TAI PING

# Tai Ping Carpets International Limited
# Annual Report 2007

(Incorporated in Bermuda with Limited Liability)

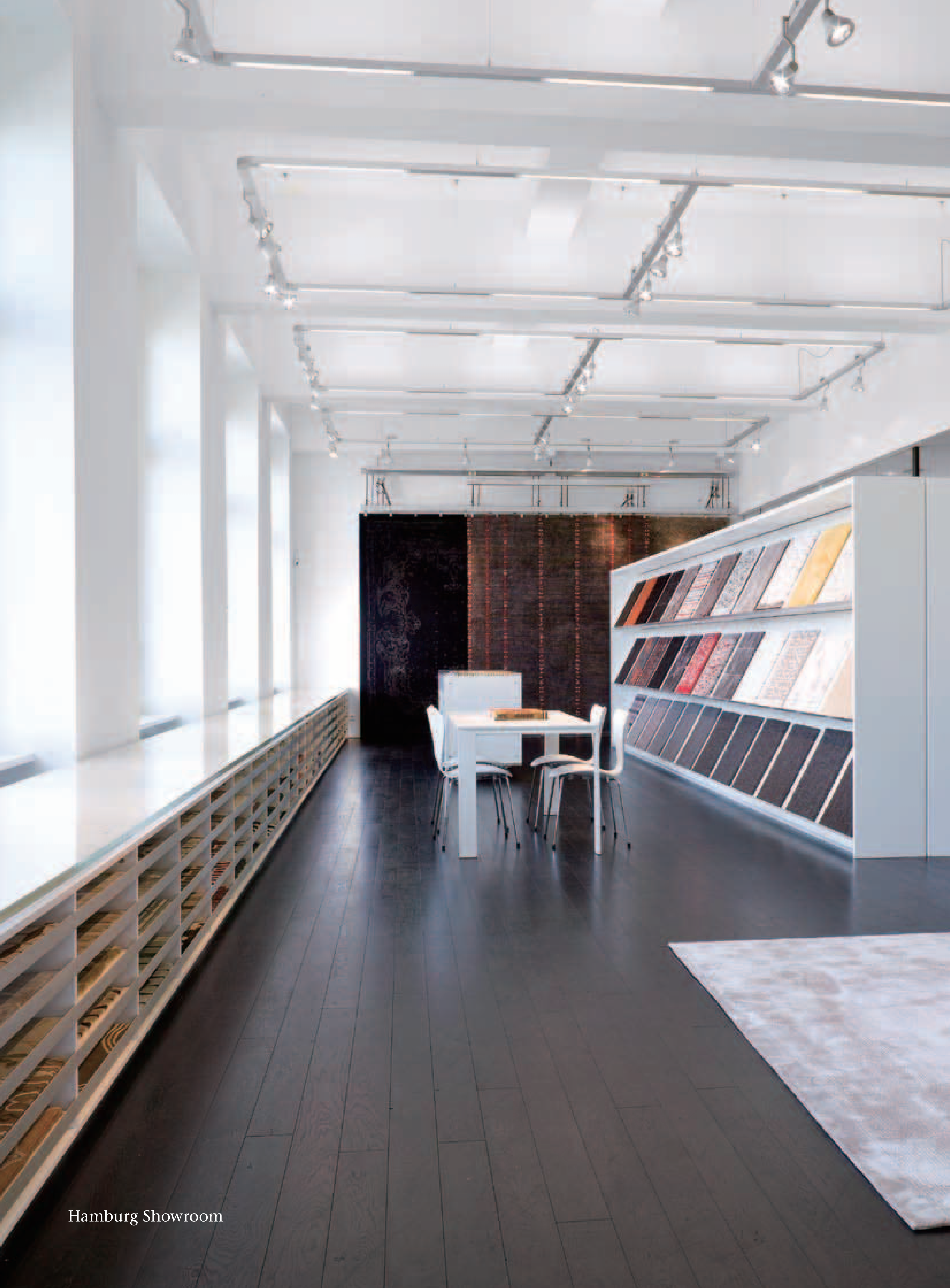
(Stock Code: 0146)

## VISION

To build Tai Ping into a modern, global premium brand that is unrivaled in its industry, and to continue to execute an ambitious strategy for the future to ensure the brand remains without peer. Recognised and respected worldwide for quality, artistry, design and outstanding customer service, Tai Ping will continue to post annual growth in sales, market share and operating income.

## VALUES

Integrity applies equally to our high standards for product quality and corporate governance. The Tai Ping brand envisioned can only be achieved with an unwavering Commitment. Excellence is a given and the foundation on which the brand is built. We distinguish ourselves in everything we do, from design to manufacturing to customer service. We rely on Teamwork—each completed carpet comes from the partnership and passion of countless individuals. Social and Environmental Responsibility is a cornerstone of our philosophy: we are committed to the people who work with us and are stewards of the international lands on which we operate.


Hamburg Showroom

# Table of Contents

# Tai Ping at a Glance

Tai Ping 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 0146 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 unparallelled 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

| | | 2007 | 2006 |
|---|---|---|---|
| **Per share** | Net worth per share (HK$) | **4.40** | 3.80 |
| | Basic earnings per share (HK cents) | | |
| | Continuing operations | **42.02** | 17.28 |
| | Discontinued operation | **–** | (1.87) |
| | Final dividend declared per share (HK cents) | **9.0** | 3.0 |
| **For the year** | Turnover – Continuing operations | **1,121,884** | 900,026 |
| | Profit/(loss) for the year | | |
| | Continuing operations | **93,971** | 40,984 |
| | Discontinued operation | **–** | (3,964) |
| | Profit attributable to equity holders of the Company | **89,169** | 32,694 |
| | Earnings before interest, tax, depreciation and amortisation | **170,213** | 114,689 |
| | Additions to property, plant & equipment and construction in progress | **57,236** | 32,661 |
| **At 31 Dec** | Capital and reserves attributable to the Company's equity holders | **897,313** | 773,861 |
| | Shares in issue (in thousands) | **212,187** | 212,187 |
| **Ratio** | Return on capital and reserves attributable to equity holders | **10.7%** | 4.5% |

# Five-year Consolidated Financial Summary

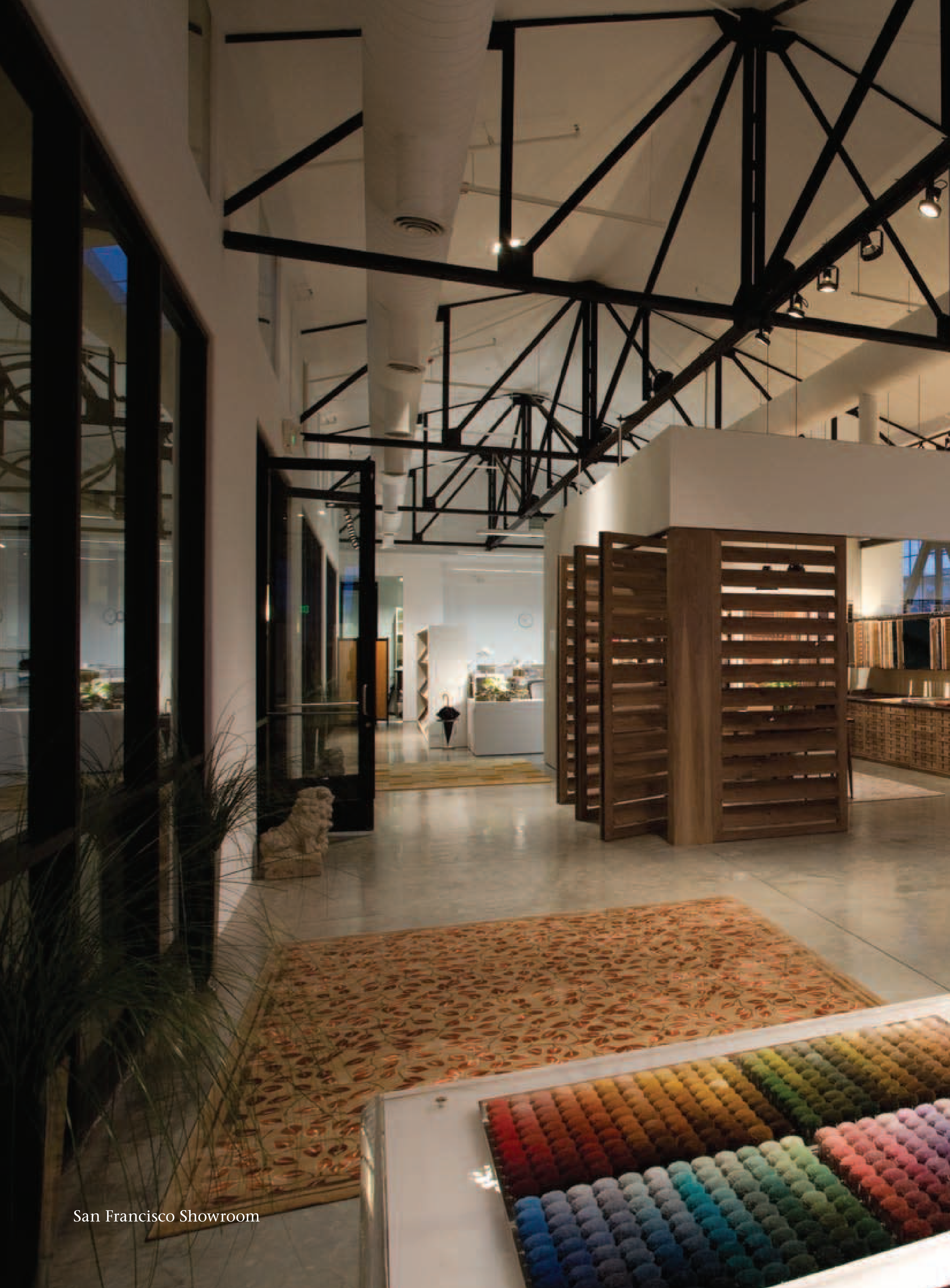
Year ended 31 December

## Assets and Liabilities

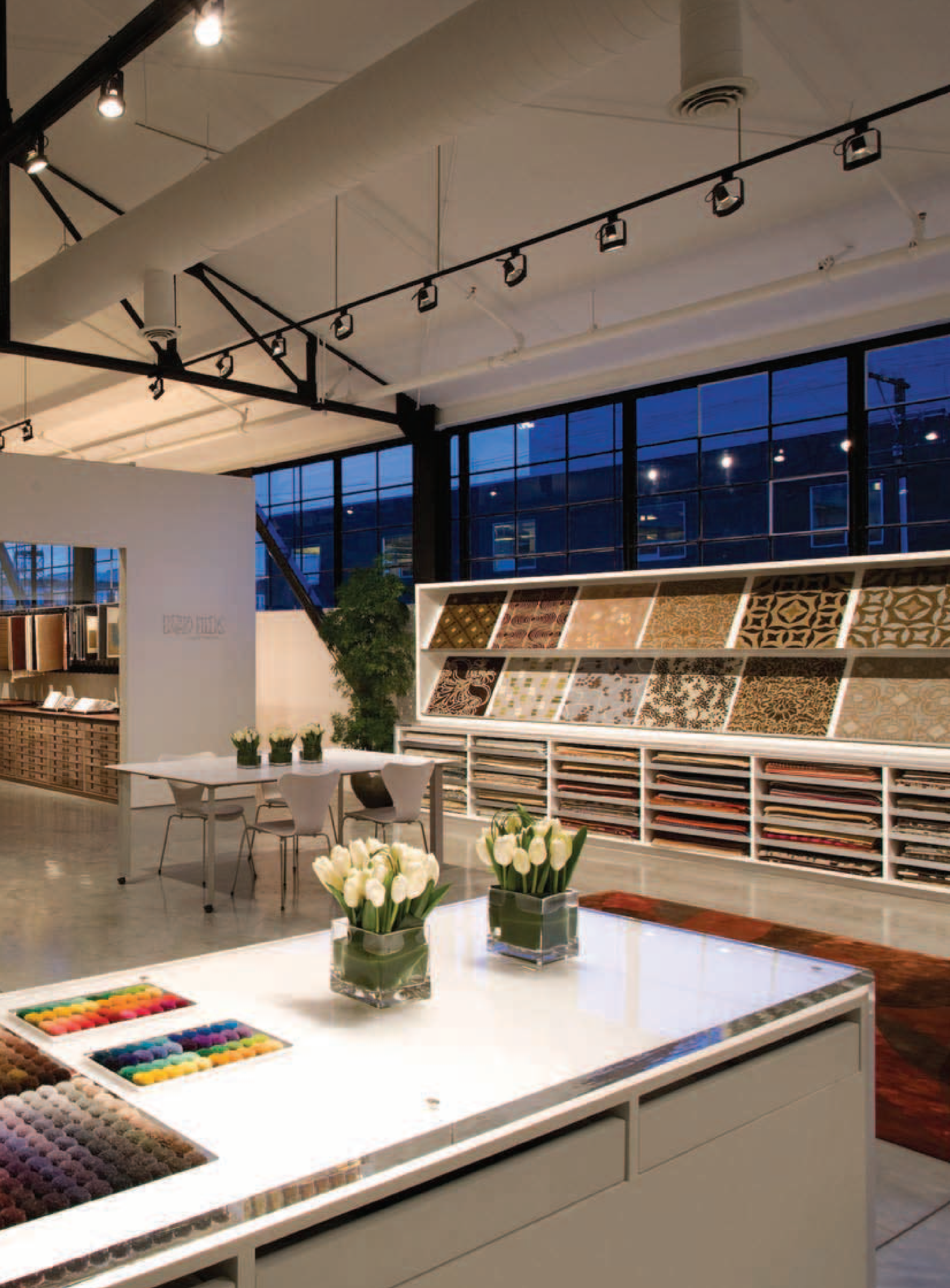
| | **2007**<br>**HK$'000** | 2006<br>HK$'000 | 2005<br>HK$'000 | 2004<br>HK$'000 | 2003<br>HK$'000 |
|---|---|---|---|---|---|
| Total assets | **1,205,305** | 1,047,655 | 990,721 | 891,563 | 840,192 |
| Total liabilities | **271,146** | 240,590 | 279,250 | 204,999 | 151,949 |
| Total equity | **934,159** | 807,065 | 711,471 | 686,564 | 688,243 |

## Consolidated Profit & Loss Account

| | **2007**<br>**HK$'000** | 2006<br>HK$'000 | 2005<br>HK$'000 | 2004<br>HK$'000 | 2003<br>HK$'000 |
|---|---|---|---|---|---|
| Profit/(loss) attributable to: | | | | | |
| Equity holders of the Company | **89,169** | 32,694 | 27,646 | (3,903) | 16,293 |
| Minority interests | **4,802** | 4,326 | 6,808 | 2,916 | 1,054 |
| | **93,971** | 37,020 | 34,454 | (987) | 17,347 |



San Francisco Showroom



# Chairman's Statement

In 2007 we continued our programme to establish Tai Ping as an international luxury brand with worldwide recognition, so it is therefore very pleasing to report strong growth in both turnover and profit in 2007, up 25% and 173% respectively.

To position Tai Ping for further global expansion, we are increasing our presence within the United States and sustaining our development in Europe and Asia, while simultaneously new sales teams are being established in the emerging markets of South America, India and the Middle East.

The addition and renovation of showrooms and offices in San Francisco, Chicago, Atlanta, London, Hamburg and Buenos Aires gives Tai Ping 23 locations worldwide.

The completed integration of Edward Fields, the iconic American brand, culminated in the October opening of a flagship Edward Fields showroom in New York, an event that immediately garnered extensive international media coverage, including the cover article in Interior Design magazine.

With the support of strategically located showrooms both in the U.S. and around the globe, we are confident that the complementary Tai Ping and Edward Fields brands will continue to enhance significantly the overall performance of the Residential Boutique Contract business.

The Commercial business also experienced strong gains, largely attributable to the hospitality sector both in North America and due to the expansion of major U.S. hotel chains internationally in markets such as Macau.

The establishment of "Tai Ping: Towards Sustainability", a company-wide programme of environmental initiatives, is intended to guide Tai Ping toward sustainability at all levels of operation. Streamlining of manufacturing processes is ongoing to increase Reuse, Reduce, and Recycling efforts of all resources and materials used in the production and distribution of Tai Ping products.

The Weihai joint ventures continued to perform well, generating a record profit in 2007, and the substantial completion of the new factory premises during the year has provided the Group with additional production capacity.

The disposal programme of non-core assets continued with the sale of various properties in Hong Kong, making additional financial resources available for investment into the carpet operation.

While the global outlook for 2008 is generally more challenging, the Tai Ping brand has become synonymous with quality and service. The focus remains on preserving these hallmarks, which are vital to Tai Ping's overall goal of maintaining sales, escalating brand recognition, and developing new markets as appropriate, such as in India and South America.

On behalf of the Board, I should like to thank all staff for their fruitful efforts in 2007. I am also grateful to the Directors for their valuable support and advice during this past year.

**Nicholas T. J. Colfer**
*Chairman*

Hong Kong, 18 April 2008

# Management Discussion & Analysis

The Group's consolidated turnover for the year ended 31 December 2007 was HK$1,121.9 million, a year-on-year increase of 25% or HK$221.9 million. The gross margin also improved, to 45% in 2007 from 43% in 2006. The increase in turnover and gross margin percentage was mainly driven by the sustained business growth and improved profitability of the carpet operations which accounted for 92% of total turnover.

The Group recorded an operating profit of HK$62.8 million, which was HK$40.2 million or 178% higher than that in 2006. The Group mainly benefited from the economies of scale resulting from higher sales and better gross profit margin.

Profit attributable to equity holders amounted to HK$89.2 million, a gain of HK$56.5 million or 173%, as compared with HK$32.7 million in 2006. The significant improvement in profitability was mainly attributable to increases in the operating profit of the Group and the share of profits from the jointly controlled entities.

