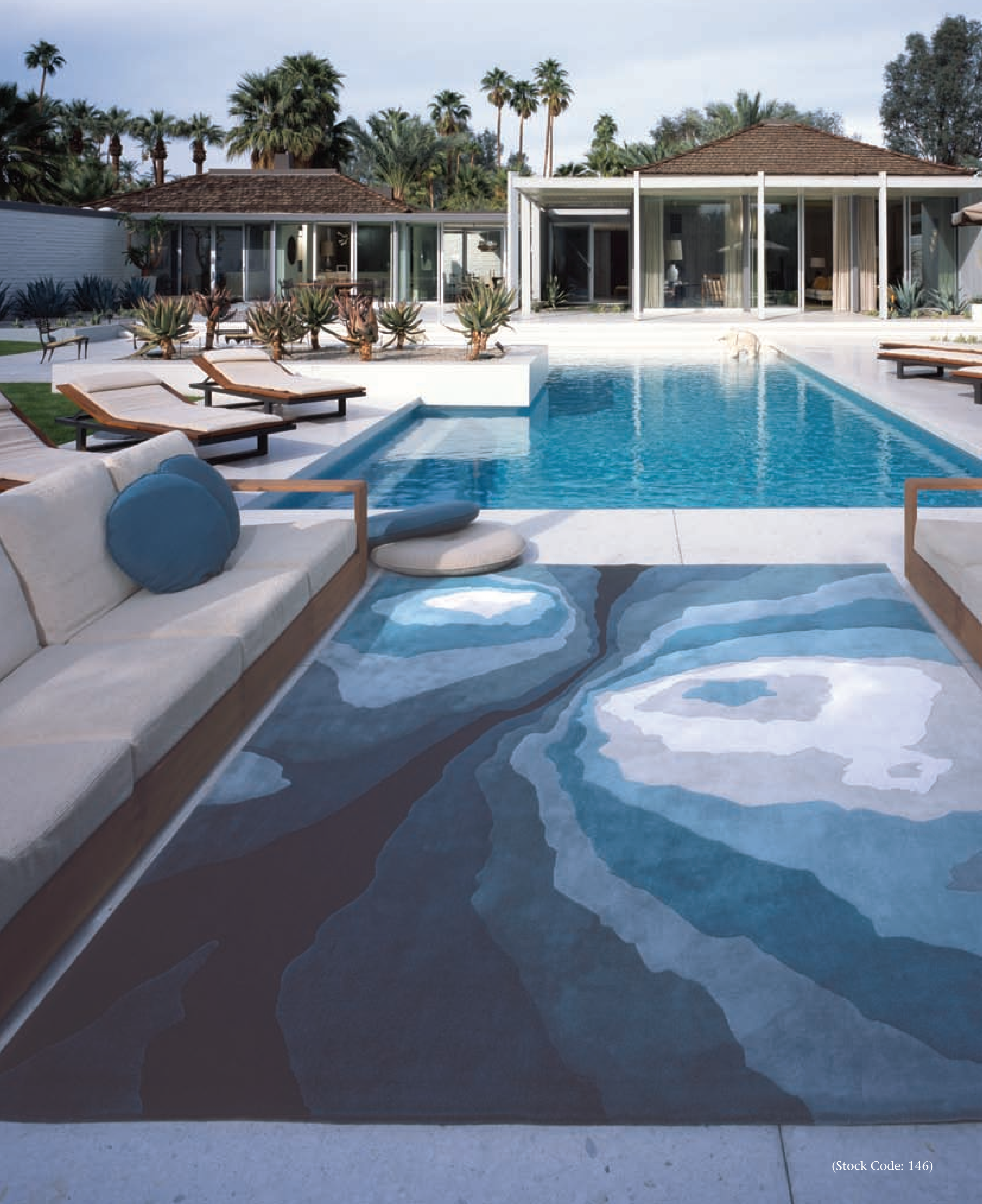
TAI PING

Tai Ping Carpets International Limited
Annual Report 2008

(Incorporated in Bermuda with Limited Liability)



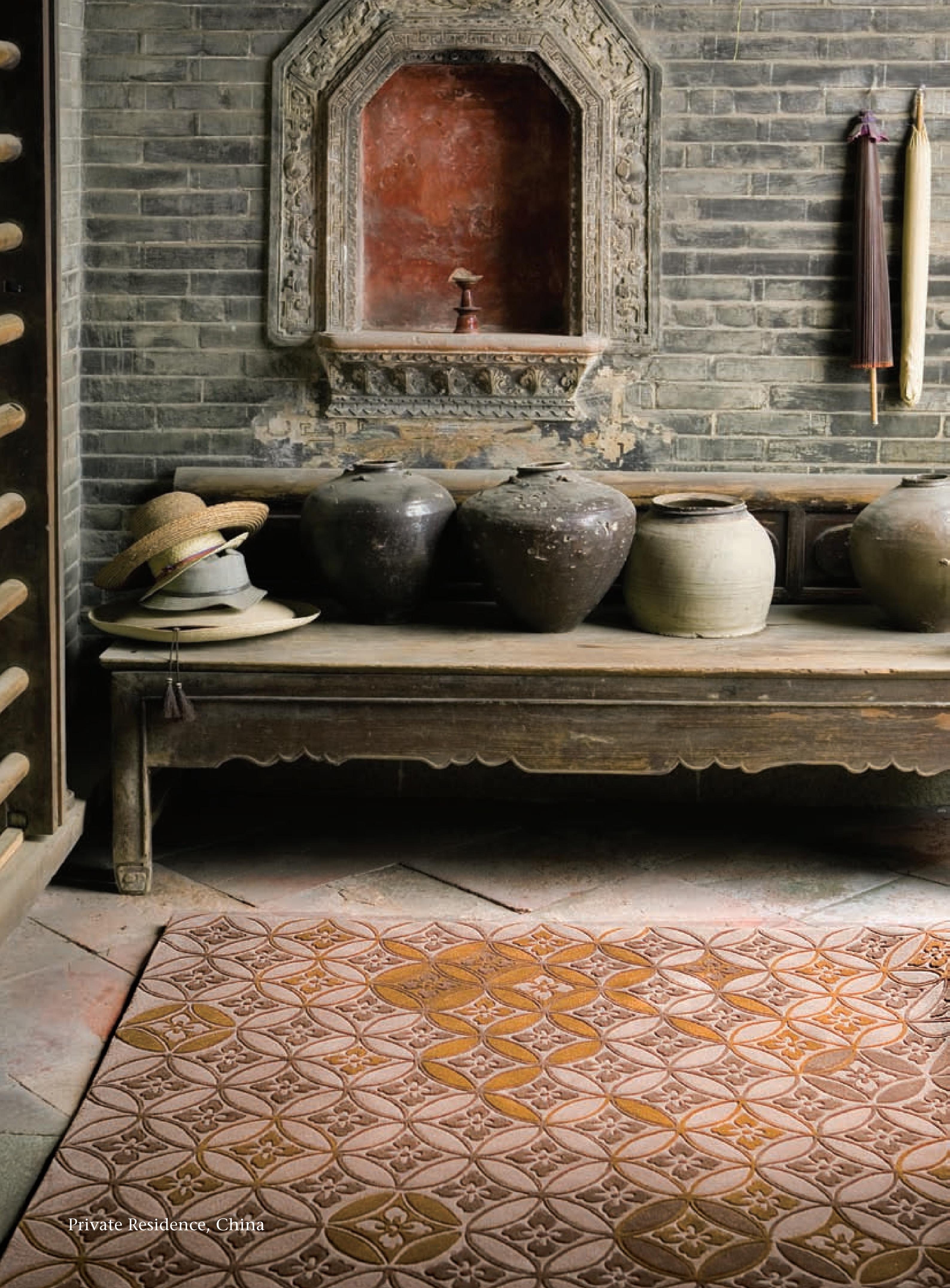
(Stock Code: 146)

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 are dedicated to distinguishing 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.



Private Residence, China

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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 146 on The Stock Exchange of Hong Kong Limited.

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

Tai Ping offers its customers access to a full range of quality floorcovering products, from luxury to affordable, appropriate for every commercial and residential environment. The Company's global network attends to customer needs with 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

		2008	2007
Per share	Net worth per share (HK$)	**4.74**	4.40
	Basic earnings per share (HK cents)	**39.34**	42.02
	Final dividend declared per share (HK cents)	**9.0**	9.0
For the year	Turnover	**1,320,044**	1,121,884
	Profit for the year	**84,153**	93,971
	Profit attributable to equity holders of the Company	**83,465**	89,169
	Earnings before interest, tax, depreciation & amortisation	**183,153**	170,213
	Additions to property, plant & equipment, construction in progress & intangible assets (other than goodwill)	**72,579**	57,236
As at 31 Dec	Capital & reserves attributable to the Company's equity holders	**966,383**	897,313
	Shares in issue (in thousands)	**212,187**	212,187
Ratio	Return on capital & reserves attributable to equity holders	**9.0%**	10.7%

Five-year Consolidated Financial Summary

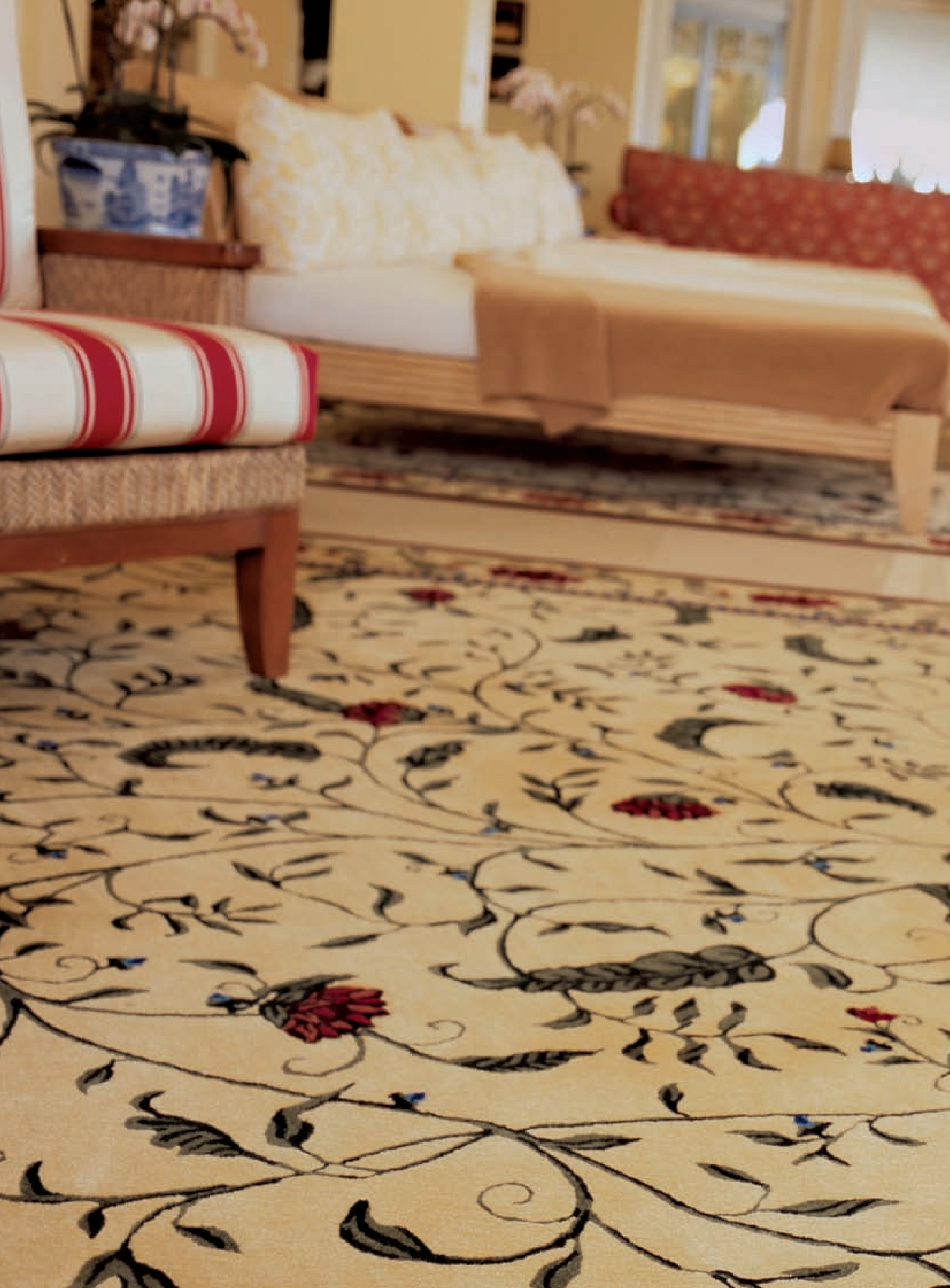
Year ended 31 December

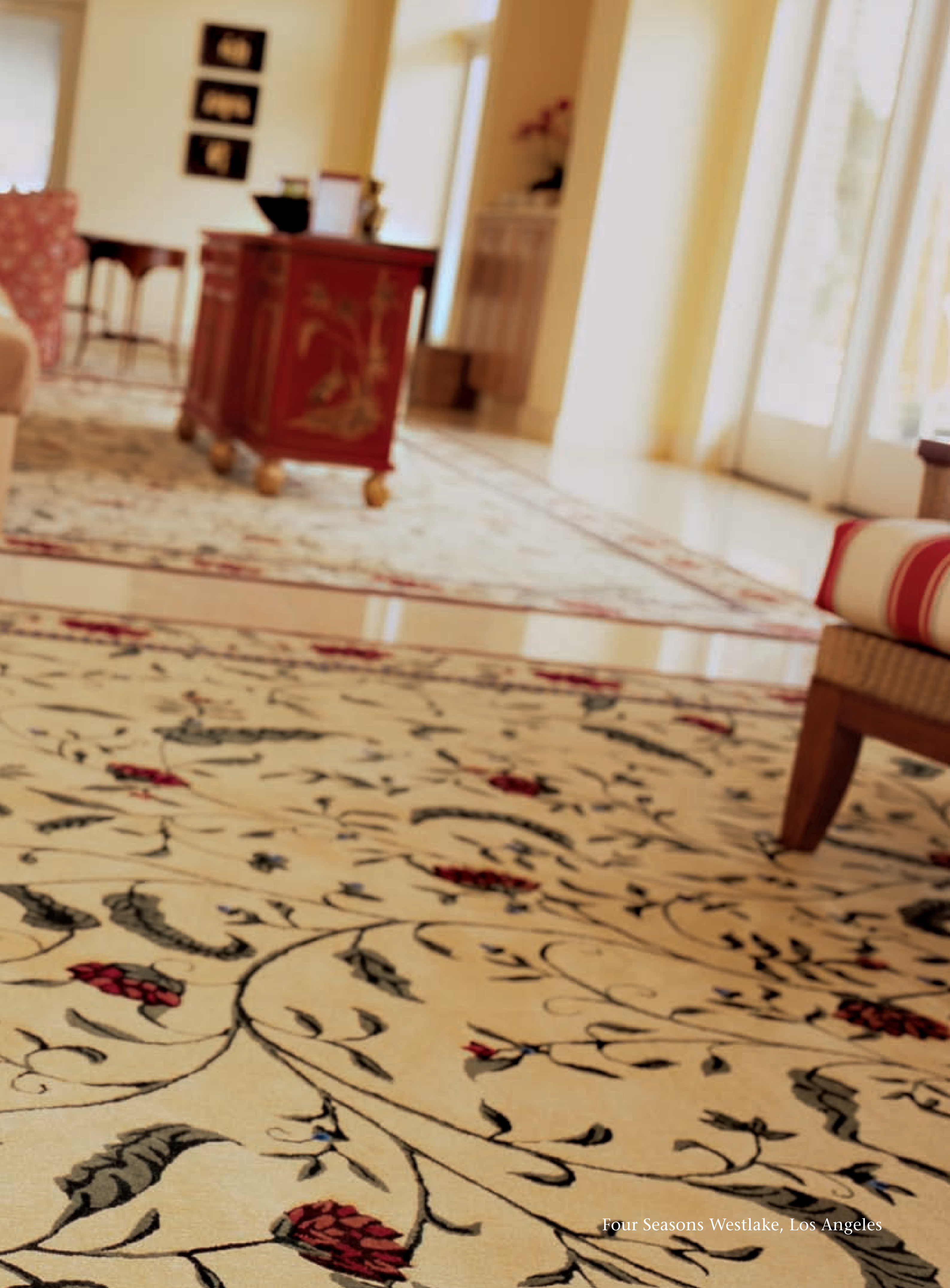
Assets & Liabilities

	2008 HK$'000	2007 HK$'000	2006 HK$'000	2005 HK$'000	2004 HK$'000
Total assets	**1,290,550**	1,205,305	1,047,655	990,721	891,563
Total liabilities	**285,147**	271,146	240,590	279,250	204,999
Total equity	**1,005,403**	934,159	807,065	711,471	686,564

Consolidated Income Statement

	2008 HK$'000	2007 HK$'000	2006 HK$'000	2005 HK$'000	2004 HK$'000
Profit/(loss) attributable to:					
Equity holders of the Company	**83,465**	89,169	32,694	27,646	(3,903)
Minority interests	**688**	4,802	4,326	6,808	2,916
	84,153	93,971	37,020	34,454	(987)





Four Seasons Westlake, Los Angeles

Chairman's Statement

Our strategy to solidify Tai Ping's status as an internationally recognised luxury brand continued to bear fruit despite a challenging economic climate. We are pleased to report healthy growth in turnover to a new record of HK$1.3 billion in 2008, up 18%.

