319,615)	307,809
Premium on issue of new shares	3,677	–	–	3,677
Loss for the year	–	–	(7,226)	(7,226)
2002 final dividend paid	–	–	(6,229)	(6,229)
	<hr/>			
At 31st December 2003	188,503	442,598	(333,070)	298,031
	<hr/> <hr/>			
Representing:				
Accumulated losses			(339,404)	
2003 final dividend proposed			6,334	
			<hr/>	
			(333,070)	
			<hr/> <hr/>	

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	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
The maturity profile of the secured long term bank loans is as follows:		
– within one year	4,040	7,992
– in the second year	–	3,636
	4,040	11,628
Less: Amounts due within one year included under current liabilities	(4,040)	(7,992)
	–	3,636

28. DEFERRED TAXATION

Deferred taxation are calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2002: 16%).

The movement on the net deferred tax liabilities is as follows:

	Group	
	2003	As restated 2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1st January	2,363	2,724
Exchange differences	59	(8)
Deferred taxation charged/(credited) to profit and loss account (note 7)		
– relating to the origination and reversal of temporary differences	1,895	(353)
– resulting from an increase in tax rate	(139)	–
At 31st December	4,178	2,363

Notes to the Accounts

28. DEFERRED TAXATION *(Continued)*

Deferred income tax assets are recognised for tax losses carry forward to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group has unrecognised tax losses of HK\$129,157,000 (2002: HK\$103,363,000) to carry forward against future taxable income.

The movement in deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year is as follows:

Deferred tax liabilities

	Accelerated tax depreciation		Revaluation of properties		Total	
	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January	4,013	3,323	7,826	7,852	11,839	11,175
Charged/(credited) to profit and loss account	27	690	269	(26)	296	664
Exchange differences	-	-	857	-	857	-
At 31st December	4,040	4,013	8,952	7,826	12,992	11,839

Deferred tax assets

	Impairment of assets		Tax losses		Others		Total	
	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January	7,693	8,451	1,703	-	80	-	9,476	8,451
(Charged)/credited to profit and loss account	(821)	(766)	(675)	1,703	36	80	(1,460)	1,017
Exchange differences	798	8	-	-	-	-	798	8
At 31st December	7,670	7,693	1,028	1,703	116	80	8,814	9,476

Notes to the Accounts

28. DEFERRED TAXATION *(Continued)*

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

	2003	As restated 2002
	HK\$'000	HK\$'000
Deferred tax assets	834	1,640
Deferred tax liabilities	(5,012)	(4,003)
	(4,178)	(2,363)

29. FUTURE OPERATING LEASE INCOME

At 31st December 2003, the Group had future aggregate minimum lease payments receivable under non-cancellable operating leases as follows:

	2003	2003	2002	2002
	Land and buildings	Others	Land and buildings	Others
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Not later than one year	4,786	1,831	5,569	712
Later than one year and not later than five years	4,826	216	8,607	25
	9,612	2,047	14,176	737

Notes to the Accounts

30. OPERATING LEASE COMMITMENTS

At 31st December 2003, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	2003	2003	2002	2002
	Land and	Others	Land and	Others
	buildings	Others	buildings	Others
	HK\$'000	HK\$'000	<i>HK\$'000</i>	<i>HK\$'000</i>
Not later than one year	8,759	152	7,695	264
Later than one year and not later than five years	3,357	95	13,987	342
Later than five years	-	-	3,204	-
	12,116	247	24,886	606

31. CAPITAL COMMITMENTS

	Group	
	2003	2002
	HK\$'000	<i>HK\$'000</i>
Contracted but not provided for in respect of fixed assets	793	9,740
Authorised but not contracted for in respect of fixed assets	-	234
	793	9,974

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	28,767	9,633
Authorised but not contracted for in respect of fixed assets	15,301	7,563
	44,068	17,196

Notes to the Accounts

32. CONTINGENT LIABILITIES

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Guarantees for banking facilities granted to subsidiaries	-	-	42,401	53,143
Corporate guarantee in respect of performance bonds issued by subsidiaries to customers	2,982	3,686	-	-
Counter-indemnity in respect of performance bonds issued by banks	-	90	-	-
Guarantee in lieu of rental deposit	-	250	-	-
Guarantee in lieu of utility deposit	1,533	1,294	-	-
Guarantee in respect of import duty	1,601	1,693	-	-
	6,116	7,013	42,401	53,143

As disclosed in the Group's 2002 Annual Report, the former Director and Administrator of Tai Ping Carpets Europe S.A. ("TPCE") has issued proceedings and a claim for Euros 195,790 (HK\$1,919,000) against TPCE for wrongful dismissal. The Company believes that such claim is without merit and 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.