## Carpet Operations

Turnover of the carpet operations in 2007 increased by 26%, or HK$215.9 million, to HK$1,032.8 million. This achievement was mainly the direct result of the Group's dedicated investments and efforts made in the U.S. and the European markets during the past few years.

The U.S. accounted for 41% of total carpet turnover in 2007, while Asia and Europe/Others accounted for 39% and 20% respectively. In 2006, the corresponding shares of total carpet turnover by the U.S., Asia and Europe/ Others were 44%, 42% and 14% respectively.

The gross profit margin also rose from 44% to 46% in 2007, despite increases in fuel and material costs and a weak U.S. dollar. The gain mainly resulted from value pricing, improved factory efficiencies and cost controls.

The Group's strategy is to compete with premium quality, strong service commitment and design support, rather than price.

As a result, operating profit of the carpet operations in 2007 amounted to HK$55.8 million, which was almost four times the 2006 profit (HK$14.2 million).

### United States

Both the Commercial and RBC businesses in the U.S. continued to grow in 2007, and the U.S. market remained the biggest market for the Group. Total carpet turnover in the U.S. increased 18% year-on-year to HK$424.0 million in 2007, mainly attributable to the substantial growth in the Commercial business.

Turnover of the U.S. Commercial business grew by 26% to HK$272.2 million in 2007. The increase was mainly attributable to the continuing expansion in the hospitality sector. With Tai Ping's increased presence in the U.S., the Commercial business worldwide grew as major U.S. hotel chains, including Ritz Carlton and JW Marriott, expanded their businesses in Europe and Asia.

Benefiting from increased sales and improved profit margins, the operating results of the U.S. Commercial business continued to show significant improvement in 2007.

The U.S. RBC business grew in 2007 despite disruptions caused by the re-location and/or major renovation of some showrooms during the year, including the flagship Edward Fields showroom in New York. Turnover in 2007 was HK$151.8 million, 5% higher than 2006, with healthy profit margins. Experienced sales managers were also recruited during the year to strengthen the sales teams.

**Asia**

Turnover in Commercial sales in the Hong Kong, Macau and China region increased by 18% to HK$95.3 million. The increase was mainly attributable to the buoyant hospitality and gaming sectors in the region, Macau in particular. Overall gross profit margin percentage also recorded a slight improvement.

In Thailand, the Group is a dominant market player in the domestic market selling under the Carpets Inter brand. Turnover in the South East Asia region in 2007 showed a steady growth, a 7% increase year-on-year. Its operating results also improved due to higher profit margin and production efficiencies.

The Group also generated stronger sales in other Asian countries due to better management of agents and distributors in such countries.

**Europe/Others**

Turnover in Europe and the Middle East showed significant growth during the year, both in Commercial and RBC businesses. Performance should be enhanced further by the various strategic initiatives which are being implemented in the region, including establishing offices in key new markets and the strengthening of management resources and service support.

While the Commercial business in Europe and the Middle East remained highly competitive and price-sensitive in general, the Group's sales increased by almost 50% to HK$80.4 million in 2007, with profit margin comparable with 2006.

The RBC business also grew significantly during the year, with better margins. The increase was mainly driven by new distribution channels in certain European countries, solid presence in the yacht and aircraft sectors, and the opening of a new office in London. Turnover amounted to HK$80.6 million, a year-on-year increase of 78%.

The Group also targets to expand its global market coverage by entering into certain promising emerging markets. A new office was opened in Argentina during the year to capture the Latin America markets, and the set-up of an office in India is in progress.

**Jointly Controlled Entities**

Taking into account the new joint venture, Weihai Shanhua Weavers Carpet Co. Ltd. in which the Group holds 49% interest, established in 2007, the Weihai group encompasses four jointly controlled entities.

The new factory premises of the Weihai group were substantially completed in 2007, and most of the manufacturing operations were re-located to the new premises, increasing its production capacity significantly. While competition in the domestic market was intense and production costs were affected by rising material and fuel expenses, the Weihai group recorded significant increases in both sales and net profit due to the dominant market position of its products and strong demand within China. The Weihai group's combined turnover amounted to HK$1,107.2 million, an year-on-year increase of 54%.

The Group also has an agreement with the Weihai group to sell its products through the Group's global distribution channels. This complementary arrangement expands the Group's range of product offerings and price points.

In 2007, the Group's share of profit after income tax expenses of the jointly controlled entities amounted to HK$41.9 million, a 50% increase over the 2006 results (HK$28.0 million).

**Marketing & Branding**

Tai Ping's programme for worldwide brand expansion in 2007 featured the opening of newly renovated showrooms in San Francisco, Chicago, Hamburg and a sales office in London. The launch of each of these locations coincided with newly designed global RBC Collections.

For Edward Fields, the brand strategy outlined in 2006 culminated in the opening of the first newly branded flagship showroom in New York in October 2007, where the updated Edward Fields graphic identity was introduced along with the Archive Edition, a revival of the best-known classic rug designs from the Edward Fields archives. The showroom and the first edition designs were well received by the design community and the Edward Fields showroom was honoured with a cover feature in Interior Design magazine.

At the close of 2007, the prototype Edward Fields Studio was complete, and the first installation was built within the newly Tai Ping branded San Francisco showroom.

## Yarn Operation

Premier Yarn Dyers, Inc. which operates the Group's U.S. based yarn-dyeing facilities, achieved year-on-year increases in sales and operating profit of 44% and 124% respectively. Turnover and operating profit in 2007 amounted to HK$69.6 million (2006: HK$48.5 million) and HK$12.3 million (2006: HK$5.5 million) respectively. The significant improvement in operating results of the yarn operation was mainly attributable to the strong demand for the new yarns developed and launched during 2007.

## Other Operations

The relative importance of other businesses, including the mattress operation in China and the holding of certain investment properties for rental income, to overall Group results continues to decline as the Group's main focus is to grow the core carpet operations. Turnover of such other businesses in 2007 decreased by 44% year-on-year to HK$19.4 million. Similarly, such other businesses recorded an operating loss of HK$2.0 million in 2007, compared with an operating profit of HK$8.9 million in 2006.

## Group Capital Expenditure

Capital expenditure in the form of property, plant & equipment and construction in progress incurred by the Group totaled HK$57.2 million in 2007 (2006: HK$32.7 million). As at 31 December 2007, the aggregate net book value of the Group's property, plant & equipment, investment properties, leasehold land & land use rights, and construction in progress amounted to HK$397.9 million (2006: HK$383.5 million).

It is expected that capital expenditure will increase in 2008 to further expand factory capacities, broaden product range and continue the renovation programme for RBC showrooms to support the sales growth.

## Liquidity and Financial Resources

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

As at 31 December 2007, the Group had total bank borrowings of HK$1.1 million (2006: HK$11.0 million). Total cash and bank balances amounted to HK$107.6 million (2006: HK$59.0 million). The net cash balance was HK$106.5 million as at 31 December 2007 (2006: HK$48.0 million). The gearing ratio, calculated as net bank borrowings (total bank borrowings net of cash and bank balances) divided by total equity, was 0% (2006: 0%).

As at 31 December 2007, the Group also held financial assets at fair value through profit or loss of HK$31.0 million (2006: HK$23.8 million).

The bank loans outstanding on 31 December 2007 were trust receipts, which were unsecured and interest free throughout their terms. The currency denomination of the loans and their maturity dates as at 31 December 2007 were as follows:

| | **2007**<br>**HK$'000** | 2006<br>HK$'000 |
|---|---|---|
| Within 1 year | | |
| Thai Baht | – | 11,000 |
| United States Dollar | **1,062** | – |
| | **1,062** | 11,000 |

## Exposure to Foreign Exchange Risks

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

The Group's sales are denominated primarily in U.S. dollar, and to a lesser extent in Euro and Thai Baht.

The operations in Europe, Singapore, India and Argentina are not significant in terms of the Group's results. The Chinese Renminbi gradually appreciated against Hong Kong dollar during 2007. The major exchange differences arising from overseas operations relate mostly to Thailand. The effect of these exchange differences, however, has been partly reduced by hedging against some of its foreign currency exposure (including accounts receivable from export sales).

Note 3 to the accounts also sets out the foreign exchange risks of the Group.

The Group, therefore, considers its exposure to exchange rate movements in 2007 manageable and will continue to monitor exchange rate movements closely to ascertain if any material exposure may arise.

## Employee and Remuneration Policies

As at 31 December 2007, the Group employed 3,300 employees (2006: 3,200 employees). Employees are remunerated according to the nature of the job and market trends, with built-in merit components incorporated as an annual incentive to reward and motivate individual performance. Staff costs and retirement benefit costs for 2007 totaled HK$323.8 million (2006: HK$270.6 million) and HK$6.5 million (2006: HK$5.9 million) respectively.

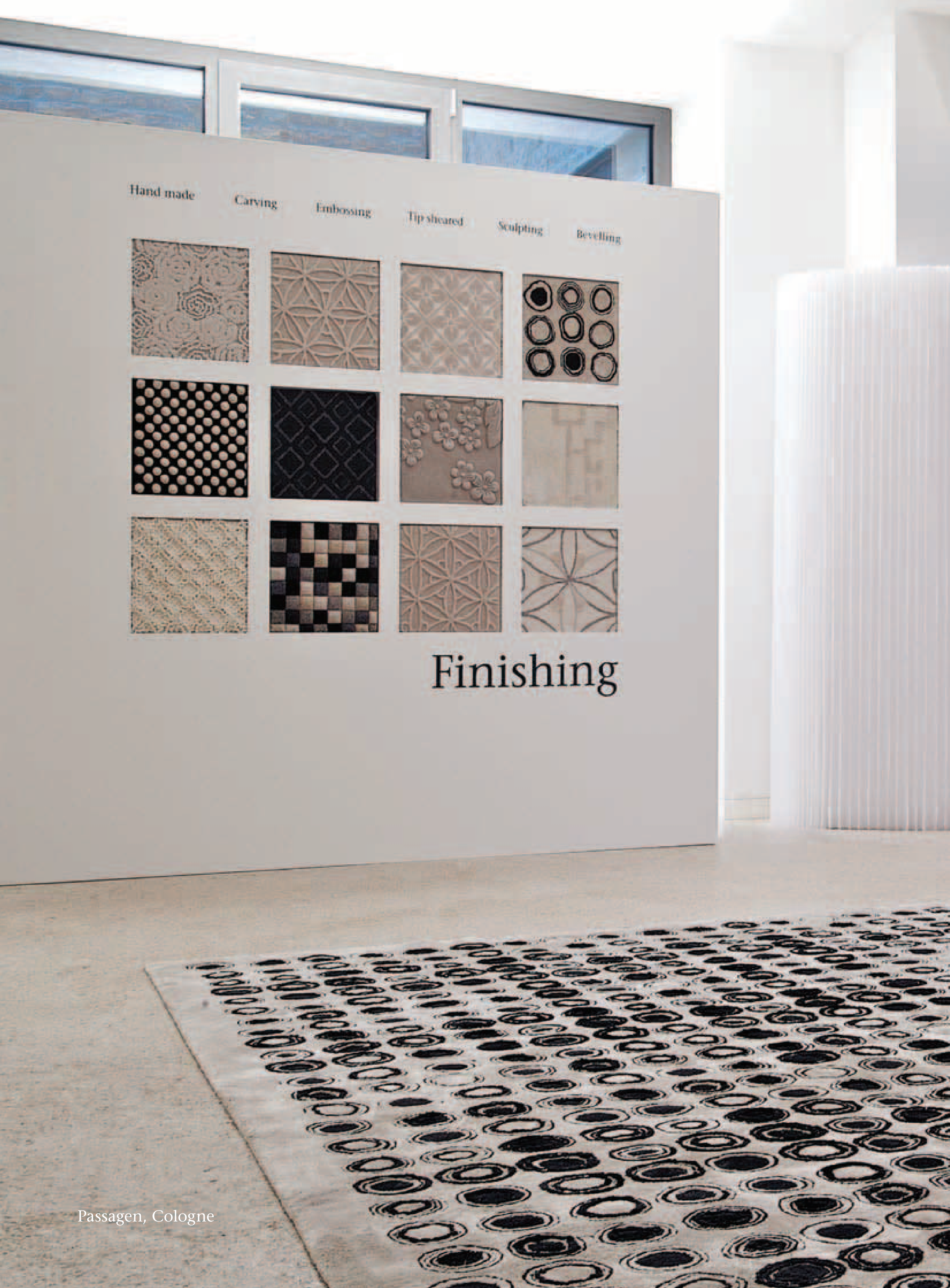
The Company implemented a profit-sharing scheme for certain key management personnel (including the Chief Executive Officer). Pursuant to the scheme, based on the recommendation of the Remuneration Committee, the eligible participants would be entitled to a profit share in respect of the Company's consolidated results for the three years ending 31 December 2008 after certain adjustments.

## Contingent Liabilities

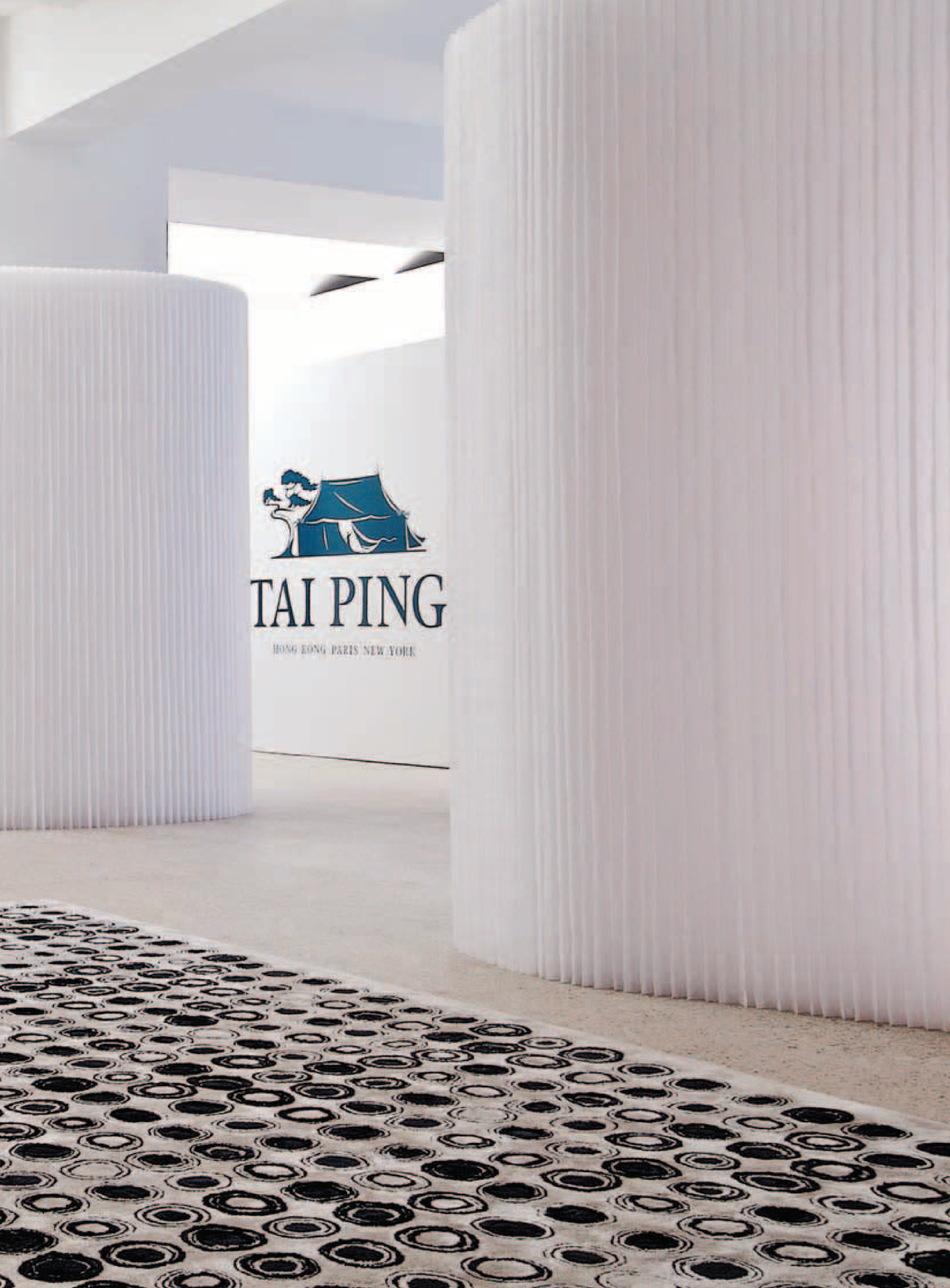
As at 31 December 2007, the Group's total contingent liabilities amounted to HK$21.5 million (see Note 37 to the accounts for full disclosure) (2006: HK$12.9 million).

**James H. Kaplan**
*Chief Executive Officer*

Hong Kong, 18 April 2008




Passagen, Cologne


TAI PING
HONG KONG PARIS NEW YORK

# Board of Directors

## Chairman and Non-executive Director

**Nicholas T. J. Colfer:** aged 48; 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.

## Chief Executive Officer and Executive Director

**James H. Kaplan:** aged 52; Executive 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.

## Non-executive Directors

**Ian D. Boyce:** aged 63; Non-executive Director since 1999.
Mr. Boyce is Chairman 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 47; 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 Company 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 44; 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 37; Non-executive Director since 1997. 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 45; 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, 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 46; 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, Executive Director of Hsin Chong Holdings (HK) Limited, Court Member of the Hong Kong University of Science and Technology, a Board member of the Hong Kong International School and a Council Member of the Hong Kong Society for the Deaf. 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 46; Independent Non-executive Director since 1998. Audit Committee.
Mr. Lee is the Managing Director of MAP Capital Limited, an investment management company. Prior to co-founding MAP Capital Limited, he was Managing Director of Hysan Development Company Limited (2003 – 2007). Mr. Lee was a member of the Main Board and Growth Enterprise Market Listing Committee of The Stock Exchange of Hong Kong Limited (November 2004 – May 2007), a member of the Securities and Futures Commission (HKEC Listing) Committee, a Non-executive Director of Equestrian Events (Hong Kong) of the Games of the XXIX Olympiad Company Limited and a Steward of The Hong Kong Jockey Club. He is a member of the Executive Committee of Hong Kong Housing Society. 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 55; 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 62; 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, Chairman and Non-executive Director of Shanghai Commercial Bank Limited and a Director of The Shanghai Commercial & Savings Bank, Limited, Paofoong Insurance Company (Hong Kong) Limited and Vice-Chairman of Shanghai Sung Nan Textile Company 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.

