



Tai Ping Carpets International Limited Annual Report 2004

(Incorporated in Bermuda with Limited Liability)



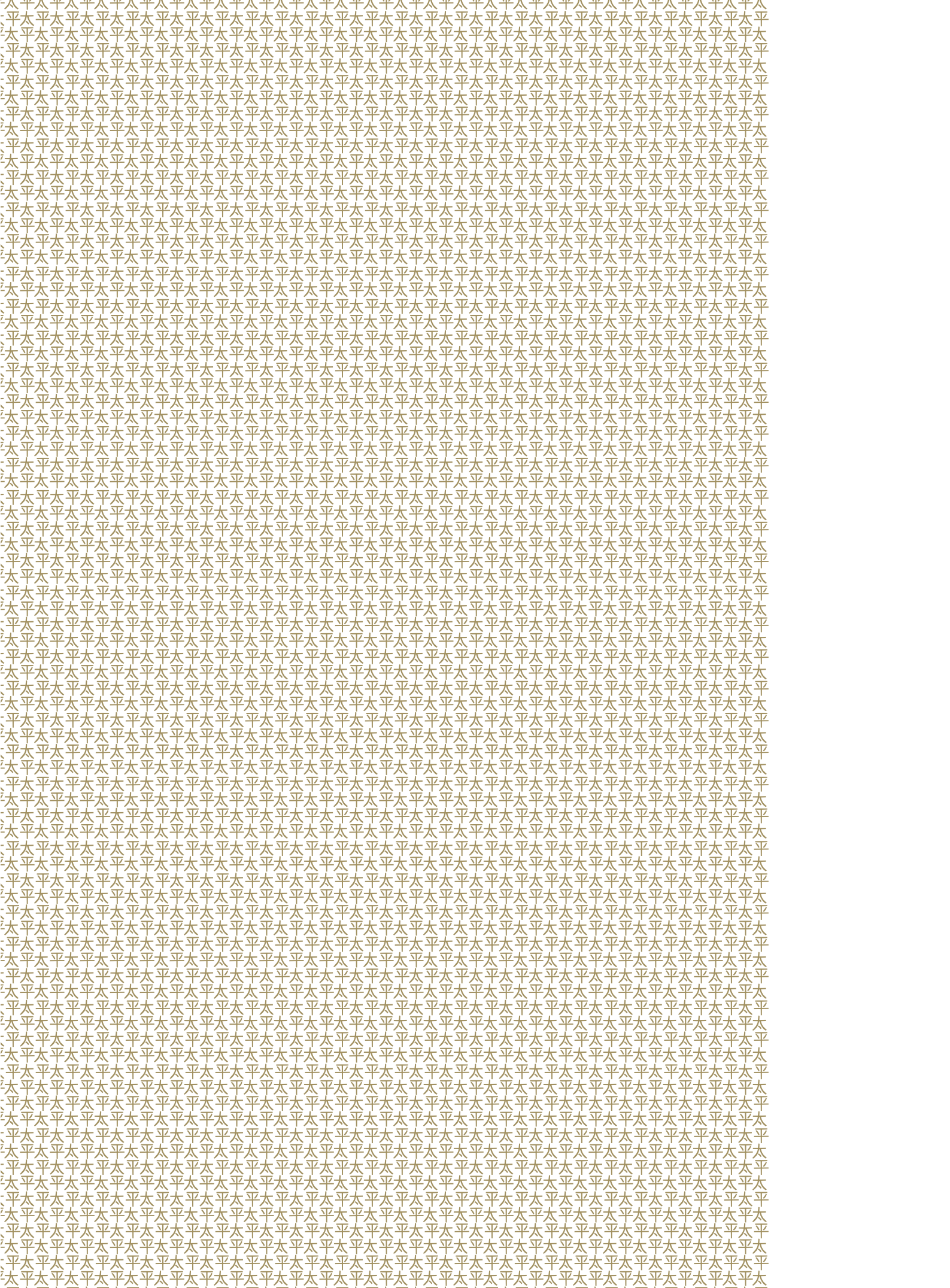




Table of Contents

Tai Ping at a Glance	4
Financial Highlights	4
Five-Year Consolidated Summary	5
Chairman's Statement	7
Management Discussion and Analysis	9
Board of Directors	19
Directors' Report	23
Financial Section	35
Corporate Information	87

Vision To build Tai Ping into a modern, global, premium brand, recognised and respected in every market in which it competes. The Tai Ping name will be synonymous with quality, artistry, and outstanding customer service.

Tai Ping will be peerless in our industry, with continued annual growth in sales, market share and operating income and an ambitious strategy for the future.

Core Values Integrity; Commitment; Teamwork; Pursuit of excellence; Social and Environmental Responsibility.

Tai Ping at a Glance

Tai Ping Carpets Group is Asia's premier carpet manufacturer and is a leader in the international custom carpet industry. The Company was 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 a vertically integrated, full-service manufacturer of hand tufted, machine woven and tufted carpets with myriad variety and sales in over 100 countries.

Tai Ping offers its customers access to a full range of quality floor covering 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, providing 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 buyer.

Financial Highlights

In thousands of Hong Kong dollars except per share amounts		2004	2003
Per share	Net assets per share	HK\$3.15	HK\$3.18
	(Loss)/earnings per share	HK\$(1.8) cents	HK\$7.7 cents
	Final dividend declared per share	–	3.0 cents
For the year	Turnover	563,165	525,212
	Net (loss)/earnings	(3,852)	16,293
	Earnings before interest, tax, depreciation and amortisation	52,860	65,073
	Additions to fixed assets and construction in progress	33,892	29,514
At 31st December	Total shareholders' funds	667,363	671,410
	Shares in issue (in thousand)	211,703	211,121
Ratio	Return on average equity	(0.6%)	2.5%

Five Year Consolidated Financial Summary

Year ended 31st December

BALANCE SHEET	2004	2003	2002	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Fixed assets	357,980	361,628	328,118	284,345	276,034
Construction in progress	18,424	11,201	25,770	48,441	22,875
Intangible assets	(2,652)	1,324	2,461	3,428	–
Associated company	21,345	21,711	23,570	21,586	19,424
Joint ventures	113,462	96,565	89,164	90,011	84,073
Other investments – long term	27,530	27,465	28,168	33,267	32,122
Net investment in finance leases					
– non current portion	236	344	76	280	–
Deferred tax assets	570	834	1,640	885	970
Net current assets	157,462	173,342	158,422	165,998	84,610
Employment of capital	694,357	694,414	657,389	648,241	520,108
Share capital	21,170	21,112	20,762	20,301	13,534
Reserves	646,193	650,298	612,016	596,075	467,870
Shareholders' funds	667,363	671,410	632,778	616,376	481,404
Minority interests	20,930	17,992	16,972	16,628	16,852
Long term bank loans	–	–	3,636	11,628	19,620
Deferred tax liabilities	6,064	5,012	4,003	3,609	2,232
Capital employed	694,357	694,414	657,389	648,241	520,108
PROFIT AND LOSS ACCOUNT					
Turnover	563,165	525,212	481,086	456,188	439,575
(Loss)/profit after taxation					
Company and subsidiaries	(24,972)	3,628	12,983	27,239	25,108
Associated company	1,596	473	2,230	2,289	3,240
Joint ventures	22,448	13,246	4,885	10,619	10,976
	(928)	17,347	20,098	40,147	39,324
Minority interests	(2,924)	(1,054)	(2,442)	(3,014)	(1,974)
(Loss)/profit attributable to shareholders	(3,852)	16,293	17,656	37,133	37,350
Proposed dividends	–	6,334	6,229	6,100	2,707
Dividend per share	–	3.0¢	3.0¢	3.0¢	1.9¢
(Loss)/earnings per share	(1.8)¢	7.7¢	8.4¢	19.8¢	25.0¢
Net assets per share	HK\$3.15	HK\$3.18	HK\$3.05	HK\$3.04	HK\$3.56



Chairman's Statement

To our shareholders

The Company's consolidated turnover for the year was HK\$ 563.2 million, a 7% increase from HK\$ 525.2 million in 2003. The loss attributable to shareholders of HK\$ 3.9 million compared to the 2003 profit of HK\$ 16.3 million was a managed loss arising from the implementation of the strategic changes that the Board of Directors identified as necessary in 2003. Loss per share for the year is 1.8 cents.

Strategic Changes

This was Mr. James Kaplan's first full year as CEO, and it marked the beginning of the Group's transformation from a high-quality Asian manufacturer into a world-class customer-focused carpet company.

Mr. Kaplan started by redefining the brand, creating a new image and a corporate logo that reflects the Group's past heritage. To further these initiatives, he instituted the technical and creative (Atelier) design studios to nurture talent and enhance Tai Ping's reputation as a design leader. He established a Group marketing department to update Tai Ping's sales and marketing tools and introduced additional new sales and marketing materials to all Tai Ping offices and sales teams in late 2004. He recruited experienced sales people to make an immediate impact on the growth of the business. The next step is the May 2005 opening of the New York regional office and showroom to sell to the high-end residential U.S. market, an area where the Group has traditionally been an OEM supplier to other retailers.

Evidently, the changes as outlined have meant incurring additional costs that have directly affected the Group's short-term results. We believe, however, that these changes are necessary if Tai Ping is to realize its skills and capabilities to the fullest extent for the long term, and it is encouraging that U.S. bookings and sales in the first quarter of 2005 are already up markedly on the previous year. Nevertheless, in the circumstances, it seems prudent not to recommend the payment of a dividend for the year.

Social responsibility

Tai Ping takes its role as a member of the global business community seriously. We adhere to the highest internationally recognized standards, we strive to improve our facilities, and we work to minimize environmental impact of all our activities. The Group is addressing factory caused pollution by investigating and implementing upgrades to areas such as power generation, waste-water treatment and energy saving projects. Tai Ping's factories have international certification of ISO 9001: 2000, ISO 14001: 1996, as well as CRI Green Label and International Maritime Organisation certifications on selected Axminster and Machine-Tufted wool products. We are working towards ISO/TIS 18001:1999 certification and TLS 8001: 2003 – Safety and Labour Management System. Wherever possible Tai Ping uses environmentally responsible materials, including renewable, biodegradable and sustainable natural fibres and recyclable synthetic fibres. We also recommend the use of low-VOC carpet adhesives and cushions and support environmentally friendly carpet-cleaning chemicals. Tai Ping is a member of the Carpet & Rug Institute of the U.S.A.

