

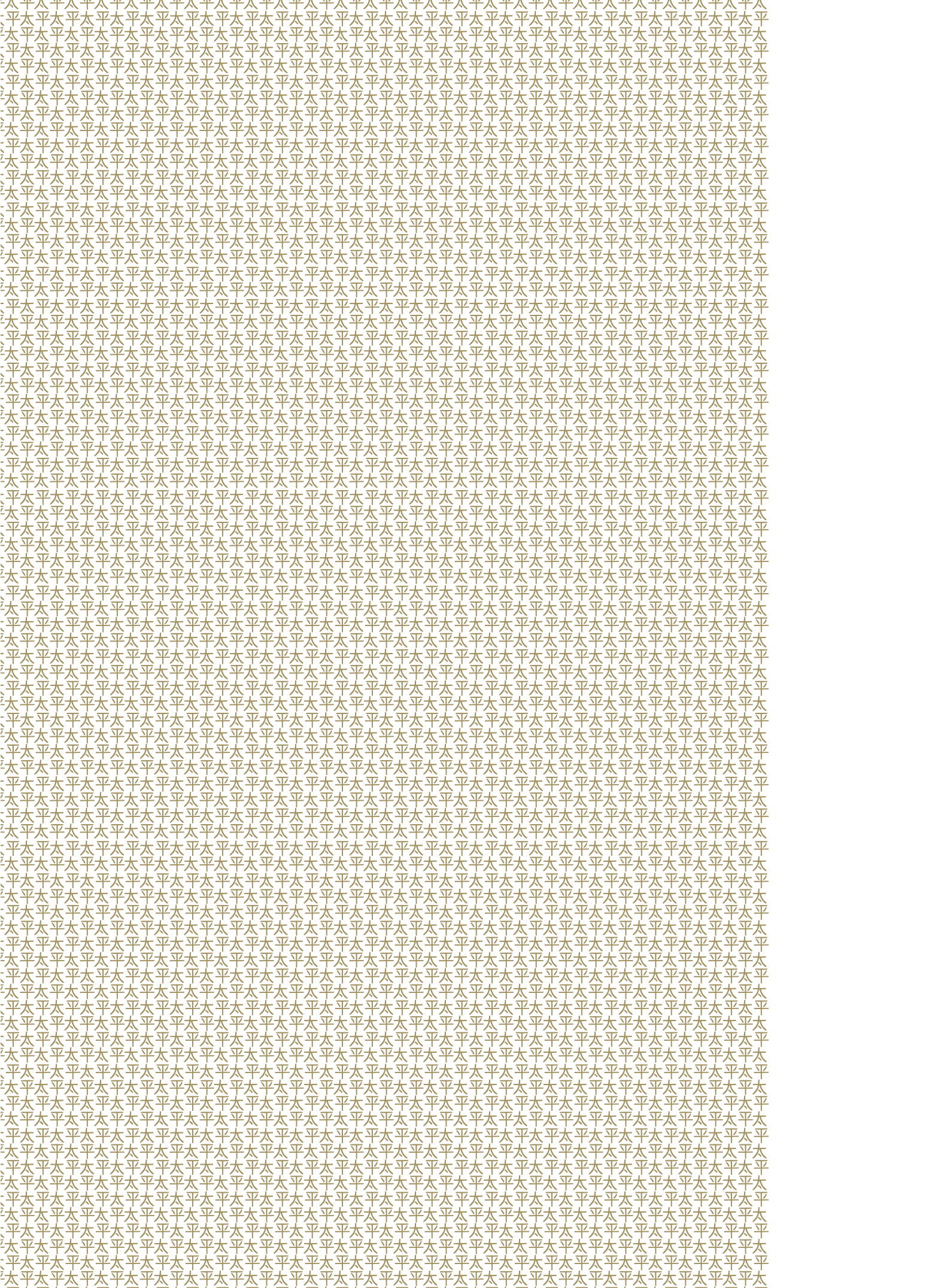


Tai Ping Carpets International Limited
Annual Report 2005

(Incorporated in Bermuda with Limited Liability)



(Stock Code: 0146)



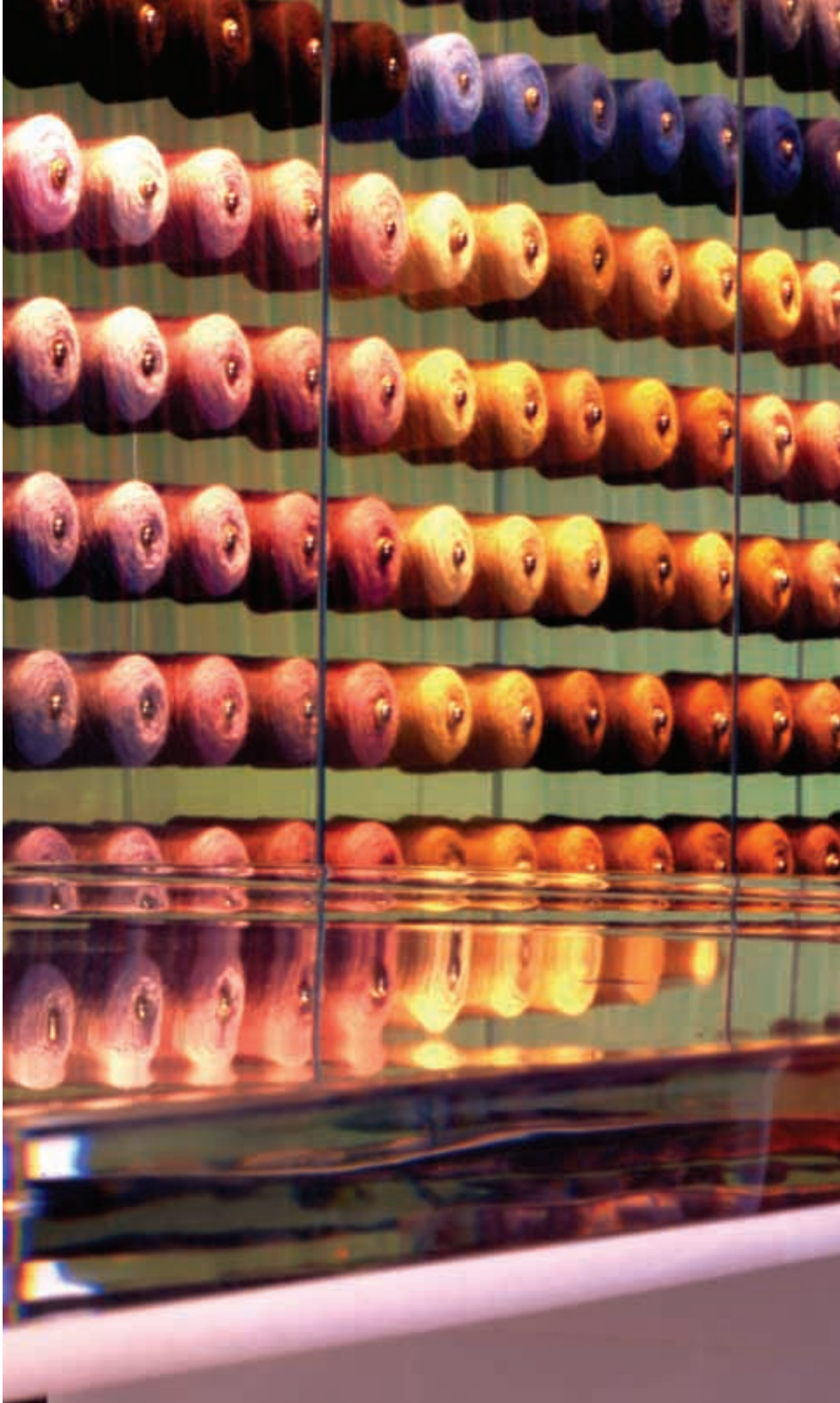


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Vision To build Tai Ping into a modern, global, premium brand, recognised and respected in every market in which it competes. The Tai Ping name will be synonymous with quality, artistry, and outstanding customer service.

Tai Ping will be peerless in its 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 shares are 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 floorcovering products, from luxury to affordable, appropriate for every commercial and residential environment. The Company's global network attends to customer needs with unparalleled attention to detail, providing a full service from custom design through post-installation services. With its superior design and manufacturing capabilities, Tai Ping can transform the most complicated custom design into a work of art for the most discerning buyer.

Financial Highlights

In thousands of Hong Kong dollars except per share amounts

(As restated)

		2005	2004
Per share	Net worth per share (HK\$)	3.36	3.24
	Earnings/(loss) per share (HK cents)	13.0	(1.8)
	Final dividend declared per share (HK cents)	0.00	0.00
For the year	Turnover	755,629	567,771
	Profit/(loss) for the year	34,454	(987)
	Profit/(loss) attributable to equity holders	27,646	(3,903)
	Earnings before interest, tax, depreciation and amortisation	96,430	52,860
	Additions to property, plant & equipment and construction in progress	63,818	33,892
At 31st December	Capital and reserves attributable to the Company's equity holders	683,607	665,770
	Shares in issue (in thousands)	211,933	211,703
Ratio	Return on capital and reserves attributable to equity holders	4.1%	(0.6%)

Five-year Consolidated Financial Summary

Year ended 31st December

ASSETS AND LIABILITIES	As restated		As restated		2001 HK\$'000
	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	
Total assets	990,721	891,563	840,192	824,888	781,207
Total liabilities	279,250	204,999	151,949	175,138	148,203
Total equity	711,471	686,564	688,243	649,750	633,004

PROFIT AND LOSS ACCOUNT	As restated		As restated		2001 HK\$'000
	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	
Results					
Profit/(loss) attributable to:					
Equity holders of the Company	27,646	(3,903)	16,293	17,656	37,133
Minority interests	6,808	2,916	1,054	2,442	3,014
	34,454	(987)	17,347	20,098	40,147

The balance sheets as at 31st December 2002 and 2001 and profit and loss accounts for 2003, 2002 and 2001 have not been restated following the adoption of HKAS Int-21 as it is considered that the effect of this interpretation on the results and financial position are both immaterial.



2005 was an exciting transitional year for Tai Ping, in which significant progress was made in the transformation of the Company from a high-quality Asian manufacturer into a premium global brand.

To build the brand and sales capability internationally, Tai Ping made substantial investment in developing new support tools, sales and service centres, particularly in the USA. The Company opened a flagship showroom to great acclaim in New York, and the acquisition of Edward Fields, Inc. added further sales outlets in major cities in the USA. Inevitably, such investment raised operating costs markedly, but a platform was established for sustainable growth.

Group-wide turnover increased by 33%, and all carpet operations posted strong growth in sales and margins, with USA sales up 100% year-on-year, as the benefits of these investments started to come through.

In order to concentrate resources on the core business, a number of non-core assets were sold during the year, including surplus property and various businesses in China, the proceeds of which were redeployed into the carpet operations.

The focus on building international awareness of Tai Ping as a premium brand has greatly enhanced communications with both customers and staff. In turn this has improved customer service and the appeal of Tai Ping as an exciting place to be in the industry at this time: the organisation is now truly international and multicultural. In this regard, we would like to pay tribute to all staff, who have responded to the new environment so positively during this year of transition. Change can be a challenge, but both existing staff and new recruits have worked in close cooperation to produce impressive growth.

I should also like to pay particular tribute to my predecessor as Chairman, Mr. James S. Dickson Leach, who retired during the year. He has been passionately involved in the Company for over a decade and was instrumental in establishing the new strategic direction which is now beginning to yield results.

In addition, Mr. Anthony Y. C. Yeh – one of the founder members of Tai Ping – retired as a Director, although he remains associated with the Company as Honorary Life President, and Mr. Kent M. C. Yeh and Ms. Alison S. Bailey also stepped down as Directors. I should like to thank them all for their valuable contributions over a considerable period of time. Meanwhile, a warm welcome is extended to Mr. Roderic N. A. Sage, who has joined the Board as an Independent Non-executive Director. His extensive experience in accounting and taxation will be of great benefit to the Company.

Looking forward, we expect to maintain sales growth, particularly in the USA, but also in Asia and Europe, where new operations are being established. We shall also be identifying those strategies that will further improve factory productivity to meet increasing demand.

2006 marks our 50th anniversary with the continued emphasis on building both the commercial and residential brands worldwide, complemented by the productivity and quality of our international manufacturing capability, I am confident in our plans for the future and Tai Ping's position as the world-class premium brand in the industry.

Nicholas T. J. Colfer
Chairman

Hong Kong, 24th April 2006



Management Discussion and Analysis

The Group's consolidated turnover for the year ended 31st December 2005 totalled HK\$ 755.6 million, a 33% increase from HK\$ 567.8 million in 2004. The gross margin also grew, to 40% in 2005 from 38% in 2004. These significant improvements resulted directly from the Group's strategic transformation to a global, customer-focused carpet company.

The Group recorded a profit attributable to equity holders of HK\$ 27.6 million in 2005, compared with a HK\$ 3.9 million loss in 2004.

This substantial gain resulted principally from the disposal of non-core assets and investments and certain reporting changes required by the adoption of the Hong Kong Financial Reporting Standards, accounting for a net increase in profit of HK\$ 43.4 million before tax.

Excluding the items mentioned above, the underlying operating loss of the Group in 2005 amounted to HK\$ 18.8 million, compared with HK\$ 11.3 million loss in 2004. This figure, however, included significant non-recurring net expenses associated with the Edward Fields acquisition, and inventory provisions by interior furnishings, as well as marketing costs incurred to stimulate sales.

Carpet Operations

In addition to organic growth in the commercial business, the Group spurred the expansion of its U.S. residential business by opening a flagship Tai Ping showroom in New York and by acquiring the business assets of Edward Fields, Inc. ("Edward Fields"), a highly regarded brand name with an established national sales network.

Total turnover as a result increased 36%, from HK\$ 459.7 million in 2004 to HK\$ 627.3 million in 2005. HK\$ 303.2 million, or 48%, arose from turnover in Asia and HK\$ 324.1 million or 52%, from turnover in the rest of the world, compared with HK\$ 279.2 million (61%) and HK\$ 180.5 million (39%) respectively in 2004.

Gross margin also rose from 37% to 40%, an improvement attributable both to rising sales of higher-margin carpets and to improved factory utilisation and efficiencies in production.

Despite the increased turnover and improved gross margin, one-time initial losses sustained by post-acquisition costs associated with incorporating the Edward Fields' operations adversely affected operating results. The Group incurred a segmental loss of HK\$ 29.9 million for the carpet operations before tax, finance, and unallocated costs, a slight improvement over the 2004 deficit of HK\$ 31.5 million.

Marketing & branding

To support its strategic transformation into a global customer-focused carpet company, the Group implemented a number of marketing initiatives in 2005.

The opening of the flagship Tai Ping showroom in New York, which generated extensive media coverage in targeted journals, together with the new 'tent' logo, the creation of a complete set of sales tools (including catalogues and pom box) and a revamped website, helped to increase the market awareness and position Tai Ping as a luxury brand. The construction and repeated use of well-designed, environmentally sustainable trade show environments that reflect the new brand identity further distinguished Tai Ping from the competition.

The acquisition of Edward Fields, a highly respected luxury brand, bolstered the Group's brand equity in the luxury residential sector, and refinement of the overall brand strategy is under way to ensure complementary positioning of the two distinct brands.

Carpets International Thailand Public Company ("CIT"), the Thai subsidiary, adopted a new brand and logo, "Carpets Inter", in keeping with a broader marketing strategy to generate wider appeal for its commercial products.

The "Shanhua" commercial products manufactured by the Weihai joint ventures will be repackaged with the Tai Ping Contract brand.

Plans for 2006 outline additional development and refinement of many of these initiatives, as well as the implementation of new proposals focused on continued growth in specific business segments.

USA

The USA continues to be the primary growth market. Investments made in 2004 for long-term expansion, including the addition of experienced sales representatives and field designers and the provision of effective sales and marketing tools, have already yielded measurable results. Despite fierce competition in certain sectors of the commercial market, turnover in the commercial business almost doubled in 2005, with particular focus maintained on the hospitality sector.

The gross margins and operating results of the commercial carpet business showed significant improvement in 2005. Because the Group effectively leveraged initial outlays made in prior years, it incurred much lower incremental costs and expenses.

Due to much higher margins and the Group's competitive strengths, the residential sector remains another principal target for growth. Bold initiatives to expand residential market share included the opening of a new concept 12,000 sq. ft. showroom in New York, which proved highly successful in raising the profile of the Group and generating significant awareness of the new brand identity.