# Corporate Governance

## Corporate Governance Practices

The Board and 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 (the "Listing Rules"). The Company has applied the principles in the Code and complied with the code provisions set out in the Code throughout the year ended 31 December 2007 save for the deviation from the code provision A.1.1 which is explained in the section of the Board of Directors below.

## 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 31 December 2007 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 programmes approved by the Board.

The code provision A.1.1 of the Code stipulates that board meetings should be held at least four times a year at approximately quarterly interval. The dates of the four regular board meetings of the Company for the year under review were scheduled in its prior year (subject to amendment) so as to provide sufficient notice to the Directors. The fourth meeting, previously scheduled in December 2007, was held on 8 January 2008 as the Chief Executive Officer could not attend the December meeting due to personal reasons. The re-scheduled meeting in January 2008 was attended by all Directors. Another four meetings of the Board have been scheduled for 2008.

The members of the Board and their attendances at the three formal board meetings of the Company held during the financial year are set out as follows:

| | No. of meetings attended |
|---|---|
| **Chairman and Non-executive Director** | |
| Nicholas T. J. Colfer | 3/3 |
| **Chief Executive Officer and Executive Director** | |
| James H. Kaplan | 3/3 |
| **Non-executive Directors** | |
| Ian D. Boyce | 3/3 |
| Lincoln K. K. Leong | 2/3 |
| Nelson K. F. Leong (Alternate Director to Lincoln K. K. Leong) | 3/3 |
| David C. L. Tong | 2/3 |
| John J. Ying | 3/3 |
| **Independent Non-executive Directors** | |
| Yvette Y. H. Fung | 3/3 |
| Michael T. H. Lee | 3/3 |
| Roderic N. A. Sage | 2/3 |
| Lincoln C. K. Yung | 3/3 |

## 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 23 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.

## Non-executive Directors

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 10 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 would 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 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. Save for this relationship, to the best knowledge of the Company, there are no other financial, business, family or other material or 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.

## Board Committees

The Company currently has 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 seven meetings and the attendances of the members were:

| | No. of meetings attended |
|---|---|
| Nicholas T. J. Colfer | 7/7 |
| James H. Kaplan | 7/7 |
| David C. L. Tong | 6/7 |
| John J. Ying | 4/7 |
| Nelson K. F. Leong | 6/7 |

### 2. Remuneration Committee

Written terms of reference for the Remuneration Committee in line with code provision B.1.3 of the Code were adopted at the Board meeting on 23 September 2005 and the majority of its members are Independent Non-executive Directors, as required by code provision B.1.1 of the Code.

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

– Make recommendation on the Company's policy and structure for remuneration of the Directors and senior executives
– Determine remuneration of all Executive Directors and senior executives
– Review and approve performance-based remuneration
– Review and approve compensation in connection with any loss or termination of office or appointment of any Executive Directors and senior executives

The committee evaluates the remuneration packages of the Executive Director and the senior executives by linking their performance against corporate objectives, the profits of the Group and their potential contribution to the development of the Group. The fees for the Non-executive Directors and the Independent Non-Executive Directors are determined on the basis of experience, demand for their services and market practice.

The committee meets once a year in general. The meeting scheduled in December 2007 was re-scheduled to and held in January 2008 to review and determine the remuneration of the Executive Director and approve the adoption of a performance-based incentive plan for senior management.

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

| | No. of meetings attended |
|---|---|
| Roderic N. A. Sage (Chairman) | 1/1 |
| Yvette Y. H. Fung | 1/1 |
| David C. L. Tong | 1/1 |

### 3. Audit Committee

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

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

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

The composition of the Audit Committee and the attendances of the members at the meetings are as follows:

| | No. of meetings attended |
|---|---|
| Roderic N. A. Sage (Chairman) | 3/3 |
| Michael T. H. Lee | 3/3 |
| John J. Ying | 3/3 |

## 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 next 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 a member of the Board.

During the year, there was no change in the composition of the Board.

## Auditor's Remuneration

For the year under review, the fees charged to the accounts of the Company and its subsidiaries by the Group's external auditor, BDO McCabe Lo Limited, for services provided are analysed as follows:

| | HK$'000 |
|---|---|
| Audit services | 2,689 |
| Non-audit services | 369 |

## Financial Reporting and Internal Controls

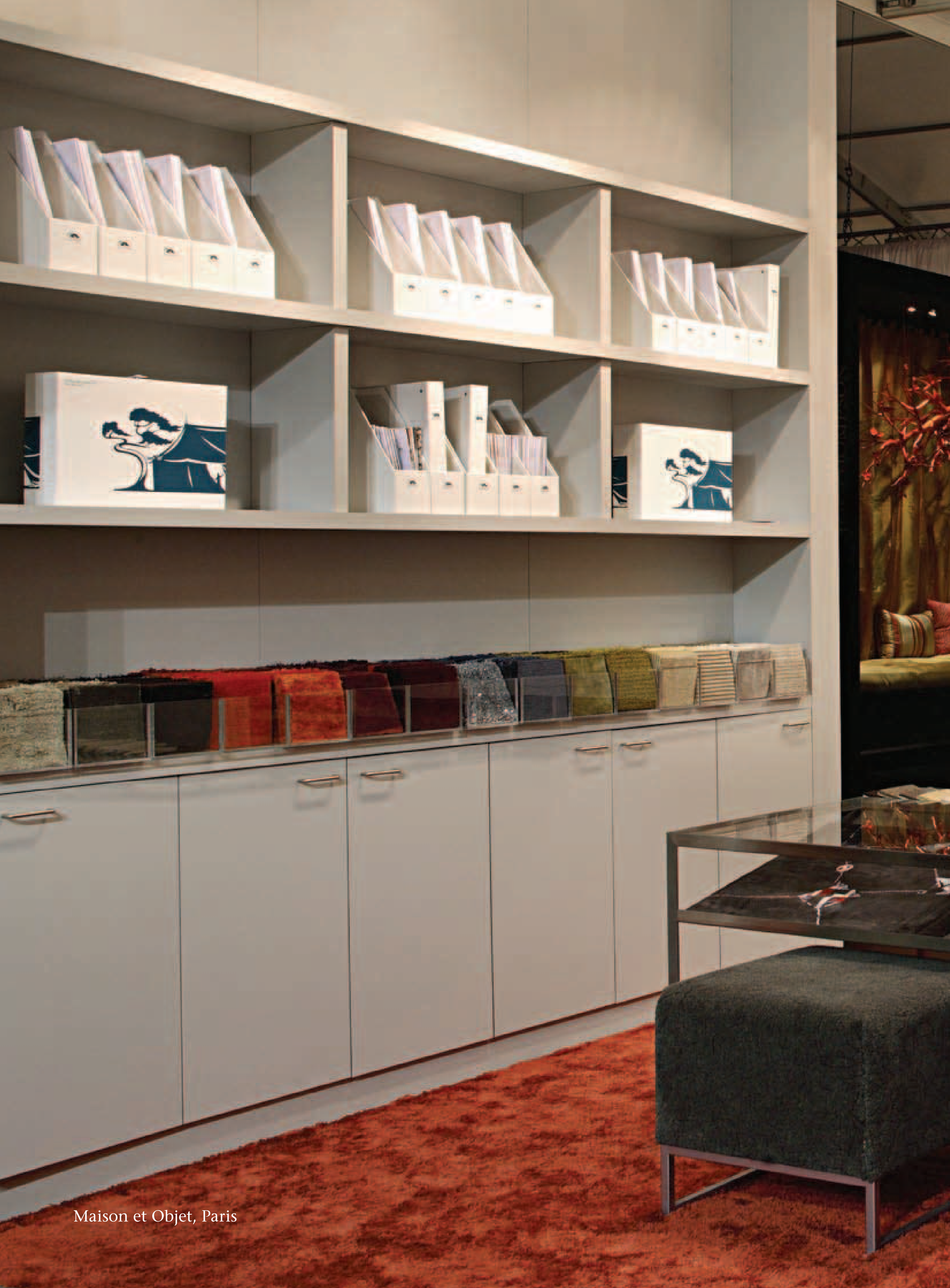
The consolidated accounts of the Company for the year ended 31 December 2007 have been reviewed by the Audit Committee and audited by the external auditor, BDO McCabe Lo Limited. The Directors acknowledge their responsibilities for preparing the consolidated accounts of the Company and they are not aware of any events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The independent auditor's report is on pages 38 and 39.

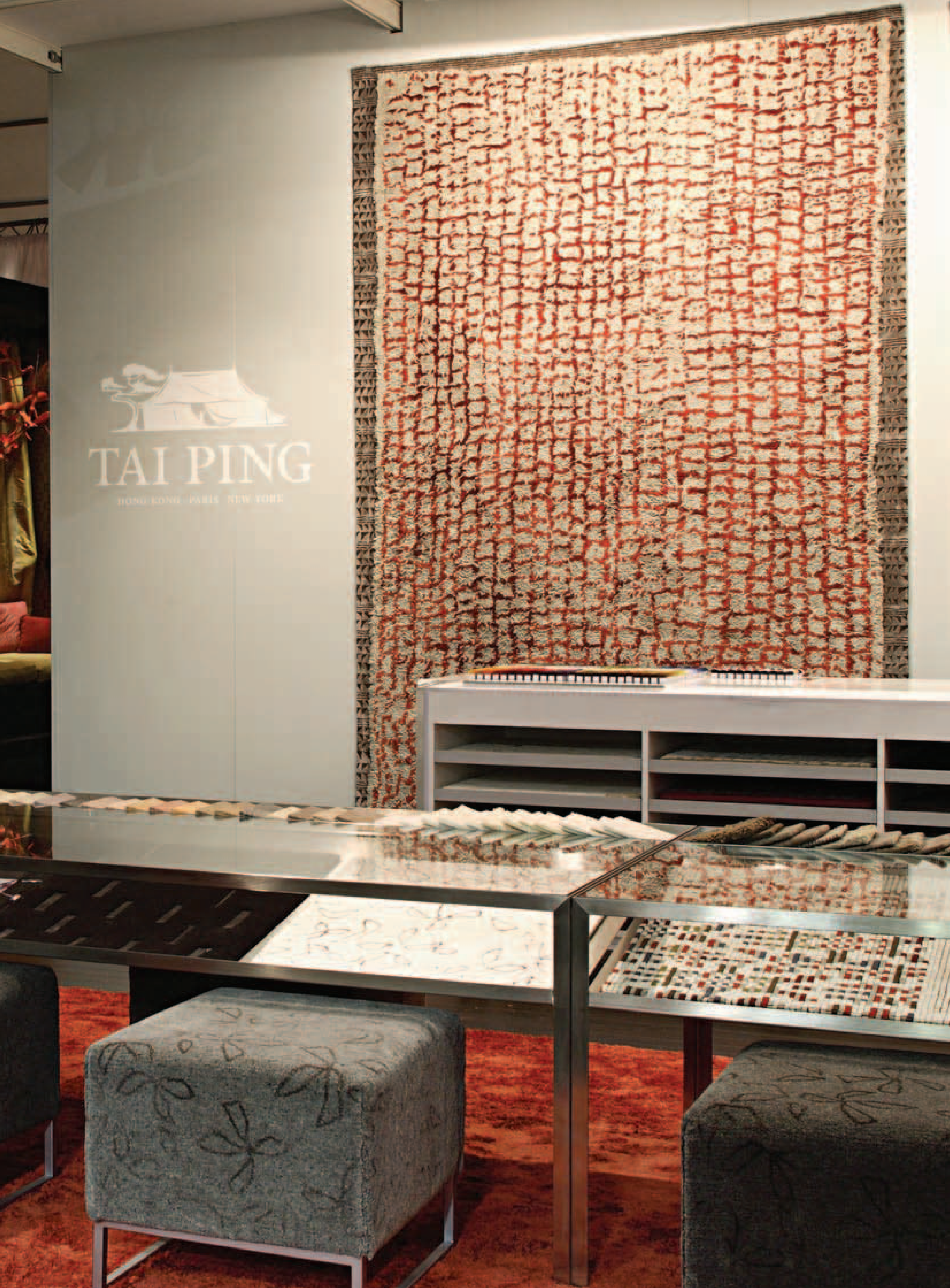
The Board is responsible for maintaining an adequate system of internal control and for reviewing its effectiveness. The internal control system of the Group is designed to facilitate the effectiveness and efficiency of operations, safeguard assets against unauthorised use and disposition, ensure the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

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

Los Angeles Showroom



Maison et Objet, Paris


TAI PING

# Directors' Report

The Directors have pleasure in submitting their report together with the audited accounts for the year ended 31 December 2007.

## Principal Activities and Geographical Analysis of Operations

The principal activities of the Company and its subsidiaries (the "Group") consist of manufacture, import, export and sale of carpets, and manufacture and sale of yarns.

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 40.

No interim dividend was paid during the year (2006: Nil). The Directors recommend a final dividend of HK 9 cents per share, totaling HK$19,097,000 (2006: HK$6,366,000) for the year ended 31 December 2007. Subject to the approval of shareholders at the forthcoming annual general meeting of the Company, the final dividend will be paid to shareholders whose names appear on the register of members of the Company on 13 June 2008.

## 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 7.

## 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 29 to the accounts.

## Donations

During the year, donations made by the Group for charitable purposes amounted to HK$1,040,000 (2006: HK$558,000).

## Fixed Assets

Details of the movement in fixed assets during the year are set out in Notes 14, 15, 16 and 17 to the accounts.

## Major Investment Properties

Details of major properties held for investment purposes are set out on page 98.

## Share Capital

Details of the movements in share capital of the Company are set out in Note 28 to the accounts.

## Distributable Reserves

Distributable reserves of the Company as at 31 December 2007, calculated under the Companies Act 1981 of Bermuda (as amended) amounted to HK$87,768,000 (2006: HK$94,292,000).

## Subsidiaries

Particulars of the principal subsidiaries are set out on page 96.

## Purchase, Sales 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 was incorporated.

## Share Options

The existing share option scheme ("2002 Share Option Scheme" or the "Scheme") was approved by the shareholders of the Company at the Annual General Meeting held on 23 May 2002. The details of the Scheme (which fully complies with Chapter 17 of the Listing Rules) are as follows:

1. **Purpose**

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

2. **Participants**

   Any employee of the Group (whether full time or otherwise, including any Executive Director, Non-executive Director and Independent Non-executive Director of the Group) and any consultant of the Group who has contributed or will contribute to the Group.

3. **Maximum number of shares available for issue under the 2002 Share Option Scheme together with the percentage of share capital it represents as at the date of the annual report**

   20,401,980 shares (representing 9.6% of issued share capital of the Company as at the date of 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 further 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 offer of the grant of option which shall be made within 30 days of the offer.

8. **Basis of determining the exercise price**

   Determined by the Directors being at least the highest of
   - 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;
   - 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
   - the nominal value of a share.

9. **The remaining life of the 2002 Share Option Scheme**

   The Scheme is valid and effective for a period of 10 years from 23 May 2002.

Details of the share options outstanding as at 31 December 2007 were as follows:

| Name | Balance as at 1 Jan 2007 | Date of grant | Changes during the year Granted | Lapsed | Exercised | Balance as at 31 Dec 2007 | Exercise price (HK$) (Note) | Exercisable period |
|---|---|---|---|---|---|---|---|---|
| James H. Kaplan | 500,000 | 10 Jan 2005 | – | 500,000 | – | – | 1.21 | 31 Dec 2006 – 31 Jan 2007 |
| | 500,000 | 10 Jan 2005 | – | – | – | 500,000 | 1.21 | 31 Dec 2007 – 31 Jan 2008 |

Note: 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 in 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 Option Scheme to any other persons as required to be disclosed under Rule 17.07 of the Listing Rules.

During the period between 1 January 2007 and the date of this Directors' Report, no share options were exercised by Mr. James H. Kaplan, and 1,000,000 share options lapsed. As at the date of this Directors' Report, there were no outstanding share options under the 2002 Share Option Scheme.

## Directors

The names of the Directors at the date of this Report are set out on pages 18 and 19.

In accordance with the Company's Bye-Laws, Mr. Ian D. Boyce, Mrs. Yvette Y. H. Fung and Mr. Lincoln C. K. Yung shall retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting.

## Directors' Service Contracts

None of the Directors who are proposed for re-election at the forthcoming annual general meeting of the Company 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

No 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. Roderic N. A. Sage and Mr. Lincoln C. K. Yung, 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 18 to 19 and 99 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 31 December 2007, 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:

**Ordinary Shares of HK$0.10 each in the Company**
No. of ordinary shares held (long position)

| Name | Beneficial owner | Interests of controlled corporation | Trustee | Aggregate % of the share capital |
|---|---|---|---|---|
| Ian D. Boyce | 831,371 | – | – | 0.392% |
| David C. L. Tong[1] | 431,910 | – | 3,919,770 | 2.051% |
| Lincoln C. K. Yung | 30,000 | – | – | 0.014% |
| Lincoln K. K. Leong[2] | – | 2,000,000 | – | 0.943% |
| Nelson K. F. Leong[2] (Alternate Director to Lincoln K. K. Leong) | – | 2,000,000 | – | 0.943% |
| John J. Ying[3] | – | 32,605,583 | – | 15.366% |
| James H. Kaplan | 522,000 | – | – | 0.246% |

Notes:

1 Mr. David C. L. Tong is deemed to be interested in 4,351,680 shares of which 431,910 shares are held by him in his personal capacity and 3,919,770 shares are held by him in his capacity as a trustee of a discretionary trust. The 3,919,770 shares are attributed to him pursuant to the SFO for disclosure purposes. Nevertheless, he does not have any beneficial interest in these 3,919,770 shares.