Outlook

The carpet industry worldwide continues to undergo great changes. In the last year several well-known European carpet companies have found themselves in financial difficulties. Asian manufacturers continue to grow in size and strength due to current economies of labour costs.

These advantages will not last forever. The Group recognizes that it has a unique opportunity to build a world-class organization, renowned for design, superior service and high-quality products. We are accomplishing this by building sales and service teams and by supporting them with the necessary equipment and skills. Only in this way will Tai Ping cement its market position as a leader in custom-made carpets.

We have recently announced the acquisition of Edward Fields Inc., one of America's oldest and best-known carpet retailers. Edward Fields specializes in the residential and designer markets. With a network of showrooms nationwide, it should increase sales of premium products for which Tai Ping is so well-known.

Staff

The success of our business depends on the ability and work ethic of our staff. With operations in many countries, the Group has to manage a number of logistical complexities, so we have strengthened our team effort substantially in the last few years, as our improved sales reflect. I am grateful to all staff for their commitment to the Group.

James S. Dickson Leach
Chairman

Hong Kong, 18th April 2005

Carpet Operations

The Group's carpet manufacturing and trading turnover rose by 10% to HK\$ 451.0 million in 2004 from HK\$ 409.6 million in 2003. HK\$ 270.4 million or 60% arose from turnover in Asia and HK\$ 180.5 million or 40% from turnover to the rest of the world, compared to HK\$ 233.1 million and 57% and HK\$ 176.5 million and 43% respectively in 2003.

In 2004 the impact of increases in raw material costs, energy and operating costs resulted in a fall in gross margins to 37% from 39% in 2003. Coupled with the increase in overheads of HK\$ 48.2 million incurred mainly in the planned build up of the sales teams with new hires in the U.S. and Europe and global marketing tools, resulted in the carpet operations reporting a segmental loss before tax, finance and unallocated costs of HK\$ 21.6 million compared to a profit of HK\$ 18.6 million in 2003.

U.S.A.

The United States is the primary growth market targeted for the Group. In 2004 major changes to management, operations and strategy were made to build the foundations for the long term. Direct sales people and field designers were hired in key locations to service the commercial markets and experienced residential sales people were hired in the New York market where the Group's initial foray into the U.S. residential market is planned with the opening of a New York showroom in May 2005. The costs of these new hires, supporting marketing and sales tools, and the establishment of a New York based head office for the CEO resulted in additional overheads of HK\$ 18.1 million and losses in the U.S. Group in 2004. But the beginning of the growth was seen with an increase in turnover to HK\$ 109.8 million, representing 24% of the total carpet sector turnover and an increase from HK\$ 107.7 million in 2003. More importantly, entry into the residential and designer market will bring the benefit of higher margin business.

Europe

Turnover in Europe remained flat at HK\$ 43.5 million representing 10% of the carpet operations turnover. The European market for the Group continues to be mainly in the high end residential and luxury yacht market. Overhead costs rose by HK\$ 12.3 million with the addition of sales and service people and the move to a more convenient central Paris office location. However planned growth in commercial sales did not materialize except for some limited success in the German market. How best to develop the Group's representation in Europe is still being considered and will be the next focus of the Group CEO once the U.S. residential business is established.

Hong Kong, Macau and China

Turnover in the Hong Kong, Macau and China region amounted to HK\$ 44.3 million in 2004, 10% of the carpet operation's turnover, showing good growth over the turnover of HK\$ 38.2 million in 2003. Strong growth occurred in Hong Kong and with the new opportunities brought by the rapid expansion of the Macau casino industry. However, sales in China remained low. These markets continued to be price-driven and many of the sales were in the lower cost and margin products with tufted and tiled products being sourced from Carpets International Thailand PCL ("CIT") in Thailand.

Thailand and Southeast Asia

Turnover in Southeast Asia grew to HK\$ 205.7 million, 46% of the Group's carpet turnover compared to HK\$ 179.1 million in 2003. These sales were mainly through the Thai subsidiary, CIT, whose turnover (including sales to other markets) grew to HK\$ 246.2 million, an increase of 15% compared to HK\$ 215.1 million in 2003. Thailand's economy experienced strong growth in 2004 and CIT benefited as the property and hospitality sectors recovered with growth in the tourism industry and consumer spending leading to renovation and new property projects. The needle punch carpet turnover grew with the increased demand from the Thai automotive industry and the use of this product in the exhibition and convention market. However, gross margins weakened with the continued increase in raw material prices and fixed supply contracts to the automotive industry. Export sales gross margin fell by 5% during the year due to the strengthening of the Thai Baht and increases in raw material synthetic yarn and fibre prices.

Joint Ventures and Associated Company

The collective group of Weihai companies (49% owned) consisting of Weihai Shanhua Huabao Carpet Co. Ltd., Weihai Shanhua Premier Carpet Co. Ltd. and Weihai Shanhua Floorcovering Products Co. Ltd., reported 35% growth in their turnover to HK\$ 427.8 million from HK\$ 325.0 million in 2003. Weihai's efforts over the past two years to exploit overseas markets gave rise to an increase of 75% in their export turnover to HK\$ 74.1 million with domestic turnover increasing 25% to HK\$ 353.7 million. Gross margins remained constant at 30%. The Group's share of profits before taxation rose by 79% to HK\$ 26.7 million from HK\$ 14.9 million in 2003.

Philippine Carpet Manufacturing Corporation and Pacific Carpets Ltd. (33% owned) grew their domestic and export market turnover in 2004. The manufacturing facilities of Pacific Carpets situated in Clark Base expanded their operations in 2004 to meet customer demands from the Middle East and the U.S. The Group's share of the Philippine operations' results amounted to HK\$ 2.7 million in 2004 compared to HK\$ 0.9 million in 2003.

Other Operations

Yarn Dyeing

The Group's yarn dyeing turnover of Premier Yarn Dyers, Inc. ("PYD") in the US and Nanhai in the PRC increased by 5% to HK\$ 60.0 million in 2004 compared to HK\$ 57.2 million in 2003. PYD's turnover in 2004 of HK\$ 55.9 million arose mainly in space dyeing with the demand for hank dyeing significantly reduced. Woollen yarn sales in China by Nanhai grew by 18% to HK\$ 4.1 million but increased raw material wool fleece costs resulted in a reduction in the gross margins achieved. The overall yarn dyeing segmental results in 2004 rose by 7% to HK\$ 11.2 million from HK\$ 10.5 million in 2003.

Interior Furnishings

During 2004 the operations of Banyan Tree Ltd. and Options Home Furnishings Ltd. were merged and renamed Indigo Living Ltd. in order to jointly rebrand the companies and to take advantage of overseas opportunities. The combined operations reported a fall in turnover of 11% to HK\$ 45.8 million from HK\$ 51.5 million in 2003 reflecting decrease in the contract turnover offset by steady growth in the rental and lease market. Costs of the combined operations rose by HK\$ 2.5 million, mainly due to rebranding, and Indigo Living reported a profit of HK\$ 4.6 million compared to HK\$ 5.1 million in 2003. With the acquisition of the remaining 52% of Suzhou Shuilian Mattress Co. Ltd. in December 2004, the Group is now in a better position to explore the opportunities of this profitable business.

How did we do in 2004

Tai Ping's Financial Results and Position at a Glance

Last Year's Balance Sheet

(Consolidated Balance Sheet at 31.12.2003)

Assets:	HK\$'000
Fixed assets and construction in progress	372,829
Intangible assets	1,324
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 and 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

Cash Flow For The Year

(Consolidated Cash Flow Statement for the year ended 31.12.2004)

	HK\$'000
Cash generated from operations	13,275
Tax paid	(10,162)
Net interest received	234
Net dividend received	381
① Capital expenditure	(33,892)
Purchase of subsidiaries, net of cash received	578
② Other investing activities	3,775
Net increase in bank loans	17,864
Net decrease in cash	(7,947)
Foreign exchange rate effect	225
Cash & cash equivalent	
at 31.12.2003	84,687
at 31.12.2004	76,965

Loss For The Year

(Consolidated Profit and Loss Account for the year ended 31.12.2004)

	HK\$'000
③ Turnover	563,165
Cost of sales	(347,678)
Gross profit	215,487
Other revenue and income	11,570
④ Expenses	(238,380)
Operating loss	(11,323)
Finance costs	(1,203)
⑤ Share of profits of affiliates	29,427
Profit before taxation	16,901
Taxation	(17,829)
Loss after taxation	(928)
Minority interests	(2,924)
Net loss	(3,852)

Earnings Retained

(Consolidated Retained Earnings for the year ended 31.12.2004)

	HK\$'000
Balance at 31.12.2003	341,828
Exchange adjustments	2,381
Net loss	(3,852)
2003 final dividend paid	(6,334)
Balance at 31.12.2004	334,023

Current Year's Balance Sheet

(Consolidated Balance Sheet at 31.12.2004)

Assets:	HK\$'000
① Fixed assets and construction in progress	376,404
Negative goodwill	(2,652)
⑥ Investments in affiliates	134,807
Investment securities and other investments	30,723
Cash & cash equivalents	76,965
Finance lease investments	1,436
Deferred tax assets	570
Other current assets	273,637
	891,890

Shareholders' equity and liabilities:

Share capital, premium and reserves	333,340
Retained earnings	334,023
Bank borrowings	72,628
Other current liabilities	124,905
Minority interests	20,930
Deferred tax liabilities	6,064
	891,890

① The capital expenditure includes additions of fixed assets of HK\$ 14,705,000 and construction in progress of HK\$ 19,187,000.

② Cash inflow from other investing activities included disposal of fixed assets of HK\$ 1,890,000, disposal of investment securities of HK\$ 141,000 and repayment of finance lease receivables of HK\$ 1,744,000.