In March 2005 a wholly-owned subsidiary of the Company entered into an Asset Purchase Agreement with Edward Fields and its shareholders to acquire, for US\$ 2 million in cash, certain assets that included, the “Edward Fields” name and its intellectual properties, the rights under existing leases to all showrooms and leasehold improvements, existing inventories, and experienced sales force, and their lists of customers and designers. The acquisition of Edward Fields’ business assets provides immediate access to the high-end residential market in the USA through the company’s nationwide sales network and customer base.

Turnover of the residential business approached HK\$ 60 million in 2005. Operating costs and expenses were proportionately higher, however, due to the business launch and additional post-acquisition costs associated with the incorporation of the Edward Fields operations.

The overall operating loss of the USA operations in 2005 was larger than that of 2004, therefore, despite significantly higher turnover and better gross margin percentages in both the commercial and residential businesses. Improved operating results are expected for 2006, however, due to the effect of a full year of sales for the residential business and continued strong growth in business overall.

Europe

Total turnover generated by the European subsidiaries amounted to HK\$ 65.3 million, a 71% increase over 2004.

Tai Ping Carpets Europe SAS (“TPCE”), based in Paris, increased turnover by 69% to HK\$ 34.7 million in 2005. While the residential business showed signs of recovery in 2005, competition remained intense due to an influx of cheaper products from Eastern Europe and North Africa. TPCE stayed focused on niche markets and the high-end interior design community for its residential business, while targeting medium-scale lower-margin commercial projects. Despite a significant increase in sales in 2005, the consequential improvement in TPCE’s operating results was smaller due to lower gross margin percentages and increased operating expenses. The continued growth of the commercial business, however, is expected to help reduce overheads proportionately and further improve TPCE’s overall profitability in the coming years.

Tai Ping Carpets Interieur GmbH (“TPCI”) enhanced turnover by 59% to HK\$ 26.2 million, due to increased commercial sales in Germany. The operating results also improved because of this turnover growth and a relatively stable percentage in gross margin.

Targeting the commercial sector in the UK, Middle East and Europe, the Group recruited an experienced, UK-based sales and design team in early 2005. While turnover was only HK\$ 4.4 million during the past year, it is expected to grow substantially during 2006. Operating expenses, consisting principally of sales costs, remain low and are scalable to match business growth.

Hong Kong, Macau and China

In the Hong Kong, Macau and China region, turnover rose to HK\$ 63.6 million, a 20% improvement over 2004. Tourism in Hong Kong and Macau's booming casino and resort markets buoyed the commercial sectors, which are Tai Ping's primary segments in this region. The Group maintained a relatively stable gross margin percentage in 2005 despite the competitive market.

The Group also exercised tight control of incremental selling expenses, while cost management at the Nanhai factory in the PRC benefited from improved utilization and factory efficiencies. Operating results consequently showed a marked improvement in 2005.

For comparative purposes, the 2004 figures have been restated, with minor effect, to include turnover of the Nanhai factory's wool spinning operation under carpet operations instead of yarn operations, since all external wool sales ceased in the first half of 2005 as production focused solely on internal demand.

Thailand and South East Asia

Thailand's healthy overall economy benefited CIT which is the dominant player in that domestic market. Sales in 2005 increased in this region by 6% to HK\$ 218.2 million, due to the commercial sector's overall growth both in Thailand and throughout South East Asia.

The gross margin percentages remained relatively flat in 2005 as increases in raw material prices and energy costs offset improved factory utilization, so any ensuring gain in operating results was on par with turnover growth in 2005.

CIT also developed an environmentally friendly felt-backed modular carpet tile to increase sales in markets such as Hong Kong, which are proposing a ban on imported PVC-backed modular carpet tiles that are not biodegradable.

Joint Ventures and Associate

The Weihai joint venture group consists, collectively, of Weihai Shanhua Huabao Carpet Co. Ltd. and Weihai Shanhua Premier Carpet Co. Ltd. (both 49% owned), and Weihai Shanhua Floorcovering Products Co. Ltd. (42% owned). The Weihai group turnover rose in 2005 to HK\$ 534.1 million, a 25% increase over the 2004 total of HK\$ 427.8 million, due to continued aggressive sales and marketing of Weihai products within China. With the Group's assistance in both marketing and distribution, these companies also sell Weihai 'Shanhua' products globally outside the PRC, a complementary arrangement that expands the Group's range of existing products and price points. The Group's share of the joint ventures' profit after tax of 2005 amounted to HK\$ 24.3 million, an 8% increase over the 2004 results (HK\$ 22.4 million).

Despite stable sales, Philippine Carpet Manufacturing Corporation ("PCMC"), the 33% owned associate, recorded a small loss in 2005, compared with a share of net profit after tax of HK\$ 1.6 million in 2004. Certain manufacturing difficulties, which were resolved in 2005, adversely affected the cost of sales and led to a substantial decline in gross margin.

Other Operations

Yarn Dyeing

Premier Yarn Dyers, Inc. ("PYD"), which operates the Group's USA-based yarn-dyeing facilities, posted relatively stable turnover and segmental results for 2005, at HK\$ 57.6 million (2004: HK\$ 55.9 million) and HK\$ 8.7 million (2004: HK\$ 7.9 million), respectively.

Dyeing operations at Nanhai in the PRC are mainly for the Group's own use and have been re-classified as part of the carpet operations for segmental reporting purposes.

Interior Furnishings

The increase in segmental turnover for interior furnishings in 2005 was attributable mainly to the consolidation of the results of Suzhou Shuilian Mattress Company Limited ("SSMCL"), reporting for the first time as a Group subsidiary after the December 2004 acquisition of the 52% share of the PRC joint venture partner.

Turnover for Indigo Living Limited ("Indigo") in 2005 reached HK\$ 46.2 million, a level similar to 2004 (HK\$ 45.8 million). While retail sales continued to decline because of progressively intense competition, an increase in the rental business due to an influx of expatriates to Hong Kong offset the decrease in retail sales. Indigo incurred an operating loss of HK\$ 3.0 million in 2005 because of higher rental and payroll expenses, as well as provisions made against certain slow-moving inventories.

The overall segmental results of interior furnishings was a loss of HK\$ 2.0 million, compared with a profit of HK\$ 9.4 million in 2004, despite consolidation of SSMCL's operating profit in 2005.

Property Holding

The Group disposed of several investment properties in Hong Kong and in the USA for an aggregate sum of HK\$ 28.2 million, which produced a net loss on disposal of HK\$ 0.5 million. Rental income decreased slightly in 2005 as a result, to HK\$ 5.6 million.

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

Others

The Group sold its 54.5% interest in Changzhou Nantai Construction Materials Company Limited, a joint venture in the PRC, to the other joint venture partner for RMB 8 million in cash. This sales yielded a net profit of HK\$ 7.7 million, since the investment had been fully provided for in prior years.

The Group also received in 2005 certain Hong Kong properties as dividends in specie, with a resulting gain of HK\$ 21.1 million, from the liquidation of Oceanic Cotton Mill Limited, in which the Group held a 5% interest.

Capital Expenditure

Capital expenditure in the form of property, plant and equipment and construction in progress incurred by the Group totalled HK\$ 63.8 million in 2005 (2004: HK\$ 33.9 million). As at 31st December 2005, the aggregate net book value of the Group's property, plant and equipment, leasehold and land use rights, and construction in progress amounted to HK\$ 337.5 million (2004: HK\$ 299.2 million).

Liquidity and Financial Resources

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

At 31st December 2005, the Group had total bank borrowings of HK\$ 109.3 million (2004: HK\$ 72.6 million). Total cash and bank balances amounted to HK\$ 87.1 million (2004: HK\$ 77.0 million). The gearing ratio, calculated as net bank borrowings (total bank borrowings net of cash and bank balances) divided by total equity, was 3% at 31st December 2005 (2004: Nil).

All bank loans to date were unsecured. Of those outstanding on 31st December 2005, 91% carried interest at floating rates; the remainder were at fixed interest rates throughout their terms.

The currency denomination of the loans and their maturity dates as at 31st December 2005 were as follows:

	2005 HK\$'000	2004 HK\$ '000
Within 1 year		
Thai Baht	55,859	51,509
United States Dollars	16,977	21,119
Hong Kong Dollars	27,000	–
	99,836	72,628
Between 1 and 2 years		
Thai Baht	9,500	–
	9,500	–
Total borrowings	109,336	72,628

Foreign Exchange Risks and Related Hedges

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

As the European and Singaporean operations are not significant in term of the Group's results and the Chinese Renminbi has been relatively stable, the exchange differences arising from overseas operations relate mostly to Thailand. The effect of these exchange differences, however, is reduced as borrowings are in local currency.

The Group's export sales are denominated primarily in US dollars, and to a much lesser extent in Euros. The Group, therefore, considered its exposure to exchange rate movements in 2005 insignificant, but continues to monitor exchange rate movements closely to ascertain if any material exposure may arise.

Employee and Remuneration Policies

As at 31st December 2005, the Group employed 3,100 employees (2004: 3,100 employees). Employees are remunerated according to the nature of the job and market trends, with built-in merit components incorporated as annual incentives to reward and motivate individual performance. Staff costs and retirement benefit costs for 2005 totalled HK\$ 221.5 million (2004: HK\$ 172.4 million) and HK\$ 4.5 million (2004: HK\$ 3.2 million) respectively.

Contingent Liabilities

As at 31st December 2005, the Group's total contingent liabilities (see Note 36 to the accounts for full disclosure) amounted to HK\$ 8.5 million (2004: HK\$ 7.4 million).

James H. Kaplan
Chief Executive Officer

Hong Kong, 24th April 2006



Non-executive Directors

Nicholas T. J. Colfer: aged 46; Chairman since 2005; Non-executive Director since 2003.

Mr. Colfer is a Director of Sir Elly Kadoorie & Sons Limited and serves on several other corporate boards in Hong Kong. He holds a Master of Arts Degree from the University of Oxford.

Ian D. Boyce: aged 61; Non-executive Director since 1999.

Mr. Boyce is a Director of Sir Elly Kadoorie & Sons Limited, a Non-executive Director of CLP Holdings Limited and Deputy Chairman of The Hongkong & Shanghai Hotels, Limited. He is a Chartered Accountant with extensive investment banking experience.

Lincoln K. K. Leong: aged 45; Non-executive Director since 1997.

Mr. Leong is the Finance Director of MTR Corporation Limited and a Non-executive Director of Hong Kong Aircraft Engineering Limited. He is a Chartered Accountant and holds a Master of Arts Degree from the University of Cambridge. He is the elder brother of Mr. Nelson K. F. Leong.

Nelson K. F. Leong: aged 42; Alternate Director to his brother Lincoln K. K. Leong since 1997.

Mr. Leong is a Director of a number of companies involved in real estate in Hong Kong and North America. He holds a Master of Business Administration Degree from the University of Toronto and a Bachelor of Arts Degree from Brown University.

David C. L. Tong: aged 35; Non-executive Director since 2005, and previously Non-executive Director (1997-2003). Remuneration Committee.

Mr. Tong is a Director of Sir Elly Kadoorie & Sons Limited and serves on several other corporate boards in Hong Kong. He is a Chartered Engineer and holds a Bachelor of Engineering Degree from the University of London.

John J. Ying: aged 43; Non-executive Director since 1999. Audit Committee.

Mr. Ying is the Managing Director of Peak Capital, an established private equity firm focused on investments in Greater China, a member of the Graduate Executive Board of the Wharton School, Vice Chairman of the Hong Kong Ballet, and Vice Chairman of the Hong Kong International School. He holds a Master of Business Administration Degree from the Wharton School, a Master of Arts Degree from the University of Pennsylvania, and a Bachelor of Science Degree from the Massachusetts Institute of Technology.

Independent Non-executive Directors

Yvette Y. H. Fung: aged 44; Independent Non-executive Director since 2004. Remuneration Committee.

Mrs. Fung is Deputy Chairman of Synergis Holdings Limited, Non-executive Director of Fountain Set (Holdings) Limited, Independent Non-executive Director of Hong Kong Catering Management Limited and Executive Director of Hsin Chong Holdings (HK) Limited. She holds a Juris Doctor Degree from Stanford Law School, a Master of Business Administration Degree from the University of California Los Angeles, and a Bachelor of Arts Degree from Stanford University.

Michael T. H. Lee: aged 44; Independent Non-executive Director since 1998. Audit Committee.

Mr. Lee is the Managing Director of Hysan Development Company Limited, a member of the Main Board Listing Committee of The Stock Exchange of Hong Kong Limited, a member of the SFC (HKEC Listing) committee, a member of the Executive Committee of Hong Kong Housing Society, President of Hong Kong Society for the Protection of Children and Vice-Chairman of Helping Hand. He holds a Bachelor of Arts Degree from Bowdoin College and a Master of Business Administration Degree from Boston University.

Roderic N. A. Sage: aged 53; Independent Non-executive Director since 2005. Chairman of Remuneration Committee and Chairman of Audit Committee.

Mr. Sage is Chief Executive Officer of a specialist tax, corporate services and trust consultancy. He is a Chartered Accountant and was until 2003 a Senior Partner and member of the management board of KPMG in Hong Kong.

Lincoln C. K. Yung, JP: aged 60; Independent Non-executive Director since 2004, and previously a Non-executive Director (1980-2004).

Mr. Yung 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 and a Director of Shanghai Commercial Bank Limited, The Shanghai Commercial & Savings Bank, Limited, Shanghai Sung Nan Textile Company Limited and Pafoong Insurance Company (Hong Kong) Limited. He is an economics graduate from the Cornell University and received a Master of Business Administration Degree in accounting and finance from the University of Chicago.

Executive Director

James H. Kaplan: aged 50; Director and Chief Executive Officer since 2003.

Prior to joining the Company, Mr. Kaplan was Divisional Vice-President of the high-end global furniture manufacturer Knoll International. He holds a Bachelor of Arts Degree from Lafayette College.



Corporate Governance Practices

The Board and the Management are committed to promoting good corporate governance to safeguard the interests of shareholders. The Company codified its corporate governance practices by reference to the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”). Except for the deviations discussed below, the Company has applied the principles in the Code and complied with the code provisions set out in the Code for the year ended 31st December 2005.

Directors’ Securities Transactions

The Company has adopted a code of conduct regarding the Directors’ transactions in the securities of the Company on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the “Model Code”). Specific enquiry has been made of all the Directors of the Company and they have confirmed their compliance with the required standard set out in the Model Code and the Company’s code of conduct in this respect throughout the year ended 31st December 2005 and up to the date of publication of this Annual Report.

Board of Directors

The Board of Directors is accountable to the shareholders for the leadership and management and control of the business of the Company. The Board delegates to the Chief Executive Officer and his management team day-to-day management of the Company’s business, including the preparation of annual and interim accounts and implementation of internal controls, in accordance with the strategy, policies and programs approved by the Board.

The members of the Board and their attendances at the Board meetings during the financial year are set out as follows:

	Attendances at Board meetings
<hr/>	
Independent Non-executive Directors	
Yvette Y. H. Fung	4/4
Michael T. H. Lee	3/4
Roderic N. A. Sage (appointed on 15th November 2005)	1/1
Lincoln C. K. Yung	4/4

Attendances at Board meetings		
Non-executive Directors		
Nicholas T. J. Colfer (Chairman from 13th May 2005)	4/4	
Ian D. Boyce	4/4	
Lincoln K. K. Leong	0/4	(attended by his Alternate)
Nelson K. F. Leong (Alternate Director to Lincoln K. K. Leong)	4/4	
David C. L. Tong (appointed on 13th May 2005, previously as Alternate Director to Ian D. Boyce, Nicholas T. J. Colfer and James S. Dickson Leach)	3/3	
John J. Ying	3/4	
James S. Dickson Leach (resigned as Chairman and Non-executive Director on 13th May 2005)	0/1	(attended by his Alternate)
Anthony Y. C. Yeh (resigned on 8th September 2005)	2/2	
Kent M. C. Yeh (resigned on 8th September 2005)	0/2	
Executive Directors		
James H. Kaplan	4/4	
Alison S. Bailey (resigned on 1st November 2005)	3/3	

The Company's Non-executive Directors are not appointed for specific terms as required by code provision A.4.1 of the Code. However, at the Company's Annual General Meeting on 10th June 2005, in order to be more consistent with code provision A.4.1, the relevant Bye-law of the Company was amended to ensure that every Director other than any Executive Chairman or Managing Director retire by rotation at least once every three years. The Executive Chairman or Managing Director cannot be required to retire by rotation in the Bye-laws as pursuant to section 2(e) of the Tai Ping Carpets International Limited Company Act 1990 of Bermuda. Notwithstanding this, the Directors intend to comply with code provision A.4.1 by asking any Executive Chairman or Managing Director to voluntarily retire by rotation at least once every three years.