To position Tai Ping for expansion, we continued to enhance our presence in the United States, Europe and Asia, while developing our sales operations in the more recently opened markets of South America, India, and the Middle East.

The Commercial division's business experienced strong gains in 2008, largely attributable to the hospitality sector in North America and the nature of planning and construction cycles of major U.S. hotel chains. Hospitality business in South and Central America was also favourable as Tai Ping's Commercial division leveraged its strong global customer base. A new Contract division was started mid-year to take advantage of our carpet tile capabilities at Carpets Inter in Thailand and to inject a high level of design and innovation into a commodity-driven business. In 2009, we will introduce our first all wool carpet tile to be sold as a unique product with real environmental attributes.

With the Residential & Boutique Contract division, Edward Fields, the iconic American brand, was relaunched in 2008 with new product development and a programme of creating Edward Fields studios within Tai Ping showrooms to give the U.S. new touchpoints.

In 2009, the launch of Tai Ping and Edward Fields websites along with newly printed catalogues will provide timely opportunity to our talented sales teams to re-introduce global Design Collections for Tai Ping and newly curated Edward Fields to our design communities.

In January 2008, we completed the acquisition of J.S.L. Carpet Corporation ("JSL"), a U.S.-based wholesale distributor of high-end custom carpets and rugs. Therefore, it was pleasing to see JSL showing growth and profitability over prior year, and there is an exciting opportunity to utilise JSL for additional product sourcing, development and distribution worldwide.

"Tai Ping Towards Sustainability", the company-wide programme of environmental initiatives, has been a key focus at factory level. In addition to ISO 14001 and the CRI's Green Label Plus, in 2009, Tai Ping will continue to work toward NSF 140 Silver certification. Reuse, Reduce, and Recycling initiatives are ongoing for all resources and materials used in the production and distribution of Tai Ping products.

While the global outlook for 2009 presents ever-increasing economic and environmental challenges, premium quality and customer service will continue to be Tai Ping's strongest attributes. 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.

On behalf of the Board, I should like to thank all staff for their fruitful efforts in 2008, and I am also grateful to the Directors for their valuable support and advice during this past year.

Nicholas T. J. Colfer
Chairman

Hong Kong, 17 April 2009

Management Discussion & Analysis

The Group's consolidated turnover for the year ended 31 December 2008 was HK$1,320 million, a year-on-year increase of 18% or HK$198 million. This was mainly driven by the sustained business growth of the core carpet operations, which accounted for 94% of total turnover. The gross margin decreased slightly to 44% from 45% in 2007, which was mainly attributable to significant increases in commodity prices during the first half year of 2008 and volatile exchange markets.

The Group recorded an operating profit of HK$40 million, which was 63% of the operating profit of HK$63 million earned in 2007. The relatively significant decrease in operating profit was mainly due to lower gross profit margin and higher operating costs. Part of the higher operating costs was attributable to exchange losses of HK$8 million arising from trade activities in 2008, compared with a net exchange gain of HK$6 million in 2007, due to a strong and fast appreciation of the U.S. Dollar against most other currencies in the fourth quarter in 2008.

Total gain arising from revaluation and disposal of investment properties also decreased from HK$10 million in 2007 to HK$187,000 only in 2008. In addition, the Group recorded an impairment loss of HK$480,000 in respect of the mattress business in China, which was discontinued and sold after year-end.

Share of profits of the jointly controlled entities, however, recorded significant increases in 2008. The increase in profit share from the jointly controlled entities amounted to HK$65 million, up 55% year on year, which was attributable to various causes: strong local business growth due to the Beijing Olympic Games, much bigger capacity and economy of scale from operating the new factory site and closing down the old one, and the gain arising from the sale of the old factory site and facilities during the year.

As a result, profit attributable to equity holders amounted to HK$83 million, a decrease of HK$6 million or 6%, as compared with HK$89 million in 2007.

Carpet Operations

Turnover of the carpet operations in 2008 increased by 20%, or HK$206 million, to HK$1,239 million. This achievement was mainly the direct result of the Group's dedicated investments and efforts made in the U.S., Europe and certain emerging markets during the past few years, and its acquisition of JSL in the U.S. in January 2008.

The Group's strategy is to compete with premium quality, strong service commitment and design support, and to actively explore opportunities in new markets and products for sustained growth. New offices were established in Argentina and India.

The Americas accounted for 48% of total carpet turnover in 2008, while Asia and Europe/Others accounted for 32% and 20% respectively. In 2007, the corresponding shares of total carpet turnover by the Americas, Asia and Europe/Others were 41%, 39% and 20% respectively.

The gross profit margin in 2008 decreased only slightly to 45%, from 46% in 2007, despite very challenging operational conditions during the year. This was mainly achieved by further improved factory efficiencies and continuing increase in sales mix of higher margin carpets.

The operating profit of the carpet operations decreased by HK$24 million, or 43%, to HK$32 million year on year. This was mainly attributable to the decline in gross profit margin and to relatively high operating expenses incurred for business/product development and building the foundation for future growth.

The Americas

The U.S. remained the Group's largest market in 2008 and accounted for 46% of total carpet turnover. Carpet turnover in the U.S. was HK$569 million, a 34% increase year-on-year. Although the significant increase was partly attributable to the acquisition of the JSL, which sales (HK$54 million) accounted for 37% of the year-on-year increase in turnover, both the commercial and residential businesses also recorded strong sales during the year.

Turnover of the U.S. commercial business grew by 19% to HK$325 million in 2008. The increase was mainly attributable to the continuing increase of the business from the hospitality sector. In addition, Tai Ping's increased presence in the U.S. has stimulated the growth of the commercial business worldwide as more projects from U.S. customers are referred to other offices as these customers have expanded their businesses overseas.

Despite higher sales, the operating results of the U.S. commercial business decreased in 2008 due to lower gross profit margins and investments in new business development. The gross profit margin was tight in certain market sectors and the significant increases in production costs could not be fully passed on.

The U.S. residential business posted strong growth in sales due to fewer disruptions caused by showroom re-location and/or renovation works in 2008. Turnover in 2008 was HK$190 million, 25% higher than 2007, with healthy profit margins. The operating profit of the U.S. residential business also showed significant improvement as the increases in selling and administrative expenses incurred to support the sales growth in 2008 were relatively insignificant.

The Group has also established an office in Argentina to actively pursue business opportunities in the Latin America region. Total sales recorded during the year amounted to HK$31 million.

Asia

In Thailand, the Group is a dominant player in the domestic market selling under the Carpets Inter brand. Turnover in the South East Asia region in 2008 showed a reasonable increase as it benefited from the growth in certain domestic market segments even though general demand was fairly weak. Its operating results also improved due to higher profit margin and production efficiencies.

After two years of significant growth, combined turnover in Hong Kong, Macau and China decreased by 22% to HK$85 million in 2008. In particular, sales in the Macau market were badly hit by the significant slow-down of the gaming sector business. While the gross profit margin was maintained, the operating profit earned was much lower compared with 2007.

Europe/Others

In 2008 turnover in Europe and the Middle East showed significant growth both in the commercial and residential businesses, partly helped by a strong Euro and Pound Sterling against the U.S. Dollar in the first three quarters in 2008. Total turnover amounted to HK$189 million, a year-on-year increase of 17%.

The gross profit margin in 2008 was similar to the 2007 level as the impact of the stronger Euro and Pound Sterling against the U.S. Dollar was offset by the higher production costs resulting from a weak U.S. Dollar. The European operations incurred a loss in 2008, partly attributable to relatively higher initial costs incurred in developing new markets, including the new Hamburg showroom, and exchange losses arising from trade activities resulting from the sharp reversal of the exchange rates of Euro/Pound Sterling against the U.S. Dollar in the fourth quarter in 2008.

Jointly Controlled Entities

Combined turnover of the three jointly controlled entities in China amounted to HK$1,098 million, which was similar to the 2007 level. While the domestic market remained highly price sensitive and competition was intense, the gross profit margin and operating profit of the jointly controlled entities grew strongly as their production was centralised in the new factory premises, thus yielding better production efficiencies and lower average unit costs.

After the re-location, the old factory site and the premises were sold during the year, and the Group's share of the gain was HK$17 million.

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.

As a result, the Group's share of profit after income tax expenses of the jointly controlled entities amounted to HK$65 million, which was 55% higher than the 2007 amount (HK$42 million).

Marketing & Branding

Key growth drivers in 2008 included a strategy of creating branded showrooms to improve Tai Ping's product and brand exposure in cities with a concentration of design communities and high net worth populations. The completion of the expansion of the Hong Kong showroom and renovation of a Tai Ping showroom in Dallas along with the creation of four new Edward Fields Studios in Chicago, San Francisco, Dallas and Los Angeles within existing Tai Ping showrooms, concluded a program of renovation of the majority of existing locations.

Monthly appearances of print editorials featuring Tai Ping and Edward Fields products in design and business publications around the world further expanded brand awareness in 2008; as will newly completed websites and catalogues for both Tai Ping and Edward Fields.

Participation in tradeshows worldwide afforded Tai Ping a platform for exposure, growth and expansion in new territories particularly throughout South and Central America with the debut of Hotelga in Buenos Aires, an important Hospitality event. In addition, Tai Ping Contract's first all wool premium carpet tile line will provide a unique opportunity to further distinguish the Tai Ping brand.

Plans in 2009 include maximising the investment of our new websites through a strategic web marketing plan and the ongoing development of innovative and exciting sales tools to support global collection sales, and to communicate Tai Ping's exciting environmental initiatives.

Yarn Operation

Premier Yarn Dyers, Inc. ("PYD"), which operates the Group's U.S.-based yarn-dyeing facilities, recorded a decrease in sales and operating profit of 11% and 25% respectively. Turnover and operating profit in 2008 amounted to HK$62 million (2007: HK$70 million) and HK$9 million (2007: HK$12 million) respectively. The decrease in sales of PYD was a direct consequence of the decrease in demand in the mass carpet market in the U.S., with fewer dyeing orders contracted out by other carpet companies.

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 maintains its focus on growing the core carpet operations and disposing of non-core businesses and assets. Turnover of such other businesses in 2008 decreased by 2% year-on-year, to HK$19 million. In 2008, such other businesses recorded an operating gain of HK$148,000 before accounting for the loss on disposal of the mattress business mentioned below.

The Group decided to terminate the mattress operation in China in late 2008, and entered into an agreement in February 2009 to sell the business to certain independent third parties. As a result, it was estimated that a loss of HK$480,000 would result from the disposal of this business which has been provided for in 2008.

Capital Expenditure

Capital expenditure in the form of property, plant & equipment, construction in progress and intangible assets (other than goodwill) incurred by the Group totalled HK$73 million in 2008 (2007: HK$57 million). As at 31 December 2008, the aggregate net book value of the Group's property, plant & equipment, investment properties, leasehold land & land use rights, construction in progress and intangible assets (other than goodwill) amounted to HK$381 million (2007: HK$398 million).

It is expected that capital expenditure will decrease in 2009 as major initiatives to expand factory capacities and renovate showrooms have been substantially completed.

Liquidity & 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 2008, the Group had total cash and bank balances amounting to HK$115 million (2007: HK$108 million) and did not have any bank borrowings (2007: HK$1 million). As at 31 December 2007, the loans of the Group were denominated in U.S. Dollars and matured within 1 year. The net cash balance was HK$115 million as at 31 December 2008 (2007: HK$107 million). The gearing ratio, calculated as net bank borrowings (total bank borrowings net of cash and bank balances) divided by total equity, was 0% (2007: 0%).

As at 31 December 2008, the Group also held financial assets at fair value through profit or loss of HK$59 million (2007: HK$31 million).

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. Dollars, and to a lesser extent in Thai Baht, Euro and Pound Sterling. The operations in Singapore, India and Argentina are not significant in terms of the Group's results.

The major exchange differences arising from overseas operations in 2008 related mostly to Thailand and Europe. The effect of the exchange differences in Thailand, however, has been partly reduced by hedging against some of its foreign currency exposure (including accounts receivable from export sales). While the exchange rates of Euro/Pound Sterling against the U.S. Dollar were strong in 2007 and in the first three quarters in 2008, there was a sharp and significant reversal of this trend in the fourth quarter in 2008. As a result, the European operations recorded net exchange losses of HK$6 million in 2008 compared with net exchange gain of HK$6 million in 2007.

It is considered that the exchange market will continue to be highly volatile in 2009, and the Group will closely monitor the exchange rate movements and take appropriate action to manage any material exposure that may arise.

Employee & Remuneration Policies

As at 31 December 2008, the Group employed 3,400 employees (2007: 3,300 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 2008 totalled HK$364 million (2007: HK$324 million) and HK$8 million (2007: HK$6 million) respectively.