③ Turnover represented revenue from sale of carpets, yarn, interior furnishing and rental income from property investment and interior furnishings. The turnover increased by 7.2%.

④ Expenses include distribution costs of HK\$ 94,738,000, administrative expenses of HK\$ 136,310,000 and other operating expenses of HK\$ 7,332,000.

⑤ Share of profits of affiliates include HK\$ 2,677,000 from an associated company and HK\$ 26,750,000 from joint ventures.

⑥ Investment in affiliates included HK\$ 113,462,000 in joint ventures in Weihai, Shandong Province of the PRC and HK\$ 21,345,000 in an associated company in the Philippines.



Group Capital Expenditure

Total capital expenditure for the year, excluding acquisition of a subsidiary, amounted to HK\$ 33.9 million in the form of fixed assets and construction in progress, primarily financed from internal resources. The Group also added a further HK\$ 2.6 million of fixed assets on acquisition of a subsidiary. The net book value of the Group's fixed assets and construction in progress stood at HK\$ 376.4 million as at 31st December 2004.

Investments 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:

		2004		2003	
		HK\$'000	%	HK\$'000	%
Carpets Business	– Mainland China	113,462	69.6	96,565	66.3
	– South East Asia	21,538	13.2	21,904	15.0
Property and Others	– Hong Kong	27,223	16.7	27,272	18.7
	– China	114	0.1	–	–
	– United States	686	0.4	–	–
		163,023	100.0	145,741	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 15 and 16 to the accounts.

Net Current Assets

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

	2004	2003
	HK\$'000	HK\$'000
– Hong Kong	25,241	61,232
– China	49,226	36,369
– South East Asia	34,114	27,834
– Europe	4,726	6,739
– United States	44,155	41,168
	157,462	173,342

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 2004 decreased to HK\$ 667.4 million from HK\$ 671.4 million at 31st December 2003, reflecting the loss incurred in the year.

Financial Position and Liquidity

The Group's cash deposits and bank balances amounted to HK\$ 77.0 million at the end of 2004 (2003: HK\$84.7 million).

Bank loans at 31st December 2004 amounted to HK\$ 72.6 million (2003: HK\$ 54.3 million). All debts are repayable within one year.

The currency denomination of the borrowings at 31st December 2004 was as follows:

	2004		2003	
	Borrowings HK\$'000	Carrying value of assets pledged HK\$'000	Borrowings HK\$'000	Carrying value of assets pledged HK\$'000
Thai Baht				
- Secured	-	-	19,787	43,788
- Unsecured	51,509	-	24,050	-
United States Dollars				
- Unsecured	21,119	-	10,469	-
	72,628	-	54,306	43,788

Total borrowings increased to finance the strategic changes as outlined above. As at 31st December 2004, 16% of the borrowings were charged at floating interest rates, and 84% at fixed interest rates.

Cash deposits and bank balances exceeded all the outstanding bank loans as at 31st December 2004, therefore no gearing ratio has been calculated.

Contingent Liabilities

As at 31st December 2004, the total contingent liabilities of the Group amounted to HK\$ 7.4 million (2003: HK\$ 4.6 million). Full disclosure of contingent liabilities as at 31st December 2004 is made in note 31 to the Accounts.

Foreign Exchange Exposure

The Group has overseas operations in the PRC, Thailand, Singapore, U.S. and Europe. Given that 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 in Thailand. However, the effect of these exchange differences is reduced by CIT's borrowings being 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

	2004 HK\$'000	2003 HK\$'000	Change HK\$'000
Cash provided by/(used in):			
- Operating activities	3,113	32,905	(29,792)
- Investing activities	(22,422)	(16,946)	(5,476)
- Financing activities	11,362	(36,663)	48,025
	(7,947)	(20,704)	12,757

Net cash provided by operating activities decreased by HK\$ 30.0 million reflecting the decline in the operating profits in 2004.

Cash used in investing activities was primarily for capital expenditure on fixed assets and construction in progress.

Net cash from financing activities in 2004 was mainly derived from net increase in bank borrowings, less interest and dividend paid.

Employee and Remuneration Policy

The Group had approximately 3,100 employees as at 31st December 2004. Employees are remunerated according to the nature of their job and market trends, with built in merit components incorporated in the annual incentive to reward and motivate individual performance. Total staff costs and retirement benefit costs for the year ended 31st December 2004 amounted to HK\$ 172.4 million (2003: HK\$ 151.7 million) and HK\$ 3.2 million (2003: HK\$ 3.2 million) respectively.

James H. Kaplan
Chief Executive Officer

Hong Kong, 18th April 2005



James S. Dickson Leach: aged 59; has been a Non-executive Director of the Group for 12 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 is currently an executive director of Hong Kong and Shanghai Hotels, Limited, Vice Chairman of CLP Holdings Limited, and an independent non-executive director of Hong Kong Aircraft Engineering Company Limited, all of which are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). He has over 29 years of international experience in managing industrial companies including energy and manufacturing.

James H. Kaplan: aged 49; was appointed to the Board as Chief Executive Officer two years ago. Prior to joining Tai Ping, James was a divisional vice president of a high-end worldwide furniture manufacturer. He has been highly effective in building strong sales organizations, and his experience, enthusiasm and energy will be the facilitator of Tai Ping becoming a truly “customer focused” organization.

Anthony Y. C. Yeh: aged 81; was one of the founder members of the Tai Ping Carpets Group in 1956 and is now the Honorary Life President and a Non-executive Director. He is also an independent non-executive director of Cheung Kong (Holdings) Limited. Mr. Yeh holds a Master’s Degree in Science and is a mechanical engineer who built the Company from a “cottage industry” to help Chinese refugees in Hong Kong in the 1950’s. He developed techniques in hand tufting carpets, leading to successful commercialization of the product. The forming of alliances with other Asian partners and the establishment of international sales subsidiaries in the early history of the Company formed the basis of the world recognised Tai Ping Carpets Group of today.

Alison S. Bailey: aged 48; has been employed with the Group for 8 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 50; has been with the Group 24 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, and management of the export sales and marketing functions. He was the Managing Director of the Group from 1989 to August 2003. He is currently a partner of a Shanghai-based consultancy firm which provides business advisory services to international and domestic institutions in China. He is also an independent non-executive director of Pacific Andes International Holdings Limited, a company listed on the Stock Exchange. Kent is the son of Mr. Anthony Yeh.

Michael T. H. Lee: aged 43; is the managing director of Hysan Development Company Limited, a company listed on the Stock Exchange. He is also a member of Main Board Listing Committee of the Stock Exchange of Hong Kong Limited and a member of the Executive Committee of Hong Kong Housing Society. He is President of Hong Kong Society for the Protection of Children and Vice-Chairman of Helping Hand. As an Independent Non-executive Director to the Group for the last 7 years, Michael has brought technical and financial strengths together with valuable experience gained from managing investments in Asian markets.

Yvette Y. H. Fung: aged 43; 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 as well as a non-executive director of Fountain Set (Holdings) Limited and an independent non-executive director of Hong Kong Catering Management Limited, the shares of all of which are listed on the Stock Exchange.

Ian D. Boyce: aged 60; has been a Non-executive Director of the Group for 6 years. He is a Chartered Accountant with 32 years of mainly investment banking experience, of which 20 years have been based in Asia. Ian provides an advisory role in stock market related matters and in his capacity as a director of several Hong Kong listed companies, including Hong Kong and Shanghai Hotels, Limited as executive director and CLP Holdings Limited as non-executive director.

Lincoln K. K. Leong: aged 44; has been a Non-executive Director for 8 years. He is the finance director of MTR Corporation Limited and non-executive director of Hong Kong Aircraft Engineering Company Limited. Mr Leong has had many years experience in merchant and investment banking and is also a Chartered Accountant. His financial acumen and investment experience have been valuable to the Tai Ping Carpets Group. He is the elder brother of Mr. Nelson K. F. Leong.

John J. Ying: aged 42; has been a Non-executive Director of the Group for 6 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 59; had been a Non-executive Director of Tai Ping for 24 years before his redesignation as an Independent Non-executive Director in December 2004. Mr. Yung is an economics graduate with a Master's Degree of Business Administration. He has extensive experience in the textile industry, banking and investment, and has served on various community and government committees. He is currently Deputy Managing Director of Nanyang Holdings Limited which is listed on the Stock Exchange, and a director of Shanghai Commercial Bank Limited which is a licensed bank in Hong Kong.

Nicholas T. J. Colfer: aged 45; a Non-executive Director of the Group since 2003. He is a director of Sir Elly Kadoorie & Sons Limited and has over 21 years' experience of corporate management in the Asia-Pacific region, principally in real estate, manufacturing and distribution. He has a Master of Arts Degree and serves on several other corporate boards in Hong Kong.

David C. L. Tong: aged 34; has been the Alternate Director to Messrs James S. Dickson Leach, Nicholas T. J. Colfer and Ian D. Boyce since December 2003. Prior to his redesignation he had been a Non-executive Director of the Group for 8 years. 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 41; has been the Alternate Director to his brother Lincoln for 7 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 and Qualified Accountant: aged 48; 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 7 years.



The Directors have pleasure in submitting their report together with the audited accounts for the year ended 31st December 2004.

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 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 37.

The Directors have not declared an interim dividend and do not recommend the payment of a final dividend for the year. (2003: Final dividend proposed of HK\$ 0.03 per share)

Five-Year Consolidated Financial Summary

A summary of the consolidated 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 25 to the accounts.

Donations

During the year, donations made by the Group for charitable purposes amounted to HK\$ 26,000 (2003: HK\$59,000).

Fixed Assets

Movements in fixed assets of the Group during the year are set out in note 10 to the accounts.

Principal Properties

Details of the principal properties held for investment purposes are set out on page 84.

Share Capital

Details of the movement in share capital of the Company are set out in note 24 to the accounts.

Distributable Reserves

Distributable reserves of the Company at 31st December 2004 calculated under the Companies Act 1981 of Bermuda (as amended) amounted to HK\$ 98,684,000 (2003: HK\$ 109,527,000).