Mr. Lincoln K. K. Leong and Mr. Nelson K. F. Leong (being Alternate Director to Mr. Lincoln K. K. Leong) are brothers. Mr. Nicholas T. J. Colfer, Mr. Ian D. Boyce, and Mr. David C. L. Tong are Directors of certain companies which are associates of the Company's substantial shareholders, namely Bermuda Trust Company Limited, Hesco Limited, Esko Limited, and New Holmium Holding Corporation. Save for these relationships, to the best knowledge of the Company, there are no other business, family or other material/relevant relationships among members of the Board.

The Company considers that its Non-executive Directors and Independent Non-executive Directors bring to the Board a good mix of expertise and experience in the fields of accounting, investment and business. At least one of the Independent Non-executive Directors has appropriate accounting or related financial management expertise as required under Rule 3.10(2) of the Listing Rules. Pursuant to the requirements of the Listing Rules, each Independent Non-executive Director has given the Company an annual confirmation of his/her independence. The Company considers all the Independent Non-executive Directors to be independent with due regard to the guidelines as set out in Rule 3.13 of the Listing Rules.

Chairman and Chief Executive Officer

The Chairman of the Board is Mr. Nicholas T. J. Colfer and the Chief Executive Officer is Mr. James H. Kaplan. To comply with code provision A.2.1 of the Code, the division of responsibilities between the Chairman and the Chief Executive Officer was formally set out in writing at the Board meeting on 23rd September 2005. Essentially, the Chairman takes the lead to oversee the Board functions while the Chief Executive Officer, supported by his management team, is responsible for the day-to-day management of the business of the Company.

Board Committees

Currently the Company has set up three board committees, namely, Executive Committee, Remuneration Committee, and Audit Committee.

1. Executive Committee

The Executive Committee was established in August 2005 and operates as an executive management committee under the Board to monitor and control the financial and operational performance of the Group. During the year under review, it held three meetings and the attendances of the members were:

	No. of meetings attended
Nicholas T. J. Colfer	3/3
Nelson K. F. Leong	2/3
David C. L. Tong	3/3
John J. Ying	2/3
James H. Kaplan	3/3
Alison S. Bailey (resigned on 1st November 2005)	2/2

2. Remuneration Committee

The terms of reference of the Company's Remuneration Committee were not formally set out as those contained in code provision B.1.3 of the Code and the majority of its members were not Independent Non-executive Directors as required by code provision B.1.1 of the Code. To comply with these code provisions, at the Board meeting on 23rd September 2005, written terms of reference for the Remuneration Committee in line with the Code were adopted and its composition was changed on 15th November 2005 upon the appointment of Mr. Roderic N. A. Sage as an Independent Non-executive Director so that the majority of its members are Independent Non-executive Directors.

The roles and functions of the Remuneration Committee under its terms of reference are to:

- Make recommendation as to the Company's senior executive and Director remuneration policy
- Determine remuneration of Executive Directors
- Make recommendation as to the remuneration of Non-executive Directors
- Review and approve performance-based remuneration
- Review and approve compensation for termination and appointment of Executive Directors and senior executives

The members of the Remuneration Committee and their attendances at the meetings of the committee are set out below:

Members of the Remuneration Committee before 15th November 2005	No. of meetings attended
Ian D. Boyce (Chairman)	3/3
Lincoln K. K. Leong	1/3
Nelson K. F. Leong	3/3
David C. L. Tong	3/3
John J. Ying	2/3
Members of the Remuneration Committee after 15th November 2005	No. of meetings attended
Roderic N. A. Sage (Chairman)	1/1
Yvette Y. H. Fung	1/1
David C. L. Tong	1/1

During the year under review, the Remuneration Committee held 4 meetings. It determined the remuneration of Executive Directors, authorised the discretionary bonus payments to senior management, and approved the adoption of a performance-based incentive plan for Executive Directors and senior management.

3. Audit Committee

The terms of reference of the Company's Audit Committee were not in accordance with those set out in code provision C.3.3 of the Code. In order to comply with this code provision, at the Board meeting on 23rd September 2005, the Company adopted the terms of reference of the Audit Committee as set out in the Code.

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

The composition of the Audit Committee was changed upon the appointment of Mr. Roderic N. A. Sage on 15th November 2005 as an Independent Non-executive Director. The members of the Audit Committee before and after 15th November 2005 and their attendances at the meetings are as follows:

Members of the Audit Committee before 15th November 2005	No. of meetings attended
---	-----------------------------

Michael T. H. Lee (Chairman)	2/2
Yvette Y. H. Fung	2/2
John J. Ying	1/2
Nelson K. F. Leong (retired from Audit Committee on 15th April 2005)	1/1

Members of the Audit Committee after 15th November 2005	No. of meetings attended
--	-----------------------------

Roderic N. A. Sage (Chairman)	1/1
Michael T. H. Lee	1/1
John J. Ying	1/1

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

Nomination of Directors

The Company has not established a Nomination Committee for the time being. By virtue of the Company's Bye-laws, the Board has power from time to time to appoint any person as a Director. However, any Director so appointed shall hold office until the first Annual General Meeting and shall then be eligible for re-election. In considering the nomination of a new Director, the Board will review the Board composition and evaluate the candidate's qualifications and experience before appointing him/her as member of the Board.

During the year, Mr. Roger N. A. Sage was appointed as Independent Non-executive Director with effect from 15th November 2005. In accordance with the Company's Bye-law, Mr. Sage is subject to re-election by the shareholders at the first Annual General Meeting of the Company after his appointment by the Board.

Auditors' Remuneration

For the year under review, the fees charged to the accounts of the Company and its subsidiaries by the Company's external auditors, PricewaterhouseCoopers (including Hong Kong and overseas firms) for services provided are analysed as follows:

	(HK\$'000)
Audit services	1,845
Non-audit services	115

Financial Reporting and Internal Controls

The consolidated accounts of the Company for the year ended 31st December 2005 have been reviewed by the Audit Committee and audited by the external auditors, PricewaterhouseCoopers. The Directors acknowledge their responsibilities for preparing the consolidated accounts of the Company and they are not aware of any events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The report of the auditors is on page 42.

The Company is currently in the process of developing the procedures for the review of the internal control systems and is reviewing the need for an independent internal audit function. The review requirement of the effectiveness of the Company's internal control systems under the Code shall apply to the Company's 2006 annual report.



The Directors have pleasure in submitting their report together with the audited accounts for the year ended 31st December 2005.

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 performance for the year by business and geographical segments is set out in note 5 to the accounts.

Results and Appropriations

The results for the year are set out on page 43.

The Directors did not declare an interim dividend and do not recommend the payment of a final dividend for the year (2004: Nil).

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 Group and the Company during the year are set out in the consolidated statement of changes in equity and Note 28 to the accounts.

Donations

During the year, donations made by the Group for charitable purposes amounted to HK\$ 2,500 (2004: HK\$ 26,000).

Property, Plant and Equipment

Movements in property, plant and equipment of the Group during the year are set out in Note 14 to the accounts.

Major Investment Properties

Details of the major properties held for investment purposes are set out on page 112.

Share Capital

Details of the movements in share capital of the Company are set out in Note 27 to the accounts.

Distributable Reserves

Distributable reserves of the Company at 31st December 2005 calculated under the Companies Act 1981 of Bermuda (as amended) amounted to HK\$ 98,063,000 (2004: HK\$ 98,684,000).

Subsidiaries

Particulars of the principal subsidiaries are set out on pages 110 and 111.

Purchase, Sale or Redemption of the Company's Shares

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

Pre-emptive Rights

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

Share Options

The existing share options scheme ("2002 Share Options Scheme" or the "Scheme") was approved by the shareholders of the Company at the Annual General Meeting held on 23rd May 2002. The details of the 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 | <ul style="list-style-type: none"> (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 Options 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 this Directors' 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 a 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 | <p>Determined by the Directors being at least the highest of</p> <ul style="list-style-type: none"> (i) the closing price of a share as stated on the daily quotation sheet of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") at the date of grant; (ii) the average closing price of a share as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share. |
| 9. | The remaining life of the 2002 Share Options Scheme | The Scheme is valid and effective for a period of 10 years from 23rd May 2002. |

During the year a total of 2,000,000 share options were granted to Mr. James H. Kaplan, the Chief Executive Officer of the Company. Details of the share options outstanding as at 31st December 2005 are as follows:

Name	Balance as at	Date of grant	Changes during the year			Balance as at	Exercise	Exercisable period
	1st January		Granted	Lapsed	Exercised	31st December	price	
	2005					2005	(HK\$)	
James H. Kaplan	-	10th January 2005	500,000	270,000	230,000	-	1.21	10th January 2005- 31st January 2005
	-	10th January 2005	500,000	-	-	500,000	1.21	31st December 2005- 31st January 2006
	-	10th January 2005	500,000	-	-	500,000	1.21	31st December 2006- 31st January 2007
	-	10th January 2005	500,000	-	-	500,000	1.21	31st December 2007- 31st January 2008

Note 1: The exercise price of the share options granted to Mr. James H. Kaplan was fixed at the average of the closing prices of the shares of the Company as stated on The Stock Exchange's daily quotation sheets for the five business days before the date of grant. The closing price of the shares at the date on which the options were granted was HK\$ 1.18.

Apart from the above, the Company had not granted any share option under the 2002 Share Options Scheme to any other persons as required to be disclosed under Rule 17.07 of the Listing Rules.

The Company uses the Black Scholes option pricing model (the "Model") to value the share options granted during the year. The Model is one of the commonly used models to estimate the fair value of an option. The value of an option varies with different variables of certain subjective assumptions. Any change in such variables so adopted may materially affect the estimation of the fair value of an option.

The aggregate fair value of the options determined at the date of grant using the Model was HK\$ 341,000. Such value is expensed through the Group's profit and loss account over the respective vesting periods of each batch of options. Share option expense of HK\$ 176,000 was recognised in 2005, with a corresponding adjustment recognised in the Group's capital reserves.

The fair value of the share options are determined based on the following significant variables and assumptions:

Date of grant	10th January 2005
Closing price at the date of grant	HK\$ 1.18
Risk free rate (Note 1)	0.58% – 1.63%
Expected life of options	1 – 3 years
Expected volatility (Note 2)	38.65%
Expected dividend per annum (Note 3)	HK\$ 0.0218

Notes:

1. Risk free rate: being the approximate yields of Exchange Fund Notes and Bills traded on the date of grant, matching the expected life of each batch of options.
2. Expected volatility: being the approximate volatility of closing prices of the share of the Company in the past one year immediately before the date of grant.
3. Expected dividend per annum: being the approximate average annual cash dividend for the past five financial years.

During the period between 1st January 2006 and the date of this Directors' Report, Mr. James H. Kaplan further exercised 254,000 share options, and 246,000 share options lapsed. As at the date of this Directors' Report, options to subscribe for a total of 1,000,000 shares were still outstanding under the 2002 Share Options Scheme, which represent approximately 0.47% of the issued share capital of the Company.

Directors

The names of the Directors at the date of this Report are set out on pages 19 and 20.

On 13th May 2005, Mr. James S. Dickson Leach resigned as Chairman and Non-executive Director of the Company due to his retirement. Mr. Nicholas T. J. Colfer was appointed Chairman while Mr. David C.L. Tong was appointed Non-executive Director of the Company.

On 8th September 2005, Mr. Anthony Y. C. Yeh and Mr. Kent M. C. Yeh resigned as Non-executive Directors of the Company due to personal reasons.

On 1st November 2005, Ms. Alison S. Bailey resigned as Chief Operating Officer and Executive Director of the Company due to personal reasons.

On 15th November 2005, Mr. Roderic N. A. Sage was appointed Independent Non-executive Director of the Company.



In accordance with Bye-laws 100, 109(A), 189(v) and 189(ix) of the Company's Bye-laws, Mr. Roderic N. A. Sage, Mr. David C. L. Tong, Mr. Ian D. Boyce, Mr. John J. Ying shall retire, while Mr. James H. Kaplan shall retire voluntarily. All retiring Directors shall offer themselves for re-election on 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 remained as Non-executive Director of the Company until the resignation of his directorship on 8th September 2005.

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 were 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 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 were paid in August 2003 and August 2004 respectively, and the third instalment of HK\$ 1,350,000 was paid in August 2005.

Apart from the above, no other contracts of significance in relation to the Group's business to which the Company and its 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 Mrs. Yvette Y. H. Fung, Mr. Michael T. H. Lee, Mr. Lincoln C. K. Yung and Mr. Roderic N. A. Sage, Independent Non-executive Directors, written confirmations of independence pursuant to Rule 3.13 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 page 113 to 114 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 2005, 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
Ian D. Boyce	214,371	–	0.101%
David C. L. Tong	431,910	–	0.204%
Lincoln C. K. Yung	30,000	–	0.014%
Lincoln K. K. Leong	–	2,000,000*	0.944%
Nelson K. F. Leong	–	2,000,000*	0.944%
(Alternate Director to Lincoln K.K. Leong)			
John J. Ying	–	32,575,875#	15.371%
James H. Kaplan	268,000	–	0.126%

* 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 Peak Capital Partners I, L.P. (formerly known as iVentures I, L.P.) of which Mr. John J. Ying is interested in more than one-third of the voting shares.

Save for the Directors' interests as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors and Chief Executives of the Company to hold any interests in the shares in, or debentures of, the Company or any other body corporate.

Substantial Shareholders

As at 31st December 2005, the register of substantial shareholders required to be kept under Section 336 of part XV 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*	55.531%
HWR Trustees Limited	117,688,759*	55.531%
Esko Limited	117,688,759*	55.531%
Hesko Limited	117,688,759*	55.531%
Lawrencium Corporation	117,688,759*	55.531%
Acorn Holdings Corporation	117,688,759*	55.531%
New Holmium Holding Corporation	117,688,759*	55.531%
Peak Capital Partners I, L.P. (formerly known as iVentures I, L.P.)	32,575,875#	15.371%

* Bermuda Trust Company Limited and HWR Trustees Limited are deemed to be interested in the 117,688,759 shares in which Esko Limited and Hesko Limited are deemed to be interested. Esko Limited and Hesko Limited are deemed to be interested in the 117,688,759 shares in which Lawrencium Corporation and Acorn Holdings Corporation are deemed to be interested. Lawrencium Corporation and Acorn Holdings Corporation are deemed to be interested in the 117,688,759 shares in which New Holmium Holding Corporation is interested. The 117,688,759 shares are owned by New Holmium Holding Corporation.

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

Management Contracts

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

Major Customers and Suppliers

During the year, the Group sold less than 30% of its goods and services to its 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 2005, which do not constitute connected transactions and are not required to be disclosed under the Listing Rules, are disclosed in Note 37 to the accounts.
- (b) Other related party transactions entered into by the Group in 2005 and up to the date of this Directors' Report, which fall under the definition of "connected transactions" or "continuing connected transactions" and are not exempted under the Rule 14A.31 and Rule 14A.45 of the Listing Rules, are as follows:
- i) The Company's subsidiaries have been from time to time supplying products, and providing related ancillary services to The Hongkong and Shanghai Hotels, Limited ("HKS Hotels") and its subsidiaries. These transactions fall under the definition of continuing connected transactions under the Listing Rules by virtue of the fact that Bermuda Trust Company Limited, a substantial shareholder of the Company, is also interested in more than 30% voting power of HKS Hotels. In accordance with the requirements of the Listing Rules, the Company entered into a master supply agreement with HKS Hotels on 22nd March 2005 for the supply of carpets and floor coverings and provision of ancillary services to HKS Hotels and its subsidiaries on normal commercial terms for a period of three years subject to an annual cap of HK\$ 8,500,000. An announcement in this respect was made on 22nd March 2005. During the year, the total order amount and invoiced value of these transactions amounted to HK\$ 6,790,000 and HK\$ 7,007,000 respectively.

The Directors, including all the Independent Non-executive Directors, have reviewed these transactions and confirmed that these transactions have been entered into:

1. in the ordinary and usual course of business of the Group;
2. either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to independent third parties; and
3. in accordance with the master supply agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's auditors have reported to the Directors in their letter that based on their work performed:

1. the continuing connected transactions have been approved by the Company's Board of Directors;
2. such transactions have been entered into in accordance with the pricing policies of the Group and the relevant agreements or order contracts governing the transactions; and

-
3. the amounts on such transactions in 2005 have not exceeded the relevant cap amounts.
- ii) On 22nd August 2005, CII Cement Limited ("CIIC"), a non-wholly owned subsidiary of the Company, entered into an agreement to transfer its entire 54.54% stake in Changzhou Nantai Construction Materials Company Limited ("Nantai Construction", a Sino-foreign joint venture company incorporated in The People's Republic of China) to Changzhou Nanyang Construction Materials Company ("CNCMC") which held 40.31% interests in Nantai Construction. As CNCMC was a substantial shareholder of Nantai Construction at that moment, the transfer was therefore a connected transaction under the Listing Rules and an announcement of the transaction was made on 22nd August 2005. The aggregate consideration for the transaction of RMB 8,000,000 (approximately HK\$ 7,700,000) was arrived at after arm's length negotiation and on normal commercial terms.
- iii) On 25th January 2006, Carpets International Thailand Public Company Limited ("CIT"), a non-wholly owned subsidiary of the Company, entered into an agreement with Feltech Manufacturing Company Limited ("FMCL") to purchase underlay, compressed polyester felt, bi-component polyester fibers and such other products as may be supplied by FMCL from time to time. The agreement constitutes continuing connected transactions by virtue of the fact that Mr. Wan Tabtiang, a Director of CIT, is interested in 61.75% of the voting power at the general meeting of FMCL.