2 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.

3 The shares are held through Peak Capital Partners I, L.P. of which Mr. John J. Ying is the sole shareholder of the general partner of Peak Capital Partners I, L.P. and is deemed to have an 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).

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 executive 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 31 December 2007, 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.

| Name | No. of ordinary shares held in the Company of HK$0.10 each (long position) | Aggregate % of the share capital |
|---|---|---|
| Acorn Holdings Corporation | 117,688,759[1] | 55.465% |
| Bermuda Trust Company Limited | 117,688,759[1] | 55.465% |
| Harneys Trustees Limited | 117,688,759[1] | 55.465% |
| Lawrencium Holdings Limited | 117,688,759[1] | 55.465% |
| New Holmium Holding Corporation | 117,688,759[1] | 55.465% |
| The Mikado Private Trust Company Limited | 117,688,759[1] | 55.465% |
| The Hon. Sir Michael Kadoorie | 117,688,759[1] | 55.465% |
| Peak Capital Partners I, L.P. | 32,605,583[2] | 15.366% |

Notes:

1 Bermuda Trust Company Limited is deemed to be interested in the same 117,688,759 shares in which Acorn Holdings Corporation is deemed to be interested. The Mikado Private Trust Company Limited is deemed to be interested in the same 117,688,759 shares in which Lawrencium Holdings Limited is deemed to be interested. Lawrencium Holdings Limited, Acorn Holdings Corporation and Harneys Trustees Limited are deemed to be interested in the same 117,688,759 shares in which New Holmium Holding Corporation is interested. These 117,688,759 shares are held by New Holmium Holding Corporation in its capacity as a trustee. For the purpose of the SFO, the spouse of the Hon. Sir Michael Kadoorie has a duty of disclosure in Hong Kong in relation to the 117,688,759 shares. The interest disclosed by the spouse of the Hon. Sir Michael Kadoorie is that of the Hon. Sir Michael Kadoorie attributed to her under the SFO. Except the above, she has no interest, legal or beneficial in those shares.

2 Mr. John J. Ying (a Non-executive Director of the Company) is the sole shareholder of the general partner of Peak Capital Partners I, L.P. and is deemed to have an 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

1. Significant related party transactions entered into by the Group during the year ended 31 December 2007, which did not constitute connected transactions and were not required to be disclosed under the Listing Rules, are disclosed in Note 38 to the accounts.

2. Other related party transactions entered into by the Group in 2007 and up to the date of this Directors' Report, which fall under the definition of "connected transactions" or "continuing connected transactions" and not exempted under Rule 14A.31 and Rule 14A.33 of the Listing Rules, are as follows:

   a. The Company's subsidiaries have been from time to time supplying products, and providing related ancillary services to The Hongkong and Shanghai Hotels, Limited ("HSH") 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 HSH. In accordance with the requirements of the Listing Rules, the Company entered into a master supply agreement with HSH on 22 March 2005 for the supply of carpets and floor coverings and provision of ancillary services to HSH 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 22 March 2005. For the year ended 31 December 2007, the total order amount and invoiced value of these transactions ("HSH Transactions") amounted to HK$3,700,000 and HK$3,585,000 respectively.

      The Directors, including all the Independent Non-executive Directors, have reviewed the HSH Transactions and confirmed that they have been entered into:

      i. in the ordinary and usual course of business of the Group;

      ii. 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

      iii. 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 auditor has reported to the Directors in their letter that based on their work performed:

i. the HSH Transactions have been approved by the Company's Board of Directors;

ii. the HSH 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

iii. the amounts on the HSH Transactions in 2007 have not exceeded the relevant cap amount.

b. Carpets International Thailand Public Company Limited ("CIT", a non-wholly owned subsidiary of the Company) has been from time to time purchasing underlay, felt polyester fibres and other products from Feltech Manufacturing Company Limited ("Feltech"). These transactions fall under the definition of continuing connected transactions under the Listing Rules by virtue of the fact that Feltech is 61.75% owned by Mr. Wan Tabtiang, a former director of CIT who resigned from its board in 2007. In accordance with the requirements of the Listing Rules, CIT entered into a master supply agreement with Feltech on 25 January 2006 for the purchase of such products from Feltech on normal commercial terms for a period of three years subject to an annual cap of HK$9,800,000. An announcement in this respect was made on 25 January 2006. For the year ended 31 December 2007, the total order amount and invoiced value of these transactions ("Feltech Transactions") amounted to HK$5,232,000 and HK$4,828,000 respectively.

The Directors, including all the Independent Non-executive Directors, have reviewed the Feltech Transactions and confirmed that they have been entered into:

i. in the ordinary and usual course of business of the Group;

ii. 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

iii. 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 auditor has reported to the Directors in their letter that based on their work performed:

i. the Feltech Transactions have been approved by the Company's Board of Directors;

ii. the Feltech Transactions have been entered into in accordance with the terms of the relevant agreements or order contracts governing such transactions; and

iii. the amounts on the Feltech Transactions in 2007 have not exceeded the relevant cap amount.

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

PricewaterhouseCoopers acted as auditor of the Company for the year ended 31 December 2005 and did not seek for re-appointment as the Company's auditor upon their retirement in the Annual General Meeting held on 16 June 2006. BDO McCabe Lo Limited was appointed auditor of the Company. BDO McCabe Lo Limited audited the Company's financial statements for the years ended 31 December 2006 and 31 December 2007 respectively.

The accounts have been audited by BDO McCabe Lo Limited who will retire, and being eligible, offer themselves for re-appointment.

By order of the Board
**James H. Kaplan**
*Chief Executive Officer*

Hong Kong, 18 April 2008

HD Expo, Las Vegas

# Financial Section

# Independent Auditor's Report

**BDO McCabe Lo Limited**
Certified Public Accountants
德豪嘉信會計師事務所有限公司

25th Floor Wing On Centre
111 Connaught Road Central
Hong Kong
Telephone : (852) 2541 5041
Facsimile : (852) 2815 2239

香港干諾道中 111號
永安中心 25 樓
電話：(852) 2541 5041
傳真：(852) 2815 2239

**To The Shareholders of Tai Ping Carpets International Limited**
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Tai Ping Carpets International Limited set out on pages 40 to 95, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated profit & loss account, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda (as amended), and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of the affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**BDO McCabe Lo Limited**
*Certified Public Accountants*

**Alfred Lee**
*Practising Certificate no. P04960*

Hong Kong, 18 April 2008

# Consolidated Profit & Loss Account

For the year ended 31 December

| | Note | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| **Continuing Operations** | | | |
| Turnover | 5 | **1,121,884** | 900,026 |
| Cost of sales | | **(618,799)** | (514,937) |
| Gross profit | | **503,085** | 385,089 |
| Distribution costs | | **(77,251)** | (74,648) |
| Administrative expenses | | **(352,349)** | (286,389) |
| Other operating income | | **620** | 3,557 |
| Other operating expenses | | **(11,328)** | (5,024) |
| Operating profit | 5,6 | **62,777** | 22,585 |
| Finance costs | 7 | **(523)** | (3,912) |
| Interest income from banks | | **1,367** | 1,643 |
| Gain on disposal of investment properties | 16 | **8,176** | 1,294 |
| Surplus on revaluation of investment properties | 16 | **2,310** | 6,486 |
| Share of (losses)/profits of | | | |
| an associate | | **(25)** | 220 |
| jointly controlled entities | | **41,906** | 27,959 |
| add: reversal of impairment of jointly controlled entities | | **2,359** | 2,900 |
| Profit before income tax expenses | | **118,347** | 59,175 |
| Income tax expenses | 9 | **(24,376)** | (18,191) |
| Profit after income tax expenses from continuing operations | | **93,971** | 40,984 |
| **Discontinued Operation** | | | |
| Loss after income tax expenses from discontinued operation | 10 | **–** | (3,964) |
| Profit after income tax expenses | | **93,971** | 37,020 |
| | | | |
| Attributable to: | | | |
| Equity holders of the Company | 11 | **89,169** | 32,694 |
| Minority interests | | **4,802** | 4,326 |
| | | **93,971** | 37,020 |
| Dividend | | | |
| Final, proposed | 12 | **19,097** | 6,366 |
| | | | |
| Earnings/(loss) per share of profit/(loss) attributable to equity holders of the Company (expressed in HK cents) | | | |
| From continuing and discontinued operations | | | |
| Basic | 13 | **42.02** | 15.41 |
| Diluted | 13 | **42.00** | 15.41 |
| From continuing operations | | | |
| Basic | 13 | **42.02** | 17.28 |
| Diluted | 13 | **42.00** | 17.28 |
| From discontinued operation | | | |
| Basic | 13 | **–** | (1.87) |
| Diluted | 13 | **–** | (1.87) |

# Consolidated Balance Sheet

As at 31 December

| | Note | **2007 HK$'000** | 2006 HK$'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Leasehold land & land use rights | 14 | **21,726** | 21,588 |
| Property, plant & equipment | 15 | **337,896** | 317,092 |
| Investment properties | 16 | **27,510** | 36,800 |
| Construction in progress | 17 | **10,723** | 7,993 |
| Interest in an associate | 20 | **25,431** | 21,682 |
| Interests in jointly controlled entities | 21 | **213,548** | 157,705 |
| Deferred tax assets | 31 | **7,046** | 6,631 |
| | | **643,880** | 569,491 |
| **Current assets** | | | |
| Inventories | 23 | **194,230** | 211,858 |
| Trade & other receivables | 24 | **227,993** | 178,404 |
| Derivative financial instruments | 25 | **554** | 681 |
| Properties held for sale | 26 | **–** | 4,436 |
| Financial assets at fair value through profit or loss | 22 | **31,004** | 23,809 |
| Cash & cash equivalents | 27 | **107,644** | 58,976 |
| | | **561,425** | 478,164 |
| **Total assets** | | **1,205,305** | 1,047,655 |

| | Note | **2007 HK$'000** | 2006 HK$'000 |
|---|---|---|---|
| **Equity** | | | |
| **Capital and reserves attributable to equity holders of the Company** | | | |
| Share capital | 28 | **21,219** | 21,219 |
| Reserves | 29 | **856,997** | 746,276 |
| Proposed final dividend | 12 | **19,097** | 6,366 |
| | | **897,313** | 773,861 |
| **Minority interests** | | **36,846** | 33,204 |
| **Total equity** | | **934,159** | 807,065 |
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | 31 | **757** | 2,602 |
| Other long-term liabilities | 32 | **1,211** | 1,601 |
| | | **1,968** | 4,203 |
| **Current liabilities** | | | |
| Bank borrowings – unsecured | 30 | **1,062** | 11,000 |
| Trade & other payables | 33 | **255,644** | 201,520 |
| Other long-term liabilities – current portion | 32 | **390** | 390 |
| Taxation | | **12,082** | 23,477 |
| | | **269,178** | 236,387 |
| **Total liabilities** | | **271,146** | 240,590 |
| **Total equity and liabilities** | | **1,205,305** | 1,047,655 |
| **Net current assets** | | **292,247** | 241,777 |
| **Total assets less current liabilities** | | **936,127** | 811,268 |

**Nicholas T. J. Colfer**
*Chairman*

**James H. Kaplan**
*Executive Director*

# Company Balance Sheet

As at 31 December

| | Note | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Interests in subsidiaries | 18 | **300,031** | 306,093 |
| | | | |
| **Current assets** | | | |
| Amount due from an indirectly held associate | 19 | **343** | 343 |
| Cash & cash equivalents | 27 | **260** | 255 |
| | | **603** | 598 |
| **Total assets** | | **300,634** | 306,691 |
| **Equity** | | | |
| **Capital and reserves attributable to equity holders of the Company** | | | |
| Share capital | 28 | **21,219** | 21,219 |
| Reserves | 29 | **258,711** | 277,852 |
| Proposed final dividend | 12 | **19,097** | 6,366 |
| **Total Equity** | | **299,027** | 305,437 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Other payables | | **1,607** | 1,254 |
| **Total liabilities** | | **1,607** | 1,254 |
| **Total equity and liabilities** | | **300,634** | 306,691 |
| **Net current liabilities** | | **(1,004)** | (656) |
| **Total assets less current liabilities** | | **299,027** | 305,437 |

**Nicholas T. J. Colfer**
*Chairman*

**James H. Kaplan**
*Executive Director*

# Consolidated Statement of Changes in Equity

For the year ended 31 December

| | Note | Capital and reserves attributable to equity holders of the Company HK$'000 | Minority interests HK$'000 | Total equity HK$'000 |
|---|---|---|---|---|
| Balance at 1 Jan 2006 | | 683,607 | 27,864 | 711,471 |
| Currency translation differences | | 57,861 | 1,229 | 59,090 |
| Reversal of deferred tax on other properties | | (660) | – | (660) |
| Net income recognised directly in equity | | 57,201 | 1,229 | 58,430 |
| Profit for the year | | 32,694 | 4,326 | 37,020 |
| Net income recognised for the year | | 89,895 | 5,555 | 95,450 |
| Repayment of amounts due to minority interests | | – | (29) | (29) |
| Dividend paid to minority interests | | – | (186) | (186) |
| Employee share option scheme: | | | | |
| Value of employee services | | 51 | – | 51 |
| Proceeds from shares issued | 28 | 308 | – | 308 |
| | | 359 | (215) | 144 |
| Balance at 31 Dec 2006 and 1 Jan 2007 | | 773,861 | 33,204 | 807,065 |
| Currency translation differences | | 40,535 | 2,041 | 42,576 |
| Net income recognised directly in equity | | 40,535 | 2,041 | 42,576 |
| Profit for the year | | 89,169 | 4,802 | 93,971 |
| Net income recognised for the year | | 129,704 | 6,843 | 136,547 |
| Payment of final dividend | | (6,366) | – | (6,366) |
| Dividend paid to minority interests | | – | (3,201) | (3,201) |
| Employee share option scheme: | | | | |
| Value of employee services | | 114 | – | 114 |
| | | (6,252) | (3,201) | (9,453) |
| Balance at 31 Dec 2007 | | 897,313 | 36,846 | 934,159 |

# Consolidated Cash Flow Statement

For the year ended 31 December

| | Note | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| Operating activities | | | |
| Cash generated from operations | a | **141,417** | 75,820 |
| Tax paid | | **(38,621)** | (14,874) |
| Net cash generated from operating activities | | **102,796** | 60,946 |
| Investing activities | | | |
| Purchases of property, plant & equipment | | **(19,716)** | (15,168) |
| Increase in construction in progress | | **(37,520)** | (17,493) |
| Proceeds on disposal of property, plant & equipment | | **98** | 2,165 |
| Proceeds on disposal of investment properties | | **24,212** | 43,714 |
| Proceeds on disposal of subsidiaries, less cash disposed | b | **–** | 14,389 |
| Proceeds on disposal of available-for-sale financial assets | | **–** | 137 |
| Repayment of finance lease receivables | | **–** | 657 |
| Repayment by an associate | | **671** | 1,212 |
| (Advanced to)/repayment from jointly controlled entities | | **(6,201)** | 5,363 |
| Proceeds on disposal of financial assets at fair value through profit or loss | | **259,981** | – |
| Purchase of financial assets at fair value through profit or loss | | **(265,851)** | (22,727) |
| Interest received | | **1,367** | 1,643 |
| Dividend received from jointly controlled entities | | **7,530** | 6,719 |
| Net cash (used in)/generated from investing activities | | **(35,429)** | 20,611 |
| Financing activities | | | |
| New shares issued | | **–** | 308 |
| New bank loans | | **1,042** | – |
| Repayment of bank loans | | **(11,394)** | (107,503) |
| Repayment of other long-term liabilities | | **(390)** | (390) |
| Interest paid | | **(523)** | (3,912) |
| Dividend paid to equity holders of the Company | | **(6,366)** | – |
| Dividends paid to minority interests | | **(3,201)** | (186) |
| Repayment of amounts due to minority interests | | **–** | (29) |
| Net cash used in financing activities | | **(20,832)** | (111,712) |
| Net increase/(decrease) in cash & cash equivalents | | **46,535** | (30,155) |
| Cash & cash equivalents at the beginning of the year | | **58,976** | 87,079 |
| Effect of foreign exchange rate changes | | **2,133** | 2,052 |
| Cash & cash equivalents at the end of the year | | **107,644** | 58,976 |
| Analysis of the balances of cash & cash equivalents | | | |
| Cash at bank and on hand | 27 | **107,644** | 55,013 |
| Short-term bank deposits | 27 | **–** | 3,963 |
| | | **107,644** | 58,976 |

**a. Reconciliation of profit after income tax expenses to cash generated from operations**

| | **2007 HK$'000** | 2006 HK$'000 |
|---|---|---|
| Profit after income tax expenses | **93,971** | 37,020 |
| Income tax expenses recognised in consolidated profit & loss account | **24,376** | 18,533 |
| Depreciation of property, plant & equipment | **46,539** | 45,826 |
| Amortisation of leasehold land & land use rights | **546** | 532 |
| Net loss/(gain) on disposal of property, plant & equipment | **527** | (137) |
| Net gain on disposal of investment properties | **(8,176)** | (1,294) |
| Share of losses/(profits) of | | |
| an associate | **25** | (220) |
| jointly controlled entities | **(41,906)** | (27,959) |
| Reversal of impairment of jointly controlled entities | **(2,359)** | (2,900) |
| Surplus on revaluation of investment properties | **(2,310)** | (6,486) |
| Loss on disposal of subsidiaries | **–** | 5,498 |
| Impairment of property, plant & equipment | **897** | 312 |
| Construction in progress written off | **64** | – |
| Impairment of inventories | **9,601** | 1,236 |
| Impairment of trade & other receivables | **4,139** | 2,874 |
| Loss on disposal of financial assets at fair value through profit or loss | **91** | – |
| Loss on disposal of an available-for-sale financial asset | **–** | 56 |
| Loss/(gain) on change in fair value of derivative financial instruments | **162** | (649) |
| Employee share options expenses | **114** | 51 |
| Interest expenses | **523** | 3,912 |
| Interest income | **(1,367)** | (1,643) |
| Operating profit before working capital changes | **125,457** | 74,562 |
| Decrease/(increase) in inventories | **17,409** | (28,783) |
| Increase in trade & other receivables | **(49,770)** | (22,614) |
| Increase in trade & other payables | **48,321** | 53,679 |
| Increase in net investment in finance leases | **–** | (1,024) |
| Cash generated from operations | **141,417** | 75,820 |

**b. Disposal of subsidiaries**

The assets and liabilities of the subsidiaries disposed consisted of the following:

| | **2007**<br>**HK$'000** | 2006<br>HK$'000 |
|---|---|---|
| Property, plant & equipment | – | 5,148 |
| Inventories | – | 6,693 |
| Trade & other receivables | – | 12,891 |
| Cash & cash equivalents | – | 4,811 |
| Net investment in finance leases | – | 1,312 |
| Deferred tax assets | – | 819 |
| Trade & other payables | – | (6,976) |
| | – | 24,698 |
| Less: loss on disposal of subsidiaries | – | (5,498) |
| Total cash consideration | – | 19,200 |

| | | |
|---|---|---|
| Net cash inflow arising on disposal: | | |
| Proceeds on disposal of subsidiaries | – | 19,200 |
| Less: cash of subsidiaries disposed | – | (4,811) |
| | – | 14,389 |

**c. Major non-cash transactions**

During the year, the Group capitalised dividend receivables from jointly controlled entities of HK$22,932,000 as investment cost in Weihai Shanhua Weavers Carpet Company Limited, a new jointly controlled entity in which the Group has 49% interests (2006: Nil).