Subsidiaries

Particulars of the principal subsidiaries are set out on pages 82 and 83.

Bank Loans

Particulars of bank loans of the Group are set out in the management discussion and analysis, consolidated balance sheet and note 26 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 share options brought forward from 2003 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.

Details of the movement of share options outstanding as at 31st December 2004 which have been granted under the 1997 Share Option Scheme are as follows:

Name	Options held at 1st January 2004	Options lapsed during the year	Options held at 31st December 2004	Exercise price (HK\$)	Exercisable from	Exercisable until
Directors						
- Alison S. Bailey	253,500	(253,500)	-	1.67	15.9.2001	14.9.2004
- Employees	625,500	(625,500)	-	1.67	15.9.2001	14.9.2004

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

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

2. Participants

Any employee of the Group (whether full time or otherwise, including any Executive Director, Non-executive Director and Independent Non-executive Director of the Group) and any consultant of the Group who 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 9.6% 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 during the year.



Directors

The names of the Directors during the year are set out on pages 19 and 20.

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.

On 7th December 2004, Mr. Lincoln C. K. Yung was redesignated as an Independent Non-executive Director of the Company.

In accordance with bye-laws 100 and 109(A) of the Company, Mr. Lincoln C. K. Yung, Mr. Michael T. H. Lee and Ms. Alison S. Bailey shall retire and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting.

Directors' Service Contracts

None of the Directors who are proposed for re-election at the forthcoming Annual General Meeting 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

The Company and Hong Kong Carpet (Holdings) Limited, an indirect wholly-owned subsidiary of the Company, entered into a severance agreement (the "Agreement") on 30th July 2003 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 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 was HK\$ 5,400,000, payable in three yearly instalments. The first and second instalments of HK\$ 2,700,000 and HK\$ 1,350,000 had been paid in August 2003 and August 2004 respectively, and the remaining third instalment of HK\$ 1,350,000 will be made in August 2005 subject to Mr. Yeh's compliance with the non-compete clause as mentioned above.

Apart from the above, no other contracts of significance in relation to the Group's business to which the Company, its fellow subsidiaries 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.

Independent Non-Executive Directors

The Company has received from Ms. Yvette Y. H. Fung, Mr. Michael T. H. Lee and Mr. Lincoln C.K. Yung, Independent Non-executive Directors, written confirmations of independence pursuant to Rule 3.13, independence guidelines, of the Listing Rules.

The Company considers all the Independent Non-executive Directors to be independent.

Biographical Details of Directors and Senior Management

Brief biographical details of Directors and senior management are set out on pages 19 to 20 and 85 to 86 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 2004, the interests of the Directors in the shares 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

No. of ordinary shares held (long position)

Name	Personal interests	Corporate interests	Aggregate % to the share capital
James S. Dickson Leach	3,919,769	–	1.852%
Anthony Y. C. Yeh	5,036,230	–	2.379%
Kent M. C. Yeh	1,237,500	–	0.585%
Ian D. Boyce	214,371	–	0.101%
Lincoln C. K. Yung	30,000	–	0.014%
Lincoln K.K. Leong	–	2,000,000*	0.945%
Alison S. Bailey	1,208,589	–	0.571%
John J. Ying	–	11,940,722#	5.640%
David C. L. Tong	311,910	–	0.147%
(Alternate Director to Messrs James S. Dickson Leach, Nicholas T. J. Colfer and Ian D. Boyce)			
Nelson K.F. Leong	–	2,000,000*	0.945%
(alternate director to Lincoln K.K. Leong)			

* 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) Interest in associated corporations of the Company

No. of ordinary shares held in associated corporations of the Company

Name	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 2004, 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*	55.591%
Hesko Limited	117,688,759*	55.591%
Esko Limited	117,688,759*	55.591%
New Holmium Holding Corporation	117,688,759*	55.591%
iVentures I, L. P.	11,940,722**	5.640%

* Bermuda Trust Company Limited has an interest in Esko Limited and Hesko Limited. The 117,688,759 shares are owned by New Holmium Holding Corporation. 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). iVentures I, L.P. was renamed to Peak Capital Partners I, L. P. on 22nd March 2005.

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 five largest customers and purchased less than 30% of its goods and services from its five largest suppliers.

Connected Transactions

- (a) Significant related party transactions entered into by the Group during the year ended 31st December 2004, which do not constitute connected transactions and are required to be disclosed under the Listing Rules, are disclosed in note 32 to the accounts.
- (b) Other related party transactions, which also constitute connected transactions under the Listing Rules, required to be disclosed in accordance with Chapter 14 of the Listing Rules, are as follows:

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\$ 1,943,000 in 2004. Such transactions are continuing 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.

A conditional waiver has been granted by the Stock Exchange for the continuing connected transactions described above. 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 2004 did not exceed the relevant cap amount of 3% of the audited consolidated net tangible assets of the Group as set out in the conditional waiver granted by the Stock Exchange.

The Company's auditors have also reviewed the continuing connected transactions described above and confirmed in its letter to the Directors that based on their work performed, 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 2004 did not exceed the relevant cap amount 3% of the audited consolidated net tangible assets of the Group as set out in the conditional waiver granted by the Stock Exchange.

The Company confirms that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules in respect of the connected transactions as disclosed 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 Institute of Certified 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 and one Non-executive Director, Mr. John J. Ying.

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 Group's accounts for the six months ended 30th June 2004 and for the year ended 31st December 2004 with the Directors.

Public Float

As at the date of this report, the Company has maintained a sufficient public float under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of its Directors.

Auditors

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

By order of the Board
James H Kaplan
Chief Executive Officer

Hong Kong, 18th April 2005



Report of the Auditors	36
Consolidated Profit and Loss Account	37
Consolidated Balance Sheet	38
Company Balance Sheet	39
Consolidated Statement of Changes in Equity	40
Consolidated Cash Flow Statement	41
Notes to the Accounts	
1. Principal Accounting Policies	45
2. Turnover, Revenue and Segmental Information	54
3. Operating (Loss)/Profit	60
4. Finance Costs	61
5. Directors Emoluments	61
6. Taxation	63
7. (Loss)/Profit Attributable to Shareholders	64
8. Dividend	64
9. (Loss)/Earnings per Share	64
10. Fixed Assets	65
11. Construction in Progress	67
12. Intangible Assets	68
13. Subsidiaries	68
14. Amount due from Indirectly Held Associated Company and Related Companies	68
15. Associated Company	69
16. Joint Ventures	70
17. Other Investments	72
18. Net Investment in Finance Leases	73
19. Inventories	73
20. Trade and Other Receivables	74
21. Investment Securities	74
22. Cash and Bank Balances	74
23. Trade and Other Payables	75
24. Share Capital	75
25. Reserves	76
26. Long Term Bank Loans	77
27. Deferred Taxation	78
28. Future Operating Lease Income	79
29. Operating Lease Commitments	79
30. Capital Commitments	80
31. Contingent Liabilities	80
32. Related Party Transactions	81
33. Post Balance Sheet Events	81
34. Approval of Accounts	81
Principal Subsidiaries, Associated Company and Joint Ventures	82
Major Investment Properties	84
Senior Management	85

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 37 to 81 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 Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

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

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31st December 2004 and of the Group's loss 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, 18th April 2005

For the year ended 31st December 2004

	Note	2004 HK\$'000	2003 HK\$'000
Turnover	2	563,165	525,212
Cost of sales		(347,678)	(317,095)
Gross profit		215,487	208,117
Other revenues	2	2,393	2,161
Other operating income		9,177	6,982
Distribution costs		(94,738)	(78,945)
Administrative expenses		(136,310)	(116,516)
Other operating expenses		(7,332)	(6,218)
Operating (loss)/profit	3	(11,323)	15,581
Finance costs	4	(1,203)	(2,475)
Share of profits of			
– Associated company		2,677	890
– Joint ventures		26,750	14,875
Profit before taxation		16,901	28,871
Taxation	6	(17,829)	(11,524)
(Loss)/profit after taxation		(928)	17,347
Minority interests		(2,924)	(1,054)
(Loss)/profit attributable to shareholders	7	(3,852)	16,293
(Loss)/profit attributable to shareholders retained by:			
Company and subsidiaries		(27,896)	2,574
Associated company		1,596	473
Joint ventures		22,448	13,246
		(3,852)	16,293
Dividend			
– Final, proposed	8	–	6,334
		–	6,334
(Loss)/earnings per share	9	(1.8) cents	7.7 cents

Consolidated Balance Sheet

As at 31st December 2004

	Note	2004 HK\$'000	2003 HK\$'000
Fixed assets	10	357,980	361,628
Construction in progress	11	18,424	11,201
Intangible assets	12	(2,652)	1,324
Associated company	15	21,345	21,711
Joint ventures	16	113,462	96,565
Other investments	17	27,530	27,465
Net investment in finance leases	18	236	344
Deferred tax assets	27	570	834
Current assets			
Inventories	19	153,740	127,727
Trade and other receivables	20	119,897	103,127
Current portion of net investment in finance leases	18	1,200	1,371
Investment securities	21	2,507	2,624
Other investment – short term	17	686	–
Cash and bank balances	22	76,965	84,687
		354,995	319,536
Current liabilities			
Short term bank loans		–	15,747
		– Secured	
		– Unsecured	
		72,628	34,519
Current portion of long term bank loans	26	–	4,040
Trade and other payables	23	119,911	88,352
Taxation		4,994	3,536
		197,533	146,194
Net current assets		157,462	173,342
Total assets less current liabilities		694,357	694,414
Financed by:			
Share capital	24	21,170	21,112
Reserves	25	312,170	308,470
Retained earnings	25	334,023	335,494
Proposed final dividend	25	–	6,334
Shareholders' funds		667,363	671,410
Minority interests		20,930	17,992
Deferred tax liabilities	27	6,064	5,012
		694,357	694,414