The Company confirms that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules in respect of connected transactions and continuing connected transactions.

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, 24th April 2006



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Report of the Auditors

To the members of Tai Ping Carpets International Limited

(Incorporated in Bermuda with limited liability)

We have audited the accounts on pages 43 to 109 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 Hong Kong Standards on Auditing 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 2005 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 24th April 2006

For the year ended 31st December 2005

		2005	As restated 2004
	Note	HK\$'000	HK\$'000
Turnover	5	755,629	567,771
Cost of sales		(451,094)	(351,009)
Gross profit		304,535	216,762
Other revenues	5	1,182	1,118
Gain on liquidation of an available-for-sale financial asset		21,084	–
Gain on disposal of a joint venture		7,692	–
Surplus on revaluation of investment properties		15,648	595
Impairment of inventories		(6,423)	(4,391)
Impairment of construction in progress		(4,470)	(786)
Distribution costs		(150,500)	(94,738)
Administrative expenses		(164,954)	(136,310)
Other operating income		1,794	8,582
Other operating expenses		(985)	(2,155)
Operating profit/(loss)	5, 6	24,603	(11,323)
Finance costs	7	(3,578)	(1,203)
Share of (losses)/profits of			
an associate		(69)	1,596
joint ventures		24,343	22,449
Profit before taxation		45,299	11,519
Taxation	9	(10,845)	(12,506)
Profit/(loss) for the year		34,454	(987)
Attributable to:			
Equity holders of the Company	10	27,646	(3,903)
Minority interests		6,808	2,916
		34,454	(987)
Dividends		–	–
Earnings/(loss) per share of profit/(loss) attributable			
to equity holders of the Company			
(expressed in HK cents)			
Basic	11	13.04	(1.84)
Diluted	11	13.04	(1.84)

Consolidated Balance Sheet

As at 31st December 2005

		2005	As restated 2004
	Note	HK\$'000	HK\$'000
ASSETS			
Non-current assets			
Intangible assets	12	–	(2,652)
Leasehold land and land use rights	13	21,739	9,763
Property, plant and equipment	14	303,440	271,005
Investment properties	15	73,130	77,212
Construction in progress	16	12,282	18,424
Interest in an associate	19	21,166	21,345
Interest in joint ventures	20	133,318	113,462
Available-for-sale financial assets	21	134	–
Other investments	21	–	27,530
Net investment in finance leases	22	210	236
Deferred tax assets	30	1,983	243
		567,402	536,568
Current assets			
Inventories	23	173,847	153,740
Trade and other receivables	24	161,658	119,897
Current portion of net investment in finance leases	22	735	1,200
Investment securities	25	–	2,507
Other investment	21	–	686
Cash and cash equivalents	26	87,079	76,965
		423,319	354,995
Total assets		990,721	891,563
EQUITY			
Capital and reserves attributable to the			
Company's equity holders			
Share capital	27	21,193	21,170
Reserves		301,871	326,247
Retained earnings		360,543	318,353
		683,607	665,770
Minority interests		27,864	20,794
Total equity		711,471	686,564

As at 31st December 2005

	Note	2005 HK\$'000	As restated 2004 HK\$'000
LIABILITIES			
Non-current liabilities			
Bank borrowings – unsecured	29	9,500	–
Deferred tax liabilities	30	5,632	7,466
Other long-term liabilities	31	1,991	2,381
		17,123	9,847
Current liabilities			
Bank borrowings – unsecured	29	99,836	72,628
Trade and other payables	32	153,016	117,140
Other long-term liabilities – current portion	31	390	390
Taxation		8,885	4,994
		262,127	195,152
Total liabilities		279,250	204,999
Total equity and liabilities		990,721	891,563
Net current assets		161,192	159,843
Total assets less current liabilities		728,594	696,411

Nicholas T. J. Colfer
Chairman

James H. Kaplan
Executive Director

Company Balance Sheet

As at 31st December 2005

	Note	2005 HK\$'000	2004 HK\$'000
ASSETS			
Non-current assets			
Subsidiaries	17	308,878	306,785
Current assets			
Other receivables		518	385
Amount due from an indirectly held associate	18	343	345
Cash and cash equivalents	26	232	2,574
		1,093	3,304
Total assets		309,971	310,089
EQUITY			
Capital and reserve attributable to the Company's equity holders			
Share capital	27	21,193	21,170
Reserves	28	632,191	631,760
Accumulated losses	28	(344,535)	(343,914)
Total equity		308,849	309,016
LIABILITIES			
Current liabilities			
Other payables		1,122	1,073
Total liabilities		1,122	1,073
Total equity and liabilities		309,971	310,089
Net current (liabilities)/assets		(29)	2,231
Total assets less current liabilities		308,849	309,016

Nicholas T. J. Colfer
Chairman

James H. Kaplan
Executive Director

Consolidated Statement of Changes in Equity

For the year ended 31st December 2005

	Attributable to equity holders of the Company										Minority interests	Total	
	Share capital	Share premium	Investment Capital reserves (Note)	Other properties revaluation reserves	Available-for-sale properties revaluation reserves	General reserves	Exchange reserves	Retained earnings	Sub-total				
Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 31st December 2004,													
as previously reported as equity	21,170	189,162	88,861	13,019	5,128	-	16,000	-	334,023	667,363	-	-	667,363
Balance at 31st December 2004,													
as previously separately reported													
as minority interests	-	-	-	-	-	-	-	-	-	-	-	20,930	20,930
Effect of changes in accounting													
policies applied retrospectively													
Deferred tax liabilities arising from													
revaluation of investment properties	2.1	-	-	-	(1,041)	-	-	-	(552)	(1,593)	(136)	-	(1,729)
Reclassification of exchange reserves													
from retained earnings	2.1	-	-	-	-	-	-	15,118	(15,118)	-	-	-	-
Balance at 31st December 2004,													
as restated	21,170	189,162	88,861	11,978	5,128	-	16,000	15,118	318,353	665,770	20,794	-	686,564
Effect of opening adjustments													
applied prospectively													
Opening adjustment for the													
adoption of HKAS 40	2.1	-	-	-	(11,978)	-	-	-	11,978	-	-	-	-
Opening adjustment for the													
adoption of HKAS 39	2.1	-	-	-	-	6,505	-	-	-	6,505	-	-	6,505
Opening adjustment for the													
adoption of HKFRS 3	2.1	-	-	-	-	-	-	-	2,652	2,652	-	-	2,652
Balance at 1st January 2005, as restated	21,170	189,162	88,861	-	5,128	6,505	16,000	15,118	332,983	674,927	20,794	-	695,721
Currency translation differences													
		-	-	(398)	-	(307)	-	-	(12,210)	-	(12,915)	262	(12,653)
Changes in fair value of an													
available-for-sale financial asset	21	-	-	-	-	6,420	-	-	-	6,420	-	-	6,420
Release of reserve upon liquidation of													
an available-for-sale financial asset		-	-	-	-	(12,925)	-	-	-	(12,925)	-	-	(12,925)
Appropriation to the reserves													
		-	-	86	-	-	-	-	(86)	-	-	-	-
Net (expenses)/income recognised directly in equity													
		-	-	(312)	-	(307)	(6,505)	-	(12,210)	(86)	(19,420)	262	(19,158)
Profit for the year													
		-	-	-	-	-	-	-	27,646	27,646	6,808	-	34,454
Total recognised income/(expenses) for 2005													
		-	-	(312)	-	(307)	(6,505)	-	(12,210)	27,560	8,226	7,070	15,296
Employee share options scheme:													
- value of employee services		-	-	176	-	-	-	-	-	176	-	-	176
- proceeds from shares issued	27	23	255	-	-	-	-	-	-	278	-	-	278
		23	255	176	-	-	-	-	-	454	-	-	454
Balance at 31st December 2005	21,193	189,417	88,725	-	4,821	-	16,000	2,908	360,543	683,607	27,864	-	711,471

Note: The capital reserves included statutory reserve funds set up by subsidiaries in Mainland China. According to the relevant laws and financial regulations, upon approval by the Board, the statutory reserves funds may be used to make up prior years' losses, if any, and to increase the capital of such subsidiaries.

For the year ended 31st December 2004

	Attributable to equity holders of the Company										Minority	Total	
	Share capital	Share premium	reserves (Note)	Investment properties reserves	Other properties reserves	Available-for-sale reserves	General reserves	Exchange reserves	Retained earnings	Sub-total	interests		
Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Balance at 1st January 2004,													
as previously reported as equity	21,112	188,504	88,335	8,781	6,850	-	16,000	-	341,828	671,410	-	671,410	
Balance at 1st January 2004,													
as previously separately reported													
as minority interest	-	-	-	-	-	-	-	-	-	-	17,992	17,992	
Effect of changes in													
accounting policies:													
Deferred tax liabilities arising from													
revaluation of investment properties	2.1	-	-	(530)	-	-	-	-	(500)	(1,030)	(129)	(1,159)	
Reclassification of exchange reserves													
from retained earnings	2.1	-	-	-	-	-	-	12,738	(12,738)	-	-	-	
Balance at 1st January 2004, as restated		21,112	188,504	88,335	8,251	6,850	-	16,000	12,738	328,590	670,380	17,863	688,243
Currency translation differences		-	-	526	-	170	-	-	2,380	-	3,076	(17)	3,059
Revaluation surplus/(deficit) – gross		-	-	-	4,551	(1,892)	-	-	-	-	2,659	39	2,698
Deferred tax liabilities arising from the													
revaluation of investment properties		-	-	-	(511)	-	-	-	-	(511)	(7)	(518)	
Reserves transferred to profit and													
loss account upon disposal of													
investment properties		-	-	-	(313)	-	-	-	-	(313)	-	(313)	
Net income/(expenses) recognised													
directly in equity		-	-	526	3,727	(1,722)	-	-	2,380	-	4,911	15	4,926
Loss for the year		-	-	-	-	-	-	-	(3,903)	(3,903)	2,916	(987)	
Total recognised income/(expenses)													
for 2004		-	-	526	3,727	(1,722)	-	-	2,380	(3,903)	1,008	2,931	3,939
Issue of new shares under													
scrip dividend income	27	58	658	-	-	-	-	-	-	-	716	-	716
2003 final dividend paid		-	-	-	-	-	-	-	-	(6,334)	(6,334)	-	(6,334)
		58	658	-	-	-	-	-	-	(6,334)	(5,618)	-	(5,618)
Balance at 31st December 2004		21,170	189,162	88,861	11,978	5,128	-	16,000	15,118	318,353	665,770	20,794	686,564

Consolidated Cash Flow Statement

For the year ended 31st December 2005

		2005	As restated 2004
	Note	HK\$'000	HK\$'000
Operating activities			
Cash (used in)/generated from operations	a	(13,424)	13,665
Tax paid		(10,103)	(10,162)
Net cash (used in)/generated from operating activities		(23,527)	3,503
Investing activities			
Purchase of property, plant and equipment		(22,404)	(14,705)
Construction in progress		(41,414)	(19,187)
Proceeds on disposal of property, plant and equipment		630	1,890
Proceeds on disposal of investment properties		28,185	-
Purchase of a subsidiary, net of cash acquired	b	-	578
Proceeds on disposal of investment securities		-	141
Proceeds on disposal of financial assets held for trading		3,147	-
Proceeds on disposal of a joint venture		7,692	-
Repayment of finance lease receivables		1,346	1,744
Interest received		1,165	1,118
Dividends received from an associate		891	462
Dividends received from joint ventures		17,925	5,537
Dividends received from an available-for-sale financial asset		17	-
Net cash used in investing activities		(2,820)	(22,422)
Financing activities			
New shares issued		278	-
New bank loans		40,690	21,904
Repayment of bank loans		-	(4,040)
Repayment of other long-term liabilities		(390)	(390)
Interest paid		(3,578)	(884)
Dividends paid		-	(5,618)
Net cash generated from financing activities		37,000	10,972
Net increase/(decrease) in cash and cash equivalents		10,653	(7,947)
Cash and cash equivalents at the beginning of the year		76,965	84,687
Effect of foreign exchange rate changes		(539)	225
Cash and cash equivalents at the end of the year		87,079	76,965
Analysis of the balances of cash and cash equivalents			
Cash at bank and on hand	26	83,738	74,375
Short-term bank deposits	26	3,341	2,590
		87,079	76,965

a. Reconciliation of profit before taxation to cash (used in)/generated from operations

	2005	As restated 2004
	HK\$'000	HK\$'000
Profit before taxation	45,299	11,519
Depreciation of property, plant and equipment	39,932	34,275
Amortisation of leasehold land and land use rights	408	236
Net loss on disposal of property, plant and equipment	92	369
Loss/(gain) on disposal of investment properties	470	(313)
Share of losses/(profits) of		
– an associate	69	(1,596)
– joint ventures	(24,343)	(22,449)
Surplus on revaluation of investment properties	(15,648)	(595)
Impairment of property, plant and equipment	–	175
Impairment of inventories	6,423	4,391
Impairment of construction in progress	4,470	786
Gain on disposal of financial assets held for trading	(17)	–
Gain on disposal of investment securities	–	(37)
Gain on disposal of a joint venture	(7,692)	–
Write-off of an available-for-sale financial asset	114	–
Gain on liquidation of an available-for-sale financial asset	(21,084)	–
Employee share options expenses	176	–
Dividend income from an available-for-sale financial asset	(17)	–
Interest expenses	3,578	1,203
Interest income	(1,165)	(1,118)
Negative goodwill recognised as income	–	(317)
Amortisation of goodwill	–	1,680
Reversal of impairment of investments in joint ventures	–	(4,803)
Operating profit before working capital changes	31,065	23,406
Increase in inventories	(30,978)	(25,673)
Increase in trade and other receivables	(45,849)	(12,582)
Increase in trade and other payables	45,453	30,309
Increase in amounts due by an associate	(781)	(393)
(Increase)/decrease in amounts due by joint ventures	(11,479)	14
Decrease in amounts due from other investments	–	49
Increase in net investment in finance leases	(855)	(1,465)
Cash (used in)/generated from operations	(13,424)	13,665

b. Business combination

In December 2004, the Group acquired a further 52% of the registered capital of Suzhou Shuilian Mattress Company Limited, a mattress joint venture in the People's Republic of China (in which the Group had an effective interest of 28.4% at the date of the acquisition).

	2005 HK\$'000	2004 HK\$'000
Net assets acquired on further acquisition of a joint venture as subsidiary		
Property, plant and equipment	-	2,585
Other investments	-	114
Inventories	-	4,150
Trade and other receivables	-	3,036
Trade and other payables	-	(2,371)
Taxation	-	(453)
	-	7,061
Investment in the joint venture previously accounted for	-	(5,026)
Negative goodwill	-	(2,613)
	-	(578)
Satisfied by:		
Cash consideration	-	2,830
Cash and bank balances acquired	-	(3,408)
	-	(578)

1. General Information

Tai Ping Carpets International Limited (the “Company”) and its subsidiaries (collectively known as the “Group”) are 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.

The Company is a limited liability company incorporated in Bermuda. The address of its registered office is Canon’s Court, 22 Victoria Street, P.O. Box HM 1179, Hamilton HM EX, Bermuda. The principal office in Hong Kong is located at 26/F, Tower A, Regent Centre, 63 Wo Yi Hop Road, Kwai Chung, Hong Kong.

The Company’s shares are listed on The Stock Exchange of Hong Kong Limited.

The consolidated accounts are presented in thousands of Hong Kong dollars (HK\$’000), unless otherwise stated and approved for issue by the Board of Directors on 24th April 2006.

2. Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these consolidated accounts are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated accounts have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants. The consolidated accounts have been prepared under the historical cost convention except for (i) certain properties which are stated at revalued amounts less subsequent accumulated depreciation and accumulated impairment losses; and (ii) available-for-sale financial assets and investment properties, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgements in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated accounts, are disclosed in Note 4.