## 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, and manufacture and sale of yarns.

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 Main Board of The Stock Exchange of Hong Kong Limited.

The consolidated accounts are presented in thousands of Hong Kong dollars (HK$'000), unless otherwise stated, and have been approved and authorised for issue by the Board of Directors on 18 April 2008.

## 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

a. Statement of compliance

The consolidated accounts have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations (collectively known as "HKFRS") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). In addition, the consolidated accounts include the appropriate disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Hong Kong Companies Ordinance.

b. Basis of measurement

The consolidated accounts have been prepared under the historical cost convention except for (i) certain buildings which are stated at revalued amounts less subsequent accumulated depreciation and accumulated impairment losses; and (ii) available-for-sale financial assets, financial assets at fair value through profit or loss, and investment properties, which are carried at fair value.

c. Adoption of new or revised Hong Kong Financial Reporting Standards

In the current year, the Group has applied all the new and revised standards, amendments and interpretations ("new HKFRSs") issued by the HKICPA, that are relevant to its operation and effective for the current accounting period of the Group and the Company.

The adoption of these new HKFRSs did not affect recognition or measurement of the amounts recognised in the financial statements for the current or prior accounting periods. As a result, no prior period adjustment has been required.

However, the adoption of HKFRS 7 "Financial instruments: Disclosure" and Amendment to HKAS 1 "Presentation of financial statements: Capital disclosures" resulted an extensive disclosure in respect of financial instruments and an additional disclosure on capital management policy respectively. Comparative information has been restated to achieve a consistent presentation.

d. Potential impact arising on the new accounting standards not yet effective

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

| | Effective for accounting periods beginning on or after |
|---|---|
| **HKAS 1 (Revised)**<br>Presentation of Financial Statements | 1 Jan 2009 |
| **HKAS 23 (Revised)**<br>Borrowing Costs | 1 Jan 2009 |
| **HKAS 27 (Revised)**<br>Consolidated and Separate Financial Statements | 1 Jul 2009 |
| **HKFRS 2 Amendment**<br>Share-based Payments – Vesting Conditions and Cancellations | 1 Jan 2009 |
| **HKFRS 3 (Revised)**<br>Business Combinations | 1 Jul 2009 |
| **HKFRS 8**<br>Operating Segments | 1 Jan 2009 |
| **HK(IFRIC) – Interpretation 11**<br>Group and Treasury Share Transactions | 1 Mar 2007 |
| **HK(IFRIC) – Interpretation 12**<br>Service Concession Arrangements | 1 Jan 2008 |
| **HK(IFRIC) – Interpretation 13**<br>Customer Loyalty Programmes | 1 Jul 2008 |
| **HK(IFRIC) – Interpretation 14**<br>HKAS 19 – The Limit on a Defined Benefit Asset,<br>Minimum Fund Requirements and Their Interaction | 1 Jan 2008 |

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

## 2.2 Consolidation

The consolidated accounts include the accounts of the Company and all its subsidiaries made up to 31 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 & loss account.

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 dividends 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 & losses for the Group that are recorded in the consolidated profit & 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 jointly controlled entities

An associate is an entity over which the Group has significant influence but does not have control or joint control.

A jointly controlled entity 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 jointly controlled entities are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investments in an associate and jointly controlled entities includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of the post-acquisition profits or losses of an associate and jointly controlled entities is recognised in the consolidated 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 investments. When the Group's share of losses in the associate or jointly controlled entities equals or exceeds its interests in such associate or jointly controlled entities, 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 jointly controlled entities.

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

On the Company's balance sheet, the investments in an associate and jointly controlled entities are stated at cost less provision for impairment losses. The results of the associate and jointly controlled entities 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 is 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 & equipment, leasehold land & land use rights, investment properties, construction in progress, inventories, receivables and operating cash, and mainly exclude investment in an associate and investments in jointly controlled entities. Segment liabilities comprise operating liabilities and exclude items such as tax liabilities, deferred taxation, and bank borrowings. Capital expenditure comprises additions to property, plant & equipment, leasehold land & 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 countries in which the customers are 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 dollar, which is the Company's functional and presentation currency.

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 consolidated profit & loss account.

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 consolidated profit & loss account as part of the gain or loss on sale.

Goodwill and fair value adjustments on the identifiable assets acquired arising on the acquisition of a foreign entity on or after 1 January 2005 are treated as assets and liabilities of the foreign entity and translated at the closing rate, and exchange differences arising therefrom are taken to shareholders' equity.

**2.5 Leasehold land & land use rights**

Payments for leasehold land held for own use under operating leases represent up-front payments to acquire long-term interests in lessee-occupied properties. These payments are stated at cost and are amortised over the period of the lease on a straight-line basis to the consolidated profit & loss account.

**2.6 Property, plant & equipment**

Buildings comprise mainly factories, retail outlets and offices. They are stated at cost or valuation less accumulated depreciation and impairment losses. Certain buildings were at valuation which was carried out prior to 30 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 & equipment are stated at historical cost less accumulated depreciation and 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 consolidated profit & loss account during the financial period in which they are incurred.

Depreciation of property, plant & 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% – 4.5% |
| 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 & equipment.

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

An 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 consolidated profit & loss account. When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

**2.7 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 consolidated profit & loss account during the financial period in which they are incurred.

Changes in fair value are recognised in the consolidated profit & loss account.

If an investment property becomes owner-occupied, it is reclassified as property, plant & 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 & 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 & 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 & equipment under HKAS 16. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in the consolidated profit & loss account.

Investment property held for sale without redevelopment is classified within non-current assets held for sale, under HKFRS 5.

### 2.8 Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation, but 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.

### 2.9 Financial assets and liabilities

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.

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.

b. Loans and receivables

Trade & 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 & 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 impairment is recognised in the consolidated profit & loss account.

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 sale 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 consolidated profit & 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 consolidated profit & 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 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 consolidated profit & loss account is removed from equity and recognised in the consolidated profit & loss account. Impairment losses recognised in the consolidated profit & loss account on equity instruments are not reversed through the consolidated profit & loss account.

d. Trade payables and other monetary liabilities

Trade payables and other monetary liabilities (including other payables) are recognised at amortised cost.

e. 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 consolidated profit & 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.

f. Derecognition

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

### 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 Cash & cash equivalents

Cash & 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.

### 2.12 Income tax

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date.

Income taxes are recognised in the consolidated profit & loss account except when they relate to items directly recognised to equity in which case the taxes are also directly recognised in equity.

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 accounts. 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 jointly controlled entities, 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.

### 2.13 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.

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 consolidated profit & loss account, 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.

### 2.14 Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue.

### 2.15 Operating leases

(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 consolidated profit & loss account on a straight-line basis over the period of the lease.

Properties leased out under operating leases are classified as investment properties in the balance sheet (Note 2.7). Rental income (net of any incentives given to lessees) is recognised on a straight-line basis over the lease terms.

### 2.16 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 sale of carpets, yarns, underlays 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.

c. Rental income from investment properties and interior furnishings is recognised on a straight-line basis over the lease terms.

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 is recognised when the right to receive payment is established.

### 2.17 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the accounts in the period in which the dividend is approved by the Company's shareholders.

Final dividend proposed by the Directors is classified as a separate allocation of retained earnings within capital and reserves in the balance sheet. Final dividend is recognised as a liability when it is approved by the shareholders.

### 2.18 Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

## 3. Financial Risk Management

The Group is subject to the following risks:

### 3.1 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 and U.S. 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.

The Group's principal net foreign currency exposure relate to the Thai Baht, and to a lesser extent, British Pound Sterling, Euro and Renminbi. For Thai Baht such foreign currency exposure arises from the U.S. dollar denominated financial assets/liabilities in the Group's Thailand operations. To manage this exposure, the Group takes advantage of any natural offsets of the Group's foreign currency revenues and expenses and from time to time enters into foreign currency forward contracts for a portion of the remaining exposure relating to these forecasted transactions.

At 31 December 2007, if the Thai Baht strengthened (or weakened) by 5% (2006: 5%) against U.S. dollar with all other variables held constant, the foreign exchange losses (or gains) before tax as a result of translation of U.S. dollar denominated receivables would be HK$2,663,000 (2006: HK$1,649,000).

Taking into the account the exposures of other currencies, the Group considers its exposure to exchange rate movements in 2007 manageable and will continue to monitor exchange rate movements closely to ascertain if any material exposure may arise.

### 3.2 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 standing or history. The Group also performs periodic assessment of the trade receivables and believes that adequate provision for uncollectible receivables has been made.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade & other receivables are set out in Note 24. The Group does not hold any collateral as security for these receivables.

### 3.3 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.

The table below analyses the Group's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

**Group**

| **2007** | **Less than 1 year HK$'000** | **Between 1 and 2 years HK$'000** | **Between 2 and 5 years HK$'000** | **Total HK$'000** |
|---|---|---|---|---|
| Bank borrowings – unsecured | **1,062** | **–** | **–** | **1,062** |
| Trade & other payables | **255,644** | **–** | **–** | **255,644** |
| Other long-term liabilities | **390** | **390** | **821** | **1,601** |
| | **257,096** | **390** | **821** | **258,307** |

| 2006 | Less than 1 year HK$'000 | Between 1 and 2 years HK$'000 | Between 2 and 5 years HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| Bank borrowings – unsecured | 11,000 | – | – | 11,000 |
| Trade & other payables | 201,520 | – | – | 201,520 |
| Other long-term liabilities | 390 | 390 | 1,211 | 1,991 |
| | 212,910 | 390 | 1,211 | 214,511 |

### 3.4 Equity price risk

The Group is exposed to equity price risk on financial assets at fair value through profit or loss (Note 22). Where the Group has generated a significant amount of surplus cash it will invest in fixed income funds to improve profitability. The Directors believe that the exposure to such equity price risk is acceptable in the Group's circumstances.

At 31 December 2007, if the price of fixed income funds rose (or fell) by 3% (2006: 3%) with all other variable held constant, the profit before tax will be increased (or decreased) by HK$931,000 (2006: HK$715,000).

### 3.5 Interest rate risk

The Group is exposed to changes in interest rates due to its bank borrowings. 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. However, given that the Group has a relatively low financial gearing, any fluctuation of interest rates does not present a significant risk to the Group's financial performance.

### 3.6 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.

### 3.7 Fair values estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Techniques, such as estimated discounted cash flows, are used to determine fair value for the financial instruments.

The Group has investment properties in Hong Kong and the Mainland China. The Group adopt fair value model under HKAS 40 "Investment properties", under which 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 consolidated profit & loss account, the Group's results are exposed to the risk of fluctuation of such fair values.

The nominal value less estimated credit adjustment of receivables and payables to approximate their fair values.

## 4. Critical Accounting Estimates & Judgments

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.

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.

### 4.1 Useful lives and impairment of property, plant & equipment, investment properties, leasehold land & land use rights

The Group's management determines the estimated useful lives of its property, plant & equipment, and leasehold land & land use rights.

This estimate is based on the historical experience of the actual useful lives of property, plant & equipment, and leasehold land & land use rights of similar nature and functions. Management will increase the depreciation/amortisation charges 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 losses for property, plant & equipment, investment properties and leasehold land & land use rights are 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 obtainable at each 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.

### 4.2 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.

### 4.3 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 balance sheet date.

### 4.4 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 balance sheet date.

### 4.5 Impairment of investments in an associate and jointly controlled entities

The Group's management determines the impairment on its interests in an associate and jointly controlled entities based on an assessment of the recoverable amounts of the investments.

## 5. Turnover & Segmental Information

During the year, revenues were recognised as follows:

| | **2007 HK$'000** | 2006 HK$'000 |
|---|---|---|
| **Continuing operations** | | |
| Sale of carpets | **1,032,843** | 816,867 |
| Yarn manufacturing and trading | **69,633** | 48,548 |
| Sale of interior furnishings in the Mainland China | **17,285** | 29,937 |
| Gross rental income from investment properties | **2,123** | 4,674 |
| | **1,121,884** | 900,026 |
| **Discontinued operation** | | |
| Sale of interior furnishings in Hong Kong | – | 23,738 |
| Total revenues | **1,121,884** | 923,764 |

**Primary reporting format – business segments**

The Group was organised on a worldwide basis into the following business segments in 2007:

| | |
|---|---|
| **Continuing operations** | |
| Carpet | Manufacture, import, export and sale of carpets |
| Yarn | Manufacture and sale of yarns |
| Others | Manufacture and sale of mattresses, and property holding |

**Secondary reporting format – geographical segments**

Although the Group's business segments were managed on a worldwide basis during 2007, they operated in the following geographical areas:

| | |
|---|---|
| Hong Kong & Macau | Carpet and others |
| Mainland China | Carpet and others |
| South East Asia | Carpet |
| Middle East | Carpet |
| Other Asian countries | Carpet |
| Europe | Carpet |
| North America | Carpet and yarn |
| Others | Carpet |

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

The discontinued operation in 2006 comprised sale and leasing of interior furnishings in Hong Kong.

### 5.1 Business segments

The following table presents turnover, profit and certain assets, liabilities and expenditure information for the Group's business segments for the years ended 31 December 2007 and 2006.

**For the year ended 31 Dec 2007**

| | Carpet HK$'000 | Yarn HK$'000 | Others[1] HK$'000 | Elimination HK$'000 | Unallocated HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| Revenue | | | | | | |
| External revenue | 1,032,843 | 69,633 | 19,408 | – | – | 1,121,884 |
| Inter-segment revenue[2] | – | – | 1,958 | (1,958) | – | – |
| | 1,032,843 | 69,633 | 21,366 | (1,958) | – | 1,121,884 |
| Segment results | 55,821 | 12,305 | (2,029) | – | (3,320) | 62,777 |
| Finance costs | | | | | | (523) |
| Interest income from banks | | | | | | 1,367 |
| Gain on disposal of investment properties | – | – | 8,176 | – | – | 8,176 |
| Surplus on revaluation of investment properties | – | – | 2,310 | – | – | 2,310 |
| Share of (losses)/profits of | | | | | | |
| an associate | (25) | – | – | – | – | (25) |
| jointly controlled entities[3] | 44,265 | – | – | – | – | 44,265 |
| Profit before income tax expenses | | | | | | 118,347 |
| Income tax expenses | | | | | | (24,376) |
| Profit for the year | | | | | | 93,971 |
| Segment assets | 862,408 | 50,173 | 42,660 | – | 11,085 | 966,326 |
| Interest in an associate | 25,431 | – | – | – | – | 25,431 |
| Interests in jointly controlled entities | 213,548 | – | – | – | – | 213,548 |
| Total assets | | | | | | 1,205,305 |
| Segment liabilities | 244,366 | 5,843 | 3,091 | – | 17,846 | 271,146 |
| Capital expenditure | 54,914 | 2,303 | 19 | – | – | 57,236 |
| Depreciation | 44,184 | 1,934 | 421 | – | – | 46,539 |
| Amortisation of leasehold land & land use rights | 546 | – | – | – | – | 546 |