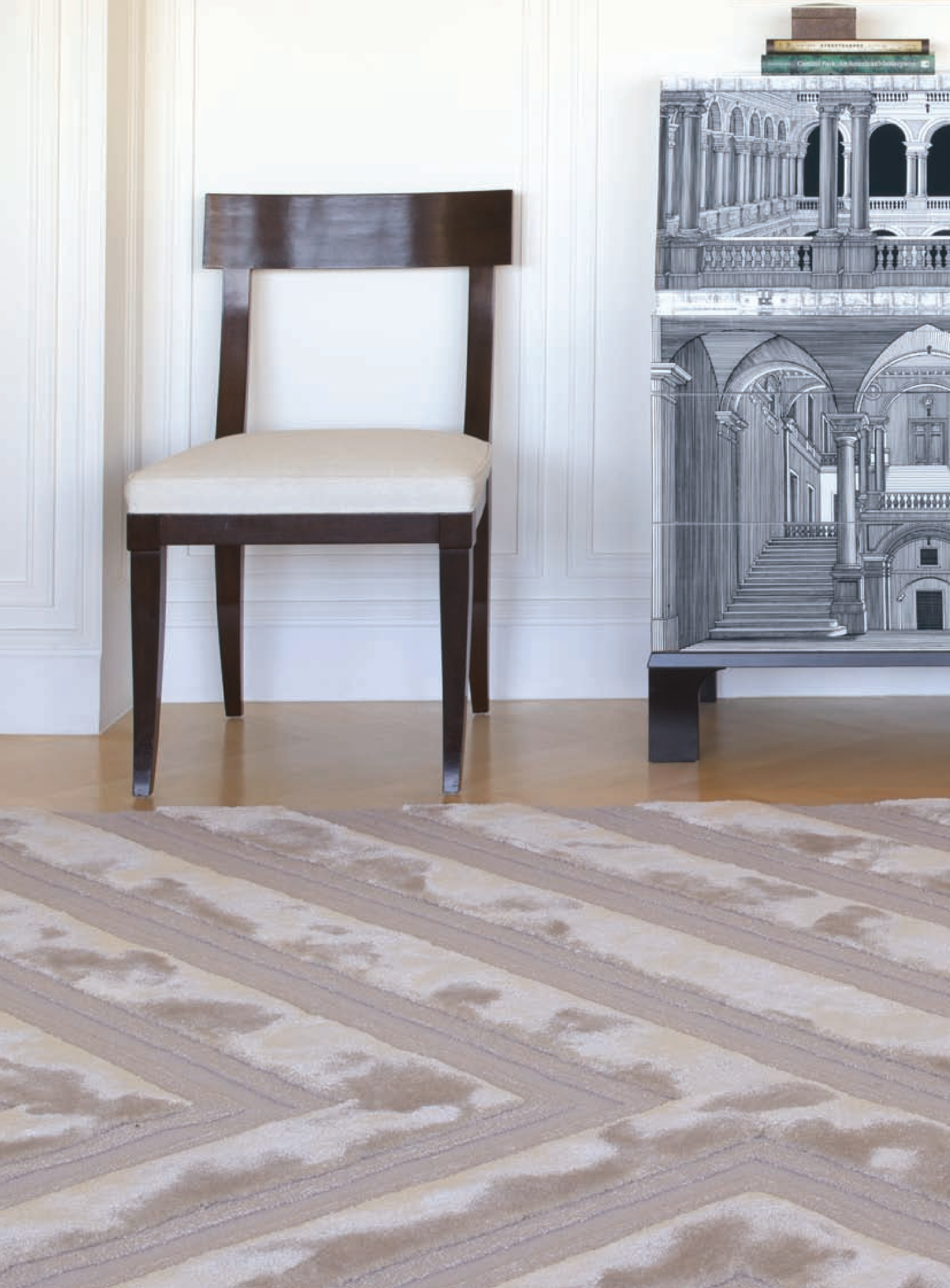
The Company implemented a profit-sharing scheme for certain key management personnel (including the Chief Executive Officer). Pursuant to the scheme, based on the recommendation of the Remuneration Committee, the eligible participants would be entitled to a profit share in respect of the Company's consolidated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

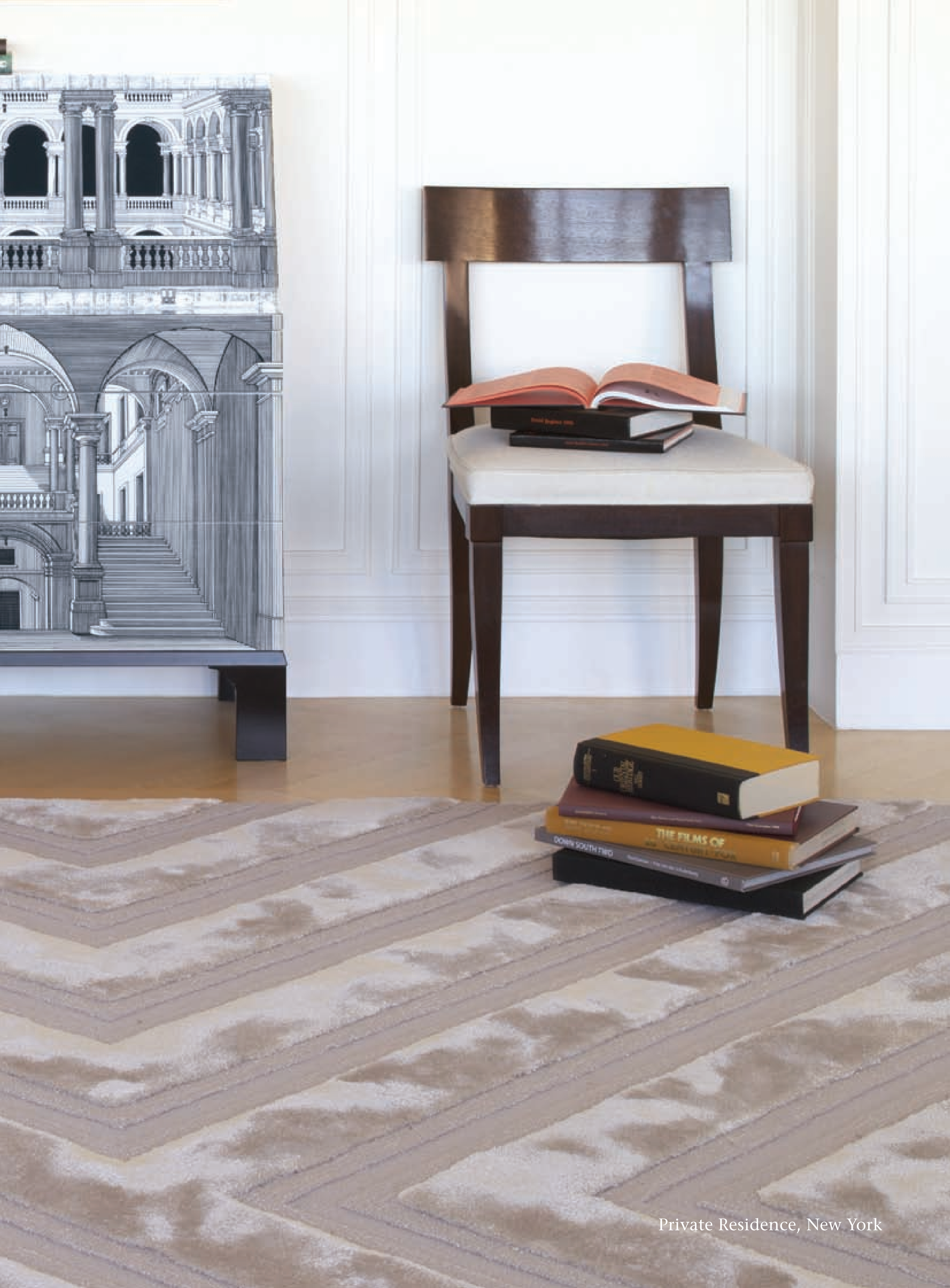
Contingent Liabilities

As at 31 December 2008, the Group's total contingent liabilities amounted to HK$24 million (see Note 40 to the financial statements for full disclosure) (2007: HK$22 million).

James H. Kaplan
Chief Executive Officer

Hong Kong, 17 April 2009





Private Residence, New York

Board of Directors

Chairman & Non-executive Director

Nicholas T. J. Colfer: aged 49; Chairman since 2005; Non-executive Director since 2003.
Mr. Colfer is a Director of Sir Elly Kadoorie & Sons Limited, a Non-executive Director of The Hongkong & Shanghai Hotels, 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 & Executive Director

James H. Kaplan: aged 53; 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 64; 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 48; Non-executive Director since 1997.
Mr. Leong is the Finance and Business Development 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 45; Alternate Director to his brother Lincoln K. K. Leong since 1998.
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 38; 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 46; 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 47; Independent Non-executive Director since 2004. Remuneration Committee.
Mrs. Fung is Non-executive Director of Fountain Set (Holdings) Limited, Independent Non-executive Director of Hong Kong Catering Management Limited, Director of Hsin Chong International Holdings 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 47; Independent Non-executive Director since 1998. Audit Committee.
Mr. Lee is the Managing Director of MAP Capital Limited, an investment management company. He is an Independent Non-executive Director of Chen Hsong Holdings Limited, a member of the Securities and Futures Commission (HKEC Listing) Committee, a Steward of The Hong Kong Jockey Club and 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 56; 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 63; 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 2008.

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 2008 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 financial statements and implementation of internal controls, in accordance with the strategy, policies and programmes approved by the Board.

The Board currently consists of 11 members. Among them, 1 is Executive Director, 6 are Non-executive Directors and 4 are Independent Non-executive Directors.

Board Meetings

The Board of Directors held a total of five Board meetings during the year ended 31 December 2008. Of these, two meetings were held to approve the 2007 final results and 2008 interim results of the Group; the other meetings were held to consider financial and operating performances of the Group. The Chief Financial Officer, also the Company Secretary, attended all Board meetings to report matters arising from corporate governance, risk management, statutory compliance, accounting and financial.

The attendance of individual Directors during the year ended 31 December 2008 is set out in the table below. All businesses transacted at the Board meetings are well-documented and the records are maintained in accordance with applicable laws and regulations.

	No. of meetings attended
Chairman & Non-executive Director	
Nicholas T. J. Colfer	5/5
Chief Executive Officer & Executive Director	
James H. Kaplan	5/5
Non-executive Directors	
Ian D. Boyce	4/5
Lincoln K. K. Leong	2/5
Nelson K. F. Leong (Alternate Director to Lincoln K. K. Leong)	3/5
David C. L. Tong	4/5
John J. Ying	5/5
Independent Non-executive Directors	
Yvette Y. H. Fung	5/5
Michael T. H. Lee	5/5
Roderic N. A. Sage	3/5
Lincoln C. K. Yung	4/5

The proceedings of the Board of Directors at its meetings are conducted by the Chairman of the Company who ensures that sufficient time is allocated for discussion and consideration of each item on the agenda and also equal opportunities are being given to Directors to speak, express their views and share their concerns. Minutes of the Board meetings record in sufficient detail the matters considered by the Board of Directors and the decisions reached. The draft minutes of each Board meeting are sent to all Directors for comments.

Chairman & Chief Executive Officer

The posts of Chairman and Chief Executive Officer ("CEO") are separate and are not held by the same individual to ensure their independence, accountability and responsibility. 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	4/7
John J. Ying	5/7
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 meetings of the committee are set out below:

	No. of meetings attended
Roderic N. A. Sage (Chairman)	3/3
Yvette Y. H. Fung	3/3
David C. L. Tong	3/3

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	2/3
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 financial statements of the Company and its subsidiaries by the Group's external auditor, BDO McCabe Lo Limited and other member firms under BDO International, for services provided are analysed as follows:

	HK$'000
Audit services	2,569
Non-audit services	688

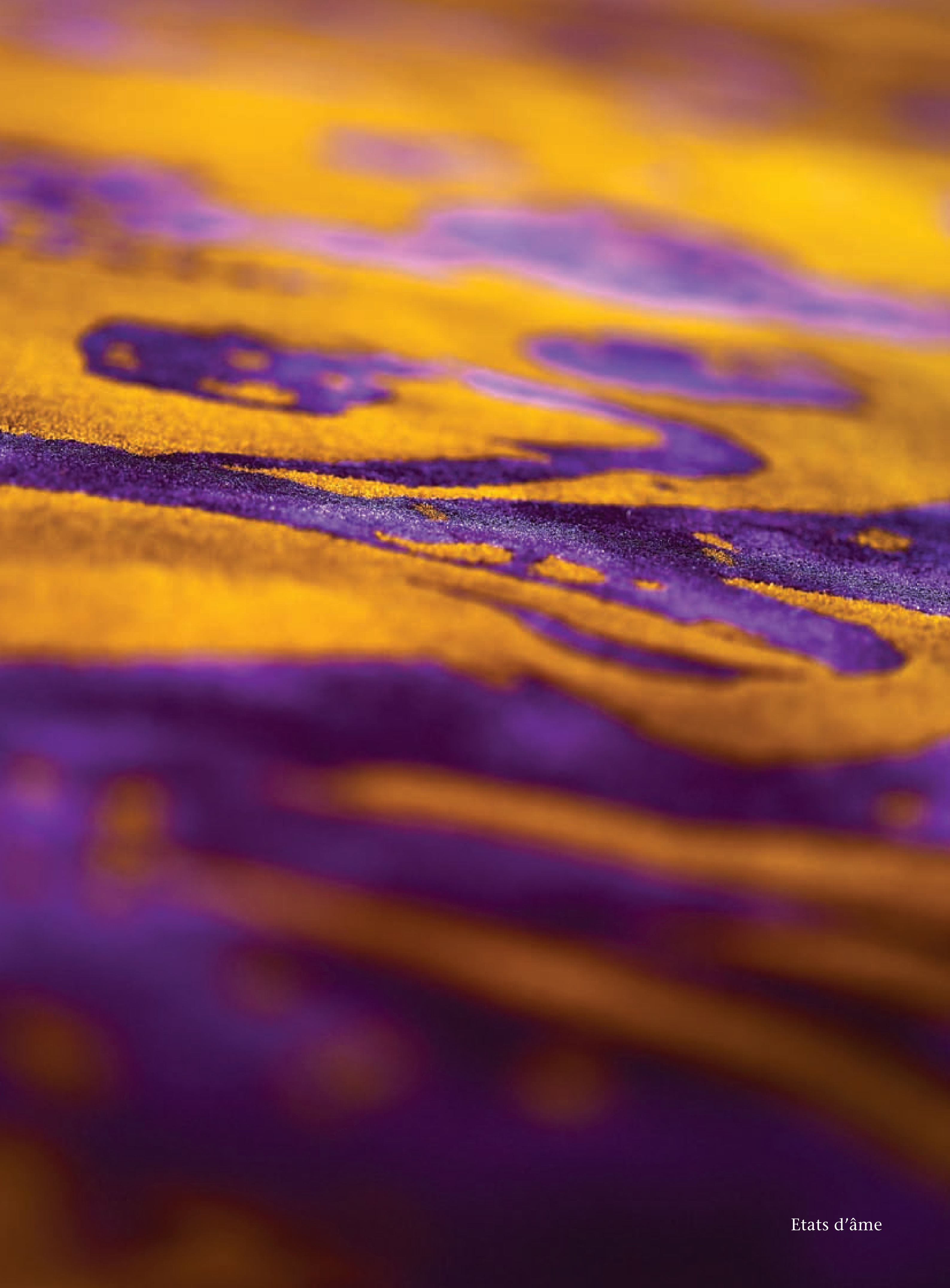
Financial Reporting & Internal Controls

The consolidated financial statements of the Company for the year ended 31 December 2008 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 financial statements 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.