2. Summary of Significant Accounting Policies (Continued)

The adoption of new/revised HKFRS

In 2005, the Group adopted the new/revised standards and interpretations of HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKAS 40	Investment Property
HKAS-Int 15	Operating Leases Incentives
HKAS-Int 21	Income Taxes – Recovery of Revalued Non-Depreciated Assets
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 21, 23, 24, 27, 28, 31, 33, 38 and HKAS-Int 15 do not result in substantial changes to the Group's accounting policies. In summary:

- HKAS 1 has affected the presentation of minority interests, share of net after tax results of associates and joint ventures and other disclosures.
- HKASs 2, 7, 8, 10, 16, 23, 27, 28, 31, 33, 38 and HKAS-Int 15 have no material effect on the Group's policies.

2. Summary of Significant Accounting Policies (Continued)

- HKAS 21 requires the net exchange difference arising from the translation of the results and financial position of foreign operations to be disclosed as a separate component of equity. Previously, such exchange differences were disclosed as movement in retained earnings. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as the presentation currency for the respective entity financial statements.

- HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land and land use rights from property, plant and equipment to operating leases. The up-front prepayments made for the leasehold land and land use rights are expensed in the profit and loss account on a straight-line basis over the period of the lease or when there is impairment, the impairment is expensed in the profit and loss account. In prior years, the leasehold land was accounted for at fair value or cost less accumulated depreciation and accumulated impairment.

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy for recognition, measurement, derecognition and disclosures of financial instruments. Following the adoption of HKAS 32 and HKAS 39, the Group's investments in securities are classified into available-for-sale financial assets, financial assets at fair value through profit or loss, and loans and receivables. The classification depends on the purpose for which the investments were acquired. Available-for-sale financial assets are measured at fair value and changes in fair value are recognised in the available-for-sale revaluation reserves. Financial assets at fair value through profit or loss are measured at fair value and changes in fair value are recognised in the profit and loss account. Loans and receivables are measured at amortised cost and the carrying amount of the asset is computed by discounting the future cash flows to the present value using the effective interest method.

In addition, HKAS 39 requires financial liabilities, except for those carried at fair value through profit or loss, to be carried at amortised cost using the effective interest method.

HKAS 39 does not require the recognition, derecognition and measurement of financial assets and liabilities in accordance with this accounting standard on a retrospective basis.

The adoption of revised HKAS 40 has resulted in a change in the accounting policy whereby the changes in fair value of investment properties are recorded in the profit and loss account. In prior years, the increases in fair value were credited to the investment properties revaluation reserves. Decreases in fair value were first set off against increases on earlier valuations on a portfolio basis and thereafter expensed in the profit and loss account. Such net deficit charged to respective company's operating profit was not set off against increases in valuation of other companies' investment properties, which have been credited to the investment properties revaluation reserves.

2. Summary of Significant Accounting Policies (Continued)

The adoption of revised HKAS-Int 21 has resulted in a change in the accounting policy relating to the measurement of deferred tax liabilities arising from revaluation of investment properties. Such deferred tax liabilities are measured on the basis of tax consequences that would follow from recovery of the carrying amount of that asset through use. In prior years, the carrying amount of that asset was expected to be recovered through sale. In the absence of any specific transitional provision in this Interpretation, this change in accounting policy has been applied retrospectively and comparative figures for 2004 have been restated.

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 31st December 2004, the provision of share options to employees did not result in an expense in the profit and loss account. Effective on 1st January 2005, the Group expenses the cost of share options in the profit and loss account. However, since all share options granted under the old share options scheme (which was approved in 1997) had either been exercised or lapsed in 2004, and the first batch of share options under the existing share options scheme (approved in 2002) were granted in 2005, the adoption of HKFRS 2 does not result in any prior year adjustments in the Group's accounts.

The adoption of HKFRS 3 and HKAS 36 results in a change in the accounting policy for goodwill. Until 31st December 2004, goodwill was:

- amortised on a straight-line basis over a period ranging from 3 to 15 years; and
- assessed for an indication of impairment at each balance sheet date.

In accordance with the provisions of HKFRS 3:

- the Group ceased amortisation of goodwill from 1st January 2005;
- accumulated amortisation as at 31st December 2004 has been eliminated with a corresponding decrease in the cost of goodwill; and
- from the year ended 31st December 2005 onwards, goodwill is tested annually for impairment, as well as when there is an indication of impairment.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards, wherever applicable. All standards adopted by the Group require retrospective application other than:

- HKAS 16 – the initial measurement of an item of property, plant and equipment acquired in an exchange of assets transaction is accounted for at fair value prospectively only to future transactions;

2. Summary of Significant Accounting Policies (Continued)

- HKAS 21 – requires prospective accounting for goodwill and fair value adjustments as part of foreign operations;
 - HKAS 39 – which does not permit the recognition, derecognition and measurement of financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous SSAP 24 “Accounting for investments in securities” to investments in securities for the 2004 comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognised on 1st January 2005;
 - HKAS 40 – since the Group has adopted the fair value model, there is no requirement for the Group to restate the comparative information. Any adjustment should be made to the retained earnings as at 1st January 2005, including the reclassification of any amount held in revaluation surplus for investment properties;
 - HKAS-Int 15 – does not require the recognition of incentives for leases beginning before 1st January 2005;
 - HKFRS 2 – requires only retrospective application for all equity instruments granted after 7th November 2002 and not vested on 1st January 2005; and
 - HKFRS 3 – applies prospectively after 1st January 2005.
- (i) The adoption of HKAS 17 resulted in:

	As at 31st December	
	2005	2004
	HK\$'000	HK\$'000
Increase in leasehold land and land use rights	21,739	9,763
Decrease in property, plant and equipment	(21,739)	(9,763)

- (ii) The adoption of HKAS 32 and 39 resulted in a reclassification of other investments and investment securities to available-for-sale financial assets and financial assets held for trading on 1st January 2005. It also resulted in an increase in available-for-sale revaluation reserves by HK\$ 6,505,000.

2. Summary of Significant Accounting Policies (Continued)

- (iii) The adoption of HKAS 40 resulted in an increase in retained earnings and decrease in investment properties revaluation reserves at 1st January 2005 by HK\$ 13,019,000 (excluding the effect of the adoption of HKAS-Int 21 as set out in item (iv)) and details of the adjustments are as follows:

	As at 31st December 2005 HK\$'000
Decrease in investment properties revaluation reserves	(11,347)
Increase in retained earnings	11,347

	For the year ended 31st December 2005 HK\$'000
Increase in other operating income*	4,470
Increase in profit attributable to minority interests	(311)
Increase in basic and diluted earnings per share (HK cents)	1.96

*The amount represents gains arising from fair value changes of investment properties net of those disposed during the year.

- (iv) The adoption of HKAS-Int 21 resulted in:

	As at 31st December	
	2005 HK\$'000	2004 HK\$'000
Increase in deferred tax liabilities	1,308	1,729
Decrease in investment properties revaluation reserves	(816)	(1,041)
Decrease in minority interests	(190)	(136)
Decrease in retained earnings	(302)	(552)

2. Summary of Significant Accounting Policies (Continued)

	For the year ended 31st December	
	2005 HK\$'000	2004 HK\$'000
Decrease in profit/increase in loss attributable to minority interests	54	7
Decrease/(increase) in tax charges	421	(59)
Increase in basic and diluted earnings/(loss) per share (HK cents)	0.22	(0.03)

(v) The adoption of HKFRS 2 resulted in:

	As at 31st December 2005 HK\$'000
Decrease in retained earnings	(176)
Increase in capital reserves	176

	For the year ended 31st December 2005 HK\$'000
Increase in administrative expenses	(176)
Decrease in basic and diluted earnings per share (HK cents)	(0.08)

2. Summary of Significant Accounting Policies (Continued)

- (vi) The adoption of HKFRS 3 resulted in an increase in retained earnings and a decrease in negative goodwill as at 1st January 2005 by HK\$2,652,000 and the details of the adjustments are as follows:

	As at 31st December	
	2005	2004
	HK\$'000	HK\$'000
Decrease in negative goodwill	(1,768)	–
Increase in retained earnings	1,768	–
	For the year ended 31st December	
	2005	2004
	HK\$'000	HK\$'000
Decrease in other operating income	(884)	–
Decrease in basic and diluted earnings per share (HK cents)	(0.42)	–

2. Summary of Significant Accounting Policies (Continued)

Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1st January 2006 or later periods but which the Group has not adopted early, as follows:

- HKAS 1 (Amendment), "Capital Disclosures"
- HKAS 19 (Amendment), "Employee Benefits"
- HKAS 39 (Amendment), "Cash Flow Hedge Accounting of Forecast Intragroup Transactions"
- HKAS 39 (Amendment), "The Fair Value Option"
- HKAS 39 and HKFRS 4 (Amendment), "Financial Guarantee Contracts"
- HKFRS 1 (Amendment), "First-time Adoption of Hong Kong Financial Reporting Standards"
- HKFRS 6 (Amendment), "Exploration for and Evaluation of Mineral Resources"
- HKFRS 7, "Financial Instruments: Disclosures"
- HKFRS-Int 4, "Determining whether an Arrangement contains a Lease"

Management is currently assessing the impact of these new standards, amendments and interpretations but is not yet in a position to state whether they would have a significant impact on its results of operations and financial position.

2.2 Consolidation

The consolidated accounts include the accounts of the Company and all its subsidiaries made up to 31st December.

(a) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated profit and loss account (see Note 2.7).

2. Summary of Significant Accounting Policies (Continued)

Inter-company transactions, balances and unrealised gains on transactions between group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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 by the Company on the basis of dividend received and receivable.

(b) Transactions with minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the profit and loss account. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

(c) An associate and joint ventures

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

A joint venture involves the establishment of a corporation, partnership or other entity in which each venturer has an interest. The entity operates in the same way as other entities, except that a contractual arrangement between the venturers establishes joint control over the economic activity of the entity.

Investments in an associate and joint ventures are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in an associate and joint ventures includes goodwill (net of any accumulated impairment loss) identified on acquisition (see Note 2.7).

The Group's share of the post-acquisition profits or losses of an associate and joint ventures are recognised in the profit and loss account, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in the associate or joint ventures equals or exceeds its interest in such associate or joint ventures, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate or the joint ventures.

2. Summary of Significant Accounting Policies (Continued)

Unrealised gains on transactions between the Group and its associate and joint ventures are eliminated to the extent of the Group's interest in the associate and joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the associate and joint ventures are changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in an associate and joint ventures are stated at cost less provision for impairment losses. The results of the associate and joint ventures are accounted for by the Company on the basis of dividends received and receivable.

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

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, property, plant and equipment, leasehold land and land use rights, investment properties, construction in progress, inventories, receivables and operating cash, and mainly exclude investment in an associate and investment in joint ventures. Segment liabilities comprise operating liabilities and exclude items such as taxation, deferred taxation, and bank borrowings. Capital expenditure comprises additions to property, plant and equipment, leasehold land and land use rights, investment properties, construction in progress, and additions resulting from acquisition through purchases of subsidiaries including goodwill.

In respect of geographical segment reporting, sales are based on the country in which the customer is located, and total assets and capital expenditure are where the assets are located.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the accounts of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated accounts are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

2. Summary of Significant Accounting Policies (Continued)

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit and loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets are included in the revaluations reserves.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each profit and loss account are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operation, and of borrowings are taken to shareholders' equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognised in the profit and loss account as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2. Summary of Significant Accounting Policies (Continued)

2.5 Property, plant and equipment

Buildings comprise mainly factories, retail outlets and office. They are stated at cost or valuation less accumulated depreciation and impairment losses. Certain buildings were at valuation which was carried out prior to 30th September 1995. Under transitional provision in paragraph 80A of HKAS 16, the Group is not required to make regular revaluations in accordance with paragraphs 31 and 36 of HKAS 16. All other property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repair and maintenance costs are expensed in the profit and loss account during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost or revalued amounts to their residual values over their estimated useful lives, at the following annual rates:

Buildings	2%
Plant and machinery	8%-20%
Furniture, fixtures and equipment	6%-25%
Motor vehicles	18%-20%

Construction in progress, representing building on which construction work has not been completed, is stated at cost, which includes construction expenditures incurred and other direct costs capitalised during the construction period, less accumulated impairment losses. No depreciation is provided in respect of construction in progress until the construction work is completed. On completion, the construction in progress is transferred to appropriate categories of property, plant and equipment.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

The asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.8).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the profit and loss account. When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

2. Summary of Significant Accounting Policies (Continued)

2.6 Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by Group companies, is classified as investment property.

Investment properties comprise land held under operating leases and buildings held under finance leases.

Land held under operating leases is classified and accounted for as an investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment property is measured initially at its cost, including related transaction costs.

After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are performed in accordance with the guidance issued by the International Valuation Standards Committee. These valuations are reviewed annually by external valuers. Investment property that is being redeveloped for continuing use as investment property, or for which the market has become less active, continues to be measured at fair value.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions.

The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property. Some of those outflows are recognised as a liability, including finance lease liabilities in respect of land classified as investment property; others, including contingent rent payments, are not recognised in the financial statements.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repair and maintenance costs are expensed in the profit and loss account during the financial period in which they are incurred.

Changes in fair value are recognised in the profit and loss account.

2. Summary of Significant Accounting Policies (Continued)

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes. Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is complete, at which time it is reclassified and subsequently accounted for as investment property.

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognised in equity as a revaluation of property, plant and equipment under HKAS 16. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in the profit and loss account.

2.7 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate/joint venture at the date of acquisition. Goodwill on acquisitions of subsidiaries and joint ventures is included in intangible assets. Goodwill on acquisition of associates is included in interest in associates. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The Group allocates goodwill to each business segment in each country in which it operates (Note 2.3).

2.8 Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2. Summary of Significant Accounting Policies (Continued)

2.9 Financial assets

From 1st January 2004 to 31st December 2004:

The Group classified its investments in securities, other than subsidiaries, an associate and joint venture, as investment securities and other investments.

(a) Investment securities

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

(b) Other investments

Other investments held for long term purposes are stated at cost, less provision for impairment losses.

The carrying amounts of other investments are reviewed at each balance sheet date and the impairment loss is recognised as an expense in the profit and loss account.

From 1st January 2005 onwards:

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

On 1st January 2005, the financial assets previously categorised as investment securities have been reclassified as financial assets held for trading and the financial assets previously categorised as other investments have been reclassified as available-for-sale financial assets.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

2. Summary of Significant Accounting Policies (Continued)

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are included as non-current assets. Loans and receivables are classified as trade and other receivables in the balance sheet (Note 2.11).

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of investments are recognised on trade – date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Unrealised and realised gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss category including interest and dividend income, are included in the profit and loss account within other operating income/expenses in the period in which they arise.

Unrealised gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in equity. When available-for-sale financial assets are sold or impaired, the accumulated fair value adjustments are included in the profit and loss account.

The fair value of quoted investments is based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the securities below their cost is considered an indicator that the securities are impaired. If any such evidence exists

2. Summary of Significant Accounting Policies (Continued)

for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the profit and loss account – is removed from equity and recognised in the profit and loss account. Impairment losses recognised in the profit and loss account on equity instruments are not reversed through the profit and loss account.

2.10 Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of finished goods and work in progress, which is determined principally on the weighted average basis, comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.11 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the profit and loss account.

2.12 Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

2.13 Bank borrowings

Bank borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

Bank borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2. Summary of Significant Accounting Policies (Continued)

2.14 Deferred income tax

Deferred income tax 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 consolidated account. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income 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 income tax is provided on temporary differences arising on investments in subsidiaries, an associate and joint ventures, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary differences will not reverse in the foreseeable future.

2.15 Employee benefits

- (a) **Employee leave entitlements**
Salaries, bonus, paid annual leave and the cost of other benefits to the Group are accrued in the year in which the associated services are rendered by employees of the Group.
- (b) **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.

- (c) **Pensions obligations**
The Group operates a number of defined contribution plans (the "Plans") throughout the world, the assets of which are held in separate trustee-administered funds. The Plans are generally funded by payments from employees and by the relevant Group companies. The Group's contributions to the Plans are expensed as incurred and are reduced by contributions forfeited by those employees who leave the Plans prior to contributions vesting fully.

2. Summary of Significant Accounting Policies (Continued)

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.

(d) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

2.16 Leases

(a) Finance lease
(The Group as lessor)

Leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases. When assets are leased out under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

(b) Operating lease
(The Group as both lessor and lessee)

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged in the profit and loss account on a straight-line basis over the period of the lease.

2. Summary of Significant Accounting Policies (Continued)

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

2.17 Revenue recognition

Revenue comprises the fair value for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown, net of value-added tax and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

- (a) 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.
- (b) Revenue from installation of carpets is recognised in the accounting period in which the installation services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.
- (c) Rental income from investment properties and interior furnishings is recognised on a straight line basis over the lease term.
- (d) Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.
- (e) Dividend Income
Dividend income is recognised when the right to receive payment is established.