James H. Kaplan
Director

Alison S. Bailey
Director

As at 31st December 2004

	Note	2004 HK\$'000	2003 HK\$'000
Subsidiaries	13	306,785	272,906
Current assets			
Other receivables		326	359
Amount due from an indirectly held associated company	14	345	345
Amounts due from related companies	14	59	59
Cash and bank balances		2,574	46,303
		3,304	47,066
Current liabilities			
Other payables		1,073	829
Net current assets		2,231	46,237
Total assets less current liabilities		309,016	319,143
Financed by:			
Share capital	24	21,170	21,112
Reserves	25	631,760	631,102
Accumulated losses	25	(343,914)	(339,405)
Proposed final dividend	25	-	6,334
		309,016	319,143

James H. Kaplan
Director

Alison S. Bailey
Director

Consolidated Statement of Changes in Equity

For the year ended 31st December 2004

	Note	2004 HK\$'000	2003 HK\$'000
Total equity as at 1st January		671,410	632,778
Exchange differences arising on translation of subsidiaries, associated company and joint ventures	25	3,077	24,090
Revaluation surplus on investment properties	25	2,659	450
Net gains not recognised in the profit and loss account		5,736	24,540
(Loss)/profit for the year	25	(3,852)	16,293
Reserves transferred to profit and loss account upon disposal of investment properties	25	(313)	–
Dividends	25	(6,334)	(6,229)
Issue of new shares	24, 25	716	4,028
Total equity as at 31st December		667,363	671,410

Consolidated Cash Flow Statement

For the year ended 31st December 2004

	Note	2004 HK\$'000	2003 HK\$'000
Operating Activities			
Cash generated from operations	a	13,275	45,225
Overseas tax paid		(10,162)	(12,320)
Net Cash from Operation Activities		3,113	32,905
Investing Activities			
Purchase of fixed assets		(14,705)	(12,676)
Construction in progress		(19,187)	(15,251)
Proceeds on disposal of fixed assets		1,890	338
Purchase of subsidiaries, net of cash acquired	c	578	(198)
Proceeds on disposal of interests in investment securities		141	252
Repayment of finance lease receivables		1,744	2,518
Interest received		1,118	1,139
Dividends received from an associated company		462	458
Dividends received from joint ventures		5,537	6,474
Net Cash Used in Investing Activities		(22,422)	(16,946)
Financing Activities			
New bank loans	b	21,904	–
Repayment of bank loans	b	(4,040)	(32,195)
Interest paid		(884)	(2,267)
Dividend paid		(5,618)	(2,201)
Net Cash Generated from/(Used in) Financing Activities		11,362	(36,663)
Net Decrease in Cash and Cash Equivalents		(7,947)	(20,704)
Cash and Cash Equivalents at the Beginning of the Year		84,687	105,610
Effect of Foreign Exchange Rate Change		225	(219)
Cash and Cash Equivalents at the End of the Year		76,965	84,687
Analysis of the Balances of Cash and Cash Equivalents			
Cash and bank balances		76,965	84,687

a. Reconciliation of Profit before Taxation to Cash Generated from Operations

	2004	2003
	HK\$'000	HK\$'000
Profit before taxation	16,901	28,871
Depreciation of fixed assets	34,511	33,794
Net loss/(profit) on disposal of other fixed assets	369	(60)
Profit on disposal of an investment property	(313)	–
Share of profits less losses of – associated company	(2,677)	(890)
– joint ventures	(26,750)	(14,875)
Revaluation surplus on investment properties	(595)	(303)
Impairment in fixed assets	175	940
Negative goodwill recognised as income	(317)	(1,155)
Amortisation of goodwill	1,680	2,227
Write off of construction in progress	786	57
Net interest expenses	85	1,336
Profit on disposal of interests in investment securities	(37)	(41)
Reversal of impairment in investment in joint ventures	(4,803)	–
Operating profit before working capital changes	19,015	49,901
Increase in inventories	(21,282)	(8,653)
Increase in trade and other receivables	(12,582)	(1,286)
Increase in trade and other payables	29,919	6,360
(Increase)/decrease in amounts due by an associated company	(393)	351
Decrease in amounts due by joint ventures	14	74
Decrease in amounts due from other investment	49	703
Increase in net investment in finance lease	(1,465)	(2,225)
Cash generated from operations	13,275	45,225

b. Analysis of Changes in Financing during the Year

	Share capital (including premium) HK\$'000	Bank loans HK\$'000	Minority interests HK\$'000
Balance at 1st January 2003	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
Effect of foreign exchange rate changes	-	458	(25)
Cash inflow from financing	-	17,864	-
Shares issued for non-cash consideration	716	-	-
Share of investment property revaluation surplus by minority interests	-	-	39
Minority interests' share of profit	-	-	2,924
Balance at 31st December 2004	210,332	72,628	20,930

c. Purchase of Subsidiaries

	2004	2003
	HK\$'000	HK\$'000
(i) Net assets acquired on further acquisition of a joint venture as subsidiary		
– Fixed assets	2,585	–
– Other investments	114	–
– Inventories	4,150	–
– Trade and other receivables	3,036	–
– Trade and other payables	(2,371)	–
– Taxation	(453)	–
	7,061	–
– Investments in joint venture previously accounted for	(5,026)	–
– Negative goodwill	(2,613)	–
	(578)	–
(ii) Further acquisition of interests in a subsidiary from minority shareholders		
– Interest acquired	–	259
– Negative goodwill	–	(61)
	–	198
Total	(578)	198
Satisfied by:		
– Cash consideration	2,830	198
– Cash and bank balances acquired	(3,408)	–
	(578)	198

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 Institute of Certified Public Accountants (“HKICPA”). 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 their fair values.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“new HKFRSs”) which are effective for accounting periods beginning on or after 1st January 2005. The Group has not adopted these new HKFRSs in the financial statements for the year ended 31st December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

(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 inter-company 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.

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.

1. Principal Accounting Policies (Continued)

(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 three to eight 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.

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.

1. Principal Accounting Policies (Continued)

(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 any provision for impairment losses, and the consolidated balance sheet includes the Group's share of the net assets of the joint ventures less accumulated impairment losses.

Equity accounting is discontinued when the carrying amount of the investment in a joint venture reaches zero, unless the Group has incurred an 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.

(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 is 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.

1. Principal Accounting Policies (Continued)

(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 the Statement of Standard Accounting Practice (“SSAP”) No. 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.

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:

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 fixed 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.

1. Principal Accounting Policies (Continued)

(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 is not set off against increase in valuation of other companies' investment properties which have been credited to the investment properties revaluation reserve.

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.

1. Principal Accounting Policies (Continued)

(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 assets is based on the attributable cost of funds to the Group.

(l) Research and development costs

Research and development costs are expensed as incurred.

(m) 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, it 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.

(n) Inventories

Inventories comprising 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.

1. Principal Accounting Policies (Continued)

(o) 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.

(p) 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.

(q) 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.

(r) 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.

(s) 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 lease payment. The difference between gross receivable and the present value of the receivable is recognised as unearned finance income.

1. Principal Accounting Policies (Continued)

(t) Operating leases

(The Group as both lessor and lessee)

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.

Assets leased out under operating leases are included in fixed assets in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar owned fixed assets. Rental income (net of any incentives given to lessees) is recognised on a straight-line basis over the lease terms.

(u) 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.

(v) Segment reporting

In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, fixed assets, inventories, receivables and operating cash, and mainly exclude other investments, investment 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 10 and 11), including additions resulting from acquisition through purchases of subsidiaries including goodwill.

1. Principal Accounting Policies (Continued)

(v) Segment reporting *(Continued)*

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.

(w) 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 as the amounts expected to be paid when they are settled.

(iii) Retirement benefit obligations

The Group operates a number of defined contribution plans (the "Plans") throughout the world, the assets of which are held in separate trustee-administered funds. The Plans are 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 contributions vesting fully.

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% of 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.

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 and property holding. Revenues recognised during the year are as follows:

	2004 HK\$'000	2003 HK\$'000
Turnover		
Sales of carpets	451,032	409,569
Yarn manufacturing and trading	59,992	57,243
Sales and leasing of interior furnishings	45,832	51,532
Gross rental income from investment properties and others	6,309	6,868
	563,165	525,212
Other revenues		
Bank interest income	357	411
Interest from third parties	682	464
Interest from finance leases	79	158
Income on sales of underlay	744	652
Income on installation of carpets	531	476
	2,393	2,161
Total revenues	565,558	527,373

2. Turnover, Revenue and Segmental Information (Continued)

Primary reporting format – business segments

The Group is organised on a worldwide basis into four main business segments:

Carpets	– Carpets manufacturing and trading
Yarn	– Yarn manufacturing and trading
Interior furnishings	– Sale and leasing of furniture, art and soft furnishings
Property holding and others	– Rental income from property holding and investment in term deposits in banks

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	– Carpets, interior furnishings and property holding
Mainland China	– Carpets, yarn and property holding
South East Asia	– Carpets and property holding
Middle East	– Carpets
Other Asian countries	– Carpets
Europe	– Carpets
North America	– Carpets, yarn and property holding
Others	– Carpets and interior furnishings
(principally South Pacific and Latin America)	

2. Turnover, Revenue and Segmental Information (Continued)

The Group's turnover and trading results for the year ended 31st December 2004, together with their comparative figures, are analysed as follows:

Primary reporting format – business segments

For the year ended 31st December 2004

	Carpets	Yarn	Interior	Property			Group
	HK\$'000	HK\$'000	furnishings	and others	Elimination	Unallocated	HK\$'000
			HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Turnover							
– External revenues	451,032	59,992	45,832	6,309	–	–	563,165
– Inter-segment revenues	1,890	18,487	–	90	(20,467)	–	–
	452,922	78,479	45,832	6,399	(20,467)	–	563,165
Segment results	(21,646)	11,238	9,413	6,631	(1,527)	(15,432)	(11,323)
Finance costs							(1,203)
Share of profits of							
– Associated company	2,677	–	–	–	–	–	2,677
– Joint ventures	26,750	–	–	–	–	–	26,750
Profit before taxation							16,901
Taxation							(17,829)
Loss after taxation							(928)
Minority interests							(2,924)
Loss attributable to shareholders							(3,852)
Segment assets	512,863	82,959	43,375	81,613	–	36,273	757,083
Investment in							
associated company	21,345	–	–	–	–	–	21,345
Investment in joint ventures	113,462	–	–	–	–	–	113,462
Total assets							891,890
Segment liabilities	93,859	2,531	7,683	802	–	98,722	203,597
Capital expenditure	27,628	1,962	6,818	–	–	314	36,722
Depreciation	27,909	4,110	2,192	–	–	300	34,511
Amortisation charge	(296)	–	–	–	–	1,659	1,363
Impairment charge	175	–	–	–	–	–	175