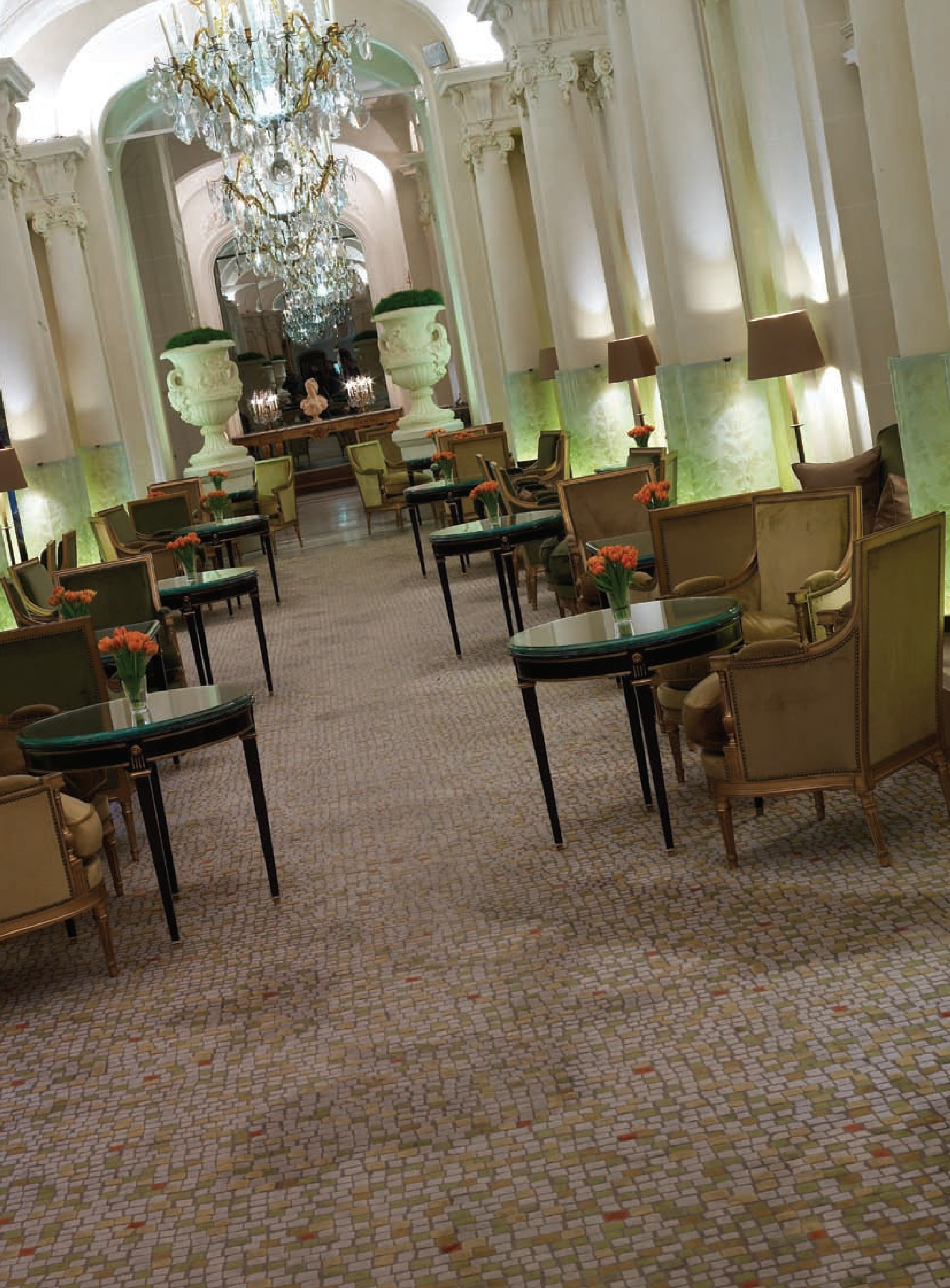
The independent auditor's report is on pages 38 and 39.

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. However, associate and jointly controlled entities might not fully follow the Group's internal control system. The Group is not involved in routine operational decisions or does not play an active role in running the businesses of the associate and jointly controlled entities, and an audit or certain review procedures are performed on their annual financial results. Major business decisions and challenges, including key policies, capital expenditure, regulatory and financing issues, would be presented and considered through regular board meetings. Such practices provide reasonable, but not absolute, assurance against material mis-statement or loss and manage rather than eliminate risks associated with the 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.



Etats d'âme




Le Plaza Athénée, Paris

Directors' Report

The Directors have pleasure in submitting their report together with the audited financial statements for the year ended 31 December 2008.

Principal Activities & 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 7 to the financial statements.

Results & Appropriations

The results for the year are set out on page 40.

No interim dividend was paid during the year (2007: Nil). The Directors recommend a final dividend of HK9 cents per share, totaling HK$19,097,000 (2007: HK$19,097,000) for the year ended 31 December 2008. 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 at the close of business on 12 June 2009.

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 32 to the financial statements.

Donations

During the year, donations made by the Group for charitable purposes amounted to HK$854,000 (2007: HK$1,040,000).

Intangible Assets

Details of the movement in intangible assets during the year is set out in Note 15 to the financial statements.

Fixed Assets

Details of the movement in fixed assets during the year are set out in Notes 16, 17, 18 and 19 to the financial statements.

Major Investment Properties

Details of major properties held for investment purposes are set out on page 102.

Share Capital

Details of the movements in share capital of the Company are set out in Note 31 to the financial statements.

Distributable Reserves

Distributable reserves of the Company as at 31 December 2008, calculated under the Companies Act 1981 of Bermuda (as amended), amounted to HK$143,347,000 (2007: HK$87,768,000).

Subsidiaries

Particulars of the principal subsidiaries are set out on pages 100 to 101.

Purchase, Sale or Redemption of the Company's Shares

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

Pre-emptive Rights

No shareholder pre-emptive rights exist in the jurisdiction in which the Company 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 2008 were as follows:

Name	Balance as at 1 Jan 2008	Date of grant	Changes during the year Granted	Lapsed	Exercised	Balance as at 31 Dec 2008	Exercise price (HK$) (Note)	Exercisable period
James H. Kaplan	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 2008 and the date of this Directors' Report, no share options were exercised by Mr. James H. Kaplan, and 500,000 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. John J. Ying, Mr. David C. L. Tong and Mr. Roderic N. A. Sage 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 & Senior Management

Brief biographical details of Directors and senior management are set out on pages 18 to 19 and 103 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 2008, 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	Aggregate % of the share capital
Ian D. Boyce	831,371	–	0.392%
David C. L. Tong	431,910	–	0.204%
Lincoln C. K. Yung	30,000	–	0.014%
Lincoln K. K. Leong[1]	–	2,000,000	0.943%
Nelson K. F. Leong[1] (Alternate Director to Lincoln K. K. Leong)	–	2,000,000	0.943%
John J. Ying[2]	–	32,605,583	15.366%
James H. Kaplan	522,000	–	0.246%

Notes:

1 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.

2 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 2008, 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[1]	40,014,178	18.858%
Bermuda Trust Company Limited[1]	40,014,178	18.858%
Harneys Trustees Limited[1]	77,674,581	36.607%
Lawrencium Holdings Limited[1]	77,674,581	36.607%
The Mikado Private Trust Company Limited[1]	77,674,581	36.607%
The Hon. Sir Michael Kadoorie[1]	77,674,581	36.607%
Peak Capital Partners I, L.P. [2]	32,605,583	15.366%

Notes:

1 Bermuda Trust Company Limited is deemed to be interested in the same 40,014,178 shares in which Acorn Holdings Corporation is interested. The Mikado Private Trust Company Limited and Harneys Trustees Limited are deemed to be interested in the same 77,674,581 shares in which Lawrencium Holdings Limited is interested. 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 77,674,581 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 & 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 2008, which did not constitute connected transactions and were not required to be disclosed under the Listing Rules, are disclosed in Note 41 to the financial statements.

2. Other related party transactions entered into by the Group in 2008 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 9 May 2008 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 from 22 March 2008 to 21 March 2011 subject to an annual cap of HK$8,500,000 for each of the financial years ending 31 December 2008, 31 December 2009 and 31 December 2010. An announcement in this respect was made on 9 May 2008. For the year ended 31 December 2008, the total order amount and invoiced value of these transactions ("HSH Transactions") amounted to HK$3,405,000 and HK$3,151,000 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 2008 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"). 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. These transactions ("Feltech Transactions") fall under the definition of continuing connected transactions under the Listing Rules by virtue of the fact that Feltech is beneficially owned as to 61.75% by Mr. Wan Tabtiang ("Mr. Wan), a former Director of CIT who resigned from its board on 30 April 2007 (the "Cessation Date"). As a result of his resignation, Mr. Wan became unconnected from the anniversary of the Cessation Date under the Listing Rules. Accordingly, Feltech has also ceased to be a connected person of the Company and the Feltech Transactions have also ceased to be continuing connected transactions since the anniversary of the Cessation Date. For the year ended 31 December 2008 (being the period from 1 January 2008 to the anniversary of the Cessation Date), the total order amount and invoiced value of these Feltech Transactions amounted to HK$3,667,000 and HK$3,034,000 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 2008 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

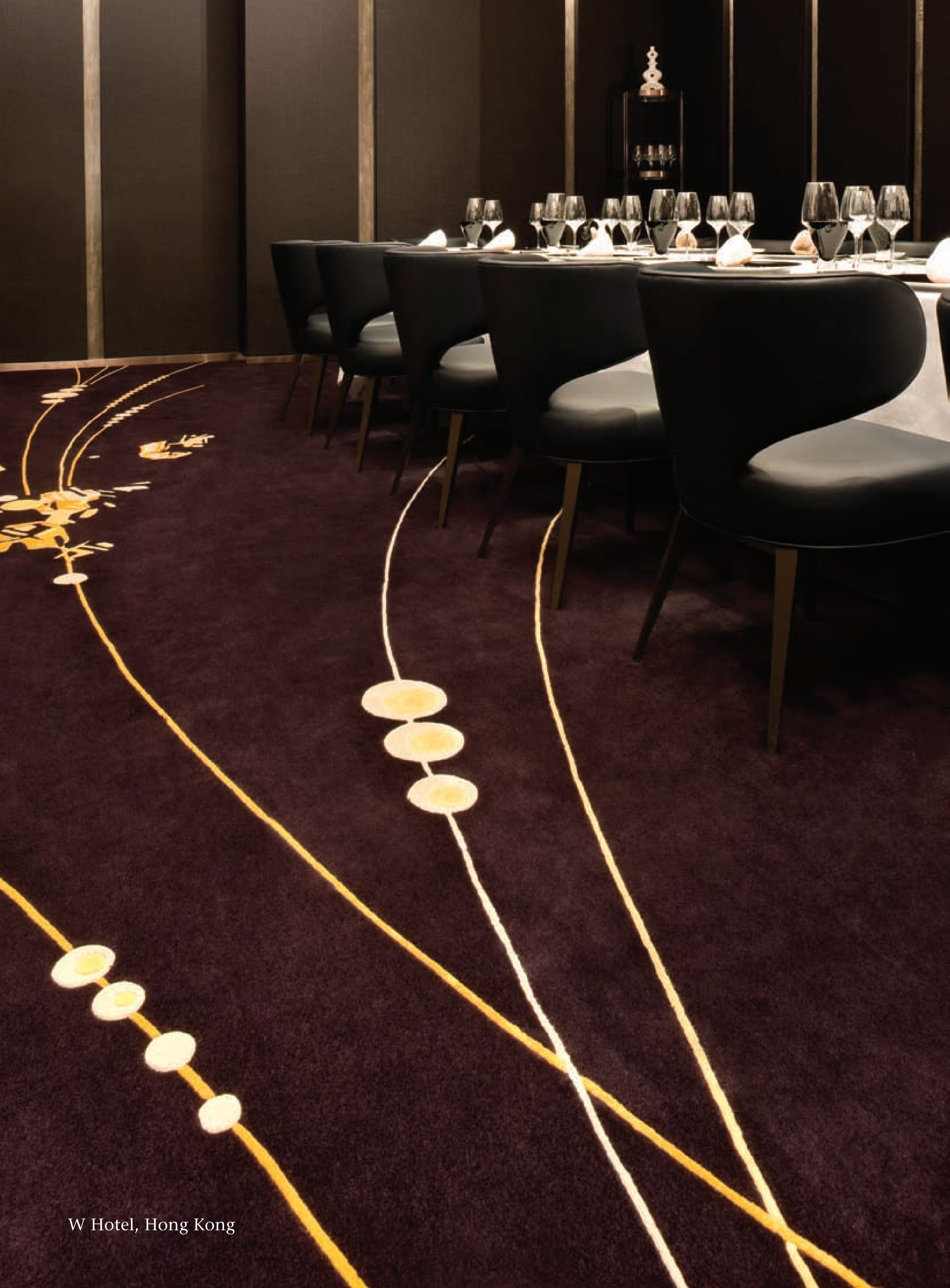
As at the date of this report, the Company has maintained a sufficient public float under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of its Directors.

Auditor

The financial statements for the year ended 31 December 2008 were audited by BDO McCabe Lo Limited. A resolution will be submitted to the forthcoming annual general meeting of the Company to reappoint BDO McCabe Lo Limited as auditor.

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

Hong Kong, 17 April 2009



W Hotel, Hong Kong

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
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香港干諾道中 111號
永安中心 25 樓
電話：(852) 2541 5041
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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 99, which comprise the consolidated and company balance sheets as at 31 December 2008, and the consolidated income statement, 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 affairs of the Company and of the Group as at 31 December 2008 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, 17 April 2009

Consolidated Income Statement

For the year ended 31 December

	Note	2008 HK$'000	2007 HK$'000
Turnover	7	**1,320,044**	1,121,884
Cost of sales		**(745,081)**	(618,799)
Gross profit		**574,963**	503,085
Distribution costs		**(99,744)**	(77,251)
Administrative expenses		**(417,873)**	(352,349)
Other operating income		**1,874**	620
Other operating expenses		**(18,776)**	(11,328)
Operating profit	7, 8	**40,444**	62,777
Finance costs	9	**(772)**	(523)
Interest income from banks		**553**	1,367
Impairment loss for assets held for sale	30	**(480)**	–
Gain on disposal of investment properties		**1,497**	8,176
(Deficit)/surplus on revaluation of investment properties	18	**(1,310)**	2,310
Share of (losses)/profits of			
an associate		**(1,140)**	(25)
jointly controlled entities		**65,088**	41,906
add: reversal of impairment of jointly controlled entities		**10,309**	2,359
Profit before income tax expenses		**114,189**	118,347
Income tax expenses	11	**(30,036)**	(24,376)
Profit after income tax expenses		**84,153**	93,971
Attributable to:			
Equity holders of the Company	12	**83,465**	89,169
Minority interests		**688**	4,802
		84,153	93,971
Dividend			
Final, proposed	13	**19,097**	19,097
Earnings per share of profit attributable to equity holders of the Company (expressed in HK cents)			
Basic	14	**39.34**	42.02
Diluted	14	**39.33**	42.00

Consolidated Balance Sheet

As at 31 December

	Note	2008 HK$'000	2007 HK$'000
Assets			
Non-current assets			
Intangible assets	15	**23,843**	–
Leasehold land & land use rights	16	**20,223**	21,726
Property, plant & equipment	17	**332,040**	337,896
Investment properties	18	**6,800**	27,510
Construction in progress	19	**12,386**	10,723
Interest in an associate	23	**22,302**	25,431
Interests in jointly controlled entities	24	**273,709**	213,548
Deferred tax assets	34	**7,583**	7,046
		698,886	643,880
Current assets			
Inventories	26	**196,489**	194,230
Trade & other receivables	27	**215,241**	227,993
Derivative financial instruments	28	**169**	554
Financial assets at fair value through profit or loss	25	**59,170**	31,004
Cash & cash equivalents	29	**114,900**	107,644
		585,969	561,425
Assets held for sale	30	**5,695**	–
		591,664	561,425
Total assets		**1,290,550**	1,205,305

	Note	2008 HK$'000	2007 HK$'000
Equity			
Capital & reserves attributable to equity holders of the Company			
Share capital	31	**21,219**	21,219
Reserves	32	**926,067**	856,997
Proposed final dividend	13	**19,097**	19,097
		966,383	897,313
Minority interests		**39,020**	36,846
Total equity		**1,005,403**	934,159
Liabilities			
Non-current liabilities			
Deferred tax liabilities	34	**4,823**	757
Other long-term liabilities	35	**3,655**	1,211
		8,478	1,968
Current liabilities			
Bank borrowings – unsecured	33	**–**	1,062
Trade & other payables	36	**253,824**	255,644
Other long-term liabilities – current portion	35	**4,199**	390
Taxation		**18,646**	12,082
		276,669	269,178
Total liabilities		**285,147**	271,146
Total equity & liabilities		**1,290,550**	1,205,305
Net current assets		**314,995**	292,247
Total assets less current liabilities		**1,013,881**	936,127