2.18 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

2. Summary of Significant Accounting Policies (Continued)

2.19 Comparatives

The Group previously disclosed net income from installation and from sales of underlay within other revenues. Management believes that their inclusion in terms of gross amounts in turnover and cost of sales is a better representation of the Group's activities.

The Group previously disclosed the results of the supporting functions of carpet operations in Hong Kong within unallocated items in the analysis of the Group's results by business segments. Management believes that their inclusion in the Carpet segment is a better representation of the Group's activities.

The Group previously disclosed the turnover and results of the wool spinning operation of Foshan Nanhai Tai Ping Carpets Company Limited ("NHTP") within the 'yarn' operation in the analysis of the Group's results by business segments. As most of the products of this wool spinning operation are used internally as raw materials for carpet production, management believes that their inclusion in the carpet segment is a better representation of the Group's activities.

The Group previously treated the whole amount of consideration payable to the vendor in relation to the acquisition of White Oak Carpet Mills, Inc. as other payables under current liabilities. The Group has now reclassified the portion which is not due in the next 12 months under non-current liabilities.

Management believes that sales commissions should be included in emoluments for the purpose of determining who were the five highest paid individuals (Note 8). The sales commissions had been excluded from such emoluments as reported in previous years.

3. Financial Risk Management

The Group is subject to the following market risks:

(a) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Hong Kong dollar. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

Management monitors exchange rate movements closely to ascertain if any material exposure may arise.

3. Financial Risk Management (Continued)

(b) Credit risk

The Group has no significant concentrations of credit risk as the Group has a large number of customers, internationally dispersed. Sales to retail customers are made in cash or via major credit cards. For project sales, the Group will request the customers for initial deposits and will accept orders only from those customers with an appropriate credit history. The Group also performs periodic assessment of the trade receivables and believes that adequate provision for uncollectible receivables has been made.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, Management aims to maintain flexibility in funding by keeping committed credit lines available.

(d) Interest rate risk

The Group is exposed to changes in interest rates due to its bank borrowings which are disclosed in Note 29. The Group enters into debt obligations to support general corporate purposes including capital expenditure and working capital needs. The Group does not use any derivative instruments to reduce its economic exposure to changes in interest rates.

(e) Raw material price risk

The major operation of the Group includes manufacture of carpets and the raw materials used in the production include wool, silk and dyestuff. The production process includes the use of petro products, including fuel and dyestuff. Therefore the Group's gross margin is exposed to the fluctuation in the prices of raw materials and petro products. The Group does not use any derivative instruments to reduce its exposures to such risks.

(f) Fair values estimation

The Group has investment properties in Hong Kong and Thailand. In accordance with HKAS 40 "Investment properties", all investment properties are carried at fair value. The fair value is based on active market prices which in turn depend on the property market conditions and the economic environment in the area at which such properties are located. As the movements in the fair value of investment properties are recognised in the profit and loss, the Group's results are exposed to the risk of fluctuation of such fair values.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values.

4. Critical Accounting Estimates and Judgements

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4. Critical Accounting Estimates and Judgements (Continued)

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Useful lives and impairment of property, plant and equipment

The Group's management determines the estimated useful lives of its property, plant and equipment.

This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are less than previously estimated lives, and will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

The impairment loss for property, plant and equipment is recognised as the amount by which the carrying amount exceeds its recoverable amount in accordance with the accounting policy stated in Note 2.8. The recoverable amounts have been determined based on fair value less costs to sell, which are based on the best information available to reflect the amount that obtainable at each of the balance sheet date, from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the costs to disposal.

(b) Income tax

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are certain transactions and calculations for which the ultimate tax determination may be uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(c) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on current market conditions and the historical experience of manufacturing and selling products of similar nature. Management reassesses the estimation on each of the balance sheet date.

(d) Impairment of receivables

The Group's management determines the provision for impairment of receivables. This estimate is based on the credit history of its customers and current market conditions. Management reassesses the estimation on each of balance sheet date.

5. Turnover, Revenues and Segmental Information

During the year, revenues are recognised as follows:

	2005 HK\$'000	As restated 2004 HK\$'000
Turnover		
Sales of carpets	627,340	459,726
Yarn manufacturing and trading	57,635	55,904
Sales and leasing of interior furnishings	65,042	45,832
Gross rental income from investment properties	5,612	6,309
	755,629	567,771
Other revenues		
Bank interest income	1,104	357
Interest from third parties	–	682
Interest from finance leases	61	79
Dividend income from an available-for-sale financial asset	17	–
	1,182	1,118
Total revenues	756,811	568,889

Primary reporting format – business segments

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

Carpet	– Carpet manufacturing and trading
Yarn	– Yarn manufacturing and trading
Interior furnishings	– Sale and leasing of furniture, art, mattress and soft furnishings
Property holding	– Mainly rental income from property holding

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 & Macau	– Carpet, interior furnishings and property holding
Mainland China	– Carpet, yarn and property holding
South East Asia	– Carpet and property holding
Middle East	– Carpet
Other Asian countries	– Carpet
Europe	– Carpet
North America	– Carpet and yarn
Others	– Carpet and interior furnishings

5. Turnover, Revenues and Segmental Information (Continued)

The Group's turnover and trading results for the year ended 31st December 2005, together with their comparative figures, are analysed as follows:

Primary reporting format – business segments

For the year ended 31st December 2005

	Carpet HK\$'000	Yarn HK\$'000	Interior furnishings HK\$'000	Property holding HK\$'000	Elimination HK\$'000	Unallocated HK\$'000	Group HK\$'000
Turnover							
external revenues	627,340	57,635	65,042	5,612	-	-	755,629
inter-segment revenues*	2,244	10	-	1,239	(3,493)	-	-
	629,584	57,645	65,042	6,851	(3,493)	-	755,629
Segment results	(29,878)	8,685	(1,961)	22,298	-	25,459	24,603
Finance costs							(3,578)
Share of (losses)/profits of							
an associate	(69)	-	-	-	-	-	(69)
joint ventures	24,343	-	-	-	-	-	24,343
Profit before taxation							45,299
Taxation							(10,845)
Profit for the year							34,454
Segment assets	658,535	54,166	41,554	77,750	-	4,232	836,237
Interest in an associate	21,166	-	-	-	-	-	21,166
Interest in joint ventures	133,318	-	-	-	-	-	133,318
Total assets							990,721
Segment liabilities	139,251	2,392	8,436	1,019	-	128,152	279,250
Capital expenditure	58,650	360	4,808	-	-	-	63,818
Depreciation	33,255	2,269	4,408	-	-	-	39,932
Amortisation of leasehold land and land use rights	408	-	-	-	-	-	408
Impairment of construction in progress	4,470	-	-	-	-	-	4,470
Impairment of inventories	1,153	-	5,270	-	-	-	6,423
Impairment of trade receivables	143	-	116	-	-	-	259
Write-off of an available-for-sale financial asset	-	-	114	-	-	-	114

5. Turnover, Revenues and Segmental Information (Continued)

Primary reporting format – business segments

For the year ended 31st December 2004 (as restated)

	Carpet HK\$'000	Yarn HK\$'000	Interior furnishings HK\$'000	Property holding HK\$'000	Elimination HK\$'000	Unallocated HK\$'000	Group HK\$'000
Turnover							
external revenues	459,726	55,904	45,832	6,309	–	–	567,771
inter-segment revenues*	1,890	–	13	90	(1,993)	–	–
	461,616	55,904	45,845	6,399	(1,993)	–	567,771
Segment results	(31,481)	7,908	9,414	6,631	–	(3,795)	(11,323)
Finance costs							(1,203)
Share of profits of							
an associate	1,596	–	–	–	–	–	1,596
joint ventures	22,449	–	–	–	–	–	22,449
Profit before taxation							11,519
Taxation							(12,506)
Loss for the year							(987)
Segment assets							
Interest in an associate	21,345	–	–	–	–	–	21,345
Interest in joint ventures	113,462	–	–	–	–	–	113,462
Total assets							891,563
Segment liabilities							
Capital expenditure	27,956	1,948	6,818	–	–	–	36,722
Depreciation	29,691	2,392	2,192	–	–	–	34,275
Amortisation of leasehold							
land and land use rights	236	–	–	–	–	–	236
(Negative goodwill recognised							
as income)/amortisation							
of goodwill	(296)	–	–	–	–	1,659	1,363
Impairment of construction							
in progress	786	–	–	–	–	–	786
Impairment of inventories	4,391	–	–	–	–	–	4,391
Impairment of property, plant and equipment	175	–	–	–	–	–	175

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

5. Turnover, Revenues and Segmental Information (Continued)

Secondary reporting – geographical segments

	Turnover	Segment results	Total assets	Capital expenditure
	2005	2005	2005	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong and Macau	93,460	12,313	112,357	5,192
Mainland China	35,464	652	136,320	2,325
South East Asia	221,675	11,462	361,545	30,497
Middle East	26,920	(811)	–	–
Other Asian countries	21,434	1,045	–	–
Europe	66,569	(8,236)	33,088	1,671
North America	278,254	(18,351)	188,695	24,133
Others	11,853	1,070	–	–
	755,629	(856)	832,005	63,818
Unallocated		25,459		
Operating profit		24,603		
Interest in an associate			21,166	
Interest in joint ventures			133,318	
Unallocated assets			4,232	
Total assets			990,721	

5. Turnover, Revenues and Segmental Information (Continued)

Secondary reporting – geographical segments (Continued)

(As restated)	Turnover 2004 HK\$'000	Segment results 2004 HK\$'000	Total assets 2004 HK\$'000	Capital expenditure 2004 HK\$'000
Hong Kong and Macau	89,688	(1,640)	108,672	6,199
Mainland China	11,151	(1,786)	127,910	3,426
South East Asia	209,338	20,736	367,819	18,614
Middle East	18,953	436	–	–
Other Asian countries	20,411	4,186	–	–
Europe	43,522	(12,276)	21,832	635
North America	166,364	(17,704)	122,715	7,848
Others	8,344	520	–	–
	567,771	(7,528)	748,948	36,722
Unallocated		(3,795)		
Operating loss		(11,323)		
Interest in an associate			21,345	
Interest in joint ventures			113,462	
Unallocated assets			7,808	
Total assets			891,563	

6. Operating Profit/(Loss)

	(As restated)	
	2005	2004
	HK\$'000	HK\$'000
Operating profit/(loss) is stated after crediting and charging the following:		
Crediting:-		
Gains on disposal of investment securities	-	37
Negative goodwill recognised as income (Note 12)	-	317
Reversal of impairment of investment in a joint venture	-	4,803
Gain on disposal of investment properties	-	313
Net exchange gains	1,073	-
Charging:-		
Depreciation of property, plant and equipment (Note 14)	39,932	34,275
Amortisation of leasehold land and land use rights (Note 13)	408	236
Loss on disposal of property, plant and equipment	92	369
Loss on disposal of investment properties	470	-
Employee benefit expenses (Note 8)	226,188	175,689
Operating lease charges		
Land and buildings	17,287	13,054
Plant and machinery	661	40
Auditors' remuneration	2,326	1,537
Direct operating expenses arising from investment properties		
that generated rental income	604	445
Direct operating expenses arising from investment properties		
that did not generate rental income	17	15
Amortisation of goodwill (Note 12)	-	1,680
Research and development costs	2,270	1,995
Net exchange losses	-	913

7. Finance Costs

	2005	2004
	HK\$'000	HK\$'000
Interest on bank loans and overdrafts wholly repayable within five years	3,578	1,203

8. Employee Benefit Expenses

	2005 HK\$'000	2004 HK\$'000
Wages and salaries (including Directors' emoluments)	221,496	172,446
Share options granted to Directors	176	–
Retirement benefit costs – defined contribution schemes (including Directors' emoluments) (note a)	4,516	3,243
Total	226,188	175,689

(a) Retirement benefit costs - defined contribution schemes

Unvested benefits totalling HK\$ 178,000 (2004: HK\$ 73,000) were used during the year to reduce future contributions. As at 31st December 2005, unvested benefits totalling HK\$ 105,000 (2004: HK\$ 109,000) were available for use by the Group to reduce future contributions.

(b) Directors' emoluments

The remuneration of each Director for the year ended 31st December 2005 is set out below:

Name of Director	Fees HK\$'000	Salaries HK\$'000	Bonuses HK\$'000	Inducement fees HK\$'000	Retirement		Total HK\$'000
					Other benefits HK\$'000	benefit costs HK\$'000	
Mr. Nicholas T. J. Colfer	26	–	–	–	–	–	26
Mr. Ian D. Boyce	20	–	–	–	–	–	20
Mr. Lincoln K. K. Leong @	–	–	–	–	–	–	–
Mr. Nelson K. F. Leong #	40	–	–	–	–	–	40
Mr. David C. L. Tong (ii)	13	–	–	–	–	–	13
Mr. John J. Ying	40	–	–	–	–	–	40
Mrs. Yvette Y. H. Fung*	37	–	–	–	–	–	37
Mr. Michael T. H. Lee*	40	–	–	–	–	–	40
Mr. Roderic N. A. Sage* (i)	5	–	–	–	–	–	5
Mr. Lincoln C. K. Yung*	20	–	–	–	–	–	20
Mr. James H. Kaplan	20	3,120	1,385	390	47	69	5,031
Ms. Alison S. Bailey (iv)	17	1,453	468	–	–	108	2,046
Mr. James S. Dickson Leach (iii)	11	–	–	–	–	–	11
Mr. Anthony Y. C. Yeh (v)	14	–	–	–	–	–	14
Mr. Kent M.C. Yeh (v)	14	–	–	–	–	–	14
	317	4,573	1,853	390	47	177	7,357

8. Employee Benefit Expenses (Continued)

(b) Directors' emoluments (Continued)

The remuneration of each Director for the years ended 31st December 2004 is set out below:

Name of Director	Fees HK\$'000	Salaries HK\$'000	Bonuses HK\$'000	Inducement fees HK\$'000	Other benefits HK\$'000	Retirement	Total HK\$'000
						benefit costs HK\$'000	
Mr. James S. Dickson Leach	30	-	-	-	-	-	30
Mr. Anthony Y. C. Yeh	20	-	-	-	-	-	20
Mr. Ian D. Boyce	20	-	-	-	-	-	20
Mr. Nicholas T. J. Colfer	20	-	-	-	-	-	20
Mr. Lincoln K. K. Leong @	-	-	-	-	-	-	-
Mr. Nelson K. F. Leong	40	-	-	-	-	-	40
Mr. Kent M. C. Yeh	20	-	-	-	-	-	20
Mr. John J. Ying	40	-	-	-	-	-	40
Mr. Lincoln C. K. Yung*	20	-	-	-	-	-	20
Mr. Michael T. H. Lee*	40	-	-	-	-	-	40
Mrs. Yvette Y. H. Fung* (vi)	30	-	-	-	-	-	30
Mr. James H. Kaplan	20	2,192	1,755	390	-	-	4,357
Ms. Alison S. Bailey	20	1,571	400	-	-	117	2,108
Mr. Francis B. Y. Sim (vii)	-	-	-	-	-	-	-
	320	3,763	2,155	390	-	117	6,745

* Independent Non-executive Directors

Alternate Director to Mr. Lincoln K.K. Leong

@ Mr. Lincoln K.K. Leong's Director fee was paid to his alternate Mr. Nelson K.F. Leong

(i) Appointed on 15th November 2005

(ii) Appointed on 13th May 2005

(iii) Resigned on 13th May 2005

(iv) Resigned on 1st November 2005

(v) Resigned on 8th September 2005

(vi) Appointed on 31st March 2004

(vii) Resigned on 15th January 2004

8. Employee Benefit Expenses (Continued)

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2004: two) Directors whose emoluments are reflected in the analysis presented above. The emoluments paid to the remaining three (2004: three) individuals during the year are as follows:

	2005	As restated 2004
	HK\$'000	HK\$'000
Basic salaries, housing and other allowances	5,238	4,326
Bonuses	829	88
Profit sharing incentives	486	871
Contributions to retirement schemes	111	–
Compensation for loss of office	–	470
	6,664	5,755

The emoluments fell within the following bands:

	2005	No. of Individuals 2004
Emolument bands		
HK\$ 1,000,001 – HK\$ 1,500,000	–	1
HK\$ 1,500,001 – HK\$ 2,000,000	1	–
HK\$ 2,000,001 – HK\$ 2,500,000	1	2
HK\$ 2,500,001 – HK\$ 3,000,000	1	–

9. 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 respective countries.