2. Turnover, Revenue and Segmental Information (Continued)

For the year ended 31st December 2003

	Carpets	Yarn	Interior furnishings	Property holding and others	Elimination	Unallocated	Group
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover							
– External revenues	409,569	57,243	51,532	6,868	–	–	525,212
– Inter-segment revenues	1,752	17,046	–	76	(18,874)	–	–
	411,321	74,289	51,532	6,944	(18,874)	–	525,212
Segment results	18,598	10,539	5,106	5,820	(382)	(24,100)	15,581
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							16,293
Segment assets	459,847	78,396	25,199	78,714	–	80,176	722,332
Investment in							
associated company	21,711	–	–	–	–	–	21,711
Investment in joint ventures	96,565	–	–	–	–	–	96,565
Total assets							840,608
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

2. Turnover, Revenue and Segmental Information (Continued)

Secondary reporting format – geographical segments

	Turnover	Segment results	Total assets	Capital expenditure
	2004	2004	2004	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	85,082	10,793	80,536	6,199
Mainland China	11,151	(1,804)	127,910	3,426
South East Asia	209,338	20,705	367,819	18,614
Middle East	18,953	393	–	–
Other Asian countries	20,411	3,896	–	–
Europe	43,522	(12,338)	21,832	635
North America	166,364	(17,972)	122,713	7,848
Others	8,344	436	–	–
	563,165	4,109	720,810	36,722
Unallocated costs		(15,432)		
Operating loss		(11,323)		
Investment in associated company			21,345	
Investment in joint ventures			113,462	
Unallocated assets			36,273	
Total assets			891,890	

2. Turnover, Revenue and Segmental Information (Continued)

	Turnover	Segment	Total assets	Capital
	2003	results	2003	expenditure
	HK\$'000	2003	HK\$'000	2003
		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	-	-
	525,212	39,681	642,156	29,712
Unallocated costs		(24,100)		
Operating profit		15,581		
Investment in associated company			21,711	
Investment in joint ventures			96,565	
Unallocated assets			80,176	
Total assets			840,608	

3. Operating (Loss)/Profit

	2004 HK\$'000	2003 HK\$'000
Operating (loss)/profit is stated after crediting and charging the following:		
Crediting:-		
Gains on disposal of investment securities	37	41
Gains on disposal of an investment property	313	-
Gains on disposal of other fixed assets	-	60
Release of unvested benefit of the previous retirement scheme	-	302
Revaluation surplus on investment properties	595	303
Negative goodwill recognised as income (note 12)	317	1,155
Reversal of impairment in investment in joint ventures	4,803	-
Compensation on resumption of land	-	3,109
Net exchange gains	-	2,157
Charging:-		
Depreciation of fixed assets	34,511	33,794
Staff costs (including Directors' emoluments) (note)	172,446	151,747
Retirement benefit costs – defined contribution schemes (including Directors' emoluments)	3,243	3,185
Operating lease charges		
Land and buildings	13,054	9,807
Plant and machinery	40	293
Auditors' remuneration	1,537	1,191
Outgoings in respect of investment properties	460	378
Amortisation of goodwill (note 12)	1,680	2,227
Research and development costs	1,995	1,912
Impairment in fixed assets (note 10)	175	940
Loss on disposal of fixed assets	369	-
Net exchange losses	913	-

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

4. Finance Costs

	2004	2003
	HK\$'000	HK\$'000
Interest on bank loans and overdrafts wholly repayable within five years	1,203	2,475

5. Directors' Emoluments

(a) Directors' emoluments

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

	2004	2003
	HK\$'000	HK\$'000
Fees	320	313
Other emoluments:		
Basic salaries, housing and other allowances	3,763	3,504
Discretionary bonuses	2,545	525
Inducement fees	–	390
Contributions to retirement schemes	117	239
Compensation for loss of office	–	5,400
	6,745	10,371

Directors' fees disclosed above include HK\$ 90,000 (2003: HK\$ 80,000) paid to Independent Non-executive Directors.

The emoluments of the Directors fell within the following bands:

Emolument band	No. of directors	
	2004	2003
HK\$nil – HK\$1,000,000	13	11
HK\$1,500,001 – HK\$2,000,000	–	1
HK\$2,000,001 – HK\$2,500,000	1	–
HK\$4,000,001 – HK\$4,500,000	1	–
HK\$7,000,001 – HK\$7,500,000	–	1

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 (2003: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2003: three) individuals during the year are as follows:

	2004 HK\$'000	2003 HK\$'000
Basic salaries, housing and other allowances	2,499	3,348
Bonuses	88	701
Profit sharing incentives	871	–
Contributions to retirement schemes	–	97
Compensation for loss of office	470	–
	3,928	4,146

The emoluments fell within the following bands:

	No. of individuals	
	2004	2003
Emolument bands		
HK\$ 1,000,001 – HK\$ 1,500,000	3	2
HK\$ 1,500,001 – HK\$ 2,000,000	–	1

6. Taxation

No provision for Hong Kong profits tax has been made in the accounts for both years as the companies within the Group either have no assessable profits in Hong Kong or have available tax losses brought forward to set off against their assessable profits. Taxation on overseas profits has been calculated on the estimated assessable profits 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:

	2004 HK\$'000	2003 HK\$'000
Overseas tax of subsidiaries	14,056	11,502
Over-provision in prior years	(2,908)	(3,780)
Deferred taxation relating to the origination and reversal of temporary differences (note 27)	1,299	1,895
Deferred taxation resulting from an increase in tax rate (note 27)	–	(139)
Share of taxation attributable to an associated company and joint ventures	5,382	2,046
Taxation charges	17,829	11,524

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

	2004 HK\$'000	2003 HK\$'000
Profit before taxation	16,901	28,871
Calculated at a taxation rate of 17.5% (2003: 17.5%)	2,958	5,052
Effect of different taxation rates in other countries	6,267	4,223
Income not subject to taxation	(1,483)	(1,106)
Expenses not deductible for taxation purposes	3,687	3,476
Tax losses not recognised	9,308	3,798
Increase in opening net deferred taxation resulting from an increase in tax rate	–	(139)
Over-provision in previous years	(2,908)	(3,780)
Taxation charges	17,829	11,524

7. (Loss)/Profit Attributable to Shareholders

The (loss)/profit attributable to shareholders is dealt with in the accounts of the Company to the extent of loss of HK\$4,509,000 (2003: HK\$ 7,227,000).

8. Dividend

	2004	2003
	HK\$'000	HK\$'000
Final, proposed, of nil (2003: HK\$0.03) per share	–	6,334

Note: The Directors do not recommend the payment of a final dividend for the year 2004.

9. (Loss)/Earnings Per Share

(Loss)/earnings per share is calculated based on the Group's loss attributable to shareholders of HK\$3,852,000 (2003: profit attributable to shareholders of HK\$16,293,000) and on the weighted average number of shares in issue of 211,703,488 shares (2003: 211,703,488 shares which has been adjusted for shares issued under the scrip dividend scheme) during the year.

There are no diluted (loss)/earnings per share presented for both years as the Company had no outstanding share options as at 31st December 2004 and for 2003, the dilution from outstanding share options granted by the Company was immaterial.

10. Fixed Assets

Group	Investment properties HK\$'000	Other properties HK\$'000	Other assets HK\$'000	Total HK\$'000
Cost or valuation				
At 1st January 2004	74,053	157,455	422,085	653,593
Exchange adjustments	5	424	579	1,008
Additions	–	165	14,540	14,705
Acquisition of a subsidiary	–	–	6,506	6,506
Transfer from construction in progress	–	618	10,734	11,352
Net revaluation surplus	5,185	–	–	5,185
Disposals	(2,031)	–	(9,217)	(11,248)
At 31st December 2004	77,212	158,662	445,227	681,101
Accumulated depreciation and impairment				
At 1st January 2004	–	43,905	248,060	291,965
Exchange adjustments	–	184	605	789
Charge for the year	–	5,491	29,020	34,511
Acquisition of a subsidiary	–	–	3,921	3,921
Write back on disposals	–	–	(8,240)	(8,240)
Impairment	–	–	175	175
At 31st December 2004	–	49,580	273,541	323,121
Net book value				
at 31st December 2004	77,212	109,082	171,686	357,980
Net book value				
at 31st December 2003	74,053	113,550	174,025	361,628

Other assets include plant and machinery, furniture, fixtures, equipment and motor vehicles.

10. 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 the HKICPA 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\$ 6,808,000 (2003: HK\$ 7,594,000) had it 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 an open market value basis at 31st December 2004 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 84.

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

		Investment properties HK\$'000	Other properties HK\$'000	Other assets HK\$'000
2004	At professional valuation			
	in 1989	-	11,563	-
	in 2004	77,212	-	-
	At cost	-	147,099	445,227
	At 31st December 2004	77,212	158,662	445,227
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

10. Fixed Assets (Continued)

- (b) The Group's interests in investment properties and other properties at their net book values are analysed as follows:

		Hong Kong HK\$'000	Overseas HK\$'000
2004	Freehold	–	126,409
	Long leases (over 50 years)	11,900	–
	Medium leases (10 – 50 years)	7,030	40,955
	At 31st December 2004	18,930	167,364
2003	Freehold	–	129,205
	Long leases (over 50 years)	8,930	–
	Medium leases (10 – 50 years)	6,770	42,698
	At 31st December 2003	15,700	171,903

- (c) Included in the net book value of other properties and other assets were amounts of HK\$ 4,332,070 (2003: HK\$ 4,138,000) and HK\$ 4,549,000 (2003: HK\$ 6,022,000) respectively which were stated at their recoverable amounts.