Nicholas T. J. Colfer
Chairman

James H. Kaplan
Executive Director

Company Balance Sheet

As at 31 December

	Note	2008 HK$'000	2007 HK$'000
Assets			
Non-current assets			
Interests in subsidiaries	20	**354,511**	300,031
Current assets			
Amount due from an indirectly held associate	22	**343**	343
Cash & cash equivalents	29	**445**	260
		788	603
Total assets		**355,299**	300,634
Equity			
Capital & reserves attributable to equity holders of the Company			
Share capital	31	**21,219**	21,219
Reserves	32	**313,949**	258,711
Proposed final dividend	13	**19,097**	19,097
Total Equity		**354,265**	299,027
Liabilities			
Current liabilities			
Other payables		**1,034**	1,607
Total liabilities		**1,034**	1,607
Total equity & liabilities		**355,299**	300,634
Net current liabilities		**(246)**	(1,004)
Total assets less current liabilities		**354,265**	299,027

Nicholas T. J. Colfer
Chairman

James H. Kaplan
Executive Director

Consolidated Statement of Changes in Equity

For the year ended 31 December

	Capital & reserves attributable to equity holders of the Company HK$'000	Minority interests HK$'000	Total equity HK$'000
Balance as at 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 as at 31 Dec 2007 & 1 Jan 2008	897,313	36,846	934,159
Currency translation differences	4,702	1,688	6,390
Net income recognised directly in equity	4,702	1,688	6,390
Profit for the year	83,465	688	84,153
Net income recognised for the year	88,167	2,376	90,543
Payment of final dividend	(19,097)	–	(19,097)
Dividend paid to minority interests	–	(202)	(202)
	(19,097)	(202)	(19,299)
Balance as at 31 Dec 2008	966,383	39,020	1,005,403

Consolidated Cash Flow Statement

For the year ended 31 December

	Note	2008 HK$'000	2007 HK$'000
Operating activities			
Cash generated from operations	a	**113,704**	141,417
Tax paid		**(19,776)**	(38,621)
Net cash generated from operating activities		**93,928**	102,796
Investing activities			
Purchases of property, plant & equipment		**(27,069)**	(19,716)
Increase in construction in progress		**(33,544)**	(37,520)
Acquisition of a subsidiary	21	**(19,291)**	–
Proceeds on disposal of property, plant & equipment		**550**	98
Proceeds on disposal of investment properties		**20,897**	24,212
(Advance to)/repayment by an associate		**(954)**	671
Repayment/(advance to) from jointly controlled entities		**2,336**	(6,201)
Proceeds on disposal of financial assets at fair value through profit or loss		**456,499**	259,981
Purchase of financial assets at fair value through profit or loss		**(487,172)**	(265,851)
Interest received		**553**	1,367
Dividend received from jointly controlled entities		**27,483**	7,530
Net cash used in investing activities		**(59,712)**	(35,429)
Financing activities			
New bank loans		**–**	1,042
Repayment of bank loans		**(1,070)**	(11,394)
Repayment of other long-term liabilities		**(390)**	(390)
Interest paid		**(772)**	(523)
Dividend paid to equity holders of the Company		**(19,097)**	(6,366)
Dividends paid to minority interests		**(202)**	(3,201)
Net cash used in financing activities		**(21,531)**	(20,832)
Net increase in cash & cash equivalents		**12,685**	46,535
Cash & cash equivalents at the beginning of the year		**107,644**	58,976
Effect of foreign exchange rate changes		**(2,923)**	2,133
Cash & cash equivalents at the end of the year		**117,406**	107,644
Analysis of the balances of cash & cash equivalents			
Cash at bank & on hand	29	**110,647**	107,644
Short-term bank deposits	29	**4,253**	–
Cash at bank & on hand included in assets held for sale	29	**2,506**	–
		117,406	107,644

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

	2008 HK$'000	2007 HK$'000
Profit after income tax expenses	**84,153**	93,971
Income tax expenses recognised in consolidated income statement	**30,036**	24,376
Amortisation of intangible assets	**2,080**	–
Amortisation of leasehold land & land use rights	**2,090**	546
Depreciation of property, plant & equipment	**53,861**	46,539
Net (gain)/loss on disposal of property, plant & equipment	**(276)**	527
Net gain on disposal of investment properties	**(1,497)**	(8,176)
Share of losses/(profits) of		
an associate	**1,140**	25
jointly controlled entities	**(65,088)**	(41,906)
Reversal of impairment of jointly controlled entities	**(10,309)**	(2,359)
Recovery of impairment loss previous recognised	**(6,461)**	(1,554)
Deficit/(surplus) on revaluation of investment properties	**1,310**	(2,310)
Impairment of assets held for sale	**480**	–
Impairment of property, plant & equipment	**3,789**	897
Construction in progress written off	**–**	64
Impairment of inventories	**2,626**	9,601
Impairment of trade & other receivables	**14,165**	4,139
(Gain)/loss on disposal of financial assets at fair value through profit or loss	**(241)**	91
Loss on change in fair value of derivative financial instruments	**380**	162
Employee share option expenses	**–**	114
Interest expenses	**772**	523
Interest income	**(553)**	(1,367)
Operating profit before working capital changes	**112,457**	123,903
(Increase)/decrease in inventories	**(8,771)**	17,409
Decrease/(increase) in trade & other receivables	**10,779**	(48,216)
Increase in other long-term liabilities	**215**	–
(Decrease)/increase in trade & other payables	**(976)**	48,321
Cash generated from operations	**113,704**	141,417

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 financial statements 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 17 April 2009.

2. Adoption of Amendments & New or Revised Hong Kong Financial Reporting Standards ("HKFRSs")

2.1 In the current year, the Group has applied, for the first time, the following amendments and new interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), that are relevant to its operation and effective for the current accounting period of the Group and the Company.

Amendments to HKAS 39 and HKFRS 7	Reclassification of Financial Assets
HK(IFRIC) – Interpretation 11	HKFRS 2: Group and Treasury Share Transactions
HK(IFRIC) – Interpretation 12	Service Concession Arrangements
HK(IFRIC) – Interpretation 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of the above amendments and new interpretations had no material effect on the results or financial position of the Group for the current or prior accounting periods and no prior period adjustment has been recognised.

2.2 Potential impact arising on HKFRSs not yet effective

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods, but the Group has not early adopted them:

Relevant to the Group's operations:

a. HKFRS 3 (Revised), 'Business Combinations' (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the consolidated income statement. There is a choice on an acquisition by acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition related costs should be expensed.

b. HKFRS 8, 'Operating Segments' (effective from 1 January 2009). HKFRS 8 replaces HKAS 14, 'Segment Reporting', and aligns segment reporting with the requirements of the U.S. standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. In addition, the segments are reported in a manner that is more consistent with the internal reporting provided to the chief operating decision-maker. It is not expected to have a material impact on the Group's financial statements as the present segments information has been identified on the basis of internal reports reviewed by the decision-maker.

c. HKAS 1 (Revised), 'Presentation of Financial Statements' (effective from 1 January 2009). The revised standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period.

d. The amendments to HKFRS 1 and HKAS 27, 'Cost of and Investment in a Subsidiary, Jointly Controlled Entity or Associate' (effective from 1 January 2009). The amendments requires all dividends be presented as income in the separate financial statements of the investor (prior to the amendments, the investor recognises income from the investment only to the extent that the investor receives distributions from retained earnings of the investee arising after the date of acquisition. The distributions received in excess of such profits are regarded as recovery of investment and are recognised as a reduction of the cost of the investment). The amendments require prospective application.

e. HKAS 23 (Revised), 'Borrowing Costs' (effective from 1 January 2009). The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. Management does not anticipate any material impact on the Group's financial statements as the Group has already followed the principles of capitalise borrowing costs for qualifying assets in accordance with the existing HKAS 23.

f. HKAS 27 (Revised), 'Consolidated and Separate Financial Statements' (effective from 1 July 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in profit or loss.

g. HKICPA's improvements to HKFRSs published in October 2008:

   i. HKAS 1 (Amendment), 'Presentation of Financial Statements' (effective from 1 January 2009). The amendment clarifies that some rather than all financial assets and liabilities classified as held for trading in accordance with HKAS 39, 'Financial Instruments: Recognition and Measurement' are examples of current assets and liabilities respectively.

   ii. HKAS 23 (Amendment), 'Borrowing Costs' (effective from 1 January 2009). The definition of borrowing costs has been amended so that interest expense is calculated using the effective interest method defined in HKAS 39 'Financial Instruments: Recognition and Measurement'. This eliminates the inconsistency of terms between HKAS 39 and HKAS 23.

   iii. HKAS 28 (Amendment), 'Investments in Associates' (and consequential amendments to HKAS 32, 'Financial Instruments: Presentation' and HKFRS 7, 'Financial Instruments: Disclosures') (effective from 1 January 2009). An investment in associate is treated as a single asset for the purposes of impairment testing and any impairment loss is not allocated to specific assets included within the investment, for example, goodwill. Reversals of impairment are recorded as an adjustment to the investment balance to the extent that the recoverable amount of the associate increases.

   iv. HKAS 36 (Amendment), 'Impairment of Assets' (effective from 1 January 2009). Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made.

   v. There are a number of minor amendments to HKFRS 7, 'Financial Instruments: Disclosures', HKAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', HKAS 10, 'Events after the Balance Sheet Date', HKAS 18, 'Revenue' and HKAS 34, 'Interim Financial Reporting' which are not addressed above. The Group will apply the above standards, amendments and interpretations from 1 January 2009 or later period, where applicable.

Not relevant to the Group's operations:

	Effective for accounting period beginning on or after
HKFRS 1 (Revised) First time adoption of HKFRS	1 Jul 2009
HKFRS 2 (Amendment) Share-based Payment	1 Jan 2009
HKAS 32 (Amendment) Financial Instruments: Presentation and HKAS 1 (Amendment) Presentation of Financial Statements – Puttable Financial Instruments and Obligations arising on Liquidation from	1 Jan 2009
HKAS 39 (Amendment) Financial Instruments: Recognition and measurement – Eligible Hedged Items	1 Jul 2009
HK(IFRIC) – Int 9 and HKAS 39 (Amendment) Embedded Derivatives	30 Jun 2009
HK(IFRIC) – Int 13 Customer Loyalty Programme	1 Jul 2008
HK(IFRIC) – Int 15 Agreements for Construction of Real Estate	1 Jan 2009
HK(IFRIC) – Int 16 Hedges of a Net Investment in a Foreign Operation	1 Oct 2008
HK(IFRIC) – Int 17 Distributions of Non-cash Assets to Owners	1 Jul 2009
HK(IFRIC) – Int 18 Transfers of Assets from Customers	1 Jul 2009

The Group is in the process of making an assessment of the potential impact of the standards, amendments or interpretations relevant and not relevant to the Group and the Directors of the Group so far concluded that the application of these standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. Basis of Preparation

3.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRSs") issued by the HKICPA. In addition, the consolidated financial statements include the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

3.2 Basis of measurement

The financial statements have been prepared under the historical cost basis except for (a) certain buildings which are stated at revalued amounts less subsequent accumulated depreciation and accumulated impairment losses; and (b) investment properties, which are carried at fair value; and (c) financial instruments, which are measured at fair values as explained in the accounting policies set out below; and (d) assets held for sale which are carried at fair values less costs to sell.

3.3 Use of estimates & judgments

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment 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 financial statements are disclosed in Note 6.

3.4 Functional & presentation currency

Items included in the financial statements 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 financial statements are presented in Hong Kong Dollar ("HK$"), which is the Company's functional and presentation currency.

4. Principal Accounting Policies

4.1 Basis of consolidation

Where the Company has the power, either directly or indirectly, to govern the financial and operating policies of another entity so as to obtain benefits from its activities, that another entity is classified as a subsidiary. The consolidated financial statements comprise of the financial statements of the Company and its subsidiaries. Inter-company transactions and balances between group companies are eliminated in full in preparing the consolidated financial statements.

On acquisition, the assets and liabilities of the relevant subsidiaries are measured at their fair values at the date of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective dates of acquisition or up to the effective dates of disposal, as appropriate.

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the group has not agreed any additional terms with the holders of those interests which would result in the group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

4.2 Subsidiaries

A subsidiary is an entity over which the Company is able to exercise control. Control is achieved where the Company, directly or indirectly, has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

In the Company's balance sheet, investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable during the year.

4.3 Associates

Where the Group has the power to participate in (but not control) the financial and operating policy decisions of another entity, that another entity is classified as an associate. Associates are accounted for using the equity method whereby they are initially recognised in the consolidated balance sheet at cost and thereafter, their carrying values are adjusted for the Group's share of the post-acquisition change in the associates' net assets – except that losses in excess of the Group's interest in the associate are not recognised unless there is an obligation to make good those losses.

Unrealised gains or losses arising on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates.

In the Company's balance sheet, investments in associates are carried at cost less impairment losses, if any. The results of associates are accounted for by the Company on the basis of dividends received and receivable during the year.

4.4 Joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

The Group's share of post acquisition results of jointly controlled entities is included in the consolidated income statement. The Group's interests in jointly controlled entities are accounted for using the equity method and are initially recorded at cost and adjusted thereafter for the post acquisition changes in the Group's share of the net assets of the jointly controlled entities.

Unrealised profits and losses resulting from transactions between the Group and its jointly controlled entities are eliminated to the extent of the Group's interest in the jointly controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are immediately recognised in the consolidated income statement. Interests in jointly controlled entities that are classified as held for sale are accounted for in accordance with HKFRS 5.

Any premium paid for jointly controlled entities above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of jointly controlled entities and the entire carrying amount of the investment is subject to impairment test in accordance with HKAS 36, by comparing its carrying amount with its recoverable amount, which is higher of value in use and fair value less costs to sell.

Results of jointly controlled entities are accounted for by the Company on the basis of dividends received and receivable. The Company's interests in jointly controlled entities are stated at cost less impairment losses, if any.

4.5 Intangible assets

a. Goodwill

Goodwill represents the excess of the cost of a business combination over the interest in the fair value of identifiable assets, liabilities and contingent liabilities acquired. Cost comprises the fair values of assets given, liabilities assumed and equity instruments issued, plus any direct costs of acquisition.

Goodwill is capitalised as a separate asset with any impairment in carrying value being charged to the consolidated income statement.

Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is credited in full to the consolidated income statement.

For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired.

For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rate on the basis of the carrying amount to each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

b. Externally acquired intangible assets

Externally acquired intangible assets are initially recognised at cost. Subsequently, intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is provided on a straight-line basis over their useful lives. Intangible assets with indefinite useful lives are carried at cost less any accumulated losses. The amortisation expense is included within the administrative expenses line in the income statement.

Intangible assets, separate from goodwill, are recognised on business combinations if they are separable from the acquired entity or give rise to other contractual/legal rights. The amounts ascribed to such intangibles are arrived at by using appropriate valuation techniques.

Intangible assets with finite lives are tested for impairment when there is an indication that an asset may be impaired (see the accounting policies in respect of impairment of assets below.)

The useful economic lives of the significant intangibles recognised by the Group are as follows:

Vendor relationships	5 years
Other intangible assets	5 – 15 years

4.6 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.

4.7 Foreign currency

Transactions entered into by Group entities in currencies other than the currency of the primary economic environment in which it operates (the “functional currency”) are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in the income statement in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the consolidated income statement for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which case, the exchange differences are also recognised directly in equity.