9. Taxation (Continued)

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

	2005	As restated 2004
	HK\$'000	HK\$'000
Current income tax		
Overseas taxation charges for the current year	13,984	14,056
Under/(over) provision in prior years	335	(2,908)
Deferred income tax (Note 30)	(3,474)	1,358
Taxation charges	10,845	12,506

Share of taxation of an associate and joint ventures of HK\$ 568,000 (2004: HK\$ 1,081,000) and HK\$ 8,352,000 (2004: HK\$ 4,301,000) respectively are included in the share of (losses)/profits of an associate and joint ventures.

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:

	2005	As restated 2004
	HK\$'000	HK\$'000
Profit before taxation	45,299	11,519
Less: Profits less losses of an associate and joint ventures	(24,274)	(24,045)
Profit/(loss) before taxation of Company and subsidiaries	21,025	(12,526)
Calculated at a taxation rate of 17.5% (2004: 17.5%)	3,679	(2,192)
Effect of different taxation rates in other countries	5,109	6,684
Income not subject to taxation	(10,882)	(1,424)
Expenses not deductible for taxation purposes	2,019	3,038
Tax losses not recognised	12,722	9,308
Recognition of previously unrecognised deductible temporary differences	(2,137)	-
Under/(over) provision in previous years	335	(2,908)
Taxation charges	10,845	12,506

10. Profit/(Loss) Attributable to Equity Holders of the Company

The profit/(loss) attributable to equity holders of the Company is dealt with in the accounts of the Company to the extent of loss of HK\$ 621,000 (2004: loss of HK\$ 4,509,000).

11. Earnings/(Loss) Per Share

Basic

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

	2005	As restated 2004
	HK\$'000	HK\$'000
Profit/(loss) attributable to equity holders of the Company	27,646	(3,905)
Weighted average number of ordinary shares in issue (thousands)	211,933	211,703
Basic earnings/(loss) per share (HK cents)	13.04	(1.84)

Diluted

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

	2005	As restated 2004
	HK\$'000	HK\$'000
Profit/(loss) attributable to equity holders of the Company	27,646	(3,903)
Weighted average number of ordinary shares in issue (thousands)	211,933	211,703
Adjustments for share options (thousands)	7	-
Weighted average number of ordinary shares in issue for		
diluted earnings/(loss) per share (thousands)	211,940	211,703
Diluted earnings/(loss) per share (HK cents)	13.04	(1.84)

12. Intangible Assets

Group	Positive goodwill HK\$'000	Negative goodwill HK\$'000	Total HK\$'000
At 1st January 2004			
Cost	6,682	(3,515)	3,167
Accumulated amortisation	(5,002)	3,159	(1,843)
Net book amount	1,680	(356)	1,324
Year ended 31st December 2004			
Opening net book amount	1,680	(356)	1,324
Acquisition of a subsidiary	–	(2,613)	(2,613)
Amortisation expense	(1,680)	317	(1,363)
Closing net book amount	–	(2,652)	(2,652)
As 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)
Year ended 31st December 2005			
Opening net book amount	–	(2,652)	(2,652)
Opening adjustment-derecognition of negative goodwill	–	2,652	2,652
Opening net book amount as restated and closing net book amount	–	–	–
As at 31st December 2005			
Cost	6,682	–	6,682
Accumulated amortisation	(6,682)	–	(6,682)
Net book amount	–	–	–

13. Leasehold Land and Land Use Rights

Group

The Group's interests in leasehold land and land use rights represent prepaid operating lease payments and their net book values are analysed as follows:

	2005 HK\$000	2004 HK\$000
<hr/>		
In Hong Kong, held on		
Leases of between 10 to 50 years	12,031	–
<hr/>		
In overseas, held on		
Leases of between 10 to 50 years	9,708	9,763
	21,739	9,763

	2005 HK\$000	2004 HK\$000
<hr/>		
At 1st January	9,763	9,999
Leasehold land received in the form of dividend in specie upon		
liquidation of an available-for-sale financial asset	12,200	–
Exchange differences	184	–
Amortisation of prepaid operating lease payment	(408)	(236)
At 31st December	21,739	9,763

14. Property, Plant and Equipment

Group	Buildings HK\$000	Other assets HK\$000	Total HK\$000
As at 1st January 2004			
Cost or valuation	145,239	422,085	567,324
Accumulated depreciation	(41,688)	(248,060)	(289,748)
Net book amount	103,551	174,025	277,576
Year ended 31st December 2004			
Opening net book amount	103,551	174,025	277,576
Exchange differences	240	(26)	214
Additions	165	14,540	14,705
Transfer from construction in progress	618	10,734	11,352
Disposals	–	(977)	(977)
Acquisition of a subsidiary	–	2,585	2,585
Depreciation	(5,255)	(29,020)	(34,275)
Impairment	–	(175)	(175)
Closing net book amount	99,319	171,686	271,005
As at 31st December 2004			
Cost or valuation	146,446	445,227	591,673
Accumulated depreciation	(47,127)	(273,541)	(320,668)
Net book amount	99,319	171,686	271,005
Year ended 31st December 2005			
Opening net book amount	99,319	171,686	271,005
Exchange differences	(3,344)	(5,329)	(8,673)
Additions	–	22,404	22,404
Property received in the form of dividend in specie			
upon liquidation of an available-for-sale financial asset	16,900	–	16,900
Transfer from construction in progress	820	41,638	42,458
Disposals	(175)	(547)	(722)
Depreciation	(5,536)	(34,396)	(39,932)
Closing net book amount	107,984	195,456	303,440
As at 31st December 2005			
Cost or valuation	158,608	488,505	647,113
Accumulated depreciation	(50,624)	(293,049)	(343,673)
Net book amount	107,984	195,456	303,440

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

14. Property, Plant and Equipment (Continued)

Certain of the Group's buildings were revalued on an 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. Under transitional provision in paragraph 80A of HKAS 16, the Group is not required to make regular revaluations in accordance with paragraphs 31 and 36 of HKAS 16. The carrying amount of such revalued buildings would have been HK\$ 5,529,000 (2004: HK\$ 6,808,000) had it been stated at cost less accumulated depreciation.

The cost or valuation of property, plant and equipment is analysed as follows:

Group	Buildings HK\$'000	Other assets HK\$'000
At cost	147,781	488,505
At valuation – 1989	10,827	–
As at 31st December 2005	158,608	488,505
At cost	134,883	445,227
At valuation – 1989	11,563	–
As at 31st December 2004	146,446	445,227

The other assets category includes furniture leased by the Group to third party under operating leases with the following carrying amounts:

Group	2005 HK\$'000	2004 HK\$'000
Cost	7,081	3,793
Accumulated depreciation as at 1st January	(2,619)	(1,219)
Depreciation expense for the year	(2,710)	(1,400)
Net book amount	1,752	1,174

15. Investment Properties

Group	2005 HK\$000	2004 HK\$000
Net book value as at 1st January	77,212	74,053
Property received in the form of dividend in specie upon liquidation of an available-for-sale financial asset	10,950	–
Fair value gains	15,648	5,185
Disposals	(28,655)	(2,031)
Exchange differences	(2,025)	5
Net book value as at 31st December	73,130	77,212

The investment properties were revalued at 31st December 2005 by independent, professionally qualified valuers, namely CB Richard Ellis and UK Valuations and Agency Company Limited. Valuations were based on current prices in an active market for all properties. Details of major investment properties are set out on page 112.

The Group's interests in investment properties at their net book values are analysed as follows:

Group	2005 HK\$000	2004 HK\$000
In Hong Kong, held on		
Long leases (over 50 years)	–	11,900
Medium leases (10 – 50 years)	20,050	7,030
In overseas, held on		
Freehold	38,380	45,982
Medium leases (10 – 50 years)	14,700	12,300
	73,130	77,212

16. Construction in Progress

Group	2005 HK\$'000	2004 HK\$'000
As at 1st January	18,424	11,201
Exchange differences	(628)	174
Additions	41,414	19,187
Transfer to property, plant and equipment	(42,458)	(11,352)
Impairment	(4,470)	(786)
As at 31st December	12,282	18,424

17. Subsidiaries

Company	2005 HK\$'000	2004 HK\$'000
Unlisted shares at Directors' valuation in 1990	242,800	242,800
Loans to subsidiaries	61,226	57,625
Amounts due by subsidiaries	466,758	456,552
	770,784	756,977
Loan from a subsidiary	(13,213)	(3,213)
Amounts due to subsidiaries	(89,673)	(87,959)
	667,898	665,805
Provision for impairment	(359,020)	(359,020)
	308,878	306,785

Details of principal subsidiaries are set out on pages 110 and 111. All balances due from/(to) subsidiaries are unsecured, interest free and repayable on demand, except for an amount of HK\$ 61,226,000 due from a subsidiary (2004: HK\$ 57,625,000) which carries interest at prevailing market rates.

18. Amount Due from an Indirectly Held Associate

The amount due from an indirectly held associate is unsecured, interest-free and repayable on demand.

19. Interest in an Associate

Group	2005 HK\$'000	2004 HK\$'000
Share of net assets	18,429	20,594
Amounts due by an associate	2,737	751
	21,166	21,345
Shares at cost – unlisted	519	519

Dividend income from the associate during the year amounted to HK\$ 1,870,000 (2004: HK\$ 462,000). Share of the associate's taxation amounted to HK\$ 568,000 (2004: HK\$ 1,081,000). Details of the associate, which is unlisted, is set out on page 111.

An extract of the operating results and financial position of the Group's associate, Philippine Carpet Manufacturing Corporation, which is based on its consolidated accounts as adjusted to conform with accounting principles generally accepted in Hong Kong ("HKGAAP") for the year ended and as at 31st December 2005 is as follows:

	2005 HK\$'000	2004 HK\$'000
Operating results		
Turnover	73,716	72,280
(Loss)/profit after taxation	(210)	4,864
Group's share of (loss)/profit after taxation	(69)	1,596
Financial position		
Non-current assets	38,945	35,146
Current assets	46,286	53,109
Non-current liabilities	(7,806)	(7,043)
Current and other liabilities	(21,257)	(18,426)
Shareholders' funds	56,168	62,786
Group's share of net assets	18,429	20,594

20. Interest in Joint Ventures

Group	2005 HK\$'000	2004 HK\$'000
Share of net assets	117,490	123,375
Amounts due by joint ventures		
Loan account	458	458
Current account	34,005	23,780
	34,463	24,238
	151,953	147,613
Provision for impairment	(18,635)	(34,151)
	133,318	113,462
Paid in capital at cost	80,517	112,704

Dividend income from joint ventures during the year amounted to HK\$ 17,925,000 (2004: HK\$ 11,584,000).

Share of joint ventures' taxation amounted to HK\$ 8,352,000 (2004: HK\$ 4,301,000).

Details of the principal joint ventures, which are unlisted, are set out on page 111.

An 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 to conform with HKGAAPs for the year ended and as at 31st December 2005, is as follows:

WHCL	2005 HK\$'000	2004 HK\$'000
Operating results		
Turnover	330,513	264,876
Profit after taxation	18,043	6,828
Group's share of profit after taxation	8,841	3,346
Financial position		
Non-current assets	214,856	182,964
Current assets	71,358	210,244
Non-current liabilities	(5,383)	-
Current liabilities	(139,651)	(267,390)
Net assets	141,180	125,818
Group's share of net assets less provision for impairment	52,605	45,078

20. Interest in Joint Ventures (Continued)

WPCL	2005 HK\$'000	2004 HK\$'000
Operating results		
Turnover	192,419	153,687
Profit after taxation	31,018	39,294
Group's share of profit after taxation	15,199	19,254
Financial position		
Non-current assets	16,525	17,810
Current assets	147,173	127,851
Current liabilities	(69,615)	(52,672)
Shareholders' funds	94,083	92,989
Group's share of net assets less provision for impairment	45,531	44,995

21. Available-for-sale Financial Assets/Other Investments

Group	2005 HK\$'000	2004 HK\$'000
As at 31st December 2004/1st January 2004	27,530	27,465
Opening fair value adjustments transferred to equity	6,505	-
At 1st January	34,035	27,465
Changes in fair value transferred to equity	6,420	-
Liquidation of an available-for-sale financial asset	(39,521)	-
Received as settlement of trade receivables	-	686
Acquisition of a subsidiary	-	114
Disposal	(686)	-
Write-off	(114)	-
Change in amount due from investee	-	(49)
As at 31st December	134	28,216
Less: current portion	-	(686)
Non-current portion	134	27,530

21. Available-for-sale Financial Assets/Other Investments (Continued)

Available-for-sale financial assets/other investments include the following:

	2005 HK\$'000	2004 HK\$'000
Unlisted equity securities – Hong Kong	–	8,355
Unlisted equity securities – Overseas	134	2,481
Amount due from investee	–	38,327
Provision for impairment written-off	–	(20,947)
	134	28,216

The other investments were reclassified as available-for-sale financial assets on 1st January 2005 following the adoption of HKASs 32 and 39.

22. Net Investment in Finance Leases

The total minimum lease payments receivable under finance leases and their present value are as follows:

Group	Present			Present		
	value of minimum lease payments receivable 2005 HK\$'000	Interest income relating to future periods 2005 HK\$'000	Total minimum lease payments receivable 2005 HK\$'000	value of minimum lease payments receivable 2004 HK\$'000	Interest income relating to future periods 2004 HK\$'000	Total minimum lease payments receivable 2004 HK\$'000
Amounts receivable:						
Not later than one year	735	45	780	1,200	51	1,251
Later than one year and not later than five years	210	15	225	236	14	250
		60	1,005		65	1,501
Net investment in finance leases	945			1,436		

23. Inventories

Group	2005 HK\$'000	2004 HK\$'000
Raw material	74,687	68,907
Work in progress	22,333	18,489
Finished goods	73,788	63,100
Consumable stores	3,039	3,244
	173,847	153,740

The cost of inventories recognised as expenses and included in cost of goods sold amounted to HK\$ 451,094,000 (2004: HK\$ 351,009,000).

24. Trade and Other Receivables

Group	2005 HK\$'000	2004 HK\$'000
Trade receivables	151,745	117,261
Less: provision for impairment of receivables	(15,493)	(18,668)
Trade receivables – net	136,252	98,593
Other receivables	25,406	21,304
	161,658	119,897

Note:

The amounts approximated to the fair value as at 31st December 2005. The credit terms of the Group range from 0 to 90 days, depending on the credit status and repayment history of customers. At 31st December 2005 the ageing analysis of the trade receivables was as follows:

Group	2005 HK\$'000	2004 HK\$'000
Current – 30 days	86,020	63,023
31 days – 60 days	27,705	12,814
61 days – 90 days	8,037	7,825
Over 90 days	29,983	33,599
	151,745	117,261

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

25. Investment Securities

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

All investment securities were reclassified as financial assets held for trading on 1st January 2005 following the adoption of HKASs 32 and 39. All such financial assets held for trading had been sold during the year.

26. Cash and Cash Equivalents

	Group		Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Cash at bank and on hand	83,738	74,375	232	2,574
Short-term bank deposits	3,341	2,590	-	-
	87,079	76,965	232	2,574

The effective interest rate on short-term bank deposits was 3.5% (2004: 0.25%); these deposits have maturity dates ranging between 9 to 23 days.

At 31st December 2005, included in the Group's cash and bank balances approximately RMB 9,279,000 (2004: RMB 9,014,000) and US\$ 1,365,000 (2004: US\$ 944,000) were placed with certain banks in the People's Republic of China (the "PRC") by certain PRC subsidiaries of the Group. These balances are subject to exchange controls.

27. Share Capital

Company	No. of shares	HK\$'000
Authorised – HK\$ 0.10 per share:		
At 1st January 2004, 1st January 2005 and 31st December 2005	400,000,000	40,000
Issued and fully paid:		
At 1st January 2004	211,121,275	21,112
Issue of new shares under scrip dividend scheme	582,213	58
As at 31st December 2004 and 1st January 2005	211,703,488	21,170
Exercise of share options (note)	230,000	23
At 31st December 2005	211,933,488	21,193

27. Share Capital (Continued)

Note: During the year, a total of 2,000,000 share options were granted to Mr. James H. Kaplan, Chief Executive Officer of the Company. Details of the share options outstanding as at 31st December 2005 are as follows:

Name	Balance	Date	Changes during the year			Balance	Exercise	Exercisable
	as at 1st		Granted	Lapsed	Exercised	as at 31st	price	
	January	of grant				December	(HK\$)	period
	2005					2005	(Note 1)	
James H. Kaplan	-	10th January 2005	500,000	270,000	230,000	-	1.21	10th January 2005-31st January 2005-
	-	10th January 2005	500,000	-	-	500,000	1.21	31st December 2005-31st January 2006
	-	10th January 2005	500,000	-	-	500,000	1.21	31st December 2006-31st January 2007
	-	10th January 2005	500,000	-	-	500,000	1.21	31st December 2007-31st January 2008

Note 1: The exercise price of the share options granted to Mr. James H. Kaplan was fixed at the average of the closing prices of the shares of the Company as stated on The Stock Exchange's daily quotation sheets for the five business days before the date of grant. The closing price of the shares immediately at the date on which the options were granted was HK\$ 1.18.