For the year ended 31 Dec 2006

| | Carpet HK$'000 | Yarn HK$'000 | Interior furnishings HK$'000 | Property holding HK$'000 | Elimination HK$'000 | Unallocated HK$'000 | Continuing operations total HK$'000 | Discontinued operation (interior furnishings) HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|---|
| Revenue | | | | | | | | | |
| External revenue | 816,867 | 48,548 | 29,937 | 4,674 | – | – | 900,026 | 23,738 | 923,764 |
| Inter-segment revenue[2] | 255 | – | – | 2,069 | (2,324) | – | – | – | – |
| | 817,122 | 48,548 | 29,937 | 6,743 | (2,324) | – | 900,026 | 23,738 | 923,764 |
| Segment results | 14,182 | 5,459 | 2,164 | 6,714 | – | (5,934) | 22,585 | (3,665) | 18,920 |
| Finance costs | | | | | | | (3,912) | – | (3,912) |
| Interest income from banks | | | | | | | 1,643 | 43 | 1,686 |
| Gain on disposal of investment properties | – | – | – | 1,294 | – | – | 1,294 | – | 1,294 |
| Surplus on revaluation of investment properties | – | – | – | 6,486 | – | – | 6,486 | – | 6,486 |
| Share of profits of | | | | | | | | | |
| an associate | 220 | – | – | – | – | – | 220 | – | 220 |
| jointly controlled entities[3] | 30,859 | – | – | – | – | – | 30,859 | – | 30,859 |
| Profit/(loss) before income tax expenses | | | | | | | 59,175 | (3,622) | 55,553 |
| Income tax expenses | | | | | | | (18,191) | (342) | (18,533) |
| Profit/(loss) for the year | | | | | | | 40,984 | (3,964) | 37,020 |
| Segment assets | 746,359 | 48,220 | 15,694 | 46,335 | – | 11,660 | | | 868,268 |
| Interest in an associate | 21,682 | – | – | – | – | – | | | 21,682 |
| Interests in jointly controlled entities | 157,705 | – | – | – | – | – | | | 157,705 |
| Total assets | | | | | | | | | 1,047,655 |
| Segment liabilities | 194,506 | 1,727 | 2,836 | 417 | – | 41,104 | | | 240,590 |
| Capital expenditure | 29,494 | 158 | 3,009 | – | – | – | | | 32,661 |
| Depreciation | 38,977 | 4,130 | 468 | – | – | – | 43,575 | 2,251 | 45,826 |
| Amortisation of leasehold land & land use rights | 532 | – | – | – | – | – | 532 | – | 532 |

Notes:

1 Others include interior furnishings and property holding.

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

3 Included a reversal of impairment of HK$2,359,000 (2006: HK$2,900,000).

## 5.2 Geographical segments

The following table presents turnover, assets and capital expenditure information for the Group's geographical segments for the years ended 31 December 2007 and 2006:

**For the year ended 31 Dec 2007**

| | Turnover HK$'000 | Total assets HK$'000 | Capital expenditure HK$'000 |
|---|---|---|---|
| Hong Kong and Macau | 103,455 | 100,054 | 659 |
| Mainland China | 25,028 | 122,489 | 7,494 |
| South East Asia | 249,333 | 411,172 | 22,858 |
| Middle East | 53,206 | – | – |
| Other Asian countries | 40,096 | 4,634 | 344 |
| Europe | 107,711 | 74,045 | 5,179 |
| North America | 493,618 | 241,881 | 20,150 |
| Others | 49,437 | 966 | 552 |
| | 1,121,884 | 955,241 | 57,236 |
| Interest in an associate[1] | | 25,431 | |
| Interests in jointly controlled entities[2] | | 213,548 | |
| Unallocated assets | | 11,085 | |
| Total assets | | 1,205,305 | |

For the year ended 31 Dec 2006

| | Turnover | | | | |
|---|---|---|---|---|---|
| | Continuing operations HK$'000 | Discontinued operation HK$'000 | Total HK$'000 | Total assets HK$'000 | Capital expenditure HK$'000 |
| Hong Kong and Macau | 76,555 | 23,489 | 100,044 | 96,577 | 4,390 |
| Mainland China | 35,889 | – | 35,889 | 140,326 | 7,871 |
| South East Asia | 235,449 | 96 | 235,545 | 377,733 | 13,436 |
| Middle East | 25,612 | – | 25,612 | – | – |
| Other Asian countries | 30,281 | – | 30,281 | – | – |
| Europe | 74,004 | – | 74,004 | 37,795 | 1,449 |
| North America | 408,654 | 153 | 408,807 | 204,177 | 5,515 |
| Others | 13,582 | – | 13,582 | – | – |
| | 900,026 | 23,738 | 923,764 | 856,608 | 32,661 |
| Interest in an associate[1] | | | | 21,682 | |
| Interests in jointly controlled entities[2] | | | | 157,705 | |
| Unallocated assets | | | | 11,660 | |
| Total assets | | | | 1,047,655 | |

Notes:

[1] Located in South East Asia

[2] Located in the Mainland China

## 6. Operating profit

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| Operating profit is stated after crediting and charging the following: | | |
| | | |
| **Crediting:** | | |
| Gain on disposal of property, plant & equipment | – | 137 |
| Gain on change in fair value of derivative financial instruments | – | 649 |
| Net exchange gains | **5,979** | – |
| | | |
| **Charging:** | | |
| Depreciation of property, plant & equipment (Note 15) | **46,539** | 45,826 |
| Amortisation of leasehold land & land use rights (Note 14) | **546** | 532 |
| Loss on disposal of property, plant & equipment | **527** | – |
| Loss on disposal of financial assets at fair value through profit or loss | **91** | – |
| Loss on disposal of available-for-sale financial asset | – | 56 |
| Loss on change in fair value of derivative financial instruments | **162** | – |
| Impairment of property, plant & equipment | **897** | 312 |
| Construction in progress written off | **64** | – |
| Impairment of inventories | **9,601** | 1,277 |
| Impairment of trade & other receivables | **4,139** | 2,874 |
| Employee benefit expenses (Note 8) | **330,361** | 276,486 |
| Operating lease charges | | |
| Land & buildings | **18,171** | 19,193 |
| Plant & machinery | **1,401** | 789 |
| Auditors' remuneration | **2,748** | 2,451 |
| Direct operating expenses arising from investment properties that generated rental income | **184** | 507 |
| Research & development costs | **1,731** | 2,297 |
| Net exchange losses | – | 2,896 |

## 7. Finance Costs

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| Interest on bank loans and overdrafts wholly repayable within five years | **523** | 3,912 |

## 8. Employee Benefit Expenses

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| Wages and salaries (including Directors' emoluments) | **323,747** | 270,571 |
| Share options granted to a Director | **114** | 51 |
| Retirement benefit costs – defined contribution schemes (including Directors' emoluments) | **6,500** | 5,864 |
| | **330,361** | 276,486 |

### 8.1 Retirement benefit costs – defined contribution schemes

Unvested benefits totaling HK$45,000 (2006: HK$159,000) were used during the year to reduce future contributions. As at 31 December 2007, unvested benefits totaling HK$287,000 (2006: HK$105,000) were available for use by the Group to reduce future contributions.

### 8.2 Directors' emoluments

The emoluments of each Director for the year ended 31 December 2007 are set out below:

| Name of Directors | Fees<br>HK$'000 | Salaries<br>HK$'000 | Bonuses<br>HK$'000 | Other benefits<br>HK$'000 | Retirement benefit costs<br>HK$'000 | Total<br>HK$'000 |
|---|---|---|---|---|---|---|
| Mr. Nicholas T. J. Colfer | 50 | – | – | – | – | 50 |
| Mr. Ian D. Boyce | 50 | – | – | – | – | 50 |
| Mr. Lincoln K. K. Leong[1] | – | – | – | – | – | – |
| Mr. Nelson K. F. Leong[2] | 50 | – | – | – | – | 50 |
| Mr. David C. L. Tong | 70 | – | – | – | – | 70 |
| Mr. John J. Ying | 70 | – | – | – | – | 70 |
| Mrs. Yvette Y. H. Fung[3] | 70 | – | – | – | – | 70 |
| Mr. Michael T. H. Lee[3] | 70 | – | – | – | – | 70 |
| Mr. Roderic N. A. Sage[3] | 110 | – | – | – | – | 110 |
| Mr. Lincoln C. K. Yung[3] | 50 | – | – | – | – | 50 |
| Mr. James H. Kaplan | – | 3,900 | 1,950 | 359 | 70 | 6,279 |
| | 590 | 3,900 | 1,950 | 359 | 70 | 6,869 |

The emoluments of each Director for the year ended 31 December 2006 are set out below:

| Name of Directors | Fees HK$'000 | Salaries HK$'000 | Bonuses HK$'000 | Other benefits HK$'000 | Retirement benefit costs HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| Mr. Nicholas T. J. Colfer | 30 | – | – | – | – | 30 |
| Mr. Ian D. Boyce | 30 | – | – | – | – | 30 |
| Mr. Lincoln K. K. Leong[1] | – | – | – | – | – | – |
| Mr. Nelson K. F. Leong[2] | 30 | – | – | – | – | 30 |
| Mr. David C. L. Tong | 50 | – | – | – | – | 50 |
| Mr. John J. Ying | 50 | – | – | – | – | 50 |
| Mrs. Yvette Y. H. Fung[3] | 50 | – | – | – | – | 50 |
| Mr. Michael T. H. Lee[3] | 50 | – | – | – | – | 50 |
| Mr. Roderic N. A. Sage[3] | 80 | – | – | – | – | 80 |
| Mr. Lincoln C. K. Yung[3] | 30 | – | – | – | – | 30 |
| Mr. James H. Kaplan | – | 3,900 | 2,477 | 118 | 140 | 6,635 |
| | 400 | 3,900 | 2,477 | 118 | 140 | 7,035 |

Notes:
[1] Mr. Lincoln K.K. Leong's director fee was paid to his alternate Mr. Nelson K.F. Leong
[2] Alternate Director to Mr. Lincoln K.K. Leong
[3] Independent Non-executive Directors

Apart from the above, the Directors' emoluments included share options expenses in respect of the options granted to Mr. James H. Kaplan in 2005, which amounted to HK$114,000 (2006: HK$51,000).

No Directors waived any emoluments in the years ended 31 December 2006 and 2007.

### 8.3 Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included one (2006: one) Director whose emoluments were reflected in the analysis presented above. The emoluments paid to the remaining four (2006: four) individuals during the year were as follows:

| | **2007 HK$'000** | 2006 HK$'000 |
|---|---|---|
| Basic salaries, housing and other allowances | **7,428** | 6,189 |
| Bonuses | **4,062** | 1,173 |
| Contributions to retirement schemes | **179** | 166 |
| | **11,669** | 7,528 |

The bonuses for both years were determined with reference to the performance against corporate objectives, the profits of the Group and the achievement of individual performance targets.

The emoluments fell within the following bands:

| | **No. of Individuals** | |
|---|---|---|
| | **2007** | 2006 |
| Emolument bands | | |
| HK$1,500,001 – HK$2,000,000 | **–** | 3 |
| HK$2,000,001 – HK$2,500,000 | **2** | – |
| HK$2,500,001 – HK$3,000,000 | **1** | 1 |
| HK$4,000,001 – HK$4,500,000 | **1** | – |

## 9. Income Tax Expenses

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profits for the year. Income tax expenses on the People's Republic of China (the "PRC") and overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the respective countries.

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

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| Current income tax | | |
| Hong Kong | **7,747** | 3,538 |
| PRC and overseas | **18,492** | 26,269 |
| Under/(over) provision in prior years | **86** | (2,194) |
| Deferred income tax credit (Note 31) | **(1,949)** | (9,422) |
| Income tax expenses | **24,376** | 18,191 |

Share of income tax benefit of an associate of HK$343,000 (2006: expenses of HK$324,000) and share of income tax expenses of jointly controlled entities of HK$5,968,000 (2006: HK$10,228,000) respectively are included in the share of (losses)/profits of an associate and jointly controlled entities.

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

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| Profit before income tax expenses | **118,347** | 59,175 |
| Less: Share of net profits of an associate and jointly controlled entities | **(41,881)** | (28,179) |
| Reversal of impairment of jointly controlled entities not subject to taxation | **(2,359)** | (2,900) |
| Profit before income tax expenses of the Company and subsidiaries | **74,107** | 28,096 |
| | | |
| Calculated at a taxation rate of 17.5% (2006: 17.5%) | **12,969** | 4,917 |
| Effect of different taxation rates in other tax jurisdictions | **7,091** | 6,184 |
| Income not subject to taxation | **(2,187)** | (295) |
| Expenses not deductible for taxation purposes | **996** | 1,243 |
| Tax losses not recognised | **5,421** | 8,336 |
| Under/(over)provision in prior years | **86** | (2,194) |
| Income tax expenses | **24,376** | 18,191 |

## 10. Discontinued Operation

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

The aggregate results of Indigo and Banyan Tree in 2006 were as follows:

| | **2006**[1]<br>HK$'000 |
|---|---|
| Turnover | 23,738 |
| Cost of sales | (9,056) |
| Gross profit | 14,682 |
| Interest income from banks and finance leases | 43 |
| Distribution costs | (2,945) |
| Administrative expenses | (9,815) |
| Other operating expenses, net | (89) |
| Profit before income tax expenses | 1,876 |
| Income tax expenses | (342) |
| | 1,534 |
| Loss on disposal of discontinued operation | (5,498) |
| Loss after income tax expenses from discontinued operation | (3,964) |

Note:
[1] Up to 7 July 2006, the date of disposal.

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

The assets and liabilities of Indigo and Banyan Tree at the date of disposal were disclosed in Note b to the Consolidated Cash Flow Statement.

## 11. Profit Attributable to Equity Holders of the Company

The profit attributable to equity holders of the Company is dealt with in the accounts of the Company to the extent of a loss of HK$158,000 (2006: loss of HK$3,771,000).

## 12. Dividend

| | **2007**<br>**HK$'000** | 2006<br>HK$'000 |
|---|---|---|
| Final dividend, proposed, of HK 9 cents per share (2006: HK 3 cents) | **19,097** | 6,366 |

At the board meeting held on 18 April 2008, the Directors declared a final dividend of HK 9 cents per share. This proposed dividend is not reflected as a dividend payable in the accounts, but will be reflected as an appropriation of retained earnings for the year ended 31 December 2007.

## 13. Earnings Per Share

### 13.1 Continuing and discontinued operations

**Basic**

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

| | **2007** | 2006 |
|---|---|---|
| Profit attributable to equity holders of the Company (HK$'000) | **89,169** | 32,694 |
| Weighted average number of ordinary shares in issue (thousands) | **212,187** | 212,187 |
| Basic earnings per share (HK cents) | **42.02** | 15.41 |

**Diluted**

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

| | **2007** | 2006 |
|---|---|---|
| Profit attributable to equity holders of the Company (HK$'000) | **89,169** | 32,694 |
| Weighted average number of ordinary shares in issue (thousands) | **212,187** | 212,187 |
| Adjustments for share options (thousands) | **96** | – |
| Weighted average number of ordinary shares in issue for diluted earnings per share (thousands) | **212,283** | 212,187 |
| Diluted earnings per share (HK cents) | **42.00** | 15.41 |

### 13.2 Continuing operations

**Basic**

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

| | **2007** | 2006 |
|---|---|---|
| Profit attributable to equity holders of the Company (HK$'000) | **89,169** | 32,694 |
| Add: loss attributable to equity holders from discontinued operation (HK$'000) | – | 3,964 |
| Profit attributable to equity holders of the Company from continuing operations (HK$'000) | **89,169** | 36,658 |
| Weighted average number of ordinary shares in issue (thousands) | **212,187** | 212,187 |
| Basic earnings per share (HK cents) | **42.02** | 17.28 |

**Diluted**

The calculation of the diluted earnings per share from continuing operations attributable to the equity holders of the Company is based on the profit attributable to equity holders from continuing operations of HK$89,169,000 (2006: HK$36,658,000). The denominators used are the same as those detailed above for diluted earnings per share from continuing and discontinued operations.

### 13.3 Discontinued operation

**Basic**

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

| | **2007** | 2006 |
|---|---|---|
| Loss attributable to equity holders from discontinued operations (HK$'000) | – | (3,964) |
| Weighted average number of ordinary shares in issue (thousands) | **212,187** | 212,187 |
| Basic loss per share (HK cents) | – | (1.87) |

**Diluted**

The calculation of the diluted loss per share from discontinued operation attributable to the equity holders of the Company is based on the loss attributable to equity holders from discontinued operation of HK$Nil (2006: HK$3,964,000). The denominators used are the same as those detailed above for diluted earnings per share from continuing and discontinued operations.

## 14. Leasehold Land & Land Use Rights

**Group**

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

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| In Hong Kong held on leases of between 10 to 50 years | **11,449** | 11,740 |
| Outside Hong Kong held on leases of between 10 to 50 years | **10,277** | 9,848 |
| | **21,726** | 21,588 |

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| At 1 Jan | **21,588** | 21,739 |
| Exchange differences | **684** | 381 |
| Amortisation of prepaid operating lease payment | **(546)** | (532) |
| At 31 Dec | **21,726** | 21,588 |

## 15. Property, Plant & Equipment

**Group**

| | Buildings HK$'000 | Other assets HK$'000 | Total HK$'000 |
|---|---|---|---|
| **As at 1 Jan 2006** | | | |
| 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 |
| **Year ended 31 Dec 2006** | | | |
| Opening net book amount | 107,984 | 195,456 | 303,440 |
| Exchange differences | 10,118 | 18,494 | 28,612 |
| Additions | 58 | 15,110 | 15,168 |
| Transfer from construction in progress (Note 17) | 216 | 22,970 | 23,186 |
| Disposals | – | (2,028) | (2,028) |
| Disposal of a discontinued operation | – | (5,148) | (5,148) |
| Impairment | – | (312) | (312) |
| Depreciation | (6,029) | (39,797) | (45,826) |
| Closing net book amount | 112,347 | 204,745 | 317,092 |
| **As at 31 Dec 2006 and 1 Jan 2007** | | | |
| Cost or valuation | 175,261 | 533,214 | 708,475 |
| Accumulated depreciation and impairment | (62,914) | (328,469) | (391,383) |
| Net book amount | 112,347 | 204,745 | 317,092 |
| **Year ended 31 Dec 2007** | | | |
| Opening net book amount | 112,347 | 204,745 | 317,092 |
| Exchange differences | 5,061 | 9,001 | 14,062 |
| Additions | 625 | 19,091 | 19,716 |
| Transfer from construction in progress (Note 17) | 707 | 34,380 | 35,087 |
| Disposals | – | (625) | (625) |
| Impairment | – | (897) | (897) |
| Depreciation | (6,340) | (40,199) | (46,539) |
| Closing net book amount | 112,400 | 225,496 | 337,896 |
| **As at 31 Dec 2007** | | | |
| Cost or valuation | 185,261 | 604,703 | 789,964 |
| Accumulated depreciation and impairment | (72,861) | (379,207) | (452,068) |
| Net book amount | 112,400 | 225,496 | 337,896 |

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

Certain of the Group's buildings were revalued on an open market basis at 31 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 30 September 1995. Under transitional provisions 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$5,706,000 (2006: HK$5,752,000) had it been stated at cost less accumulated depreciation.