On consolidation, the results of foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong Dollars) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the balance sheet date. Exchange differences arising on translating the opening net assets at opening rate and the results of foreign operations at actual rate are recognised directly in equity (the “Exchange reserves”). Exchange differences recognised in the income statement of group entities’ separate financial statements on the translation of long-term monetary items forming part of the Group’s net investment in the foreign operation concerned are reclassified to the exchange reserve.

On disposal of a foreign operation, the cumulative exchange differences recognised in the exchange reserve relating to that operation up to the date of disposal are transferred to the income statement as part of the profit or loss on disposal.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the exchange reserves.

4.8 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 income statement.

During the year, the annual rate of certain leasehold land was revised from 2% to 18% to better reflect the useful life of the leasehold land. The effect of the change in accounting estimate in the current year was an increase in amortisation charge of HK$1,544,000.

4.9 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.

Other property, plant & equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of property, plant & equipment includes its purchase price and the costs 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. The carrying amount of the replaced part is derecognised. All other repair and maintenance costs are charged in the consolidated income statement during the financial period in which they are incurred.

Property, plant & equipment are depreciated so as to write off their cost or valuation net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date. The annual rates are as follows:

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

During the year, the annual rate of certain buildings was revised from 4.5% to 18% to better reflect the useful life of the buildings. The effect of the change in accounting estimate in the current year was an increase in depreciation charge of HK$1,625,000.

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.

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

The gain or loss on disposal of an item of property, plant & equipment other than building is the difference between the net sale proceeds and its carrying amount, and is recognised in the consolidated income statement on disposal.

4.10 Investment properties

Investment properties are properties held for long-term rental yields or for capital appreciation and not occupied by the Group. Investment properties are carried at fair value. Changes in fair value are recognised in the consolidated income statement.

4.11 Financial Instruments

a. Financial assets

The Group classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. Financial assets at fair value through profit or loss are initially measured at fair value and all other financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

Financial assets at fair value through profit or loss

These assets are financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts. Gains or losses on investments held for trading are recognised in the consolidated income statement.

At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in the consolidated income statement in the period in which they arise.

Loans & receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers, and also incorporate other types of contractual monetary asset. At each balance sheet date subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses.

b. Impairment loss on financial assets

Objective evidence that the asset is impaired includes observable data that comes to the attention of the Group includes the following loss events:

i. significant financial difficulty of the debtor;
ii. a breach of contract, such as a default or delinquency in interest or principal payments;
iii. granting concession to a debtor because of debtor's financial difficulty;
iv. it is becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

For loan & receivables

An impairment loss is recognised in the consolidated income statement when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of financial asset is reduced through the use of an allowance account. When any part of financial asset is determined as uncollectible, it is written off against the allowance account for the relevant financial asset.

Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

c. Financial liabilities at amortised cost

Financial liabilities at amortised cost, including trade & other payables, bank borrowings and other monetary liabilities, are initially recognised at fair value, net of directly attributable transaction costs incurred and are subsequently measured at amortised cost, using the effective interest method. The related interest expenses are recongised in the consolidated income statement.

Gains or losses are recognised in the consolidated income statement when the liabilities are derecognised as well as through the amortisation process.

d. Derecognition

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.

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

e. Equity Instruments

Equity Instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

f. 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'.

4.12 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.

4.13 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.

4.14 Non-current assets & disposal groups held for sale

Non-current assets & disposal groups are classified as held for sale when:

a. they are available for immediate sale;

b. management is committed to a plan to sell;

c. it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn;

d. an active programme to locate a buyer has been initiated;

e. the asset or disposal group is being marketed at a reasonable price in relation to its fair value; and

f. a sale is expected complete within 12 months from the date of classification.

Non-current assets and disposal groups classified as held for sale are measured at the lower of:

a. their carrying amount immediately prior to being classified as held for sale in accordance with the Group's accounting policy; and

b. fair value less costs to sell.

Following their classification as held for sale, non-current assets (including those in a disposal group) are not depreciated.

The results of operations disposed of during the year are included in the consolidated income statement up to the date of disposal.

4.15 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.

Deferred tax arises from temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes and is accounted for using the balance sheet liability method. Except for recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Income taxes are recognised in the consolidated income statement except when they relate to items directly recognised to equity in which case the taxes are also directly recognised in equity.

4.16 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 & 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 income statement, and a corresponding adjustment to equity over the remaining vesting period.

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

4.17 Impairment of other assets

At each balance sheet date, the Group reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased:

a. Property, plant & equipment;

b. Leasehold land & land use rights;

c. Intangible assets;

d. Interests in subsidiaries, an associate and jointly controlled entities.

If the recoverable amount (i.e. the greater of the fair value less costs to sell and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another HKFRS, in which case the impairment loss is treated as a revaluation decrease under that HKFRS.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another HKFRS, in which case the reversal of the impairment loss is treated as a revaluation increase under that other HKFRS.

4.18 Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to lessee. All other leases are classified as operating leases.

The Group as lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on the straight-line basis over the lease term.

The Group as lessee

The amount initially recognised as an asset is the fair value of the leased asset or, if lower, the present value of the minimum lease payments payable. The corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest. The interest element is charged to the consolidated income statement over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

The total rentals payable under the operating lease are charged to the consolidated income statement on a straight-line basis over the lease term. Lease incentives received are recognised on integrated part of the total rental expense, over the term of lease.

The land and building elements of property leases are considered separately for the purpose of lease classification.

4.19 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 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.

4.20 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the financial statements 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.

4.21 Provisions & 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.

5. Financial Risk Management

The Group is subject to the following risks:

5.1 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.

As at 31 December 2008, if the Thai Baht strengthened (or weakened) by 5% (2007: 5%) against the 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$2,356,000 (2007: HK$2,663,000).

Taking into the account the exposures of other currencies, the Group considers its exposure to exchange rate movements in 2008 manageable and will continue to monitor exchange rate movements closely to ascertain if any material exposure may arise.

5.2 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 27. The Group does not hold any collateral as security for these receivables.

5.3 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

2008	**Less than 1 year HK$'000**	**Between 1 & 2 years HK$'000**	**Between 2 & 5 years HK$'000**	**Total HK$'000**
Bank borrowings – unsecured	**–**	**–**	**–**	**–**
Trade & other payables	**253,824**	**–**	**–**	**253,824**
Other long-term liabilities	**4,552**	**1,947**	**2,922**	**9,421**
	258,376	**1,947**	**2,922**	**263,245**

2007	Less than 1 year HK$'000	Between 1 & 2 years HK$'000	Between 2 & 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

The Company's financial liabilities mature in less than one year and most of them are repayable on demand.

5.4 Equity price risk

The Group is exposed to equity price risk on financial assets at fair value through profit or loss (Note 25). 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 2008, if the price of fixed income funds rose (or fell) by 3% (2007: 3%) with all other variables held constant, the profit before tax will be increased (or decreased) by HK$1,775,000 (2007: HK$931,000).

5.5 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.

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

6. 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.

6.1 Useful lives & impairment of property, plant & equipment, investment properties, leasehold land & land use rights and intangible assets (other than goodwill)

The Group's management determines the estimated useful lives of its property, plant & equipment, leasehold land & land use rights and intangible assets (other than goodwill).

This estimate is based on the historical experience of the actual useful lives of property, plant & equipment, leasehold land & land use rights and intangible assets (other than goodwill) 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, leasehold land & land use rights and intangible assets (other than goodwill) are recognised as the amount by which the carrying amount exceeds its recoverable amount in accordance with the accounting policy stated in Note 4.17. 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.

During the year ended 31 December 2008, the Group performed an annual review to reassess the useful lives of certain leasehold land and buildings of the Group. Based on the expectations of the Group's operational management and technological trend, the reassessment has resulted in a change in the estimated useful lives of these assets. The effects of changes in accounting estimates in the current year were set out in Notes 4.8 and 4.9.

6.2 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.

6.3 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.

6.4 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.

6.5 Impairment of investments in an associate & 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.

6.6 Estimated impairment of goodwill

Determining whether goodwill is impaired required an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

7. Turnover & Segmental Information

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

Primary reporting format – business segments

The Group was organised on a worldwide basis into the following business segments in 2008:

Carpet	Manufacture, import, export & sale of carpets
Yarn	Manufacture & sale of yarns
Others	Manufacture & sale of mattresses, & property holding

Secondary reporting format – geographical segments

Although the Group's business segments were managed on a worldwide basis during 2008, they operated in the following geographical areas:

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

7.1 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 2008 and 2007.

For the year ended 31 December 2008

	Carpet HK$'000	Yarn HK$'000	Others[1] HK$'000	Elimination HK$'000	Unallocated HK$'000	Total HK$'000
Revenue						
External revenue	1,239,374	61,714	18,956	–	–	1,320,044
Inter-segment revenue[2]	–	–	2,595	(2,595)	–	–
	1,239,374	61,714	21,551	(2,595)	–	1,320,044
Segment results	31,860	8,989	148	–	(553)	40,444
Finance costs						(772)
Interest income from banks						553
Impairment loss for assets held for sale	–	–	(480)	–	–	(480)
Gain on disposal of investment properties	–	–	1,497	–	–	1,497
Deficit on revaluation of investment properties	–	–	(1,310)	–	–	(1,310)
Share of (losses)/profits of						
an associate	(1,140)	–	–	–	–	(1,140)
jointly controlled entities[3]	75,397	–	–	–	–	75,397
Profit before income tax expenses						114,189
Income tax expenses						(30,036)
Profit for the year						84,153
Segment assets	924,626	40,221	12,585	–	17,107	994,539
Interest in an associate	22,302	–	–	–	–	22,302
Interests in jointly controlled entities	273,709	–	–	–	–	273,709
Total assets						1,290,550
Segment liabilities	256,771	2,350	99	–	25,927	285,147
Capital expenditure	70,266	2,313	–	–	–	72,579
Depreciation	51,128	2,342	391	–	–	53,861
Amortisation of leasehold land & land use rights	2,090	–	–	–	–	2,090
Amortisation of intangible assets	2,080	–	–	–	–	2,080
Impairment of property, plant & equipment	3,678	–	111	–	–	3,789

For the year ended 31 December 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
Impairment of property, plant & equipment	–	–	897	–	–	897

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$10,309,000 (2007: HK$2,359,000).

7.2 Geographical segments

The following table presents turnover, assets and capital expenditure information for the Group's geographical segments for the years ended 31 December 2008 and 2007:

For the year ended 31 December 2008

	Turnover HK$'000	**Total assets HK$'000**	**Capital expenditure HK$'000**
Hong Kong & Macau	**73,780**	**94,103**	**6,340**
Mainland China	**29,853**	**151,054**	**2,610**
South East Asia	**264,030**	**419,611**	**29,061**
Middle East	**34,654**	**–**	**–**
Other Asian countries	**48,262**	**2,666**	**1,474**
Europe	**154,076**	**76,488**	**3,663**
North America & Latin America	**661,768**	**222,243**	**29,145**
Others	**53,621**	**11,267**	**286**
	1,320,044	**977,432**	**72,579**
Interest in an associate[1]		**22,302**	
Interests in jointly controlled entities[2]		**273,709**	
Unallocated assets		**17,107**	
Total assets		**1,290,550**	

For the year ended 31 December 2007

	Turnover HK$'000	Total assets HK$'000	Capital expenditure HK$'000
Hong Kong & 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 & Latin 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	

Notes:
[1] Located in South East Asia
[2] Located in the Mainland China and the U.S.

8. Operating Profit

	2008 HK$'000	2007 HK$'000
Operating profit is stated after crediting and charging the following:		
Crediting:		
Gain on disposal of financial assets at fair value through profit or loss	**241**	–
Gain on disposal of property, plant & equipment	**276**	–
Net exchange gains	**–**	5,979
Recovery of impairment loss previously recognised (Note 27)	**6,461**	1,554
Charging:		
Amortisation of intangible assets (included in administrative expenses) (Note 15)	**2,080**	–
Amortisation of leasehold land & land use rights (Note 16)	**2,090**	546
Depreciation of property, plant & equipment (Note 17)	**53,861**	46,539
Loss on disposal of property, plant & equipment	**–**	527
Loss on disposal of financial assets at fair value through profit or loss	**–**	91
Loss on change in fair value of derivative financial instruments	**380**	162
Impairment of property, plant & equipment (Note 17)	**3,789**	897
Construction in progress written off	**–**	64
Impairment of inventories	**2,626**	9,601
Impairment of trade & other receivables	**14,165**	4,139
Employee benefit expenses (Note 10)	**372,122**	330,361
Operating lease charges		
Land & buildings	**20,491**	18,171
Plant & machinery	**2,221**	1,401
Auditors' remuneration	**3,343**	2,748
Direct operating expenses arising from investment properties that generated rental income	**108**	184
Research & development costs	**1,975**	1,731
Net exchange losses	**7,958**	–

9. Finance Costs

	2008 HK$'000	2007 HK$'000
Interest on bank loans and overdrafts wholly repayable within five years	**772**	523

10. Employee Benefit Expenses

	2008 HK$'000	2007 HK$'000
Wages and salaries (including Directors' emoluments)	**363,631**	323,747
Share options granted to a Director	–	114
Retirement benefit costs – defined contribution schemes (including Directors' emoluments)	**8,491**	6,500
	372,122	330,361

10.1 Retirement benefit costs – defined contribution schemes

Unvested benefits totaling HK$58,000 (2007: HK$45,000) were used during the year to reduce future contributions. As at 31 December 2008, unvested benefits totaling HK$492,000 (2007: HK$287,000) were available for use by the Group to reduce future contributions.

10.2 Directors' emoluments

The emoluments of each Director for the year ended 31 December 2008 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	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	–	4,290	2,028	214	72	6,604
	590	4,290	2,028	214	72	7,194

The emoluments of each Director for the year ended 31 December 2007 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	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

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

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

Apart from the above, in 2007, 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.

No Directors waived any emoluments for the years ended 31 December 2008 and 2007.

10.3 Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included one (2007: one) Director whose emoluments were reflected in the analysis presented above. The emoluments paid to the remaining four (2007: four) individuals during the year were as follows:

	2008 HK$'000	2007 HK$'000
Basic salaries, housing & other allowances	**9,364**	7,428
Bonuses	**2,727**	4,062
Contributions to retirement schemes	**163**	179
	12,254	11,669

The emoluments fell within the following bands:

	No. of Individuals	
	2008	2007
Emolument bands		
HK$2,000,001 – HK$2,500,000	**–**	2
HK$2,500,001 – HK$3,000,000	**2**	1
HK$3,000,001 – HK$3,500,000	**1**	–
HK$3,500,001 – HK$4,000,000	**1**	–
HK$4,000,001 – HK$4,500,000	**–**	1

11. Income Tax Expenses

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 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 to the consolidated income statement represents:

	2008 HK$'000	2007 HK$'000
Current income tax		
Hong Kong	**5,523**	7,747
PRC & overseas	**23,956**	18,492
(Over)/under provision in prior years	**(2,548)**	86
Deferred income tax charge/(credit) (Note 34)	**3,105**	(1,949)
Income tax expenses	**30,036**	24,376

Share of income tax expenses of an associate of HK$1,890,000 (2007: income tax benefit of HK$343,000) and share of income tax expenses of jointly controlled entities of HK$9,255,000 (2007: HK$5,968,000) respectively are included in the share of (losses)/profits of an associate and jointly controlled entities.