Notes to 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:-

	Group	
	2003	2002
	HK\$'000	<i>HK\$'000</i>
Sales to an associated company (note a)	2,660	2,972
Purchases from a joint venture (note a)	118	222
Rental paid to a subsidiary of The Hong Kong and Shanghai Hotels, Ltd. (note b)	525	477
Sales to The Hong Kong and Shanghai Hotels, Ltd. and its subsidiaries (note b)	2,468	3,398
Acquisition of a land use right from a related company (note c)	-	4,764
Purchase of machinery from a joint venture (note d)	-	703
	<u><u> </u></u>	<u><u> </u></u>

- (a) Sales to an associated company and purchases from a joint venture were conducted in the normal course of business and at mutually agreed prices between the two parties.
- (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. The sales to HKS Hotels falls under the definition of "Connected Transactions" under the Listing Rules and are disclosed under "Connected Transactions" section in Directors' report.
- (c) In 2002 a piece of land in Nanhai, Guangdong Province, the PRC was acquired from a minority shareholder at a price agreed by both parties.
- (d) In December 2002, a subsidiary acquired two pieces of Wilton machinery from Weihai Shanhua Huabao Carpet Company Limited, a joint venture of the Company, at a price agreed by both parties.

34. APPROVAL OF ACCOUNTS

The accounts were approved by the Directors on 19th April 2004.

Principal Subsidiaries, Associated Company and Joint Ventures at 31st December 2003

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%
Delvincourt Limited	Hong Kong	Property holding	2 shares of HK\$10 each	100%
Tai Ping Carpets Limited	Hong Kong	Carpet manufacturing	2,000,000 shares of HK\$10 each	100%
Options Home Furnishings Limited	Hong Kong	Furniture trading and leasing	1,900,000 shares of HK\$1 each	100%
Premier Yarn Dyers, Inc.	USA	Yarn dyeing	1,100 shares of US\$100 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%
Tai Ping Carpets Americas, Inc.	USA	Carpet trading	220,900 shares of US\$1 each	100%
Carpets International Thailand Public Company Limited	Thailand	Carpet manufacturing	10,000,000 shares of Baht10 each	99%
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%
White Oak Carpet Mills, Inc.	USA	Carpet manufacturing	918 shares of US\$1 each	100%

Principal Subsidiaries, Associated Company and Joint Ventures at 31st December 2003 *(Cont'd)*

Name	Country of incorporation	Principal activities	Ordinary shares (unless otherwise stated) issued and paid up	Percentage of equity attributable to the Group
Subsidiaries <i>(Continued)</i>				
Tai Ping Carpets International Trading (Shanghai) Company Limited	The People's Republic of China	Carpet trading	Paid in capital of US\$200,000	100%
Associated Company				
Philippine Carpet Manufacturing Corporation	The Philippines	Carpet Manufacturing	1,017,581 shares of PHP100 each	33%
Joint Ventures				
Weihai Shanhua Huabao Carpet Company Limited	The People's Republic of China	Carpet Manufacturing	Paid in capital of US\$15,090,000	49%
Weihai Shanhua 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, USA	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. Richard Bascetta	Tai Ping Carpets International Limited	Director, Global Business Development	56	1	Carpet manufacturing, furniture marketing and distribution
Mr. Ed Jones	Premier Yarn Dyers, Inc.	Director	75	17	Textiles manufacturing and trading
Mr. Jack Gates	Premier Yarn Dyers, Inc.	Director	64	20	Carpet and textiles manufacturing
Mr. Chalermchai Puapipat	Carpets International Thailand Public Company Limited	Director	38	6	Manufacturing
Mr. John W. McLennan	Options Home Furnishings Limited	Director	41	2	Retailing
Mr. Thomas Pack	White Oak Carpet Mills, Inc.	Director	39	3	Carpet manufacturing, sales and marketing
Mr. Wolfgang Schleypen	Tai Ping Carpets Interieur GmbH	Director	60	21	Carpet sales and marketing
Ms. Catherine Vergez	Tai Ping Carpets Europe S.A.	Director	41	12	Carpet sales and marketing
Mr. William J. Palmer	Tai Ping Carpets Americas, Inc.	Director	43	5	Carpet sales and marketing

Corporate Information

Auditors

PricewaterhouseCoopers

Bankers

The Hong Kong and Shanghai Banking
Corporation Limited
Standard Chartered Bank

Solicitors

Norton Rose
Baker & Mckenzie

Company Secretary

Ernest P. L. Law

Registrars and Transfer Agent

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Bank Bermuda Building
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Branch Registrars and Registration Office

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Stock Exchange Code Number: 146