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

**Group**

| | **Buildings** HK$'000 | **Other assets** HK$'000 |
|---|---|---|
| At cost | 173,200 | 604,703 |
| At valuation – 1989 | 12,061 | – |
| As at 31 Dec 2007 | 185,261 | 604,703 |
| | | |
| At cost | 163,841 | 533,214 |
| At valuation – 1989 | 11,420 | – |
| As at 31 Dec 2006 | 175,261 | 533,214 |

## 16. Investment Properties

**Group**

| | **2007** **HK$'000** | 2006 HK$'000 |
|---|---|---|
| Net book value as at 1 Jan | **36,800** | 73,130 |
| Surplus on revaluation of investment properties | **2,310** | 6,486 |
| Disposals | **(11,600)** | (42,420) |
| Reclassification to properties held for sale (Note 26) | **–** | (4,436) |
| Exchange differences | **–** | 4,040 |
| Net book value as at 31 Dec | **27,510** | 36,800 |

The investment properties were revalued by CB Richard Ellis, an independent, professionally qualified valuer. Valuations were based on current prices in an active market for all properties. Details of principal investment properties are set out on page 98.

**Group**

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

| | **2007 HK$'000** | 2006 HK$'000 |
|---|---|---|
| In Hong Kong, held on medium leases (10 – 50 years) | **10,410** | 21,300 |
| Outside Hong Kong, held on medium leases (10 – 50 years) | **17,100** | 15,500 |
| | **27,510** | 36,800 |

Gain on disposal of investment properties includes those from properties held for sale, which were previously classified as investment properties.

## 17. Construction in Progress

**Group**

| | **2007 HK$'000** | 2006 HK$'000 |
|---|---|---|
| As at 1 Jan | **7,993** | 12,282 |
| Exchange differences | **361** | 1,404 |
| Additions | **37,520** | 17,493 |
| Transfer to property, plant & equipment (Note 15) | **(35,087)** | (23,186) |
| Written off | **(64)** | – |
| As at 31 Dec | **10,723** | 7,993 |

## 18. Interests in Subsidiaries

**Company**

| | **2007 HK$'000** | 2006 HK$'000 |
|---|---|---|
| Unlisted shares at directors' valuation in 1990 | **242,800** | 242,800 |
| Loan to a subsidiary | **71,470** | 66,270 |
| Amounts due from subsidiaries | **405,484** | 463,799 |
| | **719,754** | 772,869 |
| Loan from a subsidiary | **(13,213)** | (13,213) |
| Amounts due to subsidiaries | **(95,428)** | (91,380) |
| | **611,113** | 668,276 |
| Impairment | **(311,082)** | (362,183) |
| | **300,031** | 306,093 |

Details of principal subsidiaries are set out on page 96. All balances due from/(to) subsidiaries are unsecured, interest-free and repayable on demand, except for the loan to a subsidiary of HK$71,470,000 (2006: HK$66,270,000) which carries interest at prevailing market rates.

## 19. Amount Due from an Indirectly Held Associate

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

## 20. Interest in an Associate

**Group**

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Share of net assets | **24,577** | 20,157 |
| Amount due from an associate | **854** | 1,525 |
| | **25,431** | 21,682 |
| Shares at cost – unlisted | **519** | 519 |

No dividend income was received from the associate during the year (2006: Nil).

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

Share of the associate's income tax benefit amounted to HK$343,000 (2006: income tax expenses of HK$324,000). Details of the associate, which is unlisted, is set out on page 97.

An extract of the operating results and financial position of the associate, Philippine Carpet Manufacturing Corporation, which is based on its consolidated accounts as adjusted to conform with HKFRS for the years ended and as at 31 December 2007 and 2006, is as follows:

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Operating results | | |
| Turnover | **68,056** | 71,271 |
| (Loss)/profit after income tax expenses | **(75)** | 670 |
| Group's share of (loss)/profit after income tax expenses | **(25)** | 220 |
| Financial position | | |
| Non-current assets | **48,221** | 46,883 |
| Current assets | **54,022** | 41,390 |
| Non-current liabilities | **(6,970)** | (8,322) |
| Current liabilities | **(18,609)** | (18,515) |
| Shareholders' funds | **76,664** | 61,436 |
| Group's share of net assets | **24,577** | 20,157 |

## 21. Interests in Jointly Controlled Entities

**Group**

| | **2007 HK$'000** | 2006 HK$'000 |
|---|---|---|
| Share of net assets | **207,454** | 130,725 |
| Amounts due from jointly controlled entities | | |
| Loan account | **–** | 458 |
| Current account | **17,978** | 42,257 |
| | **17,978** | 42,715 |
| | **225,432** | 173,440 |
| Impairment | **(11,884)** | (15,735) |
| | **213,548** | 157,705 |
| Paid-in capital at cost | **99,981** | 80,517 |

Dividend income received from jointly controlled entities during the year amounted to HK$Nil (2006: HK$18,913,000).

Share of jointly controlled entities' income tax expenses amounted to HK$5,968,000 (2006: HK$10,228,000).

Details of the principal jointly controlled entities, which are unlisted, are set out on page 97.

An extract of the operating results and financial position of the Group's significant jointly controlled entities, Weihai Shanhua Huabao Carpet Company Limited ("WHCL"), Weihai Shanhua Premier Carpet Company Limited ("WPCL") and Weihai Shanhua Weavers Carpet Company Limited ("WWCL", incorporated in 2007), which is based on their financial statements as adjusted to conform with HKFRS for the years ended and as at 31 December 2007 and 2006, is as follows:

**WHCL**

| | **2007 HK$'000** | 2006 HK$'000 |
|---|---|---|
| Operating results | | |
| Turnover | **528,450** | 461,870 |
| Profit after income tax expenses | **7,810** | 26,571 |
| Group's share of profit after income tax expenses | **3,827** | 13,020 |
| Financial position | | |
| Non-current assets | **324,816** | 295,988 |
| Current assets | **306,286** | 111,628 |
| Non-current liabilities | **(33,522)** | (11,407) |
| Current liabilities | **(441,659)** | (258,224) |
| Shareholders' funds | **155,921** | 137,985 |
| Group's share of net assets less impairment | **76,401** | 51,990 |

**WPCL**

| | **2007 HK$'000** | 2006 HK$'000 |
|---|---|---|
| Operating results | | |
| Turnover | **274,411** | 266,039 |
| Profit after income tax expenses | **15,690** | 27,898 |
| Group's share of profit after income tax expenses | **7,688** | 13,670 |
| Financial position | | |
| Non-current assets | **33,812** | 32,526 |
| Current assets | **133,286** | 161,517 |
| Non-current liabilities | **(96)** | – |
| Current liabilities | **(39,982)** | (90,393) |
| Shareholders' funds | **127,020** | 103,650 |
| Group's share of net assets less impairment | **62,240** | 48,768 |

**WWCL**

| | **2007 HK$'000** | 2006 HK$'000 |
|---|---|---|
| Operating results | | |
| Turnover | **302,530** | – |
| Profit after income tax expenses | **62,475** | – |
| Group's share of profit after income tax expenses | **30,613** | – |
| Financial position | | |
| Non-current assets | **47,371** | – |
| Current assets | **92,763** | – |
| Current liabilities | **(24,877)** | – |
| Shareholders' funds | **115,257** | – |
| Group's share of net assets less impairment | **56,476** | – |

## 22. Financial Assets at Fair Value Through Profit or Loss

### Group

| | **2007 HK$'000** | 2006 HK$'000 |
|---|---|---|
| At 1 Jan | **23,809** | – |
| Exchange differences | **1,416** | 1,082 |
| Additions | **265,851** | 22,727 |
| Disposals | **(260,072)** | – |
| As at 31 Dec | **31,004** | 23,809 |

Financial assets at fair value through profit or loss include the following:

| | **2007 HK$'000** | 2006 HK$'000 |
|---|---|---|
| Unlisted treasury bonds – overseas | **–** | 23,809 |
| Listed treasury bonds – overseas | **31,004** | – |

The financial assets were traded on active liquid markets and their fair values were determined with reference to quoted market prices and denominated in Thai Baht in 2007.

## 23. Inventories

### Group

| | **2007 HK$'000** | 2006 HK$'000 |
|---|---|---|
| Raw materials | **82,442** | 88,202 |
| Work-in-progress | **24,622** | 23,140 |
| Finished goods | **78,271** | 97,729 |
| Consumable stores | **8,895** | 2,787 |
| | **194,230** | 211,858 |

The cost of inventories recognised as expenses and included in cost of goods sold amounted to HK$618,799,000 (2006: HK$514,937,000).

## 24. Trade & Other Receivables

**Group**

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Trade receivables | **212,167** | 176,182 |
| Less: Impairment loss of receivables | **(19,087)** | (20,337) |
| Trade receivables, net | **193,080** | 155,845 |
| Other receivables | **34,913** | 22,559 |
| | **227,993** | 178,404 |

The amounts approximated to the respective fair values as at 31 December 2007 and 2006. The credit terms of the Group range from 0 to 90 days, depending on the credit status and repayment history of customers. As at the balance sheet date, the ageing analysis of the trade receivables was as follows:

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Current | **53,387** | 41,593 |
| | | |
| Amount past due at balance sheet date but not impaired: | | |
| Less than 30 days past due | **66,197** | 45,311 |
| 31 to 60 days past due | **26,433** | 23,374 |
| 61 to 90 days past due | **20,915** | 12,356 |
| More than 90 days past due | **26,148** | 33,211 |
| | **139,693** | 114,252 |
| | | |
| | **193,080** | 155,845 |

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

The current balances related to existing customers, most of which had no recent history of default.

The balances that were past due but not impaired related to a number of customers that have a good track record with the Group. Based on the past experience, management estimates that the carrying amounts could be fully recovered.

The below table reconciles the impairment loss of trade receivables for the year:

| | **2007 HK$'000** | 2006 HK$'000 |
|---|---|---|
| At 1 Jan | **20,337** | 15,493 |
| Impairment loss recognised | **4,419** | 6,021 |
| Recovery of impairment loss previously recognised | **(1,554)** | (695) |
| Bad debts written off | **(4,115)** | (482) |
| At 31 Dec | **19,087** | 20,337 |

The Group recognises impairment loss on individual assessment based on the accounting policy stated in Note 2.9b.

## 25. Derivative Financial Instruments

**Group**

| | **2007 HK$'000** | 2006 HK$'000 |
|---|---|---|
| Foreign currency forward contracts | **554** | 681 |

The carrying amounts of the Group's derivative financial instruments were denominated in Thai Baht.

## 26. Properties Held for Sale

**Group**

| | **2007 HK$'000** | 2006 HK$'000 |
|---|---|---|
| Properties located in Hong Kong under medium lease | **–** | 4,436 |

## 27. Cash & Cash Equivalents

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2007 HK$'000** | 2006 HK$'000 | **2007 HK$'000** | 2006 HK$'000 |
| Cash at bank and on hand | **107,644** | 55,013 | **260** | 255 |
| Short-term bank deposits | **–** | 3,963 | **–** | – |
| | **107,644** | 58,976 | **260** | 255 |

The amounts approximated to their respective fair values as at 31 December 2007 and 2006. The effective interest rate on short-term bank deposits as at 31 December 2006 was 3.5% per annum, with maturity dates ranging between 17 to 43 days.

As at 31 December 2007, the Group's cash and bank balances included RMB6,191,000 (2006: RMB13,203,000) and US$Nil (2006: US$78,000) placed with certain banks in the PRC by certain PRC subsidiaries of the Group. These balances are subject to exchange controls.

## 28. Share Capital

### 28.1 Authorised and issued share capital

**Company**

| | No. of shares | HK$'000 |
|---|---|---|
| Authorised – HK$0.10 per share: | | |
| At 1 Jan 2006 and 2007; 31 Dec 2006 and 2007 | 400,000,000 | 40,000 |
| | | |
| Issued and fully paid: | | |
| At 1 Jan 2006 | 211,933,488 | 21,193 |
| Exercise of share options | 254,000 | 26 |
| As at 31 Dec 2006, 1 Jan 2007 and 31 Dec 2007 | 212,187,488 | 21,219 |

The movements of the share options for both years ended 31 December 2007 and 2006 were as follows:

| Name | Balance as at 1 Jan 2007 | Date of grant | Changes during the year Granted | Lapsed | Exercised | Balance as at 31 Dec 2007 | Exercise price (HK$) | Exercisable period |
|---|---|---|---|---|---|---|---|---|
| James H. Kaplan | 500,000 | 10 Jan 2005 | – | 500,000 | – | – | 1.21 | 31 Dec 2006 – 31 Jan 2007 |
| | 500,000 | 10 Jan 2005 | – | – | – | 500,000 | 1.21 | 31 Dec 2007 – 31 Jan 2008 |

| Name | Balance as at 1 Jan 2006 | Date of grant | Changes during the year Granted | Lapsed | Exercised | Balance as at 31 Dec 2006 | Exercise price (HK$) | Exercisable period |
|---|---|---|---|---|---|---|---|---|
| James H. Kaplan | 500,000 | 10 Jan 2005 | – | 246,000 | 254,000 | – | 1.21 | 31 Dec 2005 – 31 Jan 2006 |
| | 500,000 | 10 Jan 2005 | – | – | – | 500,000 | 1.21 | 31 Dec 2006 – 31 Jan 2007 |
| | 500,000 | 10 Jan 2005 | – | – | – | 500,000 | 1.21 | 31 Dec 2007 – 31 Jan 2008 |

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 Company uses the Black Scholes option pricing model (the "Model") to value share options at the date of grant. 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 significant variables and assumptions used for calculating the fair value of the share options are set out below.

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 Company's consolidated profit & loss account over the respective vesting periods of each batch of options. Share options expense of HK$114,000 was recognised in 2007 (2006: HK$51,000), 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 | 10 Jan 2005 |
| Closing price at the date of grant | HK$1.18 |
| Risk free rate[1] | 0.58% – 1.63% |
| Expected life of options | 1 – 3 years |
| Expected volatility[2] | 38.65% |
| Expected dividend per annum[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.

### 28.2 Capital management policy

The Group's objectives when managing capital are, namely, to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

The Group coordinates its financing and cash management activities at the corporate level, and usually funds its business with internally generated cash flows and through banking facilities at various subsidiaries. Nevertheless, the Group strives to minimise the bank borrowings as much as possible.

## 29. Reserves

### Group

| | Note | Share premium HK$'000 | Capital reserves HK$'000 | Other properties revaluation reserves HK$'000 | General reserves HK$'000 | Exchange reserves HK$'000 | Retained earnings HK$'000 | Proposed final dividend HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|---|
| Balance at 1 Jan 2006 | | 189,417 | 88,725 | 4,821 | 16,000 | 2,908 | 360,543 | – | 662,414 |
| Currency translation differences | | – | – | – | – | 57,861 | – | – | 57,861 |
| Capital reserve released on disposal of an investment property | | – | (17,077) | – | – | – | 17,077 | – | – |
| Reversal of deferred tax on other properties | | – | – | (660) | – | – | – | – | (660) |
| Appropriation to the reserves | | – | 153 | – | – | – | (153) | – | – |
| Profit for the year | | – | – | – | – | – | 32,694 | – | 32,694 |
| Employee share option scheme: | | | | | | | | | |
| Value of employee services | | – | 51 | – | – | – | – | – | 51 |
| Proceeds from shares issued | 28 | 282 | – | – | – | – | – | – | 282 |
| Proposed final dividend | | – | – | – | – | – | (6,366) | 6,366 | – |
| Balance at 31 Dec 2006 and 1 Jan 2007 | | 189,699 | 71,852 | 4,161 | 16,000 | 60,769 | 403,795 | 6,366 | 752,642 |
| Currency translation differences | | – | – | – | – | 40,535 | – | – | 40,535 |
| Payment of 2006 final dividend | | – | – | – | – | – | – | (6,366) | (6,366) |
| Profit for the year | | – | – | – | – | – | 89,169 | – | 89,169 |
| Employee share option scheme: | | | | | | | | | |
| Value of employee services | | – | 114 | – | – | – | – | – | 114 |
| Proposed final dividend | | – | – | – | – | – | (19,097) | 19,097 | – |
| Balance at 31 Dec 2007 | | 189,699 | 71,966 | 4,161 | 16,000 | 101,304 | 473,867 | 19,097 | 876,094 |

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

### Company

| | Share premium HK$'000 | Capital reserve HK$'000 | Contributed surplus HK$'000 | Accumulated losses HK$'000 | Total HK$'000 | Proposed final dividend HK$'000 |
|---|---|---|---|---|---|---|
| At 1 Jan 2006 | 189,417 | 176 | 442,598 | (344,535) | 287,656 | – |
| Premium on issue of new shares | 282 | – | – | – | 282 | – |
| Employee share option scheme: | | | | | | |
| Value of employee services | – | 51 | – | – | 51 | – |
| Loss for the year | – | – | – | (3,771) | (3,771) | – |
| | 189,699 | 227 | 442,598 | (348,306) | 284,218 | – |
| Proposed final dividend | | | | | (6,366) | 6,366 |
| At 31 Dec 2006 | | | | | 277,852 | 6,366 |
| At 1 Jan 2007 | 189,699 | 227 | 442,598 | (354,672) | 277,852 | 6,366 |
| Payment of 2006 final dividend | – | – | – | – | – | (6,366) |
| Employee share option scheme: | | | | | | |
| Value of employee services | – | 114 | – | – | 114 | – |
| Loss for the year | – | – | – | (158) | (158) | – |
| | 189,699 | 341 | 442,598 | (354,830) | 277,808 | – |
| Proposed final dividend | | | | | (19,097) | 19,097 |
| At 31 Dec 2007 | | | | | 258,711 | 19,097 |

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.