The income tax expenses 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:

	2008 **HK$'000**	2007 HK$'000
Profit before income tax expenses	**114,189**	118,347
Less: Share of net profits of an associate and jointly controlled entities	**(63,948)**	(41,881)
Reversal of impairment of jointly controlled entities not subject to taxation	**(10,309)**	(2,359)
Profit before income tax expenses of the Company and subsidiaries	**39,932**	74,107
Calculated at a tax rate of 16.5% (2007: 17.5%)	**6,589**	12,969
Effect of different taxation rates in other tax jurisdictions	**10,301**	7,091
Income not subject to taxation	**(5,532)**	(2,187)
Expenses not deductible for taxation purposes	**10,397**	996
Tax losses not recognised	**10,829**	5,421
(Over)/under provision in prior years	**(2,548)**	86
Income tax expenses	**30,036**	24,376

12. Profit Attributable to Equity Holders of the Company

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of a profit of HK$74,335,000 (2007: loss of HK$158,000).

13. Dividend

	2008 **HK$'000**	2007 HK$'000
Final dividend, proposed, of HK9 cents per share (2007: HK9 cents)	**19,097**	19,097

At the Board meeting held on 17 April 2009, the Directors declared a final dividend of HK9 cents per share. This proposed dividend is not reflected as a dividend payable in the financial statements, but will be reflected as an appropriation of retained earnings for the year ended 31 December 2008.

14. Earnings Per Share

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.

	2008	2007
Profit attributable to equity holders of the Company (HK$'000)	**83,465**	89,169
Weighted average number of ordinary shares in issue (thousands)	**212,187**	212,187
Basic earnings per share (HK cents)	**39.34**	42.02

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.

	2008	2007
Profit attributable to equity holders of the Company (HK$'000)	**83,465**	89,169
Weighted average number of ordinary shares in issue (thousands)	**212,187**	212,187
Adjustments for share options (thousands)	**14**	96
Weighted average number of ordinary shares in issue for diluted earnings per share (thousands)	**212,201**	212,283
Diluted earnings per share (HK cents)	**39.33**	42.00

15. Intangible Assets

	Goodwill HK$'000	**Vendor Relationships HK$'000**	**Other intangible assets HK$'000**	**Total HK$'000**
Cost				
As at 1 Jan 2008	–	–	–	–
Additions through business combinations (Note 21)	13,957	7,215	4,751	25,923
As at 31 Dec 2008	13,957	7,215	4,751	25,923
Accumulated amortisation & impairment				
As at 1 Jan 2008	–	–	–	–
Amortisation	–	1,443	637	2,080
As at 31 Dec 2008	–	1,443	637	2,080
Net book value				
As at 31 Dec 2008	13,957	5,772	4,114	23,843
As at 31 Dec 2007	–	–	–	–

Other intangible assets include customer relationships, non-competition agreements and design library.

Impairment test of goodwill

Goodwill arising on the acquisition of J.S.L. Carpet Corporation ("JSL") and its 50% interest in Weavers Guild LLC ("WG") has been allocated to the carpet division, one of the business segments of the Group, for impairment testing.

The recoverable amount of the goodwill related to JSL is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period to 2013.

Key assumptions used for value-in-use calculations are:

a. Budgeted earnings were based on past performance.

b. Annual growth rates of 10% to 17% were used to extrapolate cash flows.

c. The discount rate applied to cash flows was 14% which reflected the specific risks relating to the relevant segment. The discount rate was adjusted to reflect the risk profile equivalent to those that the Group expected to derive from the assets acquired.

Management believes that any reasonably possible changes in any of these assumptions would not cause the aggregate recoverable amounts to be lower than the aggregate carrying amounts of the goodwill allocated to JSL and WG.

16. 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:

	2008 HK$'000	2007 HK$'000
In Hong Kong held on leases of between 10 to 50 years	**11,159**	11,449
Outside Hong Kong held on leases of between 10 to 50 years	**9,064**	10,277
	20,223	21,726

	2008 HK$'000	2007 HK$'000
As at 1 Jan	**21,726**	21,588
Exchange differences	**587**	684
Amortisation of leasehold land & land use rights	**(2,090)**	(546)
As at 31 Dec	**20,223**	21,726

17. Property, Plant & Equipment

Group

	Buildings HK$'000	Other assets HK$'000	Total HK$'000
As at 1 Jan 2007			
Cost or valuation	175,261	533,214	708,475
Accumulated depreciation	(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 19)	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 & 1 Jan 2008			
Cost or valuation	185,261	604,703	789,964
Accumulated depreciation & impairment	(72,861)	(379,207)	(452,068)
Net book amount	112,400	225,496	337,896
Year ended 31 Dec 2008			
Opening net book amount	112,400	225,496	337,896
Exchange differences	(1,884)	(4,387)	(6,271)
Additions	–	27,069	27,069
Transfer from construction in progress (Note 19)	–	31,462	31,462
Disposals	–	(274)	(274)
Transfer to assets held for sale (Note 30)	–	(576)	(576)
Additions through business combinations (Note 21)	–	384	384
Impairment	–	(3,789)	(3,789)
Depreciation	(4,627)	(49,234)	(53,861)
Closing net book amount	105,889	226,151	332,040
As at 31 Dec 2008			
Cost or valuation	182,137	632,526	814,663
Accumulated depreciation & impairment	(76,248)	(406,375)	(482,623)
Net book amount	105,889	226,151	332,040

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 as 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$5,469,000 (2007: HK$5,706,000) 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	170,458	632,526
At valuation – 1989	11,679	–
As at 31 Dec 2008	182,137	632,526
At cost	173,200	604,703
At valuation – 1989	12,061	–
As at 31 Dec 2007	185,261	604,703

18. Investment Properties

Group

	2008 **HK$'000**	2007 HK$'000
Net book value as at 1 Jan	**27,510**	36,800
(Deficit)/surplus on revaluation of investment properties	**(1,310)**	2,310
Disposals	**(19,400)**	(11,600)
Net book value as at 31 Dec	**6,800**	27,510

The investment properties were revalued by, CB Richard Ellis, an independent, professionally qualified valuer, as at 31 December 2008. Valuations were based on current prices in an active market for all properties. Details of principal investment properties are set out on page 102.

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

	2008 HK$'000	2007 HK$'000
In Hong Kong, held on medium leases (10 – 50 years)	**6,800**	10,410
Outside Hong Kong, held on medium leases (10 – 50 years)	**–**	17,100
	6,800	27,510

19. Construction in Progress

Group

	2008 HK$'000	2007 HK$'000
As at 1 Jan	**10,723**	7,993
Exchange differences	**(419)**	361
Additions	**33,544**	37,520
Transfer to property, plant & equipment (Note 17)	**(31,462)**	(35,087)
Written off	**–**	(64)
As at 31 Dec	**12,386**	10,723

20. Interests in Subsidiaries

Company

	2008 HK$'000	2007 HK$'000
Unlisted shares at Directors' valuation in 1990	**242,800**	242,800
Loan to a subsidiary	**–**	71,470
Amounts due from subsidiaries	**504,641**	405,484
	747,441	719,754
Loan from a subsidiary	**–**	(13,213)
Amounts due to subsidiaries	**(81,848)**	(95,428)
	665,593	611,113
Impairment	**(311,082)**	(311,082)
	354,511	300,031

Details of principal subsidiaries are set out on page 100. All balances due from/(to) subsidiaries are unsecured, interest-free and repayable on demand. At balance sheet date, there was no loan to a subsidiary (2007: HK$71,470,000 which carried interest at prevailing market rates).

21. Acquisition of a Subsidiary

During the year, the Group acquired 100% interest in JSL, incorporated in the U.S., under a stock purchase agreement dated as at 1 January 2008 as follows:

Name of company acquired	Principal activities	Proportion of shares acquired
JSL	Carpet trading	100%

JSL has 50% interest in WG, which was also established in the U.S.. WG is classified by the Group as a jointly controlled entity.

The aggregate consideration for the acquisition of JSL amounted to HK$25,517,000 of which HK$19,089,000 had been paid in cash. The remaining amount of HK$6,428,000 will be payable in cash as follows:

	Basic consideration HK$'000	Contingent consideration HK$'000	Total HK$'000
Not later than one year	2,522	1,287	3,809
Later than one year & not later than five years	2,619	–	2,619
	5,141	1,287	6,428

The Group is required to make additional payments to the sellers of JSL based on the net profits of JSL (as defined in the Company's circular dated 20 February 2008) for the period from 1 January 2008 to 31 December 2011. The amounts of such additional payments are set out below provided that the aggregate additional amounts payable to the sellers shall not exceed US$6,000,000 (equivalent to HK$46,800,000):

	Additional amounts payable to the sellers
1 Jan 2008 to 31 Dec 2008	35% of the net profits
1 Jan 2009 to 31 Dec 2009	20% of the net profits
1 Jan 2010 to 31 Dec 2010	13% of the net profits
1 Jan 2011 to 31 Dec 2011	6% of the net profits

The contingent consideration payable for 2008 amounting to HK$1,287,000 is included in the above calculation of the contingent consideration based on the net profits for the year ended 31 December 2008. But the cost of acquisition for 2009 to 2011 has not reflected the above additional payments as the current market situation in the U.S. is unpredictable.

Details of the fair value of identifiable assets and liabilities acquired, purchase consideration and goodwill are as follows:

	Carrying amount HK$'000	Fair value adjustments HK$'000	Fair value 2008 HK$'000
Fair value of assets & liabilities acquired			
Property, plant & equipment (Note 17)	384	–	384
Vendor relationships (Note 15)	–	7,215	7,215
Other intangible assets (Note 15)	–	4,751	4,751
Interest in a jointly controlled entity			
Share of net assets	598	–	598
Goodwill (Note 24)	–	1,227	1,227
Inventories	6,091	(4,062)	2,029
Trade & other receivables	3,559	–	3,559
Cash & bank balances	41	–	41
Trade & other payables	(8,001)	–	(8,001)
Bank overdraft	(243)	–	(243)
	2,429	9,131	11,560

Satisfied by	
Cash consideration	(19,089)
Consideration payable	(6,428)
	(25,517)
Goodwill (Note 15)	13,957

Net cash outflow arising on acquisition	
Cash consideration	19,089
Bank overdraft assumed less cash & bank balances acquired	202
	19,291

The goodwill arising from the acquisition of JSL is attributable to the experienced workforce, expected revenue growth and future market development of JSL and the opportunity to improve the Group's earning base.

Included in the operating profit of the Group was HK$2,376,000 attributable to the additional business generated by JSL for the year ended 31 December 2008. Turnover attributable to the additional business generated by JSL for the year was HK$53,995,000. The Group's share of profit from WG, a jointly controlled entity, in 2008 amounted to HK$2,183,000.

22. Amount Due from an Indirectly Held Associate

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

23. Interest in an Associate

Group

	2008 HK$'000	2007 HK$'000
Share of net assets	**20,494**	24,577
Amount due from an associate	**1,808**	854
	22,302	25,431
Shares at cost – unlisted	**519**	519

No dividend income was received from the associate during the year (2007: Nil).

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

Share of the associate's income tax expenses amounted to HK$1,890,000 (2007: income tax benefit of HK$343,000). Details of the associate, which is unlisted, are set out on page 101.

An extract of the operating results and financial position of the associate, Philippine Carpet Manufacturing Corporation, which is based on its consolidated financial statements as adjusted to conform with HKFRSs for the years ended and as at 31 December 2008 and 2007, is as follows:

	2008 HK$'000	2007 HK$'000
Operating results		
Turnover	**66,140**	68,056
Loss after income tax expenses	**(3,475)**	(75)
Group's share of loss after income tax expenses	**(1,140)**	(25)
Financial position		
Non-current assets	**38,427**	48,221
Current assets	**50,671**	54,022
Non-current liabilities	**(9,754)**	(6,970)
Current liabilities	**(16,880)**	(18,609)
Shareholders' funds	**62,464**	76,664
Group's share of net assets	**20,494**	24,577

24. Interests in Jointly Controlled Entities

Group

	2008 HK$'000	2007 HK$'000
Share of net assets	**258,415**	207,454
Goodwill (Note 21)	**1,227**	–
Amounts due from jointly controlled entities	**15,642**	17,978
	275,284	225,432
Impairment	**(1,575)**	(11,884)
	273,709	213,548
Paid-in capital at cost	**99,981**	99,981

The goodwill is attributable to the Group's acquisition of 50% interest in WG held by JSL when the Group acquired JSL during the year. The nature of goodwill is the same as JSL and the details of impairment test are set out in Note 15 to the financial statements.

Dividend income received from jointly controlled entities during the year amounted to HK$27,483,000 (2007: HK$Nil).

Share of jointly controlled entities' income tax expenses amounted to HK$9,255,000 (2007: HK$5,968,000).

Details of the principal jointly controlled entities, which are unlisted, are set out on page 101.

An extract of the operating results and financial position of the Group's active jointly controlled entities: Weihai Shanhua Huabao Carpet Company Limited ("WHCL"), Weihai Shanhua Premier Carpet Company Limited ("WPCL"), Weihai Shanhua Weavers Carpet Company Limited ("WWCL") and WG based on their financial statements as adjusted to conform with HKFRSs for the years ended and as at 31 December 2008 and 2007, is as follows:

WHCL

	2008 HK$'000	2007 HK$'000
Operating results		
Turnover	**505,199**	528,450
Profit after income tax expenses	**9,073**	7,810
Group's share of profit after income tax expenses	**4,446**	3,827
Financial position		
Non-current assets	**326,401**	324,816
Current assets	**364,057**	306,286
Non-current liabilities	**(12,425)**	(33,522)
Current liabilities	**(481,945)**	(441,659)
Shareholders' funds	**196,088**	155,921
Group's share of net assets less impairment	**96,083**	76,401

WPCL

	2008 HK$'000	2007 HK$'000
Operating results		
Turnover	**128,081**	274,411
Profit after income tax expenses	**17,867**	15,690
Group's share of profit after income tax expenses	**8,755**	7,688
Financial position		
Non-current assets	**22,504**	33,812
Current assets	**160,197**	133,286
Non-current liabilities	**(128)**	(96)
Current liabilities	**(29,627)**	(39,982)
Shareholders' funds	**152,946**	127,020
Group's share of net assets less impairment	**74,944**	62,240

WWCL

	2008 HK$'000	2007 HK$'000
Operating results		
Turnover	**464,235**	302,530
Profit after income tax expenses	**101,261**	62,475
Group's share of profit after income tax expenses	**49,618**	30,613
Financial position		
Non-current assets	**82,678**	47,371
Current assets	**188,628**	92,763
Current liabilities	**(98,798)**	(24,877)
Shareholders' funds	**172,508**	115,257
Group's share of net assets less impairment	**84,529**	56,476

WG

	2008 HK$'000	2007 HK$'000
Operating results		
Turnover	**11,413**	–
Profit after income tax expenses	**4,366**	–
Group's share of profit after income tax expenses	**2,183**	–
Financial position		
Current assets	**5,112**	–
Current liabilities	**(2,544)**	–
Shareholders' funds	**2,568**	–
Group's share of net assets less impairment	**1,284**	–

During the year, Weihai Shanhua Floorcovering Products Company Limited was liquidated. The Group recognised a gain on liquidation amounting to HK$86,000 and was included in share of results of the jointly controlled entities.

25. Financial Assets at Fair Value Through Profit or Loss

Group

	2008 HK$'000	2007 HK$'000
As at 1 Jan	**31,004**	23,809
Exchange differences	**(2,748)**	1,416
Additions	**487,172**	265,851
Disposals	**(456,258)**	(260,072)
As at 31 Dec	**59,170**	31,004

The financial assets are listed treasury bonds in overseas, which traded on active liquid markets and their fair values are determined with reference to quoted market prices and denominated in Thai Baht in 2008.

26. Inventories

Group

	2008 HK$'000	2007 HK$'000
Raw materials	**82,066**	82,442
Work-in-progress	**28,867**	24,622
Finished goods	**76,564**	78,271
Consumable stores	**8,992**	8,895
	196,489	194,230

The cost of inventories recognised as expenses and included in cost of goods sold amounted to HK$745,081,000 (2007: HK$618,799,000).