11. Construction in Progress

Group	2004 HK\$'000	2003 HK\$'000
At 1st January	11,201	25,770
Exchange adjustments	174	1,235
Additions	19,187	16,838
Transfer to fixed assets	(11,352)	(32,585)
Write off	(786)	(57)
At 31st December	18,424	11,201

12. Intangible Assets

	Positive goodwill HK\$'000	Negative goodwill HK\$'000	Total HK\$'000
At 1st January 2004	1,680	(356)	1,324
Amortisation charge (note 3)	(1,680)	317	(1,363)
Acquisition of a subsidiary	–	(2,613)	(2,613)
At 31st December 2004	–	(2,652)	(2,652)
At 31st December 2004			
Cost	6,682	(6,128)	554
Accumulated amortisation	(6,682)	3,476	(3,206)
Net book amount	–	(2,652)	(2,652)
At 31st December 2003			
Cost	6,682	(3,515)	3,167
Accumulated amortisation	(5,002)	3,159	(1,843)
Net book amount	1,680	(356)	1,324

13. Subsidiaries

Company	2004 HK\$'000	2003 HK\$'000
Unlisted shares at directors' valuation in 1990	242,800	242,800
Loans to subsidiaries	57,625	55,931
Amounts due by subsidiaries	456,552	424,707
	756,977	723,438
Loan from a subsidiary	(3,213)	(3,213)
Amounts due to subsidiaries	(87,959)	(91,388)
	665,805	628,837
Provision for impairment	(359,020)	(355,931)
	306,785	272,906

Details of principal subsidiaries are set out on pages 82 and 83. All balances due from/(to) subsidiaries are unsecured, interest free and have no fixed repayment terms, except for an amount of HK\$57,625,000 (2003: HK\$57,211,250) which carries interests at prevailing market rates.

14. Amounts due from an Indirectly Held Associated Company and Related Companies

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

15. Associated Company

Group	2004 HK\$'000	2003 HK\$'000
Share of net assets	20,594	21,353
Amounts due by associated company	751	358
	21,345	21,711
Shares at cost – unlisted	519	519

Dividend income from associated company during the year amounted to HK\$462,000 (2003: HK\$458,000).

Details of the principal associated company are set out on page 83.

Extract of the operating results and financial position of the Group's significant associated company, Philippine Carpet Manufacturing Corporation which is based on its consolidated financial statements as adjusted with differences in certain accounting principles generally accepted in Hong Kong ("HKGAAP") for the year ended and as at 31st December 2004 is as follows:

	2004 HK\$'000	2003 HK\$'000
Operating results		
Turnover	72,280	65,678
Profit before taxation	8,158	2,713
Group's share of profit before taxation	2,676	890
Financial position		
Property, plant and equipment	29,371	23,568
Other investments	3,761	3,874
Other assets	2,014	1,460
Current assets	53,109	49,559
Current and other liabilities	(25,469)	(14,069)
Shareholders' funds	62,786	64,392
Group's share of net assets	20,594	21,353

16. Joint Ventures

Group	2004 HK\$'000	2003 HK\$'000
Share of net assets	123,375	117,400
Amounts due by joint ventures		
Loan account	458	458
Current account	23,780	17,746
	24,238	18,204
	147,613	135,604
Provision for impairment	(34,151)	(39,039)
	113,462	96,565
Paid in capital at cost	112,704	112,704

Dividend income from joint ventures during the year amounted to HK\$ 11,584,000 (2003: HK\$ 8,707,000).

Details of the principal joint ventures are set out on page 83.

16. 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 financial statements as adjusted with differences in certain HKGAAPs for the year ended and as at 31st December 2004 is as follows:

WHCL	2004 HK\$'000	2003 HK\$'000
Operating results		
Turnover	264,876	218,172
Profit before taxation	9,810	5,882
Depreciation	11,472	10,349
Group's share of profit before taxation	4,807	2,440
Financial position		
Fixed assets	118,598	93,460
Construction in progress and other non-current assets	64,366	32,738
Current assets	210,244	150,491
Current liabilities	(267,390)	(154,672)
Shareholders' funds	125,818	122,017
Group's share of net assets less provision for impairment	45,078	43,216

16. Joint Ventures (Continued)

WPCL	2004 HK\$'000	2003 HK\$'000
Operating results		
Turnover	153,687	98,607
Profit before taxation	45,088	27,610
Depreciation	2,245	1,730
Group's share of profit before taxation	22,093	12,084
Financial position		
Fixed assets	17,778	16,201
Construction in progress and other non-current assets	32	691
Current assets	127,851	86,829
Current liabilities	(52,672)	(29,956)
Shareholders' funds	92,989	73,765
Group's share of net assets less provision for impairment	44,995	35,575

17. Other Investments

Group	2004 HK\$'000	2003 HK\$'000
Long term		
Equity securities at cost, unlisted	10,150	10,036
Amount due by an investee company	38,327	38,376
Provision for impairment	(20,947)	(20,947)
	27,530	27,465
Short term investment – unlisted	686	–

18. Net Investment in Finance Leases

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

	Present value			Present value		
	of minimum	Interest income	Total minimum	of minimum	Interest income	Total minimum
	lease payments	relating to	lease payments	lease payments	relating to	lease payments
	receivable	future periods	receivable	receivable	future periods	receivable
	2004	2004	2004	2003	2003	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amounts receivable:						
Not later than one year	1,200	51	1,251	1,371	62	1,433
Later than one year and not later than five years	236	14	250	344	16	360
		65	1,501		78	1,793
Net investment in finance leases	1,436			1,715		

19. Inventories

Group	2004	2003
	HK\$'000	HK\$'000
Raw materials	68,907	53,000
Work in progress	18,489	13,484
Finished goods	63,100	58,264
Consumable stores	3,244	2,979
	153,740	127,727

20. Trade and Other Receivables

Group	2004 HK\$'000	2003 HK\$'000
Trade receivables (note)	98,593	85,626
Other receivables	21,304	17,501
	119,897	103,127

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 2004, the ageing analysis of the trade receivables was as follows:

Group	2004 HK\$'000	2003 HK\$'000
Current – 30 days	63,023	58,242
31 days – 60 days	12,814	10,285
61 days – 90 days	7,825	7,650
Over 90 days	14,931	9,449
	98,593	85,626

21. Investment Securities

Group	2004 HK\$'000	2003 HK\$'000
Equity securities listed outside Hong Kong at market value	2,507	2,624

22. Cash and Bank Balances

As at 31st December 2004, included in the Group's cash and bank balances of approximately RMB 9,104,000 (2003: RMB 6,041,000) and US\$ 944,000 (2003: US\$ 198,000) were placed with certain banks in the People's Republic of China (the "PRC") by certain PRC subsidiaries of the Group.

23. Trade and Other Payables

Group	2004 HK\$'000	2003 HK\$'000
Trade payables (note)	29,741	27,136
Other payables	90,170	61,216
	119,911	88,352

Note: At 31st December 2004, the ageing analysis of the trade payables was as follows:

Group	2004 HK\$'000	2003 HK\$'000
Current – 30 days	19,911	24,661
31 days – 60 days	6,211	911
61 days – 90 days	1,420	160
Over 90 days	2,199	1,404
	29,741	27,136

24. Share Capital

Company	No. of shares	HK\$'000
Authorised:		
At 1st January 2003, 1st January 2004 and 31st December 2004	400,000,000	40,000
Issued and fully paid:		
At 1st January 2003	207,619,483	20,762
Issue of new shares under scrip dividend scheme (note)	3,501,792	350
At 31st December 2003 and 1st January 2004	211,121,275	21,112
Issue of new shares under scrip dividend scheme (note)	582,213	58
At 31st December 2004	211,703,488	21,170

Note:

Pursuant to a scrip dividend scheme in relation to the 2003 final dividend, shareholders representing a total of 23,871,096 shares (2003: 134,235,613 shares) elected to receive scrip shares in lieu of cash dividend payment. A total of 582,213 shares (2003: 3,501,792 shares) were issued to these shareholders at HK\$1.23 per share (2003: HK\$1.15 per share).

25. Reserves

Group	Share	Capital	Investment	Other	General	Retained	Total
	premium	reserve	properties	properties			
	HK\$'000	HK\$'000	revaluation	revaluation	reserves	earnings	HK\$'000
			reserve	reserve	HK\$'000	HK\$'000	HK\$'000
At 1st January 2003	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)
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
At 1st January 2004	188,504	88,335	8,781	6,850	16,000	341,828	650,298
Exchange adjustments	-	526	-	170	-	2,381	3,077
Premium on issue of new shares	658	-	-	-	-	-	658
Net revaluation surplus/(deficit)	-	-	4,551	(1,892)	-	-	2,659
Reserves transferred to profit and loss							
account upon disposal of							
investment properties	-	-	(313)	-	-	-	(313)
Loss for the year	-	-	-	-	-	(3,852)	(3,852)
2003 final dividend paid	-	-	-	-	-	(6,334)	(6,334)
At 31st December 2004	189,162	88,861	13,019	5,128	16,000	334,023	646,193
Company and subsidiaries	189,162	69,299	13,019	1,190	16,000	313,882	602,552
Associated company	-	3,725	-	3,938	-	10,377	18,040
Joint ventures	-	15,837	-	-	-	9,764	25,601
At 31st December 2004	189,162	88,861	13,019	5,128	16,000	334,023	646,193

25. Reserves (Continued)

Company	Share premium HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1st January 2003	184,826	442,598	(319,615)	307,809
Premium on issue of new shares	3,678	–	–	3,678
Loss for the year	–	–	(7,227)	(7,227)
2002 final dividend paid	–	–	(6,229)	(6,229)
At 31st December 2003	188,504	442,598	(333,071)	298,031
Representing:–				
Accumulated losses			(339,405)	
2003 final dividend proposed			6,334	
			(333,071)	
At 1st January 2004	188,504	442,598	(333,071)	298,031
Premium on issue of new shares	658	–	–	658
Loss for the year	–	–	(4,509)	(4,509)
2003 final dividend paid	–	–	(6,334)	(6,334)
At 31st December 2004	189,162	442,598	(343,914)	287,846

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 Companies Act 1981 of Bermuda (as amended), the contributed surplus of the Company is available for distribution to members of the Company.