## 30. Bank Borrowings – Unsecured

### Group

| | **2007 HK$'000** | 2006 HK$'000 |
|---|---|---|
| Current | | |
| Repayable within 1 year | | |
| U.S. Dollar | **1,062** | – |
| Thai Baht | – | 11,000 |
| Total bank borrowings | **1,062** | 11,000 |

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

| | **2007** | 2006 |
|---|---|---|
| U.S. Dollar | – | – |
| Thai Baht | – | 4.5% |

The amounts approximated to their respective fair values as at 31 December 2007 and 2006.

## 31. Deferred Taxation

Deferred taxation is calculated in full on temporary differences under the liability method using the applicable tax rate of the jurisdictions in which group companies are domiciled.

**Group**

| | **2007**<br>**HK$'000** | 2006<br>HK$'000 |
|---|---|---|
| Deferred tax assets/(liabilities) as at 1 Jan | **4,029** | (3,649) |
| Exchange differences | **311** | 41 |
| Deferred taxation credited/(charged) to consolidated profit & loss account | | |
| Continuing operations (Note 9) | **1,949** | 9,422 |
| Discontinued operation | – | (306) |
| Deferred taxation charged to other properties revaluation reserve: | | |
| Continuing operations | – | (660) |
| Disposal of discontinued operation | – | (819) |
| Deferred tax assets as at 31 Dec | **6,289** | 4,029 |

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$256,841,000 (2006: HK$225,865,000) to carry forward against future taxable income.

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

**Deferred tax liabilities**
**Group**

| | Accelerated tax depreciation allowance | | Revaluation of properties | | Others | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **2007 HK$'000** | 2006 HK$'000 | **2007 HK$'000** | 2006 HK$'000 | **2007 HK$'000** | 2006 HK$'000 | **2007 HK$'000** | 2006 HK$'000 |
| At 1 Jan | **711** | 3,964 | **2,341** | 8,955 | **204** | – | **3,256** | 12,919 |
| (Credited)/charged to consolidated profit & loss account | **(227)** | (3,200) | **(1,958)** | (8,185) | **(48)** | 195 | **(2,233)** | (11,190) |
| Charged to other properties revaluation reserve | **–** | – | **–** | 660 | **–** | – | **–** | 660 |
| Disposal of discontinued operation | **–** | (53) | **–** | – | **–** | – | **–** | (53) |
| Exchange differences | **–** | – | **–** | 911 | **10** | 9 | **10** | 920 |
| At 31 Dec | **484** | 711 | **383** | 2,341 | **166** | 204 | **1,033** | 3,256 |

**Deferred tax assets**
**Group**

| | Impairment of assets | | Tax losses | | Others | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **2007 HK$'000** | 2006 HK$'000 | **2007 HK$'000** | 2006 HK$'000 | **2007 HK$'000** | 2006 HK$'000 | **2007 HK$'000** | 2006 HK$'000 |
| At 1 Jan | **6,972** | 8,203 | **193** | 953 | **120** | 114 | **7,285** | 9,270 |
| (Charged)/credited to consolidated profit & loss account | **(1,223)** | (2,187) | **1,063** | 112 | **(124)** | 1 | **(284)** | (2,074) |
| Disposal of discontinued operation | **–** | – | **–** | (872) | **–** | – | **–** | (872) |
| Exchange differences | **320** | 956 | **(3)** | – | **4** | 5 | **321** | 961 |
| At 31 Dec | **6,069** | 6,972 | **1,253** | 193 | **–** | 120 | **7,322** | 7,285 |

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 on the consolidated balance sheet:

**Group**

| | **2007 HK$'000** | 2006 HK$'000 |
|---|---|---|
| Deferred tax assets | **7,046** | 6,631 |
| Deferred tax liabilities | **(757)** | (2,602) |
| | **6,289** | 4,029 |

## 32. Other Long-term Liabilities

**Group**

| | **2007** **HK$'000** | 2006 HK$'000 |
|---|---|---|
| Non-current portion | | |
| Repayable between 1 and 2 years | **390** | 390 |
| Repayable between 2 and 5 years | **821** | 1,211 |
| | **1,211** | 1,601 |
| Current portion | **390** | 390 |
| | **1,601** | 1,991 |

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 amounts, being unsecured and interest-free, approximated to the respective fair values as at 31 December 2007 and 2006.

All carrying amounts of the Group's other long-term liabilities were denominated in U.S. dollar in 2007 and 2006.

## 33. Trade & Other Payables

**Group**

| | **2007** **HK$'000** | 2006 HK$'000 |
|---|---|---|
| Trade payables | **51,356** | 42,391 |
| Other payables | **204,288** | 159,129 |
| | **255,644** | 201,520 |

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

| | **2007** **HK$'000** | 2006 HK$'000 |
|---|---|---|
| Current – 30 days | **40,174** | 33,380 |
| 31 days – 60 days | **7,844** | 4,806 |
| 61 days – 90 days | **1,154** | 2,183 |
| Over 90 days | **2,184** | 2,022 |
| | **51,356** | 42,391 |

## 34. Future Operating Lease Income

The Group's investment properties are leased to a number of tenants for varying terms, depending on the location and the status of such properties. As at 31 December 2007, the Group had future aggregate minimum lease payments receivable under non-cancellable operating leases as follows:

**Group**

| | **2007 Property HK$'000** | 2006 Property HK$'000 |
|---|---|---|
| Not later than one year | **1,688** | 1,439 |
| Later than one year and not later than five years | **1,404** | 166 |
| | **3,092** | 1,605 |

## 35. Operating Lease Commitments

The Group has entered into a number of operating leases on properties, plant & equipment. The terms of such leases vary from country to country, and some of them may have annual escalation and early termination clauses.

At 31 December 2007, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

**Group**

| | **2007 Property HK$'000** | **2007 Other assets HK$'000** | 2006 Property HK$'000 | 2006 Other assets HK$'000 |
|---|---|---|---|---|
| Not later than one year | **13,009** | **974** | 15,876 | 988 |
| Later than one year and not later than five years | **117,301** | **2,621** | 52,149 | 1,446 |
| Later than five years | **17,896** | **–** | 21,637 | – |
| | **148,206** | **3,595** | 89,662 | 2,434 |

## 36. Capital Commitments

**Group**

| | **2007 HK$'000** | 2006 HK$'000 |
|---|---|---|
| Contracted but not provided for in respect of property, plant & equipment | **7,620** | 4,191 |
| Authorised but not contracted for in respect of property, plant & equipment | **169** | 418 |
| | **7,789** | 4,609 |

The Group's share of capital commitments of the jointly controlled entities not included in the above was as follows:

| | | |
|---|---|---|
| Contracted but not provided for in respect of property, plant & equipment | **31,090** | 23,946 |
| Authorised but not contracted for in respect of property, plant & equipment | **17,551** | 13,477 |
| | **48,641** | 37,423 |

## 37. Contingent Liabilities

| | Group | | Company | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Guarantees for banking facilities granted to subsidiaries | **–** | – | **102,500** | 104,060 |
| Corporate guarantee in respect of performance bonds issued by the subsidiaries to customers | **6,199** | 3,793 | **–** | – |
| Counter-indemnity in respect of performance bonds issued by banks | **7,247** | 4,347 | **–** | – |
| Guarantees in lieu of utility deposit | **2,292** | 1,897 | **–** | – |
| Guarantees in lieu of accessory security for a sales order | **–** | 524 | **–** | – |
| Counter-indemnity in respect of advance performance bonds issued by banks | **5,748** | 2,348 | **–** | – |
| | **21,486** | 12,909 | **102,500** | 104,060 |

The Company has not recognised any deferred income in respect of the guarantees for banking facilities granted to subsidiaries as their fair value cannot be reliably measured and their transaction price was HK$Nil (2006: HK$Nil).

## 38. Related Party Transactions

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

### 38.1 Sale of goods and services

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Sales of carpets: | | |
| An associate[1] | **3,596** | 6,584 |
| The Hongkong and Shanghai Hotels, Limited ("HSH")[2] | **3,585** | 5,898 |
| | **7,181** | 12,482 |

Notes:

[1] Sales to an associate were conducted in the normal course of business and at mutually agreed prices between the parties.

[2] By virtue of the fact that HSH is under common control with the Company, the Company's transactions with HSH 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.

### 38.2 Purchase of goods and services

| | **2007 HK$'000** | 2006 HK$'000 |
|---|---|---|
| Purchase of goods from: | | |
| an associate[1] | **2,197** | 2,889 |
| jointly controlled entities[1] | **40,635** | 23,735 |
| Feltech Manufacturing Company Limited ("FMCL")[2] | **1,527** | 1,408 |
| | **44,359** | 28,032 |

Notes:

[1] Purchases from an associate and jointly controlled entities were conducted in the normal course of business and at mutually agreed prices between the parties.

[2] FMCL is 61.75% owned by Mr. Wan Tabtiang, a former 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 and are disclosed under the "Connected Transactions" section in the Directors' Report.

Mr. Wan Tabtiang resigned on 30 April 2007 and the amount as disclosed in this note to the accounts was up to the date of his resignation.

### 38.3 Key management compensation

| | **2007 HK$'000** | 2006 HK$'000 |
|---|---|---|
| Salaries and other short-term employee benefits | **40,026** | 32,141 |
| Share-based payments | **114** | 51 |
| | **40,140** | 32,192 |

### 38.4 Year-end balances arising from sales/purchases of goods/services

| | **2007 HK$'000** | 2006 HK$'000 |
|---|---|---|
| Trade receivables from related parties: | | |
| An associate | **498** | 1,525 |
| HSH | **24** | 53 |
| | **522** | 1,578 |
| Trade payables to related parties: | | |
| Jointly controlled entities | **3,739** | 5,378 |
| FMCL[1] | **–** | 217 |
| HSH | **82** | – |
| | **3,821** | 5,595 |

Note:

[1] No longer a related party following the resignation of Mr. Wan Tabtiang on 30 April 2007.

## 39. Events After Balance Sheet Date

On 29 January 2008, the Group purchased the entire issued share capital in J.S.L. Carpet Corporation ("JSL") and 50% of the membership interest in Weavers Guild LLC ("WG"), both incorporated in the U.S., for an aggregate cash consideration of US$3,600,000 (equivalent to HK$28,080,000). In addition, the sellers of JSL and WG will also be entitled to additional cash payments based upon the net profits generated by JSL (including with respect to the WG interests) until 31 December 2011.

JSL is a recognised leader as a source for custom high-end carpets and operates a wholesale business with distribution channels based across the U.S. WG is a 50:50 joint venture between one of the sellers of JSL and a customer of JSL. The principal activities of WG are design, manufacture and distribute handmade rugs on a wholesale basis.

As at the date of the approval of the Company's consolidated accounts, the financial statements of JSL and WG for the year ended 31 December 2007 were still under preparation and therefore the disclosures under paragraph 67 of HKFRS 3 "Business Combinations" would be impracticable. The details of the acquisition of JSL and WG were disclosed in the Company's announcement dated 30 January 2008.

## 40. Comparatives

The Group has previously included the surplus on revaluation of investment properties in operating profit. Management decided to exclude such revaluation surplus from the operating profit since property investment is not part of the Group's core business and the inclusion of such surplus on revaluation of investment properties may distort the operating results of the Group.

The Group has also excluded interest income from operating profit. Management believes that such reclassification provides a better presentation of the Group's results.

The comparative figures have been reclassified to conform to the current year's presentation.

# Principal Subsidiaries, an Associate and Jointly Controlled Entities

The table lists below the subsidiaries, an associate and jointly controlled entities of the Group as at 31 December 2007 which, in the opinion of the Directors' principally affected the results or assets of the Group. To give details of other subsidiaries would in the opinion of the Directors, result in particulars of excessive length.

| Name | Country of incorporation and operations | Principal activities | Issued and paid-up capital | Percentage of equity attributable to the Group |
|---|---|---|---|---|
| **Subsidiaries** | | | | |
| Costigan Limited | British Virgin Islands | Investment holding | 100 shares of US$1 each | 100%[1] |
| Luard Enterprises Limited | British Virgin Islands | Investment holding | 1 share of US$1 each | 100%[1] |
| Carpets International Thailand Public Company Limited | Thailand | Carpet manufacturing | 10,000,000 shares of Baht10 each | 99% |
| Edward Fields, Inc. | United States of America | Carpet trading | US$100,000 | 100% |
| Foshan Nanhai Tai Ping Carpets Company Limited | The People's Republic of China | Carpet manufacturing | US$5,000,000 | 80% |
| Premier Yarn Dyers, Inc. | United States of America | Yarn dyeing | 1,100 shares of US$100 each | 100% |
| Suzhou Shuilian Mattress Co. Ltd. | The People's Republic of China | Mattress manufacturing and trading | US$1,730,000 | 82% |
| Tai Ping Carpets Americas, Inc. | United States of America | Carpet trading | 220,000 shares of US$1 each | 100% |
| Tai Ping Carpets Europe S.A.S. | France | Carpet trading | Euro 350,000 | 100% |
| Tai Ping Carpets India Private Limited | India | Carpet trading | Rupees 1,000,000 | 100% |
| Tai Ping Carpets Interieur GmbH | Germany | Carpet trading | Euro 511,292 | 100% |
| Tai Ping Carpets Latin America S.A. | Argentina | Carpet trading | Pesos 300,000 | 100% |
| Tai Ping Carpets Limited | Hong Kong | Carpet trading | 2,000,000 shares of HK$10 each | 100% |
| Tai Ping Carpets (S) Pte. Limited | Singapore | Carpet trading | S$5,000,000 | 100% |
| White Oak Carpet Mills, Inc. | United States of America | Carpet manufacturing | 918 shares of US$1 each | 100% |

| Name | Country of incorporation and operations | Principal activities | Issued and paid-up capital | Percentage of equity attributable to the Group |
|---|---|---|---|---|
| **Associate** | | | | |
| Philippine Carpet Manufacturing Corporation | The Philippines | Carpet manufacturing | 1,017,581 shares of PHP100 each | 33% |
| **Jointly controlled entities** | | | | |
| 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 Weavers Carpet Company Limited | The People's Republic of China | Carpet manufacturing | US$6,000,000 | 49% |
| Weihai Shanhua Floorcovering Products Company Limited | The People's Republic of China | Manufacture of carpet underlay | US$145,000 | 42% |

Notes:

1 Directly held by the Company

2 None of the subsidiaries had issued any debt securities at the end of the year.

# Major Investment Properties

| Location | Lot number | Type | Lease term |
|---|---|---|---|
| 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 |
| Rooms 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 |

# Senior Management

| Name | Position held | Age[1] | Joined Group | Business experience |
| --- | --- | --- | --- | --- |
| Mr. Eric A. S. Cooper | Group Technical Director | 56 | 2005 | Carpet manufacturing |
| Mr. Philip A. Decker | General Manager, Corporate Division | 40 | 2007 | Carpet sales & marketing |
| Mr. Jack S. Gates | President, Premier Yarn Dyers, Inc. | 68 | 1983 | Carpet & textiles manufacturing |
| Mr. John P. Goggin | Managing Director – Commercial, U.S. | 54 | 2004 | Carpet sales & marketing |
| Mr. Daniel S. Kasakoff | Managing Director – Commercial, Latin America | 60 | 2007 | Carpet sales & marketing |
| Mr. Adam J. S. Jones | Managing Director – Commercial, Europe | 36 | 2005 | Carpet sales & marketing |
| Mr. Robert E. Keilitz | Managing Director – RBC, Asia | 59 | 2006 | Carpet sales & marketing |
| Ms. Susan F. MacKenzie | Managing Director – RBC, U.S. | 46 | 2005 | Carpet sales & marketing |
| Mr. Raymond W. M. Mak | Chief Financial Officer & Company Secretary | 44 | 2005 | Financial management |
| Mr. Richard N. Morris | Managing Director – Commercial, Asia | 44 | 2004 | Carpet sales & marketing |
| Mr. Anthony T. Mott | Product Business Development Director – RBC, U.S. | 43 | 2004 | Carpet sales & business development |
| Mr. William J. Palmer | Global Managing Director – Commercial | 47 | 1999 | Carpet sales & marketing |
| Mr. Chalermchai Puapipat | Managing Director – Carpets Inter | 42 | 1998 | Carpet manufacturing, sales & marketing |
| Ms. Simone S. Rothman | Chief Marketing Officer | 48 | 2004 | Marketing & business development |
| Ms. Catherine Vergez | Managing Director – RBC, Europe | 45 | 1991 | Carpet sales & marketing |
| Mr. Rainer H. Zimmermann | Senior Vice President, Global Operations | 51 | 2006 | Manufacturing & logistics |

Note:
[1] Age as at 18 Apr 2008

# Corporate Information

### Auditor

BDO McCabe Lo Limited

### Bankers

The Hongkong and Shanghai Banking Corporation Limited
Standard Chartered Bank
Shanghai Commercial Bank Limited
Chong Hing Bank Limited

### Company Secretary and Qualified Accountant

Raymond W. M. Mak

### Registrars and Transfer Agent

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

### Branch Registrars and Registration Office

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

### Registered Office

Canon's Court
22 Victoria Street
PO Box HM 1179
Hamilton HM EX
Bermuda

### Principal Office in Hong Kong

26/F, Tower A, Regent Centre
63 Wo Yi Hop Road
Kwai Chung
Hong Kong
Tel: (852) 2848 7668
Fax: (852) 2526 8947
Webpage: http://www.taipingcarpets.com

### Stock Exchange Code: 0146