27. Trade & Other Receivables

Group

	2008 HK$'000	2007 HK$'000
Trade receivables	**206,320**	212,167
Less: Impairment loss of trade receivables	**(26,360)**	(19,087)
Trade receivables, net	**179,960**	193,080
Other receivables	**35,281**	34,913
	215,241	227,993

The amounts approximated to the respective fair values as at 31 December 2008 and 2007. 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:

	2008 HK$'000	2007 HK$'000
Current	**96,121**	53,387
Amount past due at balance sheet date but not impaired:		
Less than 30 days past due	**33,154**	66,197
31 to 60 days past due	**17,975**	26,433
61 to 90 days past due	**8,502**	20,915
More than 90 days past due	**24,208**	26,148
	83,839	139,693
	179,960	193,080

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:

	2008 HK$'000	2007 HK$'000
As at 1 Jan	**19,087**	20,337
Impairment loss recognised	**14,165**	4,419
Recovery of impairment loss previously recognised	**(6,461)**	(1,554)
Bad debts written off	**(431)**	(4,115)
As at 31 Dec	**26,360**	19,087

The Group recognises impairment loss on individual assessment based on the accounting policy stated in Note 4.11b.

28. Derivative Financial Instruments

Group

	2008 **HK$'000**	2007 HK$'000
Foreign currency forward contracts	**169**	554

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

29. Cash & Cash Equivalents

	Group		**Company**	
	2008 **HK$'000**	2007 HK$'000	**2008** **HK$'000**	2007 HK$'000
Cash at bank & on hand	**110,647**	107,644	**445**	260
Short-term bank deposits	**4,253**	–	**–**	–
	114,900	107,644	**445**	260
Assets held for sale (Note 30)	**2,506**	–	**–**	–
	117,406	107,644	**445**	260

The amounts approximated to their respective fair values as at 31 December 2008 and 2007. The effective interest rate on short-term bank deposits as at 31 December 2008 was 1.65% per annum, with maturity dates ranging between 30 to 48 days.

As at 31 December 2008, the Group's cash and bank balances included RMB37,597,000 (2007: RMB6,191,000) placed with certain banks in the PRC by certain PRC subsidiaries of the Group. These balances are subject to exchange controls.

30. Assets Held for Sale

In December 2008 the Board resolved to dispose of a PRC subsidiary, Suzhou Shuilian Mattress Co. Ltd. ("SSMCL"). Details of subsequent disposal was set out in Note 42 to the financial statements.

	HK$'000
Property, plant & equipment (Note 17)	576
Inventories	2,114
Trade & other receivables	4,330
Cash & cash equivalents (Note 29)	2,506
	9,526
Trade & other payables	(3,351)
Impairment	(480)
Assets classified as held for sale	5,695

An impairment loss of HK$480,000 on the measurement of the disposal to fair value less cost has been recognised in the consolidated income statement. This division does not constitute a discontinued operation as it does not represent a major line of business or geographical area of operation.

31. Share Capital

31.1 Authorised & issued share capital

Company

	No. of shares	HK$'000
Authorised – HK$0.10 per share:		
As at 1 Jan 2007, 31 Dec 2007, 1 Jan 2008 & 31 Dec 2008	400,000,000	40,000
Issued and fully paid:		
As at 1 Jan 2007, 31 Dec 2007, 1 Jan 2008 & 31 Dec 2008	212,187,488	21,219

The movements of the share options for both years ended 31 December 2008 and 2007 were as follows:

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

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

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 income statement over the respective vesting periods of each batch of options. As all share options issued have either lapsed or been exercised by January 2008, no share options expense was recognised in the year ended 31 December 2008 (2007: HK$114,000).

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

Date of grant	10 January 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.

31.2 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.

32. Reserves

Group

	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 as at 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 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 as at 31 Dec 2007 & 1 Jan 2008	189,699	71,966	4,161	16,000	101,304	473,867	19,097	876,094
Currency translation differences	–	–	–	–	4,702	–	–	4,702
Payment of final dividend	–	–	–	–	–	–	(19,097)	(19,097)
Lapse of share options	–	(341)	–	–	–	341	–	–
Profit for the year	–	–	–	–	–	83,465	–	83,465
Proposed final dividend	–	–	–	–	–	(19,097)	19,097	–
Balance as at 31 Dec 2008	189,699	71,625	4,161	16,000	106,006	538,576	19,097	945,164

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$'000	Accumulated (losses)/ retained earnings HK$'000	Total HK$'000	Proposed final dividend HK$'000
Balance as 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
Balance as at 31 Dec 2007 & 1 Jan 2008	189,699	341	442,598	(373,927)	258,711	19,097
Payment of 2007 final dividend	–	–	–	–	–	(19,097)
Application of contribution surplus	–	–	(354,830)	354,830	–	–
Lapse of share options	–	(341)	–	341	–	–
Profit for the year	–	–	–	74,335	74,335	–
	189,699	–	87,768	55,579	333,046	–
Proposed final dividend					(19,097)	19,097
Balance as at 31 Dec 2008					313,949	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.

33. Bank Borrowings – Unsecured

Group

	2008 HK$'000	2007 HK$'000
Current		
Repayable within 1 year		
U.S. Dollars	–	1,062
Total bank borrowings	–	1,062

The amounts approximated to their respective fair values as at 31 December 2008 and 2007.

34. 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

	2008 HK$'000	2007 HK$'000
Deferred tax assets as at 1 Jan	**6,289**	4,029
Exchange differences	**(424)**	311
Deferred taxation (charged)/credited to consolidated income statement (Note 11)	**(3,105)**	1,949
Deferred tax assets as at 31 Dec	**2,760**	6,289

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$322,471,000 (2007: HK$256,841,000) 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	
	2008 HK$'000	2007 HK$'000	2008 HK$'000	2007 HK$'000	2008 HK$'000	2007 HK$'000	2008 HK$'000	2007 HK$'000
As at 1 Jan	**484**	711	**383**	2,341	**166**	204	**1,033**	3,256
Charged/(credited) to consolidated income statement	**646**	(227)	**(244)**	(1,958)	**3,490**	(48)	**3,892**	(2,233)
Effect of change in tax rate	**(27)**	–	**(22)**	–	**–**	–	**(49)**	–
Exchange differences	**–**	–	**–**	–	**(3)**	10	**(3)**	10
As at 31 Dec	**1,103**	484	**117**	383	**3,653**	166	**4,873**	1,033

Deferred tax assets

Group

	Impairment of assets		Tax losses		Others		Total	
	2008 HK$'000	2007 HK$'000	2008 HK$'000	2007 HK$'000	2008 HK$'000	2007 HK$'000	2008 HK$'000	2007 HK$'000
As at 1 Jan	**6,069**	6,972	**1,253**	193	**–**	120	**7,322**	7,285
Credited/(charged) to consolidated income statement	**410**	(1,223)	**360**	1,063	**–**	(124)	**770**	(284)
Effect of change in tax rate	**(32)**	–	**–**	–	**–**	–	**(32)**	–
Exchange differences	**(269)**	320	**(158)**	(3)	**–**	4	**(427)**	321
As at 31 Dec	**6,178**	6,069	**1,455**	1,253	**–**	–	**7,633**	7,322

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

	2008 **HK$'000**	2007 HK$'000
Deferred tax assets	**7,583**	7,046
Deferred tax liabilities	**(4,823)**	(757)
	2,760	6,289

35. Other Long-term Liabilities

Group

	2008 **HK$'000**	2007 HK$'000
Non-current portion		
Repayable between 1 & 2 years	**1,638**	390
Repayable between 2 & 5 years	**2,017**	821
	3,655	1,211
Current portion	**4,199**	390
	7,854	1,601

Other long-term liabilities represent:

a. 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 2008 and 2007; and

b. discounted basic consideration and contingent consideration payable to the sellers in respect of the acquisition of JSL in 2008. The amounts, being unsecured, were calculated to the fair value as at 31 December 2008. Details of acquisition of a subsidiary are set out in Note 21. The discounted rate used to measure the fair value was 14%.

At the balance sheet date, the carrying amounts of the Group's other long-term liabilities were mainly denominated in U.S. Dollar (2007: U.S. Dollar only).

36. Trade & Other Payables

Group

	2008 HK$'000	2007 HK$'000
Trade payables	**43,449**	51,356
Other payables	**210,375**	204,288
	253,824	255,644

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

	2008 HK$'000	2007 HK$'000
Current – 30 days	**36,997**	40,174
31 days – 60 days	**3,378**	7,844
61 days – 90 days	**573**	1,154
Over 90 days	**2,501**	2,184
	43,449	51,356

37. 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 2008, the Group had future aggregate minimum lease payments receivable under non-cancellable operating leases as follows:

Group

	2008 HK$'000	2007 HK$'000
Not later than one year	**442**	1,688
Later than one year & not later than five years	**313**	1,404
	755	3,092

38. 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.

As at 31 December 2008, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

Group

	2008 Property HK$'000	**2008 Other assets HK$'000**	2007 Property HK$'000	2007 Other assets HK$'000
Not later than one year	**15,166**	**1,230**	13,009	974
Later than one year & not later than five years	**45,301**	**2,523**	117,301	2,621
Later than five years	**18,902**	**–**	17,896	–
	79,369	**3,753**	148,206	3,595

39. Capital Commitments

Group

	2008 HK$'000	2007 HK$'000
Contracted but not provided for in respect of property, plant & equipment	**619**	7,620
Authorised but not contracted for in respect of property, plant & equipment	**71**	169
	690	7,789

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	**9,654**	31,090
Authorised but not contracted for in respect of property, plant & equipment	**12,510**	17,551
	22,164	48,641

40. Contingent Liabilities

	Group		Company	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Guarantees for banking facilities granted to subsidiaries	**–**	–	**97,000**	102,500
Corporate guarantee in respect of performance bonds issued by the subsidiaries to customers	**8,145**	6,199	**–**	–
Counter-indemnity in respect of performance bonds issued by banks	**8,562**	7,247	**–**	–
Guarantees in lieu of utility deposit	**1,218**	2,292	**–**	–
Counter-indemnity in respect of advance payment bonds issued by banks	**5,748**	5,748	**–**	–
	23,673	21,486	**97,000**	102,500

The Company has not recognised any deferred income in respect of the guarantees for banking facilities granted to subsidiaries and corporate guarantee in respect of performance bonds issued by the subsidiaries to customers as their fair value cannot be reliably measured and their transaction price was HK$Nil (2007: HK$Nil).

41. Related Party Transactions

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

41.1 Sale of goods & services

	2008 HK$'000	2007 HK$'000
Sale of carpet:		
an associate[1]	**7,029**	3,596
The Hongkong & Shanghai Hotels, Limited ("HSH")[2]	**3,151**	3,585
	10,180	7,181

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.

41.2 Purchase of goods & services

	2008 HK$'000	2007 HK$'000
Purchase of goods from:		
an associate[1]	**568**	2,197
jointly controlled entities[1]	**59,275**	40,635
Feltech Manufacturing Company Limited ("FMCL")[2]	**–**	1,527
	59,843	44,359

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. Mr. Wan Tabtiang is no longer a related party in 2008 as he resigned as Director of CIT on 30 April 2007. In accordance with the Listing Rules, Mr. Wan Tabtiang was still treated as a connected person until 30 April 2008 (within one year after his resignation) and these transactions for the four months up to 30 April 2008 (which were continuing connected transactions under the Listing Rules) amounted to HK$3,034,000.

41.3 Key management compensation

	2008 HK$'000	2007 HK$'000
Salaries and other short-term employee benefits	**45,406**	40,026
Share-based payments	**–**	114
	45,406	40,140

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

	2008 HK$'000	2007 HK$'000
Trade receivables from related parties:		
an associate	**1,808**	498
HSH	**176**	24
	1,984	522
Trade payables to related parties:		
jointly controlled entities	**10,352**	3,739
HSH	**–**	82
	10,352	3,821

42. Event After Balance Sheet Date

On 27 February 2009, the Group entered into a Share Transfer Agreement to sell the entire capital of SSMCL at a consideration of RMB5,500,000. The transaction will be closed upon the issuance of the new business license to the buyers. The Group recorded an impairment loss of HK$480,000 in 2008.

Principal Subsidiaries, an Associate & Jointly Controlled Entities

The table lists below the subsidiaries, an associate and jointly controlled entities of the Group as at 31 December 2008 which, in the opinion of the Directors, principally affected the results or financial position 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/ Hong Kong	Investment holding	100 shares of US$1 each	100%[1]
Luard Enterprises Limited	British Virgin Islands/ Hong Kong	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[3]	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.[4]	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%
TPC Macau Limitada	Macau	Carpet trading	MOP25,000	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%
J.S.L. Carpet Corporation	United States of America	Carpet trading	100 shares of US$23,400 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[3]	The People's Republic of China	Carpet manufacturing	US$15,090,000	49%
Weihai Shanhua Premier Carpet Company Limited[3]	The People's Republic of China	Carpet manufacturing	US$5,400,000	49%
Weihai Shanhua Weavers Carpet Company Limited[3]	The People's Republic of China	Carpet manufacturing	US$6,000,000	49%

Notes:

1 Directly held by the Company.

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

3 Registered as foreign equity joint ventures under PRC Law.

4 Registered as a wholly foreign-owned enterprise under PRC Law.

Major Investment Properties

Location	Lot number	Type of use	Lease term
Rooms 1317-1320, Tower A, Regent Centre, 63 Wo Yi Hop Road, Kwai Chung, Hong Kong	325/71750 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. Leonard Braunstein	President, J.S.L. Carpet Corp.	65	2008	Carpet sales & marketing
Mr. Eric A. S. Cooper	Vice President, Global Technical Operations & Quality	57	2005	Carpet manufacturing
Mr. Philip A. Decker	General Manager, Contract Division	41	2007	Carpet sales & marketing
Mr. Jack S. Gates	President, Premier Yarn Dyers, Inc.	69	1983	Carpet & textiles manufacturing
Mr. John P. Goggin	Managing Director, Commercial, U.S.	55	2004	Carpet sales & marketing
Mr. Parkpoom Jarnyaham	Managing Director, Carpets Inter	55	2004	Carpet manufacturing, sales & marketing
Mr. Adam J. S. Jones	Managing Director, Commercial, Europe	37	2005	Carpet sales & marketing
Mr. Daniel S. Kasakoff	Managing Director, Commercial, Latin America	61	2007	Carpet sales & marketing
Mr. Robert E. Keilitz	Managing Director, RBC, Asia	60	2006	Carpet sales & marketing
Ms. Susan F. MacKenzie	Managing Director, RBC, U.S.	47	2005	Carpet sales & marketing
Mr. Raymond W. M. Mak	Chief Financial Officer & Company Secretary	45	2005	Financial management
Mr. Alan S. Millstein	Global Managing Director, RBC	62	2008	Carpet sales & marketing
Mr. Richard N. Morris	Managing Director, Commercial, Asia	45	2004	Carpet sales & marketing
Mr. Anthony T. Mott	Managing Director, Global Business Development	44	2004	Carpet sales & business development
Mr. William J. Palmer	Global Managing Director, Commercial	48	1999	Carpet sales & marketing
Mr. Alan Porto	Chief Information Officer	43	2009	Information technology
Ms. Simone S. Rothman	Chief Marketing Officer	49	2004	Marketing, PR & business development
Ms. Catherine Vergez	Managing Director, RBC, Europe	46	1991	Carpet sales & marketing
Mr. Mark S. Worgan	Vice President, Global Operations	45	2008	Carpet manufacturing & logistics

Note:
[1] Age as at 17 April 2009

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

Raymond W. M. Mak

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