The Company uses the Black Scholes option pricing model (the "Model") to value share options granted during the year. The Model is one of the commonly used models to estimate the fair value of an option. The value of an option varies with different variables of certain subjective assumptions. Any change in such variables so adopted may materially affect the estimation of the fair value of an option.

The aggregate fair value of the options determined at the date of grant using the Model was HK\$ 341,000. Such value is expensed through the Group's profit and loss account over the respective vesting periods of each batch of options. Share options expense of HK\$ 176,000 was recognised in 2005, with a corresponding adjustment recognised in the Group's capital reserves.

27. Share Capital (Continued)

The fair value of the share options are determined based on the following significant variables and assumptions:

Date of grant	10th January 2005
Closing price at the date of grant	HK\$ 1.18
Risk free rate (Note 1)	0.58% – 1.63%
Expected life of options	1 – 3 years
Expected volatility (Note 2)	38.65%
Expected dividend per annum (Note 3)	HK\$ 0.0218

Notes:

1. Risk free rate: being the approximate yields of Exchange Fund Notes and Bills traded on the date of grant, matching the expected life of each batch of options.
2. Expected volatility: being the approximate volatility of closing prices of the share of the Company in the past one year immediately before the date of grant.
3. Expected dividend per annum: being the approximate average annual cash dividend for the past five financial years.

In January 2006, Mr. James H. Kaplan further exercised 254,000 share options and 246,000 share options lapsed.

28. Reserves

The movements of reserves of the Group for both years ended 31st December 2005 and 2004 are set out in the Consolidated Statement of Changes in Equity on pages 47 and 48.

The movements of reserves of the Company are as follows:

Company	Share premium HK\$'000	Capital reserve HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
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
At 1st January 2005	189,162	–	442,598	(343,914)	287,846
Premium on issue of new shares	255	–	–	–	255
Employee share options scheme – value of employee services	–	176	–	–	176
Loss for the year	–	–	–	(621)	(621)
At 31st December 2005	189,417	176	442,598	(344,535)	287,656

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.

29. Bank Borrowings – Unsecured

Group	2005 HK\$'000	2004 HK\$'000
Non-current		
– Repayable between 1 and 2 years		
Thai Baht	9,500	–
	9,500	–
Current		
– Repayable within 1 year		
Thai Baht	55,859	51,509
Hong Kong Dollars	27,000	–
United States Dollars	16,977	21,119
	99,836	72,628
Total bank borrowings	109,336	72,628

The effective interest rates of the borrowings at the balance sheet dates were as follows:

	2005	2004
Thai Baht	4.7%-5.2%	2.1%-3.2%
United States Dollar	5.7%	3.0%-3.2%
Hong Kong Dollar	5.2%-5.6%	–

The amounts approximated to the fair value as at 31st December 2005.

30. Deferred Taxation

Group

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2004: 17.5%).

	2005 HK\$'000	2004 HK\$'000
At 1st January, as previously reported	5,494	4,178
Change in accounting policy		
– Adoption of HKAS-Int 21	1,729	1,159
At 1st January, as restated	7,223	5,337
Exchange differences	(100)	17
Deferred taxation relating to the origination and reversal of temporary differences (credited)/charged to profit and loss account	(3,474)	1,358
Charged to investment properties revaluation reserves	–	511
At 31st December	3,649	7,223

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\$ 188,686,000 (2004: HK\$ 164,169,000) 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

Group

	Accelerated tax depreciation allowance		Revaluation of properties		Total	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
At 1st January	4,436	4,040	9,248	8,952	13,684	12,992
Change in accounting policy						
– Adoption of HKAS-Int 21	599	546	1,130	614	1,729	1,160
At the beginning of the year, as restated	5,035	4,586	10,378	9,566	15,413	14,152
(Credit)/charged to profit and loss account	(1,071)	449	(971)	294	(2,042)	743
Charged to investment properties revaluation reserves	–	–	–	511	–	511
Exchange differences	–	–	(452)	7	(452)	7
At 31st December	3,964	5,035	8,955	10,378	12,919	15,413

30. Deferred Taxation (Continued)

Deferred tax assets

Group	Impairment of assets		Tax losses		Others		Total	
	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January	7,180	7,670	841	1,028	169	116	8,190	8,814
Credited/(charged) to								
profit and loss account	1,372	(478)	112	(187)	(52)	50	1,432	(615)
Exchange differences	(349)	(12)	-	-	(3)	3	(352)	(9)
At 31st December	8,203	7,180	953	841	114	169	9,270	8,190

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:

Group	2005	2004
	HK\$'000	HK\$'000
Deferred tax assets	1,983	243
Deferred tax liabilities	(5,632)	(7,466)
	(3,649)	(7,223)

31. Other Long-term Liabilities

Group	2005	2004
	HK\$'000	HK\$'000
Non-current portion		
– Repayable between 1 and 2 years	390	390
– Repayable between 2 to 5 years	1,601	1,991
	1,991	2,381
Current portion	390	390
Total long-term liabilities	2,381	2,771

Other long term liabilities represent the consideration payable to the vendor in respect of the acquisition of White Oak Carpet Mills, Inc. in 2001. The amount approximated to the fair value as at 31st December 2005.

32. Trade and Others Payables

Group	(As restated)	
	2005	2004
	HK\$'000	HK\$'000
Trade payables	46,482	29,741
Other payables	106,534	87,399
	153,016	117,140

At 31st December 2005, the ageing analysis of the trade payables was as follows:

Group	2005	2004
	HK\$'000	HK\$'000
Current – 30 days	29,374	19,911
31 days – 60 days	11,094	6,211
61 days – 90 days	3,214	1,420
Over 90 days	2,800	2,199
	46,482	29,741

33. Future Operating Lease Income

At 31st December 2005, the Group had future aggregate minimum lease payments receivable under non-cancellable operating leases as follows:

Group	2005		2004	
	Property	Other assets	Property	Other assets
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Not later than one year	1,638	4,307	5,012	2,166
Later than one year and not later than five years	2,419	368	666	283
	4,057	4,675	5,678	2,449

34. Operating Lease Commitments

At 31st December 2005, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

Group	2005		2004	
	Property HK\$'000	Other assets HK\$'000	Property HK\$'000	Other assets HK\$'000
Not later than one year	20,189	633	8,405	431
Later than one year and not later than five years	47,943	799	15,383	710
Later than five years	28,857	–	6,332	–
	96,989	1,432	30,120	1,141

35. Capital Commitments

Group	2005	2004
	HK\$'000	HK\$'000
Contracted but not provided for in respect of property, plant and equipment	1,208	2,011
Authorised but not contracted for in respect of property, plant and equipment	3,076	15,298
	4,284	17,309

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 property, plant and equipment	24,996	14,987
Authorised but not contracted for in respect of property, plant and equipment	31,157	49,221
	56,153	64,208

36. Contingent Liabilities

	Group		Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Guarantees for banking facilities granted to subsidiaries	–	–	108,914	34,532
Corporate guarantee in respect of performance				
bonds issued by the subsidiaries to customers	4,892	4,002	–	–
Counter-indemnity in respect of performance bonds				
issued by banks	1,856	491	–	–
Guarantees in lieu of utility deposit	1,088	–	–	–
Shipping guarantee on goods received	–	1,022	–	–
Guarantee in respect of import duty	–	1,896	–	–
Guarantees in lieu of accessory security for a sales order	653	–	–	–
	8,489	7,411	108,914	34,532

37. Related Party Transactions

The following transactions were carried out in the normal course of the Group's business:

- 1) Sales of goods and services

	2005 HK\$'000	2004 HK\$'000
Sales of carpets:		
An associate (Note a)	3,263	2,653
The Hongkong and Shanghai Hotels, Limited (Note b)	7,007	905
Furniture sales and leasing		
The Hongkong and Shanghai Hotels, Limited (Note c)	579	1,037
	10,849	4,595

- (a) Sales to an associate were conducted in the normal course of business and at mutually agreed prices between the two parties.
- (b) By virtue of the fact that The Hongkong and Shanghai Hotels, Limited ("HKS Hotels") is under common control with the Company, the Company's transactions with HKS Hotels and its subsidiaries are related party transactions. These transactions also fall under the definition of continuing connected transactions under the Listing Rules and are disclosed under the "Connected Transactions" section in the Directors' Report.

37. Related Party Transactions (Continued)

- (c) Furniture sales and leasing to HKS Hotels and its subsidiaries are also continuing connected transactions under the Listing Rules, but as the gross amount of furniture sales and leasing for 2005 was less than the “de minimis” level in Rule 14A.33(3) of the Listing Rules, these transactions were exempt from disclosure by way of press announcement. These transactions were entered on normal commercial terms.

2) Purchase of goods and services

	2005 HK\$'000	2004 HK\$'000
Purchase of goods from:		
An associate (Note d)	4,810	517
Joint ventures (Note d)	4,382	–
Feltech Manufacturing Co. Ltd. (Note e)	813	102
Purchase of services from:		
Rental paid to The Hongkong and Shanghai Hotels, Limited (Note f)	448	366
	10,453	985

- (d) Purchases from an associate and joint ventures were conducted in the normal course of business and at mutually agreed prices between the parties.
- (e) Feltech Manufacturing Company Limited (“FMCL”) is owned by 61.75% by Mr Wan Tabtiang, a director of Carpets International Thailand Public Company Limited (“CIT,” a 99% owned subsidiary of the Company) and has been selling carpet underlay to CIT on normal commercial terms. These transactions are also continuing connected transactions under the Listing Rules, but as the gross amount of these transactions for 2005 was less than the “de minimis” level in Rule 14A.33(3) of the Listing Rules, these transactions were exempt from disclosure by way of press announcement. On 25th January 2006, CIT entered into an agreement with FMCL for a three-year term governing the transactions between these two parties. As required by the Listing Rules, an announcement was made on 25th January 2006.
- (f) Rental paid to HKS Hotels was based on fixed monthly amounts mutually agreed by parties involved.

37. Related Party Transactions (Continued)

- 3) On 22nd August 2005, CII Cement Limited (“CIIC”), a non-wholly owned subsidiary of the Company, entered into an agreement to transfer its entire 54.54% stake in Changzhou Nantai Construction Materials Company Limited (“Nantai Construction”, a Sino-foreign joint venture company incorporated in The People’s Republic of China) to Changzhou Nanyang Construction Materials Company (“CNCMC”) which was holding 40.31% interests in Nantai Construction. As CNCMC was a substantial shareholder of Nantai Construction at that moment, the transfer was therefore a connected transaction under the Listing Rules and an announcement of the transaction was made on 22nd August 2005. The aggregate consideration for the transaction of RMB 8,000,000 (approximately HK\$ 7,700,000) was arrived at after arm’s length negotiation and on normal commercial terms.

- 4) Key management compensation

	2005	2004
	HK\$’000	HK\$’000
Salaries and other short-term employee benefits	23,307	19,753
Termination benefits	–	470
Share – based payments	176	–
	23,483	20,223

- 5) Year-end balances arising from sales/purchases of goods/services

	2005	2004
	HK\$’000	HK\$’000
Receivables from/(to) related parties		
An associates	1,403	394
The Hongkong and Shanghai Hotels, Limited	286	436
	1,689	830
Payables to related parties		
Joint ventures	901	–
Feltech Manufacturing Co. Ltd.	133	61
	1,034	61

38. APPROVAL OF ACCOUNTS

The accounts were approved by the Directors on 24th April 2006.

Principal Subsidiaries, Associated Company and Joint Ventures

Name	Country of incorporation	Principal activities	Issued and paid-up capital	Percentage of equity attributable to the Group
Subsidiaries				
Indigo Living Limited	Hong Kong	Furniture trading and leasing	1,900,000 shares of HK\$ 1 each	100%
Tai Ping Carpets Limited	Hong Kong	Carpet trading	2,000,000 shares of HK\$ 10 each	100%
Foshan Nanhai Tai Ping Carpets Company Limited	The People's Republic of China	Carpet manufacturing	US\$ 5,000,000	80%
Suzhou Shuilian Mattress Co. Ltd.	The People's Republic of China	Mattress manufacturing and trading	US\$ 1,730,000	82%
Tai Ping Carpets International Trading (Shanghai) Company Limited	The People's Republic of China	Carpet trading	US\$ 200,000	100%
Carpets International Thailand Public Company Limited	Thailand	Carpet manufacturing	10,000,000 shares of Baht 10 each	99%
Tai Ping Carpets (S) Pte. Limited	Singapore	Carpet trading	S\$ 5,000,000	100%
Tai Ping Carpets Interieur GmbH	Germany	Carpet trading	Euro 511,292	100%
Tai Ping Carpets Europe SAS	France	Carpet trading	26,000 shares of Euro 2 each	100%

Name	Country of incorporation	Principal activities	Issued and paid-up capital	Percentage of equity attributable to the Group
Subsidiaries (continued)				
Edward Fields, Inc.	USA	Carpet manufacturing	US\$ 100,000	100%
Premier Yarn Dyers, Inc.	USA	Yarn dyeing	1,100 shares of US\$ 100 each	100%
Tai Ping Carpets Americas, Inc.	USA	Carpet trading	220,900 shares of US\$ 1 each	100%
White Oak Carpet Mills, Inc.	USA	Carpet manufacturing	918 shares of US\$ 1 each	100%
Associate				
Philippine Carpet Manufacturing Corporation	The Philippines	Carpet manufacturing	1,017,581 shares of PHP 100 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
Units A-E, 10th floor, Mai Gar Industrial Building, 146 Wai Yip Street Kwun Tong, Kowloon.	58/1000 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
No. 55, Nonthaburi-Pathumthani Road, (Highway No. 307) Bangkhayaeng Sub-district, Muang District, Pathumthani Province, Thailand.	N/A	Industrial	Freehold
Room 1305 – 1307 and 1317 – 1320, Tower A, Regent Centre, 63 Wo Yi Hop Road, Kwai Chung, Hong Kong	592/71750 shares of and in Remaining Portion of Lot No. 299 in D.D. 444	Commercial	2047

Name	Company	Position held	Age*	Joined the Group in	Business experience
Mr. Eric A. S. Cooper	Foshan Nanhai Tai Ping Carpets Company Limited	Group Technical Director	54	2005	Carpet Manufacturing
Mr. Leslie C. Fillmann	Carpets International Thailand Public Company Limited	Senior Vice President, Design Studios	50	1999	Carpet design
Mr. Jack S. Gates	Premier Yarn Dyers, Inc. and World Wide Looms Limited	President	66	1983	Carpet and textiles manufacturing
Mr. Adam J. S. Jones	Tai Ping Carpets UK Limited	Managing Director	34	2005	Carpet sales and marketing
Mr. Ernest P. L. Law	Tai Ping Carpets International Limited	Company Secretary and Senior Accounting Manager	49	1998	Financial management and company secretaryship
Mr. Raymond W. M. Mak	Tai Ping Carpets International Limited	Chief Financial Officer	42	2005	Financial management
Mr. John W. McLennan	Indigo Living Limited	Managing Director	43	2002	Retailing
Mr. Richard N. Morris	Tai Ping Carpets Limited	Managing Director, Asian Sales	44	2004	Carpet manufacturing, sales and marketing

Senior Management (Continued)

Name	Company	Position held	Age*	Joined the Group in	Business experience
Mr. William J. Palmer	Tai Ping Carpets Americas, Inc.	President	45	1999	Carpet sales and marketing
Mr. Chalermchai Puapipat	Carpets International Thailand Public Company Limited	Managing Director	40	1998	Carpet manufacturing, sales and marketing
Ms. Patricia Racine	Tai Ping Carpets Europe SAS	Creative Design Officer	44	2004	Marketing and product development
Ms. Simone S. Rothman	Tai Ping Carpets Americas, Inc.	Chief Marketing Officer	46	2004	Marketing and business development
Mr. Paul H. P. Wang	Tai Ping Carpets Limited	Chief Information Officer	52	2000	Information technology
Ms. Catherine Vergez	Tai Ping Carpets Europe SAS	Managing Director	43	1991	Carpet sales and marketing

* age as at 24th April 2006

Auditors

PricewaterhouseCoopers

Bankers

The Hong Kong and Shanghai Banking Corporation Limited

Standard Chartered Bank

Shanghai Commercial Bank Limited

Liu Chong Hing Bank Limited

Solicitors

Norton Rose

Baker & McKenzie

Company Secretary and Qualified Accountant

Ernest P. L. Law

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