26. Long Term Bank Loans

Group	2004 HK\$'000	2003 HK\$'000
The maturity profile of the secured long term bank loans is as follows:		
– within one year	–	4,040

27. Deferred Taxation

Deferred taxation are calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2003: 17.5%).

Group	2004	2003
	HK\$'000	HK\$'000
At 1st January	4,178	2,363
Exchange differences	17	59
Deferred taxation charged/(credited) to profit and loss account (note 6)		
– relating to the origination and reversal of temporary differences	1,299	1,895
– resulting from an increase in tax rate	–	(139)
At 31st December	5,494	4,178

Deferred income tax assets are recognised for tax losses carried 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\$164,169,000 (2003: HK\$129,157,000) 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 allowance		Revaluation of properties		Total	
	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January	4,040	4,013	8,952	7,826	12,992	11,839
Charged to profit and loss account	396	27	288	269	684	296
Exchange differences	–	–	8	857	8	857
At 31st December	4,436	4,040	9,248	8,952	13,684	12,992

Deferred tax assets	Impairment of assets		Tax losses		Others		Total	
	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January	7,670	7,693	1,028	1,703	116	80	8,814	9,476
(Charged)/credited to profit and loss account	(478)	(821)	(187)	(675)	50	36	(615)	(1,460)
Exchange differences	(12)	798	–	–	3	–	(9)	798
At 31st December	7,180	7,670	841	1,028	169	116	8,190	8,814

27. 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:

	2004 HK\$'000	2003 HK\$'000
Deferred tax assets	570	834
Deferred tax liabilities	(6,064)	(5,012)
	(5,494)	(4,178)

28. Future Operating Lease Income

At 31st December 2004, the Group had future aggregate minimum lease payments receivable under non-cancellable operating leases as follows:

	2004 Land and buildings HK\$'000	2004 Others HK\$'000	2003 Land and buildings HK\$'000	2003 Others HK\$'000
Not later than one year	5,012	2,166	4,786	1,831
Later than one year and not later than five years	666	283	4,826	216
	5,678	2,449	9,612	2,047

29. Operating Lease Commitments

At 31st December 2004, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	2004 Land and buildings HK\$'000	2004 Others HK\$'000	2003 Land and buildings HK\$'000	2003 Others HK\$'000
Not later than one year	8,405	431	8,759	152
Later than one year and not later than five years	15,383	710	3,357	95
Later than five years	6,332	-	-	-
	30,120	1,141	12,116	247

30. Capital Commitments

Group	2004	2003
	HK\$'000	HK\$'000
Contracted but not provided for in respect of fixed assets	2,011	793
Authorised but not contracted for in respect of fixed assets	15,298	–
	17,309	793

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	14,987	28,767
Authorised but not contracted for in respect of fixed assets	49,221	15,301
	64,208	44,068

31. Contingent Liabilities

	Group		Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Guarantees for banking facilities granted to subsidiaries	–	–	34,532	42,401
Corporate guarantee in respect of performance bonds				
issued by subsidiaries to customers	4,002	2,982	–	–
Counter-indemnity in respect of				
performance bonds issued by banks	491	–	–	–
Shipping guarantee on goods received	1,022	–	–	–
Guarantee in respect of import duty	1,896	1,601	–	–
	7,411	4,583	34,532	42,401

32. 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	2004 HK\$'000	2003 HK\$'000
Sales to an associated company (note a)	2,653	2,660
Purchases from joint ventures (note a)	517	118
Rental paid to a subsidiary of The Hong Kong and Shanghai Hotels, Ltd. (note b)	366	525
Sales to The Hong Kong and Shanghai Hotels, Ltd. and its subsidiaries (note b)	1,943	2,468

- (a) Sales to an associated company and purchases from joint ventures 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 fall under the definition of "Connected Transactions" under the Listing Rules and are disclosed under "Connected Transactions" section in the Directors' Report.

33. Post Balance Sheet Event

On 29 March 2005 (New York time), EF Acquisition Corp., Inc., a wholly-owned subsidiary of the Company, entered into an asset purchase agreement (the "Asset Purchase Agreement") with Edward Fields, Inc. ("Edward Fields") and its shareholders Mr. Jack Fields and Mr. Joel Lazar (collectively known as the "Seller Parties"). Pursuant to the Asset Purchase Agreement, among other things, EF Acquisition Corp., Inc. has agreed to purchase from Edward Fields, all rights, title and interest in, to and under the assets as prescribed in the Asset Purchase Agreement (the "Acquired Assets") for an aggregate consideration of US\$2,000,000 (approximately HK\$15,600,000). Except for certain obligations to be assumed by EF Acquisition Corp, Inc. as agreed in the Asset Purchase Agreement, EF Acquisition Corp., Inc. will not assume any debts, obligations, claims or liabilities of the business of Edward Fields, the Seller Parties, the Acquired Assets or otherwise.

34. Approval of Accounts

The accounts were approved by the Directors on 18th April 2005.

Principal Subsidiaries, Associated Company and Joint Ventures at 31st December 2004

Name	Country of incorporation and operations	Principal activities	Issued and paid-up capital	Percentage of equity attributable to the Group
Subsidiaries				
Delvincourt Limited	Hong Kong	Property holding	2 shares of HK\$10 each	100%
Tai Ping Carpets Limited	Hong Kong	Carpet trading	2,000,000 shares of HK\$10 each	100%
Indigo Living Limited (Formerly known as Options Home Furnishings Limited)	Hong Kong	Furniture trading and leasing	1,900,000 shares of HK\$1 each	100%
Premier Yarn Dyers, Inc.	U.S.A.	Yarn dyeing	1,100 shares of US\$100 each	100%
Nanhai Tai Ping Carpets Company Limited	The People's Republic of China	Carpet manufacturing	US\$5,000,000	80%
Tai Ping Carpets Americas, Inc.	U.S.A.	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	Euro 511,292	100%

Name	Country of incorporation and operations	Principal activities	Issued and paid-up capital	Percentage of equity attributable to the Group
Subsidiaries (Continued)				
White Oak Carpet Mills, Inc.	U.S.A.	Carpet manufacturing	918 shares of US\$1 each	100%
Tai Ping Carpets International Trading (Shanghai) Company Limited	The People's Republic of China	Carpet trading	US\$200,000	100%
Singapore Carpet Manufacturers Pte. Limited (renamed to Tai Ping Carpets (S) Pte. Limited in January 2005)	Singapore	Carpet trading	S\$5,000,000	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	US\$15,090,000	49%
Weihai Shanhua Premier Carpet Company Limited	The People's Republic of China	Carpet manufacturing	US\$5,400,000	49%
Weihai Shanhua Floorcovering Products Company Limited	The People's Republic of China	Manufacture of carpet underlay	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
The whole of Level 3 and Car Park Spaces Nos. 30, 31 and 32 on basement, May Fair Tower, Nos. 85 and 87 Fumin Road, Jingan District, Shanghai, China.	N/A	Commercial	2042
128 George Street, Adairsville Georgia 30103, U.S.A.	N/A	Industrial	Freehold
No. 55, Nonthaburi-Pathumthani Road, (Highway No. 307) Bangkhayaeng Sub-district, Muang District, Pathumthani Province Thailand.	N/A	Industrial	Freehold

Name	Company	Position held	Age	Length of service with the Group (in years)	Business experience
Mr. Ed Jones	Premier Yarn Dyers, Inc.	Director	76	18	Textiles manufacturing and trading
Mr. Jack Gates	Premier Yarn Dyers, Inc.	Director	65	21	Carpet and textiles manufacturing
Mr. Chalermchai Puapipat	Carpets International Thailand Public Company Limited	Director	39	7	Manufacturing
Mr. John W. McLennan	Indigo Living Limited	Director	42	3	Retailing
Mr. Thomas Pack	White Oak Carpet Mills, Inc.	Director	40	4	Carpet manufacturing, sales and marketing
Ms. Catherine Vergez	Tai Ping Carpets Europe S.A.	Director	42	13	Carpet sales and marketing
Mr. William J. Palmer	Tai Ping Carpets Americas, Inc.	President and Director	44	6	Carpet sales and marketing
Mr. Richard Morris	Tai Ping Carpets Limited	Managing Director, Asia Division	43	1	Carpet manufacturing, sales and marketing

Name	Company	Position held	Age	Length of service with the Group (in years)	Business experience
Ms. Simone Rothman	Tai Ping Carpets Americas, Inc.	Chief Marketing Officer	45	1	Marketing and business development
Ms. Patricia Racine	Tai Ping Carpets Europe S.A.	Creative Design Officer	43	4	Marketing and product development
Mr. Les Fillmann	Carpets International Thailand Public Company Limited	Senior Vice President, Commercial Design	49	6	Carpet design

Auditors

PricewaterhouseCoopers

Bankers

The Hong Kong and Shanghai Banking
Corporation Limited
Standard Chartered Bank

Solicitors

Norton Rose
Baker & McKenzie

Company Secretary and Qualified Accountant

Ernest P. L. Law

Registrars and Transfer Agent

The Bank of Bermuda Limited
Bank of Bermuda Building,
6 Front Street,
Hamilton, Bermuda

Branch Registrars and Registration Office

Computershare Hong Kong Investor Services Limited
46th Floor, Hopewell Centre,
183 Queen's Road East, Wanchai,
Hong Kong.

Principal Office in Hong Kong

26/F, Tower A, Regent Centre,
63 Wo Yi Hop Road,
Kwai Chung,
Hong Kong.
Tel: (852) 2848 7668
Fax: (852) 2845 9363/4
Webpage: <http://www.taipingcarpets.com>

Stock Exchange Code Number: 146

